

The International Journal of Human Resource Management

ISSN: 0958-5192 (Print) 1466-4399 (Online) Journal homepage: <http://www.tandfonline.com/loi/rijh20>

Human resource management and performance: a review and research agenda

David E. Guest

To cite this article: David E. Guest (1997) Human resource management and performance: a review and research agenda, *The International Journal of Human Resource Management*, 8:3, 263-276, DOI: [10.1080/095851997341630](https://doi.org/10.1080/095851997341630)

To link to this article: <http://dx.doi.org/10.1080/095851997341630>



Published online: 18 Feb 2011.



Submit your article to this journal [↗](#)



Article views: 11674



View related articles [↗](#)



Citing articles: 411 View citing articles [↗](#)

Human resource management and performance: a review and research agenda

David E. Guest

Abstract There is a growing body of evidence supporting an association between what are termed high performance or high commitment human resource management (HRM) practices and various measures of organizational performance. However, it is not clear why this association exists. This paper argues that to provide a convincing explanation of this association we need to improve our theoretical and analytic frameworks in three key areas. These are the nature of HRM, and especially the rationale for the specific lists of HR practices; the nature of organizational performance; and the linkage between HRM and performance. A model is presented within which to explore these linkages. The existing literature on HRM and performance is reviewed in the light of this analysis to identify key gaps in knowledge and help to focus further the research priorities.

Keywords Human resource management, performance, outcomes, theory, strategic integration

The impact of human resource management on performance has become *the* dominant research issue in the field. There has been a rash of studies demonstrating a positive association between human resource management (HRM) and performance, providing encouragement to those who have always advocated the case for a distinctive approach to the management of human resources. While these studies represent encouraging signs of progress, statistical sophistication appears to have been emphasized at the expense of theoretical rigour. As a result, the studies are non-additive, except in a very general way. My aim in this paper is to present a form of research agenda which seeks to reintroduce theory into the empirical debate and to use this to review some of the emerging empirical findings.

If we are to improve our understanding of the impact of HRM on performance, we need a theory about HRM, a theory about performance and a theory about how they are linked. The interest in HRM and performance partly reflects a view that the debates about theory in HRM had become rather introspective and boring. Perhaps it is only when the empirical data begin to emerge that we realize how important the theory is. I shall begin by briefly reviewing where we stand on theories of HRM, of performance and of the link between HRM and performance. I shall then review some of the recent literature within a simple framework. Finally, I shall outline the issues emerging from this review and highlight some of the developments that need to occur in theory and practice if we are to improve our understanding of HRM and performance.

Theory about human resource management

In any empirical study, we need to have a clear view about our independent variable. At present we seem to have only confusion. There appear to be three broad categories of general-level theory about HRM and a host of more specific and concrete theories about particular areas of policy and practice, such as quality, commitment and performance-related pay. The three categories of theory can be labelled strategic, descriptive and normative.

Strategic theories of HRM

These are primarily concerned with the relationship between a range of possible external contingencies and HRM policy and practice. Some of the best-known UK research in this category has been reported by Hendry and Pettigrew (1990) whose main concern was to identify and classify key environmental influences on HRM. In their work, HRM policy and practice becomes, in a sense, the dependent variable, judged in terms of how well it fits the context. The implicit but untested hypothesis is that a good fit will be associated with superior performance. In their research, Hendry and Pettigrew concentrated on mapping the context, identifying an inner context (within the organization) and an outer context (in the wider environment) and exploring how HRM adapted to changes in context rather than analysing any link to performance.

In the USA, attention has focused more on classifying types of HR strategy, often drawing on existing models of corporate strategy. One frequently cited example has been presented by Miles and Snow (1984), building on their earlier work on strategy and structure. They propose that each of their strategic types of firm will need to adopt a different set of HRM policies and they are reasonably precise about some of the variations. Again the hypothesis is that those firms that have a fit between business strategy, structure and HRM policy and practice will have superior performance. A similar rationale lies behind the work of Schuler and Jackson (1987) which outlines three HRM strategies linked to Porter's (1980) three general competitive strategies.

There are several other writers whose work falls within this broad focus on strategy. They are helpful in identifying influences on strategic fit and sometimes in specifying types of fit. But they are often simplistic in characterizing HRM, usually identifying about four broad areas of activity such as selection, training and development, rewards and careers. While the implication is that those firms achieving fit between business strategy and HRM strategy will have superior performance, they are weak in specifying the process whereby HRM is linked to performance. Finally, they generally adopt a limited view of performance, defining it largely in financial terms.

