

## **Strategic performance options in professional service organisations**

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In the current debate on HRM and organisational performance (Mahoney and Pandian, 1992; Storey, 1992; Paauwe, 1994; Wright *et al*, 1994; Flood *et al*, 1995; Becker and Gerhardt, 1996; Boxall, 1996; Mueller, 1996; Beatty and Schneider, 1997; Coff, 1997; Guest, 1997; Paauwe and Richardson, 1997; Boxall and Steeneveld, 1999) HR theorists, who refer to the 'resource-based view of the firm' (Penrose, 1959; Wernerfelt, 1984; Barney, 1991), argue that HR is a major determinant of a firm's competitive advantage. This argument is relevant particularly in the case of professional service organisations, such as auditing and law firms and management consulting organisations (Maister, 1993; Grant, 1997; Nachum, 1998). A firm's ability to generate rents depends largely on its employees competencies (knowledge, skills and attitudes) in tracing work-related problems, diagnosing backgrounds and designing, implementing and evaluating successful solutions. In view of the currently increasing scarcity in labour markets for professionals and the rapidly changing and expanding product markets, HR policy nowadays is even more important to a professional service organisation's success.

Adequate management of HR is a challenging task since knowledge, skills and attitudes are vital but elusive resources. Since competencies are based on former experience and innovative creativeness, they are valuable resources in dealing with familiar and unfamiliar work-related problems. At the same time, knowledge, skills and attitudes are hard to control, since they are inextricably bound to their owners and difficult to identify, measure, protect and destroy (Sadler and Milmer, 1993). Hence, sophisticated HR practices, which successfully cope with the challenges of HR, are important for professional service organisations in order to create and sustain competitive advantage (Coff, 1997).

A first step in understanding HRM's role in professional service organisations is to analyse HR strategies in view of the organisation's output market strategy. Recent literature on strategic management in the professional service industry (Maister, 1993) points out that distinct strategic options can effectively enhance organisational performance. Some professional service organisations successfully focus on offering tailor-made solutions for extraordinary organisational problems (expertise orientation), while other organisations stress the effectiveness of more standardised procedures and methods for dealing with a client's organisational problems (efficiency orientation). The purpose of this article is to chart the relationship between HR and strategic performance options – or what Boxall and Steeneveld (1999) call, 'firm's competitive strategy' – in professional service organisations by presenting, in an 'ideal typical way' (Weber, 1968; Burger, 1976), two different HR strategies which enhance organisational performance effectively in either expertise or efficiency-oriented output market strategies. Analysis is based on an exploration of HR strategies and practices which are currently used in actual professional service organisations in the management consulting industry.

### The HR-based view of the firm

To analyse the contribution of HR to a firm's sustainable competitive advantage, literature refers to the resource-based view of the firm. The resource-based approach (Penrose, 1959; Wernerfelt, 1984; Barney, 1991) emphasises how an organisation's internal resource profile – 'portfolio of differential core skills and routines, coherence across skills and unique proprietary know-how,' (Mahoney and Pandian, 1992: 369) – steers the rate and direction of successful strategic diversification. By using an organisation's exclusive core competencies (Prahalad and Hamel, 1990) resource-related diversification offers opportunities to generate and sustain rents in markets, which are characterised by oligopoly or monopolistic competition. The resource-based view of the firm analyses which particular features of internal resources contribute to the sustainability of rents. In accordance with economic insights from industrial organisation theory (Barney and Ouchi, 1986), the resource-based view of the firm points at intangibility (Itami, 1987), 'imperfect imitability and imperfect substitutability' (Rumelt, 1984). These resource features raise 'barriers to imitation' or create 'isolating mechanisms' (Nelson and Winter, 1982; Rumelt, 1984) in output markets, which keep competitors at bay. The isolating potential of these mechanisms is the result of the connection between a resource's uniqueness and the competitor's causal ambiguity as to which factors are responsible for superior organisational performance (Mahoney and Pandian, 1992; Lippman and Rumelt, 1982).

While recognising that intangibility, imperfect imitability/substitutability are particular features of HR, researchers and practitioners have taken an interest in the resource-based view of the firm (Paauwe, 1994; Wright *et al*, 1994). The relationship between HR and organisational performance has become a subject of lively debate (Storey, 1992; Wright *et al*, 1994; Becker and Gerhardt, 1996; Boxall, 1996; Mueller, 1996; Coff, 1997; Guest, 1997; Paauwe and Richardson, 1997; Boxall and Steeneveld, 1999). Some authors claim that HR practices (personnel flow management, management of organisational structure and culture) enable HR to make a substantial contribution to organisational performance outcomes, such as effectiveness, efficiency and productivity. In their view HR practices can result in imperfectly imitable/substitutable competencies which create a competitive 'human capital advantage' for the firm (Boxall, 1996). This would justify a core role for HRM in strategic management. Yet, in order for the competitive advantage to be sustainable, these HR practices themselves would need to be imperfectly imitable/substitutable to generate a 'human process advantage' (Boxall, 1996). Other authors question the effect of HR practices on organisational performance. Paauwe and Richardson (1997), for instance, argue that the causality is the reverse: successful organisational performance stimulates HR practices. Mueller (1996) reasons that the firm's 'social architecture' has perhaps far more influence on valuable strategic HR than policies which have been officially codified by senior managers, and that the building of such a 'social architecture' is an evolutionary process that comes about merely as a side-effect of intentional corporate policy.

Several authors (Sadler and Milmer, 1993; Spencer and Spencer, 1993; Hamel and Prahalad, 1994; Lado and Wilson, 1994) point out that the design and implementation of practices which enable HR to make a substantial contribution to an organisation's success, are by no means easy tasks. They give several reasons why HR and, in particular, knowledge resources (Sadler and Milmer, 1993), are difficult and challenging to manage. In the first place, HR is difficult to identify so that job candidates have the nature of 'experience goods' (Nelson, 1970): their precise abilities are revealed on the job only after they have been hired. Secondly, HR quality is difficult to measure which severely complicates the estimation

