

RESEARCH AND PRACTICE IN HUMAN RESOURCE MANAGEMENT

Wei, L. (2006). Strategic Human Resource Management: Determinants of Fit, *Research and Practice in Human Resource Management*, 14(2), 49-60.

Strategic Human Resource Management: Determinants of Fit

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ABSTRACT

Previous research suggests that firms can gain sustainable competitive advantage through strategically managing their human resources, operationally exercised as strategic human resource management (SHRM). However, it remains unclear about the conditions under which a firm employs SHRM so as to achieve enhanced performance. As an important feature underlying SHRM, fit reflects the interactive role of HRM practices and their relationship with the organisational strategy. In this paper, factors facilitating fit are discussed. In the proposed conceptual framework, the individual, functional and organisational level factors that influence both types of fit are discussed. Among these factors, individual/personal factors impact both horizontal fit and vertical fit, while HR function related practices and firm level factors influence horizontal fit and vertical fit; respectively.

INTRODUCTION

Strategic human resource management (SHRM) is a strategic approach to manage human resources of an organisation. Compared with technical HRM, SHRM is considered a relatively 'new' concept, despite its continuous development over the past two decades. Although there is still no consensus on an exact definition of SHRM among scholars, broad agreement has been reached on its basic function, which involves designing and implementing a set of internally consistent policies and practices that ensure the human capital of a firm contributes to the achievement of its business objectives (Schuler & MacMillan 1984, Baird & Meshoulam 1988, Jackson & Schuler 1995). The traditional HRM function, or technical HRM activities, covers a wide range of employment practices, including recruitment, selection, performance appraisal, training and development and the administration of compensation and benefits. By combining the HRM function with business strategy, SHRM reflects a more flexible arrangement and utilisation of human resources to achieve the organisational goals, and accordingly helps organisations gain a competitive advantage.

The congruence or 'fit' between HR practice and business strategy has been emphasised in studies related to SHRM (Miles & Snow 1984, Baird & Meshoulam 1988, Wright & McMahan 1992). It is the primary logic of melding the HR function into the strategy of a firm. A great deal of conceptual illustrations assert that the employment of effective HR practices and the design of a HR system compatible with the firm strategy are imperative for the successful implementation of business strategies (e.g., Lengnick-Hall & Lengnick-Hall 1988). There are also increasing numbers of empirical studies, conducted in various contexts, on the relationship between strategic HRM and organisational performance or competitive advantage (Huselid 1995, Bjorkman & Fan 2002, Chan, Shaffer & Snape 2004). Essentially, SHRM emphasises developing the firm's capacity to respond to the external environment through a better deployment of human resources. Since the strategy of a firm is a reflection of its response to the competitive external changes, a human capital pool with a broad array of skills that are compatible with the corporate strategy, is a catalyst for fulfilling the strategic goals through promoting behavioural utility among employees.

This paper will launch a conceptual framework on the antecedents of fit for better understanding the various organisational factors that facilitate the establishment of fit of HR practices and firm strategy. The definitions for the two types of fit are first introduced, and this section is followed by a summary of the theoretical underpinnings of how they both relate. A conceptual model illustrating the determinants of both horizontal and vertical fit is then provided, together with a detailed discussion on the role of three level factors on both internal and external fit. Propositions are suggested as well in this part. Finally, the implications of the conceptual model and the directions

for future research are discussed.

TWO TYPES OF FIT

As a fundamental characteristic of SHRM, fit denotes the utilisation of human resources to help with the achievement of organisational goals. According to Wright and McMahan (1992: 298), fit means "...the pattern of planned human resource deployments and activities intended to enable the firm to achieve its goal.". Scholars suggest that there are two kinds of fit: horizontal fit and vertical fit. Horizontal fit refers to the congruence among the various HRM practices (Baird & Meshoulam 1988), and vertical fit refers to the alignment of HRM practice with the strategic management process of the firm (Schuler & Jackson 1987). In general, vertical fit is viewed as a critical step toward attaining the organisational goals through initiating some human resource activities that are aligned with firm objectives, while horizontal fit is essential when making good use of these resources. These concepts are illustrated as Figure 1.

