

Challenging 'strategic HRM' and the relevance of the institutional setting

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One of the more fundamental aspects of the ongoing debate about the added value of HRM relates to 'best' practice versus 'best-fit'. Best practice suggests the universal success of certain HR practices, while best-fit acknowledges the relevant impact of contextual factors. We argue that differences in embeddedness and in institutional settings between, for example, countries affect the nature of HRM. To understand this phenomenon, we are in need of additional theory. In this article we will use the theory of new institutionalism as a better way to understand the shaping of HR policies and practices in different settings. After a concise review of the latest debates in the area of strategic HRM, in which the resource-based view is the dominant perspective, we turn to an analysis of HRM in different institutional settings, which suggests the need for additional theory: ie new institutionalism. We offer propositions to explain the impact of different institutional mechanisms, including coercive, normative and mimetic ones, on the shaping of HR policies and practices in organisations. The remainder of the article then focuses on possible implications for practitioners, theoretical implications for future research, and challenges for strategic HRM.

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Strategic HRM has gained both credibility and popularity over the past decade, specifically with respect to its impact on organisational performance (*see, for example, overviews by Delery and Doty, 1996; Guest, 1997; Paauwe and Richardson, 1997; Boselie et al, 2001*). According to Delery and Shaw (2001), there is general agreement that '(1) human capital can be a source of competitive advantage, (2) that HR practices have the most direct influence on the human capital of a firm, and (3) that the complex nature of HRM systems of practice can enhance the inimitability of the system'. What are the theoretical foundations of strategic HRM as we know it?

Wright and McMahan (1992) provide a useful overview of a range of possible theories that might help explain the link between HRM and organisational performance, including, for example, transaction cost theory, agency theory, resource dependence theory, behavioural theory and institutional theory. Reflecting on the past decade we conclude that the resource-based view has become the dominant theory in the debate on strategic HRM and on how human resources and related HR practices can have an effect on firm performance. In the resource-based view (*eg Wernerfelt, 1984; Barney, 1991; Grant, 1991*) the emphasis is on gaining sustainable competitive advantage by means of effective and efficient utilisation of the resources of an organisation.

Resource-based theory led to a change in strategic management thinking from an 'outside-in' approach – with an emphasis on external, industry-based competitive issues (Porter, 1980) – to an 'inside-out' approach (Baden-Fuller and Stopford, 1994), in which internal resources constitute the starting point for understanding

organisational success. Authors such as Paauwe (1994), Wright *et al* (1994), Huselid (1995), Kamoche (1996), Boxall (1996) and Wright *et al* (2001) have specifically applied this theory to the field of HRM, positing that it is people who encompass the properties of value (they contribute to firm efficiency or effectiveness), rarity (they are not widely available), inimitability (they cannot easily be replicated by competitors), non-substitutability (other resources cannot fulfil the same function) and non-transferability (they cannot be purchased in resource markets) which, according to Barney (1991), are the necessary conditions for organisational success. According to Oliver (1997: 697), 'It is the rational identification and use of resources that are valuable, rare, difficult to copy and non-substitutable, which lead to enduring firm variation and supernormal profits.'

Firm heterogeneity in this context can be defined as the relatively durable differences in strategy and structure across firms in the same industry that tend to produce economic rents and a sustainable competitive advantage (Oliver, 1997). Rents are above-normal rates (Mahoney and Pandian, 1992) and sustainable competitive advantage is the implementation of a value-creating strategy that is not susceptible to duplication and not currently implemented by competitors.

Reasoning from an HR perspective, the condition of 'not easy to imitate' is one of the most important. According to Barney (1991), firm resources can be imperfectly imitable for one or a combination of three reasons: the ability of a firm to obtain a resource is dependent on unique historical conditions, the link between the resources possessed by a firm and a firm's sustained competitive advantage is causally ambiguous, and the resource generating a firm's advantage is socially complex (Dierickx and Cool, 1989).

