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A PROCESS MODEL OF STRATEGY AND HUMAN RESOURCE MANAGEMENT:
THE OWNERSHIP TRANSFERENCE MODEL

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Abstract

Theory on strategy and human resource management (HRM) has centered on the individual manager and the system of HRM practices. Despite their merits, neither individual- nor system-based models explain the process that shapes the strategy-HRM relationship. This paper fills that gap by introducing the Ownership Transference Model of HRM.

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A PROCESS MODEL OF STRATEGY AND HUMAN RESOURCE MANAGEMENT: THE OWNERSHIP TRANSFERENCE MODEL

Theory on linking strategy and HRM has focused on how HRM departments in large firms design and implement personnel practices in a way that supports the strategy of the firm. In so doing, previous work has not explained the process by which HRM departments in smaller firms develop HRM practices that match the strategy. In this paper, we try to fill that gap by presenting a model of the development of HRM departments in medium-size firms, and its relation to the strategy of the firm.

Current work on strategy and HRM

Theory on the link between strategy and HRM has evolved along two levels of analysis: the individual manager and the overall system of HRM practices. Individual-based models (Crandall, 1987; Gerstein & Reisman, 1983; Herbert & Deresky, 1987; Rothschild, 1993; Thomas, Litschert, & Ramaswamy, 1991) propose to match managers to the strategy a firm is pursuing. Implementing manager-strategy matching models requires either selecting outside managers or developing currently available personnel –or both (Kerr & Jackofsky, 1989; Szilagyi & Schweiger, 1984). In so doing, the models assume that: a) "there is no leader for all seasons" (Rothschild, 1993, p. 37); b) different jobs and strategies require different knowledge, skills and abilities (Gupta, 1986; Smith, 1982); c) manager-strategy mismatch may cause the strategy to be reformulated according to the manager's preferences (Herbert & Deresky, 1987); and d) matching managers and strategy increases performance (Gupta, 1986; Thomas, Litschert, & Ramaswamy, 1991).

System-based models of strategy and HRM can be divided into substantive ones and formal ones. Substantive elaborations delineate the content of specific strategies and the corresponding HRM practices. Substantive models study the linkage of firm strategy and HRM practices by explaining how specific HRM practices match the strategy of the firm. In this manner, some authors have explained the HRM strategic implications of the Miles and Snow (1978) and Porter (1980, 1985) typologies: different HRM practices have been linked to whether firms act as "defenders", "prospectors", or "analyzers" (Dyer & Holder, 1988; Miles & Snow, 1984; Sonnenfeld & Peiperl, 1988); similarly, other scholars have delineated the HRM practice implications of following a "cost leadership" or a "differentiation" strategy (Ostrow, 1992; Schuler & Jackson, 1987; Sivasubramaniam, 1993). Linking corporate strategy and HRM has also received attention. Lengnick-Hall and Lengnick-Hall (1988) relate corporate and HRM strategies in four types –development, expansion, productivity and redirection– along growth expectation criteria aimed at organizational goals and readiness in terms of human resources availability. Schuler (1988) followed Gerstein and Reisman's

(1983) corporate strategy typology in suggesting employee behaviors and HRM practices best suited to the strategy. Similarly, Purcell (1989) based his work on strategic HRM practices on the corporate strategy matrix developed by the Boston Consulting Group.

Formal models of strategy and HRM emphasize the nature of the relationship between strategy and HRM without discussing their content. Golden and Ramanujam (1985) distinguish four stages of integration. A mere “administrative linkage” between strategy and HRM characterizes personnel departments solely engaged in day-to-day administrative issues. “One-way linkages” characterize programs aimed at implementing strategy, still in a reactive role. “Two-way linkages” respond to reciprocal and interdependent, though highly formal, relationships between strategy and HRM. Finally, “integrative linkages” denote the richest formal and informal interplay between strategy and HRM, with HRM concerns impacting the organization over the long run and expanding firm expertise to areas like managing change and development. Other authors also present the final state of the evolution of strategic HRM in different stages (Baird & Meshoulam, 1988; Butler, Ferris & Napier, 1991; Smith, Borowski & Davis, 1992). Finally, Snow and Snell (1993) discuss three formal strategic HRM models viewing strategic HRM in terms of stable configurations specially suited to different environments.

Assessment of current work on strategy and HRM

While individual-based and system-based approaches might complement each other, they have never been recommended in combination. First of all, the matching of individual talent and strategy is centered on managers and executives, while system-wide models are thought of in terms of the workforce as a whole. Second, individual-based models emphasize a passive dynamism of compliance by securing individuals who will naturally act in ways that fit the firm’s strategy, whereas system-based models actively seek to elicit strategic behaviors out of the broader set of behaviors employees may display. Finally, while individual-based models focus on managerial selection and development, system-wide models call for all the HRM policies to recruit, select, appraise, train, develop and reward employees.

