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HRM and Performance: What's next?

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HRM AND PERFORMANCE: WHAT'S NEXT?

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1. INTRODUCTION

The last decade empirical research on the added value of human resource management (HRM), also known as the HRM & Performance debate, demonstrates evidence that 'HRM does matter' (Arthur, 1994; Huselid, 1995; MacDuffie, 1995; Guest, Mitchie, Conway and Sheehan, 2003; Wright, Gardner and Moynihan, 2003). Unfortunately, the relationships are often (statistically) weak and the results are ambiguous. Since the late 1990s the debate shifted slightly from testing the impact of HRM on firm performance to focusing on the theoretical (Guest, 1997) and methodological issues (Gerhart, Wright and McMahan, 2000) that appeared to be unresolved. This paper gives an overview of the major theoretical and methodological issues in the HRM and performance debate up till now. Our aim is to build a research agenda for future research in this area. First we will start with an overview of what has been achieved up till now.

1.1 What has been achieved up till now?

Empirical results on HRM and performance have been presented in a range of special issues of international academic journals like the *Academy of Management Journal* (39/4, 1996), *Industrial Relations* (35/3, 1996), the *International Journal of Human Resource Management* (8/3, 1997; 12/7, 2001), the *Human Resource Management Journal* (Fall, 1999; Fall, 2003), *Human Resource Management* (Fall, 1997), *Human Resource Management Review* (8, 1998), and *Personnel Psychology* (53, 2000). Continued interest in the topic is evident from international seminars

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(SHRM meetings in Bath, Cornell and Rotterdam) and conferences (e.g. Academy of Management Meetings), which have been and continue to be organized.

There is a growing body of empirical evidence on the added value of HRM from outside the US and the UK, for example:

- d'Arcimoles (1997) in France;
- Bae and Lawler (2000) in Korea;
- Boselie (2002) and Den Hartog and Verburg (2004) in the Netherlands;
- Fey and Bjorkman (2001) in Russia;
- Godard (1998) in Canada;
- Guthrie (2001) in New Zealand;
- Lahteenmaki et al. (1998) in Finland;
- Mitsuhashi et al. (2000) in China; and
- Teo (2002) in Australia;

The empirical results suggest the added value of HR interventions. For example, Koch and McGrath (1996) find that a sophisticated HR planning is positively related to labor productivity. Lazear (1996) observes a strong positive relationship between performance related pay (PRP) and productivity. Arthur's (1994) research suggests that commitment HR systems (e.g. employee participation, development) outperform control HR systems (e.g. direct supervision) in US steel mills. MacDuffie (1995) finds that bundles of internally consistent HRM practices are associated with higher productivity and product quality. Finally, Guthrie (2001) demonstrates that high involvement work systems are positively related to employee retention (opposite to employee turnover) and firm productivity. The latter findings are confirmed in the research of Appelbaum et al. (2000). Overall, these empirical studies suggest the relevance of the added value of HRM in terms of organizational performance. But there are some issues unresolved.

1.2 Issues

In 1997 Guest argued that there was a need for (1) theory on HRM, (2) theory on performance, and (3) theory on how the two are linked (Guest, 1997). Seven years

later we observe only modest progress on those three fundamental issues. Boselie and Dietz's (2003) explorative analysis and overview of 58 empirical articles on the linkages between human resource management and performance, published in prominent international refereed journals between 1994 and 2002, demonstrates a lack of alternative theories on the concept of HRM, the concept of performance, and on how the two are linked. The resource based view and the strategic contingency approach appear to be the most popular theories applied in the 58 articles, but in most cases it's not clear how these theories link HRM and performance. Let's stick to Guest's (1997) plea for theoretical foundation of HRM, performance and the link between the two and ask ourselves three questions:

- What is HRM?
- What is performance?
- What is the nature between HRM and performance?

