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## "Best Practices ... in Spite of Performance" Just a Matter of Imitation?

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# "Best Practices ... in Spite of Performance" Just a Matter of Imitation?

## **Abstract**

Reflecting on the last decade of research in the area of HRM, the main emphasis has been on the relationship between HRM and Performance. Thanks to empirical research –carried out on both sides of the Atlantic- our understanding has improved. Performance has been measured both at individual level, team level and firm level. Theoretical and methodological issues have been debated and researchers could benefit from it in order to develop more advanced approaches. The abundant attention for the whole issue of how HRM-policies and –practices can have an effect on performance has also certain drawbacks. One of them is the neglecting of factors, which seem to be determinative in the shaping of HRM policies and –practices, irrespective whether they have an impact on performance or not. After all, HRM is more than only contributing to performance in whatever meaning. A number of practices and policies are simply implemented due to legislation, CBA's, fashion, imitation out of uncertainty and/or the wish to contribute to feelings and expectations of fairness/ equity etc. Based on recent developments in two streams of theoretical thinking, i.e new institutionalism and strategic management (especially co-evolution and absorptive capacity), we contrast economic rationality with normative rationality. Economic rationality can be used (for example from a RBV perspective) to account for the relationship between HRM and Performance, whereas normative rationality can account for the shaping of HRM practices irrespective of a possible effect on performance. In our paper the focus is on how organisations select and adapt best practices. We develop a hypothetical framework, which accounts for the selection and adoption of best practices among companies using insights from new institutionalism (especially isomorphism), co-evolution and absorptive capacity. In this way we are able to construct the life cycle of an HRM best practice and the way in which companies differ in their speed of selection and adoption of best practices and the consequences this has for whether or not being able to achieve a competitive advantage. Following our theoretical argument we present some illustrative examples and a set of hypotheses to be tested for in follow-up research.

## **Keywords**

HRM ; best practices adoption ; resource based view; institutional theory, co-evolution

## **Disciplines**

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**"Best Practices...in spite of Performance"  
Just a matter of Imitation?**

Jaap Paauwe and Paul Boselie

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Abstract	In this paper the focus is on how organizations select, adapt and retain best practices in HRM. Based on recent developments in two streams of theoretical thinking, i.e new institutionalism and strategic management (especially co-evolution and absorptive capacity), this paper contrasts economic rationality with normative rationality in the selection, adaptation and retention process. In this way we are able to construct the life cycle of a HRM best practice, the way in which companies differ in their speed of selection and adoption of best practices, and the consequences this has for whether or not being able to achieve a competitive advantage. After presenting and describing our framework for the adoption and life cycle of best practices in the field of HRM, a range of hypotheses is presented to be tested for in follow-up research.
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Free keywords	HRM, best practices, adoption

# **"Best Practices...in spite of Performance"**

## **Just a matter of Imitation?**

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# **Best Practices...in spite of Performance: Just a matter of Imitation?**

**By: Jaap Paauwe and Paul Boselie (version Aug 2003)**

## **1. Introduction**

Reflecting on the last decade of research in the area of HRM, the main emphasis has been on the relationship between HRM and Performance. Thanks to empirical research – carried out on both sides of the Atlantic – our understanding has improved. Performance has been measured both at individual level, team level and firm level. Theoretical and methodological issues have been debated and researchers could benefit from it in order to develop more advanced approaches. The abundant attention for the whole issue of how HRM-policies and –practices can have an effect on performance has also certain drawbacks. One of them is the neglecting of factors, which seem to be determinative *in the shaping of HRM policies and –practices*, irrespective whether they have an impact on performance or not. After all, HRM is more than only contributing to performance in whatever meaning. A number of practices and policies are simply implemented due to legislation, CBA's, fashion, imitation out of uncertainty, the selling capabilities of HR-consultants and/or the wish to contribute to feelings and expectations of fairness/equity etc.

Based on recent developments in two streams of theoretical thinking, i.e new institutionalism and strategic management (especially co-evolution and absorptive capacity), we contrast economic rationality with normative rationality. Economic rationality can be used (for example from a RBV perspective) to account for the relationship between HRM and Performance, whereas normative rationality can account for the shaping of HRM practices irrespective of a possible effect on performance. In our paper the focus is on how organizations *select, adapt and retain* best practices. We develop a hypothetical framework, which accounts for the selection and adoption of best practices among companies using insights from new institutionalism (especially isomorphism), co-evolution and absorptive capacity. In this way we are able to construct the life cycle of an HRM best practice and the way in which companies differ in their speed of selection and adoption of best practices and the consequences this has for whether or not being able to achieve a competitive

advantage. Following our theoretical argument we present some illustrative examples and a set of hypotheses to be tested for in follow-up research.

### ***Overview of content***

The paper starts with outlining three important building blocks for our argument (section 2). The first one is the shift in strategic management from outside-in to inside-out approaches and the necessity to blend these two approaches. In order to achieve this blending we explore both new institutionalism (section 2.1) and coevolution (section 2.2). In this way we make the transition from a single-lense perspective to a more multi-focal perspective as Lewin and Volberda (1999: 523) correctly remark that “...*single-theme explanations for the adaptation-selection phenomenon have reached their limit. Progress in the field requires combining and recombining multiple lenses instead of increasing fragmentation.*” So our multiple lenses are the combination of new institutionalism and coevolution/absorptive capacity. In order to develop our actual framework in section 3 we do need to make a both theoretically and empirically founded distinction between different adopter categories, for which we rely on Rogers (1995) and Mirvis (1997). After presenting and describing our framework for the adoption and life cycle of best practices in the field of HRM, we develop a range of hypotheses to be tested for in follow-up research. In section 3.1 we present the propositions relating to the underlying rationality behind HR practice decision making and in section 3.2 we present the propositions which relate to whether or not the selected HR practice and the timing of it will contribute to a competitive advantage and/or improved performance. In the discussion section (section 4) we focus on a number of issues still to be resolved and present a number of recommendations for empirical research in this area (section 4).

