

Strategic Human Resource Management: From the Process Point of View for Improving Organizational Performance

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Abstract

This article reviewed previous studies which investigated strategic human resource management (SHRM) mainly from the process point of view for improving organizational performance. First, analyzing common features in definitions of SHRM clarified five features (a close fit between human resource management (HRM) and management strategy, etc.). Second, approaches which investigated the relationship between strategies, HRM practices and organizational performance were reviewed. As a result, the best practice approach has been used frequently and produced useful outcomes comparatively with the contingency approach and the configurational approach. Thirdly, the intervening factors and cause-and-effect relationships between HRM practices and organizational performance were analyzed. From reviewing previous studies, retention and many factors were found as intervening factors. And it was suggested that placing too much emphasis on the cause-and-effect relationships wasn't realistic in empirical studies. The last section of this article reconsidered SHRM in the context of general HRM research. The necessity of the attention paid to single-level practices was pointed out.

Key words:

strategic human resource management, human resource management, intervening factors, cause-and-effect relationships, single-level practices

INTRODUCTION

It's been some time since the strategic human resource management (SHRM) theory has been used to promote research in human resource management (HRM) in organizations. The SHRM theory was developed toward the late 1980s on a foundation based on various theories of strategy, system, human capital and behavioral science and on a basis of a resource-based view. SHRM refers not just to research management strategy and its relationship with HRM, but also to the strategic use of employees, or the adoption of HRM to management strategies, which is conducive to optimal performance. This paper clarifies the process in which SHRM is linked to organizational performance, while reviewing the theoretical development of SHRM. In particular, it discusses the current challenges with SHRM, as well as prospects for future development.

SHRM: DEFINITION AND SPECIAL FEATURES

SHRM: Definition

Various definitions have been given to SHRM. Some of the more representative definitions are as follows: "It is the pattern of planned human resource deployments and activities intended to enable a firm to achieve its goals" (Wright, 1998: 187); "designing and implementing a set of internally consistent policies and practices that ensure a firm's human capital (employees' collective knowledge, skills and abilities) contributes to the achievement of its business objectives" (Huselid, Jackson, Schuler and Randall, 1997: 171); and "The SHRM perspective integrates macro-level theories and concepts to explore the impact of specific configurations, or systems, of human resource activities on organization-level performance outcomes" (Arthur, 1994: 670).

SHRM: Special Features

The various definitions given above all share the following characteristics.

First, the HRM system, composed of various HRM elements, such as practices, is a subsystem of a management system.

Secondly, employees are regarded as a source of sustained competitive advantage; in other words, they are a strategic resource. According to a resource-based view, skilled human resources (HR) are a valuable, rare, imperfectly imitable and can become a core competency in terms of substitutability (Barney, 1991). In addition to HR, there is a growing trend to regard the HRM system itself as a source of competitive advantage. Although the conventional HRM system also regarded employees as an economic resource, the new thinking emphasizes this idea in the context of overall management strategy. In terms of organizational theory, HRM department is regarded not simply as a staffing department, but as a strategic department with a direct bearing on increasing profitability.

Thirdly, from an analytical standpoint, all of the above definitions identify the subsystems as part of the macro- or organization-wide system. Up to this point, HRM research has centered on micro-level inquiry, such as the evaluation of individual practices and their effect on individuals. SHRM, on the other hand, deals with practices as a system of the overall organization and treats them as the central theme. In fact, looking at how practices are used by Japanese organizations, one learns that not all have been set up on the basis of achieving a uniform goal or a “grand design.” Some are ambiguously positioned within the organization. In contrast, the SHRM theory emphasizes cooperation and consistency between different practices. Zedeck and Cascio (1984), for example, claim that the functions cannot be treated separately since the various functions making up the HRM system are mutually and strongly inter-related.

Fourth, all of the above definitions focus on a close fit between HRM and management strategy. The proponents of this way of thinking believe that the optimum HRM practices will vary with the management strategy. They stress the importance of how the strategy and HRM system fit together (external fit).