As firms evolve, they pick up skills, abilities and resources that are unique to them, reflecting their particular path through history (Barney, 1995: 53). This is especially true of a firm's human resources – employees who are recruited, trained and who become part of the specific organisational culture and network. Causal ambiguity refers to the linkage between thousands of small decisions and how these have shaped a competitive advantage. Again, human resources and the way their competencies have been formed are also subject to numerous small decisions and events, which have contributed to a specific pattern of capabilities. This is a pattern not easily understood by outsiders. Finally, social complexity refers to HR-related characteristics such as teamwork, interpersonal relationships among managers, cultural tradition and networks.

According to Delery and Shaw (2001), the resource-based view (RBV) affords the researcher several advantages in investigating the strategic nature of HRM:

- Its focus is on competitive advantage from the perspective of inimitable (human) resources that are less visible or transparent in contrast with, for example, technological and physical resources.
- Its emphasis on the complexity of organisational systems in determining competitive advantage, related to the bundles and systems approach to HRM research.
- Its concern with sustained competitive advantage or profitability at firm level, whereas other theoretical frameworks focus on behavioural outcomes (*eg* behavioural perspective) or internal efficiency issues (*eg* transaction cost and agency theories).
- Its breadth can be applied to a variety of research issues.

The authors acknowledge criticisms of the RBV approach, particularly that it does not meet the standards for a true theoretical perspective and contains several tautological elements. The most recent debate in this area is the critical evaluation of the RBV by Priem and Butler (2001) and the reply of Barney (2001). Priem and Butler (2001) put forward two elemental questions:

- 1 Is the foundation and unembellished RBV actually a theory?
- 2 Is the RBV likely to be useful for building understanding in strategic management?

Priem and Butler (2001) argue that Barney's (1991) framework is either paraphrased or simply cited by conceptual and empirical researchers, without augmented definition. There appears to be an underlying problem in the statement that value and rarity of resources lead to competitive advantage, because both the independent (valuable and rare organisational resources) and dependent variables (competitive advantage) are defined in terms of value and rarity (Priem and Butler, 2001). Therefore, RBV statements cannot be tested empirically. Other potential problems relate to: the lack of clarity with respect to the relationship between the independent variables (characteristics of organisational resources) and the dependent variable (competitive advantage), also known as the 'black box' dilemma; the static nature of RBV statements; and the simplified strategic analysis of the RBV with respect to the organisational environment.

The 'black box' issue refers to the 'numerous references to resources being useful, without careful attention when, where and how they may be useful' (Priem and Butler, 2001: 33). The static nature issue highlights the lack of attention to change over time in RBV models. One of the key questions related to this is whether successful organisations that created competitive advantage through unique resources would have been successful in all circumstances. Circumstances may differ in terms of, for example, time, configuration, country and branch of industry. Finally, Priem and Butler (2001) emphasise that, except for the work of Miller and Shamsie (1996) on the performance of seven major Hollywood film studios over 30 years, and the work of Brush and Artz (1999) on capabilities in the veterinary industry, there is no attempt to integrate the RBV model (inside-out) and prior contingency models (outside-in). The latter critique is also made by Oliver (1997), who states that the RBV often neglects the social context within which resource selection decisions are embedded (*eg* firm traditions, network ties and regulatory pressures). She also argues that the resource-based view has not addressed the process of resource selection in any detail – that is, how firms actually make, or fail to make, rational resource choices in pursuit of economic rents. Based on our own experience, the RBV is more suitable in explaining competitive advantage, based on path dependency and administrative heritage, in retrospect. It is less useful in predicting under what circumstances the specific resources of a company will generate a sustainable competitive advantage. Overall, the criticism is that the inside-out perspective tends to neglect the importance of contextual factors, including the Porter-based factors such as threats of market entry and threats of suppliers (Priem and Butler, 2001), as well as the institutional setting, which is particularly crucial from an HR point of view (Oliver, 1997). Hence, to understand why HR practices are what they are in different institutional settings, we are in need of additional theory.