## 2. Strategic Management

In the 1980s strategic management was dominated by what is now labelled outside-in approaches. These outside-in approaches were mainly based on contingency approaches (e.g. Lawrence and Lorsch, 1969). This school of thought is also known for its structure/conduct /performance paradigm, an approach developed in the 1960s and 1970s that explicitly assumes tuning of the shaping of an organization to key characteristics and developments in the specific industry. The work of Porter (1980) on strategy is probably the most famous example of 'traditional' outside-in thinking. According to the outside-in mode of thought the strategy of an organisation mainly depends on external (market) constraints like the customers, the suppliers entry barriers, threat of substitutes etc. The key to success is 'strategic fit': the fit between the strategy of an organisation and the (external) environment.

- Insert Figure 1 about here -

The 1990s brought a reaction on this type of strategic management with the introduction of the resource-based view (e.g. Barney, 1991), in which the (internal) resources were presumed to be the key to organisational success. These inside-out approaches emphasise the importance of unique organisational resources (e.g. financial resources, human resources) for the development of strategies to achieve sustained competitive advantage. The terms outside-in and inside-out in this context stem from Baden-Fuller and Stopford (1994).

In the 1990s the 'traditional' outside-in approaches (e.g. Porter, 1980) appeared to represent the one extreme, stressing the importance of the external environment, and the 'emerging' inside-out approaches the other extreme, emphasizing the importance of internal resources (see Figure 1 for an overview).

Late 1990s new schools of thought gained popularity in the field of strategic management, blending the outside-in approach with the inside-out approach. These 'new' schools of thought build on new institutionalism (e.g. DiMaggio and Powell, 1983) and coevolution theory (e.g. Futuyama and Slatkin, 1983, Baum and Singh, 1994, Aldrich, 1999, Lewin and Volberda, 1999). Examples of the application of institutional theory can be found in the work of Oliver (1997), Baum and Korn (1999)



and Silverman and Baum (2002). The special issue in *Organization Science* (1999, number 3) reflects coevolution theory in strategic management and has stimulated a range of papers in different journals (e.g. Helfat and Raubitschek, 2000; Carney and Gedajlovic, 2002; Zollo and Winter, 2002) and once more a special issue in *Organization Studies* (2001, number 6).

In section 2 we will give a concise overview of both new institutionalism and coevolution. In doing so we will provide examples/illustrations related to the field of human resource management in order to demonstrate the applicability of these two theoretical building blocks for blending outside-in and inside-out approaches.

### ***2.1 Institutional Theory***

New institutionalism is focused on why organizations within a population exhibit similar characteristics and has risen to prominence as a powerful explanation for isomorphism of organisations (DiMaggio and Powell, 1991). Isomorphism is a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions. There are two types of isomorphism: competitive and institutional (DiMaggio and Powell, 1983). Competitive isomorphism assumes a system of (economic) rationality, which emphasises market competition, niche change, and fitness measures, and is most relevant where free and open competition exists. Economic rationality fits Weber's (1946) zweckrationalität, based on criteria of efficiency and effectiveness. We interpret DiMaggio and Powell's (1983) competitive isomorphism in terms of microeconomics. In our opinion the authors implicitly assume that competing organisations in a free and open market manifest mimetic behaviour based on micro-economic assumptions: 'best practices' will be copied by competitors as soon as these practices have proven to be successful. The mimetic behaviour of competing organisations leads to an equilibrium, with no competitive advantage for that specific 'best practice' in the end.

In order to fully understand organisational change, DiMaggio and Powell (1983) focus on an alternative perspective: institutional isomorphism. Institutional isomorphism emphasises normative rationality – in contrast to economic rationality – behind decision-making processes. Normative rationality, similar to Weber's (1946) wertrationalität, reflects processes of cognitive and normative institutionalism,

whereby people and organisations conform 'without thinking' to social and cultural influences. Three institutional mechanisms are said to influence decision-making in organisations: coercive mechanisms, which stem from political influence and the problem of legitimacy; mimetic mechanisms, which result from standard responses to uncertainty; and normative mechanisms, which are associated with professionalisation.

Paauwe and Boselie (2003) argue that institutional mechanisms – coercive, mimetic and normative mechanisms – affect the shaping of HRM in organizations. Related to HRM, coercive mechanisms include, amongst others, the influence of the trade unions, the labour legislation, and the government. Mimetic mechanisms refer to imitations of strategies and practices of competitors as a result of uncertainty, or fashionable fads in the field of management. The current interest shown by organisations for the development and implementation of an HR Scorecard (Becker et al., 2001) might turn out to be a typical example of a mimetic mechanism in the field of HRM. Normative mechanisms refer to the relation between management policies and the background of employees in terms of educational level, job experience and networks of professional identification. An example of possible normative mechanisms in practice is professional networks. These networks are related to universities and professional training institutes. This type of networks are important centres for the development of, very often taken for granted, organisational norms among professional managers and their staff specialists and external consultants in the different functional areas of finance, marketing, accounting and HRM. For example, there is a strong emphasis nowadays on the need for HR to be business-oriented and to contribute to the process of adding value, whereas in the seventies – at least in the Netherlands – HRM was all about supporting organisational democracy.