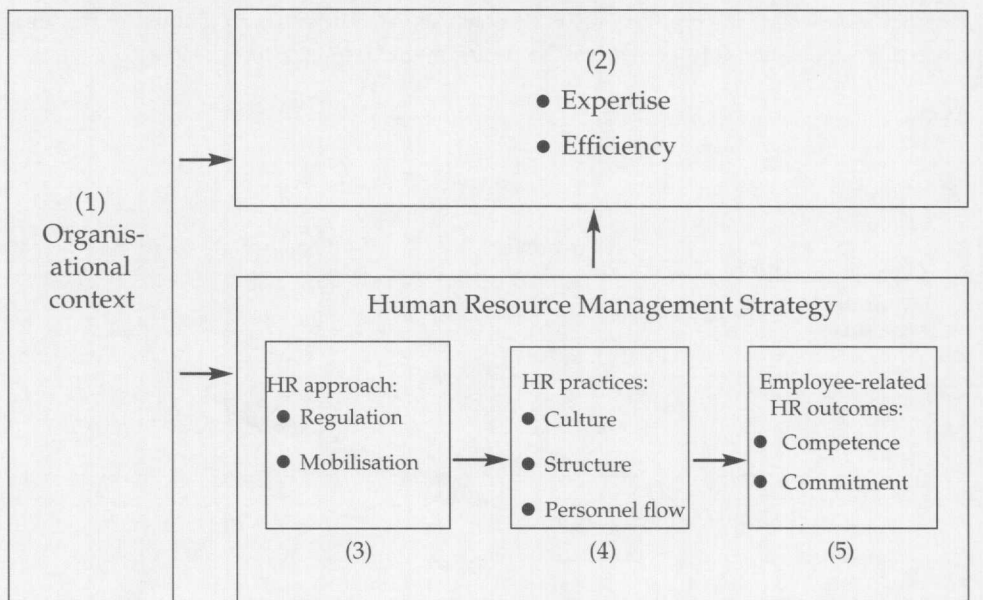
of the returns to training and mentoring. Finally, HR is hard to protect and impossible to own (Coff, 1997). If employees leave, the organisation loses the individual's HR, potentially even to competitors. Hence, whereas imperfectly imitable/substitutable HR can serve as a major source of an organisation's sustainable competitive advantage, it is also a major source of concern for those directly responsible for human resource management.

To profit optimally from HR as a source for an organisation's sustainable competitive advantage, organisations need to have sophisticated HR strategies which are subsequently implemented in appropriate HR practices. As Cappelli and Crocker-Hefter (1996) and Purcell (1999) argue, there is no 'one best way' of HRM. Instead, we need to search for contingent and context-dependent groups or bundles of winning HR activities (MacDuffie, 1995; Becker and Gerhardt, 1996; Guest, 1997). One valuable contribution to the search for successful HRM is charting relationships between HR and strategic performance options in distinct organisational contexts. The purpose of our diagnostic framework is to chart these relationships in professional service organisations.

### A diagnostic framework

The framework is based on Paauwe (1994), Flood *et al* (1995), Beer *et al* (1996) and Guest (1997). All of these authors refer to the classic Harvard model of HRM (Beer *et al*, 1984). Table 1 illustrates the structure of the diagnostic framework. It starts from the notion that: the external context influences an organisation's output market strategy and HR strategy (1); an organisation's output market strategy in the professional service sector aims at realisation of particular performance options (2). HR strategy includes selection of an HR approach (3) characterising HR practices, concerning the organisational culture, structure and personnel flow (4), that bring about particular HR outcomes (5). These HR outcomes contribute to the organisation's performance options.

**TABLE 1** HR and strategic performance options in professional service organisations

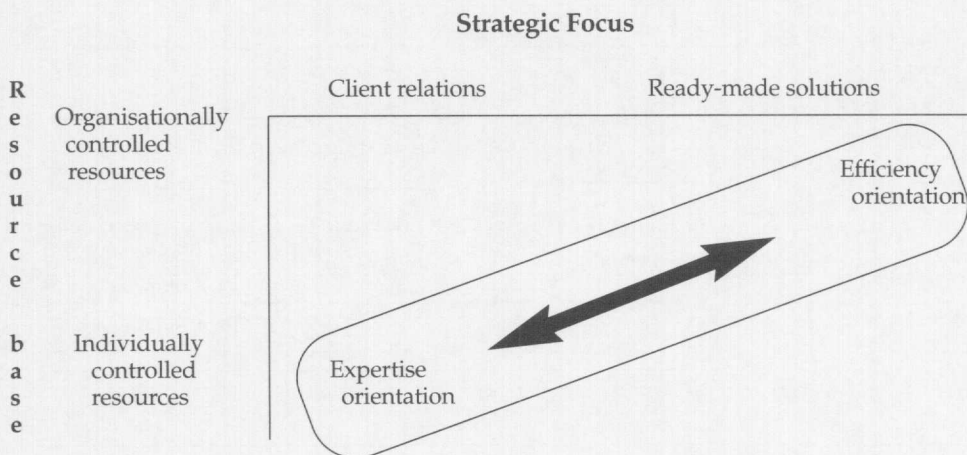


We briefly consider each element of this framework as follows:

**1. The organisational external context determines to a large extent which strategic options are available.** The nature of output market competition, technological innovations and demand conditions influence an organisation’s strategic option in output markets. Organisation strategic choices and the labour market effect strategic HR choices, since they determine both the required number of employees and the nature of their required knowledge, skills and attitudes. A scarcity of certain knowledge or skills in the labour market, for example, encourages the development of internal training programmes. Hence, to understand the congruence between HR and organisational strategy, we need to have insight into the organisation’s external context.

**2. Organisation strategy aims at performance outcomes, which are generally defined in broad terms,** such as high productivity, quality and low labour turnover. For the purpose of our study we concentrate on the strategic performance options which are particularly relevant to professional service organisations. Recent literature on strategic management in the professional service industry (Maister, 1993; Lowendahl, 1997) indicates the distinct strategic modes which are beneficial to successful performance. Lowendahl (1997) develops a professional firm typology based on two dimensions. The first dimension concerns the role of professionals in an organisation’s value creation. This dimension distinguishes professional firms based on whether resources are predominantly individually controlled (professionals control their own performance) or organisationally controlled (the firm controls through standards and routines). The second dimension concerns the strategic focus and distinguishes between more demand-oriented (through intensive and repetitive relationships with clients) or more supply-oriented firms (delivering ready-made solutions more efficiently than competitors). Lowendahl’s typology (1997: 115) consists of nine cells representing different strategic options. She argues that successful firms are located in the three cells on the main diagonal. For the purpose of our study, without applying the cell division, we consider the diagonal in Lowendahl’s typology of professional service firms as a continuum of possible successful combinations of a professional’s role and a firm’s strategic focus (Table 2).