2. WHAT IS HRM ?

There appears to be no consensus on the nature of HRM. Some studies focus on the effectiveness of the HR department (Teo, 2002), others focus on the value of human resources in terms of knowledge, skills and competencies (Hitt, Bierman, Shimizu and Kochhar, 2001), several studies define HRM in terms of individual practices (Batt, 2002) or systems/bundles of practices (Capelli and Neumark, 2001), and again others acknowledge the impact of these practices or systems on both the human capital value – in terms of knowledge, skills and knowledge – and on employee behaviour directly in terms of higher motivation, increased satisfaction, less absence and increases in productivity (Wright, McMahan and McWilliams, 1994). We observe that the majority of the studies on HRM and performance is defining HRM in terms of HR practices or systems/bundles of practices. Boselie and Dietz (2003) show that about 25% of the 58 articles analysed apply some form of systems approach, while the rest uses individual HR practices in the analyses. If we look more closely at the nature of these HR practices we find another striking outcome: there is not one fixed list of universalistic HR practices or systems of practices that define or construct human resource management. Employee development (e.g. skills training and general training), employee involvement in decision making (e.g. participation and

decentralization), performance related pay, and selective recruitment and selection are general concepts that were used in 41% to 74% of the articles in Boselie and Dietz's (2003) analysis, suggesting that forms of development, involvement, performance related pay and selective recruitment and selection are more likely to be part of what is considered to be HRM in this type of research than for example teamwork, appraisal and job design. Just look at the lists of Arthur (1994), Pfeffer (1994 and 1998), Appelbaum, Bailey, Berg and Kalleberg (2000), and Guthrie (2001) and you will find some overlap, but there are some major differences in the HR practices or systems used in the analysis as well.

This brings us to one of the key discussions within current HRM: best practices versus best-fit approaches? Some say there are universalistic best practices in HRM (Pfeffer, 1994 and 1998), others argue that there are only best-fit practices (Wood, 1999) stating that the effect of HR practices depends on the specific (internal and external) context. Wood (1999) makes a distinction between 4 different 'fits': internal fit, organizational fit, strategic fit and environmental fit. A fifth fit can be added to this list if we take into account the relationship between the HR 'enactor' (the front line manager) and the employee: the person-organization fit, in which the employee's perception of the HR practices and the role of the direct supervisor play an important role. It seems logic to believe in a best-fit approach in contrast to a somewhat simplistic best practice approach, but the empirical still evidence supports the best practice approach (Dellery and Doty, 1996). Gerhart (2004) demonstrates a critical analysis of those who claim that some form of internal fit outperforms the lack of this type of fit. Gerhart's (2004) evaluation is very convincing in showing that the systems approaches that build on the notion of internal fit do not outperform the other approaches in which individual HR practices are not aligned. Boxall and Purcell (2003) argue that both streams – best practice approaches versus best-fit practices approaches – might be right each in their own way. Some fundamental principles like employee development, employee involvement and high rewards are universalistic successful, but the actual design of the HR practice depends to some degree to the unique organizational context of that specific organization. The internal context, for example, the nature of the production system (e.g. assembly line) might create restrictions with respect to the successful design of some HR practices (e.g. teamwork, performance related pay), but also the external context, for example, the

legislation and trade union influence might have a direct impact on the optimal HRM design.

If we look more closely at the conceptualization and operationalization of HR practices or systems of practices we observe little or no attention for the coverage of HRM – is there a differentiation between employee groups and what is the percentage of employees that are covered by the practices – and the intensity of HRM in terms of, for example, daily, weekly, monthly or yearly interventions. Most prior research either uses simplistic scales focusing on the application of a specific practice or not (Guest et al., 2003) or some kind of scale that is supposed to capture the ‘degree to which the target group has to do with...’ a specific practice (Huselid, 1995).

The early empirical studies on HRM mainly used the input of single respondents, in most cases the input from HR managers (Huselid, 1995). Gerhart et al. (2000) demonstrate the low interreliability between relevant groups within the firm such as employees, line managers and HR managers. This is an interesting and highly relevant notion, but at the same time difficult to solve since these empirical results demonstrate fundamental differences between employee groups within an organization. Maybe these results demonstrate that the different employee groups have fundamental different priorities and needs, something that should be taken into account if we want to study the impact of HRM on performance in the near future as well. See also Lepak and Snell (2002) on this notion.

To make life even more complicated Wright and Nishii (2004) build a strong argument to make a clear distinction between intended HR practices (those designed on a strategic level), actual – or implemented – HR practices (those implemented by for example the direct supervisor), and perceived HR practices (those perceived by the employees). The majority of the prior research on HRM and performance appears to be focused mainly on the intended HR practices, mainly designed at the strategic level of the organization. Little is known about the actual enactment or implementation of the practices and the employees’ perception of these practices.

