Researchers and practitioners in the field of human resource management are increasingly interested in how the management of people or work organizations relates to the ability of organizations to compete in the marketplace and, beyond this, to provide a sustainable competitive advantage. On the research side, this area of inquiry has come to be known as strategic HRM. The field of strategic HRM is relatively new—nearly all of the research has been conducted since the mid-1980s. Its origins can be traced to a few influential and innovative perspectives by authors such as Dyer (1984) and Schuler and Jackson (1987) and its progress can be tracked by the growing influence of empirical studies by authors such as Delery and Doty (1996), Huselid (1995), and MacDufﬁe (1995).

Although a number of judgment calls must be made in distinguishing between strategic HRM and other lines of HRM research, there are some clear differentiating features. First, research studies in the area of strategic HRM tend to be conducted at a higher level of analysis than the individual level, i.e., the business unit, facility, or organizational level. These studies are sometimes called “functionalist” HRM studies (e.g., Delery and Shaw, 2001). Second, strategic HRM studies typically involve an examination of the integration or ﬁt among HRM practices (an internal alignment perspective) (e.g., Guthrie, 2000; Huselid, 1995) or an examination of the integration or ﬁt between HRM practices and other features of the organization (an external alignment perspective). These organizational features include, but are not limited to, the business strategy of the organization (e.g., Delery and Doty, 1996) and organizational technologies (e.g., Shaw et al., 2001). Third, although there are exceptions, most studies in the realm of strategic HRM focus on organizational performance—broadly deﬁned—as the key dependent variable. Organizational performance has been conceptualized and operationalized as intermediate dimensions of workforce performance such as accident rates (Zacharatos et al., 2005), voluntary and involuntary turnover (e.g., Guthrie, 2000; Shaw et al., 1998), and productivity (e.g., Wright et al., 2005), as well as measures of corporate financial performance (e.g., Delery and Doty, 1996; Huselid, 1995) and managerial perceptions of performance (Delaney and Huselid, 1996).

To be fair, there is strategic value to much of the functionalist or individual-level HRM research that appears in the literature. For example, Delery and Shaw (2001) noted that Taylor and Russell’s (1939) pioneering work on valid selection techniques and organizational success, McGregor’s (1960) research on participatory management, and Hackman and Oldham’s (1980) work design models all have clear, although indirect, applicability in terms of competitive advantage. But strategic HRM research directly attempts to “demonstrate the importance of human resource management practices for organizational performance” (Delery and Doty, 1996: 802). Beyond this, one of the goals of the strategic HRM research movement has been to extend the realm of HRM beyond administrative services and regulatory requirements and to integrate it with other strategic and central aspects of organizational functioning. This approach was summarized by Lawler (2005):

It is nearly unanimous that HR can and should add more value to corporations. The best way to do this is by being a business partner. In other words, it needs to move beyond performing the many administrative and legally mandated tasks that traditional personnel functions have performed to adding value through directly improving the performance of the business. There also is agreement that it can do this by effective talent management, helping with change management, inﬂuencing business strategy, and a host of other high-value-added activities that impact organizational effectiveness.

(Lawler 2005: 166)

In this chapter, I will first briefly discuss some changes to the internal working environments of organizations as well as changes in the external environment of organizations that tend to increase the importance of the HR function and the organization’s array of HRM practices. Second, I will discuss how the adoption of HRM practices that have strategic value can help organizations respond to these dynamics. Third, I will examine the existing empirical evidence regarding the relationship between strategic HRM systems and important organizational outcomes. Based on this evidence, I will offer some guidelines on how decision makers in organizations can create competitive advantage through HRM.

Environmental factors and the importance of strategic HRM

Several recent changes to the internal and external environments of organizations have important implications for HRM systems. There is a dramatically increasing percentage of white-collar as opposed to blue-collar jobs in the North American economy. The trend toward knowledge work in these economies and the increasing value that these types of occupations place on relationships and effective communication make it critical that organizations manage their people effectively. As an example, Shaw et al. (2005) found that losses in relationship value—or social
capital—through staff turnover resulted in dramatic performance declines and that these losses were predictive of organizational performance above and beyond the losses the organization incurred from the ability of individuals to perform their jobs well.

