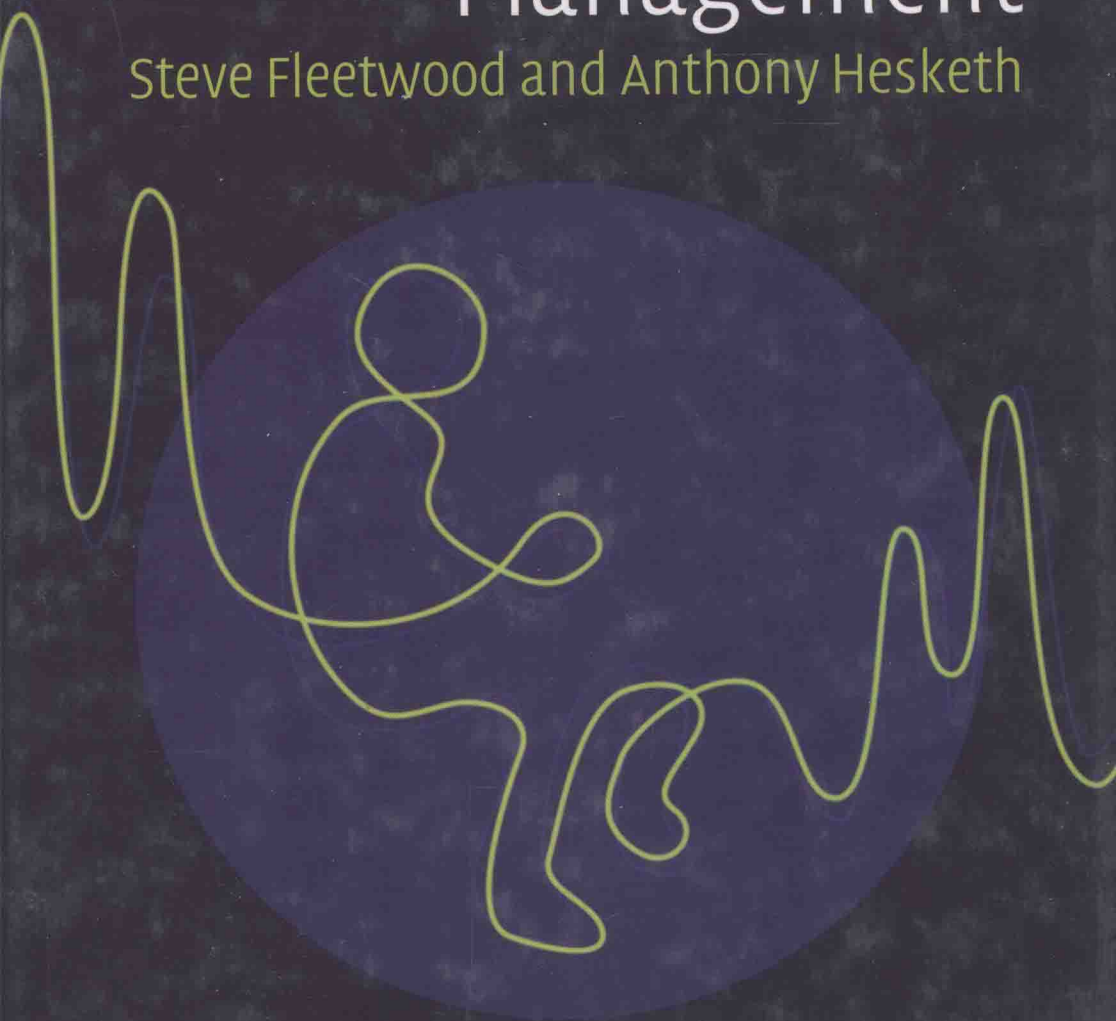


# Explaining the Performance of Human Resource Management

Steve Fleetwood and Anthony Hesketh



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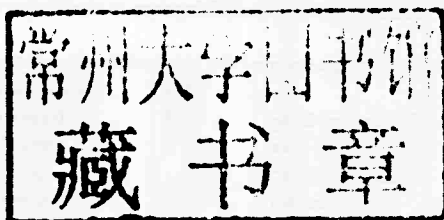
# Explaining the Performance of Human Resource Management

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**CAMBRIDGE**  
UNIVERSITY PRESS

CAMBRIDGE UNIVERSITY PRESS

Cambridge, New York, Melbourne, Madrid, Cape Town, Singapore,  
São Paulo, Delhi, Dubai, Tokyo

Cambridge University Press

The Edinburgh Building, Cambridge CB2 8RU, UK

Published in the United States of America by Cambridge University Press,  
New York

[www.cambridge.org](http://www.cambridge.org)

Information on this title: [www.cambridge.org/9780521875998](http://www.cambridge.org/9780521875998)

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First published 2010

Printed in the United Kingdom at the University Press, Cambridge

*A catalogue record for this publication is available from the British Library*

*Library of Congress Cataloguing in Publication data*

Fleetwood, Steve, 1955–

Explaining the performance of human resource management /  
Steve Fleetwood, Anthony Hesketh.

p. cm.