Schuler (1992) lists philosophy, policy, program,

practices and processes as components of SHRM. HRM, so far, has placed emphasis on individual practices. However, SHRM stresses the relationship between the overall policy and strategy of an organization, so when setting up long-term management plans, participation by the HRM staff has become increasingly important. The Michigan School stressed a hard approach for analyzing practices based on a clearly-defined number of human resources and costs that fit with the strategy, with their relevance to the overall performance of a given organization measured by clear and objective indices (Fombrun, Tichy, & Devanna, 1984).

The fifth shared characteristic is a focus on the effects that influence organizational performance. Up until now, HRM has been considered a professional responsibility of the personnel staff. Therefore, HRM’s function for giving professional advice was emphasized, against the line function, which directly contributes to the organizational performance of the production and marketing departments. Of course, the now older HRM system also analyzed productivity, turnover rate and financial performance, as well as how they related to one another. SHRM, in contrast, emphasizes its relationship with an organization’s financial performance – the ultimate goal of management.

In this way, SHRM has re-directed the HRM theory from its microscopic focus on individual employees to something more macroscopic, in the context of system theory and strategy theory, looking at HRM’s role in organizational performance and the ultimate management goal. How individuals are viewed is problematic. If employees are simply regarded as a source of sustained competitive advantage, it is likely that their human aspects, as people with a full range of emotions, may be neglected. From an organization theory point of view, an organization is made up of two factors: the “work organization” as a sum total of the work to be performed, and the “human organization” made up of people who carry out that work. Greater respect given to the human element, thanks to the QWL (Quality of Working Life) movement, is one of the main features of the modern HRM theory, and this “human respect” must be maintained and advanced in today’s organizations.

SHRM: APPROACHES

Developing on the basics discussed above, the following three approaches have been suggested as to the relationship between management strategy, HRM and organizational performance (Delery & Doty, 1996). Theoretically, they have developed in the following order: best practice approach → contingency approach → configurational approach.

Best Practice Approach

This is the simplest approach out of the three and is based on a view that particular relationship between HR practices and organizational performance is related in a universally effective way (Delery & Doty, 1996), in the sense that there is a single, best way to implement HR practices (Fisher, Schoenfeldt, & Shaw, 1999). This is called the “universalistic perspective” and is considered to be globally applicable, without any regard to cultural differences. Unlike the other approaches, however, the best practice approach does not explicitly discuss how management strategy and HRM practices fit with each other. Some of the representative best practice approach models include the (high) commitment model, the high involvement model and the high performance work practices (systems) model. This approach was developed on the premise that a greater commitment from employees improves performance. There are many commonly applicable practices involved in this approach, as it encourages employee participation. This approach also suggests that the employee will identify organizational goals as his or her personal goals and that he or she will voluntarily commit themselves to behavior conducive to greater efficiency. Based on scientific management methods, the best practice approach is often contrasted with the control model, which is characterized by bureaucracy and a hierarchical structure. Now, let us look more specifically at the practices involved in the best practice approach.

Lawler (1986) promoted high involvement management based on the following seven principles: (1) Organizational climate that promotes employee participation; (2) Leadership or top management clearly displaying future management vision; (3) A flat organization with a smaller staff department; (4) Setting up task forces and project teams that can

decide on various issues, e.g., management strategy, new product development and HRM practices; (5) Empowerment of lower-level employees and active disclosure of internal, organizational information; (6) Skill-based salaries and a rewards system, such as gain sharing; and (7) Aggressive support to enhance employees’ knowledge and skills.

Pfeffer (1998) in his “high commitment work practices” lists seven practices: job security, selective recruiting, self-management teams and empowerment, high merit-based rewards, broad-range employee education, equality in working conditions and sharing of work performance data.

Huselid (1995) defined HRM practices that bring large benefits to any organization, under any conditions, as the “high performance work practices (system).” He believed that these practices increase employees’ skills, knowledge and capabilities and raise their motivation, while phasing out those who do not produce results, thus securing the retention of quality employees.

