

# Hrm best practice and fit approach



The discussion between promoters of best practice and best fit approaches has sparked widespread controversy in the human resource management (HRM) area. The topic has gained much scholarly attention because it not only addresses a theoretical controversy but also possesses a high degree of practical managerial significance. The essay has the aim to analyse best practice and best fit approaches in HRM of a multinational enterprise. The reader receives insight into Lincoln Electric's organization through a case-study analysis of practical HR approaches serving as a basis for developing practical managerial implications in the last part of the paper.

## **2. Critical evaluation of “ best practice” and “ best fit” practices in HRM**

### **2. 1 Best practice approach**

The best practice approach claims that certain bundles of HR activities exist which universally support companies in reaching a competitive advantage regardless of the organizational setting or industry (Redman and Wilkinson 2009). Best practice models imply a close connection between HR practices and organizational performance and are often associated with high commitment management (Paauwe & Boselie 2003). Empirical research in the best-practice field shows similar groups of HR practices which are especially suitable for maximizing performance irrespective of market and product strategies (Peffer 1998, Guest 2000). Best practice bundles of activities are characterized as mutually compatible HR activities which forge high levels of workforce competence, encourage motivation and introduce a workdesign boosting employee commitment (Maloney and Morris 2005). Based on concepts from expectancy theory (Vroom 1964, Lawler 1971) best

practice HR will result in higher levels of quality, productivity and low rates of absenteeism and wastage (Guest 2000).

The best practice approach suffers from a series of limitations. Firstly, when implementing best practice standards organizations run risk of introducing mutually prohibitive combinations like team working and compensation based on individual performance resulting in a deterioration of employee collaboration through overexaggerated competition (Delery 1998 in Redman and Wilkinson 2009). Secondly, high commitment management systems are generally a complex undertaking requiring large inputs of planning and top level management commitment. Thirdly, critics like Milkovich and Newman (2002) argue that best practice HR lacks direct linkages with organizational strategies and is minted by the belief that outstanding high performing human resources will influence strategy. By making HR policy precede corporate strategy an organization risks prescribing standardized sets of “one size fits all” best practice approaches which will not support the particular needs of employees and be detrimental to overall strategic objectives (Maloney and Morris 2005). Fourthly, discussions with regard to the appropriate choice of best practice measures resulting from an insufficient research methodology and theoretical definition exist (Marchington and Grugulis 2000 in Redman and Wilkinson 2009).

## **2. 2 Best fit approach**

The best-fit model is considered as a variant from precedent models of Harvard, Michigan and York and is called “ matching model” for HRM (Sparrow and Hiltrop 1994). It is based on developing HRM policies according to business strategy. Strategy involves planning future activities,

performances objectives, and policies towards reaching the corporate aims. HRM strategy should be designed and applied to support the given corporate strategy (Lawler 1995). The “ best-fit” approach questions the universality assumption of the best-practice perspective. It emphasizes contingency fit between HR activities and the organization’s stage of development, an organization’s internal structures and its external environment like clients, suppliers, competition and labour markets (Redman and Wilkinson 2009). HR policy should be minted by the appropriate context of individual employees and therefore support the overall competitive strategy. Aligning HRM practices to strategies can enable companies to create potential competitive advantages (Schuler and Jackson 1987 in Redman and Wilkinson 2009).

The best fit approach is also subject to sever criticism. Firstly, Boxall and Purcell (2003) criticizes that in a changing business environment companies and their strategies are subject to multiple alternating contingences and that it is merely possible to adjust entire HR systems to new challenges frequently. Secondly, as companies move through their life-cycle HR practices have to be aligned which leads to an alternating treatment of employees which can have a demotivating effect and show inconsistency in corporate culture (Boxall and Purcell 2003).

### **3. Analysis of Lincoln Electric’s HRM approach**

#### **3. 1 Evaluation: Best practice or best fit approach in certain HR practices**

##### **3. 1. 1 Selection practices**

For the hiring of its U. S. workforce Lincoln Electronic is applying best practice methods as it pursues a selective employment approach aiming at attracting skilled personnel that can connect to the companies high performance ethic and live up to quality standards. New hires have to pass a three-month probation period and prove their work dedication in trainee programme (Björkman & Galunic 2003). For the established U. S. operations promoting experienced employees from within can be regarded as an element of best fit approach of aligning HR goals with corporate quality strategy (Lawler 1995). It is coherent with Lincoln's strategy of binding the best employees and rewarding them for their long-term achievements with responsibility thus keeping its intellectual capital and ensuring a sustainable competitive advantage in fields of performance, knowledge and quality. In the international management Lincoln made the mistake of relying too much on inexperienced U. S. managers from within and only after the disaster of the international subsidiaries started to move from its unitary strategy towards a more responsive best fit approach to external environmental by hiring more internationally experienced external managers in China and Europe which fits the international expansion strategy (Hastings 1999). In its Chinese recruitment it adapts to the Chinese labor market by personally promoting and introducing prospective employees through senior management to identify personalities who can live up to performance, education and quality requirements applying a best fit approach (Björkman & Galunic 2003). This is in line with common relationship and social network oriented selection practices in China (Warner 2005).

