Chapter 1

Introduction

1.0 Introduction

Perhaps one of the most remarkable developments in recent decades is the relentless impact of processes of internationalisation on organisations of all types, all sizes, and operating in all sectors. Advances in science and technology have contributed to the internationalisation of production and financial markets, consumption patterns as well as the entire re-structuring of economies. In advanced economies, this process has led to an increase in the importance of skill and knowledge as the firm’s main source of added value (Wood 1994). An important implication of this internationalisation process is that work and employment are increasingly affected by pan international rather than national policies and activities (Brewster 1992). Increasingly tightened competition implies that, regardless of the country in which they operate, companies are all under pressure to develop their human resources in order to sustain a competitive advantage in the knowledge-based economy (OECD, 1998a).

Scholars and practitioners alike are increasingly of the opinion that companies need to react to these conditions by cultivating a competence in human resource (hereafter referred to as HR) management. Hence, what once was considered to be a peripheral function in organisational life and a cost to be minimised, is now widely considered to be a key aspect of strategic management practice (Jackson and Schuler 1995; Schuler and Jackson 1987; Huselid, Jackson and Schuler 1997; Youndt, Snell Dean and Lepak 1996). Generating ways to motivate employees to work hard, with flexibility and speed, while remaining a considerable challenge, is nevertheless a crucial source of added value to a firm's operations (Pfeffer 1994; 1998).
How should firms go about this? A substantial and growing body of research claims that enormous economic returns can be obtained through the implementation of what are variously called flexible production systems (MacDuffie 1995; Pil and MacDuffie 1996), high involvement (Lawler 1986), high commitment (Walton 1985), high performance work systems (Becker and Huselid 1998) and high performance HR management (Becker and Huselid 1998a; Pfeffer 1994; 1998). All of these share the idea that the practices are valued for their strategic quality. That is to say, when compared to predecessors, they are unsurpassable in their ability to forge for the firm a skilled and flexible workforce and to create more co-operative labour-management relations that encourage employees to work harder (Goddard and Delaney, 2000). Many argue that while high performance HR management increases a company's productivity and profits (Ichniowski, Shaw and Prennushi 1997; Huselid 1995), the effect is even more pronounced when complementary bundles are used together (Pfeffer 1994; Arthur 1994; Huselid 1995; Kochman and Osterman 1994; MacDuffie 1995). Many suggest that the potential of this high performance HR bundle holds good for the performance of all organisations, across all industries, irrespective of context (Pfeffer, 1994; Ichniowski et al, 1997).

Several prominent issues in both the general HR management literature and that of strategic HR management (SHRM) motivated this study. One important question is whether the high performance HR bundle can be applied with equal success in all contexts? The lion’s share of research that has been conducted on this question has taken place either in the United States or the United Kingdom. Additionally, it has been largely confined to single industry studies. This study however examines the use and effectiveness of high performance HR management in two countries: Ireland and the Netherlands. Both of these European countries have small, open economies, and the companies operating within them are exposed to similar processes of internationalisation. Similarly, they are bombarded with pressure to re-structure and find new, challenging techniques for managing their human resources (Looise and Paauwe 2001; Heraty and Morley 2000; Heffernan and Flood 2000; Gunnigle, Flood, Morley and Turner 1994). Ireland and the Netherlands, however, demonstrate distinct differences in cultural orientation and reflect very different approaches to the employment of people and the provision of education and training. Including
opportunities, increasing competition and mounting uncertainty (Cappelli, 1999). Klein (1989) stresses that unless management looks beyond the benefits associated with new practices and considers also the extent of discontinuity and disturbance that can arise with implementing these practices, the result may well be contrary to management’s intentions, practices such as high-commitment work systems may actually undermine and erode rather than improve employee morale and motivation. Furthermore, what is less clear is whether employee welfare, in particular the quality of working life, are also enhanced by this human resource approach (see Osterman, 2000; Appelbaum et al 2000 for the US; Godard, 2001 for Canada; Ramsay et al 2000 for UK).

In the development of the theoretical basis for the concept of the bundle, these seemingly positive and negative dimensions of the high performance practices should be accounted for. The theoretical framework of this study proceeds from this very premise. The theoretical basis that is developed for the high performance bundle must reflect why, despite the fact that the practices can incur both positive and negative effects, the net effect of the bundle on employee performance would nevertheless be positive. To this end, both the strengths and shortcomings of the practices will be examined and, in light of these, the relationships among these practices will be discussed in terms of their mutual complementarity.

Having derived the theoretical basis for the high performance human resource bundle the question remains of whether companies actually use this bundle. For example, Osterman (1994) and Gittleman et al (1998) failed to find companies that consistently used innovative work practices that could be identified as constituents of flexible work systems. The second research question of this study is therefore: Do companies in Ireland and the Netherlands use a distinct high performance HR bundle? To this end, the structure of the Irish and Dutch data will be examined in order to establish whether the high performance bundle constitutes a distinct type of HR management used in these countries. Furthermore, the analysis will establish whether companies in these countries also use other approaches to HR management.

