



Corporate governance and strategic human resource management: Four archetypes and proposals for a new approach to corporate sustainability



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ABSTRACT

In this paper we develop a new typology connecting strategic human resource management (SHRM) to different models of firm-level corporate governance. By asking questions concerning ownership and control issues in the corporate governance literature and drawing on institutional logics, we build a typological framework that identifies four firm-level archetypes of corporate governance systems. Two archetypes represent dominant logic types (shareholder value, communitarian stakeholder), while the other two represent hybrid organizations (enlightened shareholder value, employee-ownership). Using these archetypes, we theorize the implications of different governance structures for SHRM and the challenges they pose. We conclude by discussing a novel solution to many of these challenges based on the corporate sustainability literature, and, in so doing, provide new directions for SHRM research to tackle key challenges facing organizations and the management of people.

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1. Introduction

A central focus of strategic human resource management (SHRM) concerns the relationship between people management policies and practices and the business strategy of organizations (Huselid & Becker, 2011) but a number of commentators have highlighted the failure of this literature to engage with the wider context in which firms, strategy, human capital and human resources (HR) actors are embedded (Delbridge & Keenoy, 2010; Shen, 2011; Wright, Coff, & Moliterno, 2014). In particular, the SHRM literature has failed to integrate recent work on different modes of how firms are governed, which represents highly important conditioning influences on firms' investments in human capital and how people are managed in organizations (Gospel and Pendleton, 2005).

This lack of integration is puzzling since how firms conceptualize and approach corporate governance has fundamental implications for SHRM. For example, Daily, Dalton, and Canella Jr. (2003: 371) define corporate governance as "the determination of the broad uses to which organizational resources will be deployed and the

resolution of conflicts among the myriad of participants in organizations". Similarly, Aguilera, Filatotchev, Gospel, and Jackson (2008: 475) define it as the "mechanisms to ensure that executives respect the rights and interests of company stakeholders, and that those stakeholders are held accountable for acting morally and responsibly for the generation, protection and distribution of wealth invested in the firm". Despite such clear statements of scope, implicating SHRM in governance, we have little understanding of the ways in which governance modes and SHRM choices and the implementation of these choices are associated. Consequently, there is a need to understand how both concepts interact.

Three important questions emerge from our statement of this problem. First, what effect does the choice of governance mode have on the way people are managed in a firm? Second, how do certain HR practices affect the governance approach of a firm? Third, what are the traditional and non-traditional ways in firms are governed and what are the implications of these for the management of people?

In this paper we develop a typology to explain the linkages between choice of corporate governance mode and SHRM choice. With theories of institutional logics as our foundation (Delbridge & Edwards, 2013; Friedland, 2012; Friedland & Alford, 1991;

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Thornton, Ocasio, & Lounsbury, 2012), we present four ideal-typical archetypes of corporate governance and SHRM: (a) a market-based, agency-led shareholder value model (b) a relational, communitarian stakeholder model; (c) a strategy-led enlightened shareholder value model, and (d) an employee-ownership model. The shareholder and stakeholder models are familiar ideal types but (c) and (d) represent hybrid ideal types. Hybrid organizations (c.f. Battilana & Lee, 2014; Pache & Santos, 2010, 2013) have become increasingly common in addressing issues of the types of organizational complexity promoted by pluralistic demands (Aoki & Jackson, 2008; Greenwood, Raynard, Kodeih, Micelotta, & Lounsbury, 2011). Such organizational forms are important in governance literature and practice addressing different ways of dealing with the agency problem at one extreme (Dalton, Hitt, Certo, & Dalton, 2007), and the problem of excessive democracy at the expense of managerial efficiency at the other (Kaarsemaker, Pendleton, & Poutsma, 2010; Lan & Heracleous, 2010). To build our typology, we draw on the concept of ‘institutional complementarities’ (Aoki & Jackson, 2008; Hall & Soskice, 2001), defined as mutually constitutive relationships between institutional logics at societal, field, and organizational levels, to link the four corporate governance archetypes to ideal-typical approaches in SHRM.

Following the development of our typology we extend our theorizing to offer a new approach, based on corporate sustainability (Benn, Dunphy, and Griffiths, 2014; Linnenluecke & Griffiths, 2010; Mayer, 2014) and socially responsible human resource management (Aguinas & Glavas, 2012; Shen & Benson, 2014), as over-riding principles of good governance. These proposals deal with many of the challenges associated with the previous four archetypes, and provides a way forward to deal with the impact of organizations on current and future generations of stakeholders.

