ACHIEVING COMPETITIVE ADVANTAGE
THROUGH HUMAN RESOURCE STRATEGY:
TOWARDS A THEORY OF INDUSTRY
DYNAMICS

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This article uses the resource-based view of the firm, along with other theoretical sources, to outline the basic elements of a theory of "human resource advantage". It asks the question: how can firms build and defend competitive superiority through HR strategy across the phases of the typical industry life cycle? Human resources capable of yielding sustained advantage are those which meet tests of (1) rare value, and (2) relative immobility and superior appropriability. While we can identify certain broad principles associated with human resource advantage, cycles of establishment, maturity and renewal in industries add important complexities. The article identifies situations in which we can be reasonably confident we understand the requirements for HR advantage and others where much more research is needed.

INTRODUCTION

How can we progress the theory of strategic human resource management (SHRM)? Since the mid-1990s, SHRM researchers have increasingly looked to concepts associated with the resource-based view (RBV) of the firm in their attempts to build models of the ways in which human resources contribute to the basic viability, and relative performance, of firms (Coff 1997; Kamoche 1996; Lado & Wilson 1994; F. Mueller 1996; Snell et al. 1996; Wright et al. 1994). The resource-based view of the firm is an increasingly popular perspective on strategic management which emphasises the role of internal capabilities, developed historically in firms, in explaining business outcomes (see, for example, Barney 1991; Peteraf 1993; Wernerfelt 1984). On the face of it, the
resource-based view provides the logical link between the theory of HRM and the theory of strategic management. We must, however, make greater efforts to move beyond tautology, as Snell et al. (1996) advise us. Simply saying that hard-to-imitate resources are necessary for competitive advantage, and that human resources are especially valuable in this sense, does not get us very far.

This article attempts to move from a conceptual framework, mapping key ideas and relationships (Boxall forthcoming), to begin the process of building a dynamic theory of human resource advantage (HRA). It aims to locate resource-based ideas within the typical competitive terrain of a firm: its historically-evolved industry or competitive sector. (In the interests of theory-building, the complex case of the firm which competes in multiple industries or sectors is deferred for future work.) The paper takes a 'punctuated equilibrium' view of industrial change (Eldredge & Gould 1972; Gersick 1991), consistent with a Schumpeterian model of economic development (Schumpeter 1950). While change is occurring all the time, there are periods of crisis in industries, including periods of founding, and subsequent shocks caused by technological breaks and other traumas (Miller & Friesen 1980; D. Mueller 1997; Tushman et al. 1986). Periods of crisis create winners and losers. Firms that fail to adjust their 'strategic paradigm' in times of industry crisis become the victims of receivership or take-over. Firms that successfully adjust their strategic configuration consolidate their position until the next crisis.

This perspective should not be taken to imply that firms are merely reactive to environmental changes beyond their control. The model is not deterministic. Firms which reach novel solutions first can often impose change costs on rivals, moulding the competitive environment through creating new concepts of business (Baden-Fuller 1995). This implies that management matters, that more skilful management has the potential to create new competitive resources and disable the historical resources of rivals (Barney & Wright forthcoming).

Before proceeding, the concept of human resource strategy requires some clarification. All firms face strategic problems. The primary problem is how to become and remain a viable player in the firm's chosen industry or sector. Various aspects of management—competitive positioning, technology and operational style, finance, HRM and so on—have a critical role to play in this. The fundamental priority of HR strategy in a firm is to secure and maintain the kind of human resources that are necessary for the firm's viability. The 'second order'—or higher level—strategic problem is that of how to develop sources of sustained competitive advantage, a problem which not all firms choose to tackle. In theory, however, there exists opportunity for any firm which remains viable in its industry to build some relatively enduring source of superior performance through outstanding management of human resources. How this second order problem might be tackled is the concern of this article.

The article is structured as follows. The first section defines what is meant by human resource advantage, consolidating the existing tests for identifying whether a firm possesses any forms of it and relating them to critical features of the employment relationship. The second section presents a theoretical out-
line of how sources of HRA vary across the specific phases of industry evolution: establishment, maturity and renewal. It pinpoints some situations in which we can be relatively confident about our theory and others where much more research is required. In this section, studies of the corporate history and longstanding rivalry between the US automotive giants, General Motors and Ford, are used to illustrate the argument. The final section summarises the main points and briefly discusses the sort of research that is needed to plug key gaps in our theory and develop it further.