Figure 1 Two Types of Fit

'Fit' – the pattern of planned human resource deployments and activities intended to enable the firm to achieve its goal. <p style="text-align: right;">(Wright & McMahan 1992)</p>		
FIT	Horizontal Fit A congruence among the various HRM practices (Baird & Meshoulam 1988)	Vertical Fit The alignment of HRM practices with the strategic management process of the firm (Schuler & Jackson 1987)

Among studies related to fit between HRM practices and business strategies (e.g., Huselid 1995, Delery & Doty 1996), various types of 'match' have also been examined from these two perspectives. For example, there are studies on strategy-employee skills fit as well as strategyemployee behaviour fit (Wright & Snell 1998). For instance, the matching of the skill of the CEO and the general managers (Kerr 1982, Hambrick & Mason 1984), and the fit between a firm's strategy and some specific behaviours of employees.

THEORETICAL BACKGROUND OF FIT

Definitions of the two types of fit of SHRM have been introduced. In brief, horizontal fit refers to the coordination among a variety of human resource practices, while vertical fit is concerned more with the compatibility between the HR practice package and the strategy a firm pursues. Both types of fit contribute to the competitiveness of a firm and it is important to arrange a variety of HR practices in a systematic way. As Pfeffer (1994) noted, a set of properly arranged HR practices can have a positive impact on firm performance when they are properly implemented.

The linkage between HR practice and strategy has been studied by scholars (Wright & McMahan 1992, Wright & Snell 1998). Due to the lack of rigorous empirical evidence, it is argued that this linkage is relatively weaker than the relationships among internal HR practices. However, from the perspective of the resource based view (RBV) of the firm (Barney 1986, 1991), researchers advocate that HR systems aligned with the firm's strategy is helpful for creating competitive advantage.

The basic assumption underlying RBV is resource heterogeneity (i.e., resources that different firms own are unlikely to be identical). According to the resource based view of the firm, the kinds of resources capable of being utilised to help a firm achieve sustainable competitive advantage over other firms must meet four requirements. These resources must be (1) valuable, (2) rare, (3) inimitable, and (4) non-substitutable. In other words, if the resources a firm employs cannot be easily imitated by another firm or substituted by similar resources another firm

employs, the firm can take advantage of this to gain competitiveness not simultaneously pursued by other firms. Some authors have argued that human resources meet these four requirements (Snell, Youndt & Wright 1996). Furthermore, the linkage of organisational resources and firm strategy cannot be easily identified and imitated by other firms due to the **social complexity and causal ambiguity** (Barney 1991, Boxall 1998). Thus, the integration of human resources with the appropriate strategy can generate a sustained competitive advantage for the firm.