Substantive elaborations of system-based models do an excellent job of linking the content of HRM practices and firm strategy at the level of specific organizational units. However, those models present intractable problems when it comes to harmonizing strategy and HRM practices across diverse organizational units. On the one hand, too much organizational sophistication may be required to manage a diverse array of HRM practices that correspond to the diverse array of strategies that may be pursued by different units in large, complex firms. On the other hand, firms implementing diverse practices across units will face problems of internal equity among units, problems that will become especially salient whenever transfers of personnel across units take place. In view of these difficulties, large firms pursuing a variety of strategies simultaneously may be better off developing a set of “excellent” practices (Lake & Ulrich, 1992; Pfeffer, 1994) that are standardized across units. These practices capitalize on internal equity and organizational simplicity at the expense of the particular adjustment of each practice to the specific strategy of each unit. Smaller companies, however, may not need to settle for “excellent” practices that may fail to present the closest match to their own strategy.

A specific problem of substantive elaborations of strategy and HRM is that they center solely on the final outcome of the process by which strategy and HRM become aligned, thus leaving unanswered questions about how to achieve that outcome. That is precisely what formal elaborations of system-based models are expected to do, and yet they also fail to illuminate the causes and processes by which HRM departments become more or less “strategic”. In sum, we still need to develop comprehensive models that explain the process side of strategy and HRM. We introduce, next, the Ownership Transference Model as a first step in that direction.

The ownership transference model of strategy and HRM

Theory development need not be methodologically limited to theoretical thinking based on the analysis of previous work. Indeed, theory elaboration can also benefit from building upon data systematically gathered and analyzed (Glaser & Strauss, 1967; Strauss & Corbin, 1994). Thus, case studies have been proposed as a way to build theory “when little is known about a phenomenon” (Eisenhardt, 1989, p. 548) and, more specifically, as a way to improve on existing theory on the relationship between strategy and HRM (Dyer, 1984).

In-depth case studies of three manufacturing firms, which we will call Uranus, Neptune and Pluto, were used to analyze the strategy-HRM process. The companies have never been unionized. They are located in the Eugene-Portland area of Oregon. These firms are young (less than fifteen years from founding), medium-size (between 200 and 500 employees), and high-growth (having significantly expanded operations in recent years). This type of firm presents an ideal opportunity to explore the relationship between strategy and HRM for several reasons. First, they are less likely than larger firms to suffer from pressures to maintain consistency of HRM practices across organizational units pursuing different strategies. Second, because of their growth, these firms are subject to considerable internal pressures to change while struggling to find a new balance between employment demands and strategic direction. Also, since the firms are relatively young, historical interactions between strategy and HRM are less likely to confound the analysis.

Data were gathered between September 1995 and June 1996 from personal interviews, company documentation and archival records, as well as from direct observation. A case study data base was formed following Yin’s method (1989).

The study was based on “explanation building” (Yin, 1989) as an iterative process between theoretical statements in previous work and data from the cases. Familiarity with the contents of the cases was achieved by examining basic events and patterns, checking plausibility, and clustering data into meaningful groupings (Miles & Huberman, 1994). Concepts and variables were refined by contrasting and comparing them (Eisenhardt, 1989; Miles & Huberman, 1994). The search for the meaning of, and relationships between and within, the variables required attention to theoretically relevant mediation and moderation processes. In sum, the analysis was guided by keeping a logical “chain of evidence” between theoretical statements and data-gathering and interpretation (Yin, 1989).

The study centered around five HRM practices: communication, recruitment and selection, performance appraisal, training and development, and compensation.

“Magic Fit” and the Birth of the HRM Department

The Ownership Transference Model views strategic HRM as the outcome of a two-round process of transference of HRM practices, first from the line to the HRM department, then back from the HRM department to the line.

During the initial stages of organizational growth, top managers set the content of HRM practices. They are personally involved in hiring, evaluating, setting wages, solving training needs, and so on. Because top managers also define the strategy, the content of the initial HRM practices responds quite precisely to that strategy. We can then find a situation of "magic fit" between strategy and HRM: a perfect match or harmony between the two.

As the company grows, its top managers may begin to delegate some HRM responsibilities to line managers and supervisors. However, as we have seen in the firms in this study, growth eventually leads to increasing complexity in the management of human resources to the point where a HRM department is created. In some cases, however, the creation of a HRM department may eventually lead to the loss of the initial "magic fit" between strategy and HRM. That is what happened in Neptune.

