



# THE NEED TO MEET THE NEED

## On the HRM-Performance Linkage

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## Abstract

### **Problematization**

Reacting to a demand for greater accountability in organizations across all functional areas of business, HR has been facing fundamental reorganization over the past decades, resulting in significant changes of HR's profile and its position within the organization, and calling for new approaches and practices. HR today is commonly viewed as an organizational resource, which can, and should contribute to the company's competitive advantage and enhance its value creation. Both academics and executives started to assume the need for a better fit between organizational strategy and HR practices. In large part, this assumed need of fitting HR to business strategy gave rise to a new field of scientific research. However, although SHRM research reasonably stresses the alignment between HR and strategy as being crucial for exceptional business performance, a question that remains is how this fit can actually be achieved. Despite numerous contributions which have demonstrated a positive impact of HR on organizational performance, a great deal of uncertainty around the nature of this linkage remains. In line with the call for a more strategic approach of the HR department, studies are needed to understand how HR practices can support business strategy and ultimately enhance firm performance.

### **Purpose**

The purpose of this study is to explore the linkage between HRM and performance to understand how HR practices can support business strategy and ultimately enhance firm performance. Additionally, potential gaps will be identified and a theoretical explanation, grounded in the conducted data, will be suggested.

### **Methodology**

A qualitative approach was chosen for this exploratory study. The empirical data was conducted in 25 in-depth interviews within one case organization and an inductive approach of theory-building through the collection of rich empirical data was applied.

### **Results**

It was shown that expectations towards HR were closely linked to the HR transformation model as one commonly used best practice approach in many organizations. However, HR best practice models are often developed far away from the organizational context and bear a high risk to fail to achieve the intended outcome. As this study suggests, they should be assessed regarding their fit for the particular organization and contextual factors have to be taken into account at the implementation stage. Existing gaps between intended positive effect on the business and organizational reality were related to clashing institutional logics both within and across two institutions, i.e. the HR department and line managers. Institutional theory emerged as a potential explanation for these gaps. This concept underlines the importance of colliding inherent norms and behavioral patterns and emphasizes organizational actors (first and foremost HR professionals and line managers) and the institutional context they are placed in as crucial factors for successful transformation.

**Keywords:** Performance, HR transformation, reorganization, institutional theory.

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## **1 Background and problem of investigation**

Doubtlessly, HR is one organizational function that has experienced most significant changes over the past decades (Armstrong, 1991). In the 1980s, a combination of economic and political factors led to a demand for greater accountability in organizations across all functional areas of business, HR being one of them. The result was fundamental reorganization, during which some of HR's basic transformational functions were sourced out. HR's profile and its position within the organization changed significantly, calling for new approaches and practices. Instead of dealing with mainly administrative tasks, HR today is commonly viewed as an organizational resource, which can, and should contribute to the company's competitive advantage and enhance its value creation (Ulrich, 1997). Not only practitioners but also academics turned attention towards the new role of HR: Starting in the early 1980s, a vast body of literature calling for a more strategic angle of HR was developed (Devanna et al., 1981; Baird et al., 1983; Guest, 1987; Miller, 1987; Armstrong, 1991). One of the first articles which initiated the formal rise of Strategic Human Resource Management (SHRM) was published by Devanna et al. (1981) and was titled "Human Resources Management: A Strategic Perspective". Both academics and executives started to assume the need for a better fit between organizational strategy and HR practices. In large part, this assumed need of fitting HR to business strategy formed the foundation of many related initiatives among practitioners and gave rise to a new field of scientific research.

The main assumption behind HR-strategy fit is that the effectiveness of virtually any HR practice, or set of practices, and its impact on firm performance depends upon the organization's overall strategy – or conversely, the effectiveness of any strategy depends upon the right set of HR practices. Numerous academic studies and theories emphasize a clear link and congruence between HR and strategy in order to achieve the most favorable outcomes (e.g. Fombrum et al., 1984; Ulrich, 1998; Wright & McMahan, 1992). However, although SHRM research reasonably stresses the alignment between HR and strategy as being crucial for exceptional business performance, a question that remains is how this fit can actually be achieved. Despite numerous contributions which have demonstrated a positive impact of HR on the organization's development and ultimately on financial performance, our understanding of the ways that human resource management is linked to organizational performance is still limited and a great deal of uncertainty around the nature of these linkages remains (Keegan et al., 2012). Ulrich (1997, 304) summarizes the situation as follows:

HR practices seem to matter; logic says it is so; survey findings confirm it. Direct relationships between investment and attention to HR practices are often fuzzy, however, and vary according to the population sampled and the measures used.

In line with the call for a more strategic approach of the HR department, studies are needed to understand how HR practices can support business strategy and ultimately enhance firm performance.

Following the question on how HR practices are linked to organizational performance, this paper aims at contributing in two ways to the ongoing debate: Firstly, by a review of existing literature on 1) how HRM is evaluated and 2) how the link between the two of them, performance and HRM, is achieved and operationalized, two crucial components of the HRM-performance linkage relevant to this study will be discussed. Secondly, through a case study, this paper adds into existing empirical and theoretical contributions by adopting a holistic and contextualized view on the linkage between performance and HRM. Rather than applying existing theories on best practice approaches to test their impact on organizational performance, this paper sets out from the other end and inverts the question about effective HRM into an organization. Through in-depth interviews with one of HR's main stakeholder groups, i.e. line managers, the study approaches the question about effective HRM from a business point of view and bases its findings on actual organizational needs. It investigates expectations towards HRM on a strategic level as well as regarding the operationalization of HR strategy and the implementation of HR practices into the organization's way of doing business.

The organization chosen for the case study was going through fundamental changes at the time of data collection: A new CEO had recently been appointed, large parts of the senior management team were replaced, and a restructuring process throughout the organization was carried out. Typically, these conditions lead to an interruption of "business as usual", management and employees are taken out of their familiar work routines and emergent gaps between organizational goals and available resources become visible. This creates a fruitful ground for reflections about strategic business needs both moving forward with a new, reconfigured organization as well as during the change process as such. On the other hand, business plans had been taken away in some departments during the reorganization, and several participants did not have a confirmed position in the new organization at the time of research. This made it difficult for some of them to discuss future business needs in their new area of responsibility, since this was yet to be set. Overall however, aiming at the linkage

between successful HRM aligned to business needs and firm performance, this study benefits greatly from the given setting.

## **2 Purpose and research question**

The purpose of this paper is to explore the linkage between HRM and performance to understand how HR practices can support business strategy and ultimately enhance firm performance. Additionally, potential gaps will be identified and a theoretical explanation, grounded in the conducted data, will be suggested. Using an in-depth case study methodology, the following research questions will be answered:

1. What are emergent business needs and how do they relate to organizational performance?
2. What key deliverables for the HR department to meet emergent business needs and effectively enhance firm performance can be identified?
3. How does HR meet business needs today, which gaps exist and how can these be explained?

By inverting these questions into an organization, this paper sets out from a business point of view to explore the HRM-performance linkage.

## **3 Previous research**

Research has developed theories around several components of the HRM-performance linkage. Most meaningful in the context of this study are previous findings on the *evaluation of HR practices* and the *nature of the linkage* between HRM and organizational performance. Both fields will be explored and related to the ambition of this study.

### **3.1 Evaluation of HR practices**

The literature is very unclear about how HR practices should be evaluated and related to firm performance. Earlier works tend to focus on a more generic and quite limited set of HR activities such as selection, training and development, and appraisal and rewards. The main finding in these studies, which form part of the so-called ‘generalist approach’ (Pfeffer, 1994; Purcell, 1999), was that a vertical integration is necessary, meaning that all activities should generally be linked to firm strategy. This approach looks upon the organization and the strategic goals as a whole, rather than specifying HR deliverables in any specific area (e.g. Cook & Ferris, 1986).

