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THE ROLE OF STRATEGIC REFERENCE POINTS IN EXPLAINING THE NATURE AND CONSEQUENCES OF HUMAN RESOURCE STRATEGY

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We examine how managers use strategic reference points (SRPs) or benchmarks to guide their strategic decision making with regard to human resource (HR) issues and how these benchmarks can affect the performance-based consequences of such decisions. After describing the reference points that are relevant to the HR system, we develop propositions regarding the likely configuration of such reference points and their impact on the nature of HR policies and practices. We also explain how the management of SRP fit and consensus can reduce the likelihood that HR policies and practices will have a negative effect on a firm's performance. Organizationwide implications are discussed.

Benchmarking, the continuous measurement of products, services, and practices against the toughest competitors or those companies regarded as the practice or industry leaders, is rapidly becoming a widely adopted management tool (El Nathan & Kim, 1995). It can be applied to a wide range of organizational systems and has been recognized by human resource (HR) managers as an "exemplary HR practice" (Glanz & Daily, 1992: 9). Unlike HR auditing, in which checklists and indexes are used to measure the effectiveness of various HR activities (Gomez-Mejia, 1985), benchmarking includes comparative data, often from external sources, to determine the potential value-added contribution of existing activities and how better to perform them (Fitz-enz, 1993). Studies report that one quarter of HR executives in North America have already implemented some form of benchmarking (Bingham, 1993), and that HR programs are among the ones most frequently benchmarked (Breecka, 1995).

Although benchmarking as an explicit and deliberate managerial technique is relatively new (Tucker, Zivan, & Camp, 1987; Fitz-enz, 1992) and has not been formally adopted by many firms for use in HR and

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other organizational domains, many executives evaluate themselves, the organizations they manage, and the decisions they make on the basis of their implicit standing relative to some internally or externally derived reference point (e.g., Festinger, 1954; Zucker, 1987). Indeed, Watson (1993) traced informal benchmarking-type processes back to Taylorism and the comparative analysis of work processes. According to institutional theory (Meyer & Rowan, 1977), many organizational policies and practices are adopted because a few legitimate organizations serve as models for others that imitate them. Indeed, as Jackson and Schuler (1995: 4) noted, “for better or for worse, the growing popularity of benchmarking activities is likely to accelerate the imitation process.” Similarly, users of prospect theory have demonstrated that individuals use targets, benchmarks, or reference points in evaluating choices for themselves and the organizations they manage and that they make decisions based on their perceptions of themselves or their organization as above or below the chosen target, benchmark, or reference point (Kahneman & Tversky, 1979; Fiegenbaum & Thomas, 1988). Benchmarking, then, seems to underlie much of what is often taken for granted in managerial strategic decision making (Fiegenbaum & Thomas, 1988), especially regarding the adoption of HR practices and innovations (Johns, 1993). But how do managers select benchmarks and use them to guide strategic decision making? What implications might such choices have on a system’s or a firm’s performance?

In this article, we explore the theoretical underpinnings of benchmarking by examining strategic reference points (SRPs) at both the organizational and suborganizational or system levels. We define SRPs as the targets or benchmarks that managers use to evaluate choices, to make strategic decisions, and to signal to other key personnel their systemwide or organizational priorities. Unlike operational targets, SRPs are similar to strategic benchmarks because they are used to generate organization-wide or systemwide core competencies that are intended to help the firm achieve a sustained competitive advantage (Watson, 1993). Thus the term strategic reflects, for example, the qualitative difference between a decision to implement a human resource information system and the decision to cut expenditures for such a system by 20% over the next year. The former is most likely intended to contribute to the firm’s sustained competitive advantage, the latter to help the HR system meet its short-term operating constraints. Furthermore, unlike more traditional criteria for judging performance and effectiveness, SRPs are not necessarily derived from predetermined organizational goals and objectives or imposed by principals seeking to enhance control over agents (Gupta, 1987). Rather, they are constructed by managers to facilitate strategic decision making. Consequently, SRPs contribute to determining and setting goals and thus have important implications for managers’ strategic choices. Using the SRP construct, we generate propositions regarding the determination of HR policies and practices and seek to explain how managers decide which practices to replace or adopt and why, as Johns (1993: 569) asked, some
organizations opt to retain personnel practices that "are the very antithesis of what the [I/O psychology] discipline prescribes."

In an important critique of the overly rational assumptions underlying much of the literature on HR strategy formulation and system development, Johns (1993: 569) argued that the adoption of innovative personnel practices is "not strongly influenced by technical merit" and that the assumption that "proven" practices are the ones most likely to be adopted is "out of sync with the way organizations make decisions about the class of problems for which I/O innovations are thought to be solutions" (1993: 573). Although Johns proposed that such decisions are influenced by institutional and political forces, no comprehensive theory exists to explain how technical, rational-economic, institutional, and political forces might combine to help shape such decisions. Therefore, our first goal in this article is to show how the SRP construct might allow researchers to integrate each of these elements into a comprehensive theory explaining managerial behavior and decision making in the development of HR systems.

Our second goal is to use SRP theory to enhance researchers' understanding of the occasionally contradictory findings regarding the link between HR policies and practices and a firm's performance. Although the use of sophisticated HR management practices has been found to have a substantial and positive impact on company performance (Huselid, 1995), Terpstra and Rozell (1993) found that the strength of the relationship between specific practices and firm-level outcomes (e.g., profit, profit growth) varied according to industry type. Drawing from some of the HR contingency notions (e.g., internal and external congruency) suggested by Jackson, Schuler, and Rivera (1989), we generate several propositions showing how the SRP construct may be used to explain some of the variance in the link between HR practices and firm performance.

We begin by presenting a brief review of SRP theory. Then, applying the concept at the system level, we discuss the nature and determination of the reference points relevant to the HR system, "the set of distinct but interrelated activities, functions and processes that are directed at attracting, developing, maintaining (or disposing of) a firm's human resources" (Lado & Wilson, 1994: 701). Next, we examine how the configuration of SRPs may influence HR managers' decisions to select more daring HR policies and practices over more conservative strategies. Finally, we describe how the management of SRP fit and consensus can affect the likelihood that such strategies will have a negative effect on firm performance.

**STRATEGIC REFERENCE POINT THEORY: A BRIEF REVIEW**

According to prospect theory (Kahneman & Tversky, 1979), organizations are both risk averse and risk seeking, depending on whether key decision makers perceive themselves to be in the domain of gains or losses. Thus, when decision makers find themselves below the reference
point against which they are evaluating themselves, they will adopt behavior measurably different from that adopted when they consider themselves as exceeding or being above the chosen reference point. A given actor is likely to be more daring when expected outcomes from actions are below the selected reference point and more conservative when expected outcomes are above that reference point. This phenomenon has been confirmed by studies at both the individual and organizational levels (Fiegenbaum, 1990; Fiegenbaum & Thomas, 1988).

But what constitutes an appropriate reference point at the organizational level? Different theoretical perspectives suggest different and alternative mechanisms of comparison. For example, goal- (Campbell, 1977) and resource-based (Barney, 1991) perspectives suggest the importance of internal organizational goals and capabilities as critical reference points. Industrial/organizational economics (Porter, 1980), resource dependence (Pfeffer & Salancik, 1978), and neo-institutional (DiMaggio & Powell, 1983) theories suggest external interests, such as competitors, suppliers, and customers, and other noneconomic stakeholders as the key reference points. Finally, the literatures on corporate identity (Dutton & Dukerich, 1991), strategic intent (Hamel & Prahalad, 1989), and organizational adaptation and change (Gersick, 1994) suggest the importance of time and (in particular) past and future orientations as key reference points.