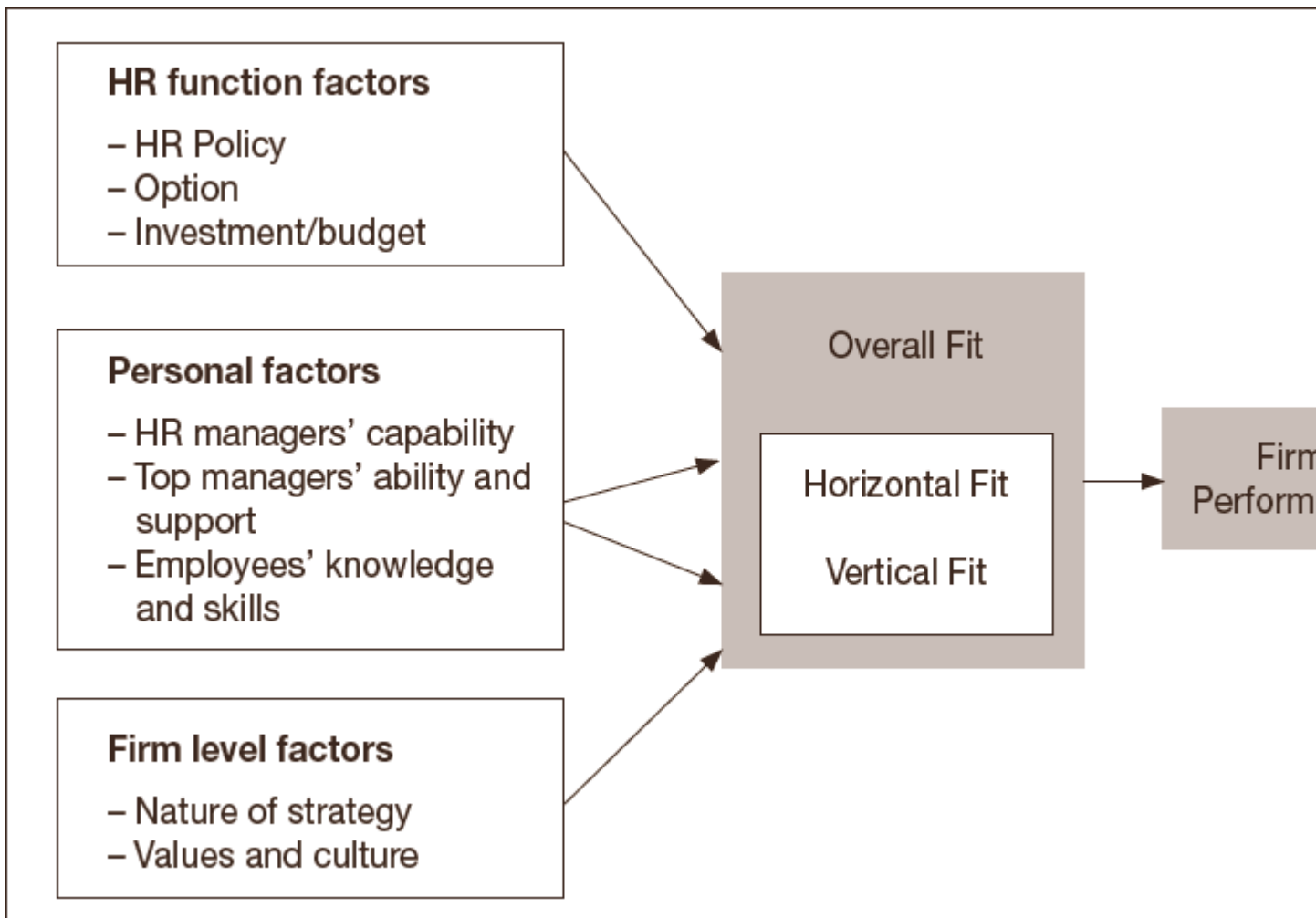
Based upon the resource based view of the firm, Huselid, Jackson and Schuler (1997) differentiated technical HRM activities from strategic HRM activities. They clarified that technical HR activities can be utilised by firms to select employees with high values and train them in a way different from other firms, and hence, ensure its human resources to be unique. Strategic HRM activities are those that are integrated or congruent with the company strategy, which can ensure the inimitability of the firm's human resources.

Technical HRM activity spans a series of HR practices. These activities range from attracting high quality employees, placing them in appropriate positions, training them to work in the firm's specific way, and motivating them to devote more enterprise to organisational goals. This requires a systematic design of HRM practices. HRM effectiveness is likely to be decreased if not enough attention is paid to coordinating these separate HRM practices. For example, an excellent employee might find it quite difficult to achieve high performance without good training compatible with organisational goals and the work itself. Similarly, a lack of motivation for well trained employees may be linked with them performing below their potential. It logically follows that adoption of effective technical HRM activities is a key to implementing a set of internally consistent HR practices. **In other words, effective technical HR activities are necessary for accomplishing the partial goal of SHRM (i.e., the horizontal fit among those HR practices).**

Vertical fit, on the other hand, emphasises the congruence of a series of HR measures with the strategy the firm is pursuing. **A firm will be challenged to acquire or create the optimal package of human resources necessary for its strategy and to enhance its overall performance.** Now the question is; are there any factors influencing the achievement of horizontal fit and vertical fit? Since achieving both kinds of fit is necessary for firm performance, an examination of the relevant determinants of fit is helpful to better understand the nature of SHRM as well as its contribution to organisational performance.