Instead of bringing in an HRM expert from outside the organization, the firm may opt to develop an employee internally to take charge of HRM issues. We found this in Uranus. On the one hand, an advantage of internally "growing" an HR manager is that it may be easier for the top managers to ensure that the transmission of the basic approach and content of the HRM practices remains in close alignment with the strategy of the firm, thus increasing the probability of maintaining the "magic fit" between strategy and HRM. "Importing" an external expert on HRM issues, on the other hand, may create a gap between what the HR manager thinks are "best practices" according to the HRM profession and what may best fit the specific circumstances of the firm and, especially, its strategy. Of course, the gap between HRM practices as institutionalized by the HRM profession and HRM practices as best fitted to the strategy of the firm will be particularly difficult to bridge if the HRM professional lacks a profound knowledge of the firm. In Pluto, that gap grew so wide that the HR manager failed to gather support to implement changes in HRM practices and the newly created HRM department was disbanded.

Therefore, we need to develop a model of the relationship between strategy and HRM in medium-size, growing firms that can account for three things. First, the possibility of making the HRM department a true strategic partner (as may soon be the case in Uranus). Second, the possibility of the "strategic" option of not making HRM strategic (as in Pluto, where the process of making HRM strategic has never been initiated). Third, the working of a self-regulating mechanism able to paralyze the strategic HRM integration as soon as HRM practices cease to fit the strategy of the firm (as in Neptune, where the process of making HRM strategic, once initiated, has been stopped).

Transference of HRM Practices from the Line to the HRM Department

With an HRM department in place, HRM practices that had been in the hands of the top managers need to be transferred to the newly created department. We argue that this does not happen automatically, and that a number of factors determine the likelihood and sequence of transference of these practices from the top managers to the HRM department. The cases of Uranus, Neptune, and Pluto helped us to identify five of those factors. Their description and proposed effects follow.

Investment impact. "Investment impact" relates to the effect that each HRM practice has on the firm's cash flow: expensive HRM practices have higher investment impact than cheaper ones. We have seen top managers in Uranus, Neptune, and Pluto receive proposals from HR managers to develop high investment impact HRM practices with greater skepticism, scrutiny and, eventually, opposition than proposals to implement lower investment impact practices. That is specially the case when the expected returns on the investment in each practice may materialize only in the long run, are difficult to measure, or both, which means that high investment impact practices tend to remain under control of the top managers for relatively long periods of time, while lower investment impact practices are transferred to the HRM department soon after its birth.

Communication practices such as the writing of employee manuals or newsletters do not require large investments, and they certainly constituted the first practices to fall under the control of the HRM departments in Uranus, Neptune, and Pluto. Recruitment and selection, however, involve higher expenditures. While not under the command of the HRM department in Pluto, recruitment and selection practices for non-managerial positions in Uranus and Neptune have been completely transferred to their HRM departments. The investment impact of performance appraisal tends to be quite high with regard to both the time demands and training of appraisers, and the compensation and development of appraisees. Performance appraisal competencies were never transferred to the HR manager in Pluto, with the result that different managers used different appraisal methods, if they used any at all. In Neptune, the HRM professional has only recently begun to take charge of designing appraisal practices. In Uranus, however, the HRM department is completely in charge of performance appraisal. Finally, whereas all three firms practice some training, development, and compensation, only in Uranus have these practices been mostly transferred to the HRM department: training and development have been completely transferred; compensation only partially so. Not coincidentally, training and development and compensation are, arguably in that order, very high investment impact practices.

> ***Proposition 1:*** Other things equal, the less the impact of the HRM practice on the firm’s cash flow, the greater the likelihood that the management of that practice will be transferred from the line to the HRM department.

From an investment impact perspective, HRM practices will be transferred to the HRM department in the following sequence: communication, recruitment and selection, performance appraisal, training and development, and compensation. That is, communication practices will be the first ones to be transferred to the HRM department, followed by recruitment and selection, and so on.

Implementation complexity. “Implementation complexity” has two dimensions. The first is the degree to which implementing an HRM practice places increasing time demands on the managers responsible for that practice. For instance, keeping employees aware of their rights and responsibilities and of the policies of the company (i.e., communication practices) can be extremely time-consuming and, in this sense, complex to implement. Implementation of other HRM practices, however, may not require so much time. Agreeing on entry wage levels or on an employee’s annual raise, or deciding to institute a training program may not be as time-consuming as implementing recruitment and selection or performance appraisal.