Fiegenbaum, Hart, and Schendel (1996), however, claimed that internal, external, and time-based reference points should not be considered as mutually exclusive options but rather as elements of a “multidimensional package.” Therefore, they proposed the use of a three-dimensional reference point matrix, encompassing a wide range of variables, as a means by which to portray how organizational decision makers simultaneously consider multiple reference points. They proposed that decision makers evaluate their positions on process and outcome criteria (i.e., internal dimension), generated on the basis of past, current, or future (time dimension) interests of competitors, customers, suppliers, and other stakeholders (external dimension). Specific benchmarks are thus generated on the basis of the interaction of these internal, external, and temporal considerations. The space created by these three dimensions is the strategic reference point matrix, which was suggested by Fiegenbaum and colleagues (1996) and is depicted in Figure 1.

Finally, Fiegenbaum and colleagues (1996) proposed that the configuration of selected benchmarks or reference points will have important implications for both strategic choice behavior and firm performance. For example, they proposed that organizations above their SRPs will perceive new issues as threats, engage in constricted, rigid, and centralized decision-making processes, and behave in a risk-averse, conservative, and defensive manner. Organizations below their reference points will perceive new issues as opportunities and engage in a more daring manner.
STRATEGIC REFERENCE POINTS AT THE SUBORGANIZATIONAL LEVEL: THE CASE OF THE HUMAN RESOURCE MANAGEMENT SYSTEM

If one accepts the perspective that strategy is the outcome of a rational, explicit, and top-down process, then SRP theory, when applied at the firm level, may help explain why organizations in seemingly identical situations adopt completely different strategies and tactics. When organizational subsystems are assumed simply to adopt (rather than influence) those aspects of firm-level strategy relevant to them, cross-organizational differences in strategies and tactics can be explained by the firm’s strategic decision makers’ tendency to (a) focus on different sets of SRPs or (b) perceive their firms to be at different points relative to these SRPs (i.e., above or below).

Mintzberg (1978), however, conceptualized strategy as a pattern in a stream of decisions. If researchers assume that these decisions are made on the basis of implicit and explicit negotiations among a wide variety of organizational functions and interests (each competing for a limited pool of organizational resources) (Allison, 1971), in order to explain firm strategy they must first explain strategic interests and decisions at the level of the organizational system.
Our analysis of SRPs is therefore grounded on two basic assumptions. First, we assume that firm-level strategy is a negotiated order (Strauss, Schatzman, Erlich, Bucher, & Sabshin, 1963) that emerges from the interplay of numerous system-level strategic decision-making processes within the organization (Lorange & Vancil, 1977; Porter, 1980). Second, we conceptualize HR strategy as the pattern of decisions regarding the policies and practices associated with the HR system (DeBejar & Milkovich, 1986) and assume that HR strategy both contributes to and emerges from firm or business-level strategy (Lengnick-Hall & Lengnick-Hall, 1988).

This notion of “reciprocal interdependence” (Lengnick-Hall, & Lengnick-Hall, 1988: 466) between system-level strategy and overall business strategy is widely accepted in the HR management literature. For example, Dyer and Holder (1988) noted that although HR strategy is an outgrowth of business strategy, in many firms, HR managers are asked to review companywide business plans to ensure that they are consistent with the accepted HR strategy. Bamberger and Phillips (1991) suggested that a reciprocal influence process occurs between HR strategy and overall business strategy. These authors found that business strategy was an important, direct determinant of HR strategy, but they also suggested that the reverse may occur.

On the basis of these two assumptions, we place the locus of SRP analysis at the suborganizational (system) level in an effort to facilitate the understanding of the origin of function-specific strategies and how the policies and practices inherent in them influence firm performance. Recognizing that human resource issues “embody” the core competencies of an organization and serve as the key “competence carriers” (Prahalad & Hamel, 1990: 87), in the remainder of this article, we explain the elements of such a system-specific reference point analysis, using the HR system as a case in point.

THE HR STRATEGIC REFERENCE POINT MATRIX: DIMENSIONS AND OPERATIONALIZATION

Fiegenbaum and colleagues (1996) grounded their firm-level SRP matrix on the same basic elements considered in strategic analyses. These include internal organizational competencies, structures, processes, environmental challenges, opportunities, and demands. Similarly, we ground our HR reference point matrix on those elements typically considered in the analysis of HR strategy, namely HR requirements and availabilities, and the competencies exploited (and programs and policies used) by the HR system to enhance the match between HR requirements and availabilities.

Most analyses of HR strategy have been focused on two central components: (a) desired system outcomes (or ends) and (b) the processes used to transform inputs into those desired outcomes (or means) (Tsui, 1984). Typically, outcomes or ends relate to employee competence, contribution,
commitment, or composition (Dyer & Holder, 1988), and processes or means are usually examined in terms of HR practices and policies related to staffing, appraisal, compensation, and employee development (Schuler & Jackson, 1987; Tichy, Fombrun, & Devanna, 1982).

Students of HR management (in general) and HR strategy (in particular) have suggested, however, that all parties interested in a firm's HR policies and practices do not necessarily share common HR ends and means (Ferris & Judge, 1991; Tsui, 1984). For example, external regulatory agencies such as the Equal Employment Opportunity Commission or the National Labor Relations Board are likely to focus on very different HR ends and means than do managers of intraorganizational functions such as operations and finance (Baird & Meshulam, 1988). Indeed, even among the managers of these various intraorganizational functions, the level of agreement over HR means and ends is likely to vary from firm to firm (Bamberger & Phillips, 1991). As Tsui (1984: 191) noted, "both outcome and process criteria are useful in guiding personnel subunit actions only when they are considered in relation to the multiple constituencies who assign weight to and help measure the criteria."

Moreover, according to the HR strategy literature, the "time horizon" for goals (as well as for the policies and practices) varies from firm to firm and from interest group to interest group (Fombrun, 1984; Tichy et al., 1982). In some cases, the focus is on the long term (e.g., three to five years or more), whereas in other cases, the focus is on the present or short term (Dyer, 1983).

Hence, in conceptualizing the HR strategic reference point matrix, researchers must consider both the strategic means and ends (i.e., the internal reference subdimensions) of the HR system from the perspective of a wide variety of interests within and outside of the firm (i.e., the external reference subdimensions) and relative to various points in time (i.e., the temporal reference dimension).

The Internal HR Strategic Reference Point Dimension

The most critical reference dimensions for HR professionals in many firms are internal ones. That is, organizations typically define performance targets for HR managers on the basis of the system's strategic processes/means (e.g., adoption of new systems of recruitment or selection; expansion of training efforts) or outcomes/ends (e.g., more flexible workforce) and evaluate their HR departments and managers according to these means- or ends-based criteria (Tsui, 1984). Indeed, researchers adopting resource-based or organizational economics-based views of the firm (Barney, 1991; Boudreau, 1988; Jones & Wright, 1992) have developed analytic tools (e.g., utility analysis) that facilitate the evaluation of HR managers and systems against such means- and ends-based targets.

Strategic HR means. As we suggested, strategic HR means may be considered as those HR activities that add value to the organization. In most cases, these activities are function specific, regarding issues such
as staffing, development, and compensation (Schuler, 1993; Ulrich, Brockbank, & Yeung, 1989). Thus, specific HR activities may serve as internal, means-based reference points when they are considered important to the continued well-being of the firm. For example, organizations that rely on staff flexibility and multitasking to provide a sustained competitive advantage are likely to focus on training and development.

Recognizing that they may not be strong in all aspects of HR management, HR managers and professionals frequently accentuate areas in which they feel they are already strong, developing core competencies in these areas (Ulrich et al., 1989). The key for such managers is that performance in the one or two high-competency areas is strong enough to compensate for possible shortfalls in other areas.