Determinants of horizontal fit and vertical fit are shown in Figure 2. The **HR function factors** are proposed to be specific factors that influence the compatibility of a variety of HR practices themselves, **while firm level factors** are analysed as major determinants for matching HR activities with organisational strategy. **Personnel factors**, which embrace the capabilities of both employees and managers, including HR manager and other top managers, are identified as common determinants for both horizontal fit and vertical fit.

Figure 2 Determinants of Both Types of Fit



DETERMINANTS OF HORIZONTAL FIT: HR FUNCTION FACTORS

There are three HR function related factors that influence horizontal fit. They are (1) HR policy, (2) options of HR practices, and (3) the investment or budget of HRM. In general, horizontal fit of HRM refers to the congruence of a bundle of HR practices within the system (Baird & Meshoulam 1988). Specifically, horizontal fit is concerned about the composition and arrangement of the HRM system, and the organisational policies toward HRM matters for achieving a high level of fit among independent HR practices. Actually, HR policy directed clearly to or emphasising the compatibility among a variety of HR practices facilitates a fine tuning process within the system. If certain functions are considered less important than others, according to the HR policy, less resources/budget will probably be given to these functions, making them poorly operated or less effective, relative to other institutional functions. For example, if a firm installs a HR policy that places more attention on some aspects of HR practice, such as training or compensation, while discriminating against some others, such as a high quality selection process, the overall fit among HR practices will be poorly exercised. This action consequently, will bring higher costs and negative performance. Therefore, the following proposition is suggested.

Proposition 1a: Horizontal fit will be enhanced if the HR policy of a firm places more emphasis on the balance of a variety of HR practices.

Another aspect that will influence HR horizontal fit is the option of HR practices available for implementation by the HR department and the firm. Regarding the HR function as a whole, if there are more options in the practical activities in managing human resources, there will be more freedom to choose the most optimal ones. This is especially important in today's highly competitive and uncertain business world. Bhattacharya and Wright (2005) suggested that the real options view could be especially useful to account for this issue. They argued that although a firm's human resources, as an asset, can provide value and competitive advantage, the uncertainties and risks associated with HR assets, cannot be ignored. However, firms can manage these uncertainties through HR options which are capabilities generated by certain HR practices and their combinations. In sum, the scope of choices for HR activities can be enlarged if there are a series of options of them. This will increase the probability of realisation of horizontal fit. Thus, the following relationship is proposed.

Proposition 1b: Horizontal fit will be enhanced if more options on HR activities are available for a firm.

The investment of the firm in its human resource management is a key factor influencing horizontal fit. According



to **resource dependence theory** (Pfeffer & Salancik 1978), resource is critical for organisational existence and development. Internally, the development of various HRM functions depends on resource provision from the organisation (Tsui 1990). The amount of investment or budget devoted to HRM represents the resources available for the HR department. This is critical if the HR department is to design or implement high quality HR practices. For example, some effective HR practices require the involvement of outside experts or licensing expertise from other organisations. The establishment of an efficient HR system by experimentation or reform requires investment as well. Under these circumstances, resources or investments of a firm provided to its HR practices will affect the horizontal fit of the HRM system. Therefore, the following proposition is suggested.

Proposition 1c: Horizontal fit will be enhanced if more investment (larger budget) is provided for HRM activities.