DIFFERENT INSTITUTIONAL SETTINGS

Worldwide, organisations are confronted with different environmental constraints. These may be the result of fundamental differences between countries. Anglo-Saxon countries such as the US are less institutionalised with respect to the employment relationships, including industrial relations and HR issues, than Rhineland countries such as Germany, France and the Netherlands. For example, in the Netherlands, institutional mechanisms include the influence of the social partners, such as the trade unions and works councils, and of labour legislation relating to works councils, conditions of employment, collective bargaining, flexible employment and security, as well as agreements between social partners and government at macro level about how to fight unemployment, how to reduce the number of people entitled to disability benefits *etc.* Several of the well-known 'best practices' (eg Pfeffer, 1994) are institutionalised in Rhineland settings. For example, employee benefits are almost completely collectively determined in the Netherlands (eg Visser and Hemerijck, 1997). The differences between environmental constraints might also be a consequence of sectoral differences: for example, the contrast of traditional manufacturing organisations and emerging knowledge-intensive services organisations.

A number of European academics (eg Brewster, 1993) argue for a specific European IR/HR model as a counterpart to presumed US approaches. Those subscribing to this stream implicitly assume that US approaches cannot be applied in European settings and that, therefore, each institutional setting requires its own unique IR/HR model. However, we strongly believe it is more useful to develop an approach, such as in the field of comparative IR (eg Kochan *et al.*, 1984; Poole, 1986) that suits, and can be adapted to, different institutional settings. Taking possible institutional differences into account in this manner implies that we need to refine the analysis of HRM in order to account for the shaping of HR practices in different institutional settings. This refinement can be found in new institutionalism (DiMaggio and Powell, 1983, 1991; Scott and Meyer, 1994), the topic of our next section. Recent publications in the field of strategic management (Baum and Korn, 1999; Silverman and Baum, 2002) reveal similar interest for institutionalism in organisational analyses.

NEW INSTITUTIONALISM

The idea that organisations are deeply embedded in wider institutional environments suggests, according to Powell (1998), that organisational practices are often either direct reflections of, or responses to, rules and structures built into their larger environments. In the early 1980s, a group of US-based sociologists, including academics such as Selznick, Meyer, Rowan, Scott, DiMaggio, Powell and Zucker, presented themselves as new institutionalists and began to formalise this new approach. As noted by Greenwood and Hinings (1996), new institutionalism assumes that organisations conform to contextual expectations in order to gain legitimacy and increase their probability of survival. In the 'old institutionalism', prior to the 1980s, issues of influence, coalitions and competing values were central, along with power and informal structures. In general, then, institutional theory shows how the behaviour of organisations is a response not solely to market pressures but also to formal and informal institutional pressures from regulatory agencies, such as the state and the professions, and from general social expectations and the actions of leading organisations (Greenwood and Hinings, 1996). This explains the strong link between new institutionalism and resource-dependency theory (Pfeffer and Salancik, 1978;

Oliver, 1991; Zucker in DiMaggio and Powell, 1991) and population ecology theory (Trist, 1977; Hannan and Freeman, 1977).

Lammers *et al* (2000) state that new institutionalism criticises 'functionalistic contingency approaches' from the '60s, as the latter assume rationality of the actors. According to the authors, new institutionalists underline the 'non-rationality' of processes at micro (individual and organisational), meso (branch of industry) and macro (national/international) levels in society. The central theme in these approaches is the study of processes of cognitive and normative institutionalism, whereby people and organisations conform 'without thinking' to social and cultural influences (Lammers *et al*, 2000). When referring to the words 'without thinking', we mean that these normative influences are taken for granted: assumptions that actors perceive as being part of their objective reality (Zucker, 1977).

