Chapter I

Introduction to Human Resource Management
In our rapidly coalescing global economy, with trade barriers falling and competition worldwide, concern is rising in each nation of the world about its ability to compete. Successful competition means that human ability and performance must be at their peak. The workforce management in human resource management is reflected in a shift away from the tendency to prescribe how to manage employees to an, approach that takes a more contingent view of the human resource management practices considered suitable for particular organizations.

The key contingency affecting a company's workforce practices is its business strategy. According to Gunnigle, strategic management is concerned with long-term policy decisions affecting the entire organization and involving major decisions on resource allocation. The overall objective is to position the organization to deal effectively with its environment. A key factor influencing the upsurge of interest in linking business strategies and
human resource policies is the quest for a competitive advantage.

Competitive advantage can be described as any factors that allow a company to differentiate its product or service from its competitors to increase market share. Financial capital brought competitive advantage in the last century, because it was a relatively scarce commodity. But financial capital is no longer scarce, and technology can easily be imitated. These resources continue to bring advantage, but they are no longer capable of sustaining this advantage. In this decade, only people can sustain the competitive advantage of a company. This is because people potentially have three aspects that can bring sustainable advantage: the ability to create rarity, value and inimitability.

Meaning of HRM

It has been argued that Frederick Taylor's doctrine, while no longer intellectually fashionable, "still pervades much of American culture - so much so...that we no longer realize it's there". Wilentz cites from Kanigel's biography:

"Taylor bequeathed a clockwork world of tasks timed to the hundredth of a minute, of standardized factories, machines, women, and men. He helped instill in us the fierce, unholy obsession with time, order, productivity, and efficiency that marks our age. Foreign visitors to America often remark on the rushed, breathless quality of our lives. Taylor - whose life, from 1856-1915, almost exactly coincided with the Industrial Revolution at its height - helped make us that way.

As Wilentz remarks, Taylor's proposals were found by many practitioners as simply too complex and difficult to
"Kanigel is correct in observing that the crucial element of Taylor’s system - the aggressive effort by management to gain control over technical knowledge connected with work - still dominates American labour relations" (Wilentz, 1997, p. 32).

We can add that these reflections are not irrelevant either for most of the industrialized world or for current research on HRM. However, what is arguably less and less persuasive is the adequacy of the alleged goal of Taylor’s.

"Taylor’s aim was to revolutionize labor relations by giving employers complete authority over production".

According to Wilentz, Taylor had "observed that men have a 'natural instinct and tendency' to take things easy". It is essentially Taylor's assumption of human nature, which began to be questioned, arguably beginning already with the welfare movement and later by the human relations movement. This questioning was clearly manifest in e.g. McGregor's thinking. Much of today's discourse on management continues to question this assumption. To the extent that work is perceived as meaningful Taylor's "observation" was arguably dead wrong.

However, there is still much work which needs to be done which does not incorporate much intrinsic meaningfulness. In such contexts of relatively less meaningful work it may be correct to assume an a priori "instinct and tendency to take things easy". Nevertheless, the idea of trying to increase the meaningfulness of work, rather than the direct control, has been part of much later management thinking and is arguably also central to the idea of (at least soft) HRM. The general agenda can be
through meaning. With respect to this agenda in itself there is nothing fundamentally new in the concept of HRM.

Its potential contribution is rather a question of emphasis and enlargement of scope. In fact, already Taylor declared that,

"[s]cientific management...has for its very foundation the firm conviction that the true interests of the two [managers and employees] are one and the same; that prosperity for the employer cannot exist through a long term of years unless it is accompanied by prosperity for the employee, and vice versa".

this agenda of achieving performance through meaning (or mutual prosperity), which can thus be traced back all the way to Taylor, continues to pose challenges to both practitioners and researchers. Indeed, there may also be parallels between new and old concepts of people management in terms of rhetorical uses of such concepts.

Researchers seem to confront a continuous challenge in trying to discern and interpret also any negative consequences (including social, cognitive, emotional and physical) of the forms people management take. Current questions of importance include e.g.

"where 'soft' [HRM] apparently has been introduced, to what extent does that form (e.g. 'empowered' TQM oriented 'teams') and rhetoric (e.g. 'customer care') mask 'hard' practice (e.g. labour intensification, cost minimization, coercive surveillance)?".

Twenty years ago Skinner expressed his view about the efforts to improve the management of people by the words "big hat no cattle". He claimed that a huge amount of suggested solutions have followed each other and organizations have invested "millions to make employees
productive, loyal and motivated" but there has been no real payoffs.

The metaphor captures the "big talk" and little authority which often characterize organizational discourses related to the management of employees. The "big talk" might also be interpreted to refer to the academic and consultancy-based management discourse including much of the current discourse on HRM. For example, already in 1981, at the end of his article Skinner suggested a range of premises and principles which more or less correspond to the ideas for which HRM researchers are still trying to provide evidence.

In 1990 Guest argued that,

"while the importance of human resources had been emphasized before, the case had not been stated so clearly and convincingly and had not in the past found such a receptive audience".

It is only reasonable to remember that we always seem to confront both continuity and change although change usually is more exciting and receives more attention. The perceptions of change and continuity also tend to be dependent on our time horizons and interpretations. Legge argues for an underlying continuity in people management in terms of its function as a mediator of contradictions of capitalism.

The continuous nature of people management, even more generally than Legge, as being a mediator of inequities in terms of resources and aspirations. In any system, capitalist or non-capitalist, individuals and organizations differ with reference to the social, cognitive, emotional and physical resources and aspirations involved. Employee management has a
central role in mediating the resulting tensions. The implications of allowing the settlement of these tensions to play a relatively independent role lie at the core of capitalism.

The relatively free play of such settlement is the driving force in good as well as in bad. Legislation has however also in most capitalist systems a central role in mediating the role of this driving force. Some critique of HRM has focused on this issue. The claim is that HRM undermines the activities of labour unions and thus the welfare of employees.

However, some research has found that HRM is more likely to be practiced more extensively in contexts of labour union presence implying that these are not contradictory. In fact, some scholars have argued for the possibility that labor unions could explicitly seize upon and try to realize many of the ideas incorporated in HRM.

**HRM and Personnel Management**

The historical difference between the concept of 'HRM' and the concept of 'personnel management' is of lesser interest. However, at least for orientational purposes the question naturally arises: "Is there any difference between the normative models of HRM and those of personnel management?". Legge shows ample evidence of the fact that "older" normative models of personnel management fairly closely correspond to the "new" normative models of HRM. She argues that the apparent difference between HRM and personnel management is mostly due to the emphasis in the discussions where the latter is often treated at a descriptive level and the former is treated at a normative level.
Legge cites several sources which are very sceptical towards a distinction between HRM and personnel management, one of which is Armstrong who argues that. However, Legge also identifies some more substantial dissimilarities between HRM and personnel management. First, she argues that there is a different focus on the objects of HRM practices which emphasizes the management of managers whereas personnel management was more concerned with the management of non-managers. This aspect is also identified by Storey. This does not mean that HRM is not about managing non-managerial employees.

Secondly, Legge argues that the role of line management as proactively focused on the proper use and treatment of employees is stressed in HRM. This feature is identified also by other scholars. Thirdly, HRM lays a greater stress on top management's role of managing the whole organizational culture through the HRM practices and policies. Also this is identified by Storey.

The fourth difference between HRM and personnel management is the integrational aspect is emphasized by many scholars. Although the personnel management literature also talked about "the importance of integrating personnel practices with organizational goals", the emphasis on the system level integration is arguably more explicit in the HRM literature. Theoretical/conceptual distinctions are one thing. They should however also influence empirical research. The explicit reference to the management of managers and culture as well as the role of top management has so far gone largely untested in empirical studies.
Very few of the recent HRM studies have included intermediate outcomes in combination with organizational performance consequences. A large number of recent empirical studies have however focused on the general system level application of the individual HRM practices. Many of these have also focused on more explicit integrative aspects between HRM practices and between these and business strategies. Thus in fact, empirical research has not really focused on any of the differentiating aspects explicitly identified by Legge in combination with testing the relevance of the new emphasis on HRM as a "central strategic management task" involving organizational performance effects.

