UNDERSTANDING HUMAN RESOURCE MANAGEMENT IN THE CONTEXT OF ORGANIZATIONS AND THEIR ENVIRONMENTS

Susan E. Jackson

Department of Psychology, New York University, 6 Washington Place, New York, NY 10003

Randall S. Schuler

Department of Management, New York University, 40 W. 4th Street, New York, NY 10012

KEY WORDS: international, personnel, strategic, industrial/organizational

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0066-4308/95/0201-0237$05.00
INTRODUCTION

The Need for Understanding Human Resource Management (HRM) in Context

Applied psychologists have developed sophisticated tools and techniques intended to improve the effectiveness of organizations, and substantial evidence attesting to the value of these has accrued (e.g. Denison 1990; Hansen & Wemerfelt 1989; Kaufman 1992; MacDuffie & Krafcik 1992; Macy & Izumi 1993; Terpstra & Rozell 1993; United States Department of Labor 1993; MA Huselid, unpublished; ER Schnell, Olian JD, KG Smith, HP Sims Jr, JA Scully, KA Smith, unpublished). Nevertheless, US employers have been slow to adopt the "best" practices, i.e. those widely discussed in organizations as being the most effective (Bretz et al 1992, Rynes & Boudreau 1986, Saari et al 1988). Commentators have suggested that the acontextual nature of the scientific evidence is part of the problem (e.g. Johns 1993, Murray & Dimick 1978); consequently, calls for new human resource management (HRM) research that takes context more seriously have become more frequent (e.g. Begin 1991, Dobbins et al 1991, James et al 1992, Latham 1988). At the same time, a growing body of empirical evidence is beginning to shed light on the relationship between contextual conditions and HRM. Our objective for this review is to increase the momentum associated with this emerging field.

We use HRM as an umbrella term that encompasses (a) specific human resource practices such as recruitment, selection, and appraisal; (b) formal human resource policies, which direct and partially constrain the development of specific practices; and (c) overarching human resource philosophies, which specify the values that inform an organization's policies and practices. Ideally, these comprise a system that attracts, develops, motivates, and retains employees who ensure the effective functioning and survival of the organization and its members. To understand HRM in context we must consider how these three components of HRM are affected by the internal and external environments of organizations. The internal contextual factors we discuss are technology, structure, size, organizational life cycle stage, and business strategy. We treat organizational culture as inextricably bound to HRM and therefore not meaningful if separated from it. The external contextual factors are legal, social, and political environments; unionization; labor market conditions; industry characteristics; and national cultures.

Theoretical Perspectives Relevant to Understanding HRM in Context

Theoretical perspectives based in sociology, economics, management, and psychology focus on different aspects of the domain of HRM in Context (Wright & McMahan 1992). We begin by offering brief summaries of the
perspectives that have guided most of the empirical studies reviewed in this chapter and that we feel are most likely to drive future research.

**GENERAL SYSTEMS THEORY** In general systems theory, the unit of analysis is understood as a complex of interdependent parts (von Bertalanffy 1950). An open (vs closed) system is dependent on the environment for inputs, which are transformed during throughput to produce outputs that are exchanged in the environment. Open systems models seldom address organizations or large units within organizations. Katz & Kahn's (1978) *The Social Psychology of Organizations* is an exception in that it treats HRM as a subsystem embedded in a larger organizational system. The open systems view of HRM has been developed further by Wright & Snell (1991), who used it to describe a competence management model of organizations. Skills and abilities are treated as inputs from the environment; employee behaviors are treated as throughput; and employee satisfaction and performance are treated as outputs. In this model, the HRM subsystem functions to acquire, utilize, retain, and displace competencies. Similarly, Snell's (1992) description of HRM as a control system is based in open systems theory. In a more narrow discussion, Kozlowski & Salas (1994) presented a multilevel organizational systems approach for understanding training implementation and transfer. Many of the more specific theories used to understand HRM in Context assume that organizations function like open systems (see below).

**ROLE BEHAVIOR PERSPECTIVE** Katz & Kahn (1978) focused on roles as the interdependent components that make up an organization system. Instead of using specific behaviors and job performances as the fundamental components, this perspective shifts the focus from individuals to social systems characterized by multiple roles, multiple role senders, and multiple role evaluators. Katz & Kahn defined role behaviors as "the recurring actions of an individual, appropriately interrelated with the repetitive activities of others so as to yield a predictable outcome." HRM is the organization's primary means for sending role information through the organization, supporting desired behaviors, and evaluating role performances; it is effective, therefore, when it communicates internally consistent expectations and evaluates performances in ways that are congruent with the system's behavioral requirements (e.g. see Frederickson 1986). System requirements are, in turn, presumed to depend on contextual factors such as business strategies and the nature of the industry. Role theory recognizes that the behavioral expectations of all role partners can influence the behavior of organizational members. By implication, effective HRM helps employees meet the expectations of role partners within the organization (i.e. supervisors, peers, subordinates), at organizational boundaries (i.e. customers
and clients), and beyond (i.e. family and society). Thus the expectations of these role partners must be incorporated into an understanding of HRM in Context.

**INSTITUTIONAL THEORY**  A role theory perspective assumes individuals respond to normative pressures as they seek approval for their performance in socially defined roles. Similarly, institutional theory views organizations as social entities that seek approval for their performances in socially constructed environments. Organizations conform to gain legitimacy and acceptance, which facilitate survival (Meyer & Rowan 1977, Zucker 1977). Because multiple constituencies control needed resources, legitimacy and acceptance are sought from many stakeholders.

