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**Invited Editorial**

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**Bridging Micro and Macro Domains:  
Workforce Differentiation and Strategic  
Human Resource Management**

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*In this article, the authors focus on the challenges and opportunities associated with integrating the macro and micro domains of the strategic human resource (HR) management literature. Their specific focus is on the development of a differentiated HR architecture in support of strategy execution as a key organizing theme. A focus on strategic capabilities and strategic jobs as the focal point of workforce management system design represents a significant potential source of value creation for most firms. But, also, differentiation by strategic capability instead of hierarchical organizational level represents potential implementation challenges for managers, and theoretical and empirical challenges for academics.*

**Keywords:** *high-performance work systems; workforce differentiation; strategic human resource management; strategic capabilities*

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A significant divide between the micro and macro levels of theory and analysis is evident in many areas of the organizational sciences. While increasing levels of specialization are often associated with disciplinary growth and maturity, the consequences of this trend can be unfortunate, as answers to important questions in an increasingly global and complex business context will require scholars to draw on the strengths of both perspectives.

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This gap is particularly evident in our own field of research, strategic human resource (HR) management. The HR strategy literature has seen remarkable growth over the past two decades, generating considerable interest among both practitioners and academics (Becker & Huselid, 2006). Since the early 1990s, well over 300 articles on HR strategy have been published in the academic literature (and many more in the popular press), drawing from fields as diverse as economics, HR management, industrial relations, sociology, and strategy.

Taken as a whole, the primary conclusions of this line of research have been that the financial returns to investments in *high-performance work systems* (HPWS) are both economically and statistically significant (Becker & Huselid, 1998, 2006; Combs, Ketchen, Hall, & Liu, 2006; Huselid, 1995). More specifically, the literature finds that firm performance is likely to be enhanced when a firm adopts (a) recruiting and selection systems consistent with its competitive strategy, (b) reward systems that reflect successful strategy implementation in performance appraisals and employee compensation, and (c) training and development strategies guided by performance management systems and business objectives (Becker & Huselid, 1998).

Yet, despite considerable progress, a number of significant challenges remain. Perhaps the most significant task facing this literature is the development and evaluation of a more complete and comprehensive causal model linking HR management systems with firm performance. For example, Huselid and Becker (1998) developed a causal model linking investments in HR with firm-level outcomes: Specifically, business and strategic initiatives drive the design and implementation of HR management systems, which in turn affect workforce levels of skill and motivation, as well as the design of work, which then affects productivity, creativity, and discretionary effort, which subsequently drive profitability, growth, and ultimately, shareholder value. Moving this literature forward, however, will require significantly more articulation and elaboration of this model (Becker & Huselid, 2006).

As we describe below, this challenge would benefit from a fuller integration of the micro (focused on designing recruitment, selection, performance appraisal, rewards systems, etc., as well as individual employee responses to those systems) and macro (focused on the strategy formulation and implementation processes) domains that provide a foundation for these constructs. Facilitating these outcomes will require theories, research methods, and qualitative and quantitative data taken from multiple perspectives and levels of analysis, both micro and macro. Drawing on our empirical work as well as practical experiences with many companies, in this article we outline some of the most significant challenges and opportunities for this line of research and an approach that we believe will be helpful in bridging the micro-macro divide.

## **Workforce Differentiation and Strategic Success**

Wright and Boswell (2002) note that traditional micro (functional) research in HR has focused on the impact of individual HR practices on individuals, while macro (strategic) HR research has focused on the impact of HR management systems on groups or organizations. We agree with Wright and Boswell about the importance of integrating the micro and macro domains in future HR strategy research. However, we also believe that to move the literature

forward, scholars not only should integrate the functional and strategic *across* firms but also should focus on the need for workforce differentiation and integration *within* firms.

As an example of this concept, consider how a focus on workforce differentiation would help to answer one of the central questions facing this literature: After nearly two decades of empirical research support for a positive HPWS–firm performance relationship, why do we still observe such substantial differences in HR management “quality” across firms (Becker, Huselid, & Beatty, 2009)? Said differently, if the financial returns to HPWS are so substantial, why aren’t more firms using them?

We believe that there are two categories of answers to this question, one simple, the second, much more nuanced and complex. The first response reflects what we would describe as a “best practice” explanation (Becker & Huselid, 1998). The key point here is that the impact of HPWS on performance is both economically and statistically significant, but most HR managers are either unaware of these effects or unable to persuade (or help) their firms adopt them. As a result, we observe substantial variance in HR management quality across firms, and therefore, firms that effectively adopt HPWS are able to achieve a competitive advantage. In the long run, we would assume that the discipline of the market will encourage firms to improve the quality of their HR management systems and that the coefficient on HR management quality would fall over time (Becker & Huselid, 1998, 2006). But in the short run, there is substantial evidence to support the assertion that HR best practices affect firm performance (Becker & Huselid, 1998, 2006; Combs et al., 2006; Huselid, 1995), reflecting a market failure in the design and implementation of HR management systems.

The second category of answer we would describe as the “alignment” explanation. Here the key question is whether or not there is a potential source of economic returns to carefully aligning a firm’s HR management system with its strategy, beyond the potential returns to implementing HR best practices efficiently and effectively. The theoretical literature in HR strategy, often drawing on the resource-based view of the firm, would suggest an answer. Aligning HPWS with competitive strategy and operational goals can potentially create wealth because alignment is causally ambiguous: It is hard to decipher from outside the organization, and it is path dependent; that is, there is an implementation to benefit lag, especially in the acquisition, development, and deployment of talent, that affords a “first mover” advantage to firms that effectively align HPWS with strategy (Collis & Montgomery, 1994).

As a consequence, we believe that the arguments for best practices and alignment are not mutually exclusive but, at least in theory, cumulative. We would expect that the returns to alignment are much greater as the overall levels of best practices improve. