ABSTRACT

The management of the organization has always been interested to improve the human resource (HR) practices and policies to improve the performance of the organization. One of the multiple ways to meet this objective was using “best practice” and “best fit” approaches. The main idea is if there is “one best way” of HR policies or there are “many best ways” in order to have a better organizational performance. The two concepts have been applied in the context of developing the role of the HR department into a strategic department so that the HR policies have become “strategic”. Analyzing the two approaches, the article will emphasise the need to have both horizontal and vertical fit inside the organization. HR practices, be it an import of “best practices” or a “fit” to the internal and external context of the organization, need to take into consideration the culture of the organization since it can have an significant influence on motivation, satisfaction and membership of employees, thus ensuring a positive impact on performance.

Keywords: HR Practices; Organizational Performance; HRM Approaches; Strategic Alignment

INTRODUCTION

This article sets the idea of a link between HR policy and organizational performance. Specifically, the first part introduces the concept of organizational performance, taking into consideration different approaches in understanding HR, as “best practice” and “best fit”; while the second part particularly analyzes those two views. The final section argues that although difficult to measure, different HR practices as well as the culture of the organization have an important influence on motivation, satisfaction and membership of employees, thus ensuring a positive impact on performance.
In discussing the link between SHRM and organizational performance, we have to ask whether strategic human resource management is really strategic? Analyzing the relationship between human resource management (HRM) and the strategy of the organization, it can be argued that both horizontal and vertical fit are needed. The fit between firm strategy and HRM strategy can be determined by the characteristics of the strategy type and consistent HRM practices. The key argument to answer this question has to take also into deep consideration if there is “one best way” to implement HR strategy or there are “many best ways”. During the last 15-20 years, human resource management has gained a strategic importance in different organizations, which consider that their human capital will contribute to the continuous competitive advantage of the firm.

**OBJECTIVES**

This research paper aims to achieve the following objectives:

1. To review the various Human Resource Management Approaches and their fit to the organization.
2. To investigate the aspect of alignment between HR Strategy and overall Organizational Strategy.
3. To examine the strategic role of HR and its influence on organizational performance.
4. To provide recommendations regarding the better implementation HR Practices and Approaches for improved organizational benefit.

**Organizational Performance**

Human resource activities are claimed to be related to the performance of a firm. However, the specific form of this relationship is still open to debate and there is little agreement on how to evaluate this influence that human resource management has into organizational performance. Although this, HR has had the opportunity to prove, that it can contribute to organizational success through the development of a more strategic role, delivery of efficient services and the facilitation of organizational change, which are hard to measure, thus being evidence of SHRM but can be deduced from the overall development of the company. This means also that if other strategic departments of a company fail to provide success for the organization, the positive actions and role of SHRM is likely to be disregarded. The company’s development based on a growing demand (and concern for) the continuous improving of organizational effectiveness and profitability asks SHRM to be able to provide a large variety of solutions to some of the dominant questions being posed by corporate life. However, the answer HR can provide, seem to be totally different in organizations that have the same structure and working areas, only because, as we will see in this article, nor “best practice”, neither “best fit” were likely to provide absolute truth if not combined together.

Key element in discussions within HRM is the distinction between the so called best-practice and the best-fit approaches. Some say there are universal best practices in HRM (Pfeffer, 1994), others argue that there are only best-fit (Wood, 1999), stating that the effect of HR practices depends on the specific (internal and external) context. Different ways of understanding how Human Resource Management can play a strategic role into the organization and to evaluate if it can have an impact into the organization’s performance took into consideration two approaches. The first one, best practice, based on the belief that there is a superior set of HR policies, that applied into a wide variety of circumstances will improve the organizational performance. The second approach, best fit, took into consideration the idea that there is no universal prescription, it depends on the internal and external context of the organization and it is “contingent” upon organization.

**“Best Practice” View**

“Best practice” view suggests a “bundle” of policies, which combined together are likely to achieve better performance than making changes to individual practices only. Some authors (e.g., Pfeffer, 1994) believe that successful human resource systems have universalistic characteristics, i.e. there is a
“best practice” on how to handle the firm’s human capital. Others like Milgrom and Roberts (1995) argue, that the internal consistency of human resource systems matters for their design, i.e. and it is possible to detect successful combinations (or bundles) of human resource practices. According to “best practice” approach there is a set of successful HR policies that can be applied successfully in all firms no matter their activity area. Pfeffer (1994) developed a set of sixteen best practices reduced in 1998 to seven: employment security, selective hiring, self managed teams/team working, high compensation contingent on organizational performance, extensive training, reduction of status differentials and sharing information.

Although there is not unanimous agreement in identifying these practices, the literature agrees there are mutually compatible ‘bundles’ of HR policies that promote high levels of employee motivation and commitment that positively impact on organizational performance. On the other hand, other researchers have underlined the importance to avoid “deadly” combinations, for instance: individual performance pay and team working (Delery, 1998).