**Human Resource Advantage: Definitions, Tests and General Principles**

Assume a firm is recognised as having sustained competitive advantage in its sector: a relatively enduring form of competitive superiority based on some distinctive and enviable competence or capability\(^1\) which rivals have become frustrated trying to copy (Barney 1991). When this capability primarily stems from superior management of human talents, we can say that the firm possesses 'human resource advantage'.

Human resource advantage can be understood as the product of two key categories: the firm's human capital and its organizational process advantages (Boxall 1996).\(^2\) A large scale manufacturer of consumer foods, for example, using the same technology as rivals, but in the context of higher operator skills (better human capital) and superior cooperation between management and labour (better organizational process), is likely to build human resource advantage from a superior problem-solving capability: workers and managers identify and solve rare quality problems than rivals, learning faster how to reduce unit costs and improve customer satisfaction. This capability takes time to develop: among other things, it is sensitive to the quality of recruitment, training and team-building, to the motivational power of the compensation mix, and to the consistency—or lack of it—that employees perceive between management's employment philosophies and policies, on the one hand, and management's actual practices and behavior, on the other. Rivals who are locked into a lower skill profile and a heritage of labor-management mistrust on their existing sites are unlikely to match this capability and the performance outcomes it engenders. On the other hand, a major leap forward in manufacturing technology installed on a 'greenfield' site, in conjunction with a high performance human resource strategy, could challenge the superior firm if it failed to respond. In the existing context, however, it possesses a relatively enduring form of competitive advantage.

The firm just described passes two key tests which can be used to identify businesses with some form of human resource advantage.

**Rare Value Test**

It is a truism that all firms must add something of value in their chosen market(s) if they are to survive. Human resources provide the basis for sus-
tained competitive advantage when they add rare or exceptional value in the firm's industry or strategic group (Barney 1991; Barney & Wright forthcoming; Peteraf 1993; Wright et al. 1994). For this to be possible for some firms, human abilities—including managerial abilities—must be unevenly distributed across individuals and thus, potentially, across firms. It takes very little experience of life to realise that this is invariably the case.

In the example cited above, adequate operator skills and a sufficient level of labor-management cooperation are needed to establish credible operations and maintain industry membership but are not scarce among the industry players. While valuable for viability, they are not exceptional and will not provide the basis for superior returns. The superior firm possesses something of scarce value: its skill level is discernibly higher and the quality of its collaborative processes is tangibly superior.

**Value Creation and the Core Workforce of the Firm.** Common sense suggests that it is not really possible to argue that all employees or contractors associated with a firm—particularly a large one—constitute a source of rare value. The resource-based view of the firm inevitably drives us to make a distinction between 'core' employees who are critical to value creation and 'peripheral' groups (Purcell 1996, forthcoming). In analysing a firm's workforce, it is helpful if we define an inner and outer core.

The inner core consists of those managers, technical specialists and strategically located workers who are responsible for valuable innovations or for successful imitation (the former attracts all the glamour but the latter is easier said than done). Arguably, an open, egalitarian management process is best suited to these 'key value generators' so that criticisms can be used creatively to generate new ways of operating, to foster the kind of 'contention' that stimulates variety and adaptability (Pascale 1991). Loss of key members of the inner core undermines the firm's capacity to adapt to a changing environment and to lead adaptive change in the industry, as we shall illustrate in the case of the Ford Motor Company in the 1920s. The outer core consists of those employees, who have appropriate industry skills, with whom stable employment relations must be built if the firm is to meet its commitments to customers without process disruptions. Furthermore, these are the employees on whom the firm will depend for continuous improvement within a given strategic paradigm. The inner core, one might say, provides the 'adaptive capacity' of the firm while the outer core provides it with 'credible operational capacity'. From an organizational behavior perspective, the functions of the cores can be thought of as two kinds of learning: 'double loop' and 'single loop' learning respectively (Argyris & Shon 1978).

The two parts of the core are interactive (they need each other) and both are strategic (i.e. critical) to the firm's success. All firms must build and defend a satisfactory inner and outer core to secure viability with acceptable profit performance in any environment subject to alternating periods of crisis (when the adaptive learning of the inner core is critical) and stable growth (when the dependable services and incremental learning of the outer core are critical).
Sustained advantage, however, is associated with superiority in the inner and outer cores. Recruiting brighter individuals in the inner core, and managing them in ways that achieve powerful intellectual synergies, along with the establishment of a highly positive pattern of working relations with a well-qualified outer core, from the very earliest stages of the firm’s life, are usually the goals of firms seeking a ‘greenfields effect’. Establishing this kind of virtuous cycle at the outset is much more desirable than having to try and create it on a ‘brownfields’ site where years of low trust have undermined cooperation and create severe adjustment costs (Ichniowski et al. 1997).