Second, there are dramatic shifts occurring in terms of the management of technology both within and outside of organizational boundaries. The result is that organizations today must be much more flexible in terms of managing their internal processes and structures than they were in the past. In the late 1970s, Miles and Snow (1978) argued that some firms made strategic decisions to be innovative. These authors described such organizations as having an “aura of fluidity” (Miles and Snow, 1978: 56). But today “either by choice or by circumstance, firms increasingly find themselves operating in turbulent and highly unpredictable environments” (Dyer and Ericksen 2005: 183) and the aura of fluidity that once applied only to organizations that were doing so by design now often applies as a technological dictate.

As Greve and Taylor (2000: 55) note, changes in technologies often “change the incumbent skills, standard practices, technology, services, and products of the firm,” cause coordination problems when changes in core technologies are required, and create an environment where “comparison of levels of efficiency over time becomes difficult and only partially meaningful” (Miles and Snow, 1978: 64). As organizations experiment with new technologies and organizational forms, many exciting HRM challenges and opportunities are created (Dyer and Ericksen, 2005).

Third, there is a growing debate in the labor economics literature concerning the future of the North American labor pool. Many have argued that the future will hold a labor supply shortage as the “baby boom” generation ages and the smaller cohort that follows it comes of age in the workforce. But more recently some authors have argued that the workforce may grow at a rate that meets or exceeds prior levels. For example, Cappelli (2005) noted that the workforce cohort one generation removed (the “echo” cohort) from the “baby boom” generation is larger and should supply new workers at a rate that mirrors past levels. In addition, he suggests that the key issue in terms of labor market growth is the fact that individuals will be working until an older age before retiring. Cappelli states that “those over age 65 account for roughly 13% of the population at present, a figure that will grow to 20% by 2050” (2005: 144). Thus, although many strategic HRM researchers and others have noted that organizations should use HRM practices as a way to maintain competitive advantage because of a coming labor shortage across industries, it may be that organizations that gear their HRM practices toward effectiveness with an aging workforce may fare better.

Fourth, there has been a dramatic shift since the mid 1980s in terms of how corporate decision makers manage the size of their workforces. As examples, Tsui and Wu (2005) reported that during a three-year stretch in the mid 1980s about half a million middle- to upper-level managers were laid off or “downsized” (e.g., see Bluestone and Harrison, 1988). But the corresponding figure for the three years 2000–2003 was more than five times that number—about 2.7 million job reductions (Nussbaum, 2004). The marked shift in terms of the level of job stability for white-collar workers signals a dramatic change, not only in terms of how organizations manage their HRM practices and their workforces, but also in terms of how employees view their organizations.

One perhaps unintended consequence of the rapid flux or dynamism of today’s workforce is that managing HRM in such environments involves a consideration that employees are much less committed to given organizations. The historical staple of a long-term career in a single organization has radically changed since the mid 1990s. Where once employers provided employees with a stable, fixed compensation and performance and strong organizational commitment in return, today’s contracts are often made without loyalty and commitment considerations (Tsui and Wu, 2005). The result is that organizations must find new ways of managing individuals in an environment without commitment. Cappelli (2000) argued that employers were primarily responsible for breaking the old system, but not for establishing the new one. As Cappelli states, “power is shifting toward employees, leading to new problems for employers and, in turn, fundamentally different ways of managing employees” (2000: 11).

**Strategic HRM responses to environmental changes**

Some recent research and empirical evidence provide several clues regarding how organizational decision makers can manage their HRM systems in order to respond effectively to environmental (internal and external) changes. In this section, I will give several examples of how HRM decision makers can use strategic HRM systems to respond to internal and external environment changes in order to provide competitive advantage for organizations. This section, and the research discussed in it, is designed not to be comprehensive, but rather to be suggestive of the possibilities with a particular focus on recent studies in this area.