Our paper makes three contributions to existing theory on governance and SHRM. First we contribute to the literature on corporate governance by showing the impact of governance choices on how people are managed within organizations. Our typology elucidates the linkages between choice of governance mode and the mode of SHRM, deepening our understanding of the effects of governance through the organization. Further we answer calls to develop our knowledge of non-traditional corporate governance by highlighting hybrid organizations in our typology and their impact on the structure and management of people within the firm (Besharov & Smith, 2014; Delbridge & Edwards, 2013; Greenwood et al., 2011). Second, we contribute to the literature on SHRM by showing, through our classification, how the choices of HR actors on the SHRM approach can reproduce the governance mode of the firm, extending previous perceptions of the influence of HR in how a firm is configured. Moreover, through clarifying the link between SHRM and corporate governance, we deepen our understanding of the dimensions of strategy that SHRM is intended to include. Third, through our development of the linkage between SHRM and sustainability, we respond to calls for more normative theorizing in governance (Suddaby, 2014) by proposing some suggestions for a new model of governance-SHRM linkages embodying the principles of corporate sustainability.

Our paper is structured as follows. First, we outline issues in corporate governance and the control of resources. Then we develop our typology of corporate governance and SHRM archetypes. In the Discussion section, we present our normative theorizing on corporate sustainability and SHRM. We conclude with directions for future research.

1.1. Corporate governance: interests and control

To structure our discussion, we address two related questions raised by particular corporate governance researchers (Blair &

Stout, 1999; Davis, 2009b; Huse, 2009; Jensen, 2001; O'Brien, 2006; Starbuck, 2014) and neo-institutional theorists regarding the politics of institutional contradictions (Almandoz, 2014; Friedland, 2012; Friedland & Alford, 1991; Lok, 2010; Suddaby & Greenwood, 2005). The first question relates to the ownership problem: whose rights and interests are, or should be, paramount in a firms' corporate governance approach—shareholders who have contractual property rights in the business, or other members of the community directly or indirectly affected by a firm's activities both now and in the future (Aguilera et al., 2008; Gospel & Pendleton, 2003; Janssens and Steyart, 2012; Mansell, 2013; Stout, 2012)? The second question relates to the control problem: how do a firm's governance structure and approach create an appropriate balance between control to ensure that the executives who run firms act in the interests of financial investors (Dalton et al., 2007; Hansmann, 1996), and commitment to other stakeholders who commit their long-term economic and social capital and whose continued participation is vital to the continued operation of the firm (Mayer, 2014)?

Combining these two questions in Fig. 1, we locate both the dominant logic archetypes and hybrid archetypes. The latter characterize governance systems that attempt to deal with the excesses created by (i) a market logic that underpins agency-led shareholder value, and (ii) a democratic logic that underpins the communitarian stakeholder archetype. These are, respectively, a strategy-led enlightened shareholder value (Lok, 2010; Martin & Gollan, 2012), and an employee-ownership archetype (Kaarsemaker et al., 2010; Lampel, Balla, & Jha, 2014; Pierce, Rubenfeld, & Morgan, 1991). As both Aoki and Jackson (2008) and Besharov and Smith (2014) argue in different ways, logics within hybrid organizations may lead to either contestation (extensive conflict) or relative alignment (minimal conflict), depending on the compatibility of the multiple logics in practice. Thus, we highlight the different challenges that these two hybrid archetypes are likely to present for both corporate governance and SHRM. Finally, we suggest that our suggestions for a new framework based on corporate sustainability can be located on the top right hand side of this figure for reasons we raise in the Discussion.

1.2. Elements of corporate governance and shrm

We have created our framework by plotting the archetypes in columns against specific ‘elemental categories’ or building blocks (Thornton et al., 2012) of our theory in rows (see Table 1). The elemental categories reflect three levels of analysis: societal, organizational, and functional. We describe in turn what each elemental category constitutes before applying the elements concurrently to describe the archetypes that emerge.

1.3. Societal level: institutional logics

We use the notion of institutional logics to locate firm-level governance logics and structures in societal, inter-institutional orders (Fiss, 2008; Friedland, 2012; Friedland & Alford, 1991; Suddaby & Greenwood, 2005; Thornton et al., 2012; Westphal & Zajac, 2013). Throughout the paper, we draw on Thornton et al.'s (2012: 2) definition of institutional logics as “the socially constructed historical patterns of cultural symbols and material practices, including assumptions, values and beliefs, by which individuals and organizations provide meaning to their daily activity, organize time and space, and reproduce their lives and experiences”. The two primary societal level logics of corporate governance on which we focus are the market-based capitalist logic and the democratic-participative logic, both of which feature in the original formulation of institutional logics by Friedland and Alford (1991).

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