Empirical studies in personnel management were most often focused on particular personnel practices but arguably "such work can generally be discarded from any serious analysis of what is actually new and important about HRM". Thus, in addition to the distinctions identified by Legge, there are arguably at least some crucial differences between the HRM literature and the literature on personnel management in terms of the forms empirical research have taken. However, the more a broad HRM theorization of organizational performance is developed the more urgent it might be to return to and bring in the psychologically oriented micro theory pursued by personnel management.

This seems to be a consequence of Guest's thinking of a theory of HRM. The alluded derivation has not yet coherently and explicitly been carried out. Also in this research project will still largely focus only on the "possible broader framework linking HRM and outcomes". Although there are some arguable differences between HRM and personnel management, there are
clear gaps between the (insufficient) conceptual theorizings of the "new" meaning(s) of HRM, the (insufficient) "new" empirical 90 evidence and the "new" rhetorics related to HRM.

Fundamental in the HRM movement is arguably the combination of many ideas. The complexity is evident in the Harvard framework presented in figure 1. This Harvard framework is classified by Guest as belonging to "descriptive theories of HRM" which "provide conceptual maps of the field ... [but] provide no clear focus for any test of the relationship between HRM and performance". Although the framework well exhibits the complexity involved, thus arguably need a lot more specification in order to develop a testable theory of the links and mechanisms between HRM and organizational performance.

![Figure 1: Harvard Framework](image)
Guest has argued that,

[HRM] could indeed be no more and no less than another name for personnel management, but...at least it has the virtue of emphasising the need to treat people as a key resource, the management of which is the direct concern of top management as part of the strategic planning processes of the enterprise. Although there is nothing new in the idea, insufficient attention has been paid to it in many organizations. The new bottle or label can help to overcome this deficiency.

Here Guest refers to the two broad streams of theorization in terms of 'soft' (universalistic) HRM and 'hard' (strategic) HRM. To the extent that we do consider the "human side of enterprise" both economically and ethically important, one challenge is to try to find conceptualizations which combine the two putatively contradictory "new" schools of thought. According to Legge, such an integration would seem to be relatively unproblematic "where an organization pursues a strategy of producing high-value added goods and services, in a knowledge-based industry...".

However, Legge asks, In such organizations it is more likely that strategic soft HRM does not have as much to offer. Certain necessary conditions of any larger scale influence of (strategic soft) HRM may be violated in such industries. However, it is not a priori evident that this has to be the case. Strategic soft HRM might at least make a (smaller) relative difference also in such industries. Further, it is not yet established that any form of integrated HRM approach even in knowledge-based industries in fact tends to have distinctively important consequences for organizational performance, although such approaches themselves might be viewed as more unproblematic in such contexts.
In any case, the problem with the traditional oppositional distinction between HRM and SHRM is that, as Pfeffer has argued, there seem to be companies which have "low cost strategies", are doing well and have a soft HRM profile. This would seem to indicate that the general idea that HRM should (theoretically) be contingent on strategy, in the sense e.g. that a "low cost strategy" combined with a less mutuality and commitment promoting HRM approach leads to better organizational outcomes, is simply wrong.

There is some justification for a belief in the advantage of a general strategic soft HRM approach. In one interpretation of HRM it is thus a particular employment strategy which "is composed of policies that promote mutuality". This approach is described by Boxall as:

[One] implication [of HRM] is that there is strategic choice about how best to use human resources. A number of writers are less sanguine about.91 strategic choice and argue that the key to competitive advantage lies in making full use of human resources. From this perspective the more important claim to novelty in HRM lies less in the recognition of a strategic choice than in the presentation of a particular strategic solution”.

As already indicated, in this sense HRM should be seen as simply a new attempt, an "evolution in philosophy, objectives and techniques". In this line of conceptualization of HRM, Guest has been developing the "Harvard framework" towards a more focused and restricted testable model. Guest's model would then be one possible conceptualization of a soft (universalistic, best practice) HRM approach. It is also currently one of essentially two existing HRM theorizations of
organizational performance in terms of an integrative but relatively parsimonious framework, spanning a range of more explicit outcomes (or mechanisms) at different levels.

However, in Guest's own words his model is only Boxall offers a critique which he directs specifically at this universalist perspective. He contends that "researchers have not settled on a common understanding of which HR practices to identify" within this perspective. Definitional issues clearly constitute a problem. However, such a common (albeit perhaps more contextual) understanding is equally important (and equally non-existent) within the strategic perspective discussed below. Boxall offers the further critique, which he also directs at the universalistic perspective, that the problem of common agreement on relevant HRM practices is "compounded when cross-cultural issues are acknowledged".

In addition to the lack of any more specific theoretical derivation of relevant HRM practices and intermediate phenomena, there is a lack of agreed upon operationalizations of potential constructs. By consequence, any more straightforward quantitative empirical evidence for the above kind of an integrated universalistic model is difficult to produce. In fact, any empirical evidence whatsoever for such an integrated model is still essentially absent.

According to Boxall, "strategic human resource management", explores "the theoretical links between employee relations (of whatever sort) and strategic management of the firm". Whereas at least the general idea of HRM as a particular employment strategy is fairly straightforward, Boxall argues that "the conceptual
difficulties associated with spanning the strategy/HRM boundary...are much greater". The many open questions related to strategic management as well as links between employee relations and such strategic management clearly poses problems for quantitative research designs.

Thus it has been argued that to study strategic human resource management also Chadwick and Cappelli's suggestions for a re-orientation of SHRM research would imply detailed case studies. However, Guest has earlier argued with general reference to case studies in HRM that "[t]he literature abounds with these...However, many are little more than anecdotes". Clearly there are better and worse case studies and equally clearly they are important.

While cross-sectional quantitative studies cannot "processually" study such links, they could at least in principle identify consequences of the way HRM is linked to strategy and/or influences of different strategies mediated by HRM. However this would clearly require some reasonable a priori understanding of "the strategy/HRM boundary". In a recent article Wright and Snell have elaborated on this boundary. They offer a conceptual framework for studying external (strategic) fit incorporating the related idea of flexibility. Wright and Snell point out that "little agreement exists regarding the definitions and value of each".

However, in some contradiction to this they later argue that:

"the discussions of fit in strategic HRM are quite precise in determining the variables that constitute fit...the concept of fit has been well articulated in strategic HRM".
The concept of fit has been elaborated in many forms. However, in line with Boxall, Ferris et al., Chadwick and Cappelli and Wright and Sherman, the discussions in strategic HRM are not "quite precise" and not "well articulated" in particular with reference to "the variables that constitute fit". There is little agreement on the more specific content of strategic integration, and agreement on how we should operationalize it and integrate it into a theory of HRM.

Wright and Sherman offered a classification of the diverse extant conceptualizations of strategic fit in empirical research and concluded that there are considerable ambiguities with reference to what is meant by fit. With reference to one conceptualization/operationalization of strategic fit, Becker and Gerhardt admit that:

"[I]n a sense, simply entering cross-products to test fit hypotheses may show just how little is known about systems of HR practices"

One of the first models of strategic fit was the 'the matching model' of HRM presented by Fombrun et al. (1984).

"The primary emphasis of this model is on the desirability of 'fitting' HR strategy to the firm's choice of competitive strategy..."

The strategic human resource management often suffered simply from inadequate conceptions of strategy and the strategic process. In one of the few specific studies of the relationship between HRM and business strategies, Peck notes that different researchers have argued for almost opposite consequences of certain business strategies for corresponding HRM strategies. Her own empirical study of this relationship was based upon generic categories of
business strategies and separate variables for different HRM areas with items derived from a dichotomy between soft and hard approaches of HRM in terms of a "buy orientation" and "a make orientation". She also developed a general variable of a buy versus make HR philosophy.