Before moving on, it is vital to note that this definition of the two cores is not hierarchical. Some managers will be in one core and some in the other and some may play valuable roles in both. Some, however, are not much good in either sense: they neither assist the organization to adapt to radical change nor effectively facilitate ongoing operations and incremental learning. These individuals should be helped to see this as soon as possible because they destroy value.

**Resource Immobility and Appropriability Test**

Resources capable of yielding sustained advantage must not only be valuable and scarce but also difficult to imitate or neutralise by substitution (Barney 1991; Peteraf 1993; F. Mueller 1996; Wright et al. 1994). Advantage-generating resources must be subject to ‘isolating mechanisms’ (Rumelt 1987) or mobility barriers. While we should not think of absolute or completely impermeable barriers, it is helpful to think of barriers in terms of their relative height and rate of erosion (Reed & Defillippi 1990).

The sort of mobility barriers identified by resource-based theorists include ‘social complexity’ (for example, the complex interdependencies involved in teamwork deeply embedded inside a large organisation), ‘causal ambiguity’ (the difficulty of identifying the most critical elements in the human value chain) and ‘unique historical conditions’ or ‘path dependency’ (the impossibility of exactly replicating the history that creates particular cultures and competencies in organisations) (Barney 1991; Wright et al. 1994).

In this light, there is clearly a problem with resources derived from the contributions of employees and contractors. Because labour services are traded in free labor markets, it is possible for firms to lose key skills when more astute rivals induce talented employees to resign (Coff 1997). On the other hand, there are inertial forces that tend to restrain human mobility. Mature adults with family responsibilities, for example, are reluctant to disturb their lives by changing jobs and towns whenever they feel some element of work dissatisfaction. The best and brightest workers may stay with a firm that under-values their contribution because their present location suits their spouse and children: assessed at a ‘household level’, radical change’s often much less desirable. There are not only domestic constraints operating but talented individuals may defer mobility because they find the quality of the firm’s non-human resources (e.g.: the quality of technology, the quality of established business
connections) highly stimulating even though they themselves are presently under-valued. Human resources, then, are potentially mobile but not typically 'footloose' (as assumed in the neo-classical theory of perfect competition); there is a lot of natural friction in labor markets.

Besides the need for a significant degree of resource immobility, human resources will only yield sustained advantage when the firm is able to appropriate the superior returns they are displaying (Grant 1991; Kamoche 1996). It is not sufficient simply to retain superior performers on the payroll: the firm must avoid the kind of lop-sided sharing of economic rents in the unfolding exchange that eventually destroys the special surplus. As time goes by, workers who become aware of their superior performance are likely to bargain for increased returns. Where they do not achieve a more satisfactory distribution, they may demonstrate their mobility through resignation, as discussed, or they may remain and exercise some form of individual or collective protest. The latter receives most of the attention in the industrial relations literature (e.g. 'work-to-rule', strikes, picketing, publicity campaigns) but individual protest is far more prevalent (LaNuez & Jermier 1994). Individuals can reduce their motivation and, thus, their performance in a variety of subtle ways. Where workers feel the firm has taken unfair advantage of their superior performance, they are likely to reduce the flow of economic rent over time.

The Principle of Mutuality and HR Superiority. The key point in all of this is that managers have little choice but to grapple with the complex problem of human motivation in the workplace if they wish to sustain superior returns through human resources. To an important extent, the employment relationship can be analysed as a defining feature of business in all sectors of advanced capitalist societies. Although national systems of labor market regulation, and other unique national features, introduce significant variation in employment practices, the employment relationship has certain irreducible features in all settings: it is a voluntary human exchange with uncertain outcomes (Cartier 1994; Coff 1997; Simon 1957; Webb & Webb 1902). Sufficient overlap in interests between an employer and potential employees can never be taken for granted, as agency theorists emphasize (Jensen & Meckling 1976; McMillan 1992). The establishment and maintenance of employment in any kind of business depends on adequate 'mutuality' between the employer and individuals seeking work in the industry (c.f. Kochan & Osterman 1994; Walton 1985). Mutuality should be understood as the extent to which the employment relationship works well for both parties. It is concerned with the quality of alignment between business and employee interests. A summary of the main impacts of different levels of mutuality is shown in Table 1.