Appelbaum (2002) lists the following three practices as components of a high performance work system:

- (1) Organizational structure that encourages employees’ discretion. This core element involves active employee participation in decision-making, such as changing daily work routines and frequent communication with other employees in carrying out work.
- (2) Securing highly skilled employees by hiring capable employees or by enforcing formal education/training.
- (3) Implementation of external reward system to increase employees’ work efficiency, such as a performance-based individual or group salary system, profit-sharing system and employee stock options.

From the SHRM viewpoint, how do these practices affect the organization? Previous studies show that the implementation of these practices promoted employees’ knowledge, skills, motivation, information and empowerment (Lawler, 1992; Pfeffer, 1998). These practices are regarded as an investment in human capital (Arthur, 1994). As investing in human capital is thought to increase future productivity, it is justified by organizations. Previous studies proved, to some extent, that there was a correlation between

these practices and organizational performance (Arthur, 1994; Huselid, 1995; Kobayashi, 2002; Koch & McGrath, 1996; MacDuffie, 1995).

It has been shown that the best practice approach, by implementing employee participation in management and greater commitment, improves overall organizational performance. However, researchers differ in their observations when such practices are viewed more closely, one by one. Thus, they were not able to agree upon a list of uniform practices that the best practice approach aims to achieve. Also, Chae (1998) claims that Japanese businesses are shifting from a commitment model to an innovation model, and that the former is no longer the best practice. This claim, however, has not been proven. In other words, a best practice other than the commitment model has not been investigated. Furthermore, the so-called "best practice" has not been investigated sufficiently to determine if it is universally applicable across different times and localities, such as in non-European cultural spheres. This is another point that needs to be verified.

Contingency Approach

In the SHRM approach, the contingency approach is implemented most frequently after the best practice approach, in which other organization-level variables, especially the management strategy ranked high in HRM and its fit (vertical and external fit), are emphasized. This means that the higher the fit between management strategy and HRM, the higher the expected organizational performance. For example, the cost reduction strategy is expected to fit with HRM practices, such as the greater hiring rate of short-term and temporary workers and reduced salary payments. In this approach, proponents believe there are several practices that fit with the strategy to improve organizational performance, and this is where it differs from the best practice approach. Many previous studies have examined the fit with the management strategy type (defender/ prospector/ analyzer) of Miles & Snow (1978) and the strategy type (cost leadership/ differentiated/ concentrated strategy) of Porter (1980), without arriving at a uniform result (Iwade, 2002).

When examining the contingency approach, different studies use different strategy levels, which cre-

ate a problem. One can evaluate any strategy at the organizational, business and functional levels (Dyer & Holder, 1988), but with different levels considered, the results are more likely to differ. Another problem is the scarcity of empirical studies that can be used, compared to the best practice approach. This means that this approach may not be contributing in any specific manner to the actual daily workings of management.

Configurational Approach

The configurational approach is the most complicated of the three approaches, as it pursues the practices identified to be effective in the best practice approach, while coordinating them with the management strategy considered in the contingency approach. So far, there has been a focus on coordination and consistency (horizontal and internal fit) between the different HRM practices by considering the practices as a system or a bundle (MacDuffie, 1995), thus analyzing their relationship with organizational performance. The underlying premise of the configurational approach is: The effects of individual HRM practices on organizational performance vary due to the complex interactions between such practices; for example, due to the presence or absence of other practices (Huselid, 1995). By first observing the interaction between different practices, a set of consistent practices is identified, which will produce synergistic effects. The application of this consistent set of practices is considered to affect performance more than all of the individual practices combined. In other words, the introduction of a set of highly coordinated, consistent practices is expected to bring out high organizational performance. The configurational approach, therefore, is thought to be an ideal type among different concepts, rather than being empirically observable (Delery & Doty, 1996).