The second dimension refers to the technical task complexity of HRM practices. Maintaining an efficient approach to communicating company policies to each employee, for instance, is technically complex due to a) the need to deliver the information in a consistent, fair and legal fashion; and b) the diverse background and level of sophistication of managers and supervisors originally in charge of delivering the information. Similar arguments could be made about the technical task complexity of recruitment and selection practices. However, we have not observed the same thing in our cases with regard to compensation practices such as fixing the entry wage level or the amount by which a manager’s salary should be increased in a given year: these are decisions that top managers make with relative ease, speed, and efficacy. This can also be seen in training and development: replacing a top manager who suddenly passed away while data was being gathered in Neptune took less than half the time required to introduce a major modification of the employee handbook.

> ***Proposition 2:*** Other things constant, the greater the time demands and task complexity of HRM practices, the more likely they are to be transferred from the line to the HRM department.

Uranus, Neptune, and Pluto showed that HRM practices can be ranked according to greater or lesser implementation complexity, as to both time demands and task complexity, in the following way: communication, recruitment and selection, performance appraisal, training and development, and compensation.

Commitment reversibility. “Commitment reversibility” relates to one kind of difficulty top managers experience when trying to change established HRM practices. This is a kind of resistance to change which has little to do with technical task complexity or history-induced inertia. Here, reversibility of HRM practices is linked to the nature of both the individual expectations and the organizational commitments those practices create and sustain.

At one extreme, we observed in Uranus that it was very difficult for the HR manager to gain acceptance of more structured ways of organizing the compensation system of non-managerial employees. On the one hand, some managers thought the new wage structure might introduce long-term negative effects. On the other, these managers believed that, once introduced, it would not be easy to change a wage structure that would create high expectations at the heart of the employees’ formal and psychological contracts.

At the other extreme, communication practices can be easily changed. In Uranus and Pluto, employee manuals undergo several ordinary modifications every year; in Neptune, the HR manager is also currently preparing one such modification. Recruitment and selection can be easily changed as well, as shown by the variation in recruitment sources used in Neptune –from high school graduates to people under jail sentences on work release– and in Uranus –from temporary agencies to employee referrals. Not coincidentally, communication and recruitment and selection were, in that order, the first practices to be transferred to the HRM department in Uranus and the only ones ever to be completely transferred in Neptune.

As with compensation, top managers in Uranus were reluctant to let go of training and development practices that the HRM department only owned long after communication, hiring, and performance appraisal had been transferred. And while performance appraisal was not completely transferred to Neptune’s HRM department, that department does not own training and development practices at all.

> ***Proposition 3:*** Other things equal, the greater the degree of commitment reversibility involved in an HRM practice, the greater the likelihood that top managers will transfer that practice to the HRM department.

“Commitment reversibility” considerations lead us to predict that communication practices are the ones most likely to be transferred, followed by recruitment and selection, performance appraisal, training and development, and compensation, in that order.

Stakeholder dynamism. “Stakeholder dynamism” introduces two political variables: the number of stakeholders affecting and affected by HRM practices, and their willingness to establish controls over the design and implementation of those practices. Stakeholders of HRM practices include top managers, middle managers and supervisors, and employees. Other stakeholders, such as unions, were not present in our sample.

Communication policies, for instance, are usually less vital for line managers than the form and structure of the compensation system. In Pluto, with a highly turbulent internal political environment, communication practices were the only ones over which the HRM department had effective control. Further, the transference of recruitment and selection practices in Pluto began relatively soon after the creation of the HRM department, but it stopped a few months later because of political infighting: some top managers with different views on the HR manager's ownership of hiring used the HRM transference process as a battlefield on which to fight out their internal disputes.

Compensation is clearly the most highly charged HRM practice in the firms in this study in terms of who is affected by it and to what extent. In one company, for instance, reforming the compensation system of a group of lower level employees led one of the owners to predict erroneously that the change would end up "destroying" the company. Training and development follows compensation with regard to the level of stakeholder dynamism due to the long-term implications of these practices: employees singled out to receive training in Pluto, for instance, know that they are specially likely to achieve important and challenging positions in the near future. In Uranus, however, training practices –already transferred to the HRM department– are less critical in terms of stakeholder dynamism and tend to follow, not to precede, the achievement of new positions. Performance appraisal is less critical to various company stakeholders than compensation and training and development due to its instrumental use for compensation, assessment of training needs, and career development.

> ***Proposition 4:*** Other things constant, the less critical the value of an HRM practice to various stakeholders within the firm, the greater the likelihood that top managers will transfer that practice to the HRM department.

Thus, communication practices will be transferred first, followed by recruitment and selection, performance appraisal, training and development, and compensation.

Content institutionalization. "Content institutionalization" looks at the effects of the institutional HRM environment on a) the design and implementation of HRM practices; and b) the locus for operationalization of that design and implementation (top management teams, HRM departments, line management, or employees themselves individually or in groups). In other words, the institutional HRM environment, as expressed by the employment law, professional associations, and academic programs and publications, influences who is in charge of designing and implementing HRM practices as much as it influences that design and implementation itself.