Adequate alignment occurs when employees satisfactorily meet business requirements—for productivity, flexibility, commitment and so on—while the business satisfactorily meets employee needs. Over time, of course, business needs shift. In recent years, for example, many businesses have come to seek a kind of employee with greater potential to work flexibly and participate in workplace problem-solving but have offered less employment security and pro-
### TABLE 1
Variations in Employment Mutuality and Their Likely Impacts

<table>
<thead>
<tr>
<th>Quality of Alignment between Business &amp; Employee Interests</th>
<th>Short-term Business Context</th>
<th>Long-term Business Context</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weak</td>
<td>Likely to have chronic HR problems (e.g. high turnover, low productivity) which create, or contribute to, business failure.</td>
<td>Likely to become victim of major market changes because of loss of key value generators and low motivation among remaining staff.</td>
</tr>
<tr>
<td>Adequate</td>
<td>Likely to recruit and retain a competent workforce but motivational levels are unlikely to support any forms of HR advantage.</td>
<td>Likely to survive as a credible member of the industry but not to develop any leadership position through human resources.</td>
</tr>
<tr>
<td>Strong</td>
<td>Creates the motivational basis to move beyond basic viability issues and develop superior short-run productivity.</td>
<td>Creates the motivational basis to secure the employees likely to play a decisive role in the long-run direction of industry change.</td>
</tr>
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motion possibilities in return (Osterman 1994). Employer needs are not necessarily straightforward and some firms are clearly much more effective than others in handling the tensions that arise among management objectives (Bozeman 1996, forthcoming; Osterman 1987). As we shall argue in the discussion of managing a complex workforce in the mature context, an ability to perceive and plan for critical trade-offs and tensions in labor management is rare and valuable to the firm.

What about employee interests? On the substantive level, employees typically seek a mix of intrinsic and extrinsic rewards consistent with their perception of their contributions to the firm, as argued by equity theory (Adams 1965). In the broadest sense, intrinsic rewards include satisfaction with the nature of the work itself and with possibilities for future growth while extrinsic rewards include satisfaction with pay, status, security and so on. Naturally, employees vary in how much of each of these reward groups they can realistically expect given their education, accumulated experience and skills, and the quality of their alternative employment opportunities. Expectations are not purely substantive, however. Over time, how they are treated also matters to employees. Expectations about substantive elements in the employment relationship are typically underpinned by expectations of appropriate leadership styles and contractual governance, as argued by the growing literature on 'psychological contracting' (Rousseau 1995; Schein 1978; Wolfe, Morrison, &
As time goes by, employees assess whether the organization's leaders honour what they perceive as the organization's obligations in their psychological contract. They assess whether their leaders show appropriate respect for procedural fairness in personnel decisions and so on. An ongoing informal assessment by employees of whether the organization is playing a fair game seems to be a universal trait while expectations of appropriate governance structures vary somewhat. For some employees, appropriate governance implies the right to have their employment conditions determined by collective bargaining, historically the most effective of 'voice mechanisms' adopted in the Anglo-American world. For others—currently the majority in English-speaking countries—individual contracting has become the norm and exit, rather than voice, has become the dominant response to disillusionment with the employer's behavior. This general outline of the role of mutuality serves simply to flesh out the general principle: the sort of policies and practices that will mesh employer objectives with employee expectations in any firm are subject to a range of contingencies, including firm-specific factors, and wider industry traditions and cultural norms (Becker & Gerhart 1996; Jackson & Schuler 1995).

Summary of the Argument

Figure One provides a summary outline of the concepts we have talked about in this section and the linkages among them. Firms that seek HR advantage must be able to manage mutuality through superior resources and processes for aligning employee interests with those of the firm (e.g. superior pay scales, better opportunities for personal growth, greater consistency between HR policy and practice). Strong mutuality provides the motivation for individuals and teams to join, stay and grow with the firm rather than one of its

![Diagram](image-url)

Figure 1. Human Resource Advantage—Critical Elements and Linkages
rivals. Employee and team development resources and processes also play a role. Processes of executive team building, for example, can be used to help stimulate healthy debate (Pascale 1991), enabling highly intelligent individuals to create something much greater together than they could achieve working alone. Similarly, the resources to invest in major programs of skill formation in the workforce—for example, in the diagnostic and interpersonal skills needed to make quality improvement feasible—help to build human capital and organisational processes. Using the phrase ‘resources and processes’ in this context helps to make the point that firms where managers not only perceive the sort of processes needed but also have access to the sort of financial resources required to invest in people are more likely to build advantage.4 As Mueller (1996) argues, human and non-human resources are interdependent in firms.