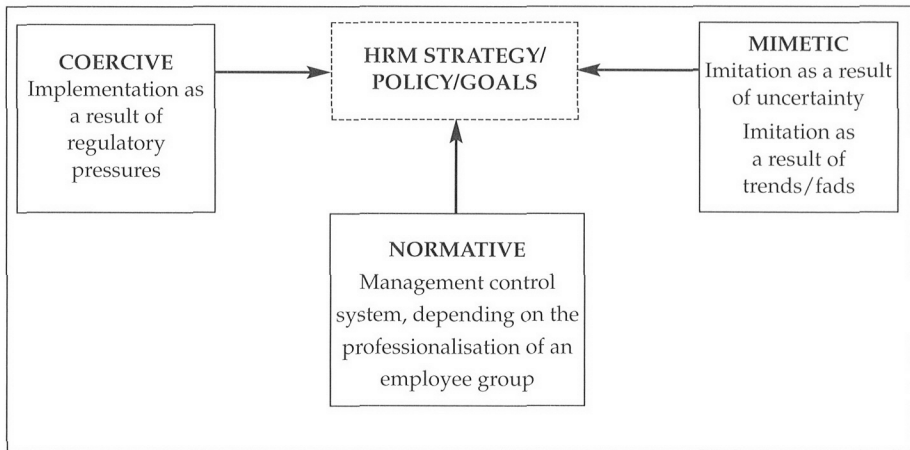
With respect to this article, the contribution made by DiMaggio and Powell (1983) to new institutionalism is extremely important. They state that rational actors make their organisations increasingly similar as they try to change them. The concept that best captures this process of homogenisation is isomorphism. Isomorphism is a constraining process that, according to DiMaggio and Powell (1983), forces one unit in a population to resemble other units that face the same set of environmental conditions. There are two types of isomorphism: competitive and institutional. Competitive isomorphism assumes a system of rationality, which emphasises market competition, niche change and fitness measures, and is most relevant where free and open competition exists. However, for a full understanding of organisational change, DiMaggio and Powell (1983) concentrate on an alternative perspective of institutional isomorphism. This is the focus of our interest here. According to DiMaggio and Powell (1983), three institutional mechanisms influence decision-making in organisations:

- 1 **coercive mechanisms**, which stem from political influence and the problem of legitimacy;
- 2 **mimetic mechanisms**, which result from standard responses to uncertainty; and
- 3 **normative mechanisms**, which are associated with professionalisation.

Related to HRM, coercive mechanisms include the influence of the social partners (the trade unions and the works councils), the labour legislation and the government. Mimetic mechanisms refer to imitations of strategies and practices of competitors as a result of uncertainty, or fashionable fads in the field of management. The current interest shown by organisations for the development and implementation of an HR scorecard (Becker *et al*, 2001) might turn out to be a typical example of a mimetic mechanism in the field of HRM.

Normative mechanisms refer to the relation between management policies and the background of employees in terms of educational level, job experience and networks of professional identification. The latter is an especially important source of isomorphism, according to DiMaggio and Powell (1991). Professional networks are related to universities and professional training institutes. These are important centres (although often taken for granted) for the development of organisational norms among professional managers and their staff specialists and external consultants in the different functional areas of finance, marketing, accounting and HRM. For example, there is a strong emphasis nowadays on the need for HRM to be business-oriented and to contribute to the process of adding value, whereas in the 1970s – at least in the Netherlands – HRM was all about supporting organisational democracy.

FIGURE 1 HRM and new institutionalism



In Figure 1, we provide a schematic overview of the way in which the three mechanisms identified by DiMaggio and Powell (1991) have an impact on strategic HRM. Based on insights from new institutionalism, we argue that HRM decision-making is influenced by regulatory pressures, a tendency towards imitation as a result of risk aversion, and the norms and values that stem from the professionalisation of employee groups within an organisation. These three institutional mechanisms lead to HRM homogeneity across organisations.