DETERMINANTS OF BOTH TYPES OF FIT: PERSONAL FACTORS



Ability and skills of organisational members are important for successful implementation of organisational goals and strategies (Lado & Wilson 1994). As a major function, the HR system and practices are crucial in facilitating the achievement of business strategy through the management of people. Therefore, it is necessary to identify the impact of personnel factors on HRM based on prominent characteristics of the HR function. First, based on the **competency perspective**, managerial competencies are important organisational dimensions, which add value to an organisation through its determination on the acquisition and arrangement of business resources, process of resource transformation to valuable products or services as well as the value delivery process to organisational stakeholders (Lado, Boyd & Wright 1992). **The capability of HR managers is critical in designing an internally consistent as well as a compatible strategic HR system.** Second, **HR managers have been found to play significant roles in the business strategic making process (Dutton & Ashford 1993).** But with a common view of the HR function as an advisory or support department, and hence, as a 'cost centre', it is vital for top level managers to express recognition and support of the HR function, if the HR function is to add value to the organisation. **Third, as the target of HRM, employees should be allowed to influence the performance of the HR function through the interaction of their knowledge and skills with HRM practices and the strategies implemented in the firm.** In sum, the three aspects, the **HR managers' capability**, **the top manager's ability and support**, and the employees' knowledge and skills will affect both the horizontal fit of HR system and the vertical fit of HRM practices and firm strategy.

HR Manager Capability

The capability of a HR manager matters to the effectiveness of the design and implementation of a HRM system. In general, a HR manager's capabilities include the utilisation of business knowledge to facilitate HR issues, the ability to initiate changes or help employees to plan for changes, and the capability to coordinate HR redirection corresponding to the strategic changes of the firm (Wei & Lau 2005). **The more capable the HR manager, the more likely this manager will be able to discern any incongruence or problems of the HR system, and thus, be able to initiate adjustments to rectify the incompatibility of the system.** The scope of the capability of the HR manager is important. A wider scope of abilities and skills of a HR manager will help to **accommodate** a much broader variety of HR practices that are necessary for achieving the horizontal fit of contemporary complex institutions.

The capability of a HR manager influences the establishment of the vertical fit, due to the nature of vertical fit as the arrangement of HR packages based on the firm's strategy. **The design of a sophisticated HR system can be well accomplished only if the firm's strategy is comprehensively understood by the HR manager (Huselid, et al. 1997).** Therefore, the capability of a HR manager, especially in terms of abilities in understanding and analysing the business strategy, will influence the achievement of vertical fit. In sum, the capability of the HR manager is positively associated with the realisation of both types of fit. The following proposition is then suggested.

Proposition 2a: Both horizontal fit and vertical fit will be enhanced if the capability of HR managers is high so as to understand and design an internally consistent HR system congruent with the firm's strategy.

Ability and Support of Senior Managers

Ability and support from senior managers is also critical for a firm to acquire both horizontal fit and vertical fit. According to the competency based perspective, organisational competencies can be employed as potential sources of competitive advantage. **As an important type of organisational competencies, managerial competencies refer to the ability of strategic leaders to create and enact the strategic vision of an organisation (Lado & Wilson 1994).** The ability of top managers in the business strategic process is key to the competitive advantage of an organisation in the marketplace. Top-level managers have an important role in the implementation of business strategy, and

consequently, they impose their influence on various functional activities, such as the design of HR system, based on their knowledge and insights from both strategic and business perspectives. The relationship between their enactment of strategy and functional performance reflects the connection between strategy and the HR system, which is vertical fit.

Additionally, the support of top managers for the HR function to adopt a series of internally compatible HR practices has impact on the fit of the HR system itself and on the HR system with the firm's strategy. Nevertheless, there are numerous debates on the value or significance of the HR department in organisations, due to the 'cost' nature and the difficulty in identifying the immediate contribution of the HR function under some circumstances. It becomes less likely that horizontal fit and vertical fit will be obtained if there is a lack of conceptual consent and/or insufficient resources. Prior research evidence (e.g., Tsui 1990) also indicates that top executives are one of most important constituencies on HRM and the priorities of top management have significant influences on HRM policies and practices (Kane & Palmer 1995). The logical conclusion is that the ability and support given by senior managers impacts both horizontal fit and vertical fit. Hence, the following proposition is suggested.