### 3. 1. 2 Training practices

Lincoln is applying a best fit strategy which aims at enhancing employees' abilities, technical and business knowledge through a significant investment in globally recognized best practice training methods (Marchington & Grugulis 2000). Examples are a sophisticated trainee program for sales and engineering trainees, constant vocational trainings for experienced workers and regular work certification programs (Björkman & Galunic 2003). These actions aim at supporting and maintaining the superior efficiency objectives creating core competences compared to industry rivals and a competitive advantage. Lincoln's approach to training employees resembles the immersion training conducted by Toyota which also conducts extensive investment in worker's qualifications to achieve highest productivity and quality (Spear, 2004).

### 3. 1. 3 Reward system

The reward system which has been invented by founder James Lincoln is at the core of the successful individual performance working system. In the US, Lincoln employs a highly compensated piece-work system which is linked to individual employee performance based on a multitude of work-related factors (Björkman & Galunic 2003). The reward system is able to motivate employees for achieving commitment through a remuneration which is at the top of its industry (Björkman & Galunic 2003). Payment system possesses clear management commitment and is seen as the key for achieving outstanding employee commitment leading to advantages in costs, productivity and quality (Hastings 1999). Group collaboration within the company is created through specific bonus pools which are allotted to work group performance. The bonuses are then distributed to the members

of that group according to their quantified relative performance on the semi-annual merit rating based on factors like idea generation, quality, reliability, dependability and output (Milgram & Roberts 1995). Employees are closely bound to the organization through a long-term stockpurchase plan as part of their remuneration making them entrepreneurs at their workplace (Björkman & Galunic 2003). Classification of the reward system in one of the HRM approaches is ambiguous. Lincoln invented the individual performance-system as the major component towards developing its employees for becoming its core strength through an unbeatable motivation and quality-drive (Milgram & Roberts 1995). This is the utilization of the best fit approach minting HR towards organizational strategic objectives. The performance payment system has proven immensely successful becoming an internal best practice. Empirical studies by MacMillan and Schuler (1984) confirm the success of individual performance- pay with end-of-year bonuses at US bearings company Baimco and at the aviation company PEOPLExpress. For its global operations Lincoln is forced to abide by national restrictions in the legal environment (e. g. prohibition of piecework in Germany) and traditional working habits in the socio-cultural environment to align its reward system to local standards (Björkman & Galunic 2003). In Europe, it is forced to conduct a best fit approach abiding by local regulations and adjust to differing standards of motivation where workers value benefits like vacation over annual bonuses.

### 3. 1. 4 Employee participation

The best fit approach is also utilized for the field of employee participation. The company possesses an open-door policy where employees can contact <https://assignbuster.com/hrm-best-practice-and-fit-approach/>

management directly. Flat hierarchies with minimal supervisory management lead to very low communication barriers and wide-opportunities for taking responsibility (Milgram & Roberts 1995). Due to participation is one of the evaluation criteria for employee remuneration Lincoln has a very high workforce participation rate concerning continuous improvement suggestions. Similar continuous improvement and feedback programs are also pursued by Japanese companies like Nissan in order to enhance productivity (Erstand 1997). That not only encourages idea generation but also directly involves employees in major decisions like the turnaround after the economic crises (Hastings 1999). Although workers are not unionized a very lively participation with the management board takes place through the Employee Advisory Board leading to a very high level of workforce loyalty. The best fit participation approach supports the core competence and sustainable competitive advantage of productivity and innovative quality as major strategic objectives (Pfeffer 1995)

## **3. 2 External and internal factors influencing Lincoln's HR strategy**

### **3. 2. 1 External factors**

Firstly, the legal environment both in Lincoln's domestic market and international markets significantly influences the HR strategy. Regulations regarding the legality of piece-work systems, vacation requirements and working hour limitations force Lincoln to adapt HR practices in all fields elucidated in chapter 3. 1. In the U. S. more performance driven and entrepreneurial HR approaches are possible whereas regulations in Europe, Asia and Latin America force Lincoln to adhere to adapt local HR practices



(Björkman & Galunic 2003). Secondly, Lincoln is affected by the cultural diversity of its operations again creating barriers for the introduction of performance driven measures in markets like Western-Europe and China. Whereas in the U. S. traditionally hierarchy is low and employee idea generation is common, Chinese culture is more subversive and critical idea generation practices will fail (Zhu 2005). Similarly hiring and training practices are different across cultures: The U. S. and Europe allow for the application of best practices in recruitment and training. In Asia Lincoln needs to align to the environment of conducting rather relationship oriented hiring and in-depth skill development (Warner 2005). Thirdly, different market maturity and industry-life-cycles between developed and developing markets affect Lincoln's HR approaches with differences in hiring, training and workforce participation.