First, although there is a clear downward trend in the North American labor markets in terms of employee commitment to their organizations, there is a growing body of evidence demonstrating that strategic HRM practices relate strongly—and positively—to retention rates (e.g., Guthrie, 2000; Shaw et al., 1998). This same group of commitment-enhancing practices (e.g., selective staffing, developmental appraisal, extensive training and development, above market pay rates, attractive benefits, procedural justice programs, job stability, etc.) are also shown in the literature to relate consistently to measures of workforce and organizational performance (e.g., for reviews see Delery and Shaw, 2001; Wright et al., 2001). The theoretical mechanisms are such that organizations that invest in these types of strategic HRM practices create an environment wherein employees give extra effort in order to
achieve organizational goals and identify with the organization. In addition, high levels of investments in commitment-enhancing practices tie individuals to the organization by reducing the attractiveness of other job alternatives in the marketplace.

Beyond these organizational-level effects, an ambitious study by Whitener (2001) demonstrated that HRM practices interacted with perceived organizational support in predicting organizational commitment levels. The nature of the relationship was such that organizational commitment was highest among individuals when commitment-enhancing HRM practices were used and employees had high levels of perceived organizational support. In the late 1990s, a consulting organization study examined these issues, looking at more than 7,500 US employees (Watson Wyatt, 1999). They found over a three-year window that returns to shareholders were 47 percent higher in organizations with high commitment levels and that employees reported that human resource practices were among the key factors in building commitment. Thus, the literature at the organizational level and cross-level research on individual attitudes and behaviors clearly demonstrate that strategic HRM practices can be used to enhance employee commitment and that commitment level is a key factor in terms of organizational performance.

With regard to the increasing importance of knowledge leveraging and exchange in the North American economies, several recent studies show how strategic HRM systems and the importance of social capital can help organizations achieve competitive advantage. First, two studies published in 2005 provide strong evidence that internal social structures play a role in turnover decisions at the individual level and, further, that losses of key people in knowledge-based networks can result in substantial performance losses at the organizational level. First, Mossholder et al. (2005) found that health care employees who were more embedded in the internal communication networks in their organizations were much less likely to quit over a five-year period, finding especially relevant in a tight knowledge-based health care labor market. Importantly, the social capital effects were observed over and above the predictive power of known correlates of turnover (e.g., job satisfaction and tenure). These authors concluded that close identification with co-workers is “associated with perceived similarity and more frequent communication” and that these factors dampen “the effect of real or perceived shocks that may give rise to turnover” (Mossholder et al., 2005: 613).

Similarly, Shaw et al. (2005) examined these issues, but from the perspective of organizations as opposed to individuals. They argued that in organizations where effective communication was a key factor for success, the losses of individuals who hold key places in the communication networks would be associated with performance decrements over and above the losses experienced from the actual performance levels of those leavers. Consistent with these expectations, they found the social capital losses related negatively to productivity measures over and above the in-role performance losses from the same leavers. Moreover, they found that these knowledge-transfer-based losses were most pronounced when the first holes were created in the communication networks. In terms of sales per employee, a low turnover organization produced approximately $17.653 per employee, but a slight increase in social capital losses through turnover resulted in a 26.3 percent drop in productivity.

What, then, is the connection to strategic HRM, or, stated differently, how can strategic HRM decision makers respond to these issues? A study by Collins and Smith (2006) sheds additional light on this issue. Collins and Smith (2006) studied a group of 136 high-technology firms to explore how strategic HRM practices affected levels of knowledge exchange and knowledge combination. They argued that an index of commitment-oriented HRM practices (e.g., internal selection, group incentives, training, team building, etc.) would enhance the effectiveness of knowledge-centered organizations by improving their internal social climate. Specifically, in knowledge-based and high-technology organizations, the source of competitive advantage often shifts from physical or tangible resources to the ability of organizations to manage know-how and enhance knowledge transfer. These authors argued that commitment-oriented strategic HRM practices can enhance the level of trust and cooperation that is observed in a workforce and help create a shared or common language for accomplishing work. These dimensions—all aspects of the internal social climate of the organization—allow members of knowledge-based organizations to share and combine information more effectively and ultimately achieve competitive success.