## **2.2 Coevolution and absorptive capacity**

In an excellent overview Aldrich (1999) describes the origins of evolutionary theory and the related concept of coevolution. Referring to authors like Baum and Singh (1994) en Roughgarden (1983) he states “Evolutionary theorists have coined the term coevolution to describe situations in which organizations and populations not only respond to influence from their environments, but also affect their environments.” (Aldrich, 1999: 38)

In a special issue of Organization Science authors like Lewin et al. (1999) and Lewin and Volberda (1999) develop the contours of a co-evolutionary framework for the study of strategy and new organisational forms. They see it as a useful approach which will further on-going research into the issue of how new organisational forms evolve amidst of environmental pressures and managerial intentionality. According to Lewin et al. (1999: 535) "...the theory considers organisations, their populations, and their environments as the interdependent outcome of managerial actions, institutional influences and extra-institutional changes (like technological, socio-political, and other environmental phenomena)." Coevolutionary theory focuses on how firms coevolve with each other and with a changing organizational environment (Futuyama and Slatkin,1983 and Baum and Korn, 1999). Of course in the past many other theories have been built around the issue of how firms coevolve with their environment. Lewin and Volberda (1999) present the following range of theories, each of which focuses on only one aspect of this issue:

- |                                 |                                    |
|---------------------------------|------------------------------------|
| -population ecology             | -resource based theory             |
| -institutional theory           | -dynamic capabilities              |
| -industrial organisation        | -contingency theory                |
| -transaction cost               | -strategic choice                  |
| -behavioural theory of the firm | -organisational learning           |
| -evolutionary theories          | -life cycle/punctuated equilibrium |

Lewin and Volberda (1999) label each of the above-mentioned theories a so-called *single lens* theory (1999: 524), because of the fact that a certain approach only emphasises one dominant theme in the discourse around selection and adaptation. For example in the *population ecology* paradigm the focus is on environments, which select organisations through resource scarcity and competition. Managerial intentionality has hardly or no impact on adaptation, whereas for example in the *strategic choice* approach the focus is on organisations that have the opportunity and power to reshape the environment. So organisations are not always passive recipients of environmental influence. They make a plea for a coevolutionary framework, which can be considered as a kind of synthesis of the aforementioned theoretical frameworks in the field of sociology, economics and strategy and organisation theory. In this way they see a fruitful perspective for a more advanced and less fragmented study of new

organisational forms. Since new practices in HRM are very often part of or constitute new organisational forms, we think it might be useful to take a closer look at the essence of this approach and see how it can be used in advancing the field of HRM, which very often suffers from the same kind of fragmentation. Based on Lewin and Volberda (1999: 526/527), we present the following range of essential properties of coevolution. Each characteristic will be accompanied with an example/illustration to demonstrate its relevance in the area of HRM.

*-Multilevelness/embeddedness:* coevolutionary effects take place at multiple levels within firms as well as between firms. Processes of variation, selection and adaptation take place at the micro level within the firm, but also between firms and their market niche. Related to HRM we can also discern developments at the macro level, for example tightening of the labour market, which co-evolves with all kind of approaches at the micro level of individual firms to become a preferred employer /employer of choice. From the perspective of how firms select best HR-practices it is important to look at the interactions between multiple levels of coevolution.

*-Multidirectional causalities:* Organisations and their parts do not merely evolve. They coevolve with each other and with a changing organisational environment (Lewin and Volberda, 1999:527). Based amongst others on Baum and Singh (1994) Lewin and Volberda conclude that ‘...*in such complex systems of relationships, dependent-independent variable distinctions become less meaningful since changes in any one variable may be caused endogenously by changes in others*’(1999:527). Related to HRM we can think of the whole debate around HRM and Performance. What is cause and what is effect and how do these chains of cause and effect evolve in time; how are they influenced by both the environment and parts of the organisation itself (like culture, leadership, degrees of alignment and enactment)? Very often the secret of contributing to performance is more in the ‘Gestalt’ than that we can clearly distinguish causes from effects.

*-Nonlinearity:* As a consequence of indeterminate feedback paths, changes in one variable can produce quite counterintuitive changes in another variable (Lewin and Volberda, 1999:527). According to Lewin and Volberda, (quoting Anderson, 1999), researchers prefer to abstract away non-linear abstractions for the sake of analytical

clarity. However, for a better understanding of what is going on in the interaction between environment and organisations, researchers need to study sets of co-acting organisations and environments, which do not only have direct effect upon each other, but also indirect feedback effects through the rest of the system. Just an example to clarify what is meant: In the sixties and seventies the Dutch government developed an extensive system of social legislation aimed to protect the worker in case of lay-offs, illness, disability, and coming of age. An expensive system, which the country could afford, itself thanks to continuous economic growth and the discovery of an abundant supply of natural gas, which could be sold abroad. In the beginning of the eighties an economic crisis hit the Netherlands, unemployment went up and government tried to economise on the expensive welfare system. Yet the very fact that everybody – whether still at work or unemployed or being entitled to disability benefits- could still reckon to have a decent income, implied - at least to a large degree - the maintenance of purchasing power and decent standards of living. So as an unforeseen feedback effect of the system at a higher level, the expensive system of social legislation made the recession less steep and the subsequent recovery –compared to many other European- countries a lot faster.

*-Positive feedback:* Organisations systematically influence their environments, and organisational environments influence organisations. These recursive interactions result in interdependencies and circular causality (Lewin and Volberda, 1999:527). Related to best practices in the field of HRM, we can think of the hype in the nineties with respect to the introduction of competence management systems. The big companies –very often with the help of academics and consultants- started to develop and introduce competency management in order to replace old-fashioned types of job description and –evaluation systems. The environment –made up of other firms, but also organisations like publishing companies, consultancy firms, and conference organising agencies heard from it, copied practices, distributed the new development, made it into a hype and this resulted in positive feedback and a strengthening of the once started initiative into a real hype and fashion across all organisations.

*-Path and history dependence:* Variation in adaptations among constituent firms in a population may reflect heterogeneity in the populations of firms at earlier points in time. Some firms have a tradition and/or the resources, which gives them a lead in

adopting or developing new HR practices. Especially built up prior knowledge/capability is important in this respect.