Includes bibliographical references and index.

ISBN 978-0-521-87599-8

1. Personnel management. I. Hesketh, Anthony. II. Title.

HF5549.F574 2010

658.3–dc22

2010008748

ISBN 978-0-521-87599-8 Hardback

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## *Explaining the Performance of Human Resource Management*

Human resource departments increasingly use the statistical analysis of performance indicators as a way of demonstrating their contribution to organisational performance. In this book, Steve Fleetwood and Anthony Hesketh take issue with this 'scientific' approach by arguing that its preoccupation with statistical analysis is misplaced because it fails to take account of the complexities of organisations and the full range of issues that influence individual performance. The book is split into three parts. Part I deconstructs research into the alleged link between people and business performance by showing that it cannot explain the associations it alleges. Part II attributes these shortcomings to the importation of spurious 'scientific' methods, before going on to suggest more appropriate methods that might be used in future. Finally, Part III explores how HR executives and professionals understand their work and shows how a critical realist stance adds value to this understanding through enhanced explanation.

STEVE FLEETWOOD is Professor of Employment Relations and HRM in Bristol Business School, University of the West of England, Bristol. His research focuses on philosophy of science and methodology as it is applied in social science, especially in organisation and management studies and economics. He has written extensively on critical realism.

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*For Anne & Helen, Thea and Abby*

## Preface

For those who wish to be free from the difficulty it is profitable to go through the difficulties properly; for the subsequent freedom from difficulty is the resolution of the difficulties gone into, and those who are unaware of a knot cannot unite it.

(Aristotle, *The Metaphysics*)

In the summer of 2005 one of us was presenting at a conference arranged by one of the leading US consulting houses for senior executives. Like so many other conferences that litter today's global executive network, the topic of the conference was 'Making HR Transformation Work'. A partner of the consulting house had heard one of us speak at another conference and was intrigued by our alternative view that we should aim to understand how human resource management (HRM) achieves its impact, not through measurement and prediction, but through explanation, and using a philosophical approach called *critical realism*.

As is the wont at such conferences, a cartoonist had been hired at great expense to the hosts. The cartoonist was charged with the responsibility of capturing the essence of what was being said, which would appear on a huge screen behind the presenter. As one of us began to articulate our critique of the way in which businesses currently seek to 'measure' how HR unlocks the performance of people, the cartoonist first drew a picture of a giant canary blocking access to the shaft of a coalmine. In an instant, the cartoonist had captured what we were trying to say. In order to establish if a mine was filled with poisonous gas, miners would often release a canary into the mine. The hypothesis deployed was a simple one: were the canary to stop singing, it was deduced the mine was probably unsafe. The giant canary in the cartoon immediately depicted: a) how inappropriate for the task the canary was; and b) that we have now left this somewhat quaint practice behind and replaced it with much more sophisticated

levels of understanding as to how gas collects in mines. Or at least we thought we had.

As the presentation continued, another cartoon appeared, this time to roars of laughter in the audience. The cartoonist had drawn a human egg being approached by millions of sperm in order to depict our view that we can run literally millions of regressions and still the results will be unsuccessful in terms of *explaining* how HR practices can either enable or disable the performance of people.

The quest to find 'the Holy Grail of establishing a causal link between HRM and performance' (Legge 2001: 23) appears to have united groups who usually manage to ignore one another. Many university-based empirical researchers, HRM consultants, HR managers, HR business partners, not to mention some government departments, trade unions and think tanks are united in their belief in the existence of a quantifiable, measurable, empirical and statistical link, connection, relation or association between HRM practices and organisational performance. Henceforth we will refer to this as the HRM-P link. And whilst each of these stakeholders has slightly different reasons for holding this belief, few doubt its existence.<sup>1</sup>

This belief has encouraged a small army of researchers who, armed with the very latest 'scientific' methods, empirical data and statistical techniques, seek to specify the link with ever more quantitative precision. Current HRM and related journals bulge with empirical studies, each one investigating a slightly different bundle of HRM practices, including this or that intervening variables, using slightly different measures of performance, and each one coming up with slightly different results. Whilst some find the evidence, at best, inconclusive, most are prepared to believe that the sought after link exists, and will be shown to exist with more, and better, empirical analysis. In a recent article taking stock of the paradigm, leading empirical researchers Becker and Huselid (2006: 906–7) claim that:

For example, on the basis of the results of five national surveys between 1991 and 2000 and data collected from more than 3,200 firms, we have estimated that 'the effect of a one standard deviation change in the HR system is 10–20% of a firm's market value' (Huselid & Becker, 2000: 851). More broadly, in a meta-analysis of 92 recent studies on the HR-firm performance relationship, Combs, Ketchen, Hall, and Liu (2006) found that

an increase of one standard deviation in the use of high-performance work systems is associated with a 4.6% increase in return on assets (ROA).