The application of elements of institutional theory reveals insights with respect to the underlying processes that shape HRM and the external/contextual factors behind HR decision-making. This perspective also offers an opportunity to include a more dynamic analysis and to analyse the role of HRM in a changing context (*see* also Purcell, 1999). We do not claim to be the first to align institutionalism to HR issues; the work of Oliver (1997), Purcell (1999) and Hope-Hailey (2001) also incorporates elements of an institutional framework as presented in this article. However, in this article, we apply new institutionalism systematically in order to develop initial propositions for use in future research.

There is a tension between the resource-based view and institutional theory, as mentioned before. The RBV focuses on explanations for firm heterogeneity in order to be able to account for differences in performance. New institutionalism aims at explaining isomorphism (firm homogeneity) and can be helpful in explaining why HR practices are what they are and why they increasingly become more similar. Another difference between the two approaches is linked to rationality assumptions. The RBV builds on the 'economic rationality' assumption of human behaviour (utility maximisation), while new institutionalism emphasises the 'normative rationality' (or non-rationality) behind decision-making processes. Weber's (1946) 'zweckrationalität', based on the criteria of efficiency and effectiveness, fits the RBV economic rationality assumption. His 'wertrationalität' fits the institutional theory's normative rationality assumption. Thus, Weber (1946) acknowledges the existence of two types of rationality that influence human behaviour: an economic and a normative/value laden rationality.

Evidence in prior literature suggests that resource-based and institutional perspectives can co-exist (Oliver, 1997). It is therefore not our intention to build an argument for the application of new institutionalism in preference to the resource-

based view, but we do see it as a useful 'add-on'. In order to illustrate the possibilities for research, we present a range of propositions that relate to DiMaggio and Powell's (1983) institutional mechanisms and their potentially homogenising effects of the HR policies and practices of organisations.

PROPOSITIONS

New institutionalism has implications for conceptual modelling and propositions development in the field of HRM. In this section, we illustrate this point by presenting a series of propositions about the impact of institutional mechanisms on the operation of HRM. We use DiMaggio and Powell's (1983) framework as the starting point for our analysis, focusing specifically on the distinction between mimetic, normative and coercive mechanisms as the basis for our discussion.

Mimetic mechanisms

Consultancy firms operating either nationally or internationally (eg Accenture, Boston Consulting, McKinsey and Towers Perrin) develop and offer new insights, models and frameworks – 'blueprints' – which, at least in principle, are designed to solve the management problems of their potential clients and bear the promise of making them more competitive (Oliver, 1997). Examples are business process re-engineering, learning organisation models (Senge, 1990), knowledge-management approaches (eg Nonaka in Starkey, 1996) and the balanced scorecard (Kaplan and Norton, 1992). In HRM, there is the influence of competency management, the four roles of HR leadership (Ulrich, 1997) and the HR scorecard (Becker *et al*, 2001).

Once implemented, the so-called early adopters might be able to achieve a competitive advantage. But this is likely to be lost once the approach becomes a fad and is implemented by a large majority of companies. The theory implies that a range of firms will all apply the same kind of solution or blueprint, sometimes out of uncertainty, or simply to avoid the risk of being out of step with their direct competitors. So, within a few years, having a job design, career development, appraisal systems and competency-based reward schemes is normal and becomes 'business as usual'. Those companies still not working in this way run the risk of being labelled old-fashioned and outdated. So the very policies and practices that promise to help companies to improve or retain competitive advantage – the resource-based perspective – evolve into commonplace industry standard.

Proposition 1 *The application of blueprints (eg competence management and the HR scorecard), introduced by external consultants, leads to an increased degree of HRM homogeneity across organisations.*

Normative mechanisms

DiMaggio and Powell (1991) suggest that the professionalisation of employee groups through formal education programmes leads to HRM homogeneity in relation to that specific group. Accountants, lawyers, judges, surgeons and pilots all need to go through professional training of some kind before they are allowed to perform their job. Their professional norms and values, for example, in terms of their ethics and standard operating procedures, are part of this formal education and training. Professional associations, of which they become members during or following the completion of their formal training, strengthen these norms and values, and in this way these norms and values become increasingly more internalised.