The latter point draws our attention to the related theoretical concept of ‘absorptive capacity’ as developed by Cohen and Levinthal (1990). A concept that comprizes evaluation, acquisition, integration and the commercial utilization of new outside knowledge (Cohen and Levinthal, 1990, Van den Bosch et al, 1999: 552). Cohen and Levinthal (1990) propose that prior related knowledge is an important determinant of absorptive capacity. According to Grant (1996) the primary role of a firm is the integration and, of course the utilization of knowledge. Absorptive capacity stems from the premise that a firm needs prior related knowledge to absorb and use new knowledge. This can also be applied in the area of HRM and best practices. Has the firm built up the capability to absorb new knowledge? Do they have experience to adapt new HR knowledge into their existing systems, structure and culture? Do they know how to implement it; and do they have the experience to make use of it in such a way that it will enhance their competitive position? So the concept of absorptive capacity is closely related to the previously mentioned property of path and history dependence.

Combined with both resource based view and institutional theory we strongly believe that coevolution will offer a useful venue for shedding more light on the way in which firms adopt and select best practices in the area of human resource management.

Since institutional theory emphasizes an increased degree of homogeneity (isomorphiosm) and indicates mechanisms by which organizations become increasingly more similar, coevolutionary theory is a useful add-on, since it point to the interaction and interdependence between organizations and their environment. In this way the perspective is a more dynamic one and also one which allows a better explanation for differences in timing and adoption of practices, for which Rogers offers a useful categorization.

In the next section we set out to develop those insights into a more explicit framework around the so-called life cycle of an HR best practice, irrespective whether it contributes to performance or not.

### **3. Shaping of HRM in Organisations: Constructing the framework**

Looking back on the last two decades we can discern major similarities in the development of HRM and the developments in strategic management theorizing. In the 1980s HRM was influenced by the Porter-like outside-in approaches, for example reflected in the work of Schuler and Jackson (1987), emphasising the necessity of strategic fit: the fit between the overall strategy (based on the external environment) and the HR strategy. The introduction of the resource based view in the 1990s also led to a transition from the former outside-in approaches (based on contingency assumptions) to an inside-out approach, in which human resources play a key role in the search for sustained competitive advantage of an organisation. Examples of these resource based approaches in HRM can be found in the work of Wright et al. (1994), Paauwe (1994), Boxall (1996), Kamoche (1996) and Mueller (1996).

Just as in strategic management we are convinced that the field of HRM can benefit from the actual theoretical developments aimed at blending outside-in and inside-out approaches in strategic management. The real progress in our field might come from combining different theoretical insights such as those from new institutionalism and coevolution in strategic management with respect to the shaping of HRM in organisations and its effect on the performance of an organisation.

Selecting new HR practices and adapting these to one's own organisation also involves a process of innovation and has to do with diffusion of knowledge and innovation. Inspired by Mirvis (1997) who –based on empirical research- made a distinction between leaders, fast followers, slow followers and laggards, we looked for a more thorough and abstract theoretical approach in the field of innovation and diffusion of innovation, which we found in the work by Rogers (1995), who has been involved in ongoing research in this area for decades.

Rogers gives a helpful overview of innovativeness and adopter categories. This general framework is used to study adoption processes of innovations in a social system. He defines innovativeness as "...the degree to which an individual or other unit of adoption is relatively earlier in adopting new ideas than other members of a system (Rogers, 1995: 252)." The backbone of his approach is based on the Saucio study in the early 1960s, a research on the diffusion of farm innovations in a

Colombian Village in the Andes. In those days researchers focused on the diffusion of agricultural innovations such as chemical fertilizers and spray guns for insecticides and fungicides, and found a general tendency for individual farmers to adopt new ideas. The 71 farmers in this study were classified into five adopter categories, based on the time of adoption: innovators, early adopters, early majority, late majority, and laggards. These results were compared with another study of Ohio farmers. Rogers (1995) concludes that both the Saucio and the Ohio agricultural studies reveal S-shaped cumulative distribution of the innovativeness of farmers (See Figure 2).

- Insert Figure 2 about here -

In both studies farm size, formal education of the entrepreneur (farmer), mass media exposure, and opinion leadership (measured as the degree to which a farmer was sought by others for information and advice about agricultural innovations) were the variables most highly correlated to innovativeness (Rogers, 1995). The variable size mainly represents economies of scale. Large firms have more (financial) resources for start up costs for development and introduction of 'new ideas'. Formal education of the farmers represents knowledge, skills, work experience and competencies. Mass media exposure and opinion leadership represent both available information and the access to communication channels. Rogers reports that the Saucio and Ohio results were confirmed by other studies (Bose, 1964 in Rogers, 1995; Hamblin et al., 1973 in Rogers, 1995). Overall, Rogers (1995: 255) concludes that "...the diffusion process seems to represent a general pattern of human behavior." The S-shaped diffusion curve mentioned before is essentially normal (See Figure 3). Rogers' five adopter categories are ideal types or "...conceptualizations based on observations of reality that are designed to make comparisons possible (Rogers, 1995: 263)." See Table 1 for an overview of the dominant characteristics and key values of the adopter categories of Rogers.

- Insert Figure 3 about here -

Innovators are the inventors of new ideas and together with the early adopter category they can be labeled the entrepreneurs in a social system, taking the most risk. Rogers (1995: 259) argues that "...the part of the diffusion curve from about 10 percent



adoption to 20 percent adoption is the heart of the diffusion process. After this point, it is often impossible to stop the further diffusion of a new idea, even if one wished to do so.” He also states that the uncertainty concerning the innovation is highest until about 25-percent adoption has occurred in the social system (Rogers, 1995: 270).

- Insert Table 1 about here -

Combined with Mirvis’ (1997) empirical work we believe that Roger’s (1995) diffusion of innovations approach can also be applied to the selection and adoption/adaptation process of so-called ‘best practices’ in HRM. We define the ‘new idea’ or innovation in terms of these ‘best practices’ and the social system of Rogers from an HRM perspective is, for example, the type of industry (e.g. services, manufacturing) or type of companies (e.g. multinational companies).