We can summarize the notions made in this paragraph as a form of considerations for future research as follows:

- HRM: Effectiveness of the HR department, the impact of HR practices/systems and/or the value of human resources (human capital)?
- HRM: Individual HR practices versus systems/bundles of HR practices?
- HRM: coverage and intensity?
- HRM: the employee perspective, the line manager's perspective and the HR manager's perspective (maybe more relevant groups)?
- HRM: intended, actual/implemented and perceived practices?

3. WHAT IS PERFORMANCE?

The performance outcomes of HRM can be captured in a variety of ways. We draw a distinction, adapted from Dyer and Reeves (1995), between:

Financial measures

Accounting-based (e.g. GRATE: gross rate of return on capital)

Market-based (e.g. Tobin's q)

Non-financial measures

Output measures (e.g. productivity; product and service quality)

Attitudinal/ behavioural impacts among employees (e.g. satisfaction; turnover)

Productivity (48% of the 58 empirical studies), financial measures (47%), product and service quality (34%), and employee turnover (24%) appear to be the most popular performance indicators in prior research on HRM and performance according to Boselie and Dietz (2003). Unfortunately, these summaries of potential performance indicators (see Dyer and Reeves, 1995) and indicators used in prior research (see Boselie and Dietz, 2003) do not tell us a lot about the true nature of performance. What is performance? We argue that we have to go back to the theory to find some clues for reasonable answers for this question. Sustainability of the organization or organizational survival is often the starting point of the discussion. The basic assumption in this perspective is that organizations can maintain or create sustainability through unique/rare, scarce, inimitable, and valuable internal resources (Barney, 1991). Human resources are a powerful potential internal resource that fits this general resource based view idea (Paauwe, 1994; Wright et al., 1994; Boxall and Purcell, 2003; Paauwe, 2004). The next step is the basic idea that employees or human resources are manageable (manoeuvrable) and developmental. In other

words, HR practices can (a) increase the value of the human capital pool through development (e.g. skills training, general training, job rotation, coaching) and (b) influence employee behaviour in the desired direction. The search for the holly grail in HRM is the search for those 'best practices' or 'best-fit practices' that in the end will result in sustained competitive advantage of the organization.

This can only take place if the employees are willing to stay within the organization. Thus, employee commitment in terms of willingness to stay with the firm and willingness to put extra effort in the organization are very important in this context. This is probably why research in the area of HRM and performance is becoming more and more interested in creating high commitment work environments through HR practices or high involvement – high performance work practices (HIWP's and HPWP's). Appelbaum et al. (2000) build on this idea of high commitment work environments and introduce the AMO-model (ability-motivation/incentive-opportunity to participate) in which certain HR practices are considered to drive business performance through creating a highly committed workforce. The high involvement – high performance work practices perspective can be seen as an extension of the resource based view.

These approaches are rather money or shareholder driven and often do not take into account other aspects that might affect the existence of an organization. These shareholder approaches define sustainability in terms of shareholder value, in particular in terms of growth, profits, market share and market value. Their final outcome is always and exclusively financial by nature. But what about the legitimacy (towards society) of an organization in relationship to the survival of that specific firm? Paauwe (2004) argues that the survival of an organization not only depends on financial competitiveness, but also on its ability to legitimize its existence towards society and relevant stakeholders of the organization (e.g. employees, customers, trade unions, local government). Legitimacy is an important concept for sustainability on organizational level, but also the organization's role towards the individual employee and his or her moral values is important: the concept of fairness. If the relationship between the employer and the individual employee is out of balance, for example, in the case of increased performance pressures without fair pay, the

employee might get the feeling of exploitation and unfairness, in the end resulting in low commitment levels towards the organization.