Proposition 2b: Both horizontal fit and vertical fit will be enhanced if top managers are capable and supportive of a HR system that is internally consistent and congruent with a firm's strategy.

Employee Knowledge and Skill

Employee knowledge and skills also influence the HR system fit. Since the effects of the design and implementation of a firm's HR activities are embodied through all employees, their knowledge and skills directly affect the quality and performance of the HR system (Wright & Snell 1998). Arguably, more knowledgeable and skilful employees will have competencies to understand and enact a variety of HR practices, such as those designed for a firm's specific strategy. Conversely, if the knowledge and skills of employees are limited, it is likely their behaviours and performance will be adversely affected, and their acceptance and utilisation of HR practices will be impeded. Therefore, it becomes difficult to expect the employees to accomplish the series of HRM activities internally consistent, or congruent with the corporate strategy. A lower level of desirable knowledge and skills exercised by employees will accordingly hinder efforts to change their behaviour in an effective way to accomplish their job and the HR practice. Thus, the following proposition is provided.

Proposition 2c: Both horizontal fit and vertical fit will be enhanced if employees possess a high level of knowledge and skill.

DETERMINANTS OF VERTICAL FIT: FIRM LEVEL FACTORS

Personnel factors influence both horizontal and vertical fit. It is suggested that other factors, however, especially some firm level factors, are pertinent for firms seeking vertical fit. Primarily, the nature of the strategy a firm chooses and **value and culture system** of a firm are proposed to be two major determinants that influence the extent of vertical fit that a firm can ultimately realise. These two factors are sequentially illustrated as follows.

Nature of Strategy

The nature of strategy impacts vertical fit. This relationship is because different strategies have unique implications on diverse HR practices, and will influence the achievement of vertical fit (Schuler & Jackson 1987). HR practices are designed and arranged to reinforce functional implications of the various generic strategies defined by Porter (1985). **For example, it will be more effective for firms adopting a cost leadership strategy to formulate uniform, objective criteria on performance evaluation than firms using a differentiation strategy. The clear goal of cost leadership strategy (minimising production costs) adds to the explanation, compared with the complexity and uncertainty of objectives of differentiation strategy. There is empirical evidence to support these perspectives.**

A recent study undertaken by Martell, Gupta and Carroll (1996) demonstrated the effects of different HR practices and business strategy on firm performance. Specifically, **these researchers found that training has higher positive effects for firms adopting a cost leadership strategy than with differentiation strategy. The authors of this investigation attribute the ineffectiveness of training under differentiation to a higher extent of creativity and flexibility needed, which is not likely to be learned through pre-defined training. Therefore, it will be easier for a firm to achieve the strategy matching HR arrangements if the goals defined by a certain strategy are less uncertain and clearer. The following proposition is then suggested.**

Proposition 3a: Vertical fit is influenced by the nature of strategy a firm adopts; specifically, the less uncertain and clearer of the strategic goals, the vertical fit will be better achieved.

Values and Culture

Values and culture of a firm impact the vertical fit. Organisational culture and values shape the HRM practices (Bowen & Ostroff 2004). The influence of values and culture on vertical fit is mainly reflected in how quick or good the strategy can be merged into the designing of HR practices that are compatible with the strategy. Development of a strategy compatible HR practices is affected by corporate values and culture, partly because the HR system takes on an advisory or consultancy role in the management structure of a firm. **If the contribution of the HR function is deemed as minor or unimportant, it is difficult to induce the efforts of the HR managers to design a series of HR practices according to corporate strategy. Even if the HR department is self motivated to provide a set of strategy compatible HR arrangements, the adoption and implementation of these HR activities may become problematic due to lack of enough support from the top level managers, who are representatives of the values and the unique culture of a firm (Wei & Lau 2005). Furthermore, the importance of values and culture of a firm for vertical fit can be reflected in the speed of achieving vertical fit. Indeed, the HR system of an organisation is relatively stable and difficult to change quickly due to inertia (Wright & McMahan 1992). Consequently, when a new strategy is formulated, the adjustment or redesign of the former HR system cannot emerge automatically.** However, the values and the culture system of an organisation that emphasises a quick following of those functional departments with renewed strategy will benefit the vertical fit process, with an immediate adjustment toward designing and adopting an optimal HR practice arrangement. Similarly, an organisational atmosphere advocating a higher extent of fit between strategy and HR practices will be advantageous to the realisation of vertical fit for an organisation. Hence, the following proposition is suggested.