The management control system (Mintzberg, 1998) and the HR control system (Snell, 1992) are affected by the nature of these professional employee groups with their strongly embedded norms and values. For example, accountancy has historically been more institutionalised as a profession, through various forms of certification and legislation, than has, say, management consultancy – an employee group which also displays a greater diversity in educational background and training. Greenwood and Hinings (1996) use accounting and law firms to illustrate what they call templates, which can become so repetitive and enduring across an entire organisational field that actors take it for granted that this pattern is the right way to organise (Oliver, 1992).

A high degree of institutionalised professionalisation of a specific group limits the options for the adoption of different HR policies and practices. Follow-up and additional training programmes will, for example, mainly be initiated by the professional association itself. Appraisal systems, performance-related pay schemes and the nature of employee ownership schemes will all be discussed among the professionals themselves, very often stimulated or facilitated by the professional membership association. This implies possible limitations on the room for manoeuvre in the design of HR policies and practices from the perspective of the employing organisation, and gives rise to our second proposition:

Proposition 2 *Formalised professional education and subsequent memberships of professional bodies lead to an increased degree of HRM homogeneity across organisations employing professionals.*

Coercive mechanisms

Coercive mechanisms are embedded in regulatory processes, which can manifest themselves at different levels and in different forms, and differ in their degree of enforcement. As this relates to HRM we can, for example, think of regulatory pressures at international, national and industry level.

International-level pressures include ILO (International Labour Organisation) conventions on the prevention of child labour and on free trade union membership, and European directives on contingent employment and temporary work agencies. National-level regulatory mechanisms include labour laws, and tripartite and bipartite regulations agreed between the social partners and the government, while industry-level mechanisms include, for example, sector-wide collective bargaining agreements that very often determine HR policies at company level. In this way, these regulations create HRM homogeneity in a certain organisational field.

Proposition 3 *Increased legislation and directives at international and national level lead to an increased degree of HRM homogeneity at company level.*

Regulations differ in their degree of coerciveness. Generally speaking, companies have to comply with labour laws. However, in the case of more or less intentional agreements between the national confederations of employers and trade unions with respect to, for example, reducing unemployment or improving work-life balance, the degree of enforcement is less stringent. These agreements are very often designed only to influence the atmosphere of collective bargaining at more decentralised levels. Actual implementation or follow-up action in the direction of the stipulated goals at national level will depend on the power positions of trade unions at industry level and/or company level, and on the willingness and perception of top management.

Striking examples of intentional agreements, which have affected HR policies at company level across a range of organisations and sectors, can be found both in the Netherlands and the UK.

At the beginning of the 1980s the Dutch suffered from negative economic growth and rising unemployment. The social partners and the government settled for an agreement at national level, in which they identified the following objectives:

- A reduction of working time in order to redistribute jobs.
- Wage moderation in order to restore the competitive economic position for the nation as a whole.
- Reducing rigidities in the labour market in order to improve flexibility.

This so-called Accord of Wassenaar provided the basis and impetus for the negotiations at sector-wide and company-level collective bargaining agreements, which had a profound impact on the development and implementation of HR policies aimed at reducing working time and improving flexibility (Visser and Hemerijck, 1997: 100-113).