Research on institutionalization (Scott 1987, Zucker 1987) focuses on pressures emanating from the internal and external environments. Internally, institutionalization arises out of formalized structures and processes, as well as informal or emergent group and organization processes. Forces in the external environment include those related to the state (e.g. laws and regulations), the professions (e.g. licensure and certification), and other organizations -especially those within the same industrial sector. Regardless of the source of institutional pressures, two central assertions of this perspective are (a) institutionalized activities are resistant to change and (b) organizations in institutionalized environments are pressured to become similar (Meyer & Rowan 1977, DiMaggio & Powell 1983). Thus, in this theoretical perspective, context is the major explanation for both resistance to change and the adoption of new HRM approaches. The first assertion suggests that HRM activities have deep historical roots in the organization, so they cannot be understood completely without analyzing the organization's past. From the second assertion it follows that HRM activities may be adopted by an organization simply because other organizations have done so. Thus, "managerial fads and fashions" ebb and flow in part because a few legitimate organizations become fashion leaders that are imitated by other organizations that view imitation as a low-risk way to gain acceptance (Abrahamson 1991). Tolbert & Zucker (1983) showed, for example, that institutionalization resulting from imitation partially explained the rate at which reforms in civil service selection procedures spread throughout the country at the turn of the century.

**RESOURCE DEPENDENCE THEORY**  Like institutional theory, resource dependence theory focuses on the relationship between an organization and its constituencies. However, resource dependence theory emphasizes resource exchanges as the central feature of these relationships, rather than concerns about social acceptability and legitimacy (Pfeffer & Cohen 1984). According to this perspective, groups and organizations gain power over each other by controlling valued resources. Furthermore, HRM activities and processes are assumed to reflect
the distribution of power within a system. For example, personnel departments acquire power over other departments to the extent they make others dependent upon them by controlling the flow of human resources into and through the organization (Osterman 1984, 1992; Pfeffer & Cohen 1984). Thus this theoretical perspective is somewhat similar to an interactionist perspective within psychology in that the actor (an organization or unit) and the environment work in conjunction as explanations for the behavior of the actor.

Institutional theory and resource dependence theory were developed in the context of understanding large public bureaucracies, where efficiency may not be among the most important goals (see Ostroff & Schmitt 1993). In contrast, the theories we discuss next—human capital theory, transaction costs theory, agency theory, and resource-based theory—were developed in the context of understanding business enterprises, for which issues of efficiency are presumed to be central.

HUMAN CAPITAL THEORY In the economics literature, human capital refers to the productive capabilities of people (Becker 1964). Skills, experience, and knowledge have economic value to organizations because they enable it to be productive and adaptable; thus, people constitute the organization's human capital. Like other assets, human capital has value in the market place, but unlike other assets, the potential value of human capital can be fully realized only with the cooperation of the person. Therefore, all costs related to eliciting productive behaviors from employees—including those related to motivating, monitoring, and retaining them—constitute human capital investments made in anticipation of future returns (Flamholtz & Lacey 1981).

Organizations can use HRM in a variety of ways to increase their human capital (Cascio 1991, Flamholtz & Lacey 1981). For example, they can "buy" human capital in the market (e.g. by offering desirable compensation packages) or "make" it internally (e.g. by offering extensive training and development opportunities). Investments of either type have associated costs, which are justifiable only to the extent the organization is able to productively utilize the accumulated capital (Tsang et al 1991). In human capital theory, contextual factors such as market conditions, unions, business strategies, and technology are important because they can affect the costs associated with alternative approaches to using HRM to increase the value of the organization's human capital and the value of the anticipated returns, such as productivity gains (e.g. see Boudreau & Berger 1985, Russell et al 1993).

TRANSACTION COSTS THEORY Transaction cost economics assumes that business enterprises choose governance structures that economize transaction costs associated with establishing, monitoring, evaluating, and enforcing agreed upon exchanges (Williamson 1979, 1981). Predictions about the nature of the gov-
ernance structure an enterprise will use incorporate two behavioral assumptions: bounded rationality and opportunism (i.e. the seeking of self-interest with guile). These assumptions mean that the central problem to be solved by organizations is how to design governance structures that take advantage of bounded rationality while safeguarding against opportunism. To solve this problem, implicit and explicit contracts are established, monitored, enforced, and revised. The theory has direct implications for understanding how HRM practices are used to achieve a governance structure for managing the myriad implicit and explicit contracts between employers and employees (Wright & McMahan 1992). For example, organizations that require firm-specific knowledge and skills are predicted to create internal labor markets that bind self-interested and boundedly rational employees to the organization, while organizations that do not require these skills can gain efficiencies by competing for self-interested and boundedly rational talent in an external labor market (Williamson 1981, 1991). Contextual factors, in turn, partly determine whether the types and amounts of skills and knowledge a firm needs are likely to be available in the external labor market, the costs of acquiring them from the external market, the organization's capability for developing them internally, and the costs of doing so.