Nevertheless, rather than focusing attention on one or two excellent functions, some organizations will emphasize an underlying policy or competency that cuts across (or has implications for) a wide range of HR functions. For example, a lifetime employment policy can serve as an internal means-based reference point, especially when it is the key factor shaping recruitment, selection, compensation, and training and development.

Several researchers have developed ways for managers to identify means-based SRPs and to assess HR performance relative to them (e.g., Tsui, 1984). For instance, HR audits have been used to estimate the depth and breadth of HR activity and the cycle time, direct cost, and costs per employee for specific HR activities (Tsui & Gomez-Mejia, 1988). Utility analysis (Boudreau, 1988) also has been used to estimate the actual benefits and costs (in dollars) associated with specific policies and practices (e.g., net return on the adoption of assessment centers). A marginalist, economic perspective (Jones & Wright, 1992) is similar but tends to provide lower-bounded estimates of the benefits versus costs of HR processes.

Tsui (1984: 194) noted that “evaluation criteria serve both a directional and a motivational function. A performer’s attention is usually focused on measured performance areas.” Consequently, it is likely that both the selection of means-based, internal SRPs and the techniques used to evaluate performance relative to them can have substantial effects on the HR system and the firm as a whole. A focus on one function-specific or cross-cutting competency is likely to have important consequences for the nature of particular HR activities and the resulting mix of programs and policies. Hence, HR strategy may be significantly affected by the selection of internal means-based reference dimensions.

**Strategic HR ends.** For similar reasons, HR strategy also may be affected by the selection of internal outcome-based reference points. These reference points may be conceptualized as the “end results” of HR activity (Tsui, 1984: 191). Unlike internal, means-based SRPs (which tend to focus on either the qualitative nature of specific “policies in action” [Tsui, 1984: 191] or on the total, net utility of a specific HR activity along a variety of criteria), outcome-based reference points focus on the consequences that
are typically influenced by a number of HR activities. Researchers (e.g., Lengnick-Hall & Lengnick-Hall, 1988) have discussed two ways of accounting for the strategic outcomes of the HR system: a cost approach and a value approach.

Viewing human resources as an expense for an enterprise, organizations adopting cost-oriented HR strategic reference points focus on either the actual or impending macrolevel costs of labor in all of its dimensions (Flamholtz, 1985). Managers often target actual costs based on historical hiring, training, retention, and replacement costs.

Alternatively, managers adopting a cost-based approach might focus attention on other targets viewed as leading indicators of impending costs. These indicators explain little about current labor-related expenses but may provide valuable early warnings about impending jumps in certain HR costs. For example, reference points based on employee attitudes such as job satisfaction and turnover intentions may be used as indicators of HR performance (Tsui, 1984).

Other firms, particularly those viewing labor as an asset, are likely to adopt a value approach to account for the strategic outcomes of the HR system. Such firms consider the aggregate present value of their employees’ net future contributions to the firm, often using salary as a proxy for expected contribution (Lengnick-Hall & Lengnick-Hall, 1988). In this sense, the outcome-based internal reference point is based on the aggregate competencies of the firm’s labor force (Barney, 1991; Wright, McMahan, & McWilliams, 1993). Thus, the managers’ choices of which outcome approach to emphasize and which reference points to focus on in the context of this approach are likely to have a substantial impact on strategic decision making within the HR system.

The External HR Strategic Reference Point Dimension

The previous discussion implies that means- or ends-based SRPs are set within a closed system. That is, HR managers establish new process and outcome-based targets on the basis of existing criteria. Furthermore, implied previously is the notion that both targets and criteria are strongly influenced by inertial forces in the form of core competencies, past achievements, or both. The discussion thus implies that little consideration is given to outside interests either in the selection of HR reference points or in the setting of SRP-based targets.

Although this lack of consideration may be the case in some organizations, in most organizations, HR reference points are influenced by many organizational and environmental interests. Indeed, as Tsui (1984: 187) noted, the HR function has multiple constituents, each with “its own expectations regarding the department’s activities [and] standards for effective performance, each applying its own criteria for assessing the extent to which the department’s activities meet its expectations, and each attempting to prescribe preferred goals for the subunit.” Thus, the emphasis placed on one means- or ends-based reference point over another and the nature
of the targets set with regard to the selected reference points are likely
to be influenced not only by the performance of parallel systems in compar-
ative organizations (i.e., competitors) but also by other intra- and extraor-
doganizational stakeholders that have an interest in the affairs of the HR
system (i.e., customers and institutions).

**Competitors.** In the strategy field, *competitors* are defined as firms
that offer alternatives to a particular product, service, or family of products
or services (Porter, 1980). In this sense, one firm's HR strategic reference
points may be influenced either by those of individual competitors or those
of entire classes or groups of competitors (Glanz & Daily, 1992; Ulrich, 1992).

As with firm-level benchmarks or reference points (El Nathan & Kim,
1995), the HR system within a given organization can set its means- or
ends-based reference points relative to the practices or performance levels
of the market leader in a particular industry or a strategic group within
an industry (Fiegenbaum & Thomas, 1995). For example, Dyer and Holder
(1988) presented IBM as an industry leader with (at the time) exemplary
HR practices against which other firms could compare themselves. Alter-
natively, at Digital, the HR system sets its reference points relative to the
average or standard practices or performance levels of firms in its relevant
fields (Glanz & Daily, 1992).

For the HR system, however, the notion of "competition" may have a
broader meaning than that implied by a given firm's product or service
market. In most firms, HR policies and programs take into account condi-
tions in the relevant labor market. Consequently, in addition to setting
means- and ends-based SRPs relative to the practices and performance
of parallel units in firms competing in the same product or service market,
HR managers and professionals often are forced to take into account the
policies and practices of HR units in other (often unrelated) firms against
which they compete in a given labor market. Similarly, because HR sys-
tems often compete with other internal support units (many of which also
may be key HR customers) for resources, respect, and the attention of
top management, HR managers and professionals also may take into
consideration the policies and practices of these units.

This discussion suggests that three types of competitors may play a
role in the setting of means- and ends-based HR strategic reference points.
The policies, practices, and performance of the HR systems of firms compet-
ing in similar product or service markets, of firms competing in identical
labor markets, and of internal support units competing for organizational
resources all may influence both the nature of HR strategic reference point
dimensions or criteria selected and the criteria-based targets that are set.

**Customers.** HR managers and professionals rarely have any direct,
day-to-day contact with their firms' clientele. Nevertheless, customers are
relevant in the setting of HR strategic reference points, first, because in
many organizations (e.g., service-based organizations) HR policies and
practices may directly affect the nature of the interaction between employ-
ees and clients (Schuler, 1993). Numerous studies (e.g., Sutton & Rafaeli,
1988) have documented that organizational conditions affect the way workers act toward customers, for example, in providing service to customers in the airlines industry (Hochschild, 1983).

Second, customers within the organization are relevant in the setting of HR strategic reference points because of the interdependence among the HR system, the other systems, and the organizational units it serves. In this context, HR reference points may focus more on outcomes (e.g., sales per employee) than processes (e.g., net utility of recruitment), and they may focus more on outcomes that are relevant to those organizational units dependent on human resources to perform their function than on those relevant to the end users of the organization's products or services. Because the focus of interest in HR issues varies across managerial levels and functions (Ulrich et al., 1989), in any given company the composition of internal, customer-driven HR reference points is likely to reflect the internal balance of power among HR's constituents. Thus, for example, Glanz and Daily (1992) described how the United Technologies Corporation generated its SRPs or benchmarks around the interests of such internal customers as senior business-level managers and junior-level line managers.