Descriptive theories of HRM

These set out to describe the field in a comprehensive way. The two best known are those presented by Beer and his colleagues from Harvard (Beer *et al.* 1985) and by Kochan, Katz and McKersie (1986) from MIT. In both cases, there is an attempt to capture the broad field and to address some of the interrelationships. For Beer *et al.* this means listing four broad areas of HRM policy and practice and four key outcomes. For Kochan and colleagues it entails a systems approach, describing the interrelationships between levels. Both are essentially descriptive, mapping the field and classifying inputs and outcomes. Both can be developed into theory, but only at a very general level of specification. A strength and a weakness in this respect is the emphasis on an open

systems approach which may accurately capture an element of reality but fails to offer specificity.

By providing conceptual maps of the field, these models do provide a broad classification of the content of HRM and of a range of outcomes. Both are useful in adopting a stakeholder approach and in identifying a range of outcomes of interest to the various stakeholders. However, they are essentially employee relations models concerned with the managers' role in balancing competing interests, in highlighting the scope for choice and in identifying some of the influences on the choices. Despite implicit preferences on the part of their authors, by specifying a range of choices and not recommending specific approaches, they are largely non-prescriptive. They therefore provide no clear focus for any test of the relationship between HRM and performance.

Normative theories of HRM

Models or theories of this type are more prescriptive in their approach, reflecting the view either that a sufficient body of knowledge exists to provide a basis for prescribed best practice or that a set of values indicates best practice. Often these two perspectives become conflated. One of the best known examples of this approach is Walton's work on control and commitment (Walton, 1985). In presenting the contrast between the two approaches to the management of human resources, he follows McGregor (1960) some twenty-five years earlier in saying these are in one sense ideal types but in practice if you wish to flourish you have no choice. He is prescribing a commitment strategy as the distinctive basis for HRM. The same general analysis can be found in the work of Lawler (1986, 1992), although he uses the language of involvement rather than HRM. More recently, the work of Pfeffer (1994) has attracted a lot of attention. He lists sixteen HRM practices (subsequently amended to thirteen (Pfeffer, 1995) on the grounds that the precise number and presumably the precise nature of the practices is neither clearly known nor particularly important) which he advocates on the grounds that their positive effects are now well established. This fits with an essentially atheoretical stream of work about 'high performance' work practices.

My own work (Guest, 1987) has attempted to capture some of the spirit of this approach by seeking to present it within a coherent framework, specifying some of the links so that the resulting model can at least be tested – and possibly refuted. The central hypothesis is that if an integrated set of HRM practices is applied with a view to achieving the normative goals of high commitment to the organization plus high quality and flexibility, then higher worker performance will result. The assumption is that this will have a positive impact on organizational performance. Unlike other approaches, this normative perspective argues that specific practices and specific HRM goals will always be superior.

There are a number of problems with this view of HRM. One is that it focuses predominantly on the internal characteristics of HRM at the expense of broader strategic issues. In doing so, and in advocating a best set of practices while ignoring the variety of pressures and consequent business strategies, it is taking a considerable risk in implying 'one best way'. A second problem is that, while the goals of HRM can be reasonably well defined, the related list of HRM practices is far from clear (for an outline of the variables included in the various studies, see Dyer and Reeves (1995) and Becker and Gerhart (1996)) and awaits either a clear theoretical specification or a much stronger empirical base.

Each of the three approaches outlined has some sort of theoretical basis in either contingency/business strategy, systems theory or OB/motivation theory. Each implies rather different levels of analysis. Only the second and more particularly the third begin to specify the dimensions of HRM policy and practice in any way potentially helpful for measurement and even they are not really sufficiently precise. In summary, we still lack a coherent theoretical basis for classifying HRM policy and practice, a problem that becomes more apparent when we start to look at the empirical research.

Theory about performance

There is no general theory about performance *per se*. However, we have a number of approaches and models, often built on specific disciplinary perspectives, such as economics, psychology or production management, which help us to understand and classify aspects of performance. This is not an easy task. In the field of Organizational Behaviour, measurement of performance is often described as *the* criterion problem. We might be tempted to extend this to the study of HRM.

We can begin to make sense of performance by highlighting a number of distinctions. First, we can focus on issues concerning the content of performance. Second, we can consider the types of data. Third, we can consider linkages within a broad view of performance and thereby begin to explore causal links between HRM and performance.