Both approaches, „best practice” and „best fit”, believe that HR practices should be complimentary. However, according to Purcell (1999), ‘…what is most notable about the best practice model is there is no discussion on company strategy at all.’ The main idea of this view is that organizations adopting a set of best practices attract super human resources, talent and competencies. “These superior human resources will, in turn, influence the strategy the organization adopts and is the source of its competitive advantage”. (Milkovich & Newman, 2002).

Guest, (et al., 2003) in a survey of 366 UK firms discovered that greater use of HR practices was associated with lower labour turnover and higher profit per employee, but not with higher productivity. He also suggests that although the association between HR practices and organizational performance is confirmed, there is no evidence to show that the presence of HR practices causes a change in performance. ‘Best practice’ advocates claim that there is a bundle of HR policies including the reward system that lead to highly motivated and committed employees who are the key to an organization’s competitive advantage.

The best practice theory has also some problems. For instance Boxall and Purcell 2003 question the recipient of best practice. Who is to benefit from it, the employee or the employer? Is there room for an employee voice in this discussion or is the emphasis simply on the perspective of shareholders and managers? According to Pfeiffer (1998), “Although labour markets are far from perfectly efficient, it is nonetheless the case that some relationship exists between what a firm pays and the quality of the workforce it attracts.” Best practice supporters place great emphasis on the need to attract and retain the type of employees that will help an organization to gain and sustain competitive advantage, which could be achieved through externally competitive pay levels. Marchinton and Gruglings (2000) consider that best practices like teamwork and performance-related pay, that seem attractive, may not offer universal benefits as they could actually lead to work intensification.

As ‘best practice’ advocates positively value low turnover, MacDuffie (1995) working on the idea of the bundles of HR practices, argue that this practices need to be combined and just taking one or two is likely to be ineffective or as Arkinson 1984 emphasis, best practices will not be the same and employees would be treated differently based on how central they were to the core of the firm. As a scarce strategic resource core employees and managers must be carefully allocated and continuously developed. Also, since traditional sources related to markets, financial capital, and/or scale economies is weakened by globalization, effective management of human capital may possibly be the significant determinant of firm performance (e.g., Edvinson & Malone, 1997), but if so, that means we will have different best practices for different employees in the firm, which isn’t exactly the meaning of best practice theory. On the same time if all companies adopt these practices, how can they all achieve competitive advantage or can the same practices work in totally different companies’ with different strategy and culture?
“Best Fit” View

As other questions seem to put a border to the idea of universal best practices, another approach seem to take its place. This approach, the „best-fit“, suggest that the firm’s human resource system should be contingent on contextual factors and the effectiveness of HR practices depends on their fit with both external and internal context of the organization as there is no universal prescription that can be applied no matter this context. Based on a psychological and socio-cultural framework, HRM actors and activities are viewed as elements in complex ecosystems and economies. If human resource practices would be more consistent, i.e. there would be a higher degree of “horizontal fit” (Delery & Doty, 1996) for the firm to be efficient. Also, the firm’s effectiveness depends on whether it has aligned its human resource management practices (Baron & Kreps, 1999) with its choice of strategy and with the environment within which the firm operates, i.e. there is a “vertical fit” (Fombrun et al., 1984; Delery & Doty, 1996).

Wood (1999) makes a distinction between four different ‘fits’: internal fit, organizational fit, strategic fit and environmental fit. But what it seems to be missing is the fit between how the employee perceives HR, practices and whether that perception aligns with the values and goals of the organization. This problem was also raised in regards to best practice, is it best practice for the organization or for employee? In both cases the approach seems to suffer from the employee perspective.

The different views about best fit were centered on the inner or the outer context that influence HR. Kochan and Barocci argued that HR practices needed during the start up phase are quite different from those needed during growth, maturity and decline, while Porter (1980) suggested that HR policies work best when they are adopted to the competitive strategy and are more likely to be source of competitive advantage. Focusing on the same idea Miles and Snow (1978, 1984) and Jackson (1987), exemplified that a strategy based on cost leadership will result in minimal levels of investment in human capital with law standards for recruitment and poor levels of pay and training whereas a strategy based on differentiation, calls for HR policies that encourage risk taking and cooperative behaviour.

On the other hand the size of the organization is important as for larger organizations with multiple hierarchy levels will be more difficult to replicate their HR policy at all levels but they will have more resources needed to invest in formalized HR practices in recruitment or reward. But if all is contingent to context and culture, does that mean that poor HR practices should be used in order to achieve performance? The best fit approach suffered also multiple criticisms in the literature. For instance, if the external environment changes, should firms keep changing their policies to fit with it? Purcell (1999) argued that firms seeking for best-fit are effectively chasing a “chimera”, that is why a company should be able to have both fit and flexibility to move to other best-fit and adapt easier to different internal and external context.