Communication practices such as the employee handbook are almost completely institutionalized in the sense that there is a high degree of consensus on the content and form of these manuals. Books on how to develop the manuals, for instance, with precise details on process and content, are found on the shelves of the HR managers in Neptune and Pluto. Likewise, there is a great consensus on how to develop hiring procedures, ranging from how to conduct employment interviews –including which questions should or should not be asked– to which selection devices exhibit greater validity and are less likely to be challenged on legal grounds. The HR managers in this study, for instance, "know" exactly what kind of questions they may and may not ask. In Uranus, where hiring has been mostly transferred back from the HRM department to the line, all regular employees are given a list of the questions they must ask –and must avoid– when interviewing applicants. However, there are other practices with a less specified level of content institutionalization. We are not aware, for instance, of any books or journals used by the HR managers in the companies in this study recommending specific compensation systems without first considering the external circumstances and internal processes of the firm. Similarly, there is little "institutional" advice on how to structure training and development other than that which relates them to the circumstances of the firm in question.

The degree of content institutionalization of a given HRM practice may affect the transference process in two ways. First, the HR managers may feel more secure in their role in those practices in regard to which the HRM profession shows greater certainty about their design and implementation. Therefore, it is in these areas of stronger institutional influence –communication, hiring, performance appraisal– that HR managers will exert greater pressure on the top managers to have those practices transferred to the HRM department. Second, since top managers too are influenced by the institutional pressure of the HRM field, they may be more likely to accept HRM practices with a high level of content institutionalization as practices over which the HRM department should exercise stronger ownership.

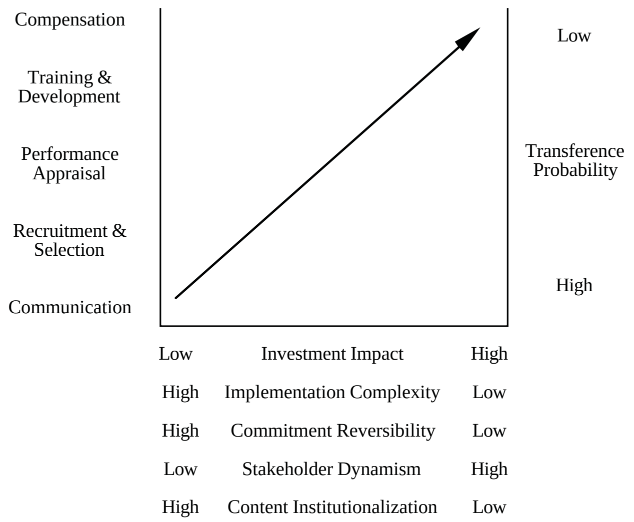
> ***Proposition 5:*** Other things being constant, the higher the level of content institutionalization of a specific HRM practice, the greater the likelihood that the practice will be transferred from the line to the HRM department.

HRM practices will therefore be transferred as follows: communication, recruitment and selection, performance appraisal, training and development, and compensation.

Integrating Transference Factors from the Line to the HRM Department

Five factors –investment impact, implementation complexity, commitment reversibility, stakeholder dynamism, and content institutionalization– have been proposed to drive the transference process of HRM practices to newly created HRM departments. Figure 1 shows the probability of transference and the ranking sequence of HRM practices as they are transferred from the top management to the HRM department, according to the transference factors. Figure 1 also reveals a striking consistency in the operation of each transference factor: each one predicts that communication practices will be the first ones to be transferred, and that recruitment and selection, performance appraisal, training and development, and compensation –in precisely that order– will follow.

Figure 1. Probability of HRM Practice Transference: All Factors Combined



Because each factor predicts the same transference sequence, the model is robust to minor alterations of the individual sequence of each factor. If, for instance, one were to argue that the investment impact of performance appraisal practices is lower than that of hiring practices and that, at the same time, the content institutionalization of performance appraisal is higher than that of recruitment and selection, the sequence shown in Figure 1 would remain unchanged. Table 1 illustrates this scenario by showing the rank order of practices being transferred (rows) according to each factor (columns) as proposed, as well as the final proposed rank order of HRM practice transference (last column).

