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PART I

HRM and organisational performance today

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1 *Crisis? What crisis?*

Every HR professional should be able to pass this one-question exam: how does your work add value to this business in economic terms?

(Ulrich 1997: 246)

HR has become an answer to a very important question, how can we improve a firm's financial performance?

(Becker and Huselid 2006: 907)

Let's face it. After close to 20 years of hopeful rhetoric about becoming 'strategic partners' with a 'seat at the table' where the business decisions that matter are made, most human-resources professionals aren't nearly there. They have no seat, and the table is locked inside a conference room to which they have no key. HR people are, for most practical purposes, neither strategic nor leaders.

(Hammond 2005: 40)

These are heady days for the human resources department. Consider for a moment the magnitude of the debates over the war for talent, human capital management, intellectual capital and the centrality of intangibles in accounting for the competitive advantage of organisations, and you are left nothing short of awe-struck as to the commercial importance of the human resources (HR) department. Surely now we can claim HR is finally *at* the boardroom table and not *on* it, to paraphrase one of the leading publications of the now burgeoning field of measuring the link between HR and organisation performance – something we refer to as the *HRM–P link* (Becker *et al*. 2001)?

A decade after Ulrich's 'Bloody Question' at the beginning of *Human Resource Champions* (1997: 1), namely, 'should we do away with HR?', the HR department appears to have moved backwards in its bid for corporate recognition. The big-hitting business guru writers appear to agree. Rosebeth Moss Kanter has recently predicted

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'the demise of the HR function' (Moss Kanter 2003: xi), merely bringing to organisational fruition the warning sounded by Jeffrey Pfeffer over a decade ago in which he warned the HR function was 'entering a game where winning is unlikely and playing by the rules set by others exposes human resource professionals to the possibility of at best short-term victories and long-term problems' (1997: 357).

These long-term problems now appear to be coming home to roost. Despite the powerful discourse of Ulrich's *Champions* and the thriving emergent industry surrounding the business partner role in HR, major analyses of the function's standing in the boardroom suggest HR is at rock-bottom. A multitude of reports – academic as well as more practitioner-based – suggest that the strategic people agenda is not being met by HR. For example, the consultancy Deloitte recently established that despite executives placing heavy emphasis on strategic people issues, less than half of all major organisations across the globe have a HR director on their board (Deloitte 2007). More worryingly perhaps, their research also revealed only one in four executives believed HR was capable of contributing to strategy formulation and delivering operational results.

A clear gulf has emerged, then, between the executive agenda for HR and those charged with the responsibility of its implementation or 'operational HR' (Ulrich 2007). Whilst top executives grapple with the complexities of human capital management and measurement at the corporate level, the majority of HR staff are engaged in 'back office' administration, which, in turn, is increasingly being outsourced to and delivered by a specialist third-party provider at lower cost. Little wonder, then, that Moss Kanter (2003: xi) has suggested that 'the senior HR executive is not endangered, but the HR department is'.

Coming in from the cold

The HR department has not been slow to respond. A thriving industry has grown up around the measurement of HR's contribution to the financial performance of host organisations. Consulting houses such as EP First Saratoga at Pricewaterhousecoopers (PwC) and The Hackett Group offer HR practitioners the opportunity to effectively measure their way to credibility. This increasing emphasis on measurement can be seen as a direct response to competitive pressures,

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which in turn have brought about an increased focus on cutting costs in an attempt to improve profitability. Significantly, an organisational myth of 'doing more with less' has emerged around the measurement of HR: namely, successful organisations spend *less* on particular aspects of delivering their HR processes than under-performing organisations.