**TABLE 2** *Expertise and efficiency-oriented strategic performance options*



At the extremes we present two major strategic options:

- Expertise orientation, promoting an individual professional's ability to offer new, client-specific solutions to new, unusual problems. As one senior consultant says: 'we are good at helping the client organisation to deal with new and unexpected strategic decisions... exceptional merger plans, new market opportunities. People know that.'
- Efficiency orientation, offering a firm's standard solution to familiar problems in an efficient way. 'Take for example PROMIS, our IT management approach... clients come to us because they know we have developed a well-functioning approach', says another senior consultant.

Both orientations are potentially successful performance options. While in reality, orientations are never located at the extreme poles, most orientations clearly lean towards either one of the two extreme options. Thus, in accordance with the HR-based view of the firm, HRM's crucial mission in professional service firms is to develop strategies and practices to bring about particular HR outcomes which, in turn, contribute to the strategic performance options of both expertise and efficiency orientation.

**3. The realisation of HR outcomes requires an approach to reduce the uncertainty which stems from the elusiveness of HR.** Referring to Friedman (1977), Kinnie (1989) and Lowendahl (1997), we distinguish between the bureaucratic regulation and the HR mobilisation approaches. Bureaucratic regulation reduces uncertainty by using strict orders, contractual arrangements and the destruction of an employee's autonomy. HR mobilisation 'mobilises', as opposed to 'manages', employees' knowledge, skills and motivation (De Sitter *et al*, 1997). It reduces uncertainty by appealing to employees' commitment, responsibility, entrepreneurship and loyalty (Tyson, 1997). Hence, when analysing HR practices we look for elements from both bureaucratic regulation and HR mobilisation.

**4. HR practices have certain characteristics that bring about particular outcomes.** In order to make a substantial contribution to organisational performance, HR practices (personnel flow practices in recruitment/selection, training/supervision and assessment/retention/release) should focus carefully on the intended performance options. Apart from these traditional practices the HR-based view (Flood *et al*, 1995; Beer *et al*, 1996) emphasises the importance of HR involvement in the redesign of organisational structure (hierarchical layers, staff/line relations, job design and information technology) and organisational culture (processes of meaning formation, changing sets of values). The development of an entrepreneurial attitude, for example, often requires a structural redesign towards team-based work and an organisational culture of responsible autonomy. In accordance with the resource-based view of the firm, imperfectly imitable/substitutable HR practices (concerning structure, culture and personnel flow) contribute to human process advantages (Boxall, 1996). It is important to see that this contribution does not always result from explicitly formulated HR policies and manifest HR measures. Human process advantages also stem from more or less unintended practices, as can be seen in Mueller's (1996) 'social architecture', which are side-effects of daily HR routines. These unintended processes function 'hegemonically' (Benschop and Doorewaard, 1998), as sub-routines effectively regulating the daily employment practice without being explicitly stated or viewed as such. This is true particularly for the contribution to human process advantage of those HR processes, which stimulate an organisational culture to emerge.



**5. When categorising the relevant outcomes of HR practices, we refer to the Harvard list of human capabilities (Beer *et al*, 1984).** For the purpose of our analysis in professional organisations we have selected two relevant employee-related HR outcomes: competence (the complex scientific and pragmatic insights concerning task-related issues, individual experiences, professional skills and attitudes) and commitment (affective, continuance and normative commitment towards the organisations goals and practices). A substantial contribution to regeneration requires HR practices to develop and secure human capital advantages (Boxall, 1996) – competencies and commitment which combine ‘uniqueness and causal ambiguity’. That is why our research object is the cartography of a multiple set of HR practices in professional organisations which bring about HR outcomes which, in turn, contribute substantially to relevant organisational performance outcomes. These human capital advantages concern both personnel competencies which are hard to imitate and substitute, and a unique and solid commitment of the employees to the firm.

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### METHODOLOGY

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The complexity of this object calls for a qualitative research strategy. Between September 1997 and 1998, we carried out a comparative case study analysing HR strategies in leading bureaux in the management consulting sector in The Netherlands and Germany. This sector features two major characteristics of the professional service industry (Lowendahl, 1997; Nachum, 1998): knowledge is both its crucial production factor and its output. The knowledge output is used as input in the production processes of their clients’ and their own business. (Lowendahl, 1997). The highly competitive market in the consulting sector is similar to the competitiveness in other professional service markets.

Following in the footsteps of Boxall and Steeneveld (1999) in their comparable study on engineering consultancies in New Zealand, we have collected our data through a combination of techniques. We have obtained background information from branch organisations’ reports, sector analyses and case-internal documents. We have conducted 64 semi-structured interviews with directors, HR managers, and senior and junior consultants who are currently employed by management consulting firms, and with former consultants who had recently left the company for another employer. Whereas Boxall and Steeneveld interviewed some of their respondents twice to capture developments over time, we have interviewed our respondents only once but, we have still been able to consider the current state within the organisation’s dynamic development. Boxall and Steeneveld’s study aim differs from ours, in that they consider the link between HR and organisations’ performances indicators, whereas we focus on the link between HR strategy and organisations’ strategic options. Although the qualitative exploration of HR strategies in a limited number of cases in The Netherlands and Germany does not permit general conclusions, our data is ‘rich’ and detailed enough (Yin, 1989) to allow us to extract the two HR strategies which contribute effectively to expertise and efficiency orientation.

#### Ideal types

Our analysis aims at the reconstruction of HR strategies in an ‘ideal typical’ way. Based on a qualitative analysis of case documents and interviews, we have extracted particular insights concerning distinct HR practices in the professional service organisations under investigation. Subsequently, we have interpreted these insights and we have translated them into representations of particular sets of HR practices which contribute typically to strategic performance options of expertise and efficiency-oriented output market strategies. In so

doing, our methodology is tributary to the core idea of Weber's method of constructing 'ideal types'. As Burger (1976: 127/8) says in his translation of Weber (1968: 191):

An ideal type is formed by the one-sided exaggeration (*Steigerung*) of one or several viewpoints and by the combination of a great many single phenomena (*Einzelscheinungen*) existing diffusely and discretely, more or less present and occasionally absent, which are compatible with those one-sidedly emphasised viewpoints, into an internally consistent thought-picture (*Gedankenbild*).