Institutions. Institutions that have a stake in the policies and practices of an organization's HR system include those that represent the community at large (e.g., government) and those that represent specific groups within that community (e.g., labor, civil rights movements). Organizations consider these stakeholders when setting their HR reference points not only because they strive to be "good corporate citizens" but also because they fear the legal implications of failing to do so. For example, firms that fail to take equal employment opportunity considerations into account risk being subject to expensive legal suits. Indeed, many stakeholders seek to solidify their influence over organizational HR reference points by codifying criteria and criteria-based expectations into law. In many cases, firms seek to tap the interests of these stakeholders to gain a competitive advantage over competitors in product or labor markets. For example, Merck publicized its innovative "Mommy-Track" program to attract a greater number of qualified women and to signal its progressive orientation toward its workforce regardless of gender (Hall, 1989).

Institutions do not have to be organizations. Deeply embedded ceremonies and processes as well as renowned and mimicked state-of-the-art practices (such as the Mommy Track) also may emerge as institutions (Meyer & Rowan, 1977). Thus, HR managers, when setting their system's SRPs, may want to ensure that their reference points reflect an awareness of these institutions. Indeed, many HR functions now benchmark themselves against other often unrelated firms that are renowned for a specific HR expertise or practice. The incorporation of SRPs grounded on such "best-in-class" practices may be of particular value to both HR managers seeking to further their professional (as opposed to corporate) careers and
HR systems dedicated to retaining the maximum possible advantage over any potential product, service, or labor market competitor.

The Temporal Strategic Reference Point Dimension

A third, critical reference dimension at both the firm and system levels is time. Human resource managers often make strategic choices in the context of references to the past or future. Indeed, much of the strategic HR management literature emphasizes timing and temporal congruency (Dyer, 1984). Administrators in many organizational systems use past, system-specific performance measures as a basis for gauging improvement over time. For example, Glanz and Daily (1992) noted that the United Technologies Corporation compared its current HR performance levels with parallel measures taken in previous years as a means by which to build HR competencies. An emphasis on historically based reference points such as that inherent in the personnel audit (Gomez-Mejia, 1985) allows the HR system to exploit trend-based information as a basis for organizational learning.

Historically based reference points can be detrimental in an organizational system, however, when they serve to reinforce single-loop learning (Argyris & Schön, 1978). Evaluating future alternatives on the basis of past experience can be especially risky when assumptions underlying past action-performance linkages become questionable with regard to current or future conditions. In such cases, historically oriented reference points can limit the ability of HR managers to break existing perceptual frames and redefine strategic issues in light of changing conditions. The consequences can be severe because, as Senge (1990: 79) pointed out, managers tend to respond to poor performance by placing more emphasis on precisely the same factors that led to the disappointing results in the first place. Such reinforcing processes typically result in decline at an accelerating rate. Even when managers recognize that these means-based reference points are no longer relevant, attempts to change may be stifled by balancing processes, or the tendency of the system to achieve homeostasis by seeking alternative means to achieve goals that may be outdated and invalid. Thus, for example, Kochan, Katz, and McKersie (1988) described how a historically oriented HR orientation limited the ability of many American organizations to "retool" their HR systems to meet the demands of the intensified global competition of the 1980s and 1990s.

In this context, especially for those firms that cannot use past trends as a basis for prediction, future-based reference points may be preferable. In many organizations, the HR system is responsible for setting action plans designed to meet specific HR-related milestones within a given planning horizon (Dyer & Holder, 1988), measured in months or years. For example, researchers (Dyer, 1984; Tichy et al., 1982) have described firms' short-term plans (i.e., one to two years) as operational HR plans and firms' long-term plans (i.e., three to five years) as strategic plans. In other organizations, however, there is evidence that future-based reference points are
more dependent on events than time (Gersick, 1994). That is, system-level reference points are set on the basis of achievements or the level of company development rather than on absolute time. Indeed, much of the HR strategy literature (Schuler, 1993; Schuler & Jackson, 1987) suggests that specific HR policies and programs are more appropriate for certain life-cycle stages (e.g., initiation, growth, maturity, decline) than they are for others. Thus, regardless of the number of months or years it might take for an organization to move from one life-cycle stage to another, an HR system may measure its performance and progress relative to the firm’s rate of development (Baird & Meshulam, 1988).

THEORY DEVELOPMENT AND PROPOSITIONS

After having conceptualized the HR strategic reference point matrix, we still have a number of questions. First, how can researchers predict the specific configuration of a particular HR system’s SRPs (the subspace it selects within a given HR strategic reference point matrix)? That is, why might the HR system in one firm or business unit emphasize one set of targets and points of comparison, whereas another firm or business unit might emphasize other targets and points of comparison? Second, how might a firm’s HR configuration of reference points help to predict the nature of that firm’s HR policies and practices? Finally, how might the HR strategic reference point configuration help management scholars to better understand the impact that HR programs and policies have on a firm’s performance?

Predicting the HR Strategic Reference Point Configuration

What influences the selection of a system’s SRP configuration? In particular, what determines whether the HR strategic reference point configuration of a given firm is characterized by, for example, an emphasis on ends-based (as opposed to means-based) reference points that have a broad or high (as opposed to narrow or low) external orientation, which are grounded more in the future than in the past? Although the literature on organizational configurations has been focused on constellations of distinct structural and process attributes at the firm (rather than at the subsystem) level and relates more with the consequences of various configurations (rather than with their antecedents) (Meyer, Tsui, & Hinings, 1993), this body of literature may nevertheless shed some light on the nature and determination of configurations at the system level. For example, in the same way that conceptually distinct but interdependent organizational-level attributes tend to cluster into “coherent patterns” or configurations (Meyer et al., 1993: 1176), a number of studies provide empirical evidence that similar patterns occur at the system level in general and within the HR system in particular (Tsui, 1990; Tsui & Milkovich, 1987). Consequently, these studies suggest that researchers are likely to find groups of HR strategic reference points falling into distinct clusters or combinations.
But what drives system-level phenomenon to cluster into such identifiable configurations? Resource and power-based theories that explain the emergence of distinct configurations at the organizational level may be helpful in understanding the emergence of configurations at the system level. These include organizational ecology (Hannan & Freeman, 1989), institutional theory (DiMaggio & Powell, 1993), resource dependence theory (Pfeffer & Salancik, 1978), and strategic choice theory (Miles & Snow, 1978). Zammuto (1988) suggested that despite their differences, these theories lead to common themes regarding organizational configurations because of the power and resource-based contingencies on which they are all based. Furthermore, Ketchen, Thomas, and Snow (1993) found that configurations deductively derived from such theories offered greater predictive efficacy than inductively derived configurations. Extrapolating to the subsystem level, it is logical therefore to assume that similar power- and resource-based contingencies may drive the clustering of system-level phenomena such as reference points into SRP configurations.

In this context, the ability of any organization or interest to dictate the nature of a given system's SRPs is likely to be contingent on the dependence relations between that organization or interest and the system over which it is attempting to exert influence. Although this assumption may not be consistent with the more conventional notion that system-level strategies are dictated entirely by constraints external to a given system, it is consistent with the reciprocal interdependence theory of strategy formulation that was discussed previously. For example, on the basis of our assumption that power-related contingencies underlie the clustering of HR strategic reference points into specific SRP configurations, it is just as likely for a powerful organizational system to influence firm-level strategy as it is for top management to use firm-level strategy to constrain the emergence of a particular system-level SRP configuration.