### 3. 2. 2 Internal factors

The first major internal factor affecting Lincoln's HRM is the life-cycle of the respective subsidiary. U. S. and Canadian operations have a historical presence with high levels of employee loyalty, trust, identification with the individual performance culture and a well attuned work organization and low hierarchies (Björkman & Galunic 2003). Due to recent acquisitions and Greenfield investments in Europe and Asia loyalty and identification with the overall corporate objectives and working ethics is unincisive (Hastings 1999). Lincoln is challenged developing HR-approaches to create employee involvement and implement the performance driven internal values. Especially, immense discrepancies between the subsidiaries' international managers and the U. S. headquarters' management are major obstacles for <https://assignbuster.com/hrm-best-practice-and-fit-approach/>

the development of globally coherent HRM strategies which can enforce the overall company's performance (e. g. objections against incentive system, language barriers, management philosophies) (Hastings 1999). Lincoln's executives do not possess the required international management skills and are very much minted by idealized U. S. practices.

### **3. 3 Practical managerial lessons and broad implications for HRM practices**

Practical managerial HRM implications which can be drawn from the Lincoln case are the following. Lincoln's HRM strategy is based on a best fit approach designed to achieve an optimal vertical fit with the overall corporate strategy with a strong alignment towards the competitive strategic objectives of employee productivity and product quality on the company's domestic American market (Basset 1999). Lincoln is immensely successful on the U. S. market because it matches HR approaches to corporate, competitive and functional level strategy to achieve a sustainable competitive advantage.

Internationally, Lincoln is not able to transfer the U. S. model of best fit to its subsidiaries. Environmental factors like legal requirements and cultural differences make it impossible to use a system which is based on individual performance (Björkman & Galunic 2003). Lincoln is limited in fitting its HR approach to what would be best for reinforcing its efficiency and quality driven competitive advantage.

The Lincoln case illustrates that in a global context companies are influenced by a multitude of contingences. A universalist HRM approach within a MNC applying a certain bundle of HRM best practices will not render an optimal

outcome for the entire organization (Sims 2007). According to Dowling et al (2008) International managers need to take a more detailed approach by identifying individual circumstances of national subsidiaries and fitting HRM strategies to achieve a mutual enforcement between local requirements and corporate strategy. For some a best practice approach might be a superior solution while for other subsidiaries only certain best practice elements (e. g. hiring, training, rewards etc.) might prove to be effective: In Europe Lincoln fails to develop any sort of HRM strategy which can satisfy the environmental requirements and reinforce its competitive differentiation strategy at the same time. Due to a lack of international knowledge Lincoln's managers rely on the status quo (Hastings 1999). In Europe an introduction of best practice methods with a HPWS would have immediately allowed ensuring better control and performance in the newly acquired international subsidiaries through standardized practices (Maloney and Morris 2005). The best fit approach in Lincoln's Chinese subsidiary incorporates lessons learned from the European failure: Lincoln is able to adapt HR strategy to environmental requirements of culture, legal requirements and the market and at the same time introduce best fit approaches in hiring and employee development to support its competitive strategy.

The broader implication is that there is no single best way to approach HRM. Companies should design their approach according to elements of best practice and best fit to achieve the best possible outcomes. Studies conducted by Mendonca & Kanungo (1994) and Cyert & March (1963) show that the adaption of HRM approaches to local international environments is essential for companies leading to and adaption of processes and practices

to fit with the local workforce. Successful MNCs like Unilever, Royal Dutch Shell and Nestlé are those that conduct HRM strategies based on localized requirements incorporating elements from best fit and also standardized best practices (Briscoe & Schuler 2004). In this context a localized resource-based HRM approach can be a good possibility to create synergies between internal competences with strategy and performance.

#### **4. Conclusion**

To put everything under consideration, one can see that best fit and best practice approaches offer companies powerful tools for shaping human resource management processes. The case study has illustrated that an application of one bundle of best practice strategies across all geographies of MNCs, as proposed by Pfeffer (1998), is almost impossible because of regional differences in work-related practices, laws & culture and characteristics of motivation. Similarly, sticking to a best fit strategy which is only aligned to the contingency of strategy and a neglect of environmental forces and internal capabilities can lead to a failure of HR in international markets. The case has shown that the concepts of best practice and best fit have to be analyzed and adapted to suit the localized needs of international subsidiaries in order to pave the way to overall global competitive advantages through HR.