Theoretically, the configurational approach is a compromise between the elements of the best practice approach and the contingency approach, aimed at achieving both the internal fit and the external fit these two approaches allow. In this sense, it could complement the shortcomings of these two approaches. Eventually, analyses using the configurational approach should be pursued in SHRM. Actually, however, as seen in the study by Huselid (1995), the fit

has not been verified by the small number of empirical analyses. Since no reasonable measuring methodology has been established, the configurational approach is still in a developmental stage, requiring further investigation.

HRM: RELATIONSHIP WITH ORGANIZATIONAL PERFORMANCE

SHRM is mainly studied on the basis of the three approaches discussed above. One of the most important questions to ask in research is this: Does HRM really contribute toward improving organizational performance? This question is now examined from two perspectives? the intervening factors and the cause-and-effect relationship.

Intervening Factors

It is most desirable that the HRM's fit with the management strategy directly improve organizational performance, because organizations then only need to plan and implement policies and practices. The best practice approach identified that the practices which promote employee participation and commitment are highly effective. Previous studies, however, have shown that the presumed HRM practices were not necessarily effective (Iwade, 2002). The same is true of the results obtained by the contingency approach. This prompts us to identify the factors that improve

organizational performance, other than HRM practices. In other words, we need to inquire into intervening factors to clarify the missing link between practices and organizational performance.

Writing about the relationship between HRM and organizational performance, Wright & McMahan (1992) proposed the following six theories to present explanatory models: behavioral perspective, cybernetic models, agency/transaction cost theory, resource-based view of the firm, power/resource dependence models and institutional theory. Out of these six, the behavioral perspective (approach) refers directly to intervening factors to describe the relationship between HRM practices and organizational performance. The behavioral perspective focuses on employee behavior as one of the intervening factors. In other words, the behavioral perspective assumes that the strategy induces HRM practices, eventually leading to many profitable results by stimulating and controlling employee behavior (Wright & McMahan, 1992). The behavior in this case includes, in addition to work-related behavior, voluntary non-work-related behavior, participation and remaining in the organization and the HRM system (Katz, 1964). **FIGURE 1** is a schematic representation of the behavioral approach

made from an empirical analysis viewpoint, using studies from Iwade (2002) and Morishima (1996) for reference.¹⁾

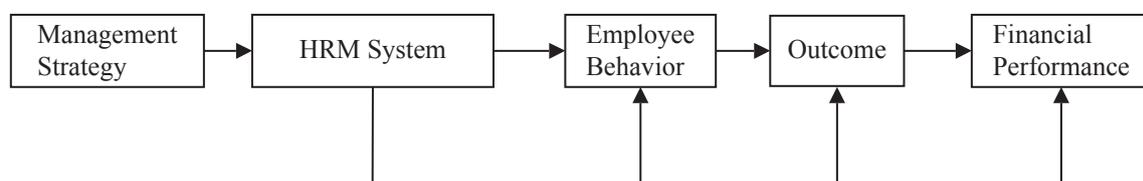


FIGURE 1 Behavioral Approach in SHRM

FIGURE 1 shows that the HRM system defined by management strategy influences employee behavior, which then leads to outcomes, such as productivity and turnover rate²⁾, eventually affecting financial per-

formance. In other words, employee-level behavior is a factor that intervenes between the organization-level strategy, HRM practices and organizational performance.

Different from the hard approach, this thinking was

¹⁾ In the SHRM theory, organizational performance has been investigated in a three-tiered manner, using indices directly related to HRM (e.g., turnover rate), indices concerned with work performance (e.g., productivity and quality) and indices based on financial performance (e.g., profits and sales) (Dyer and Reeves, 1995). In this paper, the guideline on financial performance is treated as the final organizational performance.

²⁾ The outcome as stated here includes organizational effectiveness and efficiency.

developed based on the Harvard School soft approach, which respects a behavioral science-like concept (e.g., motivation), underlying employee behavior (Beer, Spector, Lawrence, Mills, & Walton, 1984). In addition, there are many studies that use work attitudes to explain HRM practices and behavior, after defining the various conditions of behavior that are conducive to organizational performance. One can thus say that many factors are involved when trying to figure out how the HRM system affects performance. Based on the behavioral approach perspective, what kind of intervening factors have been identified by previous studies?