Further she included a variable of the employment relationship between managerial and professional employees. Boxall made a distinction between 'business strategy' (dealing with desired competitive position in a particular business, goals external to the organization) and 'competitive strategy' (dealing with critical internal resources such as organizational structure, human resources, technology and capital). He argues that this definitional distinction "helps to make the point that means do not flow unproblematically from ends". One possibility which is seldom acknowledged is that there in fact may be no consistent relationships between any particular strategy and particular (formally identified) HRM no matter how we conceptualize such strategies. There may nevertheless at a more abstract level be relationships between HRM and strategies which may also have important consequences.

Both Chadwick and Cappelli and Ferris et al. strongly argue that the typical conceptualizations of strategy and strategic fit used in earlier research, most often in the form of generic strategies, involve a set of problematic assumptions.

"These generic categorizations have little in common with the realities of the modern competitive environment...First, categorizations are exclusive, assuming that organizations pursue a certain strategic goal while ignoring other strategic concerns
Second, they depict the competitive environment, and consequently organizational strategy, as being static instead of dynamic. There is much evidence that neither if the two assumptions is valid...Further, investigations into the HRM-strategy link have almost exclusively focused on predominant intended strategy of the firm and assumed that the professed intended strategy is equivalent to the emergent or realized strategy. Examinations based on that assumption are inherently flawed (Ferris et al., 1999, pp. 392-393, italics added).

Partly echoing Ferris et al., Chadwick and Cappelli argue that

- First, generic [strategy] typologies can be highly inaccurate ways to characterize strategy in specific contexts, and they exclude other, potentially important conceptualizations of strategy. Second, describing both firm strategy and HR systems in a unitary fashion on the organizational level can mask important attributes of organizations which would enhance our understanding of the effects of HR and strategy on organizational outcomes. Third, operationalizing strategy with generic typologies does not match the RBV theoretic approach, which seems more suited to the needs of SHRM research.

Thus, one problem with describing "firm strategy and HR systems in a unitary fashion on the organizational level" is that management rarely has "a single set of goals and means for all employees". In particular there is often a clear distinction between how HRM affects managers and hierarchically lower level employees. This has received little attention in prior research and should be born in mind when designing studies and choosing samples.

HRM strategies have also been conceptually identified and classified according to other parameters than generic business strategies. These include stages of
organizational development or growth, the complexity of the organization as well as matrixes of human resource availability on the one hand and improvement needs in terms of business development, expansion, productivity or redirection on the other hand. These conceptualizations point to the potential contextual sensitivity of HRM practices, even within sub-units of larger organizations, and thus to the importance of proper research designs, operationalizations and choices of populations. None of these contingency "models" have however directly been the object of much empirical research, in particular combined with research on the HRM-firm performance link.

HRM strategies have also been conceptualized in terms of manufacturing strategies. This has been done mainly in connection to empirical studies at the plant level. It has been acknowledged that also manufacturing strategy often "remains a somewhat elusive concept". Chadwick and Cappelli (in the quote above) indicate that the RBV brings something essential to the debate on strategic fit. Lately the resource-based view (RBV) has been widely referred to and argued to cast some (more general) light on the issue of strategic human resource management and support the importance of it. Boxall claims that

"[t]he resource-based view of the firm provides a conceptual basis, if we needed one, for asserting that the key human resources are sources of competitive advantage".

The RBV is also often used as a critique of, or at least a complement to, traditional strategic thinking and theorizing. Boxall claims that it

"is clearly a superior view to any static model of market positioning ...[and that] the resource-based
perspective offers a way of theorizing the contribution of HR strategy that does not rest solely on the reactive notions of the matching model". He continues "[it] seems safe to suggest...that what the resource-based perspective has stimulated is a re-balancing of the literature in a way that stresses the strategic significance of internal resources and capabilities and their historical development.

In particular, the RBV emphasizes the building of distinctive internal strategic assets. Human resources have been argued to be a good candidate for such assets. Human resources may according to the RBV constitute sustained strategic assets in so far as they, in addition to being valuable, rare, and non-substitutable, also exhibit the properties of historical path dependency, social complexity and/or causal ambiguity and, by consequence, the property of inimitability.

Although traditional resources of competitive advantage such as natural resources, technology, economies of scale, and so forth, create value, the resource-based argument is that these sources are increasingly easy to imitate, especially in comparison to a complex social structure such as an employment system.

In line with this Becker and Huselid argue that "HPWS [High Performance Work Practices] represent a source of "invisible assets" that both create value and are difficult to imitate". All this seems logical and potentially relevant. Becker et. al. go further and claim that

"we believe that both the source of the HRM effect on firm performance and its inimitability reflect an ‘idiosyncratic contingency’ “.

It is an interesting hypothesis implying the importance of idiosyncratic forms of strategic fit. However, as Becker and Gerhardt say, the evidence for this hypothesis "is
entirely inferential”. Although often referring to the RBV, quantitative empirical HRM studies have arguably not really answered to the challenges the RBV poses. The emphasis on idiosyncratic contingency and inimitability seems not to have led to any advances in terms of how to empirically test what such idiosyncracies and inimitabilities might involve. The closest researchers may have come is the conceptual argument presented by Becker and Huselid that

“an HR philosophy that takes as its strategic foundation an HRM system that is aligned both internally and externally to successfully implement a firm’s strategy is a best practice. The nature of the fit is not. It is in fact very firm specific and idiosyncratic which is the basis of its inimitability”.

What this "in fact" refers to, we do not know. Further, it seems that idiosyncratic contingencies may well exist. But what kind of idiosyncratic inimitabilities and non-substitutabilities that are valuable/effective we do not really know. Nevertheless, potential idiosyncratic contingencies should arguably not only be allowed for, but their potential relevance should also be captured by operationalizations in quantitative studies. Becker and Huselid claim that

“The logic of inimitability has motivated a focus on complementarities ...and “bundles” or systems rather than the emphasis on individual HRM policies and practices that characterizes much of the traditional HRM literature”.

However, the operationalizations of such bundles often allow only for some forms of equifinalities but seldom capture the distinctive relevance of idiosyncracies. In particular the idea of inimitabilities incorporated in the RBV seems to live a life of its own aloof from anything
done in most empirical research and it seems that the idea of synergistic bundles or systems of HRM practices can stand on its own feet. As already indicated, Chadwick and Cappelli also "place their bets" on the RBV. They engage in a reflexive discussion of the challenges the RBV poses to researchers in SHRM. They also note that the RBV places organizational capabilities in focus, i.e. "the ability to use resources in strategically advantageous ways".

However, the RBV does not offer very concrete help concerning the identification of such ways. Chadwick and Cappelli argue that in order to pursue its traditional questions, such as whether fit between business strategy and HR practices improve organizational performance,

"SHRM needs some indication of which aspects or conceptualizations of business strategies "matter" for human resource practices. Likewise, if strategy is to be used simply as a summary of the competitive environment, direct measures of the environmental factors which "matter" should be used. The assumption previously was that generic typologies must apply because they seemed to describe fundamental differences in how firms were organized and operated. This no longer appears to be true".

Chadwick and Cappelli argue that this implies contextually sensitive research. Pursuing such contextual sensitivity with reference to organizational competitive priorities in line with the suggestion by Ferris et al, we will attempt to conceptualize and define both strategic fit and the general adequacy of the HRM system "performatively", i.e. as defined by the practitioners. The HRM practices in general support implemented and emerged strategic priorities as they are manifested in the daily work of employees.
The general support in terms of the amount, quality and relevance of the HRM practices as perceived by the objects of these practices, i.e. general employees. Concerning the explicit notion of strategic fit, we will let managers in the organizations judge how compatible over all the HRM practices are with the requirements for pursuing each organizations strategic goals, i.e. its "competitive priorities". This compatibility will be identified by the extent to which the HRM practices support attitudes, competencies and behaviors needed to pursue strategic business goals.