By what mechanism(s) does the high performance human resource bundle affect the performance of a firm? Many claim that the importance of the high
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The performance bundle can be attributed to ‘complementarities’ among the constituent practices (Ichnioski, Shaw, Prennushi 1997; Huselid 1995). In other words, the importance lies in the internal consistency and mutually reinforcing character of the practices. If this is indeed the case, performance effects should be contingent upon adopting the full repertoire of high performance practices: performance gains should fail to be realised if practices are implemented in a piecemeal fashion. The third research objective of this study is: to determine whether there is evidence to suggest that the high performance bundle improves employee performance to a greater extent than other approaches to human resource management used by companies and further, whether complementarities between the constituent practices account for the superiority of the high performance human resource bundle.

Even if the high performance bundle does improve employee performance, how does this translate into company performance? The general assumption in the literature is that the causal direction runs from the high performance HR bundle to employee performance and on to company performance (MacDuffie 1995; Arthur 1994; Ichniowski, Shaw and Prennushi, 1997), although few studies try to demonstrate this. The most common approach is to focus on the relationship between the high performance bundle and one single level outcome, such as employee performance (Appelbaum and Batt 2000; Goddard 2001), production performance (Arthur 1994; MacDuffie 1995; Ichniowski et al 1997), or corporate performance (Huselid 1995; Becker and Huselid 1998). Incorporating all three performance outcomes in theoretical as well as empirical terms is therefore a much-needed step. The theoretical approach developed in this study traces the effect of the high performance bundle from its impact at the employee level, through to the impact at the production system level and finally, to the level of company performance. This brings us to the fourth research question of the study: Does the high performance human resource bundle improve company performance, and if so can this be attributed to the effects of the bundle on employee and production performance?

If the high performance HR bundle on average, improves company performance, does this imply that all companies can translate the effects of the high performance HR bundle into company level performance improvements? Two primary perspectives – the universal and contingency approaches – have been
used to describe the link between HR management and company performance. The contingency perspective posits that a company's business strategy or posture augments or diminishes the impact of HR management on performance (Jackson, Schuler and Rivero 1989; Miles and Snow 1984; Arthur 1992; 1994; Huselid, 1995; Youndt Snel Dean and Lepak 1996; Delery and Doty 1996; Huselid, Jackson and Schuler, 1997; Ostroff, 2000). In this study, specific attention is given to examining the moderating role of the company's business strategy (Guest 1987; Arthur 1994; Youndt, Snel, Dean and Lepak 1996). Hence the fifth research question is: Does a company's business strategy moderate the relationship between the high performance HR bundle and company performance?

Why should a company use high performance HR management? The claim is that, given the increasingly competitive nature in which companies operate, old style personnel amounts to little more than dead weight. The claim is that companies must learn that, through the effective management of their human resources, they can develop core competencies, and improve the flexibility and innovativeness of their operations. The adoption of this HR strategy by companies, however, has been modest at best – perhaps even low (MacDuffie and Pil 1995; Roche 1999). This outcome confounds the expectations of most theories that predict that the high performance bundle becomes the dominant strategy. The ascendancy to dominance is expected to occur either through a process of selection that winnows out less adaptive strategies, or through contagion. One version of contagion theory would predict that the success of the high performance bundle would spark more mimicry independent of competitive pressure (Cohen 1995).

An important step in resolving this issue is to identify the processes involved in the diffusion and adoption of the high performance HR bundle. This is the sixth research objective of this study. The theoretical framework developed to deal with this question integrates 'rational accounts' with insights regarding processes of institutionalisation: the purpose here is to distinguish the conditions that induce companies to adopt HR practices strategically from those conditions that are associated with companies that mimic the adoption choices made by other companies.
these two countries allows the examination, in a comparative context, of such issues as to the extent of use of high performance HR practices as well as studying the benefits that companies may reap from using these HR practices.

A second area of debate in the literature is the definition and conceptualisation of the high performance HR bundle. Many contrast it with either the 'rigid Fordist' system of supervision and fragmented job tasks or with the more traditional and bureaucratic approach to organisation, in which internal labour markets, seniority-based advancement criterion, and employment security are considered to be obstacles to flexibility and a high-effort work culture. Some studies build around the notion of high-performance, others high-involvement, and yet others high-commitment or flexible production systems. Studies vary dramatically in the number of practices considered to be included in the bundle. Some studies reflect a somewhat functional conception of HR management, seeing the selection of practices as confined to performance management and training. Others enlarge the bundle by incorporating employment security, grievance procedures, work organisation practices, and the minimisation of status differences between employees. Much of this variation seems to depend upon the theoretical tradition within which the study is embedded (Lewin, 2001). Nevertheless, each combination is presented as the definitive high performance bundle.

This brings us to the first research objective of this study: that is, to arrive at a theoretical basis for the bundling of certain human resource practices.