Within HRM research the predominant shareholder approach has been criticized as “too limited” (Truss, 2001: 1123), precisely for failing to acknowledge the interests of other constituencies with an interest in the HRM program and performance of an organization. Guest (1997) and Wright and Boswell (2002) have urged the use of multiple measures of performance and we would highlight two alternative approaches, informed by insights from the ‘balanced scorecard’ approach (Kaplan and Norton, 1992), and stakeholder theory (Freeman, 1985). First, there is what might be called the ‘indirect’ shareholder approach where, in order to satisfy the needs of the owners, the organization sets out to satisfy the needs of its employees and customers, as well (for examples see Becker et al., 1997; Yeung and Berman, 1997). Second, there is the explicit stakeholder approach in which sustainability is a multi-dimensional construct featuring indicators that reflect the needs of all the relevant stakeholders (for examples see Guest and Peccei, 1994; Mitchie and Sheehan-Quinn, 2001; Teo, 2002). Thus, research designs might include indicators of a secure, agreeable and effective working environment to assess the impact of HRM on employees, while for the perspective of organizations’ customers, indicators of product/ service quality and customer satisfaction ratings suggest themselves. If we want to define performance we have to be clear about our position towards sustainability.

We can summarize the notions made in this paragraph as a form of considerations for future research as follows:

Performance: financial versus non-financial measures?

Performance: accounting-based versus market-based?

Performance: output measures versus attitudinal/behavioural measures?

Performance: definition of sustainability?

Performance: shareholder approach (financial performance is the final outcome) versus stakeholder approach (multidimensional performance construct)?

4. WHAT IS THE NATURE OF THE RELATIONSHIP BETWEEN HRM AND PERFORMANCE?

Wright and Gardner (2003) put forward the issue of how many boxes should be taken into account when studying the HRM and performance linkage. Becker, Huselid, Pickus and Spratt's (1997) model incorporates 7 boxes, starting with 'business and strategic initiatives' and finishing with 'market value'. In their model the design of the HRM system is derived from the overall business strategy. Guest's (1997) model has 6 boxes, starting with a Porter-like strategy typology – distinguishing differentiation/innovation, focus/quality and cost reduction oriented HRM strategies – and ending with the financial outcomes return on investment (ROI) and profits. Again, the HR practices are derived from the overall strategy. Appelbaum et al.'s (2000) AMO-model links 3 boxes. The first box is composed of the high performance work systems (1) ability/skills (e.g. formal and informal training, education), (2) motivation/incentives (e.g. employment security, information sharing, internal promotion opportunities, fair payment, PRP) and (3) opportunity to participate (e.g. autonomy, team membership, communication). The second box consists of effective discretionary effort and the final box reflects the plant performance (e.g. quality and throughput time, labour cost per unit of output, operating profit). Kanfer (1994) and Guest (1997) underline the relevance of the relative distance between the independent variable HRM and the dependent variable performance, nowadays known as the distal-proximal discussion. These researchers argue that the distance between some of the performance indicators (e.g. profits, market value) and HR interventions is too large and potentially subject to other business interventions (e.g. research and development activities, marketing strategies). To study the effects of HR interventions, whether studying multiple individual HR practices or systems/bundles of practices, it is preferable to use outcome variables that are presumably closely linked to these interventions, for example: attitudinal outcomes (e.g. employee satisfaction, motivation, commitment, trust), behavioural outcome (e.g. employee turnover, absence), productivity (output per unit effort), and quality of services or products.

As stated before, there is little or no convincing empirical evidence that coherent and consistent systems or bundles automatically lead to higher performance (Gerhart, 2004). This theoretical systems claim is built on the notion of internal or horizontal 'fit'. But there is another fit proposition that affects the HRM and performance relationship, at least in theory: the notion of external or vertical/strategic 'fit'. The underlying idea is that matching the overall company strategy with the HR strategy or system will result in an increased performance. Unfortunately, there is no convincing empirical evidence for this proposition either (Purcell, 2004). Huselid (1995), for example, does not find any empirical evidence for increased performance when aligning the overall company strategy with the HR system of a specific organization. There are several plausible explanations for this lack of evidence of the presumed necessary strategic fit.