In our analysis we apply the principles of an ideal type. The 'thought-pictures' we build are two 'internally consistent' models for successful bundles of HR strategies in expertise and efficiency orientation. We create these models from 'one-sided viewpoints', arguing and reasoning for respectively extreme expertise orientation and extreme efficiency orientation. To create these models we have studied actual HR practices in our case organisations, and we select and combine from our observations a 'great many single phenomena' which contribute to the formulation of the two ideal types, although these phenomena are 'diffusely and discretely, more or less present and occasionally absent' among our case organisations. Just as Weber posed by indicating that in 'its conceptual purity this thought-picture cannot be found empirically anywhere in reality' (Burger, 1976: 128; translating Weber, 1968: 191), we do not expect to observe these extreme practices in the real world. All the firms in our sample, to some extent, combine expertise and efficiency-oriented output market orientations. Nevertheless each firm shows a tendency towards one of the extremes. We concentrate on analysing the HR strategy of those case organisations, which express an expertise-oriented organisational performance option, for the purpose of the construction of the ideal type of expertise-oriented HRM. *Mutatis mutandis*, we use the characteristics of the HR strategy of firms, which show an efficiency-oriented strategic option, in the construction of the ideal type of efficiency-oriented HRM. Although we did find some differences between HR strategies in Germany, in view of the aim of our analysis – the construction of two ideal types of HR strategies – we do not consider it useful to present a country comparison between the management consulting industries of these countries.

### **The organisational context and strategic performance options**

The following overview of current developments in the management consulting sectors in The Netherlands and Germany gives us insight into the external conditions which influence a consulting firm's strategic options. Over the past decade, management consulting in Germany and The Netherlands has been a highly competitive market of oligopolistic competition (Jagersma, 1995; Kirkels, 1998; Spann, 1998). A few bureaux of multinational companies with over 500 employees dominate the market. Furthermore, there is a small number of medium-sized (100-500 employees), usually multi-service, national companies. Some specialised firms have between 20 and 100 employees on the payroll, but the great majority of companies consist of independent, specialised, entrepreneurial agencies. Over the years, large companies have expanded through a series of acquisitions and mergers. Increasing competition on the domestic market, unification of the internal European market and the globalisation of a client's operations have all led business across international borders.

Fierce competition has forced firms to improve their competitive advantages. Their external contexts provide consulting firms with two strategic challenges. First, in the highly competitive markets, firms need an active market policy in order to protect and to extend their market shares. Secondly, large consulting firms need to offer a multi-service mix of

specialised advice on a broad range of organisational problems, such as auditing, IT development, organisational change, HRM. A major strategic choice in this respect is their orientation on expertise versus efficiency. The current external conditions can encourage them to turn in either direction.

On the one hand, two developments favour expertise orientation. First, market diversification erases the boundaries between management consulting and other professional service sectors. In particular, traditional auditing firms, such as KPMG, Ernst and Young, Arthur Andersen and the former Coopers and Lybrand, have successfully intruded in the management consulting branch by building on their existing client relationships and their reputation of trustworthiness. IT consulting firms and marketing consultants have also diversified into management consulting. To acquire and consolidate a competitive position in this crowded market, firms may focus on their expert capacity to perform outstandingly regarding relatively unfamiliar organisational problems. Secondly, product requirements are changing. Twenty years ago the market was a suppliers' market where consultants enjoyed a large degree of freedom and clients generally accepted services without criticism. Today, however, the market is a buyers' market. Clients are more demanding, better informed and more ready to submit damage claims when discontent. They have concluded that the in-depth advice offered by consultants in co-operation with their own knowledge and skills is much more useful than the former autonomous consultant reports.

On the other hand, the continuous output market growth and the increasing labour market scarcity have encouraged a more efficiency-oriented strategy. Over the past 10 years the market's annual revenue growth rate has been high and relatively stable. The number of consultants has likewise grown, which has led to a relative scarcity of (potential) consultants in the labour market. Due to the customer's growing demand for complicated multi-services, this scarcity has risen particularly in the labour market for senior consultants. Unable to rely on the expertise of sufficient senior capacity, organisations are often tempted by efficiency orientation, developing standardised products which can be implemented in many different organisational contexts by relatively less senior and more junior capacity.

As mentioned earlier, none of the companies studied can be characterised as strictly expertise or efficiency-oriented. In all of these cases we observe a combination of both output market strategies. In one and the same firm, some departments are expertise-oriented, while others are efficiency-oriented. Sometimes departments acquire both expertise and efficiency projects. Despite the combined application of both strategies in a firm, each firm shows an overall tendency towards either expertise or efficiency orientation. The three expertise-oriented organisations in our research possess features of 'brains' organisations (Maister, 1993). They 'sell' their individual consultants of 'name and fame', who are able to deal creatively with uncommon, unprecedented problems in organisations. Clients feel that they have a closer relationship with individual consultants than they do with consulting organisations. These organisations generally allow their consultants individual freedom in performing professional tasks and have a policy not to lay down rules and procedures in writing. To construct our ideal type of expertise oriented HRM we primarily build on information from the 'brains' organisations in our research.

Three other efficiency-oriented organisations in our research resemble the experience-based 'grey hair' organisation model (Maister, 1993). 'Grey hair' organisations do not sell professionals, but well-established products: prize-winning intervention models successfully dealing with complex but familiar problems. 'Clients come to us for our well-known methods' says one senior consultant. 'Grey hair' organisations develop an affinity for