This strategy itself very simplistically as a continuum along a focus on quality. This explicit strategy variable only as a control in order to test whether the HRM practices and consequent employee level attributes matter independent of the degree of a strategic focus on quality. This theorization may be compared to the one developed by MacDuffie. MacDuffie identified the organizational logic of car factories as based upon two different components, a flexible versus mass production strategy, and two sets of HRM practices.

MacDuffie analyzed interaction effects of the components of the organizational logic he identified. The use one component of the organizational logic postulated, i.e. the HRM system, as a means of explaining variation in the other component of this organizational logic, i.e. the production strategy. The relationship between such a production strategy and both employee and organizational performance outcomes.

The internal resources are only partly potentially distinctive and idiosyncratic, i.e. in terms of the HRM system. The internal resources in terms of the production strategy are still generic and in this sense not compatible
with the RBV. However, these generic assets in terms of workforce characteristics, in particular psychological empowerment, should be dependent on the potentially idiosyncratic workforce capabilities which are needed in order to effectively do the work required in the organization. The extent to which the HRM system influences the generic employee assets identified by us is by the same logic also dependent on the extent to which the HRM system influences the more specific required employee capabilities.

At least the generic organizational capabilities comprising the suggested production strategy allow for the fact that the underlying capabilities may be firm specific. Pursuing the importance of the generic internal attitudinal capabilities in terms of psychological empowerment, organizational commitment and organizational citizenship behavior is arguably of more general interest because they are often considered as crucial characteristics of organizations.

The whole HRM system is one thing. The strategic fit of the HRM system is (at least partly) another thing. In addition to the open question of the mechanism(s) of the HRM system, the mechanisms of the strategic fit of the HRM system arguably represents a black box in itself. To date, most previous studies have analysed the incremental direct influence of strategic fit on organizational performance over and above any relationship between the HRM system and such organizational performance.

However, how could we understand the mechanism(s) whereby strategic fit is linked to intermediate and ultimately bottom line outcomes? What is the relation between the HRM system as a whole and
its strategic fit? The general causal logic in the suggested organizational performance theorization in the form of strategic soft HRM could thus be stated as: the better the strategic fit, the more adequate (in terms of amount, quality and meaningfulness) HRM practices should be from the point of view of the employees. This should in turn affect the intermediate and ultimate performance outcomes.

Employee perceptions of HRM, including the effect of any strategic fit on these perceptions, are important if we maintain the position that "policies that promote mutuality" are both economically and ethically important. More specifically, this conceptualization, together with the inclusion of intermediate employee attitudes and behaviors, allows research on the compatibility between soft HRM and strategic HRM. It makes possible the identification of the extent to which any influence of strategic fit is mediated by the sophistication of the HRM practices, and/or involves an independent but compatible influence on intermediate employee attitudes and behaviors and/or represents a different influence incompatible with soft HRM.

If we do not conceptualize strategic fit as affecting either employee interpretations of the HRM practices and/or any intermediate perceptual attributes related to employees, but rather analyze the direct effects of strategic fit on organizational performance it seems that we will ambiguously deal with two different issues. One is human (or humane) resource management (where human resources are important to nurture and develop). The other is strategic fit and human resource management.
Wright and Snell identify two dimensions of flexibility. The first is resource flexibility which does not necessarily have anything to do with dynamic environments and deals with appropriate HRM practices for different parts of complex organizations. The second is coordination flexibility and is discussed mainly in terms of problems with it. Wright and Snell mention that HRM practices differ in their amenability and the immediateness of the impact of such amendments.

Wright and Snell argue that Skinner claimed even more radically that it takes approximately seven years to achieve a genuine shift in human resource strategy. To the extent that there is any truth in this claim it casts even more doubts on the ability of companies to radically shift HRM strategies according to swift changes in business strategies. In general the feedback loops Wright and Snell are suggesting seem perfectly relevant in order to reduce the risks of confronting radical sudden changes and restructurings.

However, within the perspective of flexibility, in theory the dimensions of fit would imply that it will seldom be a question of changing only one practice because of "the high interdependence between system elements". The frequent change of all of them would indeed seem problematical. Thus, one conclusion of Wright and Snell's discussion is that organizations should try to construct HRM systems with an architecture which is likely to be relevant for a longer term. Pfeffer also argues for the relevance of such basic overarching high profile HRM strategies tailored to different general focuses on quality and innovation.

In fact Wright and Snell offer a similar claim in that due to the "liability of external fit" (changing conditions)
and the "liability of internal fit" (complexity of incremental change) and the "liability of newness" (uncertainty of complex wholesale changes), Chadwick and Cappelli's arguments imply a similar logic. Their conclusion, however, based largely upon the RBV, is the importance of taking internal resources in consideration when deciding on strategies. Flexibility might be very important but the evident fact remains that organizations have to be good at what they are doing. If they are not, flexibility will be of little relevance. To the extent that flexibility is very important and compatible with the idea of (strategic) soft HRM, employees' perceptions of the sophistication of HRM practices should reflect it (or, be a consequence of it).

Wright and Snell also discuss flexibility in terms of employee skills and behavior. However, again a theorization should at least be compatible with the potential relevance of such flexibility. In their discussion on employee behavioral resource flexibility Wright and Snell emphasize the importance of providing "employees with great latitude in deciding how to accomplish...goals". The HRM system should "produce" The extent to which such employees are "produced" should arguably be reflected in employees' psychological empowerment, organizational commitment, organizational citizenship behavior.

Wright and Snell end by emphasising the importance of a "participative infrastructure" both for the ongoing organizational performance and the strategic planning process. A "participative infrastructure" is arguably also embedded in the concepts of 'psychological empowerment', 'organizational commitment' and 'organizational citizenship behavior'.
Many researchers agree that we need more subtle conceptualizations of both HRM practices and strategic (external/internal) fit which should reflect the fact that a conceptualization in terms of employee perceptions of HRM practices is arguably one way to take such considerations into account. These perceptions should reflect the extent to which mutuality promoting HR systems "are [appropriately] embedded in a firm's management infrastructure and help solve real business problems" in terms of the actual work that needs to be carried out by employees. The perceptions should thus reflect an emerged and implemented form of "strategic factors that are seen by the organization to be more or less important" as these strategic factors are reflected in the actual work of employees.

There are two things with reference to the HRM practices. Firstly, that it is meaningful to identify the sophistication of the HRM system as being dependent on how valuable the HRM practices are in motivating and enabling employees to perform their jobs. The investment in this idea, one version of the 'human' in human resource management, is part of the definition of HRM. The second assumption is that employee perceptions of the amount, quality and relevance of the HRM practices reflect their motivating and enabling properties.

The traditional distinction between a soft (best practice) conceptualization and a strategic contingency conceptualization of HRM is one thing. Another prevalent distinction which partly cuts across these two conceptualizations is that between internal and external alignment. Usually both are argued to be important for the strategic fit conceptualization while only internal alignment is argued to be important for the best practice
approach. However, to the extent that internal and external alignment contribute to the effectiveness of the HRM practices in terms of organizational performance, they both have to do some work. Neither of them can just be a gear the turning of which does not affect the rest of the machinery.

An internal alignment of HRM practices would seem to imply that the practices support one another in producing consistent kinds of competence, behavior and attitudes. But this may be insufficient. In order to be influential in terms of organizational performance the forms of competence, behavior and attitudes may have to be specifically important for the achievement of strategic business goals. The potential importance of some form of external alignment is thus clear.

The relevant alignment is arguably in relation to strategic business goals which are actually pursued, i.e. emerged strategic goals which are pursued in daily activities at work. Only through a fit with such goals can strategic fit have an impact on the effectiveness of HRM practices. However, the extent to which all the HRM practices support competencies, behaviors and attitudes needed to perform required work should at the same time be a measure of both external and relevant internal fit. As Peck argues, "[i]f each functional area is linked with the overall strategy then one assumes that the practices as a whole are relatively consistent".