Later studies have, however, tried to define best practices by focusing on certain bundles or configurations of ‘High Performance Work Practices’ and used quantitative methods to empirically show their impact on firm performance. The problem with their findings however is that what can be counted as ‘High Performance Work Practice’ differs among academics (Guest, 1997). Some of the most influential studies name among others rigorous recruitment and selection, performance-contingent compensation systems, and management training linked to the strategic goals of the organization (Becker et al., 1997). Delaney et al. (1989) define a longer list including selection, appraisal, incentive compensation, job design, grievance procedures, information sharing, attitude assessment and labor management participation. Huselid (1995) added intensity of recruitment efforts, average number of hours training per employee per year, and the nature of promotion criteria to the list developed by Delaney. In their review of earlier studies, Delery & Doty (1996) identified seven strategic HR practices which were empirically and theoretically related to firm performance. In their research however, they only found support for three of these practices, namely results-oriented appraisals, profit sharing, and employment security.

Not only the identification of high performance work systems leads to very different results across studies, even the question whether a certain HR practice has a positive or negative impact on firm performance is answered differently by different scholars. Arthur (1994) for instance states that variable pay might lead to less favorable outcomes on the organizational level, while Huselid (1995) and MacDuffie (1995) emphasize a strong positive impact of variable pay on firm performance (Becker & Gerhart, 1996).

A conclusion to be drawn from the literature review on ‘High Performance Work Practices’ is that conflicting research results draw a fuzzy picture and fail to clearly identify those practices that are actually related to organizational strategy and enhanced business success. Becker & Gerhard (1996, 784) draw the conclusion that ‘studies of so-called high performance work systems vary significantly as to the practices they include and sometimes even as to whether a practice is likely to be positively or negatively related to high performance.’

Compared to the generalist approach, the High Performance Work Practices approach was able to provide a more detailed insight both to practitioners and academics about some of the mechanisms between HR practices and organizational outcome. Still, there are flaws and weaknesses in this approach that need to be addressed. One aspect that can be criticized is the fact that most of the reviewed studies based their results on quantitative methods which means a drastic reduction of highly complex interrelations to a single dimension. Huselid’s (1995)

study can be given as an example: He measured training as the number of days training per employee per year. What is not taken into consideration in this measure is the quality of training which doubtlessly affects the final outcome and the usefulness of the practice under consideration; neither does this measure account for alternative techniques employed by the organization to develop their employees, such as coaching and mentoring for instance. In line with this critique, Purcell (1999) argues that large-scale quantitative data collections are not the most appropriate way to study the linkage between HRM and firm performance, because they do not account for important procedural issues nor do they provide any information about the dichotomy between policies and the actual implementation.

The generalist approach suffers from a similar weakness with regards to the high degree of generalization. It fails to account for the organizational context which will doubtlessly influence the implementation of any chosen HR practice (Purcell, 1999). Potential variations among different organizational contexts and the role this factor plays in the assessment of HRM-performance linkages are therefore not taken into consideration.

### **3.2 HRM-performance linkage**

For a long time, studies based the linkage between HRM and firm performance on the simple belief that the improvement of the way people were managed would inevitably lead to enhanced performance within the organization (Ulrich, 1997). These works clearly lacked a theoretical base for their assumptions and failed to justify the assumed linkage formally.

Today, a lot of work has been done in this field and evidence has been found to approve the theoretical linkage between HRM and performance. As Ulrich (1997, 306) states, ‘evidence now exists to show that investment in HR practices impacts business results, both financial results and the market value of firms.’

As Jackson & Schuler (1995) write in one review, a number of theories has been employed to explain the linkage between HRM and performance, among them general systems theory, role behavior theory, institutional theory, resource dependency theory, human capital theory, transaction cost economics, agency theory and the resource-based theory of the firm. The most influential and commonly used of these theories will be outlined in the following.

The human capital theory states that people possess knowledge, skills and abilities which are of economic value to the organization. Firm investment in personnel is therefore only justified if the likelihood for future returns on this investment in people, for example through increased productivity, is high. Conversely this means that the likelihood of firm investment in their



work force depends on the employees' potential to contribute to firm performance: The higher the potential for employees to contribute, the more likely it is that the firm will invest in human resource management activities aiming at increased individual performance. (Youndt et al., 1996)

Alternatively, the resource-based view of the firm suggests that the firm's HRM system potentially leads to a competitive advantage over other firms (Barney, 1991; Becker et al., 1997; Lado & Wilson, 1994; Pfeffer, 1994; Wright et al., 1995). According to the resource-based view of the firm, a resource can be considered to be a source of sustained competitive advantage if it is inimitable, rare, valuable to the firm and not easy to substitute (Barney, 1991). While some academics suggest that the management of human resources meets these four criteria of sustained competitive advantage (Becker & Gerhart, 1996; Schuler & MacMillan, 1984; Ulrich, 1991), some others rather state that personnel itself is a source of a firm's sustained competitive advantage. Wright et al. (1994, 318-19) conclude that 'it is through the human capital pool and employee behavior that human resources can constitute a sustained competitive advantage'. One crucial argument is that a firm's HR practices can actually be imitated by other organizations, but that their effect ultimately depends on the organizational context which is unique for any given case. Following this approach, HRM practices take on an important role in identifying, attracting and retaining the most suitable employees, and getting them to behave in a way that is most beneficial for the firm. 'HR practices moderate the relationship between the human capital pool and firm effectiveness, such that the pool is effective only when combined with the right practices that capitalize on the advantage through eliciting employee behavior.' (Wright et al., 1994, 320)

A somewhat conflicting view is presented by Becker & Gerhart (1996) who argue that it is not the human resource pool that is a potential source of sustained competitive advantage, but rather the human resource system. In line with their view, Barney (1995) states that individual policies and practices have little impact as such and that it is rather the combination of HR activities which creates a synergetic effect on firm performance.

Developing the idea of the resource-based theory further, Mueller (1996) suggests an evolutionary resource-based approach. He argues that strategic HRM will only lead to sustained competitive advantage if effective resource mobility barriers exist. According to Mueller (1996), these can best be created through the organization's informal system, its social architecture, tacit knowledge, and informal learning. These factors emerge and shape over time and are most often unplanned and difficult to influence. However, the crucial role of

HR in this context is to enhance the skills and competences held within the organization's informal system.

As some studies (e.g. Becker & Gerhart, 1996; Matusik & Hill, 1998) argue, quickly changing business landscapes imply that one crucial element in high performance HR systems must be flexibility. A question that must be raised is how compatible the resource-based view's emphasis on synergy and fit between the various factors of HR systems is with a reasonable call for flexibility. In this context, Wright & Snell (1998, 758) introduce the idea of 'sustainable fit'. In this approach, flexibility is seen as an organizational characteristic while 'fit' is regarded as a snapshot in time. HR practices have to be linked to the flexible firm so that flexibility and fit can co-exist at the same time.

Despite the strong theoretical base for HRM-performance linkage that is created through these arguments, it still follows the assumption that the identification of appropriate HRM policies will automatically lead to effective implementation and the intended outcomes and therefore fails to consider all crucial elements in the HRM-performance linkage.