Table 1. Final Ordering of HRM Practice Transference: Sensitivity Analysis

	II*	IC*	CR*	SD*	CI*	Final Rank
Communication	1	1	1	1	1	1
Recruit. & Selection	2/3	2	2	2	2/3	2
Perform. Appraisal	2/3	3	3	3	2/3	3
Training & Develop.	4	4	4	4	4	4
Compensation	5	5	5	5	5	5

* Note:
II: Investment Impact
IC: Implementation Complexity
CR: Commitment Reversibility
SD: Stakeholder Dynamism
CI: Content Institutionalization

To be consistent with the scenario just presented, recruitment and selection, and performance appraisal, have been assigned both “2” and “3” values, meaning that they might be transferred in either second or third place, after communication and before training and development, and compensation. Of course, the model will break down if future empirical work shows extreme departures from the transference sequence proposed for each factor.

All of the factors are proposed to drive the process, but not all of them need operate with the same intensity at the same time, which means that the model is also robust to alternative weightings of the factors in their contribution to the overall sequence.

From a different viewpoint, as time goes by and the first transferences of HRM practices have taken place, the intensity with which each factor drives the transference process is expected to decline. That is, once top managers are “liberated” from the implementation complexity of those practices that demand more of their time, for instance, there is less pressure in terms of time demands from the practices still under their control. Similarly, once top managers have transferred HRM practices with a higher level of content institutionalization, they may feel much less pressure to keep transferring those with a lower level of content institutionalization. In other words, as top managers move towards the upper right-hand corner of Figure 1 in the practices yet to be transferred, the pressure of all the factors towards the transference is very much reduced. As a consequence, the transference process may end at a point short of a complete transference of all the practices. And, again, this will also follow a predictable pattern, which is the inverse of the one presented thus far: compensation practices will be more likely to remain under top management control than training and development practices. Similarly, training and development practices will be less likely to be transferred to the HRM department than performance appraisal practices, and so on. In sum, the combined effects of the transference factors show a pattern of change in the distribution of HRM practices that begins with the creation of the HRM department and settles down as HRM practices are transferred. In this way, the Ownership Transference Model may shed light inside the "black box" of change and inertia in organizations as they structure their management of human resources.

Transference of HRM Practices from the HRM Department to the Line

Uranus, Neptune, and Pluto also showed that the process does not end with the transference of HRM practices from the line to the HRM department: partial ownership of HRM practices is also transferred back from the HRM department to the line. However, HRM practices are not transferred back to the line without having been somehow "treated" by the HRM department. To use a metaphor, "raw practices" are transferred from the line to the HRM department, which first "transforms" these practices, and then transfers some of the resulting "elaborated practices" back to the line.

The growth of a company, for instance, makes it difficult for all of the firm's managers to perform communication practices in a consistent and complete manner. However, once certain instruments of communication such as the employee handbook are in place, it becomes easier for the line to attend to some of the employees' communication needs. Similarly, for instance, evaluating employee performance without first having had the HRM department establish some guidelines, process forms and supervisory training may be too difficult –and the outcome too unreliable. Once these mechanisms have been developed by the HRM function, line supervisors are in a much better position to actually implement the evaluations.

In contrast to what happens with the first transference round from the line to the HRM department, the exploratory nature of this study does not allow us to fully establish the factors driving the second round of transferences or the sequence in which HRM practices will be transferred back to the line. Some back transferences did take place in Uranus and, to a lesser extent, in Neptune, but we would need to observe the firms for a longer period of time, or study slightly older firms to obtain a more complete picture of the second transference round. Also, HR managers become the main agents of the second transference round, whereas top managers are primarily responsible for the first round. Accordingly, personal differences in background, experience, leadership, and business familiarity may explain final variations in the structuring of HRM practices at the organizational level.

Based on company observations, some factors are tentatively proposed that may affect the transference of practices from the HRM department to the line: HRM performance impact, implementation simplicity, consensus on HRM value, and content institutionalization.

HRM performance impact. “HRM performance impact” refers to the extent to which the line management can be more effective in implementing the HRM practices than the HRM department itself. For instance, line managers are in a better position to evaluate employee performance than HRM department staffers. Similarly, hiring practices may be partially transferred back to the line because supervisors and colleagues of prospective employees are believed to make better choices than HRM professionals when selecting new employees.

> ***Proposition 6:*** The greater the HRM performance impact of a practice as performed by the line, the sooner that practice will be transferred from the HRM department back to the line.

Implementation simplicity. “Implementation simplicity” is the reverse of the “implementation complexity” factor analyzed earlier as a determinant of the first HRM practice transference round. It would make no sense to transfer the practice back to the line if the HRM department has been unable to transform the practice so as to substantially reduce its time demands and task complexity. Ways to simplify the exercise of the practices will involve training on how to implement them, development of simplified processes, and so on.

> ***Proposition 7:*** The higher the level of implementation simplicity of an HRM practice, the greater the likelihood that the practice will be transferred back to the line from the HRM department.