First, listed as intervening factors are cost effectiveness, employee retention, employee productivity, product quality and operating cost (Beer et al., 1984; Paul and Anantharaman, 2003). These are considered HR-related or non-HR-related factors, which are likely to have a direct bearing upon financial performance.

Second, employee competence, organizational commitment, teamwork, employee skills, employee motivation, job design, work structure, capability, opportunity, organizational climate, job satisfaction, life satisfaction and pressure at work (Becker & Huselid, 1998; Beer et al., 1984; Boudreau, 1998; Ferris et al., 1998; Guest, 1999) are thought to be factors that affect the outcome discussed in the above paragraph. In addition to the employees' work attitude, some factors such as job design, work structure and organizational climate are likely to improve the outcome by implementing organization-initiated efforts.

Out of the factors listed above, retention has been studied most extensively by means of empirical analysis. The term "retention" generally means keeping, continuing or holding back, but in the area of business administration, it means securing or retaining an employee in an organization (i.e., employee retention), which can be measured by turnover rate, average duration of continuous employment and turnover intention. Long-term employment is the result of retention. Some studies have found that the introduction of HRM practices and their fit with the management strategy contribute more strongly to retention than financial performance (Bird & Beechler, 1995; Kobayashi, 2001). Furthermore, it was shown that good retention, in other words, a low employee

turnover rate, strengthened the relationship between high involvement work practices as well as high performance work practices and organizational performance (Batt, 2002; Huselid, 1995). Organizations that implemented practices included in high involvement work practices or adopted a commitment-type system, employee resignation greatly lowered organizational performance (Arthur, 1994; Guthrie, 2001). With organizations eager to implement training and development, sales tended to increase with the length of continuous employment (Yamamoto, 2009).

In addition, a study model that investigated widely-varying factors other than retention led to an improvement in organizational performance (Paul & Anantharaman, 2003). In the study, the researchers analyzed the process of HRM → intervening variables → retention → organizational performance on the basis of employees' perception. In another study, a model was analyzed based on the fairness theory in which the perception of participating-type HRM had an effect on financial performance through fairness perception and work attitudes (composed of job satisfaction, motivation and organizational commitment) (Kobayashi, 2002). As seen so far, a large number of intervening factors have been established in the HRM practices-organizational performance relationship, although not many of them have been empirically analyzed. Also, the type of factors and their interactions vary with the underlying theories and models, and most of them, except for the fairness theory and the social context model, have not been analyzed. In the future, it may be helpful to use the many theories that have been established about motivation and leadership, for example, the expectancy theory and the leader-member exchange model. It is hoped that many empirical analyses will be conducted in order to clarify the missing link in the relationship between HRM practices and organizational performance.

Cause-and-Effect Relationships

SHRM was developed on the premise that the introduction of strategy-fit HRM practices contributes to organizational performance. Based on this assumption, many studies have been conducted to investigate the effect of practices on organizational performance. Nevertheless, in order to make practical suggestions for organizational HRM, it is necessary to pinpoint

exactly what practices need to be introduced and how the current practices should be modified to increase organizational performance. In this case, asking how newly-introduced and modified practices will affect organizational performance is really a question of a cause-and-effect relationship. A longitudinal study will be essential in verifying the effect of the introduction of HRM practices upon an improvement in organizational performance. Empirical studies that look at a cause-and-effect relationship between these two elements, however, number only a few because many studies analyze interrelationships using a cross-sectional design in one given instance. A review of the studies that empirically analyze the relationship between these two elements revealed that the largest number were post-predictive studies (Wright, Gardner, Moynihan, & Allen, 2005). In these studies, the researchers analyze the current (present-time) practices against past performance, i.e., organizational performance measured before the implementation of the current practices. Note here that the current practices were not studied for a possible cause-and-effect relationship with any future performance.