The findings of Collins and Smith (2006) provide substantial support for this causal sequence. They demonstrated that organizations that invest in commitment-oriented HRM practices had high or more positive levels of internal social climate, exchanged and combined information more effectively, and in turn, outperformed their competitors on two dimensions of performance that are critical for high-technology organizations—revenue from new products and services and one-year sales growth. Specifically, they found in their sample that increasing investment in commitment-oriented HRM practices by one standard deviation results in a 17 percent differential in terms of sales from new products and almost a 19 percent increase in sales. They also found that more than three-quarters of these changes were explained by changes and improvements in social climate and knowledge sharing that accompanied the practices. Thus, these studies and others like them show clearly that organizational decision makers can respond to environmental changes in commitment and loyalty by investing in practices designed and shown to enhance commitment (e.g., Guthrie, 2000; Shaw et al., 1998). These investments not only improve retention rates, but also help preserve fragile communication networks that are crucial to the success of knowledge-based organizations.

An ambitious study by Zatzick and Iverson (2006) elegantly demonstrates how strategic HRM can help organizations respond to labor shortages, labor market demands, and dramatic changes in workforce size. The authors highlighted the recent
trend toward downsizing and other forms of workforce reduction and argued that while these decisions were once reserved only for cost-cutting, they are now often part of a strategic decision-making process for changing workforce skill and competency levels and for enhancing the effectiveness of changes in business strategy. Managing these changes effectively is critical given that layoffs and downsizing are shown to reduce trust in management, increase work stress levels, and hamper productivity (e.g., Brockner, 1992). Interestingly, these authors showed that among a sample of several thousand organizations across Canada, negative reactions to layoffs were stronger in organizations that had high levels of investments in strategic HRM practices. That is, among organizations that invested heavily in HRM practices, productivity declined markedly when layoff rates were high. Among organizations with little investment in HRM practices, productivity levels were essentially the same in organizations with low and high layoff rates. These authors reasoned that in organizations that invest heavily in strategic practices, a strong mixed message is sent by this investment in conjunction with a layoff. Strategic HRM investments are made to strengthen employees’ commitment to the organization, and as a result, layoffs in these situations create a severe violation of the psychological contract. When investments in strategic HRM practices are low, employee expectations regarding the psychological contract are much lower and layoffs have much less of a negative impact on productivity.

Extending these findings in a new and interesting way, Zatzick and Iverson (2006) argued further that strategic HRM practices were key in terms of helping manage downsizing situations over the course of time. They argued that continued or increased investments in strategic practices can help the organization accomplish several important goals during the transition period after layoffs. First, they suggested that continued investments in HRM can help reduce uncertainty, ambiguity, and conflict during the transition period after layoffs. Second, they suggested that continued or increased investments in HRM can buffer the negative effects of layoffs, once they have occurred. That is, from the viewpoint of layoff survivors, continued investments may not only improve morale, but also provide benefits that improve overall employee welfare. Finally, they noted that employees may respond positively to continued strategic HRM investments in part because they may receive benefits that ease fears about getting another job should they be laid off in the future (e.g., skill acquisition through training). In a subsequent analysis, they found strong support for these ideas. When layoff rates were high, but organizations continued investing in employees, their results suggested that organizations experienced a 4.7 percent productivity increase over the study period. In contrast, among organizations with high layoff rates and a lower level of strategic HRM investments over time, productivity declined by 22.5 percent over the period of study. Thus, although high-investment organizations may experience a severe negative reaction to workforce reductions initially, it is clear from these results that strategic HRM practices can help organizations achieve competitive advantage in the long run in an environment characterized by marked changes in workforce size.