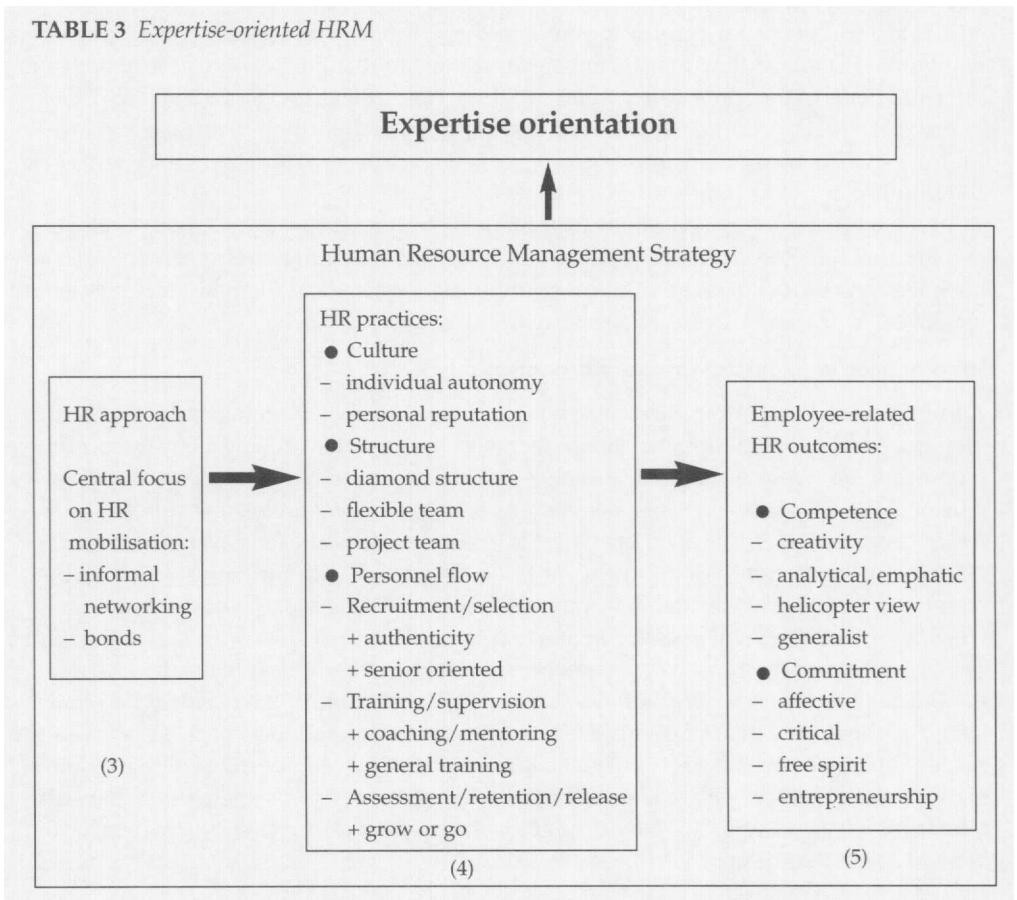
formal registration in procedures and checklists in order to improve the efficient use of their consulting activities. For the description of our ideal type of efficiency-oriented HRM, we mainly rely on the analysis of idiosyncratic features of the HR strategies in the three organisations which we characterise as 'grey hair' bureaux.

In the following sections, we will describe, in an ideal typical way, two distinct HR strategies (approaches, practices and employee-related outcomes) which contribute to either expertise or efficiency orientation. For each strategy, we start by first describing the desired HR outcomes, and then we describe the approach used to generate HR practices which in turn enhance the above-mentioned HR outcomes.

**Expertise-oriented HRM**

To contribute adequately to expertise-oriented output strategies, in HR practices the emphasis is on the establishment of particular employee-related HR outcomes. Our respondents have indicated that expertise orientation requires creative and innovative competencies in order to find solutions to unprecedented problems and to derive from these solutions new procedures for similar problems in the future. Hence, to realise expertise, organisations look for people with authentic and original talent, who are able to give free rein to their creative spirits. Moreover, expertise orientation demands analytical capacities and a helicopter view: expertise-oriented professionals are expected to interrelate distinct

**TABLE 3** *Expertise-oriented HRM*



processes and different influences. They need to be both empathic and to make proper judgements concerning clients' interests and wishes. As one partner said, 'we want them to take our client's seat... to ask themselves: what would clients really want from us?' Hence, expertise-oriented professionals are generalists rather than specialists. They deal with work-related problems from an integrated point of view. Clients do not only expect them to produce specialised advice, but also to express their general vision on organisational issues. Our respondents explain that expertise-oriented professionals are committed to the organisation in a special way. They are not 'zealous epigons' of the organisation's mission. 'We look for artists, free creative spirits', says one senior consultant. Based on a critical attitude towards organisational goals, practices and performances, expertise-oriented professionals perform from an individual entrepreneurial standard. They make decisions based on their own standards about what is considered to be 'proper' work, even if these standards conflict with the general organisational standards. Nevertheless, they feel part of the family in an affective way, for they are able to emotionally identify with the organisation.

### **Human resource mobilisation**

The adequate approach for HR practices to bring about expertise-focused HR outcomes is HR mobilisation, for it calls on the entrepreneurial attitudes of its consultants who allow their talents to have free play in unforeseen situations. HR mobilisation in expertise-oriented HRM primarily emerges in two ways:

- Creativity, personal reputation and free spirits are considered to collide with regulation. Personnel flow management, recruiting and retaining expertise, often rely on informal networking. 'You cannot pick it all up from their *curricula vitae*... so I make phone calls to get good names', says one partner. HR mobilisation to release employees includes informally stimulating job search and activating informal network communications to facilitate out-placement.
- In the emphasis on bonds rather than binds to recruit and retain talented employees, mobilisation sells the challenging job and provides a stimulating atmosphere in order to hook the chosen candidates and focuses on informal coaching and the transfer of culture to employees in order to increase job satisfaction and loyalty.

### **HR practices in expertise-oriented organisations**

All professional service organisations stress the importance of corporate culture and firm identity. A bureau's culture and image serves as an important selling point both in the output and the labour market. The feeling is that a client's positive or negative selection of a bureau is not only based on presumed performance, but also on corporate culture. As one senior consultant says, 'we all know where Y (= competitor) stands for: reorganisation, lay-off and rationalisation. We do not want to be associated with that attitude!' Expertise orientation strongly affects the development and consolidation of a corporate culture, in which individual professionals are stimulated to develop their own way of dealing with clients' problems. The consultant's personal reputation is expected to make the difference, not the company's name. Nevertheless, to belong to the 'family' is considered a natural feature of the professional's personal attitude. 'All of us are proud to be part of organisation X. Our organisation stands for team orientation, an open door attitude, nice colleagues and a high level of expertise; we are known for these characteristics', says one partner. Expertise orientation gives free play to individual autonomy as long as professionals remember the 'nest' to which they belong.

The required HR outcomes of creativeness and entrepreneurship and the focus on HR mobilisation influence the structuring of the work in expertise-oriented organisations. To meet the high demands to supply in-depth advice on unforeseen problems, expertise-oriented firms need a relatively large supply of senior competencies. In our research, for example, we noticed that in several expertise-oriented firms the composition of the workforce tends to assume the form of a diamond rather than the usual triangle. In expertise-oriented organisations relatively few junior consultants support the core force of a relatively large number of senior consultants. Furthermore, the uniqueness and complexity of expertise assignments often demand the installation of temporary, flexible, project-specific teams, which are responsible for the successful accomplishment of a particular task. These teams consist of a mix of senior and junior consultants, usually including members of the client organisation. The consultant's role in expertise-oriented organisations is not to solve clients' problems, but rather to facilitate clients in solving their own problems.