First, strategy is often defined in rather old-fashioned and probably simplistic Porter-like definitions such as differentiation/innovation, focus/quality and cost reduction. The organizational reality is much more complicated and not easy to capture in a simple 'three-piece suit'. The Porter-like definitions of the 1980s are rather static and do not take into account the possibility of hybrid strategies or combinations of strategies that companies might use, serving different markets at the same time. Second, both Gerhart (2004) and Purcell (2004) underline the complexity of management research in large companies, in particular multinational companies (MNC's). Often, these large companies are conglomerates of strategic business units that each has its own market, customers and products/services. Therefore, Gerhart (2004) states that there are less reliability problems at the plant unit analysis in contrast to the prior company level analyses. Purcell (2004) argues that instead of trying to define a firms strategy in terms of differentiation, focus or cost reduction it is much more interested to try and determine "...how the firm will deploy its resources within its environment and so satisfy its long-term goals, and how to organise itself to implement that strategy (Grant, 2002: 13)." Schuler and Jackson's (1987) translation of Miles and Snow's (1984) strategic typology passes over the notion that there is a fundamental difference between strategic and operational decisions. Schuler and Jackson (1987), for example, directly link overall company strategy to operational HR decisions with respect to concrete choices for HR practices. Linking HR strategy to a more general and new form of overall strategy definition, as mentioned by Grant

(2002), can “help us to delineate strategic HRM from operational decisions (Purcell, 2004: 11).” In summary, in the prior attempts to link company strategy and HRM as necessity for increased performance both strategy and HRM were not optimally defined and designed. The work of Boxall and Purcell (2003) is insightful and provides yardsticks for future research in this area. Finally, maybe strategic ‘fit’ is not a necessity for optimal performance at all (Paauwe and Boselie, 2003; Paauwe, 2004).

Paauwe and Boselie (2003) argue that organizations are embedded in a wider institutional context. Institutional mechanisms (e.g. legislation with respect to conditions of employment, collective bargaining agreements, employment security, trade union influence, employee representation) affect the shaping of the employment relationships and HR decision making in organizations. Paauwe (2004), for example, argues that most of Pfeffer’s (1994) best practices (e.g. high wages, employment security, employee participation) are institutionalized in a country like the Netherlands. Most of these best practices are formalized and institutionalized through collective bargaining agreements (CBA’s). Some industries, for example, prescribe a minimum amount of training expenditures for every organization each year, defined in terms of a fixed percentage of the total labour costs of that organization. This formalization might also have an effect on the employees’ perception of these institutionalized practices. Pension schemes, for example, are collectively arranged in the Netherlands, mainly on industry level (e.g. ABP for civil servants, PGGM for employees in the health care sector). Up till now, pension schemes are probably not considered to be employee benefits and best practices in the Dutch context, as it would be in a country like the US. Another example is the best practice labelled wage compression. The typical Dutch egalitarian culture (e.g. relatively low power distance, aim for marginal differences between population groups in terms of prosperity) is reflected in the collective wage compression through a strong progressive tax system in which employees with high incomes pay relatively more tax than those with lower incomes. Paauwe (2004) acknowledges institutional differences on both country level, for example the US versus the Netherlands, and on industry level, for example traditional branches of industry such as the metal industry and the construction building industry versus emerging branches of industry such as the ICT industry. Institutional mechanisms (mimetic, normative and/or coercive) affect

the relationship between HRM and performance and should therefore be taken into account in future research (Paauwe and Boselie, 2003).

Wright and Nishii (2004) emphasize the importance of multilevel analysis in future research. See also Bowen and Ostroff (2004) on HRM and multilevel analysis. Multilevel analysis is simply inevitable when looking at the sequence of boxes that reflect the HRM and performance linkage (Guest, 1997; Becker et al., 1997; Appelbaum et al., 2000). The boxes in the existing conceptual models implicitly reflect analyses on different levels of the organization. If we want to know more about, for example, intended HR practices we have to look at the job group or employee group level according to Wright and Nishii (2004), while if we want to know more about how these practices are perceived by employees we are in need of data on the individual employee level. Employee behaviour (e.g. employee turnover, absence) and organizational performance (e.g. productivity, quality) can be determined at employee group level in some cases and at plant unit level, while financial performance indicators are probably exclusively available at plant or company level. Where Gerhart (2004) makes a plea for plant unit analysis Wright and Nishii (2004) make a plea for HR differentiation, focusing on differences between employee groups within an organization. We argue that these two notions are compatible.