The content of performance and outcomes

The issue of the nature of data overlaps with the question of what types of data are of interest. Who are the stakeholders of performance – and is this the same as outcomes? Arguably, performance is a company-dominated criterion while outcomes are potentially much broader. They may include environmental issues, job satisfaction, contribution to community activities and so on. There is a risk, in looking at organizationally determined performance criteria, that some of these issues are ignored. It could be argued that, if the concern is narrowly for company performance, this does not matter. On the other hand, if the implicit theory of HRM is that results are achieved through effective utilization, as opposed to exploitation, of human resources, they might be very important. However, even this may not be enough, since we know from a mass of research that there is only a very weak link between performance and job satisfaction (Staw, 1986). Also, there is some indication that highly successful companies may not be those in which workers prefer to work (Levering *et al.*, 1984; for a fuller discussion, see Guest, 1992).

Building on the stakeholder analysis, one of the terms sometimes used in discussions about HRM is the concept of ‘the balanced scorecard’. This simply implies that it is not enough to concentrate on one view of performance at the expense of the others. As in the old socio-technical systems theory, it is necessary to optimize each dimension rather than maximizing one at the expense of the others. Typically, the items on the scorecard are those of importance to the financial, customer and employee constituencies. If we accept this, we need multiple criteria of performance, a point highlighted in the descriptive models of HRM and implicit in the whole idea of taking human resource management seriously. It means we must be wary of emphasizing one of these interests at the expense of the other, particularly if we are using one-off rather than time series measures.

Measures of performance

There are essentially three types of performance data available (Locke and Latham, 1990); these are measures of output of goods and services, which may be quantitative (units produced, customers served) or qualitative (number of errors, customer complaints); measures of time, including lateness, absence, lost working time, failure to meet deadlines); and financial indicators, which include a large array of possibilities. These may be interrelated; thus absence reduces unit production levels which reduces profits.

Where 'hard' quantitative data are not available, we may wish to resort to measures of behaviour. Ideally, we observe people at work, noting whether they approach customers and offer help, or noting whether they observe safety procedures. Failing that, we can obtain reports either from an 'observer', such as the superior or a peer or subordinate, or from the person under study.

The same perspective can be adopted for performance data of interest to other stakeholders, for example those concerned with the environment. The measurement becomes more complex when applied to employees, since we will need to add subjective evaluations. The important point is that they should be collected systematically, perhaps through mechanisms such as attitude surveys.

Of course, an analytic framework for considering the range of performance data cannot hide biases and preferences – perhaps for financial measures – nor can it prevent subjective interpretation and weighing of the information. The simple point is that as researchers we should perhaps be aware of the range of types of data that might be collected to indicate performance. There is also an implicit judgement about preferred priority, starting with the 'hard' measures, followed by behaviour, followed by reports or ratings. We may of course wish to balance the post-modernist view that all performance measures are social constructions, open to a variety of interpretations, against a recognition that broadening the definition of performance and providing evidence about any link between HRM and performance may be one of the more effective means of ensuring that policy makers take HR issues seriously.

Linkages in performance data

Data on their own tell us very little. We need some basis for comparison, either cross-sectional or longitudinal; we also need to understand the relationships between types of performance data. As already noted, absence may reduce production which may affect profits. Many linkages of this type can be made. If we move towards a behavioural model, then we might wish to link employee perceptions to their behaviour, to individual or group-level performance outcomes which affect unit performance and thus to company profits. To understand, as opposed to measuring the performance, we need to make these linkages. There may be an association between HRM practices and company profit, but, without some linkages, we will not know why; we have no theory. This implies that we need a range of types of performance measure at the individual, group, unit and company level to begin to establish these linkages. To date, HRM has been weak in this area.

Theory about the link between HRM and performance

Neither the strategic nor the descriptive model provide much insight into how HRM policy and practice translates into high performance. They sensibly view HRM as only

part of the explanation for high performance and suggest that, when the various sub-systems including the HRM sub-system are aligned and supporting each other, superior performance is likely. The right people will be in the right place doing the right things. It is a managerial model of organizing, particularly in the strategic version. The descriptive models, because of their employee relations roots, give more weight to the active role of employees, but mainly in negotiating order.

In contrast, the normative approach has its roots firmly in organizational psychology and is built on lower-range, more specific behavioural theories. The assumption is that 'appropriate' HRM practices tap the motivation and commitment of employees. The factors that constitute 'appropriate' practices are derived from the specific theories of organizational commitment, job design, goal setting and so on. The key features of this approach are that HRM provides a coherent integration of these behavioural theories and that they spell out the linkages between practices and performance.