Despite the fact that the belief in a quantifiable, measurable, empirical and statistical link between HRM practices and organisational performance is widely held, there are a few who remain unconvinced. And we are amongst their number. We do not believe that this kind of link exists in the simplistic form described by many writers; and as our fieldwork shows, many HR professionals agree with us. This brings us nicely to the purpose of this book.

*Explaining the Performance of Human Resource Management* focuses upon what we call *meta-theory*, which, for the time being, can be thought of as philosophy of science, methodology and research techniques. We argue forcefully that the meta-theory underpinning empirical research on the HRM–P link, along with the commonly used quantitative, empirical and statistical techniques, have extremely serious shortcomings. These shortcomings are so serious that they not only undermine almost all the empirical research, they also damage our ability to theorise matters adequately. Worse still, empirical researchers on the HRM–P link are not even aware of these shortcomings. The purpose of the book, then, is to initiate a scholarly debate about the most appropriate meta-theory to use to explain why HRM practices influence organisational performance. And now for some caveats.

First, we are aware that our book will make us extremely unpopular amongst the army of empirical researchers worldwide currently engaged in empirical research on the HRM–P link because, whether we are right or wrong, no one wants to have their entire meta-theoretical approach called into question. This is something we, as scholars in the field with an alternative view, just have to live with.

Second, although we do not believe that a quantifiable, measurable, empirical and statistical link between HRM and organisational performance exists, this does not mean that we think that HRM practices are unconnected to organisational performance. Indeed, we emphatically accept that a well-managed workforce does, in many circumstances, tend to increase organisational performance. What we do not accept is that this tendency will manifest itself in the kind of quantifiable, measurable, empirical and statistical link of the kind



currently sought after by empirical researchers through techniques such as regression analysis. We take the fact that the empirical evidence is inconclusive to mean that social systems in general, and the workplace in particular, are multiply caused, complex, evolving and subject to the exercise of human agency. And this, in turn, means that they are not the kinds of systems where relatively mechanical chains of causality (i.e. 'x causes y, causes z') are found. The problem is not necessarily that causal relations are absent; but rather the problem lies in the way causality is (mis)conceived in the literature.

Third, although we clearly do not believe our critique to be mistaken, we have given due consideration to the possibility that it might be. Even if we are mistaken, however, we do not believe the paradigm will be damaged by two dissenting voices out of scores of articles and now several books that claim (nearly) all is well in the paradigm. If our critique is not mistaken, then our two dissenting voices should make a valuable contribution to the paradigm.

Fourth, whilst we do sketch out our alternative meta-theory, we will no doubt be criticised for failing to put all this into practice and failing to offer a full-blown alternative theoretical model of the HRM-P system. Unfortunately, doing all this is probably beyond the ability of two researchers, and certainly beyond the scope of one book. Two researchers cannot possibly:

- (1) identify the meta-theory underpinning empirical research on the HRM-P link;
- (2) explain the meta-theoretical shortcomings;
- (3) pinpoint their causes;
- (4) introduce, explain and deploy an alternative meta-theory;
- (5) generate an alternative theoretical model; and
- (6) test these alternative theories.

A small army of empirical researchers are already engaged in some of this, and asking us to do it on our own is asking the impossible. Our task is to highlight the meta-theoretical problems that bedevil empirical research on the HRM-P link, give some hints as to how they might be resolved, and hope that others will join with us in developing alternatives.

Fifth, and related to the previous two points, we will no doubt be criticised for being largely negative, for deploying a strong critique whilst offering little by way of positive contribution. We are,

of course, aware that this kind of strong critique often irritates those who see themselves as getting on with the real task of 'doing' empirical research on the HRM-P link. To them, we are likely to be viewed as 'wreckers' pursuing the 'easy option' of sniping from the sidelines. We reject this for two reasons. First, because we seriously believe that the meta-theoretical shortcomings are so serious that the likes of ourselves, who have taken the time and trouble to investigate meta-theory thoroughly, perform a valuable service by spelling the shortcomings out boldly. Second, because we do not believe that researchers should plough on regardless of known shortcomings, on the (mistaken) grounds that no alternative exists. Nascent alternatives, such as those we offer, will remain under-developed until some of the small army of researchers abandon the current meta-theoretical perspective and start engaging with alternatives. Where would science be today if we had remained with flat-earth theory on the grounds that, whilst we knew the earth was not flat, we were not exactly sure what shape it was?