An important starting point for meeting this objective is the quite prominent assumption from the literature, that when a company applies the high performance human resource bundle, the experience and responses of employees are resoundingly positive. This assumption requires closer attention. The complexity of and problems associated with implementation, are well recognised in the literature (e.g. Lazear 1998) as is the phenomenon of mixed outcomes. Moreover, the fact that high performance work environments are renowned not only for their innovative and cutting edge qualities but also for the levels of stress associated with them is not reflected in the thinking about high performance HR management. In fact, the stress may even amount to distress, given the tendency for companies to restructure their work conditions in response to tightening
Finally, as mentioned earlier, Ireland and the Netherlands represent considerably different societal contexts. The societal effect approach suggests that institutional and cultural contexts shape the strategic choices made by management with regard to organisational forms, activities and practices (Kochan, Katz and McKersie 1986), as demonstrated by (Maurice et al 1980; 1986; Sorge 1991; Sorge et al 1986). Consequently another objective of this study is to examine whether there are similar patterns in the adoption of high performance HR management to be found in Ireland and the Netherlands. Furthermore, consideration will also be given throughout the book to determining whether there are differences between Ireland and the Netherlands regarding the effects that the high performance HR bundle exerts on employee and company performances.

1.3 Summary and outline of the Book

This book contains nine chapters. Each subsequent chapter addresses one of the research questions. Chapter 2 begins with the first research question and therefore in this chapter a theoretical underpinning for the high performance HR bundle is suggested. This requires several issues to be accounted for theoretically: the practices to be included, how they are related to one another, and the types of impact on performance that can be expected from applying the bundle of practices. Based on the theoretical framework, the chapter concludes by specifying the resultant principal hypotheses, which guide the development of subsequent chapters.

Before proceeding with the empirical studies, Chapter 3 provides an overview of Ireland and the Netherlands. This chapter seeks to compile a descriptive overview of the economies, the primary institutions and practices in the countries along with a discussion of the cultural orientation of the people. Apart from the obvious descriptive benefit of this chapter, it also allows comparison, pointing up the main overlaps and differences between societal contexts of the two countries.

Chapter 4 presents methodological details pertaining to conducting the empirical study. This is comprised of data collection from companies based in Ireland and the Netherlands. This chapter outlines the research design, data collection procedures and details of the sampling method used. This chapter discusses the difficulties inherent in conducting a study such as this, along with details about
how some of these difficulties were finally resolved (or not!). Finally, for the reader's information, the chapter presents a descriptive overview of the companies participating in the study.

As mentioned earlier, having developed a theoretical rationale for the high performance bundle the question still remains whether such a distinctive bundle of high performance HR practices can be empirically found or corroborated. This issue is taken up in Chapter 5 where the Irish and Dutch data sets are used to examine the types of HR management bundles that companies use. Cluster analysis is applied with the purpose of examining the data for structure in terms of use of the high performance HR practices.

The third research question is addressed in chapter 6. This involves testing whether the high performance human resource bundle is most effective in improving employee performance. In this chapter, particular attention is given to establishing (a) whether the high performance bundle is the most effective and (b) whether the bundle or system effect has a greater effect than any of the individual practices.

Chapter 7 deals with whether the high performance bundle has positive effects on company performance. A pivotal idea in this study is that the relationship between the high performance bundle and company performance is driven first by the effect that the bundle has on employee performance: The high performance bundle is expected to have an effect on a range of employee performance dimensions, such as training, work motivation, co-operation, conscientiousness, and discipline, among others. This wide scope of effects is in turn predicted to be vital in determining the quality and innovativeness of the company's production performance. Production performance in its turn is a major inflow or determinant of a firm's company level performance. In short, the relationship between the high performance HR bundle and company performance is depicted as being mediated by both employee and production performance. Given the elaborate nature of high performance HR practices, however, it is expected that implementing the strategy will also incur considerable costs. Thus it cannot be taken for granted that the positive effect of the bundle on employee performance will necessarily translate into improvements in company performance. In order for this to occur, companies must absorb high costs. Companies using a differentiation business strategy are suggested to be in such a position. Due to the high price elasticity of
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the markets in which these companies operate, it is suggested that, for
differentiators, the relationship between the high performance HR bundle and
company performance is strongest. Chapter 7 tests this causal path using the two
data sets.

If the high performance HR bundle is such a success, companies should reflect
this in their adoption of the bundle. Empirical studies however report a modest
diffusion. The main task of Chapter 8 is to develop a theoretical framework that
can resolve the apparent contradiction between theory and fact. The main
objective of the chapter is to consider the factors associated with the spread of the
bundle across companies in order to clarify when companies will or will not
decide to adopt.

Finally, Chapter 9 summarizes the main findings of all the empirical studies
presented in this book, with respect to the theoretical frameworks informing each
of the studies. This chapter also discusses the relationship between the high
performance HR bundle and employee performance in terms of the match
between HR practices and the institutional and cultural context of companies in
the two countries. Appendix A to this book contains all the details regarding the
operationalisation and summary statistics of all the concepts applied in this study.