It is possible to develop theories of alignment, explaining a series of linkages to performance, both at the broader level of strategy and at the more specific level of HRM practices. Starting with the latter, the expectancy theory of motivation provides one possible basis for developing a more coherent rationale about the link between HRM practices and performance. An approach close to expectancy theory was adopted by MacDuffie (1995). As he puts it,

Innovative human resource practices are likely to contribute to improved economic performance only when three conditions are met: when employees possess knowledge and skills that managers lack; when employees are motivated to apply this skill and knowledge through discretionary effort; and when the firm's business or production strategy can only be achieved when employees contribute such discretionary effort. I will argue that all three conditions must be met for HR practices to contribute to performance.

(MacDuffie, 1995: 199)

Although expectancy theory is concerned primarily with motivation, it is also a theory about the link between motivation and performance. Specifically, it proposes that high performance, at the individual level, depends on high motivation plus possession of the necessary skills and abilities and an appropriate role and understanding of that role. It is a short step to specify the HRM practices that encourage high skills and abilities, for example careful selection and high investment in training; high motivation, for example employee involvement and possibly performance-related pay; and an appropriate role structure and role perception, for example job design and extensive communication and feedback. These are illustrated in Figure 1. We therefore have a theory which links HRM practices to processes that facilitate high individual performance; it is, furthermore a theory which fits well with the individualistic orientation of the normative approaches to HRM.

Before getting too enthusiastic about any theory linking HRM practices and performance, we should bear in mind that any analysis of influences on company profits or factory output or even absence levels quickly leads to the conclusion that factors other than HRM are involved. Therefore, we need to have a theory about when human resources matter more; for example, the human factor may be more important in the service sector. We also need a theory about how much of the variance can be explained by the human factor. Is any statistically significant influence, for example where a regression reveals that HRM explains 2 per cent of the variance in performance, a good result? Or should we, as Becker and Gerhart (1996) suggest, be paying much more attention to size effects than to statistical significance? Can we, as Huselid (1995) has

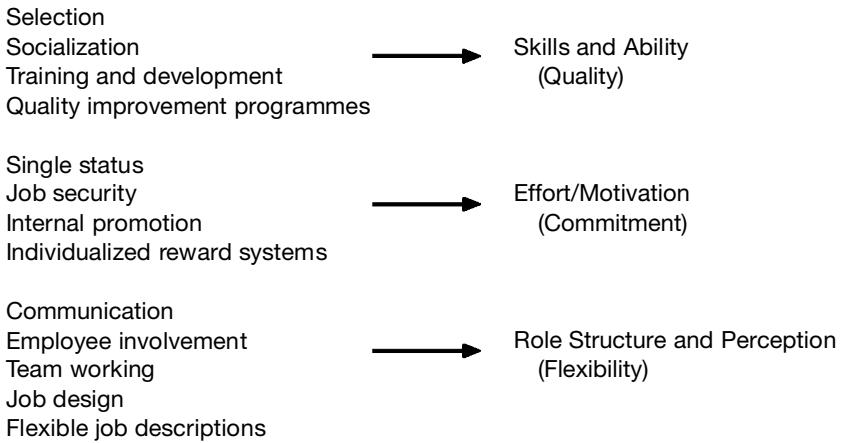


Figure 1 Linking HRM practices and HRM outcomes

recently attempted, put a price on the benefits of good HRM? For this, we need a rather broader conceptual framework as well as an accepted basis on which to judge what constitutes an important result.

Moving on to a possible broader framework linking HRM and outcomes, the starting point should be the recognition, as noted above, that the distinctive feature of HRM is its assumption that improved performance is achieved through the people in the organization. Any theory of linkages should explicitly build on this. A model that illustrates the kind of linkages that might be explored, albeit using arbitrary categories for HRM strategy and HRM practices, is presented in Figure 2. Its main value in the present context lies in highlighting the range of related outcomes that need to be considered in any model that seeks to understand the impact of the 'human' factor in human resource management.

Figure 2 acknowledges a role for external context and strategy but suggests, at its core, that HRM practices should be designed to lead to HRM outcomes of high employee commitment, high quality staff and highly flexible staff. High commitment will be assessed using standard measures and based on the definition popularized by Mowday, Porter and Steers (1982) of identification with the values of the organization, a desire to belong to the organization and a willingness to do things for the organization. High quality staff refers to the capabilities and to the knowledge and skills of staff. Flexibility refers to functional rather than numerical flexibility. The specific practices that help to achieve these outcomes were illustrated in Figure 1. According to the model, only when all three HRM outcomes are achieved can we expect behaviour change and higher performance.