Alternatively, the contingency framework has been widely adopted. In this approach, the impact of HRM on firm performance is mediated through the organization's strategy (Youndt et al., 1996). As part of this approach, the behavioral view suggests that each organizational strategy calls for a specific set of employee behaviors, attitudes and skills to successfully implement strategic goals and perform well. In this view, the role of the HR department is to identify and reinforce those behaviors that are beneficial for the firm's goal achievement, in line with organizational strategy (Jackson et al., 1989; Schuler & MacMillan, 1984). Becker & Gerhart (1996) on the other hand criticize that this approach is very limited since it merely allows the conclusion that for each given corporate strategy, a certain HR system will have a universal effect on firm performance. Additionally, this theory of a rather static set of HRM practices contradicts the potential need for flexible HR systems.

Another contribution to the ongoing debate is the configurational perspective. It argues that HR practices should be bundled to achieve maximal effect (Delery & Doty, 1996). Consequently, the effectiveness of the HR department cannot be assessed based on one single practice. It depends instead on the fit in the interrelationship between all implemented HR practices. According to Wright et al. (1999), participative management is one of the crucial elements in any effective bundle. A critical and somewhat contradicting response to the suggestion of universalistic best practice bundles as put forward by some studies is the

idiosyncratic contingency approach. It states on one hand the importance of path dependency, meaning that strategy is an emergent concept in organizations. On the other hand, it emphasizes the importance of causal ambiguity as determinant for the various interrelated contextual factors which make an organization unique. Consequently, the idiosyncratic contingency approach states that the outcome of any bundle of HR practices can never be copied from one context to another (Mueller, 1996; Purcell, 1999).

Numerous uncertainties in literature that have been highlighted above create a fruitful base for further research. Particularly the debate around the idiosyncratic contingency approach and the assumed importance of the informal organizational characteristics take a clear stand against High Performance Work Practices literature and the suggestion that one set of HRM best practices can fit all.

Consequently, the present study stresses the importance of the specific organizational context for HR work, identifies emergent gaps between business needs and HR's performance and provides a potential explanation of these gaps with the help of theoretical frameworks such as institutional theory, social construction theory and interactional theory. With regards to methodology, Purcell (1999) and Guest (1999) state that a quantitative approach to collect data on the HRM-performance linkage is not appropriate since it fails to account for crucial qualitative issues related to processes, practice and implementation. Departing from these issues identified in previous research, the present empirical study sets out to investigate the HRM-performance linkage in a more holistic way and based on an in-depth qualitative approach.

## **4 Method**

The setting for this study is a Swedish organization which is a leading global supplier of engineering products, solutions and services. As this is an exploratory study, a qualitative case study approach appeared to be most appropriate. The main strength of qualitative research is the possibility to study how phenomena are constituted in a way that is unavailable to quantitative research. While the latter is concerned with the correlations between variables, its definitions of phenomena are rather operational and the contribution to social problems is naturally limited (Silverman, 2006). Additionally, a case study approach allows the researcher to use multiple data collection techniques, which makes it one of the most powerful research designs (Hakim, 2000). Furthermore, as Yin (2014, 4) argues, 'the distinctive need for case study research rises out of the desire to understand complex social phenomena'.

For the present study, secondary documentation as well as primary data were collected. 25 semi-structured interviews with line managers were conducted to explore the perceived linkage between HR practices and organizational performance from different angles and to put individual and subjective observations into perspective. This multi-constituencies approach enabled the study to explore the perspective of different organizational members on the perceived HRM-performance linkage, in line with an inductive approach to theory-building (Eisenhardt & Graebner, 2007). The interviews covered topics such as industry trends, customer value creation, business goals, people management, the perception of HR initiatives and the ongoing reorganization process the company was conducting at the time of research. Interviews lasted between 40 and 60 minutes, participation was voluntary and all participants were informed of their rights to anonymity and confidentiality in regards to all information obtained. Interviews were tape recorded with the full consent of all participants, transcribed, and content analyzed for central themes afterwards as recommended by Ritchie & Spencer (1994).

As will be discussed in the following sections, the analysis revealed that participants' expectations towards the HR department were very much in line with suggested outcomes of the HR transformation concept as put forward by several scholars. The findings of this study will therefore be compared to the theoretical model of HR transformation, and potential problems regarding its implementation as revealed in the analysis will be discussed. However, using an inductive approach of theory-building through the collection of rich empirical data (Eisenhardt, 1989), additional theory proved to be necessary to go beyond the rather rationalist approach of the HR transformation concept and to account for relational aspects between actors. Based on the analysis, institutional theory emerged as the most appropriate concept to provide an explanation for existing gaps between HR performance in the context of an HR transformation, and organizational reality: it theoretically articulates the relations between different ontological domains, while at the same time recognizing their integrity as differentiated features of social reality as suggested by Layder (1981).

## **5 Findings**

The studied organization is a leading global supplier of engineering products, solutions and services. Since the 1920s, it has been present on all 5 continents and is today represented in over 130 countries with approximately 48.600 employees worldwide. The organization's HR department had been organized into the commonly adopted HR transformation structure several years ago. This included a shared service center for employee-related administrative

tasks and a global recruitment center, various centers of expertise such as Compensation & Benefits and Learning & Development, and strategic HR business partners to support line managers.

At the time of research, the organization was going through an extensive change process: A new CEO had recently been appointed, changes in the executive management team were carried out, and the organizational structure was reorganized fundamentally by combining two of the organization's three business areas into one and reducing seven staff functions to four. The ambition behind the reorganization was to simplify the business, reduce cost, improve capital efficiency, and ultimately, competitiveness. A simplified structure would help the company to become better and quicker at creating competitive products and services with customer applications in focus. As a consequence of the reorganization, job changes and redundancies were being realized on all levels throughout the company. At the time of research, more than 1.500 positions were announced to be eliminated.

Clearly, the ongoing change process had a sensitizing effect on participants and therefore influenced the data of this study. The reorganization had disrupted business as usual, employees had been taken out of their daily tasks, strategic gaps were made visible, old truths had been questioned and the general level of awareness for potential improvement had gone up. Participants were highly involved with the ongoing change process and reflected on a high level about relevant business goals and emergent needs linked to the new organization.

The analysis revealed two themes that are of interest to answer this study's research questions: the first theme is *emergent business needs* and covers HR's role in supporting line managers in challenges directly related to the business and organizational performance. Five emergent business needs were identified in the analysis: *clear strategic direction, resource efficiency, sustainable planning, empowered teams* and *strong leadership*. The second theme presented in this section is *fundamental requirements for enhanced HR work* and covers necessary actions to take particularly for the HR department, not directly connected to the business situation, but as general prerequisites for effective HR work and enhanced firm performance. In this theme, two topics were identified: *being close to the business* and *proactivity*.

In the following, both themes will be explored, HR's stake in each area will be pointed out and key deliverables will be defined. Additionally, existing gaps in how HR meets business needs today will be highlighted and possible explanations will be discussed.

## 5.1 Emergent business needs

As put forward in SHRM literature, HR practices should be aligned to business needs to be effective in the organization (e.g. Salaman et al., 2005; Schuler & Jackson, 2007; Boxall & Purcell, 2011; Cascio & Boudreau, 2012). The first field of interest for this study was therefore to find out about emergent business needs and their impact on overall organizational performance. Naturally, each functional area contributes in a different way to organizational performance. However, five overarching themes could be identified that were valid throughout the organization and across functional areas. These five areas are 1) *a clear strategic direction for the organization as a whole*, 2) *resource efficiency*, 3) *sustainable planning to be equipped for future challenges*, 4) *empowered teams*, and 5) *strong leadership*.

In the following, each respective area will be discussed separately. Firstly, it will be pointed out how each of the five emergent business needs relates to overall organizational performance. Furthermore, HR's stake in each field will be highlighted and key deliverables will be pointed out. Thirdly, it will be discussed how HR meets each respective business need today and which gaps exist between HR's performance and the desired state expressed by line managers.