Theories of HRM

Wright and MacMahan provided a landscape of different theories of potential interest for HRM research. Of these theories the resource based view (RBV) is perhaps the
most relevant for, and potentially most compatible with, strategic soft HRM. It has also increasingly been referred to as a foundation for and/or supporting the importance of SHRM. The underlying question is the same as Boxall's: In the framework of a resource-based perspective, "how do we theorise the role of HR policies and practices, the 'interventions' of HRM?".

The RBV is a theory of sustained competitive advantages. Barney defines sustained competitive advantage as follows:

"A firm is said to have a sustained competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy".

The RBV makes the assumption that some firm resources in at least some industries are not homogeneously distributed and not highly mobile. This assumption makes it possible to understand the possibility of sustained competitive advantages.

More specifically, to

"hold the potential of sustained competitive advantage...a firm resource must have four attributes: [1] it must be valuable, in the sense that it exploits opportunities and/or neutralises threats in a firm's environment, [2] it must be rare among a firm's current and potential competition, [3] it must be imperfectly imitable, and [4] there cannot be strategically equivalent substitutes for this resource that are valuable but neither rare nor imperfectly imitable".

Two resources are strategically equivalent (substitutes) when they each can be exploited separately to implement
the same strategies. Thus, non-substitutability refers to the requirement that there be no similar nor any different resources which can be strategic substitutes to a resource in order for it to contribute to sustained competitive advantage.

Resources are inimitable for one or a combination of the following reasons:

(i) "the ability of a firm to obtain a resource is dependent upon unique historical conditions",

(ii) "the link between the resources possessed by a firm and a firm's sustained competitive advantage is causally ambiguous ", or

(iii) "the resource generating a firm's advantage is socially complex."

Unique historical conditions simply refers to a firm's "unique path through history". Causal ambiguity refers to the requirement that "both the firm that possess resources that generate a competitive advantage and the firms that do not possess these resources but seek to imitate them must be faced with the same level of causal ambiguity".

Social complexity refers to social phenomena "beyond the ability of firms to systematically manage and influence". It is clear that the causal ambiguity involved in this theory is a "type 1" causal ambiguity, i.e. a fundamentally irreducible ambiguity. The concept of social complexity is analogous in its fundamental irreducibility. A resource is non-substitutable (inimitable) when all efforts to substitute for (imitate) them have ceased, and when all possibilities for emerging substitutes (emerging imitations) have been excluded. This concerns efforts by existing as well as potential competitors.
The question which arises is whether the RBV is a purely philosophical point of view, with no empirically determinable consequences. This is not Barney's view, as he suggests "some specific empirical questions which need to be addressed". However, in order to do this, we would have to determine a priori universal properties (i.e. inimitability, non-substitutability). The implication of the RBV is that if there are sustained advantages, they will (by hypothesis) have to be universal, even if not eternal.

The theory must thus necessarily involve an a priori identification of the universal properties of inimitability and non-substitutability. Such universality is essential for the whole concept of sustained competitive advantage. Whether there are companies with such advantages, seems impossible to determine empirically. However, the idea would seem to be that the theory outlines conditions relevant as a focus imaginarius. Barney draws the seemingly correct but cautious conclusion that

"implicit in this model is the assumption that managers are limited in their ability to manipulate all the attributes and characteristics of their firms".

One could argue that it is not only an assumption but also an implication of the criteria of social complexity and causal ambiguity. The question is to what extent they are limited. Barney stresses:

"that managers are [not] irrelevant in the study of [sustained competitive] advantages. In fact, managers are important in this model, for it is managers that are able to understand and describe the economic performance potential of a firm's endowments".

On the other hand, according to Barney's own conditions for sustained competitive advantages, they are (with the exception of the cases only involving unique historical
paths), not able to understand what this performance potential consists of. Nor can they rationally and strategically produce it. However, Barney goes on to say that "without ... managerial analyses sustained competitive advantage is not likely".

Thus the evolved potential sustained competitive advantage is not likely to be sustained if managers do not analyse it and then utilise, support and develop it. Such identification by managerial analysis and managerial activity is then one more (somewhat contradictory) condition for the resources actually to contribute to sustained competitive advantage.

What shall we say about this, i.e. about managerial ability to support and develop such advantages, and thus about SHRM within the picture offered by the RBV? It would seem to be necessary to radically distinguish between the processes beyond manageability which have led to the advantage and the possibilities to manage its contribution and even its development.

It is clear that in order to prevent the advantage from decaying, "the firm must continually reinvest in the factors that create the ambiguity and barriers to imitation". But this seems problematic in that if management is by hypothesis not able to understand how the advantage developed, or even what it consists of, then how will they know how to nurture it strategically? How will they know that they are not destroying it by some specific practice or policy?

There seem to be the following danger. We utilise the RBV as an abstract and non-confirmable theory postulating the existence of and explaining how resources develop into sustained competitive advantages. We then move back to the more managerial-friendly view
continuing from the point where they have emerged. We will argue that there is a tension in so doing. In fact there is a serious problem of internal consistency in the RBV which undermines its explanatory potential.

Barney has referred to a dilemma he calls the inimitability paradox. However, he does not problematise the idea of managing a sustained competitive advantage, only the idea of creating one. Regarding culture as such a potential advantage he says,

"the normative implications of culture research are limited to assisting firms that already possess valuable, rare, and imperfectly imitable cultures and culture management skills in recognising and nurturing these organisational characteristics to obtain sustained above normal performance".

Essentially, the RBV needs an argument to the effect that there is a theoretical difference where a resource exists on the continuum between manageability and sustainability of an advantage. This claim follows from a basic proposition deduced from the RBV: In principle, the more one gains in sustainability, the more one loses in manageability, i.e. the more causal ambiguity and/or social complexity is involved. This could be a zero-sum game. The RBV seems to need something else than the ideas of the effects of causal ambiguity and social complexity on sustained competitive advantages, as these concepts are defined in Barney.

Reed & DeFillippi have tried to make sense of the properties of ambiguity, complexity, and sustainability. They are not concerned with extreme ambiguity, but rather with

"situations in which managers understand causal relationships better than their competitors, and
where competencies can be manipulated for advantage".

There is no unproblematic reason for why the knowledge of the causes to advantage would not spread to competitors. In particular, there is still a lack of clear theoretical reasons for why the gains, caused by the existence of barriers to imitation, would be greater than the costs of increased complexity and diminished manageability. For example, if only very few persons can grasp the overall performance generation, manageability is arguably significantly reduced. This is because it is very likely that decision making and agreement will be all the more politically problematical and arduous if this overall picture is not more widely shared and understood.

To the extent that reference is made specifically to barriers to imitation of competitive advantages we agree that "barriers to imitation are never insurmountable". It is thus argued that the RBV should be reformulated to claim that the sustainability of a competitive advantage pertaining to a resource essentially is dependent on the time, persistence, competence and other resources required to create this resource. Of course, this will be a function of causal complexity. But this complexity is not defined by the concept of non-manageability nor that of un-knowability as it implicitly is in the RBV outlined by Barney.

As has been pointed out, fundamental in SHRM is the combination of many ideas. In general one can argue that there is a certain affinity between the RBV, its notions of complexity and causal ambiguity, and this view of SHRM as a combination of many dimensions. These are thus potential common denominators linking
the RBV with SHRM. Even if many studies refer to the RBV, often they do not respond to a central critique flowing from the RBV, i.e. the attempt to relate formal SHRM policies and practices directly to superior performance outcomes.

Other implications of the theory are also left unnoticed. Becker et al. e.g. discuss their views within the framework of the RBV, but simultaneously underwrite the claim that HR managers need "deep knowledge of the web of cause-and-effect relationships". Such knowledge is, we argue, problematic within the RBV. Similarly, Huselid et al. claim that the resource-based view suggests that

"a firm's pool of human capital can be 'leveraged' to provide a source of competitive advantage...competitive advantage is possible if a firm insures that its people add value to its production processes and that its pool of human capital is a unique resource, both difficult to replicate and difficult to substitute for. HRM practices comprise the many activities through which firms create human capital that meets these conditions".