Consensus on HRM value. “Consensus on HRM value” is a cultural factor involving the legitimation of the HRM department within the organization. HRM departments enjoying high prestige within the organization will be more likely to transfer HRM practices back to the line. It could also be argued that HRM departments are likely to build some of the perceived value of their contribution as a result of transferring HRM practices to the line in an efficient manner. Pluto showed, for instance, that the HRM function is very likely to isolate itself from the line if the organizational culture does not place high value on the function’s role.

> ***Proposition 8:*** The greater the consensus on the contribution of the HRM function, the greater the likelihood that HRM practices will be transferred from the HRM department to the line.

Content institutionalization. Finally, “content institutionalization” refers to the extent to which the HRM field, as informed by academic centers, professional associations, and the employment law and agencies, defines the content of an HRM practice as “practicable” by the line or by the HRM staff. It is against the general consensus within the HRM field, for instance, for HRM professionals to evaluate the performance of employees other than those in the HRM department, because it is assumed that direct line managers and supervisors will generally be in a better position to perform that job.

> ***Proposition 9:*** The greater the institutional consensus that the line is the locus of implementation of an HRM practice, the greater the likelihood that the HRM practice will be transferred from the HRM department to the line.

Firm Strategy and the HRM Ownership Transference Process

The two-round transference process described by the model allows sequential joint participation of the HRM department and the line in defining the process and content of

HRM practices. In this way, organizations may recover and develop their initial “magic fit” between strategy and HRM. To understand the relationship between strategy and HRM we need to delve deeper into how the transference factors proposed in this study relate to the strategy of the firm. This is a critical step towards understanding the applicability of the Ownership Transference Model: strategy, we are about to see, is the main criterion in light of which the transference factors need to be understood.

“Investment impact” is not merely a criterion for assessing whether a specific HRM technique is cheap or expensive for the company. Investment impact relates to the company’s implementation of its strategy and goals. When firm strategy is not the main referent of “investment impact,” the factor is best described as mere “cost impact.”

“Implementation complexity” should also be understood in terms of its instrumentality in the definition and implementation of strategy. Implementation simplicity is “better” than implementation complexity only in abstract terms, because “implementation” of HRM practices as such only makes sense when speaking of “implementing” the strategy of the firm.

Strategy is also the main referent for understanding the concept of “commitment reversibility”. In fact, it has been posited that managing the “reversibility” of decisions which involve the commitment of firm resources is at the heart of the strategy process (Ghemawat, 1991). Resources are only committed in the first place to the extent that they will help define and implement the strategy of the firm. Only when that happens does it make sense to think in terms of how to manage the distribution of HRM practices while trying to ease “resource reversibility” constraints.

We have seen that “investment impact”, “implementation complexity”, and “commitment reversibility” only explain the HRM practice transference process when the firm’s strategy is their main referent. That is not necessarily the case with the other two factors in the first-round transference process. “Stakeholder dynamism” and “content institutionalization” may constitute transference criteria apart from the specific strategy of the firm. “Stakeholder dynamism” relates to the internal politics of the organization, which may or may not constitute an asset to strategy formulation and implementation. Similarly, “content institutionalization” is defined without reference to the organization by the “institutions” of the HRM field (academia, professional organizations, employment law and agencies). Precisely because of the possibility of defining the content of these factors independently of strategy, firms need to put special emphasis on how “stakeholder dynamism” and “content institutionalization” interact with their own strategy. Once an understanding has been gained of whether political and institutional pressures can interact positively with the strategy of the firm, decision makers are in a position to place more or less weight on these factors as determinants of the top management-to-line ownership transference process.

To summarize: On the one hand, investment impact, implementation complexity, and commitment reversibility can only be understood in reference to, and as a function of, the strategy of the firm. In isolation from that strategy they are meaningless for the understanding of the transference process and the integration of HRM and strategy. Stakeholder dynamism and content institutionalization, on the other hand, need to be understood in relation to, not as a function of, firm strategy in an instrumental way: these factors will explain the distribution of HRM practices and the level of integration of strategy and HRM to the extent that they can be used to help design and implement the strategy.

Limitations

We must point out the limitations of this paper. First, this theoretical study draws on case-based, exploratory research. As such, its results cannot be generalized to all organizations or their populations. The model needs to be refined and tested before its conclusions can be generalized.