**AGENCY THEORY**

Agency theory focuses attention on the contracts between a party (i.e. the principal) who delegates work to another (i.e. the agent) (Jensen & Meckling 1976). Agency relations are problematic to the degree that (a) the principal and agent have conflicting goals and (b) it is difficult or expensive for the principal to monitor the agent's performance (Eisenhardt 1989). Contracts are used to govern such relations. Efficient contracts align the goals of principals and agents at the lowest possible cost. Costs can arise from providing incentives and obtaining information (e.g. about the agent's behavior and/or the agent's performance outcomes). Agency theory appears to be particularly useful for understanding executive and managerial compensation practices, which are viewed as a means for aligning the interests of the owners of a firm (i.e. principals) with the managers in whom they vest control (i.e. agents). For example, agency theory suggests several conditions under which contracts are more likely to monitor behavior (e.g. salary-plus-merit pay systems) and/or outcomes (e.g. commissions) (see Conlon & Parks 1990; Eisenhardt 1988, 1989; Milkovich et al 1991; Tosi & Gomez-Mejia 1989). Agency theory also has been used to predict occupation-based differences in job pricing methods (i.e. job evaluation vs market pricing) and in pay variability (Newman & Huselid 1992).

Agency and transaction costs theories share many similar assumptions about human behavior (Eisenhardt 1989) and may be most useful when combined. For example, using these two theories, Jones & Wright (1992) offer an insightful interpretation of the HRM literature focusing on implications of the
economic perspective for HRM utility estimates. Their discussion suggests various reasons for predicting that the utility of HRM activities will vary with conditions in both the internal and external environments of organizations. Such conditions include the other human resource practices that are used by the organization, government regulations and their enforcement, technologies, union activities, and labor market conditions. These contextual factors can affect both the costs and potential gains associated with a particular human resource practice (e.g. a recruitment program, a selection test, or a training program).

**RESOURCE-BASED THEORY** The resource-based theory of the firm blends concepts from organizational economics and strategic management (Barney 1991, Conner 1991). A fundamental assumption of this view is that organizations can be successful if they gain and maintain competitive advantage (see Porter 1985). Competitive advantage is gained by implementing a value-creating strategy that competitors cannot easily copy and sustain (Barney 1991) and for which there are no ready substitutes. For competitive advantage to be gained, two conditions are needed: **First**, the resources available to competing firms must be variable among competitors, and **second**, these resources must be **immobile** (i.e. not easily obtained). Three types of resources associated with organizations are (a) **physical** (plant; technology and equipment; geographic location), (b) **human** (employees' experience and knowledge), and (c) **organizational** (structure; systems for planning, monitoring, and controlling activities; social relations within the organization and between the organization and external constituencies). HRM greatly influences an organization's human and organizational resources and so can be used to gain competitive advantage (Schuler & MacMillan 1984). Presumably, the extent to which HRM can be used to gain competitive advantage, and the means of doing so, are partly determined by the environments in which organizations operate (Wright et al 1994). For example, in some industries, technologies can substitute for human resources, whereas in others the human element is fundamental to the business. To illustrate, contrast labor-intensive and knowledge-intensive industries. The latter context may be more conducive to the use of HRM as a means to gain competitive advantage.

**CONCLUSION** This brief and selective overview of theoretical perspectives is intended to facilitate the reader's understanding and interpretation of some of the empirical research we review below. In addition, we believe these perspectives can inform new research on HRM in Context. Although many of the internal and external factors considered below are likely to be related, few studies control for all possible interdependencies; similarly, we treat the contex-
REVIEW OF EMPIRICAL RESEARCH

HRM and the Internal Contexts of Organizations

TECHNOLOGY  Technology refers to a system’s processes for transforming inputs into usable outputs. These processes can vary along many dimensions, including the degree of continuity in the production system (e.g. Woodward 1965), the types and levels of knowledge required by the system (Hulin & Roznowski 1985), the degree to which tasks are routinized and predictable (Perrow 1967), and the linkages and interdependencies among tasks and people (Thompson 1967). The impact of technology on the social dynamics within organizations has long been recognized, but only recently have US researchers begun to address systematically the implications of technology for HRM (Katzell 1994).

Following human capital theory and a systems theory view of the relationship between human and technical subsystems, Snell & Dean (1992) hypothesized that HRM would be directly influenced by the presence of advanced manufacturing technology (AMT), total quality management (TQM), and just-in-time inventory control (JIT). Using data from 512 manufacturing firms, they found that firms using traditional technologies were less likely than firms using AMT to engage in selective hiring, comprehensive training, developmental appraisal, and externally equitable compensation (see Clark 1993 for a similar conclusion). Jackson et al (1989) used the role behavior perspective to predict and explain why, compared to firms engaged in mass production, firms using technologies for flexible specialization were more likely to use performance appraisals in determining pay and training needs. Kozlowski & Hults (1987) did not directly invoke roles as explanatory constructs in their study of engineers, but the association they found between an organization’s technical complexity and HRM indicative of a “climate for technical updating” also are consistent with the role behavior perspective. It appears that research informed by both role theory and human capital theory could improve our understanding of how technology shapes HRM, as well as the role of HRM in implementing new technology (e.g. see Zammuto & O’Connor 1992).

