

BEST PRACTICE v. BEST FIT

How do we know what is an appropriate HR model for a firm?

Best Practice Model

- **Argument:** all firms will see performance improvement if best practice implemented (see empirical evidence)
- **Method:** identify best practice, give HR a high profile, get top level commitment, sell it, do it, measure it, reward champions
- **Advantage:** much agreement / tradition on basic best practice. Also recognition of 'bad' practice. Established rules of thumb for selection; training; appraisal methods. No need to re-invent. It's out there.
- **Disadvantage:** difficulty arises when we go beyond these straightforward practices. There is great diversity of 'best practice' which moves away from uniformity. **Pfeffer(1994)** listed 16 practices for 'competitive advantage through people'. Danger of becoming an end in itself at the expense of company goals / interests. Can be conflict between benefit to company & benefit to worker ie re-engineering & downsizing. Employees may lose their voice. May not be appropriate in all situations or even in sections of same business.

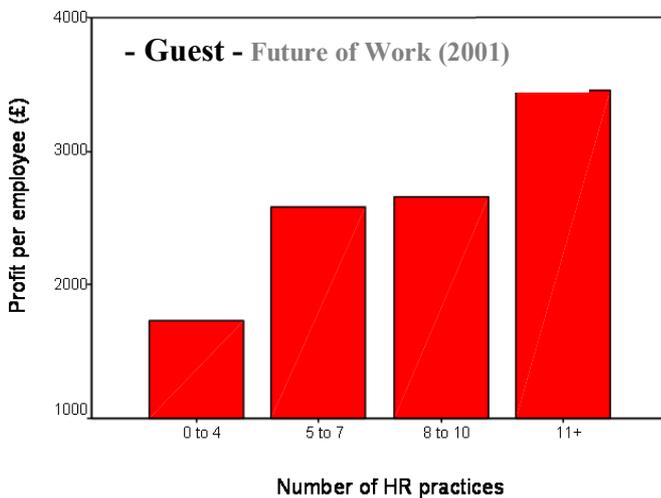
High Performing Work Systems (HPWS) High Involvement

- **Ability** – enhance employee ability & knowledge through good recruitment & training
- **Motivation** – motivate desired behaviours through strong incentives
- **Opportunity** – encourage ideas & contribution from motivated & better trained workers

Characteristics of Best Practice Model:

Work teams ~ flexibility
2-way information ~ comms
Care with recruitment ~ selection
Traits / Behaviours ~ not skills
Fair appraisal ~ reward
Involved in decision making
Emphasis @ training ~ learning
Individual development

Empirical Evidence that HRM is associated with performance



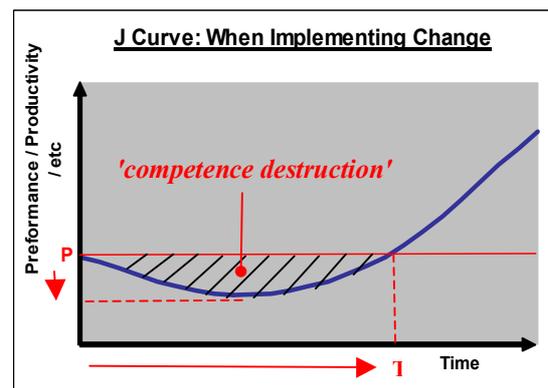
“High commitment management practices are associated with better economic performance, better workplace well-being and a better climate of employment relations but just 14% of all workplaces have a majority of them in place”

- WERS98 -

Workplace Employee Relations Survey

So why do so few adopt this model? Why is there diffusion?

- The Usual Suspects:
- difficult to implement
 - often crisis driven
 - cost / time (see j-curve)
 - culture
 - national differences
 - poor track record
 - threat to authority
 - HR considered bit player
 - no commitment / belief
 - perceived as intangible
 - difficult to determine cause & effect



Best Fit Model ~ appropriateness

- **Argument:** HR strategy becomes more efficient when it is linked / tailored to its surrounding context or environment of the business. 2 elements:
- **(1) External Fit:** the fit is linked to the operations strategy / marketing strategy etc . . . ie the competitive strategy of the overall business. **Schuler & Jackson (1987)** developed the connection between competitive advantage, employee behaviours and HR practices.
Disadvantage: can overlook employee interests. Some firms are good all-rounders so HR practices unlikely to be based on one strategy. There is always **tension**. Can be too focussed at expense of

flexibility and **agility**. While practices may meet existing strategies, things change quickly so HR strategy cannot be too parochial. Must support organisational flexibility. Too much can be left out.

- **(2) Internal Fit:** HR policies & practices must be **coherent**. Avoid policies which work in opposite directions ie. encouraging teamwork then rewarding individual performance. Make sure that practices are in proportion to the organisation ie. stage of development / resources.

Consistency is King:

- consistency across practices ie. if you use expensive selection procedures, then you need to invest in training / work satisfaction to reduce churn.
- consistency across employees ie treat **similar groups** of employees the same.
- consistency over time ie employees hate it when they are treated differently day to day.

BEST FIT STRATEGIES

Company A - Differentiation Strategy

Product Development ~ creativity / risk oriented / cooperative behaviour
HR Practices ~ select highly skilled / minimal controls / invest in training / appraise long-term / IT systems in place / economy of SCOPE / Just-in-Time / integrate product with workforce

Company B - Cost Leadership

HR Practices ~ less attractive / reward high output / want predictable behaviour / many controls / appraise short-term / minimum training / economy of SCALE / mass production

EXAMPLES of linking HRM to Business Strategy

Steel Mini Mills in the USA

Differentiation Strategy	Low Cost Producer Strategy
65% adopted High Commitment Management (HPWS)	95% adopted Control or Cost Minimisation

Apparel / Clothing Industry

Differentiation Strategy	Low Cost Producer Strategy
High fashion / quick response times / interface with retailers ~ technology links / lean production / Modular / multi-skilling / team work	Progressive bundle / low employee interaction / time & motion studies / efficiency at expense of HR

Cost Effectiveness is a driver – employers will adopt more HR practices in sectors in which they must do so (table-stakes) or where there is a clear pay-off. This again impacts on **diffusion**.

Best Fit vs. Best Practice ~ is best practice dead ?

Empirical evidence suggests that HR policies are inevitably driven by context ~ including societal / organisational / size of organisation / stage of development etc. However, there are many generic processes (eg selection / appraisal) that make it sensible to follow best practice. Things get out of hand when this approach is taken further and applied as a 'one size fits all'. . . *small firms are indifferent to the nuances of HR practices in larger companies; HR employed in high tech industries are of little concern to mass producers.*

It is better to make a distinction between **surface** layer & **underpinning** layer:

Surface Layer :	<u>Firm Specific HR Policies & Practices</u> Heavily influenced by context ~ the BEST FIT
Underpinning Layer :	<u>Generic HR Processes & Principles</u> Processes with fundamental applicability ~ the BEST PRACTICE

[It is possible to argue that there are certain desirable practices which if employed, will always bring about an improvement in performance. Get this right first, then you can fashion the best fit practices more intelligently.]

Steps to take to adopt better HRM

- align the HR strategy with the Business Strategy (use appropriate HR approach / integration at Board Level / find the key linkage)
- align the interests of the workers & the interests of the firm (resolve conflict / communication)

Consider the following:

Exhortation vs. Education (ie BPR or multi-skilling)

Working Parties

Focus Groups

Benchmarking