Indeed, some authors have suggested that the relative impact of business strategy and environmental influences on HR strategy is, to a great extent, contingent on the relative power of HR managers and professionals in the firm (Maital, 1992) and on the degree to which key internal constituents are dependent on them for valued resources (Bamberger & Phillips, 1991). Thus, it may be that as the influence of those within the HR function increases, there will be a greater tendency to, for example, downplay historical process concerns and instead emphasize reference points reflecting future-oriented HR outcomes. With this in mind, we propose that the level of HR influence in the firm will affect all three reference point dimensions and thus play the key role in determining the nature of a firm's HR strategic reference point configuration.

**Predicting the temporal nature of HR strategic reference points.** The influence of the HR system varies from firm to firm, often depending on the degree to which key stakeholders consider organizational human resources as a valued source of sustainable competitive advantage (Lado & Wilson, 1994). Indeed, as Maital (1992) noted, there is empirical evidence
that unlike chief HR officers in medium and large firms in Japan and Germany, those in comparable American firms have far less influence than other functional heads, and that this lack of influence is often expressed in the relative level of compensation across functions. Consistent with resource dependence theory (Pfeffer & Salancik, 1978), in firms in which human resources are seen as the basis of the organization’s competitive edge, HR managers tend to have relatively more influence in strategic decision making (Knights & Morgan, 1991) and especially in the selection of organizational evaluation criteria (Kanter & Brinkerhoff, 1981). For example, Dyer and Holder (1988) described such a situation at IBM, in which (at the time) the corporate HR function could veto entire sections of the various company business plans. In firms in which the HR function lacks such influence, its ability to consider forward-looking HR programs and policies may be greatly limited (Kossek, 1987).

Previous research (Fox & Staw, 1979) suggests that a decision maker’s level of organizational influence may affect the way in which she or he feels it necessary to justify her or his decisions to others. For example, Bacharach, Bamberger, and Mundell (1995) found that less influential managers tended to justify their decisions on the basis of historical precedent, whereas more influential managers (who felt less vulnerable) tended to justify their decisions on the basis of a more future-oriented strategic logic. Indeed, their results suggest that accountability norms operating in most complex bureaucracies encourage less influential managers to avoid future-oriented logic in their decision making and to rely instead on more certain historical frames of reference. We therefore propose that the overall influence of a given function within the organization will predict the degree to which managers in that function will base strategic decisions on reference points grounded in the past or future. When evaluating and selecting among reference points, managers in weaker functions will make greater use of historically oriented SRPs. These individuals feel the need to justify strategic choices on the basis of criteria that imply stability and (at most) only incremental change, so that their potential for survival and advancement within the organization is not placed at risk. In contrast, managers in more influential functions will make greater use of future-oriented SRPs. It is important to these individuals to be able to justify their strategic choices on the basis of criteria that imply more overarching concerns and reflect their interest in securing broader and more synoptic or comprehensive organizational change. Thus, we propose

Proposition 1: The more influential an HR system is in organizational decision making, the more SRPs will be future oriented.

Predicting the nature of internal strategic reference points. We also propose that HR systems will have more influence in firms whose systems of governance are outcome or ends based rather than process or means based; they also will use this influence to ensure that their own policies
and practices are governed on the basis of outcomes rather than processes. To justify this assertion, we first explain the link between systems of control and HR influence, and next we explain why an HR system with enhanced influence would use this power to ensure that its policies and practices are shaped more by outcome criteria than by process criteria.

Control is defined by Edwards (1979: 17) as "the ability of managers to obtain desired work behavior from workers." Thus, the control system is the crucial interface between labor and management in an organization. Over the years, changing technologies and increasingly competitive environments have forced administrators to adopt a diverse set of mechanisms in order to control labor (Edwards, 1979). Organizational theorists (Ouchi & Maguire, 1975; Thompson, 1967) have viewed these mechanisms as being grounded in one of two alternative approaches, namely behavioral control and outcome control. Behavioral control focuses on the careful planning and direct monitoring of the processes used by workers to achieve a given set of ends. According to Thompson, because it is inherently means based, behavioral control is effective only when means-ends relations are completely understood. When means-ends relations are uncertain but goals are agreed upon by agents and principals, outcome controls (i.e., controls that focus on the ends themselves—e.g., margin, market share) may be used. However, because outcome controls are inherently more uncertain than process or behavioral controls, managers tend to adopt them only when they believe that they can reduce this uncertainty by predetermining the premises on which their subordinates make key decisions (Thompson, 1967). Consequently, organizations relying on outcome-based systems of governance tend to rely heavily on shaping the organizational norms and values underlying many of these decisions (Kunda, 1992).

Barley and Kunda (1992) suggested that as many organizations, particularly those with complex and highly uncertain core technologies, have moved from more "rational" or "tight" systems of behavioral or process control to looser, more normatively based systems of outcome control, the HR function has gained in importance and stature. Indeed, the HR function typically is responsible for establishing and maintaining the normative framework on which outcome-based systems of control rely (Kunda, 1992). Hence, the shift in many organizations from means-based behavioral control to ends-based outcome control has been accompanied by an increased reliance on effective HR management and, consequently, an increase in the relative influence of the HR system.

It is reasonable to assume that because the HR function often plays such a key role in the adoption of normative systems of outcome control and because this adoption process is highly complex and uncertain (Kunda, 1992), HR managers will use this enhanced influence to reshape the assumptions underlying their own practices as well as the criteria for evaluating these practices. That is, in organizations in which the relative influence of the HR system is boosted by a shift to more outcome-oriented
patterns of governance, HR policies and practices will be shaped by SRPs that are more outcome (rather than process) oriented.

This logic does not suggest that the nature of organizational control and the HR system's role in shaping it will determine whether the HR reference point configuration will reflect internal as opposed to external points of reference. Consistent with the Weberian notion of rational-legal organization (Weber, 1947), internal process- or goal-based standards almost always are considered in strategic decision making (Bacharach et al., 1995). It does suggest, however, that the nature of organizational control will directly and indirectly (via its impact on the HR system's influence) affect the degree to which internal SRPs are more process and means oriented as opposed to goal or ends oriented. Thus we propose

Proposition 2: The more an organization is governed by looser or normatively based systems of outcome control (as opposed to tighter, process-based systems of behavioral control), the higher the relative level of the HR system's influence and the more HR strategic reference points will be ends or outcome oriented (as opposed to means or process oriented).

Predicting the relative emphasis placed on external reference points. In the same way that strategic decision making is almost always governed to some extent by internal process- or goal-based standards, it must also take into account at least a limited number of external standards or criteria. That is, managers can rarely ignore the concerns of outside institutions or those of internal or external clients and competitors, and they must take these external factors into consideration when making decisions. Therefore, to what degree beyond that basic level required for minimal system viability will an organizational system (and, in particular, the HR system) take such external reference points into consideration in strategic decision making?

All HR systems are required by law to take certain institutional interests (e.g., occupational safety and health and equal employment opportunity) into consideration when framing their policies and practices. According to power dependence theory (Bacharach & Lawler, 1980), the HR system is likely to influence the extent to which additional external strategic reference points are taken into consideration. Weak HR systems, which are dependent on other organizational systems for resources and respect, are obligated to pay close attention to the interests and concerns of external stakeholders in framing HR policies and practices, but they tend to lack both the mandate and the resources to consider a broader range of external reference points. Bamberger and Phillips (1991) suggested, however, that as the influence of the HR system increases, HR managers do not tend to pay any less attention to existing external reference points; rather they expand their focus to a broader range of external reference points. In a study of HR strategy in the pharmaceutical industry, these
authors suggested that as the HR system's influence increases, it continues to pay close attention to the requirements of existing stakeholders because failure to do so might threaten the system's viability. Unlike weaker HR systems, however, more influential HR systems were found to "leapfrog" over the information gathered by corporate strategic planners and to collect their own information from a wide range of external interests that were likely to have an effect, even if remote, on the HR system. In this sense, high-influence HR systems are likely to have a greater external orientation than are weaker HR systems that take into account only external reference points that have an obvious impact on their survival and viability.