Given the framework in Figure 2, it is essential to measure HRM outcomes to understand how HRM impacts on performance. As we move on through the remaining stages in the model, we would expect the impact of HRM to become progressively weaker as other factors intervene. The model in Figure 2 separates changes in behaviour, performance and financial outcomes. It is important to note that under the broad heading of performance there are further distinctions that can be made, for example between performance and effectiveness, which is a subjective assessment of

| <i>HRM strategy</i> | <i>HRM practices</i> | <i>HRM outcomes</i> | <i>Behaviour outcomes</i> | <i>Performance outcomes</i> | <i>Financial outcomes</i> |
|------------------------------|----------------------|--------------------------|----------------------------|---------------------------------------|---------------------------|
| Differentiation (Innovation) | Selection | Commitment | Effort/ Motivation | High: Productivity Quality Innovation | Profits |
| | Training | | | | |
| Focus (Quality) | Appraisal | Quality | Cooperation | | |
| Cost (Cost-reduction) | Rewards | | Involvement | Low: Absence | ROI |
| | Job design | Labour turnover Conflict | | | |
| | Involvement | Flexibility | Organizational citizenship | Customer complaints Labour turnover | |
| | Status and Security | | | | |

Figure 2 *Linking HRM and performance*

performance and perhaps productivity; and between performance, which is concerned with output, and productivity, which is concerned with input-output ratios. Since effectiveness may be considered quite differently by the various stakeholders, it will be desirable where possible to include additional measures of effectiveness alongside the more objective outcome measures.

The empirical evidence about HRM and performance

A conceptual framework

There are now a growing number of studies which make a serious attempt to link HRM and performance. (There are, of course, hundreds which examine particular aspects of HRM and performance.) They are not all looking at quite the same thing so they are cumulative in only a very general sense. One interesting attempt to identify the various possible approaches has been derived from the work by Venkatraman (1989) whose aim was to classify the various types of ‘fit’ in research on strategy. More recently, his approach has been adapted slightly by Sivasubramaniam and Kroeck (1995) to classify the various perspectives on HRM. The concept of ‘fit’ or ‘integration’ is central to many attempts to theorize about HRM so this seems an interesting way of trying to proceed. Essentially, they suggest that the various types of HRM fit can be ordered along two dimensions of Internal–External fit and Criterion specific or Criterion free. This provides four main possibilities, although one is further sub-divided. I have made considerable amendments to the descriptions used in both previous papers:

Fit as strategic interaction seeks to link HR practices to the external context and reflects the standard strategic approach. A key point is that there is a choice about how to respond to and interact with the environment. Once that choice has been made, then HR strategy and practice must match it. The hypothesis is that those organizations with the appropriate response and the right match will report superior performance. The typical test of this is to examine the link between the Miles and Snow strategic types and the HRM practices associated with each and relate this to some measure of

| | <i>Criterion specific</i> | <i>Criterion free</i> |
|-----------------|----------------------------------|------------------------------------|
| <i>Internal</i> | Fit to an ideal set of practices | Fit as gestalt Fit as 'bundles' |
| <i>External</i> | Fit as strategic interaction | Fit as contingency |

Figure 3 *Forms of HRM fit*

performance. The level of theory specification implies that performance will be measured mainly through financial criteria.

Fit as contingency reflects the traditional contingency approach, suggesting that those organizations whose HR policy and practice is more responsive to external factors will report superior performance. These external factors may include the nature of the market, legislative changes or features of the specific sector. This approach tends to assume that a particular response will always be superior, but it does not specify the type of response or any class of responses, although there is no reason why this could not be done.

Fit as an ideal set of practices implies that there exists a set of 'best HRM practices' – Pfeffer's (1994) list might be one example – and the concern is with how close organizations get to the ideal set of HR practices. The hypothesis is that those closer to the ideal type will report higher performance.

Fit as gestalt implies that the key to effective HRM lies in finding an appropriate combination of practices. In addition, it is assumed that the sum is greater than the parts. It may be the synergistic combination of all the practices or it may be the specific 'architecture' or culture which binds them together. This is sometimes seen as the non-replicable element which can provide organizations with an HR-based source of competitive advantage. One implication of this model is that the study of specific aspects of HRM such as pay or training may provide a distorted picture. Unless very careful controls are used to take account of all other HRM practices, it is possible that the results may overstate the influence of the specific practice by picking up the combined impact of the set of practices. In principle, this approach differs from the ideal type concept of fit in not specifying the dimensions of HRM practice; and from both the ideal type and the 'bundles' approach described below in being multiplicative rather than additive. By implication, if one key aspect is missing, the gestalt may not exist.

