



Theoretic insights on the nature of performance synergies in human resource systems: Toward greater precision

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ABSTRACT

Synergy is a central tenet of the organizational level approach to human resource management (HRM). However, current theoretic treatments of synergy in the HRM literature are too inspecific to offer much insight about its essential characteristics in HRM systems. To move the treatment of synergy toward greater precision, this paper describes three different theoretic approaches to synergy in HRM systems: virtuous overlaps, independent effects, and efficient complementarities. Each of these approaches to synergy is better fitted to some contingencies than to others and is operationalized by different methodologies. Recognizing these different varieties of HRM system synergy allows researchers to better understand and estimate the impact of HRM systems on organizational performance. Moreover, the theoretic perspectives on synergy described here apply to many types of systems beyond HRM.

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1. Introduction

While synergy can be defined in many different ways, nearly all definitions encompass a notion of positive outcomes deriving from the interrelations among a system's components. The search for synergies in organizational activities is long-standing and extends across many fields under a variety of labels. This general concept is known in various fields as complementarity, internal fit, bundling, epistasis, supermodularity, congruence, alignment, horizontal fit, coupling, and interdependence.¹ In economics, for example, Milgrom, Roberts, and colleagues' theoretic work (e.g., Milgrom & Roberts, 1992) has brought rigor to arguments about the impact of synergies within organizational systems on organizational level outcomes. Organizational theorists, especially those working in organizational evolution and learning (e.g., Levinthal, 1997), have examined the impact of synergies under the rubric of internal fit versus flexibility. A subset of the literature on mergers and acquisitions explores the difficulties and opportunities inherent in combining the internal structures of two different organizations (Hall & Norburn, 1987; Mirvis & Marks, 1992). A similar stream of research examines the effects of alignment between partner firms in a joint venture (Hill & Hellriegel, 1994). Research on person–organization fit (e.g., Cable & Judge, 1997) and on team consensus in organizational behavior (e.g., Dess & Origer, 1987) share many synergy-related themes, as well.

Despite the breadth of interest in this topic, the road to synergies is hardly well marked. Most treatments of synergy lack precision in describing how interrelationships among system components create synergistic benefits for organizational stakeholders. Such is the case in the human resource management (HRM) literature. A growing stream of research examines the linkages between organizational level HRM systems and organizational performance, and there is evidence to suggest that this relationship can be meaningfully large for many organizations (e.g., Huselid, 1995; Ichniowski, Shaw, & Prennushi, 1997; MacDuffie, 1995). The organizational system level approach to HRM is a defining characteristic of this research for a number of theoretic and practical reasons, including synergy (Becker & Huselid, 2006). Aggregating HRM practices into organizational level systems addresses

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¹ I will not explore the distinctions between these terms in this study, as each of these concepts falls under the general notion of “2 + 2 = 5”. Certainly, there are specific differences between the concepts attached to each of these labels.

researchers' theoretic interests in HRM's influence on organizational performance by placing HRM at the same level of analysis. Moreover, the HRM system level approach simplifies a paper's theoretic exposition by reducing the many activities that occur within organizations' sets of HRM practices to a single construct, the HRM system. In practical terms, the HRM system level approach replaces an assortment of independent variables with a single aggregated variable, which simplifies the stories being told in data analyses and preserves degrees of freedom in the small data sets which are common in this stream of research. However, all of these problems can, in principle, yield to researchers' precision in crafting sophisticated theoretic arguments, to researchers' care in executing complex analyses, and to researchers' efforts (albeit quite likely great efforts) in acquiring larger data sets. Thus, these issues are strong but not overwhelming reasons to prefer organizational HRM systems as a level of analysis.