Two main processes, one direct, the other indirect, may underlie this link between heightened HR influence and a wider external SRP orientation. The direct process relates to the availability of resources. As HR systems gain in relative influence, they are more likely to acquire the mandate and resources needed to take a wider range of external SRPs into consideration. Whereas information gathering from internal stakeholders has a relatively low cost, information gathering from external (i.e., organizational) customers, vendors, and competitors can be extremely costly. Thus, as the HR system becomes more influential, HR managers are more likely to have a mandate and resources to broaden the range of external reference points.

The indirect process relates to the system's level of external exposure. As an HR system becomes more influential, the HR manager is more likely to be involved in a greater number of intraorganizational, cross-functional task forces. Such exposure to other organizational systems is likely to result in a wider "field of vision" among those in the HR system (Jarrell, 1993; Waller & Huber, 1994). Furthermore, the increased resources available to a more influential system may facilitate increased participation in professional networks and the recruitment of additional HR professionals to staff an increasing array of HR functions. Empirical research suggests that, particularly when these professionals are recruited from other functions within the firm or from HR systems in other firms, the net result is likely to be greater awareness of and interest in a wider range of external considerations (Schwenk, 1993). Indeed, a recent Conference Board study (Gates, 1994) suggests that leading-edge corporations are consciously seeking experienced business executives to staff their HR departments in order to shake out complacent people and broaden the HR staff's view of business needs. Taking both the direct and indirect (via external exposure) effects of an HR system's influence on external strategic reference point orientation, we propose

Proposition 3: The more influence the HR system has in the organization, the greater the level of the HR system's external exposure and the broader the range of external SRPs (i.e., the higher the external orientation).
A summary of the HR strategic reference point prediction model described previously is depicted in the left-hand side of Figure 2. As is apparent, the absolute and relative power of HR managers is a key determinant not only in the degrees of freedom HR managers have in setting their system's SRPs, but also in reflecting the reciprocal nature of the system's and the firm's strategy formulation in the positioning of the firm's overall competitive advantage. Hence the figure depicts a bidirectional link between competitive advantage and the HR system's influence. Also apparent in this figure are the interdependencies among the factors posited to influence the determination of HR reference points. Specifically, the nature of organizational control is likely to affect the level of the HR system's influence, and this influence is likely to affect the degree of the HR system's external exposure, suggesting that SRP choices along all three dimensions are likely to exhibit at least a limited degree of covariance.

Consequently, although we may identify eight basic SRP combinations (see top of Table 1), the logic presented previously suggests that certain cells are more likely to be occupied than are other cells. For example, because of the link between the HR system's influence and external exposure, the SRP configurations suggested by Cells 1, 4, 5, and 8 are more probable than those suggested by Cells 2, 3, 6, and 7. Indeed, assuming that the determining factors described previously remain stable, according to this model, we suggest that over time HR systems may tend toward one of two primary SRP configurations, namely a "high-power" configuration (indicated by Cell 4) or a "low-power" configuration (indicated by Cell 5). For example, Jarrell's (1983) description of the role of the HR system in strategic planning at IBM and Amex suggests that HR strategy in these companies is driven by a high-power SRP configuration, that is, one that is future oriented (includes five-year plans), outcome based (is concerned with bottom-line business outcomes), and externally driven (is focused on the demands of a wide range of stakeholders in the firm's environment). In contrast, Bamberger and colleagues (1989) showed that HR strategy in high-technology startups tends to be driven by a low-power SRP configuration that is focused on the relative improvement in the efficiency of internal processes affecting primarily one internal customer (i.e., R&D) over past months or years.

Using Strategic Reference Points to Predict the Nature and Consequences of HR Policies and Practices

The second and third questions we posed concern the way an understanding of HR strategic reference points may help to predict HR policies and practices and, ultimately, to explain the potential link between these programs and policies and firm performance. As shown in the right side of Figure 2, three characteristics of HR reference points are postulated to have important implications for both HR policies and practices and firm performance.
FIGURE 2
The Antecedents and Consequences of Human Resource Strategic Reference Points

- Human Resource Strategic Reference Point Fit
- Firm Performance
- HR Policies and Practices (Conservative/Daring)
- Human Resource Strategic Point Consensus
- Firm’s Current Position Relative to Human Resource Strategic Points
- Human Resource Strategic Reference Point Configuration
- Internal (Process/Outcome) Orientation
- Time (Past/Future) Orientation
- (Low/High) External Orientation
- Nature of Organizational Control
- Level of the Human Resource System’s Influence
- External Exposure
- Nature of Firm’s Competitive Advantage
- Organizational Goal Consensus & Process Uncertainty
TABLE 1
Configuration Options and Possible Tendencies of Human Resource Strategic Reference Points

<table>
<thead>
<tr>
<th>Manager's External Exposure</th>
<th>Loose/Outcome Control</th>
<th>Tight/Process (Behavioral) Control</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Low Influence</td>
<td>High Influence</td>
</tr>
<tr>
<td>Low</td>
<td>Cell 1</td>
<td>Cell 3</td>
</tr>
<tr>
<td>High</td>
<td>Cell 2</td>
<td>Cell 4</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cell Number</th>
<th>Process/Means Oriented</th>
<th>Outcome/Ends Oriented</th>
<th>Low (Narrow) External</th>
<th>High (Broad) External</th>
<th>Temporal Dimension</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>Past X Future X</td>
</tr>
<tr>
<td>2</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>Past X Future X</td>
</tr>
<tr>
<td>3</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>Past X Future X</td>
</tr>
<tr>
<td>4*</td>
<td>X</td>
<td></td>
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<td>5*</td>
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</tbody>
</table>

* = high and low power configurations toward which HR systems may tend (assuming that the three determining factors remain stable over time).

Position relative to HR strategic reference points. Jackson and Dutton (1988) have demonstrated empirically that managers tend to categorize new issues expected to result in loss as threats and new issues that imply positive gains as opportunities. Consistent with prospect theory, Fiegenbaum and colleagues (1996) pointed out that firms that assess their performance as exceeding or superior to that of their target or benchmark (i.e., above their SRPs) are likely to deem most new issues as threats. Decision makers in these firms believe they have everything to lose and little to gain. In contrast, firms that assess their performance as below or poorer than that of their target or benchmark (i.e., below their SRPs) are likely to view these same issues as opportunities. These firms have relatively little to lose and much to gain. Threat-rigidity research (Dutton & Jackson, 1987) suggests that issue categorization has a powerful effect on managerial strategic choice behavior. Managers confronted with perceived threats will be more likely to adopt a conservative, defensive response or strategy, whereas managers confronted with perceived opportunities will be more likely to adopt a daring strategy. Fiegenbaum and colleagues (1996) noted that firms are more likely to adopt conservative strategies in response to threats because they tend to encompass less ambitious goals, such as the maintenance of the status quo, or means that are firmly grounded on tried and tested repertoires. Daring strategies,
in contrast, are more likely to be adopted when firms are confronted with opportunities. Because daring strategies encompass more ambitious goals, such as those with a high potential for failure, and means that are grounded on unfamiliar and relatively untested repertoires, they are designed to maximize opportunities rather than to prevent losses.