Mirvis' (1997) paper reports empirical research on HR innovation in US firms: the company's approach to adopting new HR practices. The results of Mirvis (1997) suggest that 11 percent of the companies said they usually tried to be in the lead with HR innovations (*Leaders*), 39 percent adopted policies and practices to stay ahead of competitors (*Fast Followers*), 39 percent introduced certain practices when consensus developed in their industry (*Slow Followers*), and 11 percent adopted policies and practices only after they were proven effective in other companies (*Laggards*). This approach yields the familiar diffusion of innovation curve, that "...represents the sampled companies' position as leading, following, and lagging in adopting new HR policies (Mirvis, 1997: 46).”

Mirvis (1997) found a consistent pattern between US companies' innovative orientations and ratings of the influences on HR and barriers to change. In the leading firms (*Leaders*) interviewees saw customers, changes in workforce demographics, and new technology as having a great deal of impact on HR management, while the next group along the diffusion curve (*Fast Followers*), were not as influenced by customers and demographics as the leaders, and were more limited in innovation by prevailing attitudes in their companies. The third group of companies (*Slow Followers*), waiting for a consensus to develop in their industries, were less influenced by external factors and more hampered in making change by the costs and

their company cultures. The fourth group (*Laggards*) had the most trouble getting HR issues at the table of top management and reported substantial barriers to change.

Implicitly Mirvis (1997) acknowledges the existence of barriers to change the HR architecture of an organisation. These barriers mainly appear to be caused by top management's (the dominant coalition) attitude to change. Mirvis (1997) reports for example much less resistance to change in leading firms than others by not only top management, but middle managers, trade unions and employees as well.

If we combine the diffusion of innovative curve (Rogers, 1995) on adopting new HR practices (or should we say 'best practices') of Mirvis (1997) with the framework of Dimaggio and Powell (1983) on isomorphism and a coevolution approach (Aldrich, 1999) we can construct a theoretical framework that explains the selection, adaptation and thus shaping of HRM in organisations (See Table 2). Before doing so, we need to indicate what we mean by HRM. Up till now we have referred to HRM practices. However, do we mean individual HRM practices or do we mean bundles/systems of HRM practices etc??. This issue also relates to the debate on 'best practice' versus 'best fit'. Becker and Gerhart (1996) and Purcell (1999) reconcile this tension by distinguishing between the surface level of HRM policies and practices in a company and the underpinning more fundamental level of processes and principles. The HR-practice at surface level will always be affected by the context and is thus more context and firm specific (best fit), whereas the underpinning level relates to general principles and generic HR processes, which all firms would be wise to follow (Boxall and Purcell, 2003: 69) and which are universalistic in nature (best practice). In the context of our framework as depicted below we focus on general principles and generic HR processes and not their specific shape and form, once applied in a company. So we focus on (HRM) principles and processes like: Competence development, the learning organisation, the HR balanced scorecard, 360 degree feedback and appraisal systems, assessment centres, knowledge management, e-learning, performance related pay etc.

The framework can be presented as follows:

- Insert Table 2 about here -

Leaders are open to change and therefore more than willing to develop and implement new HRM practices. Their drive is to gain competitive advantage based on economic rationality. The price they have to pay is the risk and uncertainty related to research and development of new practices. The fast followers are also seeking for opportunities to achieve competitive advantage through mimetic behaviour (competitive isomorphism) of leading firms. They might not have the 'big' advantage of being first, but they also endure less risk and uncertainty. Presumably their rationality is based on economic considerations. Slow followers appear to look at their branch of industry with respect to HR innovations. The empirical work of Mirvis (1997) suggests that slow followers wait with the introduction of a policy or practice until a significant number of competitors has made the implementation successfully. The considerations of the slow followers might be based on normative rationality. In order to maintain fairness towards their individual employees and legitimacy towards society in the end the slow followers are forced to introduce a successful HR practice (e.g. employee benefits). When a majority of organisations in a branch of industry has adopted a successful HR practice other firms can only avoid competitive disadvantage by implementing this practice as well. There is nothing to be gained, but a lot to be lost. The laggards might suffer from this problem because they have been too late with adoption of the policy or practice. The laggards run the risk of both market failure (insufficient economic competitiveness in the eyes of their shareholders and main financiers) and societal failure (dissatisfaction of employees and negative image towards society).

Further, Table 2 gives an overview of the differences between the adopter categories, in particular the differences with respect to time of introduction/implementation of an HR practice (t1 to t3), the estimated percent of companies per category, the rationality behind the decision making (entrepreneurial/economic, economic and normative), strategic choice (managers' intentionality) or type of isomorphism (competitive or institutional), risk involved in the selection/adaptation/retention of practices, the aim and key motivators for change, and presumed returns on investment. Table 2 literally represents the translation of theoretical insights from new institutionalism, coevolution and Rogers' diffusion of innovation approach to a conceptual model for understanding 'the life cycle of a best practice' in HRM. Subparagraphs 3.1 and 3.2 demonstrate possible propositions based on this conceptual model. These propositions

can be used for empirical research in the field of HRM, for which we will give some recommendations at the end of this paper.