Again we have an ambiguous use of the RBV. This seems to contradict Barney's argument; which follows from his conditions, that firms which do not have such sustained competitive advantages, cannot create them. The conditions of possibility of HR-based sustained competitive advantages. Wright, McMahan & McWilliams attempt to establish

(1) that human resources can give rise to sustained competitive advantage,

(2) in what circumstances they can do this, and

(3) that managers do have control over these resources.
Regarding the condition of value incorporated in the RBV, Wright et al. refer to the theoretical rationale that has been offered for "the ways in which human capital resources increase firm value and techniques for estimating this increase in value". What is referred to is utility analysis. However, Wright et al. do not find these estimation techniques feasible and ultimately conclude:

"What is important is that there is a consensus that higher quality human resources result in higher financial value for firms".

The essential point from the perspective of HRM research is, however, that the research community strives for and understanding and a consensus on what these qualities are, what practices contribute to such human resources and how they do it. Wright et al. also defend the proposition that human resources of high cognitive quality are rare (by definition) because cognitive ability is normally distributed in any population.

Wright et al. reflect upon inimitability, the third requirement of resources contributing to sustained competitive advantage. Their argumentation seem to pose some questions, already touched upon above. Wright et al. claim that the theoretical possibility of imitation of human resources:

"is highly unlikely due to the many contingencies that exist in different organisational situations..., [to the fact that] human resource advantages are most frequently characterised by unique historical conditions, causal ambiguity and social complexity, and thus, are almost always inimitable".

This seems to imply that the conditions for inimitability are (most often) conjunctively, not only disjunctively satisfied regarding human resources. How can anything with such characteristics be managed or explained? This
could be interpreted to be an honest and straightforward announcement of an aporia in strategic human resource management focused on sustained competitive advantages, and the research thereof. On the one hand HRM seems important and fruitful. On the other hand it seems impossible. How are we to understand this?

We would have to make a radical, and arguably problematical, distinction between the social complexity and causal ambiguity of the processes involved in the advantage on the one hand, and the processes needed to nurture and develop this advantage, on the other. This seems untenable. There is thus a serious problem in any attempt to combine reference to the RBV with some specific theory of HRM and its outcomes, with the exception of contexts characterized exclusively by unique historical conditions.

Wright et al. continue by making some specific and central statements regarding (1) the generalisability of human resource advantages, (2) their sources and (3) their manageability, respectively, which we want to follow up.

(1) Human resources are

"one of the few resources which have the potential to ... be transferable across a variety of technologies, products and markets...[and] many human capital resources are quite generalisable".

This seems contradictory to the claims about social complexity and causal ambiguity.

They say e.g. regarding social complexity that:

"[i]t is possible that relationships between key personnel such as sales representatives and buying
agents will develop over time and become part of a network that includes a larger group of personnel such as design and marketing staff, production and distribution workers, and management, as well as final consumers”.

This holistic idea would seem to make the human resources very sensitive to changes and not "transferable" and "quite generalisable". Specifically, high cognitive abilities alone would not seem to be enough to produce such relationships.

(2) In their critique of HRM practices as a source for competitive advantage Wright et al. claim that

"the source of sustained competitive advantage lies in the human resources themselves, not the practices used to attract, utilise and retain them" and that the HRM practice-oriented perspectives "are somewhat deficient from a theoretical as opposed to a practical standpoint".

It seems, however, that we cannot exclude the possibility that the HR practices are part of the causally ambiguous sources contributing to advantages. To name the human resources "themselves" as the "ultimate source" seems to be both inadequate and to exemplify an unduly essentialistic causal ontology.

(3) Wright et al. go on to claim that even if the (ultimate) source of sustained advantage is the HR capital pool, human resource management practices play "an important role" in developing these advantages.

"[T]he human resource capital pool is a necessary, but not sufficient condition for human resources to act as a sustained competitive advantage”. "the correct mix of HR practices is a necessary condition for the maximal effectiveness of the HR capital pool".
This makes logical sense as long as we insist upon the fact that human resource practices can produce and nurture sustained competitive advantages in a planned and controlled way at the most regarding advantages which are exclusively due to historically unique contexts.

The problem concerning SHRM practices arguably lies in the detailed and intricate relations between their implementation and many other dimensions of organisational reality. These relations seem very aptly characterisable as socially complex and their relation to advantages (at least currently) causally ambiguous. Only the codified aspects of HRM practices can more easily be imitated. The above mentioned "apology" regarding the focus of practical SHRM does not seem relevant. If we adhere to the RBV the focus should be changed, both the theoretical and the practical.

The focus should be on the combination of existing human resources, the implementation of SHRM practices and other organizational processes. Precisely here lies the problems of combining SHRM and the RBV. What managers or researchers can do in order to enhance and understand sustained competitive advantage in accordance with the RBV seems highly limited. In fact, we question the very theoretical possibility that there can be knowledge of a correct mix of HR practices to develop or nurture a sustained competitive HR advantage in other contexts than potentially historically unique cases.

Wright et al. claim that:

"Managers can use HR practices...to attract, identify and retain high ability individuals...[and] once a differentially high quality human resource capital pool has been developed, the firm has a first mover advantage over competing firms".
This is problematical as the RBV implies that this process has to be emergent and contingent, not strategically manageable. The RBV would minimally claim that only when a company already has (perhaps due to a unique historical path) a differentially high quality human resource management staff, then it could possibly further create and nurture the advantage. The processes of attracting, identifying, retaining developing and motivating high ability individuals would depend on there being sustained competitive HR advantages which enable companies to do this.

Thus, the properties of causal ambiguity and social complexity seem somewhat implausibly reduced to the emergence of sustained advantages in skills related to human resource management?Wright et al. end up emphasising two codified or codifiable criteria for sustained competitive HR advantages, i.e. the formal criteria of HR practices, and the formal criteria of cognitive abilities. We will see that Mueller moves in the opposite direction.

It is the circumventing of the idea of the limited ability of managers embedded in the RBV which invites most critical reflection. We basically follow a move from

"One of the problems inherent in [the RBV] ...is that it limits, to a great extent, the role of the manager in creating sustained competitive advantage",

to

"very few other firm resources are under as direct a control of managers as human resources".

This seems a problematical conclusion after the development of the view that human resources can be a source of sustained competitive advantage precisely for the reason that they are socially complex and causally
ambiguous phenomena dependent upon unique historical conditions. These are precisely the elements which according to the RBV limits the possibilities of management.

Thus, we question the reduction of sustained competitive HR advantages to general cognitive abilities of employees. We also think that the link between sustained competitive advantages and SHRM practices needs further reflection. Lado & Wilson argue that:

"[a]n examination of the role that the HR system plays in facilitating or stifling the development of organisational competencies [contributing to sustained competitive advantage] is warranted".

To the extent that we refer to sustained competitive advantages, we have argued that there is a hidden and serious problematic of knowing what stifles and what facilitates this process.

Mueller argues that rather than more empirical research into the effect of HR policies, we should question "the conceptual accounts of HRM". He argues that

"From the evidence it would appear that the preoccupation among both managers and researchers with explicitly formulated, codified HRM policies is a position for which there is neither sufficient theoretical nor empirical justification".

Mueller's answer to this situation is an evolutionary resource-based theory which includes the following propositions:

The development of strategic human resources "happens as a slow, incremental, evolutionary process that requires patience [and] is facilitated by 'persistent intent' ". It crucially depends on
"underlying processes of skill formation" and existing "spontaneous co-operation". It is more efficient the more "HRs work in concert with other resources".

Mueller sometimes seems to forget the talk about sustained competitive advantage and discusses the general development of "strategic human resources". If this is intended as a synonym for sustained competitive advantages, then we come back to the point made earlier concerning the causal ambiguity and social complexity of the processes involved. How could researchers then explain and managers know what to be "patient" with, how to "facilitate" such development, and what "underlying processes of skill formation", "spontaneous co-operation" and tacit knowledge to draw upon?