**Recruitment and selection** The demand for increasingly more integrated services affects recruitment strategies for finding experienced senior candidates. Since senior candidates are hard to find and not always on the lookout for a new job, the success of senior recruitment depends on the ability to locate and distinguish desired senior talent. The traditional and highly respected gentlemen's agreement not to 'steal' seniors from other consulting firms leads bureaux to recruit from outside their own sector. Bureaux usually employ explicit 'networking' strategies for this purpose. Hence, seniors often enter consulting firms via networks with members of client organisations, small independent consulting firms, alumni or social acquaintances.

In the selection of candidates in expertise-oriented organisations an important issue is the uncertainty which stems from HR as 'experience goods'. Junior candidates' creative talent and entrepreneurial attitude have not yet been revealed through their work experience. Besides, although senior candidates do have work experience, recruiting firms have some uncertainty about the nature and level of their entrepreneurial and creative qualifications. Hence, to acquire adequate information on a candidate's creative skills, most expertise-oriented bureaux in our study spend a large amount of time and money on formal and informal talent assessment, focusing on HR mobilisation measures, such as the use of personal references, employees' informal networks and creativity tests.

**Training, coaching and mentoring** Training is considered to benefit both the organisation and the individual professionals. Organisations continuously need to widen and deepen professional expertise and experience in order to meet the market demands for state of the art multi-services. Training improves an individual's professional qualifications profile, enhancing his or her career opportunities both in and outside the organisation. HR literature on training (Becker, 1993; Spencer and Spencer, 1993) distinguishes between general and firm-specific investments in talent development. Becker (1993) defines general training as increasing employees' marginal productivity both in and outside the firm, whereas firm-specific training raises marginal productivity exclusively in the firm. The expertise-oriented bureaux in our research accentuate the importance of informal general training. Regular internal 'eye opener courses' spread new ideas and visions on consulting or organisational development among colleagues. These training programmes are intended both for junior consultants, who learn the tricks of the trade in the wake of their senior mentors, and for seniors and partners who can stay tuned through mutual consultation and the exchanging of experiences. Individual coaching and mentoring are considered effective practices from which the professional dedication, attitude and integrity of employees can benefit.

**Assessment, retention or release.** Lifetime employment does not characterise the employment relation in expertise-oriented professional service firms. One partner describes the high level of staff turnover in his firm: 'People stay with us normally about six years. That is not a problem, consultants are always on the move, we are just a stepping stone in their careers'. This practice results from a generally acknowledged career-steering principle of 'grow or go', also known as 'up or out': employees either follow the internal career path all the way to the top or leave before their careers falter. A severe up or out system suits the retention and release strategy in expertise-oriented organisations, where there is only room for top expertise. Grow or go demands a good deal of policies which regard performance assessment. Hence, in most expertise-oriented bureaux we find an elaborate assessment policy. One bureau, for example, has developed a tradition of an annual 'fleet show', in which the management team evaluates each consultant's potential. Other bureaux invite every consultant who has reached the crucial age of 40 to discuss the possibilities of his or her future career. These interviews often result in the ultimate selection of the few seniors who will reach the stage of partner or director. Most organisations use specific contracts ('balanced individual score cards' or 'personal commitment statements') to lay down, among others, an individual consultant's training history and future training plans.

As long as their assessment shows promotion perspectives, consultants continue to have an incentive to stay with the company. A less promising assessment, however, puts the release machinery into action as a matter of course. Bureaux hardly mention explicit activities to outplace their employees; covered or implicit signals are usually effective. The grow or go principle is apparently part of the organisation's 'social architecture' (Mueller, 1996). It is an unwritten rule in all bureaux to give leaving consultants all the help they need: outplacement search, assistance in starting their own company, or even allowing them to take over some of the bureau's clients.

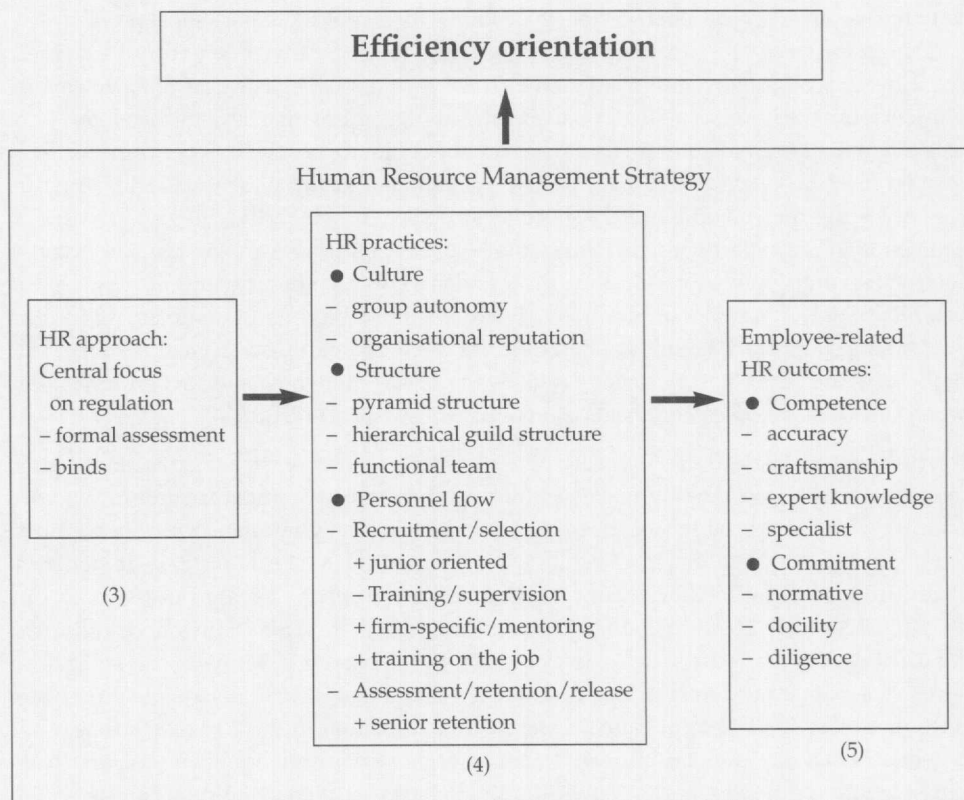
### **Efficiency-oriented HRM**

The competencies required for outstanding performance in an efficiency-oriented output market strategy differ from those in expertise-oriented strategies. A senior consultant from one firm says: 'We are known for our superior methods... hence, we want our consultants to apply those standards in an adequate way. That is what clients expect and that is what we are good at'. Efficiency orientations require the knowledge, skills and capacity to apply standard procedures to familiar organisational problems. These requirements do not imply the need for people who mindlessly fill out forms. Consultants need to combine accuracy with craftsmanship and expert knowledge. Accuracy is necessary for bringing standardised, though complex jobs to a good end, while craftsmanship and knowledge help the professional to make proper assessments of the particular methods needed to solve the client's organisational problems. Thus, an efficiency-oriented professional is more a specialist than a generalist and he or she can provide in-depth customised advice in specialised fields.