STRUCTURE  Organization structure describes the allocation of tasks and responsibilities among individuals and departments; it designates the nature and means of formal reporting relationships as well as the groupings of individuals within the organization (Child 1977). The structural forms generally recognized for domestic firms include functional departmentalization, product-based divi-
sionalization, geographical divisionalization, and matrix organization (with dual reporting relationships). Different forms are presumed to result from and be associated with a variety of internal and external forces, including technological demands, organizational growth, environmental turbulence, and business strategy (e.g. see Randolph & Dess 1984). Furthermore, each structural form probably faces some unique challenges that have implications for HRM. For example, Jackson et al (1989) argued that divisionalized firms should be more likely than those structured around functional departments to emphasize results over process, reflecting greater integration across units and a more externally oriented focus. Consistent with this expectation, they found that divisionalized firms relied relatively more on stock ownership and bonuses for company-wide performance as components of their HRM systems.

Van Sluijs et al (1991) argued that HRM has been shaped by its evolution within the context of functionally departmentalized organizations. Congruent with functional departmentalization, the traditional approach to managing people focuses on selection, training, performance appraisal, and compensation for individuals in specific jobs versus, for example, team players employed as members of an organization (cf Bowen et al 1991). It also presumes hierarchies of control rather than horizontal work-flow sequences (cf Whyte 1991). A realization is emerging, however, that when organizations are (re)structured around teamwork (in place of individual performers), there are major consequences for HRM. For example, Klimoski & Jones (1994) suggest that organizations with team-based designs may need to use new methods of job analysis, assessment, recruitment, and socialization activities. Jackson et al (1994) argued that greater reliance on teams has been an important factor in generating more concern about the HRM implications of workforce diversity.

The impact of structure on HRM is particularly evident in discussions of multinational firms and international joint ventures. Structures for organizations that span across national borders include multinational, global, international, or transnational forms (Phatak 1992, Ghoshal & Bartlett 1990). These forms represent alternative solutions to the problems of differentiation, integration, uncertainty, and risk management in an international environment (SJ Kobrin, unpublished), and each form has unique implications for HRM (Dowling et al 1994, Kochan et al 1992). The fundamental challenge is how to use HRM to link globally dispersed units while also adapting to the societal requirements of host societies (Laurent 1986). Similar problems must be solved when firms from different countries collaborate in a joint venture (e.g. Schuler et al 1991, 1992; Schuler & van Sluijs 1992; Slocum & Lei 1993).

Institutional theory suggests that larger organizations should adopt more sophisticated and socially responsive HRM activities because these more visible
organizations are under more pressure to gain legitimacy. Economic theories suggest that, because of the costs associated with many aspects of HRM, acceptable economies of scale must be reached before sophisticated HRM systems can be implemented. Consistent with both perspectives, considerable evidence shows that HRM varies systematically with organization size. Specifically, compared to smaller organizations, larger ones are more likely to (a) adopt due process procedures (Dobbin et al. 1988); (b) adopt employee involvement practices (Lawler et al. 1992); (c) rely less on temporary staff (Davis-Blake & Uzzi 1993); (d) use more sophisticated staffing (Terpstra & Rozell 1993) and training and development (Saari et al. 1988) procedures, and have more highly developed internal labor markets (Baron et al. 1986a, see also Ferris et al. 1992); (e) pay their employees more (Mellow 1982), but also put more pay at risk through the use of bonuses and long-term incentives (Gerhart & Milkovich 1990); and (f) engage in drug testing (Guthrie & Olian 1991a).

LIFE CYCLE STAGES The literature on organization life cycle stages directs attention to the changing managerial priorities that characterize organizations in various developmental stages such as start-up, growth, maturity, and perhaps decline and revival (Baird & Meshoulam 1988, Smith et al. 1985). These changing priorities, in turn, have implications for HRM. For example, a description of how managerial roles change across phases of the organizational life cycle was used by Gerstein & Reisman (1983) to argue that selection criteria and assessment methods for top-level executives need to be matched to life cycle stages. Similarly, Datta & Guthrie (1994) suggested that the role requirements of CEOs in rapidly growing firms help explain why outsider CEOs are more likely to be hired during this phase. Ferris et al. (1984) also used a role perspective to develop propositions regarding the staffing needs and their implications under conditions of decline. Research and theory relating life cycle stages to changes in managerial requirements presumes that managerial roles change across life cycle stages, but the validity of this assumption has not been established empirically, for example, through the use of systematic job analyses (Szilagyi & Schweiger 1984).

In the studies just described, the research questions address the types of employees who best match the needs of organizations in various life cycle stages. Other studies have addressed the issue of how much attention is directed toward staffing issues, and here economic arguments seem more relevant. For example, Buller & Napier (1993) found that CEOs and human resource executives in rapidly growing firms viewed recruitment and selec-

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1 In HRM research, number of employees is the most commonly used size indicator, but financial indicators such as the dollar value of capital assets and/or the dollar value of sales also are reported sometimes.
tion as by far the most important aspect of HRM, whereas in mature firms there was more concern for a broad array of activities, such as those related to maintaining an internal labor market (see also Kotter & Sathe 1978). Economic explanations also have been used to predict and explain associations between life cycle stages and pay levels (see Gerhart & Milkovich 1992).

To date, empirical research on HRM and organizational life cycles has adopted a deterministic view, predicting that life cycle stage constrains and shapes HRM. But more complex contingency models also have been proposed. In these models, the assumption is that HRM reflects choices made by organizational decision makers; wise choices lead to a good fit between life cycle stage and HRM, which results, in turn, in organizational effectiveness (e.g. Cook & Ferris 1986, Lengnick-Hall & Lengnick-Hall 1988, Milliman et al 1991, Kozlowski et al 1993). The validity of such models has not been assessed empirically, however.