Prior research on HRM and performance was mainly focused on organizational level analysis. Wright and Boswell (2002) stress the importance of blending research on the individual employee level (typical OB studies) with research on the organizational level (typical SHRM studies). Related to this plea for blending theoretical and methodological insights from organizational behaviour (OB) and human resource management (HRM) is the notion that the perception of HR practices by individual employees might be heavily influenced by the role of the front line manager or direct supervisor of an employee. Truss and Gratton (2003) talk about the enactment of HRM by direct supervisors. Ongoing research on the psychological contract, building on theoretical frameworks such as expectancy theory, goal setting theory, social exchange theory, equity theory and signalling theory, might be a rich source for studying HRM and performance on different levels of analysis and the role of the HR implementer (the front line manager).

Paauwe and Richardson (1997) and Hiltrop (1999) observe the risk of overlooking the possibility of reversed causality in linking HRM and performance. The most obvious form of reversed causality can be illustrated by the following examples. First, organizations with high profits might reveal a higher willingness to invest in HRM (e.g. profit sharing schemes, training and development) than those that do not have high profits. Second, in times of national or regional economic crisis organizations might have a tendency to recruit less or in some cases no new employees at all and restrict, for example, the employee development expenditures. The cross-sectional nature of the majority of research on HRM and performance makes it impossible to rule out these types of reversed causality. But there are other potential forms of reversed causality. Den Hartog, Boselie and Paauwe (2004) mention two other forms of potential reversed causality. High firm performance outcomes (e.g. high profits, market growth) might have a positive effect on employee satisfaction and commitment. Most people enjoy being part of 'a winning team' and high firm performance also signals organizational health and thus employment security. In a longitudinal study Schneider, Hanges, Smith and Salvaggio (2003), for example, find that profitability is more likely to cause job satisfaction than job satisfaction is to cause profitability. Another potential source of reversed causality, one that is not highlighted in prior research, is the potential effect of HR investments, in particular executive selection and management development, on the quality of strategic decision making. Basically, the reversed causality discussion focuses on the direction of the arrows in the existing conceptual models (Guest, 1997; Becker et al., 1997; Appelbaum et al., 2000; Den Hartog et al., 2004). Longitudinal research is important for determining the real effects of HR interventions on performance.

This brings us to another important discussion: the time-lag issue. There is no convincing theory and strong empirical evidence on the possible time-lag between a HR intervention and performance. The few studies on HRM and performance that take a longitudinal perspective (Paauwe, 1989; d'Arcimoles, 1997; Guest et al., 2003) suggest that the majority of HR interventions have a middle-long term or long-term effect on performance. Some individual HR practices (e.g. individual performance related pay) might have a direct, short-term effect on performance (e.g. productivity), but most other practices (e.g. training and development, participation, teamwork, decentralization) probably have an effect no sooner than 3 to 5 years time. There is a

real challenge in this area to build theory and perform empirical studies that demystifies this time-lag issue. We suggest that when doing longitudinal research extra attention should be paid to critical events that occur within the organization (e.g. reorganization, merger, scandal), the exact timing of the HR interventions, other relevant interventions (e.g. new product launch), and changes in the existing HR practices.

When doing research on HRM and performance we might encounter complex relationships that reflect contradictions or inconsistencies with the theory. Up till now more and/or better HRM is positively related to high levels of employee satisfaction, commitment, trust, motivation, employee presence (in contrast to absence), productivity, quality, sales, profits and market value. We assume that everything is positively linked to each other. Peccei (2004) puts forward the plausible possibility that a 'happy worker' is not necessarily a 'high commitment worker'. In other words, high commitment work practices might be in the interest of the employer in terms of increased productivity and product/service quality (and even in terms of employee commitment), but not necessarily in the interest of the individual employee. Labour intensification through increased employee participation, decentralization, and emphasis on performance management (practices that can be seen as high performance work practices) might create competitive advantage of the firm in terms of financial performance, but what about the employee well-being of the individual employee? We have to take into account that there might be conflicting results in future research on HRM and performance.

Related to the latter is the notion of potential non-linearity (Boselie, 2002). Arthur (1994), for example, found a non-linear relationship between HRM and employee turnover. Organizations are in need of some amount of employee turnover (~5 to 10% depending on the situation) to maintain flexible. This turnover rate should not be too high simply because of the recruitment and selection costs, the socialization costs, training and development costs, and the discontinuity risks related to large numbers of employees leaving the firm. The optimal turnover rate depends on the specific organizational context. Some organizations might (temporarily) benefit from a relatively high turnover rate, while others are better off with relatively low turnover rates. Therefore, employee turnover is a performance outcome that should be used

with some care. Employee satisfaction is an indicator with similar potential problems (Peccei, 2004).