The other, more conceptually compelling rationale for examining HRM's impact on the organizational system level is synergy. Many scholars have contended that interactions among organizations' HRM practices can affect organizational performance (e.g., MacDuffie, 1995; Meyer, Tsui, & Hinings, 1993). Thus, to properly evaluate HRM's influence on organizational performance, goes the argument, researchers must capture these interactive effects by treating organizations' HRM practices as holistic systems (Hackman, 1985). Yet despite widespread acceptance of this contention, some scholars have suggested that the empirical evidence that synergy occurs in HRM systems is underwhelming (e.g., Gerhart, 2007; Guest, Michie, Conway, & Sheehan, 2003). Furthermore, notwithstanding some reasonable conjectures in the literature, a number of observers have concluded that no one has yet described where such synergies in HRM systems really come from (Bowen & Ostroff, 2004; Delaney & Huselid, 1996; Delery, 1998; Dyer & Reeves, 1995; Wilk & Noe, 1998).²

Instead, synergy is most often invoked metaphorically in HRM research as a loose rationale for working with aggregations of HRM practices. Concurrently, most operationalizations of synergy in empirical HRM research seem to be driven by convenience rather than by theory, with little justification given for the methodologies chosen (Becker & Gerhart, 1996). As a result, key theoretic assumptions that are intrinsic to the type of synergy methodology that a researcher employs may be made blindly and the resulting inferences about HRM system effectiveness can have unexpectedly limited generalizability. This lack of theoretic and methodological precision, in turn, makes it difficult to create theory-driven definitions of strategically effective HRM systems. Hence, there may be considerable value in better specifying the ways in which synergies work in HRM systems.

Accordingly, this paper points toward a more theory-driven approach to synergy within HRM systems. First, I review the state of synergy research in the HRM literature. Next, I explain and contrast three distinct theoretic approaches to HRM system synergy, highlighting the differences between these approaches with two detailed examples. I then discuss the methodological implications of these different theoretic mechanisms and the repercussions of this paper's arguments for research on HRM systems and organizational performance.

2. The state of synergy theory in HRM research

Let us first consider where discussions of synergy have gone in the HRM literature in recent years. Scholars typically address two general types of synergy (or fit) in research on HRM and organizational performance (Baird & Meshoulam, 1988). The first type of synergy is between HRM systems and factors external to such systems. These factors can be both within and outside the organization (Paauwe, 2004), including strategy, other functions of the organization (e.g., marketing and sales), industries, production technologies, and so forth. This type of synergy has been labeled vertical fit, external fit, or complementarities in the HRM literature. A second type of synergy (the focus of this paper) concerns interrelationships among the components of HRM systems. These components are usually HRM policies and practices, and this type of synergy has carried such labels as horizontal fit, internal fit, bundling, complementarities, configurations, and alignment. Although these two forms of synergy have captured the lion's share of researchers' attention, other definitions of synergy appear in the HRM literature, such as Baron and Kreps' (1999) temporal consistency or "fit over time".

While an extensive review of the many papers that have touched on HRM synergy exceeds the scope of this paper, some general issues are clear even in a concise review. Some work addressing these issues has recently appeared in the literature, yet in the opinion of many reviewers, the field is not much farther theoretically than it was a decade ago (e.g., Becker & Huselid, 2006; Boselie, Dietz, & Boon, 2005). I describe five such issues in this section of the paper, beginning with theoretic ambiguity.

2.1. Theoretic ambiguity about synergy's forms

One of the recurring obstacles to advancing synergy research in HRM is theoretic ambiguity about the mechanisms through which synergies occur (Cappelli & Neumark, 2001; Dyer & Reeves, 1995). One of the best early discussions of synergy in organizational systems is Thompson's (1967) well-known book, which, in part, contrasts three distinct types of interdependence: pooled interdependence, sequential interdependence, and reciprocal interdependence. Thompson posited that differing forms of system component interrelationships affect system outcomes differently. In many ways, Thompson's work has yet to be fully exploited in organizational research on synergies, which often relies on general predictions of synergistic effects without specifying the form of system components' interrelationships.

² To be fair to HRM, this circumstance is paralleled in the other parts of the organizational sciences. Most treatments of synergy focus on its effects rather than on synergy's form or genesis. In other words, there are few specific discussions of synergy's origins and essential characteristics in other fields to guide theory-building in HRM. Thus, to advance the field on this issue, we in HRM must work this problem ourselves, helped where possible by judicious gleaning from different scholars' discussions of synergy.

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