In order to achieve internal consistency, the different elements of the HR architecture should be characterized by being “organic” or “mechanistic” as presented in the next Table that shows a hypotheses concerning the fit between overall HRM system characteristics and strategy type (Andersen T, Eriksen B, Lemmergaard J, Povlsen L, 2006). They also argued that the overall focus of organic HR systems is to meet demands for change, skill enhancement, and growth while the overall focus of mechanistic HR systems is to meet the demands for operational results, stability and skill utilization as a small deviation from an ideal HR architecture will lead to a small misfit, i.e. a small negative performance deviation, while a large deviation will lead to a large negative performance deviation, thus the cost of deviation increases with the size of the deviation.
Table 1. Fit between HR Architectures and Strategy types

<table>
<thead>
<tr>
<th>HR Architecture</th>
<th>Defender</th>
<th>Analyzer</th>
<th>Prospector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mechanistic</td>
<td>Fit</td>
<td>Minor misfit</td>
<td>Misfit</td>
</tr>
<tr>
<td>Mix of organic and mechanistic elements</td>
<td>Minor misfit</td>
<td>Fit</td>
<td>Minor misfit</td>
</tr>
<tr>
<td>Organic</td>
<td>Misfit</td>
<td>Minor misfit</td>
<td>Fit</td>
</tr>
</tbody>
</table>

Andersen, Eriksen, Lemmergaard and Povlsen also suggest that if the firm chooses an HR architecture that does not fit with its strategy, misfits will appear as depicted in this Table. The potential misfits are greater for defenders and prospectors, since prospectors can choose very mechanistic designs and defenders can choose very organic designs.

Boxall and Purcell (2003) argue that both streams – best practice and best fit – might be right each in their own way. Some basic principles like employee development, employee involvement and high rewards are universally successful, but the actual design of the HR practice depends to some degree on unique organizational contexts. The internal context - for example, the nature of the production system (e.g., assembly line) - might create restrictions with respect to the successful design of some HR practices (e.g., teamwork, performance related pay), but also the external context - for example, the legislation and trade union influence - might have a direct impact on the optimal HRM design. So the whole debate about universalistic best practices versus best-fit practices actually represents two sides of the same coin and both are relevant in exploring the linkage between HRM and Performance. (Paauwe J, Boselie J.P, 2005).

We suggest that there needs to be a fit between a bundle of HRM practices and the firm’s strategy, thus meaning that there are ideal types of HRM systems that fit with ideal types of strategies. HRM system as a system that is internally consistent and coherent is focused on solving operational problems and implementing the firm’s competitive strategy. When it comes about methods for measuring and valuating HRM, the absence of a widely accepted measure of the “high performance” HRM practices construct makes it difficult to compare findings across studies but there is a broad consensus that HRM systems includes rigorous recruitment and selection procedures, performance-contingent incentive compensation systems, management development and training activities linked to the needs of business, and significant commitment to employee involvement (e.g. Arthur, 1994; Huselid, 1995; MacDuffy, 1995; Pfeffer, 1994).

But linking HR policies with the organizational performance has been one of the most difficult challenges for practitioners. Although it could be argued that there is no need to question this link as it is obvious that it is very difficult to measure it, HR had to prove that the measures taken are effective and are of strategic importance for the organization. Most of the authors linked one part of HR, the pay, with organizational performance, as this equation is easier to measure in terms of financial investments in rewards, the costs and the change in performance and is the only one that really matters for the manager’s and shareholders. Wagner (1990) claims that a primary concern in the design of reward systems is how well the plan will work in motivating employees? Lawler (1995), states that “perhaps the most obvious connection between reward systems and culture, concerns the practice of performance-based pay”. A strategy of linking pay and performance implies a performance-orientated culture. Pfeffer (1998) adds to this debate and states that long-term commitment can be achieved through more rigorous recruitment and selection and greater investment by firms in training and developing their work force. These are combined with an externally competitive reward system that emphasizes group and collective contingent compensation linked to organizational performance over individual incentives. The combined practices help organizations to attain and maintain the culture of mutual commitment. This drive us to the conclusion that although managers usually link only reward with performance, in order to appraise HR effectiveness, it is absolutely necessarily that other HR practices, like those mentioned before, to be added to the reward scheme so that this could reach organizational strategy targets and top managers requirements as, not only pay but also, training and
continuous development, working environment or culture have an important influence on motivation, satisfaction and membership of employees.

CONCLUSION

Since firms can chose many strategies for enhancing or creating added value based on the specifics of their situation, it could be suggested that a contingent view on the fit between SHRM and the strategy of the company is appropriate. But taking into account the key points of both „best fit” and „best practice” and also their weakness in being universally successful, it has been argued in this article that the type of climate and the system of HR practices must be aligned with each other and must be aligned also with key organizational contextual variables, such as business strategy, internal attitudes of the workforce or external environment along with using different models of best practice. The article addressed also the idea that different HR practices combined with a competitive reward scheme can have a positive impact into organizational performance and added value, thus ensuring HR a strategic role in a firm’s decision making. There cannot be a single universal set of best practice that can give positive results in any circumstances, but on the same time, having as a base for the organizational strategy only the adaption to the situational context is a wrong decision. A balance between the two options with importing the best practice available for a specific case and adapting those practice to the context is a strategy that in more likely to bring success to the organization.

REFERENCES