### 5.1.1 Clear strategic direction

A transparent strategy, clearly defined top-level activities and the possibility to cascade these into measurable goals and concrete actions for the different departments was described as crucial moving forward. This would help to strengthen the organization's position in the market, to point out and leverage on strengths as compared to competitors, and to define and communicate the unique value they would add to the customer's business more sharply. Being clear on the future direction, the company would be able to align efforts, to prioritize resources and to generate higher impact through acting as one strong partner for the customer.

The interviews showed however that line managers were missing a clear direction. According to them, uncertainty about top level priorities led to difficulties in cascading goals throughout the organization and hindered them to align business efforts to steer towards one common direction. Due to the ongoing reorganization, many business units temporarily did not have any financial targets on a high level in place and existing business plans had been removed. More importantly however, and regardless of the reorganization, participants struggled to see an overarching strategic message for the organization as a whole which would guide people beyond what they had to achieve in terms of KPIs (Key Performance Indicators). In the quote

below, the interviewee expresses a wish for an industrial vision rather than purely financial targets:

We have always had financial targets but it's important that we are... We are a manufacturing company, so we have to manage to set clear goals in terms of customers, countries, markets. Finance is important, that we know. We know that today there's a lot of finance (...) but we also want to have an industrial vision. Not only a financial vision. (line manager 11)

Several years ago, the company had put forward a vision of becoming the 'Knowledge-based Technology Manufacturers' and people were aware of this ambition. What it actually meant to the individual and the way of working however was rather unclear. As Mintzberg (1990) suggests, strategy implementation is as important as strategy planning and formulation and should be done thoroughly because emerging insights during the implementation phase prepare the ground for future strategic direction. The interviews however showed a clear gap between organizational communication and organizational reality. As one manager put it:

How do you break down a big vision of 'Knowledge-based Technology Manufacturers', what does that mean? When I do something on Monday morning, how do I contribute to this vision? So that to me is something we lack in [the organization], to help our managers to break down the big goals and connect them to their reality. (line manager 25)

Although this issue had been a rather long-term symptom in the organization, participants were optimistic that during the reorganization process, a clear direction would finally lead to better alignment internally, a more efficient way of working and of addressing customer needs and a way to define the core business, as expressed by one line manager:

I think now it will be a lot about streamlining the business, it will be a lot of going back to core. Or not back to core, but finding the core really. What is the core business? Cause that will generate a lot of energy, I'm sure, it will generate the clarity that is needed and it will help to bring that team spirit to the table that we need in order to change. So it's perhaps all about clarity if we look some years from now, it has to be clear for people working in [the organization], for our customers, for our investors. This is what [the organization] stands for. This is clear for everyone. (line manager 3)

HR was expected to take on a more active role in the process of defining and implementing the company culture, of establishing the tone internally and setting the stage for how the organization works. This demand can be related to Mintzberg's (1987) metaphor of the HR

strategist as a ‘craftsman’ who masters details, picks up what others missed, has a peripheral vision and therefore detects and takes advantage of strategic opportunities as they unfold. Particularly with regard to the ongoing reorganization process, HR was expected to have an oversight of where the company was heading and to communicate it with clarity to drive cultural change. This role of a central communicator had not been taken on by HR according to line managers. The consequence, as one line manager said, was frustration, particularly related to the reorganization process and the uncertainty people felt around it:

The worst for me when I'm on an airplane is when the plane doesn't leave the gate and nobody tells you why. And you sit there in silence and it's like ‘Are you gonna tell us something?’ You know, when are we leaving, what's the cause of the delay? It's that not knowing, not being spoken to, that is causing the greatest frustration in the case of the airplane and I think that for what's going on right now with [the organization], it's similar. (line manager 7)

The need for a change agent was pointed out very clearly by this and other line managers. Their expectation is in line with literature on strategic HR management, which states that HR should play a key role in managing change (e.g. Storey, 1992; Tyson & Fell, 1992; Ulrich, 1997, 1998; Caldwell, 2001; Ulrich & Brockbank, 2005; Peacock, 2008). Ulrich suggests that HR departments should become ‘an agent of continuous transformation’. (Ulrich, 1998, 125)

In summary, respondents demanded a clear strategic direction for the organization which had been missing in the past, and expected HR to ensure the organization’s capacity for change by actively taking on the role of a change agent.

### **5.1.2 Resource efficiency**

Another topic that emerged from the analysis was the need for resource efficiency which would support the organization’s goal to deliver superior value in the most cost-effective way possible. Resource efficiency was interpreted in two dimensions: 1) tracking resource availability more easily across the organization and 2) placing resources with a stronger focus on actual strategic needs. Both dimensions will be discussed in the following.

The difficulties to track available resources across the organization as expressed by line managers was partly related to the complex structure of the company. Participants pointed out an urgent need to move towards flat structures and lean organization to achieve a better oversight of availability and consequently better resource utilization. The lack of control over existing resources, particularly personnel, led to a constant under-utilization and inferior performance, as this line manager said:



Our people have been scattered all over the place and to be really open, I have a really hard time to understand how [the organization] can get so little done with over 44.000 people. To me it's amazing. (line manager 6)

Participants expected this issue to be addressed during the reorganization and stressed the need for more alignment and standardization on a global level to reduce complexity and implement a more straight-forward approach focused on outcomes rather than processes:

We need to align our product platforms, our service platforms, in order to support our core business. We have several businesses inside the business and the challenge now is to align our platforms, providing a more lean organization and focusing on customer needs. (line manager 23)

The second dimension, the lack of strategic resource placement, was clearly related to the lack of an overall direction as elaborated above. Participants argued that a clear, overarching strategy was needed to choose relevant projects and to place resources according to strategic needs. Rather than allocating few resources to many projects, participants wanted to see a more thorough business potential analysis and consequently a clear focus on less projects, which would lead to a more effective use of available resources and superior performance. As this line manager put it, resources were used up in a vast amount of activities, which made a centralization of efforts and quick reaction on specific requirements rather difficult:

We don't have the muscles to put together real projects. We do have all the resources within the organization but they are so scattered all over the place because there's no kind of direction. (line manager 1)

As Teo & Rodwell (2007) suggest, HR should build strategic value from their operational activities. In line with this, an urgent need for simpler processes and more focus on outcomes that was described throughout the organization was also placed on HR. More precisely, the HR department was expected to achieve a better alignment between corporate and local HR as well as across countries. Line managers described a very scattered picture based on a large variety of specific local processes in addition or as exceptions to the global rules. As one line manager stated, conflicting messages were put forward by different parts of the HR organization, which led to confusion:

Honestly, firstly I would like them [HR] to get a clear view on how they organize their HR system. Because between the HR boss of the HR department for the business unit and the local HR, I don't think there is any communication. There is

no email, no specific targets. So we get a view from the business unit HR and we get a view from the local HR, but sometimes they don't match. (line manager 20)

The expectation linked to a more standardized approach was that it would free up resources both among HR professionals and on the business side and consequently increase the work pace and efficiency for both parts. This issue could be linked to Ulrich's (1997) 'three-legged stool model', which suggests that centralized HR shared service centers will lead to better alignment and standardization of HR processes and ultimately make HR work more effective and efficient.

In brief, line managers asked for a drastic simplification of the organizational structure and an increased focus on outcomes rather than processes, as it had been the case in the past. From HR, they expected better alignment and more standardization for more efficiency and a better service level.

### **5.1.3 Sustainable planning**

Sustainable planning in terms of key resources was another topic that emerged from the analysis. Line managers argued that the organization would have to become better in anticipating future customer needs, defining which resources would be needed in order to fulfill them, and building these resources in advance. To take on a more long-term orientation, the organization would have to answer the questions where they wanted to go, which was closely related to the demand for a clear strategy as developed above. Additionally, to be able to plan sustainably, it would have to be defined what was needed to get there. As the analysis showed, these questions were not sufficiently discussed.