In the UK a good example of an intentional agreement at national level is the initiative aimed at developing more collaborative workplace relations. This has become known under the heading of Partnership at Work and was initiated by the Labour government in the late 1990s. It received support from the TUC, plus various leading unions supporting strongly the concept of partnership (Guest and Peccei, 2001). It is the policy recommendation of choice for think-tanks such as the Industrial Society (2001 – now called the Work Foundation) and ACAS (1999), and it has even been welcomed, albeit with a large number of caveats, by the CBI (the employers' confederation) and several leading British employers (Dietz, 2002). According to the Involvement and Partnership Association (IPA), the four key building blocks of the partnership principle are security and flexibility, sharing financial success, developing good communication and consultation, and representative and employee voice. More than 250 organisations have joined the IPA since the launch of this initiative. Guest and Peccei (2001), carrying out survey research among members, conclude that, among those organisations favouring the principles of partnership, the following involvement and HR practices were encountered: participation of employees with respect to their own work, employment issues and related organisational issues; introduction of flexible job design and focus on quality; performance management; employee share ownership; and initiatives aimed at improving communication, harmonisation and employment security. Based on these findings, one can easily see how an intentional agreement at national level, such as Partnership at Work, affects an increasing degree of homogenisation of HR practices across the participating companies. This leads us to the following proposition for stipulating the influence of coercive mechanisms on HRM:

Proposition 4 *Intentional agreements at the national level between the social partners and/or the government will further HRM homogeneity at organisational level.*

Implications for practitioners

With respect to all kinds of managerial fads and blueprints, such as the HR scorecard and 360-degree feedback appraisal system, HR managers should be alert to timing and the costs involved. Outside consultants might present the new trend as a possible way to strengthen or achieve competitive advantage. However, that might only be the case

for those organisations that take up the practice on a timely basis. In terms of Rogers' theory (1983) of the diffusion of innovation, these organisations are thought of as the innovators and early adopters. They might be able to achieve a temporary competitive advantage because they are the first. For example, in a tight labour market, as was the case for software companies in the late 1990s, organisations that have an advanced system of competence development, and that have in place all kinds of family-friendly policies, might be able to achieve the image of preferred employer in the labour market. At the same time, however, they run the risk of competitors jumping on the bandwagon and copying their policies and practices in a fad-like fashion. The slow followers and laggards (Mirvis, 1997) might be inclined to implement the best practice because a number of companies have done so before. However, the impact of implementing the new trend or blueprint is totally different for the latecomers. For them, the adoption of the HR policies and practices no longer helps to generate competitive advantage, precisely because they are now common currency across a large number of organisations. So, the timing of take-up and the costs involved in the adoption process of new HR practices is crucial.

The institutional effect of normative mechanisms is especially relevant for those organisations employing many professionals, such as accountancy firms, law firms, hospitals and consultancy agencies. Education, training and professional bodies/associations determine to a large degree the taken-for-granted norms and values related to the profession. This implies that the companies involved have less leeway in deciding and developing relevant HR policies and practices for those professionals. The process of formal education and training, and subsequent membership of a professional association, raises certain expectations that the professionals expect their (future) employer to meet.

When introducing new HR policies and practices, such as new forms of incentives, organisations employing large numbers of professionals therefore have to keep in mind the extent to which the practices involved are in line with explicitly and implicitly held professional norms, values and expectations. Taking into account the impact of formalised professional education and subsequent memberships of professional bodies also implies that the appropriate HR architecture in an organisation is likely to vary depending on the type of employee groups involved. However, some firms employ a range of individuals belonging to different professions. Big financial services firms might, for example, employ accountants, lawyers, tax specialists, stockbrokers and venture capitalists. In a big hospital, we do not only encounter medical specialists, but also controllers, finance people and nurses. They all belong and relate to different professional bodies, with their own norms and values, with potentially different implications for policies and practices. So organisations need to adopt a differentiated HR strategy to suit different employee groups (*see also Snell, 1992*).