Efficiency-oriented professionals are committed to the organisation from a continuance perspective. Employees base their loyalty on a rational calculation regarding their opportunities on the labour market. Since their knowledge of procedures is often rather firm-specific, opportunities in the organisation tend to be the more attractive. A continuance commitment also manifests itself in the employees' expressions of loyalty to their firms, despite possible doubts. As some respondents stated, efficiency-oriented firms expect employees to express their loyalty by diligently performing in accordance with the organisational standards. 'Indoors we freely criticise the way we work, but towards our clients we express unconditional loyalty to our organisation', says a junior consultant.



**TABLE 4** *Efficiency-oriented HRM*



The core focus on the efficiency-oriented HR outcomes of accuracy and diligence spurs professional service firms towards the HR approach of bureaucratic regulation. Bureaucratic regulation is considered to be more suitable than HR mobilisation to obtain managerial insight into employees' knowledge, skills and attitudes and to steer employees to perform according to well-established organisational routines. Bureaucratic regulation concentrates mainly on:

- The efficiency-oriented cases paid quite a large amount of attention to formal recruitment and selection techniques by using standardised selection and assessment tests.
- Organisations attract and retain the most promising employees by offering them high salaries and bonuses. In addition, bureaucratic regulation focuses on contractual agreements between employer and employee concerning the payment of training costs and clauses to prevent employees from working for competitors. Activities which are staged to release employees include outplacement programs, early retirement bonuses and, in addition, freelance contracts.

**HR practices in efficiency-oriented organisations**

Efficiency-oriented firms emphasise the importance of a corporate culture in which individual professionals serve as ambassadors to uphold the company's name and reputation. To familiarise new employees with the organisational culture some organisations use an introductory course. Formulating advice, professionals rely on the company's



standard procedures and intervention techniques, searching to reformulate the unexpected problem in terms of familiar concepts. Sometimes this efficiency orientation even clashes with the nature of professional services in dealing with complex organisational problems.

Due to the relatively high degree of standardisation, efficiency-oriented firms can rely quite heavily on junior employees as the firm's 'grinders', (Maister, 1993: 7). In several efficiency-oriented organisations in our research the organisational structure took the form of the familiar pyramid structure: a greater number of junior consultants perform relatively standardised tasks guided and supported by a smaller group of seniors. This structure resembles the traditional hierarchical guild structure, in which the 'master' (the senior professional), an expert specialist, takes the lead in organising complex tasks in order to instruct several 'youngsters' (junior professionals). Efficiency orientation requires the establishment of functional teams: fairly stable constellations of seniors and juniors performing specialised, unique tasks in different client organisations. 'Sometimes I feel part of the "A Team" or "Ghost Busters". We know the tricks of the show and we perform it well, when and where needed', comments a junior consultant from one firm.

**Recruitment and selection** To realise efficiency, professional service organisations search for juniors who can quickly learn standardised procedures and for seniors who are familiar with the procedures of the organisation. Junior candidates are typically recruited among graduates from general training programmes, such as schools and universities. Recruitment follows a 'harvesting' strategy. The efficiency-oriented bureaux in our research regularly scout and interview senior students at universities and invite the candidates who are most suitable to apply for junior positions. Bureaux can still afford severe selection procedures; several respondents stated that it is not unusual that they hire only one in every 100 applicants. Though they occasionally hire search bureaux for potential senior consultants, efficiency-oriented organisations often rely on measures from bureaucratic regulation, such as over-bidding salaries earned at current employers, to recruit and select senior capacity.

**Training and supervision.** All of the cases we have depicted as being experience-oriented, emphasise the importance of firm-specific training. Firm-specific training courses and on the job training teach employees the standards and procedures used in accomplishing efficiency and providing confidential information on products and formats developed by the firm. All of the efficiency-oriented bureaux in our research spend a considerable amount of time (10 to 20 days a year) and money (approximately US \$5,000) per consultant on cursory training. The majority of courses consists of short-term indoor training courses. The fact that bureaux develop a high percentage of these courses themselves is not surprising, since offering training courses to client organisations is one of their core activities. Some bureaux exploit economies of scale, by developing training classes for groups of junior consultants.

**Assessment, retention and/or release** Since efficiency-oriented organisations rely heavily on their specific technical knowledge and skills in order to realise efficiency, they may want to retain senior employees whose upward careers have stagnated. Since top level job openings are limited, the chances of promotion are often small. Many seniors tend to leave so that bureaux risk losing their senior expert knowledge and experience. Hence, several bureaux have recently developed career sub-levels in order to promote seniors, without offering them full partnership. Some bureaux allow them to be partners without shareholdership, whereas other bureaux create 'senior plus jobs'.

## IMPLICATIONS

In this article we have developed a diagnostic framework to chart the relationship between HRM and organisational strategic performance options in professional service organisations. In an 'ideal typical' way, we have presented two different HR strategies (consisting of HR approaches, HR practices and HR outcomes), which enhance organisational performance effectively in either expertise or efficiency-oriented strategies. We have based our analysis on an exploration of HR strategies used in actual professional service organisations in the management consulting industry. In this section we will discuss the outcomes of our analysis with regard to:

- the two HR strategies in view of the HR-based view of the firm
- the use of 'ideal types' for the analysis of strategic HR and
- the practical implications for HRM in professional service organisations.

### **The HR-based view of the firm**

The HR-based view of the firm focuses on the contribution of HR to a firm's sustainable success. To allow multiple firms providers to make a sustainable profit, potential clients need to perceive unique differences in the services offered by the various providers, and providers need to sustain their uniqueness. In order for HR to contribute to this uniqueness, they need to be intangible, imperfectly imitable/substitutable. Hence, HR strategies aim at creating imperfectly imitable/substitutable HR practices and outcomes, which enable the firm to gain and sustain 'human process advantage' and 'human capital advantage' (Boxall, 1996). These advantages contribute to the realisation of the goals aimed at in the organisation's output market strategy.