Finally, this is not a kind of 'how to' book, where we prescribe an alternative meta-theory so HR professionals can get on with the job of 'doing' HR. The book is intended for several audiences. It should be of interest to academics working in the areas of HRM, Industrial and Employment Relations, Organisation and Management Studies, Economics of Personnel, Sociology of Work and Employment and to HR consultants, concerned to better understand in order to investigate the relationship between the way people are managed and the way organisations perform. It should be of interest to practicing HR managers, business partners and senior executives who suspect people – or, to use the in-vogue phrase, talent management – matter. It should be of interest to trade unions and their negotiators engaged in negotiating the introduction of HRM practices in ways that protect and promote the interests of their members. It should be of interest to those involved in government departments like the former DTI, now BERR, and the Treasury, not to mention employers' associations like the CIPD, CBI and various think tanks such as the Work Foundation dedicated to promoting better people management. It should also be of interest to a smaller number of academics interested in meta-theory, especially those who are critical of positivist meta-theory (or scientism as we prefer to call it) and seek alternatives. In sum, everyone gains from a plausible explanation of how HRM practices influence

organisational performance – if indeed they do. Unless we need to identify a particular party, then, we will use the term ‘HR stakeholders’ to refer to all those who may have an interest in explaining how HRM practices influence organisational performance.

In addition, meta-theory is not ‘for’ any one in particular, and neither is the ‘meta-theory of HRM’. Imagine a scenario where HR managers are engaged in negotiations with the trade unions over the introduction of performance-related pay. There is no meta-theory for, or relative to, HR managers which is distinct from that for, or relative to, trade unionists. In a later chapter we will claim that the workplace is an ‘open system’. To the extent that this claim is true, then it is true for HR managers and for trade unionists, and indeed for other stakeholders. Whatever political implications follow from claims such as these, they do not invalidate the meta-theory that generated them, and to the extent they are true, they can only worry those who are afraid of the truth.

## Acknowledgements

The long gestation period of *Explaining the Performance of Human Resource Management* has given rise to a correspondingly long list of people we need to thank. Our memories will inevitably be selective so we apologise now to those colleagues – academic and practitioners – whom we overlook below.

Those individuals whose contributions would be impossible to forget include Martin Hird, then HR Director at BAE Systems, and Tony McCarthy, now Group Director of People and Board Member at British Airways plc. Together with Tony, Martin opened the door for our original research with HR executives back in 2002. This was supported with a generous research grant from Lancaster University to enable us to undertake the research in the United States for the *Something Wicked This Way Comes* research project. This, together with Martin's voluminous knowledge of HR, and his correspondingly voluminous networks, not to mention Professor Cary Cooper's boundless energy – led the way to what has now become the £1.4 million Performance-Led HR Centre at Lancaster. So, it has been a long time in coming, but half a dozen papers and a book later, we can now claim seedcorn research money does lead to substantial output!

Together with these key players, additional support was provided by Carl Gilleard, Chief Executive of the AGR for the research *Adding Value Beyond Measure*, enabling us to try out some of our emerging findings. After this, a long list of people, in no particular order, have opened doors to and for us, and encouraged our work during some of the dark days when we felt the 'Quantum Force' of the statisticians was going to preclude us from publishing our work. Riding to our rescue was Rick Delbridge who edited a special issue of *Organization* and who was especially encouraging of our work, cajoling us to write 'just one more draft' in order to tease out the empirical and explanatory insights our critical realism and *reflexive performance* could afford. Then follows a long list of people, including David Andrews,

Xchanging, Mark Blundell, McDonald's, David Brown, Shell, Paul Chesworth, Vodafone, Peter Clark, IBM, Guy Haines, CSC, John Hindle, Accenture, Professor Bob Jessop, Lancaster University, Guy-Joël de Lhoneux, Unilever, Deborah Kops, Deutsche Bank, Tim Palmer, PA Consulting, Bill Payne, IBM and John Whelan, BAE Systems. These few people gave their time and networks, giving us access to what is now a global network of HR and C-suite executives. The majority of this network has chosen to remain anonymous but here we thank you all the same! The usual disclaimer relating to the claims we make in this book being our own opinions applies.

We also have to thank our editor at Cambridge University Press, Paula Parish. As each deadline sailed by our inboxes and phone mailboxes were filled with nothing but kind and encouraging emails and messages to continue working on the manuscript. Never once did Paula show frustration with us. This made for a refreshing change in a world where an immediate response is demanded, let alone expected, proving Cambridge University Press is one of the few remaining publishing houses that still understands what academic research requires in order to flourish. Our greatest debts, as ever, are owed to Anne Fleetwood and Helen, Thea and Abby Hesketh who take outstanding performance to a level far beyond our powers of understanding on a daily basis! This is for you.

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PART I

*HRM and organisational  
performance today*