A strategic triad has now emerged where driving through gains in efficiency complements the more laudable leadership pursuits of increased quality and innovation. Many would argue increased productivity is nothing new. There has always been the pressure to grow earnings per share to satisfy the capital markets (Pfeffer 1997). What is new, however, is the ascription of *causality* to cost cutting in generating world-class organisations. The logic implied here is diminishing year-on-year expenditure on HR is indicative of successful executive management and its ability to leverage more from less. Less has in fact become more. The following is typical of the genre:

> Hackett's Book of Numbers™ research found that a significant cost gap exists between world-class and typical companies, with world-class companies now spending 25 percent *less* than their peers ($1,422 versus $1,895/company employee). World-class companies also now operate with 16 percent *fewer* staff (11.88 versus 14.11 HR Staff/1,000 employees). (The Hackett Group 2007, emphases added)

As increasingly available information has driven down some of the transaction costs within organisations (e.g. Davenport 2005), vertical integration is now giving way to dis-integration as executives build interdependent ecosystems of extended organisations in an attempt to shift costs away from delivery to new growth platforms (Demos *et al.* 2001). Where cost cutting was once a means to a strategic end, it has now become a strategic end in itself in the eyes of many executives.

The impact of profits earned on sales can be enhanced or 'leveraged' if fixed operating costs can be reduced. The cost of people to an organisation is increasingly the largest fixed cost on the company's balance sheet (e.g. see Barber and Strack 2005).[1] It follows from this that a reduction in the costs of people can enable greater flexibility to executives to obtain higher levels of operating leverage. The pressure brought to bear on executives' abilities to meet such demands through benchmarking is now staggering. So much so that a failure to keep

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downward pressure on costs is distinctly career-inhibiting to executives. In the words of one influential commentator, 'costs above the 90th percentile might be perilous to ignore' (Ghemawat 2007: 62).

New models of delivering HR services via technology-enabled Enterprise Resource Planning (ERP) systems have opened up new financial models and accounting opportunities to quite literally turn what are fixed (internal employee) costs to variable (external or third-party provider employee and service) costs through outsourcing. Paying third-party providers on a per-transaction-delivered basis, rather than a fixed salary for employees, affords executives major productivity gains and frees financial resource to be leveraged in different parts of their businesses, at least in theory (see, for example, Williamson 1975). Where the HR media sees such developments as an affront to the durability of HR's long-term professional status, executives see an external market for capabilities triggering them to ask questions as to what really is 'core' to their organisation and what of that which remains is 'peripheral' and can be pushed out into 'extended organisations' with which organisations partner to deliver services at agreed prices and levels of quality (Aron and Singh 2005).

Moreover, executives can now increasingly scale or 'commoditise' processes and capabilities to such an extent that many more complex services previously thought to be incapable of being outsourced in HR are now under the spotlight (Hesketh 2006, 2008a). For Davenport (2005: 102), 'a new world is coming, and it will lead to dramatic changes in the shape and structure of corporations [as] a broad set of process standards will soon make it easy to determine whether a business capability can be improved by outsourcing it'.

Enter the academy

It is the shape and structure of organisations where debate over the future of the HR department has been at its apex. Academic debate has recently switched course away from establishing a link between a particular human resources management practice and performance in favour of establishing the best 'fit' between different bundles, systems, strategic capabilities or architectures of HR processes that implement strategy and form the basis of HR's contribution to competitive advantage (cf. Becker and Huselid 2006: 899).

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Significantly, this recent shift to HR's role in the development of strategic capability and competitive advantage stems from the belief amongst academics that the debate over the causal link between HR and organisational performance is deemed to have been won. Scores of studies now exist claiming to have 'demonstrated statistically significant relationships between measures of HR and firm profitability', or some other measure of performance (Wright *et al*. 2003: 21). There is a remarkable agreement here between studies generally supporting a pro-business agenda, and studies supporting a pro-employee agenda – both wings appear to have a vested interest in demonstrating statistical associations between the ways people are managed, and the organisation's performance. This means that the search for this statistical association crosses the organisational political divide. Brian Becker and Mark Huselid (2006: 921), two highly influential authors in both the academy and advisory worlds, reflect upon the current state of affairs:[2]

> To a substantial degree, managers now 'get it' and do not have to be persuaded that the quality with which they manage the workforce has strategic impact. What they now need is help in understanding how to generate and sustain those potential returns.