SHIFTING SOURCES OF HUMAN RESOURCE ADVANTAGE

This section of the article moves beyond the general principles just outlined and argues that a layer of complexity must be added to the theory by the phenomenon of industry life cycles. Consistent with resource-based and evolutionary perspectives (see, for example, Barney 1991; Nelson & Winter 1982), industries are understood in an historical sense: they experience cycles of establishment, maturity and (typically) renewal or decline (D. Mueller 1997).

The Establishment Context

Any serious reflection on the HRM literature will confirm that the establishment or founding phase of industry is the least studied of all by HRM researchers. Apart from the work of Hendry et al. (1995) who examine the role of human resources in the formation of small firms, the typical HRM textbook assumes a ready-made, large scale, bureaucratic corporation with an HR department whose staff are concerned with selecting and improving an appropriate set of human resource policies. While increasing attention is being paid to the problems of inducing change in mature organisations, few HR researchers have studied small, entrepreneurial start-ups or even new ventures spawned by large corporations. Yet if we are to take the point seriously that history matters to competitive advantage, we must try to understand the roles human resources play in the establishment phase. Strategic management research indicates that key decisions taken at founding have profound consequences, establishing a pattern of behaviour that is difficult (though not impossible) to change (Boeker 1989; Eisenhart & Schoenhoven 1990; Freeman & Boeker 1984).

What, then, can be said? We must begin with the obvious point that all firms depend on human capital to make any sort of successful beginning: human resources are strategic to basic viability as well as advantage. As a general rule, firms are established by entrepreneurs, or ‘intrapreneurial’ teams in
existing corporations, who are either (a) successful pioneers, or (b) successful followers (Freeman 1995; D. Mueller 1997; Porter 1985; Schumpeter 1950). They are founded by people who create new sources of value or by others who quickly perceive that new value is being created and successfully join the industry. It is possible to fail at both leading and at following: success depends on being good at one or the other or at demonstrating an astute blend of the two over time. Henry Ford 1, for example, was a successful pioneer in making automobile ownership possible for the masses (through his technological and managerial breakthroughs and their dramatic impacts on unit costs) but he was not alone. A range of motor vehicle firms were launched around the turn of the twentieth century as the growth possibilities associated with the invention of automobiles became apparent and while entry barriers were still relatively low (Carroll & Hannan 1995; Lacey 1998).

While entrepreneurial insight is the necessary element in the ‘inner core’ of the workforce, it is not, however, sufficient to ensure successful navigation of the establishment phase: firms must also be able to recruit, develop and retain a wider group of employees who collectively expand the entrepreneur’s concept of the business. Stable growth of any kind in this phase depends on establishing credible operational capacity in the outer core of the workforce. Sustained advantage demands something more. Henry Ford 1 helped to meet his demanding goals for development of a large, and qualitatively superior, workforce with a highly innovative bundle of personnel policies: a rational system of job grading and promotion based on skill differences, along with the ‘Five Dollar Day,’ an early example of ‘efficiency wages,’ and his own schooling system for workforce education (Lacey 1986; Main 1990; Meyer 1981). Ford’s spectacular and controversial adoption of profit sharing (coupled with a highly demanding pace of work on the moving assembly line) ensured that he attracted and retained much of the best labor then available in the industry. Workers queued to get in. Once recruited, those who couldn’t cope with the pace dropped out. In terms of the model presented in this article, Ford built an outer core to his workforce which was superior to that of his rivals, a critical achievement at a time of labor transience and turmoil in the United States.

The ability to pay wage premia, and the capacity to offer superior internal development, act as valuable mobility barriers in the establishment phase, helping to explain why so many small businesses fail to expand successfully and either collapse or remain small, tenuous organisations with ongoing recruitment and retention stresses (Hendry et al. 1995). They lack the resources needed to align interests as well as more established firms operating in the same labor market. They are also vulnerable to existing firms in established sectors of the economy which enjoy superior legitimacy with investors and bankers in the capital markets.