Fit as 'bundles' implies the existence of distinctive patterns or configurations – what are sometimes called 'bundles' – of practices and the key is to determine which are the most effective. In principle there may be a number of possible combinations or configurations of practices which will lead to high performance; for example, some organizations may emphasize job security as the building block; others prefer training and development. The other practices fit around these. To test this, the key is to look not so much at the total number of HRM practices but to take those who adopt above a certain number, perhaps the median, as long as a distinctive core exists. Within each bundle some substitutability may exist; for example, statistically, there may be little to be gained by reporting both use of realistic job previews and psychometric tests in selection since both are equally indicative of careful selection. Although in principle

this approach allows for equifinality, or some substitution, in practice certain clusters may consistently emerge, indicating the limited range of effective combinations.

Most reported studies of HRM and performance can be classified within one or other of these categories. However, we are some way from seeing all the possibilities tested. Indeed, Delery and Doty (1996) argue that there are really three main approaches – the strategic contingency approach, the best practice approach and the configurational approaches, representing external fit, internal fit and systems theory – and that these provide rich competing theoretical perspectives. Since there has been very little research on the pure contingency approach and, apart from some specific case studies, little exploration of the ‘gestalt’ perspective, the next section concentrates on these three main approaches.

The empirical studies of HRM and performance

A number of studies linking HRM and performance have been published; others have been presented in conference papers or exist in the form of working papers. They are mostly, but not exclusively, cross-sectional. The studies vary in quality, particularly with respect to their measurement of HRM policy and practice, although they share a tendency to display some statistical sophistication. While some range widely across industry, others concentrate on particular sectors.

External fit: HRM as strategic integration There is some support for this approach. Huselid (1995) has found that those organizations that link HRM practices to strategy report higher financial performance outcomes. Delery and Doty (1996) found modest support for a fit with the Miles and Snow typology. Youndt *et al.* (1996) found support for this type of fit in a sample of ninety-seven manufacturing plants, more particularly with respect to the fit between high performance HRM practices and a quality strategy. MacDuffie (1995), in contrast, explicitly rejects this hypothesis, claiming that in his international study of car-manufacturing plants he found no evidence that a ‘fit’ of appropriate HRM practices to mass production was able to compete with flexible production.

Internal fit: HRM as an ideal set of practices This is the most widely tested and the most strongly supported type of fit. Almost every study, including those already cited but also those reported by Huselid and his colleagues (Huselid, 1995; Huselid, Jackson and Schuler, 1995; Delaney and Huselid, 1996), by Arthur (1994), Ichniowski, Shaw and Prennushi (1994) and MacDuffie (1995) support this type of fit. Essentially, what they all show, either across industries or within a specific sector, is that the more of the high performance HRM practices that are used, the better the performance as indicated by productivity, labour turnover or financial indicators. Where different types of fit were compared, this was invariably the one that received strongest support. The main exception to this general pattern, to date, is the study by Youndt *et al.* (1996) which finds that a ‘fit’ between high performance HRM practices and a quality strategy provides the best results.

Configurational fit: HRM as bundles Huselid and Becker (1995), in a panel study, have provided a partial test of this by examining the impact of three separate factors which emerged from their factor analysis of a list of HRM practices. These they label selection and development, motivation and HR strategy, though the labels may not be

very appropriate. Although support was strongest for the cumulative measure of 'fit as ideal type', there was significant independent support for each of these factors. In a study using subjective measures of organizational performance, Delaney and Huselid (1996) failed to find any positive impact for specific combinations of practices as opposed to the total number of HRM practices. However Delery and Doty (1996) found some support for the configurational approach in their study in the banking sector.

Guest and Hoque (1994) examined the impact of HRM comparing those above and below the median number of HRM practices in a sample of greenfield sites. When this was combined with a measure of the presence of an HRM strategy, it was found that establishments in this group reported superior HRM outcomes (commitment, employee quality, aspects of flexibility) and employee relations outcomes but not superior productivity or product quality. This highlights the need to take into account the range of outcomes and performance indicators. The study also hinted at a 'cluster' or 'bundle' reflecting deliberate low use of the proffered set of HRM practices. Those who did this as a deliberate strategy had poorer HRM and employment relations outcomes but reported no differences in productivity and product quality. This in turn raises a somewhat neglected issue of the costs of HRM practices.

Bringing these results together, there is empirical support for each of the three main approaches to HRM and performance but consistently stronger support for the internal fit model with its view that those organizations that use more high performance HRM practices report higher performance. The general approach represented by this stream of research is sufficiently encouraging to suggest that it is continued and improved. There is no doubt that it is attracting a lot of research interest in North America. It is to be hoped that it can do the same in Europe. However, in taking it forward, we need to be aware of the shortcomings and in so doing return to the issue of theory.