The implications of coercive mechanisms at national and industry level are equally noteworthy. One obvious consequence is that they restrict leeway at company level. Both collective bargaining agreements and intentional agreements with a strong follow-up at more decentralised levels restrict the choices the management of a company can make at organisational level. External regulation takes over from internal regulation, at least in the area of labour conditions (pay) and, dependent on the range of topics settled for in the collective bargaining agreement, training facilities, pension schemes and work-life balance issues. However, this can also be an advantage. Competition in a given industry will no longer take place through differentiated HR policies, due to regulatory pressures which are more or less alike for

all companies in that particular setting. This does not imply that the organisation has no leeway at all to differentiate itself from its competitors. From a resource-based perspective, there are still plenty of opportunities to pursue an organisational process advantage in which HR policies and practices can play an important role. For example, some firms are better in aligning the various interfaces between the HR function and the line management at the different hierarchical levels and, in this way, are really able to achieve enactment of the agreed-on HR policies. Alternatively, some firms are better equipped than others to align their HR policies with corporate strategy and organisational culture, and are able to achieve a degree of consistency and trust which furthers well-being and productivity. Companies operating internationally face a different situation in this respect. How do they know whether the institutionally imposed straightjacket furthers their competitive position? If one wants to make sure that that is the case, then one should have good links with national government and the bipartite and/or tripartite consultative bodies. These links often take shape through involvement of internationally operating companies in the relevant national employers' associations. In this way, top management is able to exert influence on the content and nature of intentional agreements at the national and sector level in a specific country.

SUMMARY AND CONCLUSIONS

The starting point of this article was to explore the implications of new institutionalism for the analysis of HRM. More specifically, the aim was systematically to introduce to the field of strategic HRM, dominated by the resource-based view, new institutionalism as an additional theoretical perspective for explaining the shaping of HRM in different environments. Based on the work of DiMaggio and Powell (1983), we focused on new institutional mechanisms that affect the employment relationship and associated HR policies and practices. These are mimetic mechanisms (imitation as a result of uncertainty), normative mechanisms (professionalisation of employee groups) and coercive mechanisms (regulatory pressures). Based on this analysis, we developed four specific propositions on the homogenising effects of the different institutional mechanisms on the HR policies and practices of organisations.

What lessons does this encounter between RBV and new institutionalism imply for the analysis of HRM? There is evidence (Boselie *et al*, forthcoming) that institutional mechanisms decrease the effect of HR practices or systems on the performance of an organisation. The research of Oliver (1997) takes another perspective in which the right match, or fit, between environmental constraints and organisational resources leads to sustained competitive advantage. The work of Wood (1999), who refers to environmental fit as a source for competitive advantage through people, can be put in the same context. The central issue in Oliver's (1997) approach is the assumption that the correct handling of institutional mechanisms – correct in terms of handling it better than competitors – can be a source for organisational success, even if the organisation operates in a highly institutionalised context. Leading firms outperform laggards because leaders know better how to deal with obstacles (Mirvis, 1997). We argue that not only strategic (or vertical) fit and horizontal fit are necessary conditions for organisational success through HRM, but environmental fit as well.

The advantage of our approach is that we can complement the academic interest in the linkage between HRM and performance with the notion of institutional factors

influencing the shaping of HR policies and practices. What kind of factors have an effect on the creation of certain policies and practices, irrespective of whether they contribute to performance or not? The theoretical concepts used in this article shift the attention from the organisational level and internal regulation to a more interactive level between the organisation and the environment, and make us more conscious of the role and effect of taken-for-granted assumptions and mimetic, normative and regulatory mechanisms in the wider context.

Our approach can be used in different institutional settings. There is no need for the development of a separate European HR conceptual model. On both sides of the Atlantic, institutions do play a role. However, the emphasis and composition of the various mechanisms differ across countries. In this way, the approach developed in this article offers a fruitful perspective for crossnational comparative research into the effects of various institutional mechanisms on the shaping of HR practices and their possible relationship with performance.

Overall, we conclude that institutionalism presents exciting challenges for future research in the field of HRM. The proof of the pudding will be the empirical testing of the propositions as formulated in this article.

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