We are in a position, then, to suggest that two key conditions must be satisfied if the firm is to develop some form of human resource advantage in the establishment phase. Not only must the firm have critical entrepreneurial leadership but that leadership must be capable of fostering more profitable growth than rivals through building the human team that expands the vision
(i.e. a more successful building of both inner and outer workforce cores). As indicated, this often requires an ability to overcome resource mobility barriers elsewhere in the labour and capital markets. Small firms that cannot match the resources of a large, 'intrapreneural' corporation such as 3M must find some other way of inducing highly talented workers, normally attracted to blue-chip employers, to commit their time and talents (workers, like employers, incur opportunity costs). What possible routes are available? For the very small new venture, founded by an under-capitalised individual rather than a well-known, multidivisional corporation, this often means clever use of personal networking; (Hendry et al. 1995) at a strategic moment in the industry's development.

Take the example of a young, entrepreneurial software engineer who used their network from Engineering School to recruit highly intelligent individuals willing to work outside large organisations (perhaps because they preferred an informal, 'can do' environment) and swiftly offered those who generated outstanding value an ownership stake in the firm to align their interests over the long term. Having worked with them at University, the young entrepreneur had special knowledge about the abilities and predispositions of classmates. This created an edge over corporate recruiters forced to rely on formal and more opaque forms of information (e.g. university grades) rather than detailed personal knowledge. The young entrepreneur turned the 'unique history' of personal experience and the 'ambiguity' that surrounds the intellectual and emotional strengths of strangers (no matter how good their grades look on paper) to out-maneuver recruiters from organisations which typically enjoy reputational advantages in the labor market. One way or another, the entrepreneurial leader must overcome resource mobility barriers outside the firm and establish ones inside the firm's developing 'internal labor market' that build and project outstanding sources of value. In this case, the young entrepreneur used personal knowledge coupled to a willingness to quickly align interests with outstanding employees to establish and rapidly expand the business.

In summary, our knowledge about sources of human resource advantage in the establishment phase is still very limited. It seems likely, however, that early alignment of interests among highly talented people plays a decisive role. This means that history—being there at the right time—matters enormously in the creation of positions of strength in industries. It also implies that clever use of personal knowledge—such as an ability to network among likeminded and similarly gifted people—is needed to overcome the formidable resource barriers associated with firms that are more established in labor and capital markets.

The Mature Context

The mature context arrives when the industry or sector settles into a period of stable growth based around one or two 'dominant designs' for products or services and the organisations that provide them (Tushman et al. 1986). These
strategic configurations have proved more successful than rival models of strategic management in the establishment phase. As Dennis Mueller (1997, pp. 827–828) puts it:

At some point the market begins to select its favourite model designs, producers begin to concentrate upon the best production techniques. Those firms that have selected the right product designs or production processes survive, the others depart. Following this shake-out period, the industry stabilizes and enters a mature phase in which the number of sellers and industry concentration do not change dramatically.

We can be somewhat more confident about sources of human resource advantage in the mature context. It is, after all, the familiar terrain of the personnel or HRM textbook. Writers typically assume that a viable business has been handed on from the establishment phase. To be fair, it is only the firms which have grown beyond about 150 to 200 employees that employ HR specialists. This means that the vast majority of HR specialists are working in the mature context or in the renewal context into which it typically leads (see below).

Research and professional experience confirms that growth beyond the establishment phase into the mature context does introduce problems that require a different style of management. It is still vital to builds mutuality with highly talented workers and to foster strong employee development but the management process must become more sophisticated. The problems of size, increasing workforce complexity, the need to comply with various employment regulations, and the possibility of unionization, all mean that HR policies need to become more comprehensive and more formalised (e.g., see Jackson & Schuler 1995). Reliance on the implicit philosophies and informal practices of the small, entrepreneurial firm becomes much less realistic. When recruited into a larger organization, workers typically expect some formalization of their role requirements in a written job description. They tend to expect some formal orientation which will introduce them, inter alia, to the firm's policies for training, development, pay, promotion and so on. Properly handled, formalization eases the process of socialization and psychological contracting by reducing uncertainty and limiting arbitrariness in management practice. Standardization of policies also makes the management of staff more efficient because it reduces the transaction costs of employing large numbers of people.

**HR Strategy: Sustaining Early Leadership.** It becomes apparent, then, that human resource advantage in the mature context can be lost if key staff become disillusioned with leaders who are not coping with the need for a more professional approach to management. Arguably, three key, interrelated disciplines are needed to professionalize human resource strategy in a way that protects and enhances existing advantages.

The first discipline is concerned with the quality of management's perception of the firm's strengths and weaknesses in HRM in relation to the needs of talented staff, to its capacity to cope with its current and future competitive