(1) As yet, there is not much evidence, nor conceptual argument, as to what "daily forms of bargaining, exchanges, tit-for-tat, negotiations and resistance", are part of the causes of (sustained) competitive advantage.

(2) Not to mention that there is not much evidence as to what type of HRM policies and practices are necessary to support such phenomena.

Mueller thus potentially has a similar dilemma as the earlier authors. He also wants to preserve the idea that management is important and that HR policies play a necessary role in the "tapping of the organisation's hidden reservoir". He says that

"even if formalised HR exercises are insufficient for the creation of [strategic advantages], they can still perhaps play an important role in conjunction with other changes or already existing resources".

One interpretation of Mueller's idea is that the evolutionary resource-based theory downplays the causal
ambiguity and social complexity involved, and thus rejects the RBV outlined by Barney. Mueller's arguments would seem to suggest that the resource mobility barriers are to some extent evolutionary (i.e. arbitrary) and temporal factors. The development of competitive human resource advantages is a time consuming, somewhat idiosyncratic process. The idiosyncracy has a lot to do with the essentially complex and non-identical relationships between actors and systems, between agency and structure.

The evolutionary aspect of the processes means that management cannot have full control of the creation of the advantages. But it can perhaps make them possible by persistent attempts. In this framework there is no principal theoretical problem with the view that once advantages have emerged they can be further managed, nurtured, developed as well as explained. However, the analogy to natural evolution requires the following emphasis. "Natural" biological phenomena, when emerged and to the extent that they are stable at all, are arguably supported by sustaining processes continuously at work: In a parallel fashion, in particular in a turbulent, dynamic and expanding world like that of organisations, social phenomena seem not to be stable in and of themselves.

Rather it would seem that e.g. in order for (complex) social advantages to sustain, they would need active social nurturing just to continue to exist. And the possibility of this, in the case of highly dynamic social phenomena, would seem to depend on our knowing what produced or produces them. Thus, for explanatory purposes we have to be able to determine the evolutionary processes that were involved in the emergence of particular advantages.
Strategy of People-centred Management

Companies will set themselves apart in the 21st century by how well they optimize the human-centredness of their technology. An important issue in today's global business environment is staff retention. Without staff, integrated well into the company and contributing their maximum effort, success is short-term. Problems, particularly with personnel, have knock-on effects causing problems with training, planning and strategic decision-making. It makes sense, therefore, to carefully consider why people leave companies and why they stay.

When set in a global context, this becomes even more complex and a multicultural approach has to be put in place. This has to be done not just with company profits in mind, but with the interests of the individual who comprises this valuable workforce carefully addressed. Respect for people has to be genuine and not just another human resources exercise designed as a cosmetic gloss on driving human endeavour further. Person-centred management is a way of leading others that takes the individual's needs and aspirations into consideration, within the context of long-term benefit to the company. It offers managers and employees alike the opportunity to create an organizational environment where the full contribution of each member of the group is allowed, encouraged and supported.

In essence, people-centred management provides the organization with a natural capability to tap into the hidden potential of all employees and enables the organization to create a new culture of excellence. According to Gratton, there are three key elements to creating a living strategy, namely a vision of the
business, an understanding of current capability and a cluster of people process levers.

Collective Understanding and vision

The first element, a collective understanding and vision of what the organization is capable of achieving (expressed as short-term goals and a long-term vision), gives energy to the system. This collective understanding and vision has the potential to create a focal point for activity that is engaging and inspirational. At the heart of this is a wide group of people who have shared their view of the future and arrived at a common understanding of what the future could be.

The energy and inspiration of these goals and visions drive the whole system. Browne says that creating a vision for an organization is highly creative. While it requires participants to have experience and knowledge about their organization and business trends, visioning itself requires imagination. Visioning asks participants to see the future, to see the invisible. Visioning requires people to suspend reliance on logic and rational thinking and to imagine and then create a desired future state of their organization.

Understanding current capability

The short-term business goals and long-term vision create a broad strategic agenda and an understanding of where the organization should be heading. To make these goals a reality, there must be a more clearly defined awareness of what has to be achieved. The pathway of action comes from the second element, the gap analysis, which creates a deep understanding of the gap between current
capability and the desired state. The extent of the gap is the basis for a shared understanding of what needs to be achieved.

*Cluster of People Process levers*

For most organizations there is a dominant short-term cycle, which follows the annual cycle of business planning. This short-term cycle focuses on the rapid realignment of the business as the needs and aspirations of the business change. The energy of the short-term cycle comes from a collective agreement about the goals of the business, and an understanding of the capability of the business to deliver. Organizational capabilities and resources include the skills and motivation of the individual members of the organization, and the capability of the organization to deliver to the short-term business goals.

From this understanding comes the short-term people strategy, which focuses on those short-term actions that will be necessary to fine-tune the delivery of the goals. According to Gratton, there are five possible process levers that can be realigned to meet subtle, annual adjustments in the business goals. They are recruitment and selection, performance objectives, performance metrics, reward and recognition and short-term training.

In the space of one year, it is possible to refocus the recruitment and selection criteria and processes to rapidly bring and promote the skills, capabilities and behaviours required by the current business goals. Changing the competency profiles for key roles sends strong messages about what is valued. The rapid deployment of skills and talent into the organization can have a crucial impact on
the delivery of short-term goals, but the systematic selection and retention of a stable and committed pool of talent cannot be achieved in the short term.

The first step in providing a context that defines performance expectations is to deploy and agree performance objectives that focus energy and key tasks on delivering the business goals. Creating this vertical alignment between the business goals and individual performance creates a strong sense of shared meaning.

Performance can be realigned around business goals by creating performance metrics that measure, highlight and communicate these business goals. These metrics are the means by which the contribution of the business unit to the organization can be recognised. Creating a broad understanding of performance is crucial to understanding the state of the system and to improving organizational learning.

Realigning the reward processes reinforces the business goals and makes known those behaviours that support the business context. Reward and recognition can be one or one greatest sources of leverage available to a company in its quest to increase organizational performance and effectiveness.

Within a relatively short time, it is possible to bring new skills into the organization, to realign the objectives and metrics, and to reshape the reward mechanisms. It is also possible to increase the skills and competency base through focused, skills-based training and coaching. Short-term, business focused training is an important tool in creating the flexible and multi-skilled workforce crucial to delivering short-term business performance. Short-term training and development is as much about participating in challenging jobs as off-line training. The
short-term cycle is capable of making adjustments to meet the needs of changing business goals.

The organization also operates in a longer-term cycle of three to five years, though. Within this span of time, more significant changes take place. The longer-term timescale reflects the development of the knowledge base of the company, created through management skills and competencies. It is the timescale for building relationships and sharing through networks and teams, and for the development of trust and inspiration. The levers of structural change, leadership development and a basic realignment of skills are not levers that bring instant results. They reflect the human timescale that operates over many years.

According to Gratton, the long-term cycle is a mirror image of the short-term cycle. The long-term cycle has at its core those levers crucial to the organization. These levers' complexity and scale require continued management commitment over many years. There are three important people processes that support the delivery of a longer-term vision, namely transforming leaders, transforming the workforce and transforming the organization. The characteristics of leadership development that are aligned to the business strategy are (1) the articulation of those leadership competencies that will be crucial to the future, (2) the capacity to identify young people with the potential to develop these competencies, and (3) a range of developmental experiences capable of supporting these leadership competencies.

The contribution of leaders in creating a sustained competitive advantage is well understood. But, as companies decentralize and push responsibility through
to teams, and as the customer-focusing roles become crucial, there is increasing awareness of the crucial role played by the inspiration and skills of people (with tacit knowledge of the organizational procedures or customer needs) in all key roles. The process that transforms the skills of the workforce to meet future needs takes many years of management commitment, resources and focus. At the core of this commitment are an understanding of what future skill requirements will be, and a portfolio of development opportunities capable of reinforcing these skills. The challenge is to create career paths and development opportunities capable of providing hope for the future and pathways to the organization's vision.