**BUSINESS STRATEGY**

Typologies for characterizing the business strategies used by firms abound, but the two most frequently cited in discussions of HRM were proposed by Miles & Snow (1978) and Porter (1980,1985). Miles & Snow classified organizations as prospectors, analyzers, or defenders (later, reactors were added). Prospectors actively seek new products and markets and, therefore, seek to grow; analyzers also seek to grow, but in a more stable and predictable way through the internal development of new products rather than creation of new markets; defenders seek to maintain the same limited product line with emphasis on high volume and low cost (Miles & Snow 1984). These postures toward the environment should have implications for the quantity and pace of human resource flows. Defenders, for instance, are less concerned about recruiting new applicants externally and more concerned about developing current employees. Therefore, performance appraisal is used more for developmental purposes than for evaluation (Snow & Snell 1993). In contrast, prospectors are growing and so are more concerned about recruiting and using performance appraisal results for evaluation rather than for longer-term development (Olian & Rynes 1984, see also Slocum et al 1985).

Porter's (1985) competitive strategies distinguish among firms that compete on the basis of cost leadership, product differentiation, and market focus. In a study of airlines, Johnson et al (1989) showed that, in a deregulated environment, wage rates were related significantly to which of these strategies airlines pursued. In an adaptation of Porter's typology, Schuler & Jackson (1987a) used the role behavior perspective to describe the possible HRM implications of cost-reduction, innovation, and quality enhancement strategies. Jackson et al (1989) supported Schuler & Jackson's argument that, because an innovation strategy requires risk-taking and tolerance of inevitable failures,
HRM in firms pursuing this strategy should be used to give employees a sense of security and encourage a long-term orientation. Peck (1994) and Milkovich et al (1991) also support a relationship between an innovation strategy and the use of HRM to support a longer-term orientation. Consistent with predictions regarding behaviors needed for a quality strategy is Cowherd & Levine's (1992) finding that egalitarian pay structures are associated with greater product quality.

This brief review of the strategic HRM literature is by no means exhaustive (e.g. see Lengnick-Hall & Lengnick-Hall 1988) and does not fully consider the possible complexity of and alternative models for describing the relationship between strategy and HRM (e.g. see Kerr 1985, Snow & Snell 1993), but the studies clearly support the assertion that strategy is a contextual factor with important implications for HRM. Thus, we are especially optimistic about recent efforts to establish linkages between strategic considerations and psychologically oriented HRM research on selection and utility (see Russell et al 1993).

**HRM and the External Contexts of Organizations**

**LEGAL, SOCIAL, AND POLITICAL ENVIRONMENTS** Within the United States, almost all aspects of HRM are affected by the legal and regulatory environment. In the process of attending to the legal environment, the field also responds to the social and political environments that give rise to and shape the promulgation, interpretation, and enforcement of acts of Congress, executive orders, tax codes, and even funding for HRM innovations (see Cascio 1992, Landy et al 1994, Mahoney 1987, Miller & O'Leary 1989, Noe & Ford 1992, Sharf 1994, Wigdor & Sackett 1993). As US corporations expand their operations abroad, however, they face additional legal concerns. For example, in European countries, organizations are obliged to set aside specific sums of money for formal training and development (Brewster et al 1993). And for corporations that employ expatriates abroad, immigration and taxation treaties can influence staffing decisions (Dowling et al 1994). Global corporations also encounter additional social and political realities. For example, in some countries, civil laws and religious laws coexist and jointly define a legal context for HRM (Florkowski & Nath 1993). Looking ahead, institutional theory and resource dependence theory appear to be particularly useful guides for research on how the legal, social, and political environments impact HRM (see Konrad & Linnehan 1992). Potential topics for investigation include the conditions and processes that facilitate or inhibit the adoption and transfer of HRM innovations (e.g. see Johns 1993) and the feedback processes through which the HRM
activities of organizations create changes in their social, legal, and political environments.

**UNIONIZATION** In the United States, unionized employees have received wages estimated to be up to 33% greater than those of nonunion employees, and unions are often credited with improving working conditions and safety (Lawler & Mohrman 1987). Unions give voice to their members; establish policies and procedures for handling wage and working condition grievances; provide for job security; and secure health and retirement benefits (Baron et al 1986b, Freeman & Medoff 1984, Jackson et al 1989, Kochan et al 1992, Youngblood et al 1992). In addition to helping their own members, unions have probably motivated nonunion employers to provide many of these same benefits (Foulkes 1980). Nevertheless, recent years have witnessed a decline in unionization due to the environmental forces of deregulation, international competition, and the shift to a service economy. Consequently, some unions have moved out of their traditional collective bargaining roles and adversarial relationships with management and are beginning to work cooperatively on issues such as plant designs and locations (Adler 1993, Lewandowski & MacKinnon 1992, Noble 1993, Woodruff 1993); work team design (Lawler & Mohrman 1987); team-oriented pay plans such as gainsharing and employee ownership (Miller & Schuster 1987, Rosen et al 1986); recruitment and selection procedures including selecting members for representation on the board of directors (Collins et al 1993); retraining and relocation (Hoerr 1991, Marshall 1992); and quality improvement (Bognanno & Kleiner 1992, Brett et al 1990, Lawler et al 1992, Reid 1992). Changing union-management relations mean that researchers can no longer simply compare union to nonunion firms. Now they must also take into consideration whether union-management relations with each firm are adversarial or cooperative (e.g. see Cutcher-Gershenfeld 1991).

