

Chapter 5

THE MANY FACES OF FIT

An application to strategic human resource management

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Abstract: This chapter delimits and discusses design considerations within the field of Strategic Human Resource Management (SHRM). The relationship between human resource management (HRM) systems and strategy types is investigated and predictions are made about a simultaneous horizontal and vertical fit. In a conceptual model for SHRM the key argument is that the fit between business strategy and HRM strategy is determined by task characteristics of the strategy type and internally consistent HRM practices, i.e. a matching hypothesis.

Key words: Strategic human resource management, strategy, vertical fit, horizontal fit, internal fit, external fit.

1. INTRODUCTION

Human resource scholars as well as practitioners agree upon the strategic importance of organizations' human resources (HR). During the last 10-15 years a growing number of sources have claimed that the human resources are the organizations' most important assets, and that management of these resources will increasingly contribute to the continuous competitive advantage of organizations (e.g., Lado & Wilson, 1994; Pfeffer, 1994; Ulrich (ed.), 1998). Thus, there is a growing demand and concern for human resource management (HRM) to prove its utility in improving organizational efficiency and effectiveness – and it is in this light that HR departments are to play a more strategic role. HR departments have the opportunity to demonstrate their importance in the pursuit of organization level performance and change. If HR departments are not adding value to

organizational performance, they may be viewed merely as cost functions with the risk of being minimized or outsourced.

If an HR department is to contribute to performance improvement in an organization it requires that its efforts are well organized, and the various aspects of the organizational system must be aligned. HR practices are mutually dependent and should fit with the business strategy, and with the overall design of the organization (Mohrman & Lawler, 1999). Bearing this in mind, this chapter has two overall propositions. The first proposition concerns the relationships between HRM practices. This proposition is based on the assumption that deviations from an ideal type of HRM system are likely to result in decreased efficiency as individual HRM practices might work against each other, i.e. the level of horizontal fit. The second proposition concerns the relationship between the configuration of HRM systems and organizational choice of business strategy, i.e. the level of vertical fit. Here the baseline assumption is that if the configuration of an HRM system is not properly matched to the business strategy, it is likely to result in lower effectiveness.

How HR can contribute to the performance of the organization has been described thoroughly since the mid-1980s (see Paauwe (2004) for an overview). Especially during the last years, HRM has had the opportunity to prove that it can contribute to organizational success through the development of a more strategic role, i.e. delivery of efficient services and the facilitation of organizational change. This development is based on a growing demand (and concern for) the continuous improvement of organizational effectiveness and profitability. Currently HR seems to be able to provide a large variety of solutions to some of the dominant questions being posed in organizations. However, in answering the how-question a multiplicity of approaches emerge.

2. HR LITERATURE

The HR literature flourishes with frameworks and approaches for identification and categorization of HRM systems, i.e. relationships between HRM practices and performance. Some authors (Pfeffer, 1994) suggest that successful HR systems have rather *universalistic* characteristics, i.e. there is a “best HRM practice”. Others, like Milgrom and Roberts (1995), claim that the *internal consistency* of HR systems matters for their design, i.e. it is possible to detect successful combinations (or bundles) of HR practices. Yet others (e.g., Ostoff & Bowen, 2000) suggest that an HR system should be *contingent* on contextual factors. Finally, Colarelli (2003) argued for an *evolutionary* perspective on HRM. Based on a psychological and socio-