Emerging issues for future research on HRM and performance

The first key issue is the lack of theory about the nature of HRM practices. As I have argued elsewhere (Guest, 1987), it is not the presence of selection or training but a distinctive approach to selection or training that matters. It is the use of high performance or high commitment HRM practices. There is little consensus on what these are and little interest to date in developing theory about what they might be. I would propose that we build on something like expectancy theory, in a way outlined above, to provide a sensible rationale for these practices. As MacDuffie (1995) indicates, expectancy theory, or some variation of it, can also point to a range of configurations depending on preferred rewards and perhaps indicating when performance-related pay can be considered a high performance practice. The alternative is to adopt a statistical approach and to see what emerges from factor analysis or some variation (for an example of this, see Wood and Albanese, 1995). In building a set of best practices, we should also take care to account for cultural differences, for example in practices associated with training, job security or trade unions. Finally, in collecting information about high performance HRM policy and practice, we need to be cautious about the validity assumptions underlying use of data collected at head office as a basis for company-wide statements about HR practices in what might be multi-plant sites.

A second concern is to improve our measures of performance. Indeed, performance may be the wrong term. It might be more sensible to use the term 'outcomes'. One argument might be that the unitarist philosophy underlining HRM implies that the employees share the concern of shareholders for profit. However, it would be unwise to

accept this assumption. What we need are outcomes that reflect the concept of the balanced score card. The idea of balance, like the concept of optimizing socio-technical systems, implies that compromises may sometimes be necessary. The plant-level studies reported by Arthur (1994), MacDuffie (1995) and Guest and Hoque (1994) measure productivity and quality, but those by Huselid (1995) and others using company-level measures overwhelmingly emphasize financial criteria. Despite the attractions of financial indicators for any attempt to convince senior managers of the impact of HRM, we need to use a greater range of outcome measures if only to understand how and why HRM has an impact on financial results.

The study by Guest and Hoque raises the question of contradictory criteria. Their establishments categorized as 'ugly', with a deliberate strategy of low uptake of high performance HRM practices, reported performance outcomes as good as any other category but had poorer HRM outcomes and employee relations outcomes. The firms got good results but were not attractive places in which to work. The other studies took no account of contradictory outcome criteria.

Only when we have made progress in measuring the independent and dependent variables can we begin to give full attention to the way in which they are linked. At present the studies report a promising association between HRM and outcomes, but we are not yet in a position to assert cause and effect. We need to develop theory which integrates aspects of strategy and strategic integration with something like expectancy theory to create specific hypotheses about linkages. Case study research can help to generate some insights which can be more extensively tested. So too can studies of specific practices or issues such as quality or commitment where theory is sometimes more specific. To establish linkages, we also need longitudinal research designs, ideally with some sort of interventions to alter HRM practices.

In summary, we need to improve our theory and empirical testing on all three fronts – the nature of HRM, the nature of the outcomes and the nature of the linkages. As usual, we need to find the right combination of survey-based and case-study-based research. And we need to ensure that the research is not confined to the USA. We can now say with increasing confidence that HRM works. But this is a skeletal finding and we need to put a lot of flesh on the bones.

*Birkbeck College
University of London*

Note

An earlier version of this paper was presented to the seminar. 'Human Resource Management and Performance' held at the Tinbergen Institute, Holland, 22 September 1995.

References

- Arthur, J.B. (1994) 'Effects of Human Resource Systems on Manufacturing Performance and Turnover', *Academy of Management Journal*, 37: 670–87.
- Becker, B. and Gerhart, B. (1996) 'The Impact of Human Resource Management on Organizational Performance. Progress and Prospects', *Academy of Management Journal*, 39(4): 779–801.
- Beer, M., Spector, B., Lawrence, P., Quinn Mills, D. and Walton, R. (1985) *Human Resource Management: A General Manager's Perspective*, New York: Free Press.