It is at this point that alarm bells begin to ring. This is for at least three reasons. First, and as we have already flagged above, it is far from clear that senior executives 'get' the impact of HR. Much of the evidence aimed at this level of organisational management suggests the contrary is in fact the case. Second, if academic 'research has demonstrated statistically significant relationships between measures of HR and firm profitability', why then do practitioners still require help in understanding *how* HR generates returns? This is related to a third problem, namely the 'appliance of science' and the atrophied account it provides in relation to an *explanation* of how people unlock performance. As we will argue at length later in the book, research on the HRM–P link is dominated by what we will, for the time being, simply refer to as the 'scientific' approach. There is no harm in thinking of this as an approach that engages in quantification and measurement to obtain quantitative data, and then uses this data to test predictions via a battery of statistical tools and techniques. Despite its popularity, there are some, like us, who doubt the legitimacy of this

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approach. Not only do we think that this is a kind of spurious 'science' (hence we use scare quotations when referring to the 'scientific' approach), we also think this 'scientific' approach has serious shortcomings. The most important shortcoming lies in the fact that, whilst this 'scientific' approach might tell us *that* certain HR practices are positively associated with the enhanced performance of business units at different levels of an organisation, it does not explain to us – or to practitioners – *how* or *why* such practices enable the enhanced performance of people and the teams, units and organisations to which they belong. In other words, the 'scientific approach' states *that* a statistical relation exists; but it does not explain *how* and *why* such a relation exists. As one executive put it to us, 'we are still left twiddling our thumbs at our Monday morning meetings about *how* to improve performance through our HR'.

It will now be clear to the reader that we remain unconvinced about the veracity of the evidence deriving from the 'scientific' approach used to examine the link between HRM and organisational performance in helping managers with the everyday situations they find themselves in when seeking to improve the performance of their people and organisations. The primary reason for this concern revolves around the problems associated with what might be described as a very particular 'logic of science', or a 'scientific logic' that is at work here.

The logical song

Research on the HRM–P link carried out using the 'scientific' approach is rooted, ultimately, in a very specific notion of causality: *causality as regularity*. This notion of causality turns on the idea that if some event (event y) regularly follows some other event (event x), then some may assume that event x causes event y. It is not difficult to see how this translates into thinking about the HRM–P link. If increases in organisational performance regularly follow the introduction of some bundle of HRM practices, then some may assume that the introduction of the bundle of HRM practices caused the increase in organisational performance.

It is easy to see why this scientific logic strikes a chord with the HR community. A vast array of forces, accepting this logic, have been deployed on behalf of the HR department to protect it from wider executive forces (allegedly) keen to exert downward pressure on

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costs, on the one hand, or even challenge the department's very existence (e.g. Hammond 2005). Indeed, forces have also been deployed on behalf of employees to promote the idea that there is a business case for treating employees well – much of this is found in the literature on so-called High Performance Workplaces, and variants, e.g. employee engagement. Crucial to the deployment of these forces has been the use of this logic of science. This 'scientific' logic affords three advantages to those within the HR community who seek to justify the operational budgets of HR functions. First, the very discourse of 'science' and 'scientificity' is seductive in the sense that it captures the high ground – after all, those who challenge results that are arrived at 'scientifically' automatically gain the label of being 'un-scientific', or perhaps not quite understanding the science, or some such. Second, it places the massive volume of evidence at the disposal of academics, practitioners, consultants, advisors, policy-makers, union negotiators and executives, seeking to justify the operational budgets of HR functions.[3] Third, it heads off any potential charges of 'special pleading' by those with an interest in maintaining the HR department. In short, almost all stakeholders, it seems, have a vested interest in accepting the logic of science that provides the quantitative data that in turn provides evidence of an HRM–P link.

What little debate around the use of 'science' there has been, has generated more empirical heat than theoretical light. Not that you would be afforded even the faintest of whiffs of doubt as to the veracity of this data by advocates of the particular scientific logic underpinning research on the HRM–P. For example, drawing together the now four decades' worth of research in the field, Becker and Huselid (2006: 906–7) present the evidence everybody in HR wants to hear, whilst at the same time, employing the seductive discourse of 'science':

> [N]on-economists are influential when they, too, make 'novel prescriptions that are relevant to the marketplace' by focusing their research on 'economic outcome variables' (Bazerman, 2005: 27). This observation is particularly applicable to [Strategic Human Resources Management] research. For example, on the basis of the results of five national surveys between 1991 and 2000 and data collected from more than 3,200 firms, we have estimated that 'the effect of a one standard deviation change in the HR system is 10–20% of a firm's market value' (Huselid & Becker, 2000: 851). More broadly, in a meta-analysis of 92 recent studies on

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the HR-firm performance relationship, Combs, Ketchen, Hall, and Liu (2006) found that an increase of one standard deviation in the use of high-performance work systems is associated with a 4.6% increase in return on assets (ROA).

Contrary to the perceptions held by wider HR practitioners, this 'scientific' research has not taken place in a vacuum. Indeed, the media serving the HR world has been as equally quick to celebrate 'evidence' claiming to have found the 'Holy Grail' of a causal link between HR and organisational performance (e.g. Peacock 2008) as the wider business media has been to attack HR for a lack of 'convincing evidence' to support its business case (e.g. Donkin 2005; Hammond 2005). Nor has the academy been slow to recognise its opportunity in this malaise. As the debate over the utility of output from the academy to business rages on both sides of the Atlantic, leading scholars in the HRM–P link field have seized their opportunity. Turning to Becker and Huselid once again, 'financial effects such as an *x* percentage change in shareholder value or *y* percentage change in *ROA provide a compelling external validation to results that otherwise are simply "statistically significant"*' (2006: 907, emphasis added).

Note the italicised section. There is a view that the majority of chief executives do not require convincing over the much used, if now slightly cliché, axiom that 'people are their most important asset' (e.g. Cheese *et al*. 2008; Gratton 2000). But the majority of their boardroom colleagues do. What the research findings referred to by Becker and Huselid are really being used for, then, is to settle political debates within organisations over *who* should *own* HR architectures, *what* should be delivered and its *impact*. The logic of science is, paradoxically, both implicit and hidden, and explicit and centre stage in terms of establishing the veracity of the claims made by people at the echelons of organisations on both the positive and negative views over the link between HR and improved firm performance.

Two worlds, two takes, same problem

Servicing this organisational clamour for scientific validity has seen an endless stream of new ideas, formulas and paradigms in which emerging 'gurus' or 'fads' thrive with varying degrees of success in a world comparable to medieval medicine. It is not just the capacity

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of the academy and management consultancy business to continually construct and re-construct these new solutions that is staggering. Almost as amazing is the regularity with which organisations, their leaders and shareholders, if not beleaguered employees, continue to forgive the 'Jesuits of Capitalism' for their continued failings. Both the academy and consulting sectors have attempted to provide organisations with new solutions to answer the challenge set by Dave Ulrich: namely, to demonstrate not what HR does, but what HR delivers (cf. Ulrich 1997: vii). Claims and counter-claims are regularly exchanged between the two camps.

For the academy, the turn to the logic of 'science' has enabled researchers to jettison subjectivity, objectively scrutinise and largely refute the measurement products offered by the consultants, whose dazzling array of 'performance-transforming' interventions are dismissed as nothing more than effective storytelling which do not 'necessarily and immediately modify the actions of [their] audience, but ... alter their *beliefs, attitudes* and *feelings* towards [their] suggestions' (Huczynski 1993: 245, original emphases). The role of the academy in HR, then, has essentially been one of challenging the accuracy of fads and gurus and, 'establishing the credibility of HR as a science' (Dipboye 2007: 96). Such a task for the majority of academics working in the HRM–P field has meant dealing with 'the "black box" that describes the strategic logic between a firm's HR architecture and its subsequent performance' (Becker and Huselid 2006: 899). In short, to inject scientific evidence into what has largely been a rhetorical debate over the role of HR in driving the performance of organisations.

A staggering array of research papers, chapters and books now pervade the HRM–P debate. Almost without exception this work deploys the 'scientific' approach. A number of different schools within the field have emerged, each with a slightly different perspective on the side of the equation which brings together different HR systems and architectures, but nearly always the same dependent variable: the headline financial performance of the firm. There are slight variations in both independent and dependent variables, whether in terms of slightly different types of, and combinations between, HR processes, or the performance of business units in terms of productivity measures or self-reported performance, the latter of which is seen to be highly problematic (e.g. Wall and Wood 2005, for a discussion). Indeed, acknowledging the vast multitude of problems associated with using

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