Interestingly, line managers identified personnel as the by far most crucial resource in order to fulfill business goals and expected the importance of having the right people in the right place even to increase in the future. In this context, the organization's ongoing efforts to realize cost savings through low head count were well-understood, however viewed critically:

It's just that we also have huge financial pressure, we are under pressure and trying to keep heads low, but if we do that it becomes difficult to do that and meet business goals as well. (line manager 5)

As a logical consequence of the high importance that was placed on personnel as a key resource, line managers expressed ambitious expectations towards the HR department. Generally, the organization's insufficient succession planning system was criticized heavily

and HR was expected to address this issue more actively with regards to two main aspects: On one hand, the focus was placed on building core competences internally through systematic competence mapping, long-term development and career path design according to existing competence gaps. As one line manager said, the organization was lacking a systematic approach to competence development, oriented on actual business needs, which led to improvised solutions, invented in the respective area:

We do not always have the professional competences that are important for our business. Often there is no profile defined, no competence measures, anything. And this has been the case for many years. That is very much delayed and it's missing. The profiles, the job description, the competence description of the professional. And then, there are also no trainings according to particular competences. So we have to invent other parallel systems, that's awful. We have spreadsheets and do manual things, that is not good. (line manager 2)

On the other hand, participants argued that the organization was in need of more external hires, particularly of graduates and young professionals. Interestingly, this need was not primarily related to a lack of professional competences, but rather to the culture of the organization. Bringing in young people and leveraging on their personal skills would positively influence the company's atmosphere and lead to a behavioral shift, as one manager said:

What you get from young people, they are bolder, just do stuff, they are generally determined to succeed. So they bring a freshness to the organization, and I think that we need more of that. I've seen them, they bring freshness and brightness and energy. All that comes into the organization and we don't do it enough. (line manager 5)

In the role of a strategic partner, as Ulrich (1997) suggests, HR is supposed to conduct an organizational diagnosis – which naturally includes competence analyses and mapping – and to build their processes in alignment with business strategy. Participants stated that this diagnosis was not, or not sufficiently, taking place.

Although line managers expected HR to be the main driver in this issue, they also expressed the need for a high level business decision to bring in new graduates every year. Related to this topic, they also argued that more active employer branding, driven by HR, would be needed to attract and retain young talent and consequently achieve the desired cultural change.

As has been discussed in this section, line managers expected more long-term planning in terms of key resources, particularly personnel, and expected HR to analyze current and future needs more thoroughly to align their actions to business requirements.

#### **5.1.4 Empowered teams**

Empowered teams were defined as crucial to deliver superior solutions to the customer by fully using the potential of each employee. Although ‘empowerment’ was one of the company’s drivers and had been so for a long time, participants described the current level of empowerment as rather low. One of the issues in the organization was the lack of courage to take decisions. As this line manager said, people would avoid confrontations and rather leave the responsibility to someone else:

Many people are afraid to take a fight (...) and if a problem occurs it's easier to just avoid to reply the email, because if I don't reply, I don't have to take any responsibility. (line manager 6)

Participants did not perceive the organization as an environment that accepted mistakes and took them as opportunities to learn and to develop. Instead, as one line manager described, people were afraid to make mistakes and would therefore refuse to take on responsibility and initiative:

Most people in our daily work, they are afraid of making mistakes. It's true, around me. Most of them, they will try to avoid difficulties. (...) For example, when I lead some projects, some emails are even forwarded in a loop. Nobody wants to answer, nobody wants to take responsibility. Nobody wants to stand out to say, hey, I want to solve this problem. (line manager 12)

As a precondition for more empowerment, participants argued that the organization, with strong support from the HR department, would have to make a stronger effort in matching employees with the right skill set into the right positions. If this was not given, managers would have difficulties to give responsibility and empowerment to their employees, as was pointed out by this line manager:

To match and to find the right persons for the project or the task is key and also to give them the authority and empowerment is key. And I think these two go hand in hand because it can be difficult for me or for some other managers to give empowerment if you don't really believe in the person. (line manager 13)

By matching the right people to the right position, participants expected a higher degree of ownership for agreed goals, which would help employees to feel empowered, in charge of their targets, and ultimately to a higher performance of the individual. This demand can be related to Armstrong (1991), who suggests that internal competence supply, and consequently learning and development, should be core responsibilities in HR's overall approach. In Ulrich's (1997) typology, HR should take on responsibility as 'employee champion' and in this role assure employee commitment and capabilities.

Furthermore, participants stressed the importance of more accountability as a natural consequence of empowerment and expected clearer consequences for both good and bad performance. In this regard, the existing system for variable pay was discussed heavily and most participants were convinced that a more aggressive bonus system would lead to better performance, as will be discussed later.

To conclude, participants expected HR to emphasize their role as internal competence supplier by providing adequate possibilities for learning and development. By ensuring the right competence level for the right position, they argued, a culture of empowerment would become possible to implement.

#### **5.1.5 Strong leadership**

Naturally, leadership is a very broad theme which is closely linked to and partly overlaps with some of the previously developed themes in this analysis. However, the importance of the interplay between HR and line managers as organizational leaders to achieve effective, value-creating and strategic HR work has been emphasized by numerous scholars (e.g. Cooke, 2006; Francis & Keegan, 2006; Caldwell & Storey, 2007; Sanders & Frenkel, 2011; Boglind et al., 2011). Thus, it is reasonable to consider this theme to have inherent importance in the studied context and to discuss it separately.

Strong leadership was described to be a crucial variable of overall organizational performance and the company's ability to effectively address customer needs, as this line manager pointed out:

Leadership is so important. You need leaders who are going to lead a team and that people are going to follow because they believe in what they are doing. It all comes down to leadership. (line manager 6)

According to participants, the main responsibility of a leader was to effectively drive performance by building empowered teams and providing a clear direction. To achieve this, three main aspects emerged from the analysis: 1) continuous development, 2) smart goal-setting, and 3) adequate performance review. Each of these aspects will be discussed in the following.

#### **5.1.5.1 Continuous development**

As developed above, a clear need for sustainable planning in terms of key resources, particularly personnel, was identified in the interviews. In line with this observation, line managers pointed out that leaders would have to become better in driving their employees' competence development to fill existing gaps and to equip the organization for future challenges. The current impression was that although the company communicated around employee development and retention, it was not always reflected in organizational reality:

I think people are our best asset and I think every person that leads a team, that has someone reporting to them, it's their responsibility to make sure to get the best out of that person. (...) I don't think we've got that as a goal. I think we say some nice words about how do we retain people and develop people. So we say things, but do we actually do it? That's what I mean. (line manager 7)

While participants expected HR to actively drive the formal process of competence mapping throughout the organization and to provide adequate tools to support professional development, it was stressed as the line managers' responsibility to identify the specific needs in their respective teams:

Human Resources I don't think is a department, I think it's a responsibility that each manager has. To think about, where is this person going to be in two years or five years, what do they need in the way of training, what do they need in the way of practical experience? (line manager 7)

According to line managers, filling existing competence gaps would enable employees to take on responsibility more easily, lead to more empowerment and better performance.