### ***3.1 Propositions With Respect To The Rationality Behind HR-practice Decision Making***

Our conceptual model, represented as an overview in Table 2, suggests that there are different rationalities for decision making with respect to the selection, adaptation and retention of HR practices. Innovating companies such as General Electric and Unilever are known for their drive to continuous change in order to improve performance and be or become a leading firm in the industry. The Dutch-British multinational Unilever was one of the first to introduce a very advanced and well-developed competency management system, which also involved the restructuring of all its operations into five distinct managerial levels. It improved communication, clarity of goals and measurement of necessary competencies and output at the individual level. Moreover it brought about a common language for required capabilities through all its operations world-wide. GE was one of the first in the field of HRM to have a HR competence framework (a tool for assessing HR performance) and to install an HR Scorecard and (Becker et al., 2001). The company is a member of the so-called “HR Scorecard Alliance”, a network with other global players such as Daimler Chrysler, General Motors, IBM and VNU. Other examples of ‘best practices’ in HRM might be the Human Capital Valuation method operating in Appion, the 360-degree Feedback Performance Management Model operating in Monsanto, the Learning events within Kodak, and Knowledge Management at McKinsey’s.

Our conceptual model suggests that the ‘leaders’ are entrepreneurs that want to be and stay the best in class through a pro-active attitude and behaviour. Moreover they have apparently developed the right organisational capabilities for selecting and adapting new knowledge in the area of new HR practices. In the course of many years they have learned to assess the risks and costs involved of selecting and adapting those new practices, which will improve their performance (absorptive capacity).

*Proposition 1a: The decision making of leaders (innovators) with respect to the selection/adaptation/retention of HR practices is based upon entrepreneurial drive and is being facilitated by a high degree of absorptive capacity.*

Fast followers copy HR practices of leading firms as soon as these practices have proven to be successful. Market pressures in terms of efficiency and effectiveness push this category to keep an eye open for everything that is innovative and added value at the same time.

*Proposition 1b: The decision making of fast followers (early adopters and early majority) with respect to the selection/adaptation/retention of HR practices is based on economic rationality.*

Slow followers and laggards are rather conservative and risk averse. They are not triggered by economic incentives to introduce certain 'best practices'. Their absorptive capacity is low. Social pressure from, for example, the media and external stakeholders (e.g. trade unions) force this category of companies to adopt certain HR practices at a later stage.

*Proposition 1c: The decision making of slow followers (late majority) and laggards with respect to the selection/adaptation/retention of HR practices is based on normative rationality, more specifically mimetic mechanisms.*

### **3.2 Propositions With Respect To Gaining (Sustained) Competitive Advantage**

Companies like McKinsey, General Electric and Unilever are focused on innovation all the time. When these organizations have invented and implemented a successful practice – for example knowledge management at McKinsey's, competence management at GE's, and HR competence management at Unilever's – competitive advantage is created by the fact that they are first.

*Proposition 2a: Leaders (innovators) create competitive advantage by being first to select/adapt/retain successful HR practices.*

The category fast followers represent 'the other successful companies' within an industry or social system. Their success in terms of competitiveness advantage is built on relatively fast introduction of a 'best practice', imitating the leading firms, in

combination with a relatively low risk for HR practice failure. They presumably have lower R&D costs than leaders and therefore face less risk.

*Proposition 2b: Fast followers (early adopters and early majority) create competitive advantage through a combination of relatively low research and development costs in combination with a balanced risk taking strategy for the selection/adaptation/retention of successful HR practices.*

The slow followers and laggards are simply too late to achieve additional returns and there is even a chance of creating competitive disadvantage. By the time these categories start considering the application there is no risk involved with respect to the introduction and implementation of the specific 'best practice'. Social pressure from individual employees – both current and potential employees – and from society (e.g. trade unions, government, and other interest groups) force these companies to implement a certain HR practice (e.g. nursery facilitation) that has been implemented successfully within a significant amount of companies within the industry.

*Proposition 2c: Slow followers (late majority) and laggards copy HR practices to avoid competitive disadvantage and as a direct result of social pressure. These organizations do not gain any competitive advantage through the selection/adaptation/retention of certain successful HR practices.*

Based on the theory we can state that both innovators and fast followers achieve some form of competitive advantage. But who is more likely to achieve sustained competitive advantage? It is too simple to state that the innovators are the most successful companies because they are first. Innovators have high R&D costs and apply a high-risk strategy in contrast to the fast followers who imitate only those practices that have proven to be successful. Both categories achieve competitive advantage through relatively early application of a HR practice, but the costs and risks involved are much higher for innovators than for fast followers. Philips, for example, has been a leader and innovator in electronics for decades (e.g. the invention of the cd), but other companies such as Sony were able to make the most out of it by simply copying these concepts. Rogers (1995) acknowledges the importance of innovators for the development of an industry or social system, but he also states that the early

adopters (part of our fast followers category) are the most respected ones. Leaders or innovators are often considered to be arrogant and separated from the rest of the 'group'.

*Proposition 2d: Fast followers are more successful than leaders (innovators) as a result of a balanced risk strategy, relatively low R&D costs and a relatively early selection/adaptation/retention of successful HR practices.*

#### **4. Discussion and requirements for research**

Reflecting on the developed theoretical framework and its related propositions there are still a number of issues to be solved before we can proceed testing our framework in empirical reality. Firstly we mention the issue of level of analysis. At what level do we expect adaptation and subsequent homogeneity to take place? Is that the level of the company as a whole or do we only look at subsidiary or workplace level? A second issue to be solved relates the concept of rationality. Maybe there are more rationalities involved at the same time. So then the issue becomes which rationality is the dominant one and which is the subsidiary one. Thirdly, we can also wonder whose rationality is at stake? Do we take the CEO's rationality for granted or necessitates the field of HRM a more stakeholders' perspective, in which the dominant coalition is made up of more actors than just the CEO or the top management team?

Next to solving these issues, it might also be wise to take into account the following recommendations (based on Lewin and Volberda (1999:527) for the kind of research design to be involved for a proper exploration of the propositions as mentioned above:

- Studying organizations over a long period of time: especially to trace the building up of absorptive capacity related to the selection, adaptation and retention of best HR practices it is important to study organizations in a longitudinal way. By studying changes in HR policies and -practices; who were involved; what or who (internally, externally) initiated it; related events etc, we can establish the degree of built up experience in this respect.
- Examining its historical context: Related to the previous point it is important to examine organisations *and their environment* in their historical context.
- Considering multidirectional causalities: Based on both the micro and macro context it is more important to study over time the interaction effects than to look for uni-dimensional cause and effect relationship. Especially longitudinal

research designs offer the possibility to explore and establish *chains* of cause and effect, which together are able to demonstrate the complex and dynamic pattern of interactions, which together account for the selection and adaptation of HR practices.