Steering devices for HR are the organisation's strategic options. One dimension in which the strategic options in the professional service industry are differentiated is the expertise or efficiency character of the services offered. Some organisations successfully focus on offering tailor-made solutions for extraordinary organisational problems (expertise orientation), while others concentrate on more standardised procedures for dealing with a client's organisational problems (efficiency orientation). Research, which is founded on the HR-based view of the firm, focuses on the determination of those imperfectly imitable/sustainable HR practices and outcomes, which contribute to either strategic option. Our ideal typical analysis forms the first step of such an analysis. The ideal types describe general HR strategies for expertise or efficiency orientation. These general descriptions leave room for each individual firm to choose among alternative practices and to fill in the particulars in their own unique way. Hence, firms will find ways of to further distinguishing themselves. A detailed description of each firm's particular practices goes beyond the scope of this article.

Our ideal typical reconstruction indicates that in expertise-oriented professional service organisations people make the difference: individual professionals offer new original, client-specific solutions to new and unusual problems. HR practices (based on HR mobilisation) create a human process advantage in order to give free rein to the consultant's creativity and authentic talent, which is clearly the most important source of human capital advantage (Boxall, 1996). HR practices concerning the organisational structure and culture focus on the creation of unique, flexible, autonomously operating, project-oriented working teams which are difficult to copy by competitors. Successful recruitment practices hire 'independent free spirits' based on networking and informal assessment methods. These practices form a human process advantage, since they are concealed by causal ambiguity and thus not easily imitated by competitors. The HR practices which are successful in retaining the best

consultants within the company provide continuously challenging jobs, informal coaching and an atmosphere which stimulates the sharing of knowledge among colleagues. It is especially difficult to evoke the consultant's commitment to spending time on coaching and sharing knowledge when one considers their high opportunity costs. Hence, competitors who want to copy such strong commitment must have patience.

Efficiency-oriented professional service organisations, on the other hand, rely on their products: efficient use of their standard solutions to familiar problems. HR practices create a human process advantage by focusing on bureaucratic regulation in order to develop a difficult to imitate organisational guild structure of 'masters' and 'apprentices', and a unique culture in which professionals perform according to firm-specific organisational standards. Here the consultant's knowledge of the firm-specific products forms the basis of the human capital advantage. This knowledge is the most important resource which generates competitive advantages over others and is usually spread through formal courses. Although competitors can easily obtain a consultant's individual knowledge if they hire the consultant, the knowledge is usually less valuable outside the former employer's team. HR practices which stimulate product renewal and which enhance an efficient dissipation of knowledge benefit the organisation. Though it is unlikely that such practices cannot be copied, competitors cannot copy the knowledge that is already rooted in the organisation.

### **Ideal Types**

The construction of the ideal types is a creative and perceptive technique, which is used in this article chart HR strategies which can contribute to successful organisational performance. The dichotomy, quintessential of this technique, serves several purposes. First, it helps to sharpen theoretical insights concerning strategic human resources. In line with Weber's original scientific use of the reconstruction of the 'ideal type', the two ideal typical representations help strategic HR theory to formulate relevant hypotheses concerning the impact of HRM on organisation performance in professional services organisations.

Secondly, the use of ideal types helps HR practitioners improve the effects of HR measures. The presentation of the two ideal types supports the insight that there is no 'one best way', since we did not present these types as ideals or 'best-practices'. As a representation for situations of extreme strategic options, the ideal typical reconstruction provides the strongest substantiation for the viewpoint that the pursuit of different strategic options requires different bundles of HR practices. Furthermore, ideal types can have a so-called 'mirror' function: they serve as models for comparing real practices. By analysing the difference between the actual HR strategies and the ideal typical strategies, practitioners can help evaluate the consistency of their own practices and gauge the location of their bundle of practices on the scale between expertise and efficiency orientation. Practitioners can then evaluate if their HR positioning matches the firm's strategic output market positioning and adapt their HR practices in the direction of the relevant ideal type.

### **Practical implications for HRM in professional service organisations**

All of our case organisations combine to some extent expertise and efficiency output market orientations. Though our ideal types describe HR strategies for extreme expertise or efficiency orientations, other strategic or HR considerations may help explain why firms avoid extreme orientation in either direction. It is noteworthy for example that all 'brains' organisations emphasise the vulnerability of a strict expertise orientation. As one partner in a firm says, 'we are not good at procedures at the moment, but we need to develop them to improve our position in the market'. 'Product development becomes increasingly

important to us in the near future', says a senior consultant. This suggests that external conditions, for example scarcity on the labour market for seniors and firm growth, draw firms towards the development of efficiency-based services.

Two forces withhold organisations from extreme efficiency orientation. The first one being, that, though efficiency-oriented organisations attract employees who value the security of working with clear-cut and proven concepts, these employees still have an aversion against very rigid trammels of official routines. To keep employees satisfied some lenience is necessary. Secondly, those tight concepts and procedures hinder employees' innovation. Extremely efficiency-oriented organisations may lack the flexibility required to improve and renew products in order to adapt to changing market demands.

The observed mix of orientations provides challenges for HR strategies in professional service organisations in two ways. First, the mix of orientations has an impact on HR practices. HR personnel need to make a balanced selection of practices from both HR strategies (expertise and experience orientation) and apply them carefully to situations, departments and employees, despite the possible conflicting impact of HR orientations. Our research article provides an overview of HR approaches and practices which help HRM staff in the complicated task of developing the required competencies among employees with various aptitudes and then assigning employees with certain combinations of competencies to different types of projects. A complicating factor in this difficult task is the insight that many HR practices and outcomes take place as unintended side-effects of the codified HR policy of the firm (Mueller, 1996). The evolutionary and sub-routine character of HR practices and outcomes makes it very hard to identify and to anticipate on (future) HR challenges. Secondly, the insight into the complex relationship between HR strategies and organisational performance options presented in this article may help empower HRM staff in order to accentuate the role of strategic HRM in the formulation and execution of the output market strategic options of the organisation. Since HR is known for its possible contribution to the sustainability of an organisation's competitive advantage, it is important to concentrate on the professional competencies of employees which really do 'make a difference'. It is exactly these human competencies which contribute in the long run to the determination of successful organisational strategies in the professional service sector.

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