#### **5.1.5.2 Smart goal-setting**

In the field of project and performance management and following a management-by-objectives approach, SMART is an acronym for Specific, Measurable, Achievable, Relevant, Timely (e.g. Doran, 1981). Related to managers' responsibility to drive performance and to build empowerment, participants highlighted the importance of the goal-setting process and

the need for smart goals which would translate the organization's overall strategy into tangible tasks for each employee, as stated by one participant:

People have to have clear, smart goals. Not only in the general overview of the company, but also in the perspective of their own job day to day. We need to translate our strategy into specific goals for specific positions for a specific person in our organization. (line manager 23)

Achieving commitment by involving team members into the goal-setting was one aspect that was stressed clearly. Additionally, goals would have to be related to people's area of direct responsibility in order to be meaningful, as pointed out by this line manager:

I believe that we should be able to set goals that are related to the influence area of the teams and that's not always the case today. (line manager 19)

Furthermore, line managers argued that regular follow-ups on agreed targets and timely reaction on negative deviations would have to be put in place to drive performance most effectively. Although the importance of smart goals seemed to be very well-understood by all interviewees, they expressed a lack of awareness in parts of the organization and expected HR to be more active in supporting managers in the goal-setting process with their teams, as one line manager expressed:

I would like to have some support with how to break down the big goals into individual actions, because that should not be up to each manager. At least we could have some training and some handholding from HR. (line manager 25)

In summary, smart goals and stronger support from HR to implement them across the organization was considered crucial to drive performance and improve overall business results.

#### ***5.1.5.3 Adequate performance review***

A third issue related to leadership that was discussed heavily was the need for performance reviews which would reflect an employee's performance more adequately. The current situation was described as very blurry. Participants stated that cases of low performance were handled in a very non-confronting way, as described here:

I know from being in this company a long time that there were people that came to work for me, who prior to coming to work for me always got reviews that were stellar. And basically their manager just said what would keep them happy and

they always got high praises on their review and then they also got some decent increases. (line manager 7)

As a consequence of reviews that did not reflect actual performance, employees ended up on positions they were unable to fill in terms of competences, as this line manager said:

We have been facing issues where we are being asked now to reorganize, where we cannot actually put people on a different role or maybe even release them because although we know that they are not meeting the job requirements, they have a performance record that is not really reflecting their performance. Managers are afraid to actually give those consequences to people and I think that (...) there was too much room in [the organization] for non-performance. (line manager 17)

Especially in these cases, participants argued, it became very difficult to give empowerment due to a lack of trust in the employee's ability to successfully carry out the assigned job.

Besides clearer consequences for low performance, interviewees also expected more recognition for very good performance, which would reinforce the message of empowerment and accountability, as one line manager stated:

We set the empowerment and accountability, and there have to be consequences. Consequences both positive and negative, and not only negative. It cannot only be about firing if you don't reach your target. If it's positive, there also have to be positive consequences and people should know this. And this is something I see on all levels in [the organization]. (line manager 8)

Line managers related positive consequences particularly to more financial recognition in terms of performance-related variable pay. They pointed out that the existing bonus system failed to motivate people to go the extra mile and that a more aggressive bonus system in combination with more ambitious targets would lead to increased overall performance:

People do the extra mile if they feel that they have a good bonus system and that the targets are reachable and tough. (...) I think if I would be allowed to give a more aggressive bonus when I fix the targets, very ambitious targets which I can say would be good for the organization, I can assure you that the organization would have better results. (...) So if you really outperform everything and if you do very well, then you get a lot of money. I'm convinced that you will be amazed to see how [the organization] will move and how we will wake up as a company in total. (line manager 8)



To create strong leadership, HR was expected to support line managers in developing leadership skills and effectively drive performance in their respective teams. HR tools would in this context have an indirect effect by providing a formal framework and structure. The main impact on performance however would be generated by line managers and their leadership abilities:

We should not have the believe that tools will solve performance and fulfill business goals. I would say that a strong leadership is by far more valuable than any tool. People are motivated by good and clear leadership, clear targets and soft rewards like recognition, visibility, and being able to influence decisions. (line manager 4)

Thus, HR would most effectively enhance strong leadership and consequently high performance by taking on the role of a coach and educating managers into being strong leaders, as this line manager stressed:

I think that HR could be more proactive in taking the lead to educate managers in leading. To be manager is really simple, everybody can be a manager. You just need courage to take decisions based on rules. But to be a leader, that is a completely different situation. (line manager 6)

Particularly the ability to give adequate performance reviews was identified as an urgent field for more HR support. As one participant argued, line managers needed more formal training to handle low performers and to communicate negative consequences:

Have you really trained the managers to make this kind of evaluation and to give the tough decisions? We all say higher achievement and full achievement and give positive feedback, and then we still think that they are lousy, that they are not doing a good job. So, our managers are badly or not trained to give the bad news, to be honest about it. (line manager 8)

As developed in this section, line managers described a lack of leadership capabilities particularly related to employee development, goal-setting and performance review, and expected stronger HR support to educate managers into strong leaders and to assure that the described tasks were carried out adequately.

While leadership development can be seen as one classical HR responsibility (e.g. Armstrong, 1991), it can at the same time be discussed to which extent HR should be involved in concrete leadership tasks such as employee development, goal-setting and performance review as

described above. On one hand, scholars suggest that the main responsibility for employee-related questions should be taken on by the HR function (Robertsson, 1962; Legge, 1995; Hope-Hailey et al., 1997). On the other hand, line managers are expected to carry out personnel-related tasks that lie within their responsibility as a manager (Mintzberg, 1973; Kotter, 1982; Luthans et al., 1988). The findings described in this section point towards unclear roles and confusion about responsibilities between HR and line managers, which is a common phenomenon (Caldwell & Storey, 2007; Keegan et al., 2012).

## **5.2 Fundamental requirements for enhanced HR work**

Besides HR's responsibility to support the defined business needs as developed above, two additional fields of action for HR emerged from the analysis: 1) *to be close to the business* and 2) *to become more proactive*. In the following, both fields will be explored and their relevance for the organization's overall performance will be discussed.

### **5.2.1 Being close to the business**

Prichard (2010) suggests that HR has to be involved with and know about the operational side of the business to gain trust and build a relationship with the managers they support. Very much in line with this assumption was the statement of one line manager, who said the following:

They [HR] have to go and see. They have to come to the units, they have to go to the factory, they have to talk to the operators. And what they show with this is 'I'm taking you seriously, I'm taking that home and I'll come back to you with a kind of suggestion or an activity'. HR owes that to the organization. (line manager 22)

As the analysis revealed however, HR was not perceived to be an integrated part of the business, and communication and collaboration between HR and line managers was rather weak. Consequently, HR's role and their contribution as a department was not clear, and one manager had the following impression:

I think I'm not even aware of HR practices in the organization. I don't know about them. For me it's not visible, what it really is, to be honest. (...) It's more like we know they [HR] exist somewhere, but we don't really work with them. (line manager 4)

Opposed to the current impression of HR working in a rather isolated position, participants expected HR to be closer to the business and to create more transparency about their work, as this participant argued:

I believe that HR should come more closely to people. I don't want to see HR people always sitting in the office and acting as a boss and nobody knows what he or she is doing really. (line manager 12)

In line with Mintzberg (1987) who stresses the importance of business knowledge and an intimate understanding of operations for HR strategists, participants expected HR to know about the organization's business in order to understand the future direction of the company and to become qualified partners to support this journey. Reasonably, these expectations can be posted on HR in their function as strategic business partners within the HR transformation model (Ulrich et al., 2009). Considering the gap that was identified in this field, the question arises whether the HR transformation had been implemented successfully in the studied organization.