The long-term transformation of the organization complements the transformation of the workforce and leadership. It provides the context in which work will take place. Transformational capability depends on the ability to understand and articulate what will be appropriate in the future. It also depends on an ability to manage the changes associated with transformation. This is again dependent on project management and change management skills among a significant number of managers.

According to Gratton, there are six steps to creating a living strategy, namely:

**Step I: Building a guiding coalition**

The first step in creating a living strategy is that of building a guiding coalition. In creating credible and involving visions we need a leadership cadre prepared to state where they see the organization going, combined with broad involvement of a wider group who can bring ideas, inspiration and, ultimately, the energy for action.
Involving people throughout the organization provides an opportunity to create a broad view of the future, allow collective dreaming, and create trust and commitment through engaging and giving a voice to people regardless of grade or status.

There are five potential stakeholders in the guiding coalition, namely senior managers, team or line managers, the front-line operating core, younger members of the organization, and human resource professionals. Each brings a unique perspective and source of energy. Without each of these stakeholders the probability of success will be reduced. Building a coalition is a crucial first step in the process of putting people at the centre of strategy. If a broad range of stakeholders are involved from the very beginning, an organization can anticipate the following positive outcomes: (1) a broad range of views and ideas, (2) the beginning of a high-quality strategic dialogue throughout the organization, (3) the opportunity to really engage managers in the people side of strategy, and (4) the energy and support which will propel the actions which follow.

The underlying strength of a value-added human resource function is a business strategy that relies on people as a source of competitive advantage and a management culture that embraces that belief. Just as labour is a derived demand in basic economic theory, the demand for a strategic human resource presence is derived from the larger corporate or business strategy. While the underlying firm strategy drives the human resource function’s role, the manifestation of that strategic imperative is the commitment of the Chief Executive Officer to realise a strategic role for HR.
Buy-in from line managers is necessary for human resources to serve as a business partner, because line managers centrality of a people-based competitive strategy is reflected in the extent to which the company is willing to share confidential information. Buy-in also means that line managers are held accountable for HR issues in their performance reviews and bonus plans. For people-centred management to be successfully implemented, senior management must introduce and embrace it. It must also be visibly supported and continuously reinforced.

**Step 2: Imaging the future**

The first step in visioning a future is to review the plan for the visioning sessions and ensure that there is commitment regarding the time and resource implications. Secondly, describe the key business goals for the future: Use these as the entry into the visioning sessions. Thirdly, working in groups of about six, facilitate a discussion about the future in terms of the following factors: the leaders and top team, the structure, the culture and values, people processes, and the people. Ensure that the group has sufficient time to do this. Run parallel sessions so that each visioning group can present and test out their views on members of the other groups. Fourthly, remind the group of the rules of brainstorming and ensure that they record their thoughts on flip chart paper. Once the brainstorm is exhausted, encourage the group to focus their attention on strategic factors and assign them high, medium and low impact. Lastly, ask each group to present their ten strategic factors as a basis for debate and discussion.

Once the management commitment has been made, the process of introducing people-centred management
must be clearly communicated throughout the company. To accomplish this, the company philosophy and mission must be carefully defined to support the people-centred management commitment. The idea that people come first must be established as a corporate value in the same way that a commitment to quality, safety, and customer service is incorporated into the mission statement.

**Step 3: Understanding current capability and identifying the gap**

The visioning step creates a clear view of what the company can be. Strategic factors that will underpin the future are also defined. The next step is to understand where the organization is now, and to define the gap between the aspirations of the future and the reality of the present. To move from aspiration to action requires a thorough and shared understanding of the current reality of the organization. This involves a good understanding of the way the leaders work together and communicate their vision; the structure of the organization and how ideas are shared and decisions are made; the culture of the organization; the way in which the key people processes are embedded and operate deep within the organization; and the commitment, skills and inspiration of the people throughout the company.

Without this understanding of the current situation it is impossible to truly see the gap between the aspirations of the future and the reality of the present. Understanding the gap between future needs and current capabilities energises the group, focuses their attention and begins the hard, sharp discussion about priorities and resources. Without this agreement about the size and extent of the gap there is little clarity about the reality of
the current situation and the important issues for the future.

Understanding where you are now is crucial for developing a people-centred strategy. But it also has broader benefits to the management team. A full understanding of current capability is crucial to managing change over time. Without a sense of reality, the gap between rhetoric and reality can become dysfunctionally wide. Potential courses of action become clear when a diagnostic capability, particularly using the risk matrix, is built. The analysis of risk begins the discussion of priorities, where action should be taking place, and what has to be achieved.

**Step 4: Creating a map of the system**

Visions are engaging and exciting. They build enthusiasm and commitment, and they create momentum. But the excitement of a vision can pass like a dream. To become more than a dream, visions have to become solid, understandable and actionable. The risk matrix tool goes some way to distilling the essence of the dream and identifying those areas of the dream that need action. The challenge is to move from sequential thinking to dynamic thinking. The development of these system maps plays a crucial role by allowing participants to share their views on the key elements of the system, to model causality and to identify the relationships between these elements.

In doing so, the team can move away from static and sequential thinking to broader systemic thinking. These models of causality are crucial for distinguishing between means and ends. They clearly demonstrate the impact of failing to act on any one of these areas. These models should express the simplicity of the system in a
single diagram, in a manner that is internally consistent and understandable. The map of the future is a diagrammatic representation of what is in the minds of those who participate in the visioning sessions. The map reflects participants' aspirations; it is authentic, and can create commitment. But as a representation of the collective viewpoint it also contains the blind spots and short-sightedness of the group.

**Step 5: Modelling the dynamics of the vision**

The challenge is to create a bridge to the dreams of the future from the realities of the present. The strength and construction of the bridge will be crucial to the success of the endeavour. At this stage, the excitement and commitment to the road ahead has to be cultivated. This commitment begins by understanding what may happen as ideas turn into action.

When people are provided with clear messages that innovative behaviours are important and rewarded, when the structure in which they operate supports the sharing of ideas, and when they see risk taking encouraged, a creative culture and context will emerge. Building a dynamic map of the system requires a clear and agreed description of those forces operating for and against change and an awareness of how the forces for change can be increased and the forces against change decreased. This can be achieved only with an open discussion of the barriers in moving to the vision. This means that issues that are normally hidden must be brought to the surface. This capability for open dialogue is crucial. Without it the team cannot arrive at a shared diagnosis of what needs to be achieved, and without this shared diagnosis, they cannot craft the steps to achieve the common vision.
Step 6: Bridge into action

The continued involvement of broad groups of people is crucial. The energy of the journey can be sustained through the creation of cross-functional teams whose initial task is to make recommendations, and later to take action. The role of these task forces is clear: to create a more detailed description of what must be achieved; to identify the early targets and stretch goals; and to begin to identify how the progress of the theme could be monitored over time, the critical success indicators. These task forces are temporary structures designed to create a greater understanding of the current reality and to make specific recommendations for short- and long-term actions.

The emphasis here is on the ability to continuously realign. These groups of people are dealing with concrete and immediate business issues, but they are also focusing on how learning relationships and knowledge sharing produce the answers they seek. These groups must be seen not as a response to a crisis but as part of a constructive process of choice, learning, and growth. Business goals change as customer needs develop, as the business broadens its markets, and as technologies advance. It is not a one-off process with a finite life, but a continuous adaptation to changing conditions. This six-step process is about creating genuine adaptation, developing an organization that is permanently adaptable and flexible, and is involved at both the individual team and organization levels.

This six-step process is designed to build organizational capability by aligning individuals with a vision of what the business could be, realigning key processes around this vision, forming cross-functional
teams responsible for the continuing success of the project, creating centres of excellence to cultivate learning and ensure the renewal of the processes and measures, and finally, creating learning loops and learning events to capture and embed best practices.

People-centred management is an ongoing commitment that requires continuous management processes to sustain and continuously improve it. The goal is to institutionalize people-centred management so that it is integrated fully into the decision-making and thought processes of the company.