The right-hand side of Figure 2 portrays the way this same notion may be applied to the level of the HR system. First, just as firm-level strategies may range from conservative to daring, so may the strategic decisions of HR managers and professionals, and ambitiousness and uncertainty be more closely associated with some HR policies and practices than with others. Thus, for example, the cost-saving utilization strategy (described by Dyer and Holder [1988] as being based on limited training and development, high turnover, and efficiency-based compensation practices) has been viewed by some (e.g., Lado & Wilson, 1994) as daring. Although it may enhance short-term gains, it is certainly far from proven as a means by which to promote the commitment and competencies often required for sustained operational efficiency (Senge, 1990). Although many HR strategies probably are, as Lado and Wilson suggested, more daring than others, the same strategy may be more daring (or conservative) in some firms than in others because the factors influencing the level of ambitiousness and uncertainty vary from firm to firm. Nevertheless, Figure 2 suggests that, like firm-level strategies, HR strategies are likely to vary along a continuum from conservative to daring.

Figure 2 also suggests that the nature (i.e., conservative or daring) of the strategic choices made by HR professionals, and consequently, the nature of the HR policies and practices (i.e., strategy) adopted will be determined by the HR reference point configuration. The figure also shows that although the HR reference point configuration influences the nature of the HR policies and practices that are adopted, this effect is moderated by the firm’s current position relative to its HR reference points. That is, the way in which the HR strategic reference point configuration affects the nature of the strategic choices made by HR professionals is contingent upon the degree to which these decision makers view the system as being above or below its strategic reference points.

As discussed previously, prospect theory (Kahneman & Tversky, 1979), when applied to the realm of strategy, suggests that HR systems that are above their reference points will be more likely to respond to new issues and situations, such as the election of a new, more militant union leadership, as threats and will seek to minimize potential losses by adopting conservative and defensive policies and practices, such as retaining a traditional, confrontational approach to labor relations. In contrast, HR systems that are below their reference points will be more likely to consider new issues and situations as opportunities and will seek to capitalize on them by adopting more daring policies and practices, radically departing from the norm or tradition. Using the example just cited, for an HR system well below its SRPs, a profound shift in union leadership might
provide the impetus needed to encourage HR decision makers to question existing mental models (Senge, 1990) and to adopt more innovative, joint labor-management programs (Kochan et al., 1988).

Thus, assuming that the skills of HR professionals are randomly distributed across firms, the application of prospect theory to HR strategy suggests that the HR system’s position relative to its key reference points will influence the willingness of HR decision makers to challenge their own mental models and to consider the adoption of more daring HR strategies. It does not suggest that HR decision makers, after identifying their system as being above its SRPs, will suddenly discard or fail to build on proven strengths, because the nature of some of these practices is still uncertain. Rather, it suggests that having identified their systems as being above its SRPs, HR decision makers are likely to build incrementally on these strengths but be reluctant to adopt programs that depart radically from proven methods. Indeed, when such HR systems confront new situations or issues to which they must respond, HR decision makers are more likely to opt for responses that are consistent with identified strengths and tested routines, that is, more conservative ones. Consequently, we propose

Proposition 4: HR strategies will be more conservative when the system’s strategic decision makers view their system as being above their strategic reference points, and they will be more daring when these decision makers view their system as being below their strategic reference points.

HR strategic reference point fit. Contingency theorists (Lawrence & Lorsch, 1969; Thompson, 1967) have long emphasized the importance of consistency and congruency among organizational elements, but only recently have authors in the HR management literature begun to stress the importance of “fit.” For example, Baird and Meshulam (1988) stressed the importance of ensuring that specific HR policies and practices not only fit with and support one another (i.e., “internal fit”), but that they also fit the organization’s stage of development (i.e., “external fit”).

Based on our previous discussion, we view internal HR strategic reference point fit as concerning the degree of complementarity among the different dimensions and variables composing the system’s SRPs, and we consider external HR reference point fit as concerning the degree of alignment between the reference points of the HR system and the SRPs of other organizational systems. As seen in Figure 2, we posit that the level of HR reference point fit (internal or external) has its most significant impact on the link between HR strategy and the particular policies and practices of which it is composed (on one hand) and firm performance (on the other). Internal and external SRP fit are unlikely to influence the degree to which strategic choices are either conservative or daring. Consistent with prospect theory, we posit that the qualitative nature of HR policies and practices will be partly a function of the position of the HR system
relative to its SRPs. Once strategic choices are made, however, the level of reference point fit may affect the likelihood that HR strategies and the specific policies and practices of which they are composed will have a negative effect on a firm’s overall performance.

Authors who have examined the impact of “meritorious” (Johns, 1993: 571) or “high-performance” (Huselid, 1995: 640) HR practices indicate that these practices contribute to improved employee performance (Arthur, 1994). Yet “long causal chains” (Johns, 1993) and “greater noise” (Terpstra & Rozell, 1993) make it difficult to determine the actual effects that HR practices have on firm performance. Indeed, Johns (1993: 571) pointed out that many HR managers are reluctant to adopt even “meritorious” HR innovations in part because they feel that these innovations may not fit their own “administrative style” or their organization’s “social context” and may yield a negative net impact.

In this context, without specifying both the strategic context and the content of an HR strategy’s component policies and practices, it is impossible to predict the precise net effect of this strategy on a firm’s overall performance. However, in much the same way that managers, according to Johns (1993), assess the potential impact of innovative HR practices, an understanding of an HR system’s strategic reference points may allow researchers to predict the likelihood that particular HR strategies will yield a negative net impact on overall firm performance. Johns’ (1993) description of the role of fit in determining the failure of managers to adopt innovative HR practices implies that although fit may be a necessary but not sufficient condition for an HR system to have a positive net effect on firm performance, lack of fit may be a sufficient (but not necessary) condition for a negative net effect. Several fit perspectives are discussed in the strategy literature (Venkatraman, 1989), two of which are relevant in the case of system-level SRPs.

According to the first perspective, derived from Venkatraman’s (1989) notion of fit-as-covariation, a set of SRPs must be internally consistent if they are to guide the adoption and implementation of a coherent set of policies and practices. That is, they must revolve around some common thread or underlying internal logic (Hambrick, 1980) and offer some degree of complementarity or synergy (Huselid, 1995). Indeed, because SRPs, as evaluation criteria, “serve both a direction and motivational function” (Tsui, 1984: 194), internally inconsistent SRPs are likely to lead organizational members to perceive mixed motives and conflicting targets (Fiegenbaum et al., 1996). Internal consistency may not necessarily contribute to the HR system’s having a positive impact on a firm’s strategy, because the content of the adopted strategy is most important. HR strategies grounded on internally inconsistent SRPs (e.g., SRPs focused on the number of customers serviced per employee combined with others focused on the quality of the customer-employee interface), however, are likely to result in resource inadequacy (Bacharach & Bamberger, 1995), role strain (Hochschild, 1983), and inconsistent policy interpretation (Ferris & Judge,
1991) and thus increase the likelihood that the HR system will have a negative net impact on firm performance.

According to the second perspective, derived from Venkatraman's (1989) fit-as-profile deviation notion, for HR reference points to guide the adoption and implementation of HR strategies that neither block other system-level strategies nor modify their effects on firm performance, HR strategic reference points must be externally "aligned" (Huselid, 1995: 650). That is, they may not deviate too greatly from some "ideal strategy profile" (Venkatraman, 1989: 433). The external alignment of HR reference points may fail to contribute to the HR system's having a positive impact on a firm's performance, but HR strategies grounded on HR reference points lacking external coalignment with the SRPs of other organizational systems may increase the likelihood of a negative impact. For example, if the SRPs of other organizational systems are all grounded on an underlying logic of flexibility and quality, an HR strategy based on cost-driven SRPs may prevent the successful implementation of other systems' policies and practices, thus yielding a negative net effect on firm performance. Resources saved by limiting employee training and adopting low-cost compensation practices are likely to be squandered as other organizational systems attempt to find other means by which to develop the capabilities required to identify and rapidly capture and retain new market niches. As Senge (1990: 234) noted, wasted energy is "the fundamental characteristic" of unalignment.