To improve business partnering, participants argued that HR processes would have to be linked more closely to the business. It was generally understood that HR was important, but their direct impact on the business was not visible to most line managers, as this participant pointed out:

They come up with HR processes which are totally abstract and conceptual and difficult to really see the concrete resource to the business. We know that they are important, but somehow... Somehow it doesn't really say, wow! Now this is going to change my business completely or this is going to help me so much. (line manager 8)

This phenomenon could be related to the clash of two different institutional logics, as will be discussed more detailed later on. While business needs are mainly defined by engineers, HR is strained in social science. Naturally, this leads to tensions between the two and their inherent priorities that are set in very different ways. Related to this assumption, an issue today, as participants argued, was that personnel-related questions tended to be overlooked by managers as their direct value added to the business was not visible. By linking HR practices to the daily business and communicating their positive impact in terms of results more clearly, they would gain significance, as this participant stated:

HR and people is absolutely crucial. People are aware of it, but it needs to be linked into the daily business much more clearly. Otherwise it's not going to end up on the agenda. Because nobody is hunting us down for people questions, they are hunting us down for numbers and that's the behavior of the company. (line manager 13)

Interviewees were very much in favor of HR having a saying in the business; in the current setup however HR practices were not perceived to be linked to strategic goals within the organization. Consequently, HR was described as an administrative function who provides formal structure around people questions, rather than a strategic partner:

I mean, you ask me specifically, how do you perceive the link between your strategic business goals and HR. And there is no link. This is what I try to explain. HR is for me a partner to handle administrative issues. (line manager 1)

This section discussed that to take on the role of a strategic partner in line with Ulrich's (1997) suggestion, HR would have to acquire general business knowledge and keep closer contact with the units they were supporting to develop higher awareness of strategic goals, and consequently to be able to connect HR processes more closely to actual business needs.

### **5.2.2 Proactivity**

SHRM literature (e.g. Brockbank, 1999; Salaman et al., 2005; Schuler & Jackson, 2007; Boxall & Purcell, 2011; Cascio & Boudreau, 2012) emphasizes organizational diagnosis and active development of formal strategies as one of HR's main responsibilities. As expressed by interviewees however, the HR department was perceived as reactive rather than proactive. Main activities were described as taking care of administrative issues and answering employee-related questions. Opposed to this role, participants expected HR to proactively initiate and to lead change, which they did currently not. This observation is in line with evidence from previous studies which tend to support the view that few HR managers play a role as change maker, and where they do, the role is generally constrained and reactive (Storey, 1992; Siegal et al., 1996; Hope-Hailey et al., 1997; Ogilvie & Stork, 2003; Antila, 2006; Kubicek, 2006), stating that suggestions for best practice have moved substantially ahead of reality. Legge's (1978) suggestion for HR to take on the role of a 'deviant innovator', to challenge managerial prerogatives on the basis of humanistic and professional norms and to lead change from a pluralist standpoint, does not seem to be realized. (Ogilvie & Stork, 2003; Guest & King, 2004)

Participants described a current gap between the image of HR as actively involved strategic business partners as intended, and organizational reality, where HR stayed on a rather passive position:

I got the impression that many people that I know from HR, they have this speech, that they want to be a business partner and all of it, and I think they mean it. I think they mean it, you know? I believe that and I think it's good. But somehow, they don't want to play in the end. I compare it sometimes to a soccer game. So, you have people that are playing on the field, and then you have some people sitting on the bench, watching the game, and they are saying 'Well, I'm really comfortable on the bench, so I don't want to go in.' (...) They want to be business partner and they need to understand the business because our needs are very important for them and all that. But when it really comes down to it, they don't come out to play. That is what I feel a lot of times. (line manager 8)

This lack of proactivity was partly related to the low level of business knowledge as developed above. Participants argued that HR was not qualified and well-trained enough to take a strong position in business-related discussions. According to interviewees, HR avoided close contact with the business and worked rather isolated, which was perceived as being passive and reactive. In summary, to become more proactive, to anticipate business needs and to effectively drive strategic initiatives, HR would have to gain more confidence in business-related topics.

The findings presented in this chapter make an important contribution to the investigation of research question 1 and 2 in this study, as they reveal emergent business needs in the studied organization and highlight key deliverables for the HR department to enhance firm performance. To answer research question 3, the following chapter will discuss empirical findings and introduce a potential theoretical explanation for existing gaps between HR performance and business needs.

## **6 Discussion**

In the following, findings will be discussed and conclusions relevant to the investigated research questions will be drawn. Applying an inductive approach, this chapter will build a bridge between the empirical data and a theoretical approach to explain observed phenomena: Grounded in the data, the HR transformation concept and institutional theory will be introduced and applied as potential explanations for emergent gaps between intended outcome and organizational reality in the studied context.

## 6.1 Inductive theory-building – theory grounded in empirical data

Summarizing the findings as discussed above, line managers' expectations towards the HR department as revealed in the analysis were mainly related to topics such as HR effectiveness through better integration into the business and drastic simplification, value-adding HR work and a clear strategic angle of the HR function. Interestingly, these expectations are very much in line with the HR transformation model – which had been introduced to the organization several years ago – and proposed outcomes of this concept.

Although the organization had formally reorganized their HR function according to this model, the analysis revealed that intended outcomes were not or only partly in place: On one hand, participants stated that HR had failed to position themselves as strategic partners, working as an integrated part of the business. On the other hand, line managers were struggling to carry out personnel-related tasks independently. In other words, the transition of HR becoming directly involved in the business and line managers taking on HR responsibility – as suggested by the HR transformation concept – had not worked out as intended.

This observation as it emerged from the data leads to the assumption that both groups, HR and line managers, had difficulties to adapt to new areas of responsibility which were not traditionally inherent in their understanding of the role they played within the organization and therefore struggled to fully take on their responsibilities as expected in the HR transformation concept. The analysis revealed a clash of different institutional logics in two perspectives: on one hand, the HR transformation model – which entails line managers to take on HR tasks, and HR professionals to become an integrated part of the business – required both groups to reconsider and partly reinvent their inherent institutional logics. On the other hand, an HR transformation aims at closer collaboration between HR and line managers as two very different institutions. Despite the expected positive outcomes of this model, it has led to considerable tensions between two different institutional logics in the studied organization. To explain this clash of inherent logics and values, both within and across institutions, a model is required which accounts for relational aspects between actors and which can therefore lead to a better understanding of the challenges related to HR transformation.

Consequently, two relevant aspects will be discussed in the following sections: 1) the model of HR transformation and potential problems linked to its implementation as revealed in this study, and 2) institutional theory as a potential explanation for emergent gaps between intended outcome and organizational reality.

## 6.2 HR Transformation – intention and reality

Participants expected HR to work more (cost)-effective, value-adding and strategically. These demands are very much in line with potential outcomes of an HR transformation (Ulrich & Brockbank, 2005) and the positive impact of a changed HR function, as has been stated by numerous scholars (e.g. Schuler, 1990; Beer, 1997; Ulrich et al., 2009). According to Schuler (1990), the concept of HR transformation promises a revitalization of the HR function, including new roles, new competences and a new way of working. In the studied context however, participants argued that HR was strained in administrative work and a strategic integration of HR practices into the business was missing. Opposed to this observation, HRM literature states that during an HR transformation, the HR function is typically substantially reorganized and roles and responsibilities change drastically. To work more strategically, the HR department is expected to create a fit between different HR strategies and the organization's overall business strategy (Boxall & Purcell, 2011). Consequently, HR professionals have to work closer to the business, in the role of strategic business partners to line managers (Ulrich & Yeung, 1989; Ulrich, 1995; Lawler, 1995). According to participants, this was missing in the studied organization.

Furthermore, participants felt they were very dependent on information provided by HR with regards to employee-related administrative tasks that had to be carried out by line managers. The necessary information was not readily available and sometimes ambiguous, which made processes slow and time-consuming. In the HR transformation model however, responsibilities for and the execution of HR work should be redistributed both from the HR department to line managers and between different specialized HR professionals. Line managers are expected to carry out personnel related tasks more independently and effectively (Francis & Keegan, 2006).