As the process of globalizing unfolds, both unions and multinational enterprises (MNEs) are recognizing that they need to understand how the institutions of union-management relations and collective bargaining differ around the world (Dowling et al 1994). Prahalad & Doz (1987) found that lack of such understanding often results in conflicts between MNE managers and local communities. To facilitate adaptation to local conditions, it helps US MNEs to know, for example, that in Europe the collective bargaining process and class struggle are more intertwined than they are in the United States (Bournois & Chauchat 1990; Marginson 1992; Poole 1986a,b), and labor institutions are often much stronger (Ofori-Dankwa 1994, Western 1993). MNEs must consider these histories and institutions when developing company-wide human resource philosophies, policies, and practices (Hamill 1983). HRM researchers on almost every topic also must recognize, understand, and incorporate these
realities into their work (Kochan et al 1992) if it is to be useful for organizations operating in a global context.

**LABOR MARKET CONDITIONS**  Labor market conditions can be characterized along several dimensions including unemployment levels, labor diversity, and labor market structure. Unemployment levels and labor market structures have long been recognized as important macroeconomic variables, whereas the importance of labor diversity has been recognized more recently.

Unemployment levels reflect the demand for labor relative to the supply. Macroeconomic research conducted at the national level indicates that in the capitalist United States, excess demand typically results in low unemployment while excess supply typically results in high unemployment. Furthermore, as unemployment drops, wages and costs increase and profits and investments decline; these conditions, in turn, reduce demand for labor (Levine & Tyson 1990). Conversely, as unemployment rises, absenteeism and turnover rates tend to decrease (Kerr 1954, Markham 1985) and the link between employee dissatisfaction and turnover is weakened (Carsten & Spector 1987).

Perhaps because recruitment activities regulate organizational inputs, recruitment researchers have been more sensitive than others to the potential importance of unemployment levels (Rynes 1991, Rynes & Barber 1990). Consistent with transaction costs theory, recruitment strategies appear to vary with unemployment levels. When the labor supply is tight, organizations use more expensive and intensive recruiting methods (Hanssens & Levien 1983), increase the geographic scope of their recruitment activities (Maim 1955), and appear to forego preemployment drug screening (Bennett et al 1994). Other responses to a tight labor supply include improving wages, benefits, and working conditions in order to attract and retain employees (Lakhani 1988) and reducing hiring standards as a means to fill vacant positions (Thurow 1975). Such responses to the labor pool may have significant implications for other human resource practices (e.g. lower selection standards may mean that more training is needed). Thus, the consequences of the external environment may ultimately include fundamental changes in the nature of the employment relationship (e.g. see Levine & Tyson 1990).

The US labor market is evolving toward greater diversity in terms of gender, age, and ethnicity (Johnston & Packer 1987, see also Triandis et al 1994b), although demographic diversity varies markedly among occupations and across status levels. The implications of increasing diversity have been mostly ignored by HRM researchers, as have the implications of differing degrees of homogeneity across segments of the labor market (cf Katzell 1994, Triandis et al 1994b). This is somewhat surprising, given the field's long history of research on bias and discrimination and substantial evidence showing that feelings, cognitions, and behaviors are all influenced by conditions of
group homogeneity vs diversity (see Cox 1993, Jackson et al 1994). These effects undoubtedly have consequences for recruitment, selection, and attrition (see Jackson et al 1991, Pfeffer 1983, Schneider 1987); socialization (Jackson et al 1993); training, development, and mentoring (Morrison 1992, Ohlott et al 1994, Powell & Butterfield 1994, Thomas 1993); and perhaps assessment and reward systems (Pfeffer & Langton 1988). To date, however, the HRM implications of increasing diversity have received relatively more attention from large businesses than from academic researchers. Large businesses are experimenting with a variety of HRM interventions in order to adjust systems that evolved in the context of relative homogeneity to fit the new conditions of relative diversity (e.g. see Jackson & Associates 1992, Morrison & Crabtree 1992, Morrison et al 1993, Zedeck 1992).

The above discussion regarding how unemployment levels can impact HRM implicitly assumes a labor market structure that is undifferentiated. But stratification of the external labor market as well as the internal labor market along the somewhat related dimensions of price and status is acknowledged widely; methods of recruitment, forms of compensation, severance arrangements, employee autonomy, and numerous other aspects of HRM are known to differ as one moves up through price and status levels (e.g. Guthrie & Olian 1991a, Ostenann 1984, Rynes 1991, Schuler & Jackson 1987b). Substantial evidence suggests that HRM systems differ across occupational groups, reflecting occupational subcultures that vary in their orientations toward work, control, and authority structures, self-identification, and career expectations (Althauser 1989, Bridges & Villemez 1991, Sonnenstuhl & Trice 1991, Van Maanen & Barley 1984). Thus, even if firms have a single HRM philosophy and a single set of HRM policies, these are likely to manifest themselves in different practices across subgroups of employees. By extension, the "same" HRM intervention should be expected to be differentially interpreted and received across these subgroups.