Here, there is a possibility of organizational performance affecting the practices; for example, when organizational performance goes down, new practices are implemented to improve the situation. A previous study claims that HRM practices are an early indicator of future financial performance (Huselid & Becker, 1996; Watson & Wyatt, 2002). However, another study claims that we will not be able to see how the practices affect future performance if the effects of the present and past performance are controlled (Guest, Michie, Conway, & Sheehan, 2003; Wright et al., 2005). This means that the effects of present

and past performance on present practices cannot be ignored, thus, no research has successfully evidenced the cause-and-effect relationship between practices and performance.

It was revealed that the correlation between practices and future performance was very similar to the correlation between practices and present and future performance (Wright et al., 2005). From this, we understand that the difference at the time of study does not cause a large difference in the relationship between these two elements. Whether or not there is a cause-and-effect relationship, it might be better to observe the overall strength of the relationship, rather than interpreting such relationships type by type, on an individual basis. To sum up the preceding paragraphs, it is theoretically desirable to analyze a cause-and-effect relationship between practices and retention. Today, however, the very large number of studies being conducted and an increasing awareness of privacy protection make questionnaire surveys difficult. If only one survey needs to be conducted, it seems reasonable to choose a survey method that imposes fewer burdens on researchers.

SHRM: ITS PLACE IN HRM RESEARCH

The last section of this paper reconsiders SHRM in the context of general HRM research. Wright and Boswell (2002) classify HRM research in the following categories according to their type (organizational or individual/group), level of analysis and the number of HRM practices (**TABLE 1**).

This table shows that SHRM with a focus on a systematic and macroscopic viewpoint, organization-level research and multiple HRM practices belongs

TABLE 1 A Typology of HRM Research

Level of Analysis \ Number of HRM Practices	Multiple	Single
	Organization	SHRM Industrial Relations High Performance Work Systems
Individual	Psychological Contract Employment Relationship	Traditional/Functional HRM Industrial/Organizational Psychology

Source: Wright and Boswell (2002) p.250

to the second quadrant category. Anticipating future developments in SHRM research, I would like to suggest an expansion of this concept for the following two reasons:

My first concern is the attention paid to single-level practices. Is it not necessary to consider the single organization-level HRM practices (Wall and Wood, 2005)? It is highly likely that strategy-fit training and development will contribute to organizational performance. If research is conducted only on a multiple level, the relative position of individual practices in their relationship with organizational performance may become ambiguous. For example, in the case of merit-based HRM systems, different researchers and academicians have different notions and guidelines for the specific practices they use. At present, there is no comprehensive understanding as to what the “system” specifically means, for example, in the following usage: Which of the following — management by objectives (MBO), annual salary system, free time system ?? is indispensable and therefore should be incorporated into a system? From the organization’s standpoint, there seems to be a great need to measure the effect of introducing strategy-fit practices. In considering the future development of SHRM research, it may serve well not to eliminate the idea of investigating individual practices.

Second, it is necessary to conduct research on the “organization-individual-organization” level. As stated above, organization-level practices have a direct bearing on organizational performance. The importance of the intervening factors existing between them was already pointed out. As for HRM, these factors are often employees’ individual-level elements, unlike other management methods such as financial management. On the other hand, SHRM investigates organization-level strategy and HRM practices, as well as organization-level performance, while incorporating individual-level variables. This means that the studies in the third and fourth quadrants also need to be taken into consideration. It also means the incorporation of a micro-system theory viewpoint into SHRM, which traditionally focused on macro-system viewpoints. By doing so, it is possible to incorporate the rich array of HRM research results in which individual employees were examined at an analytical level. In order to conduct an empirical analysis of a

“macro-micro-macro” study at this analytical level, it seems necessary to apply hierarchical linear modeling, using a multiple-variance analysis (for analyzing relationships between variables at different levels).

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