The preceding discussion highlights several ways in which investments in strategic HRM practices can help organizations manage some of the dramatic changes occurring in the internal and external environments of organizations in the North American marketplace. First, although employee commitment levels are on the decline in many sectors of the workforce, the research evidence shows clearly that retention is lower, productivity is higher, and employees are more psychologically attached to organizations that invest heavily in strategic HRM systems. Second, as the nature of work in organizations changes from a reliance on physical resources and capital to the management of knowledge and other intangible resources, HRM practices can help organizations sustain competitive advantage by enhancing the efficiency of internal communication networks, building trust in management, improving the quality of social climates, and creating a shared and meaningful organizational language (Collins and Smith, 2006). Third, as layoffs and other forms of downsizing become a more common strategic tool, the results of Zatzick and Iverson (2006) elucidate that organizations can not only minimize but also reverse the negative effects of layoffs in terms of organizational productivity by continuing investments in strategic HRM systems.

Beyond responses to these current issues and concerns, there is general and consistent evidence that the use of strategic HRM systems relates to measures of workforce and organizational performance. Indeed, Delery and Shaw (2001) stated that there were two general conclusions that could be made about strategic HRM systems and competitive advantage. First, although researchers have taken a number of different approaches for examining these issues, most researchers agree that a system of HRM practices rather than an isolated or best-practice approach is necessary for sustained advantage. Although a given HRM practice may be more effective than another (e.g., structured interviews versus unstructured interviews), the evidence is clear that these practices must be integrated in a superior overall system (e.g., Uhl-Bien et al., 2000). Second, researchers generally agree that the effects of HRM systems on performance are partially indirect through their influence on the workforce and workforce outcomes such as turnover and productivity.

All else being equal, it is reasonable to take a view that organizations in general could realize substantial benefits from investing in these systems of practices. In addition to the studies and results noted in the preceding pages, a brief review of the literature reveals a consistent pattern of positive findings between HRM systems and performance-related outcomes in the North American context and beyond. Delery and Doty (1996) found that groups of HRM practices related positively to financial profitability in a sample of banks. MacDuffie (1995) found that groups of HRM practices related to product quality and workforce productivity in a sample of automobile assembly plants. Ichinowski and Shaw (1999) compared US and Japanese production lines and found that while Japanese plants were more productive in general, the productivity of US lines equaled that of Japanese lines when there was heavy investment in strategic HRM practices. The positive relationship may also extend to other types of practices not typically included in strategic or
“high-performance” HRM indices. For example, Perry-Smith and Blum (2000) found that bundles of work–family HRM practices (e.g., daycare, elder care, parental leave, etc.) related to a perceptual measure of organizational performance, over and above a set of progressive HRM practices.

Guidelines

Drawing on the preceding discussion and the existing evidence regarding strategic HRM systems and competitive advantage, it is reasonable to offer several guidelines regarding decisions to invest in HRM and regarding the design of HRM systems. These should not be interpreted as rules that are “set in stone,” but rather as general applications and logical extensions of the base of research in this area. See Table 8.1 for a complete list of the guidelines.

Guideline 1: Focus on sets of commitment-enhancing practices when work is knowledge based and when internal communication processes are critical for success

The existing research is unambiguous when it comes to the relationship between commitment-enhancing practices such as competitive pay and benefits, selective staffing, training, procedural justice systems and employee retention. High levels of investments in these types of practices serve a dual purpose for organizations as they attempt to maintain a competitive edge. First, they enhance retention, a factor that is especially important in knowledge-management situations where employees may be more committed to their profession than they are to their organization. Second, the evidence provided by Collins and Smith (2006) and others shows that investments in these types of practices facilitate the creation of environments where information can flow effectively within and between groups.

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Guideline 2: Use the functional HRM literature as a guide in developing an effective system of HRM practices

As Delery and Shaw (2001) noted, it is clear from the functional HRM literature that some HRM practices are better than others. Using a well-validated selection device such as a structured interview, for example, is likely to yield a higher-quality workforce than a reliance on walk-ins and the “gut feel” of an HRM decision maker. The functional HRM literature is replete with useful evidence regarding the validity of various types of practices, suggestions for effective implementation, evidence of situational applicability and inapplicability, and often information on incremental validity over other relevant practices. But as has been noted, a given HRM practice—regardless of its situational superiority—is unlikely to yield substantial benefits at the organizational level, unless it is combined with other effective practices.