- Considering path dependence, which enables and restricts adaptation and gives insight in the degree of absorptive capacity.
- Incorporating changes occurring at the level of different institutional systems within which firms and industries are embedded.
- Accommodating economic, social and political macrovariables

(based on Lewin and Volberda, 1999: 527/528)

## **5. Summary**

In this paper we have developed a framework for the selection, adaptation and retention of HR practices. The dominant position of research in the area of HRM and Performance has led to the neglect of the actual factors involved in the ‘shaping’ of HR practices. In this paper we have tried to restore the balance. In recent earlier work (Boselie, Paauwe and Jansen, 2001; and Paauwe and Boselie, 2003) we also paid attention to the shaping of HR policies and practices by applying new institutionalism. This paper makes use of a multi-focal perspective by combining new institutionalism with coevolutionary approaches and theory on the diffusion of innovation. The resulting framework accounts for the differences among leaders, fast followers and laggards and gives insights into the possible contribution of the HR practice to an improved performance. However, it also opens our eyes for the very fact that very often firms only adopt HR practices either out of uncertainty, or just to avoid being considered old fashioned or just for the sake of maintaining or restoring legitimacy with no effect on (financial) performance at all.

Jaap Paauwe and Paul Boselie

Rotterdam August, 2003



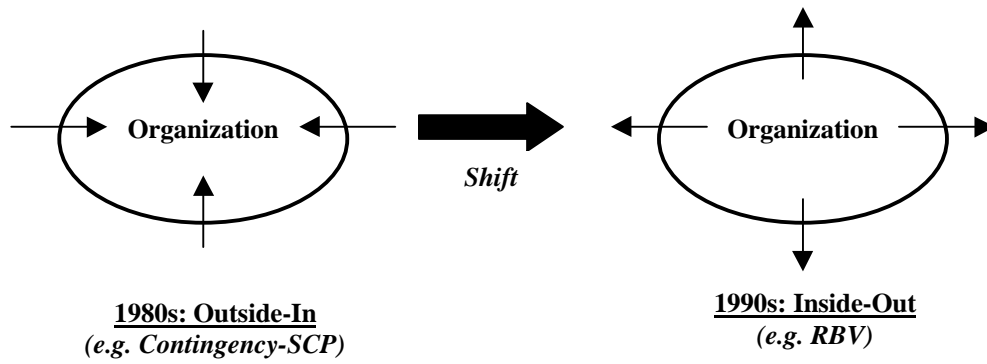
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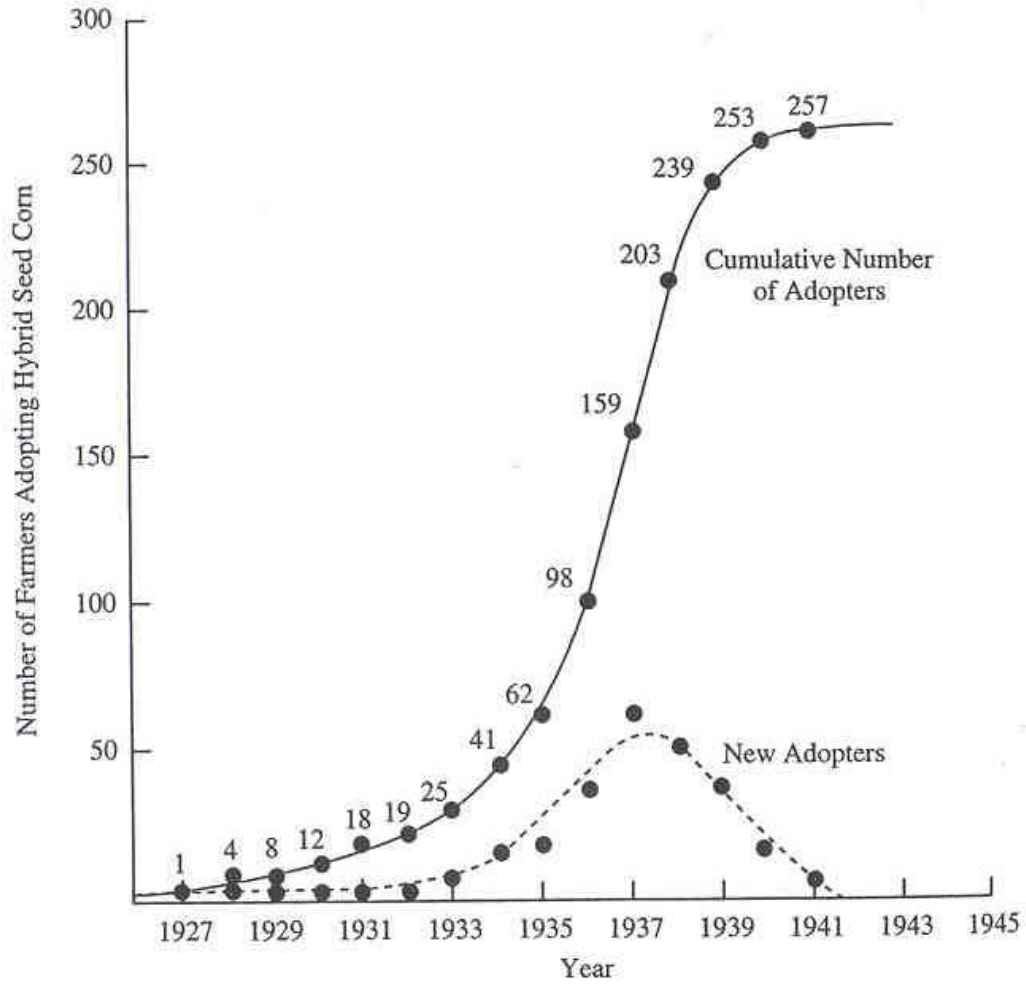
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**Figure 1**      **Shifts in Paradigms**