Second, the transference pattern shown in Figure 1 may be an artifact of the way we have conducted this research. There remains some uncertainty in the way HRM practices have been defined here. We have treated “recruitment and selection” as a single practice (Koch, 1995), whereas others prefer to separate them (Breaugh, 1992). Also, “training and development” have been collapsed into a unified category. Other authors would further collapse other practices under the label “staffing” (Heneman & Heneman, 1994). Similarly, some authors include “performance appraisal” under the “compensation” umbrella (Milkovich & Newman, 1993), while others present it separately (Mohrman, Resnick-West, & Lawler, 1990). Furthermore, we have not included some practices, such as “safety” and “labor relations”, among the ones whose ownership is explained by the transference model. In the case of safety, OSHA legislation makes so much of how this function is to be managed a mandatory experience for the firms in this study that it is hardly comparable to the way in which companies deal with the rest of HRM practices. As for labor relations, their basic content (Fossum, 1992) is not found in non-union firms, like the ones in this study.

Another possibility is that some HRM practices act as “boundary conditions”, locking in the transference pattern. In that case, communication practices could constitute a lower boundary with which all newly created HRM departments are endowed. Compensation practices could constitute a higher boundary that HRM departments would develop only under strict conditions. Finally, a middle boundary could be determined by performance appraisal practices that are transferred once the HRM department has been created and become instrumental in training and development and compensation. Of course, once lower, medium, and higher levels have been determined, the transference sequence of the remaining practices becomes very limited.

It could also be that the Ownership Transference Model is based on very specific circumstances found only in the earlier stages of organizational development and not in older or larger firms. Inertia, for instance, may freeze the transference process in older, larger firms by preventing, for instance, the “regret effect” that occurred in Pluto, where the top management reclaimed from the HRM department the hiring practices that had previously been transferred to it. Institutional and political pressures may also affect larger and older firms differently, since these pressures will proceed from more varied and complex stakeholder groups –unions, consumer associations, environmentalists, and so on. As a result, the transference process may become more unstable and unpredictable.

Finally, it is also possible that some transference factors represent different operationalizations of one or two basic underlying dimensions. The effect of these dimensions could then account for the spurious convergence of “different” transference factors like the ones identified by this study.

Conclusions

The Ownership Transference Model proposes that the general pattern of transference of HRM practices from the line to the HRM department evolves according to a specific sequence:

communication practices are the first ones to be transferred; next, in the following order, come recruitment and selection, performance appraisal, training and development, and compensation. The model also proposes that already-transferred HRM practices go through a “second transference round” by which “raw” practices, once “processed” by the HRM department, are partially transferred back to the line for implementation purposes. The model links HRM practices and firm strategy by positing that the strategy acts as a final “referent” or “criterion” in the operation of the factors driving the transference process. Given that the transference factors individually converge in the overall pattern shown in Figure 1, the model predicts that pattern independently of the weighting of each factor at any point in time, thus contributing to an extremely robust and economical explanation of the relationship between strategy and HRM practices.

There are several implications for research and for practice. The Ownership Transference Model may help explain such processes as the structuring and evolution of HRM departments, the relationship between strategy and HRM practices, and the roles of top managers and HRM professionals in those processes. These issues are at the core of many change processes in organizations. Further, the model may be expanded to other support areas in the firm, such as accounting, finance, and information systems. In fact, it has been suggested that the basics of this model could also be applied to directly productive operations in the value chain (K. M. Eisenhardt, personal communication, April 4, 1996).

Both HRM and general management practitioners can use the model to check the presence of transference conditions within their organizations: as an assessment tool, the model may help managers structure the tasks of the HRM departments in their organizations. Further, practitioners may benefit from analyzing the alignment of the strategic, cultural, political, and institutional factors involved in the two-round HRM transference process, so that they may avoid the waste of organizational “energy” whenever those factors work at cross-purposes within the organization, specially among different organizational units.

Research effort at the individual level of analysis could be linked to the stream of literature developing what we have called “individual-based models” of the relationship between strategy and HRM. That literature could be further expanded into micro-organizational behavior phenomena by observing how the interaction of dispositional and situational variables affects innovation and change within organizations. At an inter-organizational level, the possibility of HRM practices crossing organizational borders by the subcontracting of their design and implementation may lead to an expansion of the model to include inter-firm transferences. At the population level, the model may help shape research questions of special interest for institutional analysis. We have argued, for instance, that the first and second transference rounds are affected by institutional factors. Even more intriguing is the fact that the “first-round” institutional factor has been shown to converge with strategic, efficiency-rational factors such as investment impact, task complexity, and commitment reversibility; thus presenting a rare case in which institutional environment and strategic variables reinforce each other in predicting a common pattern of organization at a structural, formal level –that is, before considering the specifics of firm strategy and HRM practices.

Finally, by looking at the evolution of the HRM function as a whole, the Ownership Transference Model may help define a dynamic approach to HRM as a comprehensive system (MacDuffie, 1995; Wright & McMahan, 1992), making sure that different HRM practices reinforce, rather than neutralize, one another. □

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