Guideline 3: Combine practices across domains in logically and theoretically consistent ways

Much more is known in strategic HRM about the relationship between bundles of practices and outcomes than is known about the effective or ineffective combination of HRM practices and organizational outcomes. Research on the appropriate alignment of specific practices is a pressing need, but theory and some recent evidence suggest that it can be especially critical in terms of expected performance outcomes. Here the lessons learned at the individual level with regard to the effectiveness of a given practice must be combined with the lessons learned at the organizational level about internal synergies between various practices. As an example, Shaw et al. (2002) found that a wide variation in the pay structure across employees (i.e., highly dispersed pay) was associated with better performance only when combined with the use of performance-based pay. They also argued and found that highly dispersed pay was ineffective in terms of relating to better organizational performance when work was highly interdependent and the contributions of individuals were difficult to observe. The bottom line is that two practices may be well validated in a given situation, but may be competing or inconsistent when used concurrently.

Guideline 4: Use HRM investment as a signal of future investment and an ambiguity reducer when workforce size fluctuates

In trying times, individuals will often look for direct and indirect signals offered by the organization to ease their concerns or to determine their value. The results at the individual level in terms of open communication, justification, and feedback are clear (e.g., Brockner, 1992): direct and honest communication and open information sharing is an effective way of alleviating the negative effects of layoffs and downsizing...
among survivors. But the arguments and results of Zatzick and Iverson (2006) show that organizations can realize additional benefits by continuing their investments in strategic HRM practices after layoffs. Such investments provide additional and indirect signals that survivors are valued, may ease concerns about future layoffs by providing training and development that will be useful in future job searches, and may improve morale.

Guideline 5: Focus on flexibility or agility in the HRM system and beyond

Dyer and Ericksen (2005) argue that the future of HRM in terms of competitive advantage lies in its ability to adapt. As technology drives change in the structure underlying many organizations and as organizations in general are driven towards fluidity in their structures and processes, effective HRM systems must follow suit. It is likely that the guiding principles of strategic HRM systems will change markedly in the coming years and that the most successful organizations will have mastered HRM responses to many of the challenges outlined in this chapter. As Dyer and Ericksen (2005) state:

Agile enterprises require guiding principles that encourage the inflow and outflow of talent in ways that facilitate and only minimally disrupt internal fluidity. These principles require balance. On the one hand, new entrants are needed to avoid the tendency toward groupthink and habituation that tend to imbue inbred social systems. Too much churn, on the other hand, undermines the mutual understanding and trust that allows for internal fluidity.

(Dyer and Ericksen 2005: 187)

Conclusion

Dramatic changes in the nature of work, the evolution of technology, and unique labor market forces are creating many challenges for HRM decision makers today. In this chapter, I elaborated on these trends and focused on some recent findings that shed light on how strategic HRM systems can help organizations sustain competitive advantage in these times. These new ideas and findings are excellent complements to the existing literature showing consistent and positive relationships between the use of strategic HRM systems and organizational effectiveness. The guidelines that followed are offered as informed judgments about the future of HRM and competitive advantage as well as suggestive of future research needs on these topics.

References

Judith Russo is the VP of Human Resources at a large service firm, headquartered in Toronto, Canada. In trying to make the HR function more strategic, she asked each of her managers to come up with some policies that would help create competitive advantage for the firm through its human resources. The compensation and benefits manager, staffing manager, and training manager all came up with some policies that they thought would benefit the firm. Judith is now trying to decide which of these policies to implement.

Related questions

1. What are the disadvantages and advantages of having the managers come up with policies independently?
2. What is the problem with policies that “benefit the firm”?
3. What decision rules should Judith use when deciding which policies to implement?