**Figure 2 S-shaped Curve**

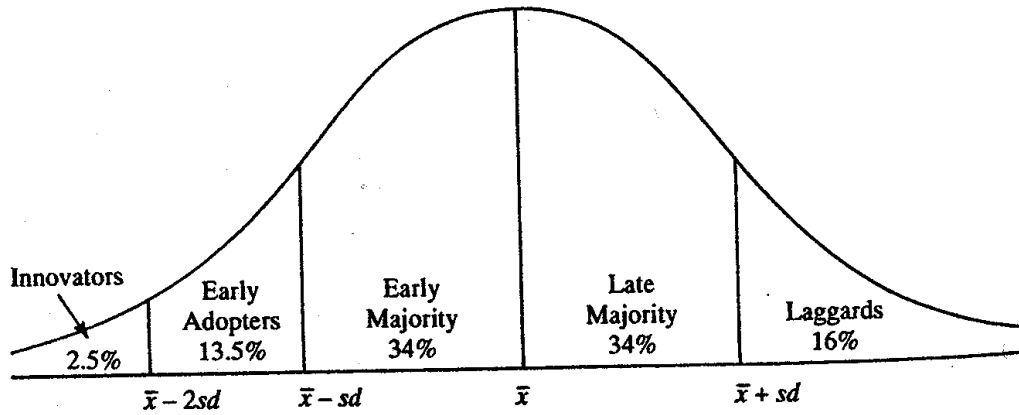


The cumulative number of adopters of hybrid seed corn approaches an S-shaped curve over time, while the frequency distribution of the number of mean adopters per year approaches a normal, bell-shaped curve.

Source: Based on Ryan and Gross (1943).

Source: Figure 7-1 in Rogers (1995: 258)

**Figure 3**      **Five Adopter Categories**



The innovativeness dimension, as measured by the time at which an individual adopts an innovation or innovations, is continuous. The innovativeness variable is partitioned into five adopter categories by laying off standard deviations from the average time of adoption ( $x$ ).

Source: Figure 7-2 in Rogers (1995: 262)

**Table 1      Dominant Characteristics and Values of Adopter Categories**

Adopter Categories	Characteristics & Values
<p><i>Innovators</i>  <b>“Venturesome”</b></p>	<ul style="list-style-type: none"> <li>- Venturesome, and obsession with this category due to a desire for ‘the rash’, ‘the daring’ and ‘the risky’</li> <li>- Control of substantial financial resources</li> <li>- Ability to understand and apply complex technical knowledge</li> <li>- Ability to cope with a high degree of uncertainty</li> <li>- Not always respected by other members of the social system</li> </ul>
<p><i>Early Adopters</i>  <b>“Respect”</b></p>	<ul style="list-style-type: none"> <li>- The category that is generally sought by change agents</li> <li>- Role model for other members of the social system</li> <li>- The Early Adopter is considered by many as the individual/organization to check with</li> <li>- Take a central position in the communication networks of the social system</li> </ul>
<p><i>Early Majority</i>  <b>“Deliberate”</b></p>	<ul style="list-style-type: none"> <li>- This category is not the first by which the new is tried, nor the last to lay the old aside</li> <li>- Making up one-third of the members of a social system</li> <li>- Frequently interacting with others</li> </ul>
<p><i>Late Majority</i>  <b>“Skeptical”</b></p>	<ul style="list-style-type: none"> <li>- Adoption after the average member of a system has adopted the new idea</li> <li>- Adoption as a result of both economic necessity and the result of increasing network pressures</li> <li>- Innovations are generally approached with a skeptical and cautious air</li> <li>- Relatively scarce (financial) resources available</li> </ul>
<p><i>Laggards</i>  <b>“Traditional”</b></p>	<ul style="list-style-type: none"> <li>- The last to adopt a new idea</li> <li>- Isolated from the others in the system</li> <li>- Point of reference is the past</li> <li>- Suspicious towards innovations and change agents</li> <li>- Limited (financial) resources</li> <li>- Cautious</li> </ul>

**Table 2 Life Cycle of a 'Best Practice'**

<b>Type according to Rogers (1995)</b>	<i>Innovators</i>	<i>Early Adopters &amp; Early Majority</i>	<i>Late Majority &amp; Laggards</i>
<b>Type according to Mirvis (1997):</b>	<i>Leaders</i>	<i>Fast Followers</i>	<i>Slow Followers and laggards</i>
<b>Time:</b>	t1	t2	t3
<b>Estimated % companies in a social system (Rogers, 1995):</b>	2,5%	47,5%	50%
<b>Estimated % companies in a sector (Mirvis, 1997):</b>	11%	39%	50%
<b>Rationality:</b>	Entrepreneurial/ Economic	Economic	Normative
<b>Strategic choice/Type of isomorphism:</b>	Managers' intentionality	Competitive Isomorphism	Institutional Isomorphism
<b>Risk of implementing a 'best practice':</b>	High risk taking	Balanced risk taking	No risk
<b>Aim:</b>	Pro-active, Based on optimal Absorptive capacity	Achieving competitive advantage	Avoiding competitive disadvantage
<b>Key motivators for change:</b>	Best in class, Stay ahead of competition	Market pressure (efficiency & effectiveness)	Social pressure (fairness & legitimacy)
<b>Returns:</b>	Possible high returns, but also possible loss	Satisfying returns	No additional returns or even loss



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