Finally, we would like to stress the relevance of external shocks in HRM and performance research. What is the impact of, for example, the economic situation on the HRM and performance linkage in an organization? We do not know of any study that explicitly takes into account these external events, but it might be possible that they affect the nature of the linkage between HRM and performance as well. In times of prosperity employees might feel much more secure than in times of an economic crisis. Employees might be much more positive about, for example, individual performance related pay when they feel secure about their job (prosperity) than individual PRP in times of economic crisis. In the first situation PRP might be seen or perceived as an extra bonus for the employee, while in the second situation PRP might be perceived as a way of the organization to become more efficient and/or effective (cost reduction). It would be interesting to study the relationship between HRM and performance in different 'Zeitgeists' or economic cycles.

We can summarize the notions made in this paragraph as a form of considerations for future research as follows:

- Linkage: how many boxes?
- Linkage: proximal distance versus distal distance?
- Linkage: defining strategy and strategic 'fit'?
- Linkage: strategic HR decisions versus operational HR decisions?
- Linkage: institutional context?
- Linkage: multilevel analysis (individual-group/team-unit/plant-company)?
- Linkage: different employee groups or job groups?
- Linkage: company level versus plant level analysis?
- Linkage: blending OB and HRM (theory and methodology)?
- Linkage: role of the front line manager (direct supervisor)?
- Linkage: reversed causality?
- Linkage: time-lag?
- Linkage: employee well-being versus employer's well-being?
- Linkage: non-linear relationships?
- Linkage: national and/or global external events?

5. DISCUSSION

We think it's almost impossible to take into account all the notions made in this overview when designing a future research project on HRM and performance. The real challenge is the search for sufficient control and a smart design without becoming too 'fine grained' and too 'small grained'. A shift from studying multiple HR practices or systems of HR practices to studying one or just a few individual HR practices would be too 'fine grained'. If we want to continue studying HRM there is a need for focusing on HRM as a collection of practices or as a system/bundle of practices. A shift from studying multiple organizations – sometimes in different sectors and sometimes in different countries – to exclusively focusing on one firm within one sector, within one country would be too 'small grained'. We acknowledge that we can not do all things at the same time, but it's important to continue contrasting findings on company level (using multiple firms), on industry level (using for example two contrasting branches of industry), or on country level.

6. CHALLENGES FOR FUTURE RESEARCH

What would be important lessons if we wanted to start new research on HRM and performance tomorrow? We suggest defining HRM in terms of individual HR practices that can be bundled later on in the analysis, but also be treated as individual practices in further analyses. In other words, HRM should be operationalized both in terms of individual practices and in terms of HR systems/bundles in the analyses. If possible, we would also like to stress the importance of distinguishing (strategic) intended HR practices, the actual implemented HR practices (for example through front line managers), and the perceived HR practices (through the eyes of the individual employees). Therefore, we are in need of data from different groups within the organization: senior management, HR managers, front line managers, and individual employees. This form of triangulation also allows for control on the interreliability between groups within an organization.

We would prefer to use a multidimensional performance construct, taking into account both objective and subjective data, but also both financial and non-financial data. In order to measure the direct affects of HR interventions it's probably wise to focus on those indicators (e.g. employee satisfaction, motivation, commitment, trust, turnover, absence, productivity and quality) that are relatively close to these interventions: the distal-proximal argument.

Individual employee input appears to be crucial for further research. This asks for multilevel analysis, taking into account research notions on data aggregation. Aggregation of the data to plant level is preferable to aggregation to company level. If possible, fundamental differences between employee groups (e.g. managers versus shopfloor workers) should be taken into account. Longitudinal research, both quantitative and qualitative, is important to study the actual causal effects of HRM. It is also important to map the critical events, both externally (e.g. economic crisis) and internally (e.g. reorganization, HR intervention), to check for other factors that might have influenced the firm performance.

In summary, a lot of progress has been made in this area in the last decade but there is still a long way to go.

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