**INDUSTRY CHARACTERISTICS**

The term "industry" refers to a distinct group of productive or profit-making enterprises. A full discussion of how HRM is affected by industry-level factors would consider HRM in the public vs private sectors (Rosen et al 1986, Molnar & Rogers 1976), in regulated vs unregulated industries (Guthrie & Olian 1991b, Guthrie et al 1991, Johnson et al 1989), and in industries characterized by high vs low stability or change (Ghoshal & Bartlett 1990, Evans 1992), among other topics. Due to space limitations, only the simple classification of manufacturing vs service industries is discussed below.

Bowen & Schneider (1988) described three characteristics that distinguish the activities of services from manufacturing organizations: First, a service is generally intangible; second, in services the customer and employee usually collaborate in the service production-and-delivery process; third, in services,
production and consumption are usually simultaneous. Because customers play a central role in services, they can be thought of as partial employees who are subject to human resource management (Bowen 1986, Mills & Morris 1986). Consistent with this notion, Jackson & Schuler (1992) found that employers in the service sector were more likely to include customers as sources of input for performance appraisal. Differences in the nature of manufacturing and service also appear to have implications for other aspects of HRM systems, including recruitment and selection, training, compensation, stress management, use of temporary workers, and the development and maintenance of appropriate organizational climates and cultures (see Davis-Blake & Uzzi 1993, Delaney et al 1989, Guthrie & Olian 1991a, Jackson & Schuler 1992, Jackson 1984, Schneider et al 1992, Terpstra & Rozell 1993).

In summary, although not yet widely incorporated into research paradigms, industry characteristics may have far-reaching implications for HRM. Industries, like national cultures, are the contexts within which meanings are construed, effectiveness is defined, and behaviors are evaluated (e.g. see Hofstede 1991).

**NATIONAL CULTURE**

The globalization of national economies and the evolution of multinational enterprises have resulted in increased awareness and documentation of the differences in how human resources are managed among countries (Brewster & Hegewisch 1994, Towers Perrin 1992). Because countries often have unique cultures (i.e. values, norms, and customs) it is widely presumed that multinational enterprises must understand the culture(s) of the region(s) in which they operate in order to effectively manage their human resources.

The most widely known framework for comparing national cultures is that developed by Hofstede (1980), who identified four dimensions of culture: individualism, masculinity, uncertainty avoidance, and power distance. A fifth dimension, time orientation, has been added more recently, but most available research considers only the four original dimensions (Hofstede 1993). Other authors have identified additional dimensions of culture, including informality, materialism, and change orientation (Adler 1991, Phatak 1992, Ronen 1994).

There has been considerable speculation about the possible implications for HRM of cultural variations along these dimensions (Erez & Earley 1993, Mendoza & Kanungo 1994, Slocum & Lei 1993), but empirical studies seldom include direct measures of both culture and HRM. Instead, researchers generally have compared HRM across countries and then argued that cultural values and orientations are determinants of the differences found (see Arvey et al 1991, Bhagat et al 1990, Brewster & Tyson 1991, Begin 1992, Carroll 1988, Eberwien & Tholen 1993, Erez 1994, Hickson 1993, Maruyama 1992, Yu &
It must be recognized, however, that culture may not explain all HRM differences found across countries (Lincoln 1993). Country differences may also be the result of differences in economic and political systems (e.g. Carroll et al 1988), laws and regulations (e.g. Florkowski & Nath 1993), industrial relations systems (Strauss 1982), and labor market conditions (e.g. Levy-Leboyer 1994). Recently, Hofstede (1991) even suggested that organizational and industry characteristics may be more important than national cultures as determinants of managerial practices and employee behaviors. This argument is consistent with evidence that some types of HRM systems can be used effectively across countries that are culturally quite dissimilar (MacDuffie & Krafcik 1992, Wickens 1987). Our understanding of the role of national culture in HRM could benefit from investigations that focus on the question of how globally expanding companies develop HRM systems that are simultaneously consistent with multiple and distinct local cultures and yet internally consistent in the context of a single organization (cf Heenan & Perlmutter 1979, Phatak 1992, Schwartz 1992, Tung 1993).

AN INTEGRATIVE PERSPECTIVE FOR RESEARCH ON HRM IN CONTEXT

Figure 1 represents a summary view of the many relationships between context and HRM described in this review. The relationships we described are depicted as part of a larger model, which includes several important components that are beyond the focus of our discussion. The component labeled "Sense-making and Decision-making" has been the subject of a growing body of research that investigates how and why organization leaders, acting individually and in concert, characterize and interpret their environments, and the implications of these processes for eventual action (e.g. Hambrick 1994, Jackson 1992, Jackson & Dutton 1988). In our integrative model of HRM, these processes are assumed to be intimately bound with the implicit and explicit prioritizing of objectives. These, in turn, are translated into HRM philosophies, programs, and practices (Schuler 1992). In other words, our model presumes that the phenomena represented in the left-most box in Figure 1 are key mediators that help explain vertical linkages between context and HRM.

Individual-, organizational-, and societal-level outcomes (right-most boxes in Figure 1) are also major components of an integrative model. A list of specific outcomes could be readily derived by readers familiar with the scientific and practice-oriented HRM literature. We wish to encourage interested researchers to expand their conceptualizations of outcomes to go beyond individual-level behavior in work settings. In addition, outcomes that describe small and large groups (e.g. groups, organizations, society) should be consid-
Figure 1 Integrative framework for understanding HRM in Context. Copyright by SE Jackson & RS Schuler. Used with permission.
ered and the phenomena studied should reflect the reality that HRM activities may affect outcomes beyond the traditional boundaries of the target organization (e.g. families, schools, communities).