Proposition 3b: Vertical fit is influenced by the value and culture system of an organisation. Specifically, vertical fit will be better achieved with values and culture system promoting the design of a strategy compatible HR practices and a timely adjustment of HR practices following the strategic change.

CONCLUSION

Developing an effective HR system that is compatible with organisational strategy is critical for the functioning and success of a firm in the competitive business arena. Indeed, the increasing complexity of contemporary corporate life has elevated the importance of shedding traditional beliefs that were the concerns of personnel managers, and to shape newer mindsets, proactive attitudes and professional identities, orientations that have placed greater emphasis on the utilisation of human resources. In this process, achieving both types of fit is necessary for firms striving for good performance. This paper provides a conceptual model on the conditions that a firm might employ to establish both fits, with propositions related to three independent factors within the organisation. Specifically, the HR function related factors are relevant to the horizontal fit, while the firm level factors to vertical fit. Personal factors, including the managers and employees, impact both types of fit.

In spite of providing an initial exploration on the antecedents of HR fits the process by which these antecedents have impact on both fits is yet unclear. Further studies, especially empirical based investigations, are needed to better understand the mechanisms through which these factors influence both types of fit. For example, the three types of factors take different roles in facilitating the realisation of both fits and such roles may be distinct in firms with different backgrounds, such as firms from different industries, with different ownership types and size. Despite the extant studies on the role of firm strategy on vertical fit (e.g., Delaney & Huselid 1996, Youndt, Snell, Dean & Lepak 1996, Fey & Bjorkman 2001), further evaluations that rigorously examine the effect of other firm level factors, and even functional and personal level elements, need to be made for a comprehensive understanding of the antecedents of SHRM. In addition, it may be worthwhile to examine the possible interactions among these factors that may have an impact on the performance of a firm. For instance, HR policy is usually formulated based on firm strategy, and the HR frameworks and top level managers are relevant in this process. Clarification of the relationship among these determinant factors from different levels will contribute to a better understanding of the overall process underlying how both fits are realised, and so lead to better outcomes. Methodologically, qualitative research and longitudinal designed empirical studies will be very helpful, for achieving desirable corporate objectives.

Traditionally, the HR department was viewed as an entity that served the role of staffing, compensating and training of personnel. Today these functions are considered to be pragmatic, narrow in scope, and now managerial duties that are less central than the role of the HR manager who embodies 'softer' more important orientations. With the increasing importance of human resources in modern business the management of people is highlighted to be strategic. This means, a systematic and long term view needs to be taken in the management of human capital so as to enhance the organisational competitiveness. Indeed, the HR plans and system need to be developed on the long term plan of the firm, and when of a high quality the HR system will feature the internal consistency of various HR practices. This is onerous for establishing the strategy to be compatible as well as internally consistent with the HR system, or SHRM, initiatives are challenged at various levels. Encouraging high trust ideologies to seed collaborative work place relations will require the attention and support of top management towards HRM at the corporate level, expertise of managers in both business and HR functional area, and a culture acknowledging the

importance of HR as well as facilitating the effective implementation of HR activities. In sum, it is an interactive process that SHRM and business development will promote each other. Firms engaging in HR development activities are likely to be rewarded by the improvement of both financial performance and quality of human capital, which in turn, will strengthen those antecedents for achieving better fits, and finally enhancing the competitiveness of the firm.

AUTHOR

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