Both internal consistency and external coalignment, according to Venkatraman (1989), may be easily assessed, the former by using confirmatory factor analysis and the latter by using a version of Van de Ven and Drazan's (1985) "pattern analysis." More important, however, when taken in combination, an understanding of both the daring versus conservative nature of HR strategies and the degree to which underlying SRPs are internally consistent and externally coaligned may facilitate the assessment of a particular HR strategy's potential to have a negative net impact on firm performance. Such an understanding may also help in explaining the implicit logic and underlying decision criteria used by managers when making strategic HR decisions. Consequently, when HR strategies are daring to begin with, a low level of SRP fit only increases the likelihood that resulting HR policies and practices will have a negative impact on a firm's performance. Thus,

*Proposition 5: An HR strategy will be most likely to have a negative impact on firm performance when component policies and practices are daring to begin with and when there is a low level of SRP fit. An HR strategy will be least likely to have a negative impact on firm performance when component policies and practices are conservative to begin with and when there is a high level of SRP fit.*
HR strategic reference point consensus. Similarly, a lack of agreement among strategic decision makers as to what the HR reference points are is likely to increase the likelihood that HR policies and practices grounded on these SRPs will have negative implications for a firm's performance. Recent studies suggest that the HR system is most likely to contribute to firm performance when its role and the role of HR professionals are credible and understood, both within and outside of the HR system (Glanz & Daily, 1992). The literature on top management team consensus suggests that agreement among top managers within a given organizational function about the strategic ends and means of that function is an important predictor of performance (Hrebinjak & Snow, 1982). No less important is the level of agreement on these same issues by managers who are outside of that particular function but have some relation to it (Hart, 1992).

In the case of the HR system, such internal and external consensus is important for two main reasons. First, a lack of consensus over HR strategic reference points can lead to intensified action designed either to reverse consequent policies and practices or to minimize their impact (Ferris & Judge, 1991). For example, researchers (e.g., Kanter & Brinkerhoff, 1981) have described how, particularly in complex and uncertain organizational contexts, managers try to circumvent established performance evaluation systems by influencing the criteria that others are likely to use to judge them.

Second, a lack of consensus over HR strategic reference points can result in problems in interrole coordination and operational integration. If, as we suggested previously, managers adopt policies and practices on the basis of their interpretation of SRPs, when these interpretations diverge, issues are likely to be framed (and decisions made) in ways that may result in incongruent action within and across systems. Indeed, in a number of studies, Pfeffer and associates found such incongruencies resulting when powerful organizational interests adopted policies more in line with their own particularistic targets than with those accepted by other organizational interests with regard to both staffing (Cohen & Pfeffer, 1986) and compensation (Pfeffer & Davis-Blake, 1987).

Although these studies suggest that low levels of consensus concerning the HR system’s ends and means will often have a direct, deleterious effect on a firm’s performance, our interpretation of the research results leads us to a more cautious conclusion. After all, a daring strategy on which there is little consensus, though perhaps more difficult to implement, may be precisely what is required, given a new set of organizational or environmental conditions. Nevertheless, the uncertain means and ambitious ends of daring strategies, when combined with a low level of HR strategic reference point consensus, suggest that daring HR strategies based on HR strategic reference points on which there is little consensus will have a higher potential to yield a negative net effect on firm performance than more conservative strategies grounded on HR strategic reference points with higher consensus. Thus,
Proposition 6: An HR strategy will be most likely to have a negative impact on firm performance when component policies and practices are daring to begin with and when there is a low level of SRP consensus. It will be at least likely to have a negative impact on firm performance when component policies and practices are conservative to begin with and when there is a high level of SRP consensus.

CONCLUSION

In the context of SRP theory, benchmarking in the HR system may thus be seen as much more than a new managerial tool. Indeed, from an SRP perspective, benchmarking is not so much an innovative managerial practice as it is a cognitive process underlying much of what researchers know about managerial strategic decision making. In the context of this process, managers at the organizational level are continuously comparing themselves against specific internal, external, and time-based targets. The determination of these targets is, we have argued, to a great extent contingent on the level of the HR system’s influence in the organization.

In our previous discussion, we also illustrated how, depending on the results of this comparison, managers are likely to adopt policies and practices that may be more daring or less daring in nature. These policies and practices may, in turn, have a direct effect on a firm’s overall performance. Although reference points may themselves do little directly to predict overall performance, primarily by affecting the implementation of SRP-based policies and practices, certain SRP characteristics, namely fit and consensus, are likely to moderate the link between HR policies and practices on the one hand, and firm performance on the other. Specifically, we explained how, under conditions of limited SRP fit and consensus, the potential for the HR system to have a negative effect on a firm’s performance may be heightened.

Thus, at the broadest level, the model we presented provides researchers in the fields of strategy and organizational theory with a new way of assessing strategy and decision making at the level of the organizational system. By showing how managers establish system-level policies and practices on the basis of comparisons with internally, externally, and temporally based targets, the model provides a much needed link between strategy and policy at the firm level and implementation and practice at the system or suborganizational level. Furthermore, by explicating both the power-related factors underlying determination of targets and the interpretation of the system’s position relative to such targets, the model details the cognitive dynamics underlying policy formulation, be it in the HR system or any other organizational system. In this sense, the link between firm-level strategy and system-level action developed in this model stresses the common elements of a rational-economic strategy per-
spective and a cognitive-political organizational behavioral perspective (Bacharach, Bamberger, & Sonnenstuhl, In press). Such an appreciation of the interplay between perspectives focusing on system-level action and firm-environment interaction is likely to become more critical as the virtual organization concept becomes more of a reality and as an increasing number of top-level organizational decision makers become aware of and begin to adopt the feedback-oriented, systems approaches to organizational learning and strategy advocated by Argyris (1985) and Senge (1990).

Our model also has important implications for research in HR management. First, building on the political perspective of HR management proposed by Ferris and Judge (1991), the HR strategic reference point model provides an additional means by which to move away from the more traditional, rational-economic foundations of HR management and toward a body of theory more solidly grounded on notions of cognition and micropolitics. Indeed, a movement in this direction may help reduce the gap between HR theory and managerial practice (Johns, 1993). Second, it reinforces recent efforts to move HR strategy research away from its prescriptive roots and toward description and analysis. Finally, it seeks to generate a theoretical perspective that, though specific to the HR system, is still generalizable to other organizational systems. The application of SRP theory to other organizational systems such as finance and research and development might explain, for example, why some organizations might adopt broader financial reporting and control practices and other organizations might not.

The HR strategic reference point model's implications are not, however, restricted to the field of research. We began this article with a discussion of benchmarking as an innovative managerial tool. By explicating the cognitive underpinnings of the benchmarking process, we believe that HR professionals will be able to make more effective use of benchmarking as a managerial practice. For example, our discussion shows how benchmarking tools can be used to assess the degree of risk associated with alternative HR strategies. By providing insight into the influences on managers' target selection decisions and the implications that such decisions have on subsequent policy determination, the HR strategic reference point model may facilitate the development of more sophisticated and effective benchmarking practices in HR and other organizational systems.

Finally, SRP analysis may be used by managers at both the system and corporate levels as a diagnostic tool. System-level managers might, for example, analyze their function's strategic reference points to gain insights into why their units tend to be surprised by new environmental contingencies or why, once responses are generated, they fail to be implemented in a timely and effective manner. Top level managers might undertake a corporatewide analysis of system-specific SRPs to learn more about their overall coalignment and the mental models possibly limiting their organization's ability to respond effectively to change.
REFERENCES


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