Following HRM literature, several scholars (Spencer, 1995; Yeung & Brockbank, 1995) suggest that the role of HR as an intermediate between line managers and employees is unnecessary and that HR-reengineering should make this relationship more direct and lead to more HR cost efficiency. As emerged from the analysis, the redistribution of personnel-related tasks had not been achieved in the organization, which led to confusion about roles and responsibilities. For instance, participants stressed each line manager's responsibility for employee-related issues, but at the same time they expected strong HR involvement to educate managers and to assure that the tasks were carried out adequately. Line between managers' and HR's responsibility appeared to be rather blurry. In line with this observation,

previous research suggests that confusion occurs most often between line managers and HR professionals (Caldwell & Storey, 2007; Keegan et al., 2012).

All in all, the analysis revealed that the expected positive effect of more integrated and coordinated HR work as suggested by Ulrich et al. (2009) was missing. The findings of the present study therefore confirm earlier research which has shown numerous difficulties in achieving the desired outcome of effective, value-creating and strategic HR work through HR transformation, because proponents underestimate the complexity linked to its implementation (e.g. Cooke, 2006; Francis & Keegan, 2006; Caldwell & Storey, 2007; Sanders & Frenkel, 2011; Boglind et al., 2011). Consequently, goals are not always met and organizational outcomes differ from the initial intention. As participants argued, rhetorical argumentation around HR's supposed new role had not been transformed into organizational practice. In line with this finding, HRM literature suggests that human actors and the specific organizational environment have to be taken into consideration to successfully complete an HR transformation.

### **6.3 Institutional logics – a potential explanation**

As the present study revealed, the reorganization of the HR function led to fundamental changes in the relationship between different actors such as line managers and HR professionals. Previous research has shown that HR transformation processes are often designed as rationalist change concepts, which has been described as normative and simplifying (Francis & Keegan, 2006). In line with this argumentation, the findings in the present study suggest that an all too rationalist view on change processes in general and HR transformation in particular can lead to unexpected and undesirable outcomes at the implementation stage. Consequently, other perspectives are required which can account for the relational aspect between actors and therefore lead to a better understanding of the challenges related to HR transformation. This section will therefore apply institutional theory as a potential approach to explain gaps between intention and reality of HR transformation.

In the studied context as developed above, HR practices did not fully meet line managers' expectations. Potentially, this gap can be related to the clash of two different institutional logics: HR as one institution leads actors to certain behaviors, which might be very different from those actions required by the institution that emerges from business needs, in the studied organization mainly defined by engineers. Within the framework of sociological theory building, an institution is an established system of order which is constituted of a certain behavior which is conform to standardized rules (Jaffe, 2001). Institutions are therefore no



objective phenomena but rather cognitive constructions which are created by actors and create actors in turn (Tengblad, 2006).

As the present study revealed, the two institutions appeared to follow different norm systems, where central norms were defined and shared by integrated individuals within each institution. Across institutions however, they were not always compatible and even regarded as inappropriate. Scott's (2001) research confirms this finding. He suggests that institutions are taken for granted and are not being questioned by actors, which leads to little reflection and consequently little understanding of alternative behavioral patterns inherent in other institutions. As participants argued, it was well-understood that HR was important. However, their direct contribution to the business was unclear. Considering that an HR transformation is supposed to integrate HR into the business, for instance by placing HR business partners close to the operational line, HR as an institution is suddenly exposed to expectations linked to line managers' institutional logic. Compared to HR's traditional role, which is strained in social science and limited to a rather isolated support function with administrative responsibility, expectations towards a strategic business partner differ dramatically. Previously institutionalized behavioral patterns within the HR department would have to be reconsidered and changed fundamentally to fit into the new environment. Similarly, line managers were required to correct their institutionalized norm system in the context of an HR transformation: While line managers' involvement into employee-related tasks was traditionally rather limited, they were expected to take on a considerable part of this responsibility in the new setting, as participants stated.

Consequently, an HR transformation can be seen as a major change of the institutional and relational context. Related to this finding, Gergen (2007) states that actors' behavior is always linked to and influenced by earlier experiences. This means that behavioral patterns are a result of actors' reflections on historical events, which in turn influence present interactions and shape future behavior (Mauleon, 2009; Crossley, 2011). Potentially, as the analysis suggests, this leads to a mismatch between colliding institutions and inherent norms, which is a possible explanation for the gaps between business needs and HR performance in the studied context.

## **7 Conclusion**

Adding into existing research, the purpose of this paper was to explore the linkage between HRM and performance to understand how HR practices can effectively support business

strategy and enhance firm performance. By inverting this question into an organization, it was shown that expectations towards HR were closely linked to the HR transformation model as one commonly used best practice approach in many organizations. However, HR best practice models are often developed far away from the organizational context and bear a high risk to fail to achieve the intended outcome. As this study suggests, they should be assessed regarding their fit for the particular organization and contextual factors have to be taken into account at the implementation stage. As the analysis revealed, existing gaps between intended positive effect on the business as expected according to the HR transformation model, and organizational reality after the implementation, could be related to clashing institutional logics both within and across institutions. Using an inductive approach of theory-building, institutional theory emerged as a potential explanation for these gaps. This concept underlines the importance of colliding inherent norms and behavioral patterns and emphasizes organizational actors (first and foremost HR professionals and line managers) and the institutional context they are placed in as crucial factors for successful transformation.

Inevitably, there are some limitations to this study. Firstly, the analysis is based on only one case organization which makes it difficult to generalize results. Secondly, by using qualitative techniques, many of the dimensions investigated in this study cannot easily be replicated. Thirdly, a limited set of relevant aspects of HRM that emerged from the data was investigated. Additional aspects should be subject to further systematic investigation in future research.

Despite its limitations however, this explorative study answers the call for more qualitative research to understand how HR practices can support business strategy and ultimately enhance firm performance. Additionally, it adds into existing empirical and theoretical contributions by adopting a contextualized view on the linkage between performance and HRM and provides an alternative theoretical explication for existing gaps.

## Appendix

### Appendix 1: Interview guide

#### *Some background*

1. Educational background, previous work experience, number of years in the organization?

#### *Industry trends*

2. Please describe briefly the main industry trends and emergent customer needs you foresee for the next 2-3 years.

#### *Customer value*

3. How do you and your team contribute to customer value and how does this relate to [the organization's] value proposition of technical leadership, world class manufacturing, and productivity?

#### *Business goals*

4. In line with customer and industry needs, what are the primary business goals for you and your team in 2015?
5. Related to your business goals, how do you set targets (both on team and individual level)?
6. What are the most crucial resources you need in order to achieve your business goals and meet targets?

#### *People Management*

7. How do you drive performance?
8. How do you measure performance?
9. How do you drive accountability in your team?
10. Which tools are most effective in your team to drive performance and achieve business goals? Why?
11. Which tools are least effective in your team to drive performance and achieve business goals? Why? Suggestions for improvement?

12. How do you perceive the link between your strategic business goals and HR practices in [the organization]?

***Enhanced leadership***

13. The new organization demands commitment management and enhanced leadership. What does this mean to you?

14. What do you need to achieve commitment management and enhanced leadership?

15. What are the most crucial capabilities (competences, behaviors, ways of working) you need in your team?

- a. How do you build these capabilities in your team?
- b. Which capability gaps do you see?
- c. What do you need to bridge these gaps?

***[The organization's] change process***

16. Regarding the ongoing change process in [the organization] and taking your business goals for the coming year into account: Which are the most crucial factors that need to change to equip your team for future challenges?

***Other information***

17. Anything you would like to add?

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