- Delaney, J.T. and Huselid, M.A. (1996) 'The Impact of Human Resource Management Practices on Perceptions of Organizational Performance', *Academy of Management Journal*, 39(4): 949–69.
- Delery, J. and Doty, D.H. (1996) 'Modes of Theorizing in Strategic Human Resource Management: Tests of Universalistic, Contingency and Configurational Performance Predictions', *Academy of Management Journal*, 39(4): 802–35.
- Dyer, L. and Reeves, T. (1995) 'Human Resource Strategies and Firm Performance: What Do We Know and Where Do We Need to Go?', paper presented to the 10th IIRA World Congress, Washington, 31 May – 4 June.
- Guest, D.E. (1987) 'Human Resource Management and Industrial Relations', *Journal of Management Studies*, 24: 503–21.
- Guest, D.E. (1992) 'Right Enough to Be Dangerously Wrong: An Analysis of the In Search of Excellence Phenomenon'. In Salaman, G. (ed.) *Human Resource Strategies*, London: Sage.
- Guest, D.E. and Hoque, K. (1994) 'The Good, the Bad and the Ugly: Human Resource Management in New Non-union Establishments', *Human Resource Management Journal*, 5(1): 1–14.
- Hendry, C. and Pettigrew, A. (1990) 'Human Resource Management: an agenda for the 1990s', *International Journal of Human Resource Management*, 1(1): 17–43.
- Huselid, M.A. (1995) 'The Impact of Human Resource Management Practices on Turnover, Productivity and Corporate Financial Performance', *Academy of Management Journal*, 38: 635–70.
- Huselid, M.A. and Becker, B. (1995) 'High Performance Work Practices and the Performance of the Firm: The Mediating Effects of Capital Structure and Competitive Strategy', paper presented to the Academy of Management Conference, Vancouver, 6–9 August.
- Huselid, M.A., Jackson, S.E. and Schuler, R.S. (1995) 'The Significance of Human Resource Management Implementation Effectiveness for Corporate Financial Performance', paper presented to the Academy of Management Conference, Vancouver, 6–9 August. In press, *Academy of Management Journal*.
- Ichniowski, C., Shaw, K. and Prennushi, G. (1994) 'The Effects of Human Resource Management Practices on Productivity', working paper, Columbia University.
- Kochan, T., Katz, H. and McKersie, R. (1986) *The Transformation of American Industrial Relations*, New York: Basic Books.
- Lawler, E.E. (1986) *High Involvement Management*, San Francisco: Jossey-Bass.
- Lawler, E.E. (1992) *The Ultimate Advantage*. San Francisco: Jossey-Bass.
- Levering, R., Moskowitz, M. and Katz, M. (1984) *The 100 Best Companies to Work for in America*. Reading, Mass.: Addison-Wesley.
- Locke, E.A. and Latham, G.P. (1990) 'Work Motivation: The High Performance Cycle'. In Kleinbeck, U., Quast, H-H., Thierry, H. and Hacker, H. (eds) *Work Motivation*, Hillsdale, NJ: Lawrence Erlbaum.
- MacDuffie, J.P. (1995) 'Human Resource Bundles and Manufacturing Performance: Flexible Production Systems in the World Auto Industry', *Industrial Relations and Labor Review*, 48: 197–221.
- McGregor, D. (1960) *The Human Side of Enterprise*, New York: McGraw-Hill.
- Miles, R. and Snow, C. (1984) 'Designing Strategic Human Resource Systems', *Organizational Dynamics*, Summer: 36–52.
- Mowday, R.T., Porter, L.W. and Steers, R.M. (1982) *Employee-Organization Linkages: The Psychology of Commitment, Absenteeism and Turnover*, New York: Academic Press.
- Pfeffer, J. (1994) *Competitive Advantage Through People*, Boston, Mass.: Harvard Business School Press.
- Pfeffer, J. (1995) 'Producing Sustainable Competitive Advantage through Effective Management of People', *Academy of Management Executive*, 9(1): 55–69.
- Porter, M.E. (1990) *Competitive Strategy*, New York: Free Press.

- Schuler, R.S. and Jackson, S.E. (1987) 'Linking Competitive Strategies with Human Resource Management Practices', *Academy of Management Executive*, 1(3): 209–13.
- Sivasubramaniam, N. and Kroeck, K.G. (1995) 'The Concept of "Fit" in Strategic Human Resource Management', paper presented to the Academy of Management Conference, Vancouver, 6–9 August.
- Staw, B. (1986) 'Organizational Psychology and the Pursuit of the Happy/Productive Worker', *California Management Review*, 18(4): 40–53.
- Venkatraman, N. (1989) 'The Concept of Fit in Strategy Research: Toward Verbal and Statistical Correspondence', *Academy of Management Review*, 14(3): 423–44.
- Walton, R.E. (1985) 'From Control to Commitment in the Workplace', *Harvard Business Review*, 63: 77–84.
- Wood, S. and Albanese, M.T. (1995) 'Can We Speak of Human Resource Management on the Shop Floor?', *Journal of Management Studies*, 3(2): 215–47.
- Youndt, M., Snell, S.A., Dean, J.W. and Lepak, D.P. (1996) 'Human Resource Management, Manufacturing Strategy, and Firm Performance', *Academy of Management Journal*, 39(4), 836–66.