Understanding and advancing HRM in Context requires an integrative perspective that recognizes and incorporates all of the relationships depicted in Figure 1. Within the discipline of psychology, however, linkages involving the macro-level internal and external environments have been largely ignored. Fortunately, a realization is now emerging that this state of affairs should not continue. Much research is needed to understand how internal and external environments shape (a) the nature of human resource philosophies, policies, and practices; (b) the employee behaviors and attitudes that should be valued, and which are likely to be exhibited; (c) the criteria that define employee effectiveness and achieved levels of employee effectiveness; and (d) the criteria that define organizational effectiveness and achieved levels of organizational effectiveness. In addition, future research needs to recognize that contexts may moderate the observed relationships between HRM and various outcomes.

Our review of the literature has revealed to us how seldom research addresses the horizontal linkages among HRM activities, although such linkages are implied by most of the theories we reviewed and, we would argue, by most psychological theories about employee attitudes and behaviors. Employees do not respond to specific human resource policies and practices in isolation. They attend to and interpret the entire array of information available and from this they discern cultural values and behavioral norms. Unfortunately, we know surprisingly little about how various combinations of human resource policies and practices are interpreted by employees, nor do we know how complex HRM systems influence the attitudes and behaviors of current and potential organizational members. Our understanding of vertical linkages between HRM and contexts cannot proceed without attending to the horizontal interdependencies that exist among human resource policies and practices.

**Theory-Driven Research**

The theories we have identified represent possible explanations for some of the empirical relationships between environmental conditions and HRM, but the available theories are admittedly inadequate. Each deals with pieces of the larger phenomenon and none addresses the whole domain of HRM in Context. Thus, in the near future, the best work will be informed by multiple theoretical perspectives. Furthermore, because the theories we have discussed were generally not formulated specifically for the purpose of understanding HRM in Context, some translation and adaptation of these theories may be required. This translation process is likely to proceed in iterative steps, with consensus
emerging slowly. Nevertheless, research driven by incomplete theories is more likely to accumulate to form a meaningful body of knowledge, compared to research driven by no theory at all.

**Methodological Issues**

Although imperfect, potentially useful theories are relatively plentiful. Much less plentiful are psychometrically sound, agreed-upon approaches for measuring relevant constructs and testing key theoretical propositions. Through methodological contributions, industrial-organizational psychology is in an excellent position to contribute to the advance of knowledge about HRM in Context. Contributions will not come through "research as usual," however. Several shifts in approach will be required: from treating organizational settings as sources of error variance to attending as closely to them as we have traditionally attended to individual characteristics; from focusing on individuals to treating social systems as the target for study; from focusing on single practices or policies to adopting a holistic approach to conceptualizing HRM systems; from research conducted in single organizations at one point in time to research comparing multiple organizations and/or studying dynamic changes in organizations across times and places; and from a search for the "one best way" to a search for the fundamental features that characterize the many possible ways to design and maintain effective systems.

These shifts in perspective are fundamental in many respects. In other respects, however, they require little more than a change from defining the essential features of situations as jobs (as industrial-organizational psychology often does) to a recognition that jobs are merely the first level of context in a many-level complex system of contexts. By extension, we would argue that future HRM research should elevate organization analysis (and perhaps extra-organization analysis) to a status equal to that currently enjoyed by job analysis. We already understand and act on the principle that effective selection systems, performance appraisal methods, compensation plans, and training programs cannot be developed without a scientifically valid diagnosis of the job-as-situation. Similarly, the design of effective HRM systems cannot be developed without a valid diagnosis of the organization-as-situation? Current methods for conducting job analysis are not adequate for conducting organizational analysis. However, if motivated to do so, thoughtful researchers undoubtedly could apply the principles of sound job analysis for the purpose of developing sophisticated methods for measuring organizational contexts.

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2 This principle is, of course, widely accepted in the training literature—but it is also widely ignored.
Also needed are measurement tools that capture the essential features of HRM philosophies, policies, and practices, while yielding information that facilitates meaningful comparisons among organizations and across environmental contexts. Research that simply identifies and describes the most common configurations of prescribed HRM systems and the most common forms of received HRM should serve as the foundation for future investigations of HRM in Context. Ideally, such research will reflect the reality of rapid globalization and the international context of most large organizations. Indeed, globalization may be the most potent catalyst for an explosion of research on HRM in Context: for those operating in a global environment, the importance of context is undeniable—it cannot be ignored. Multinational organizations strive for consistency in their ways of managing people on a worldwide basis while also adapting their ways to the specific cultural requirements of different societies (Laurent 1986). To meet this challenge, those responsible for the design of globally effective HRM must shift their focus away from the almost overwhelming variety of specific practices and policies found around the world and look instead at the more abstract, fundamental dimensions of contexts, HRM systems, and dimensions of employees' reactions (e.g. see Fulker–son & Schuler 1992). If they succeed in identifying these dimensions and the relationships between them, they may be able to more easily design HRM systems that can be used effectively in multiple country locations (e.g. see MacDuffie & Krafcik 1992).

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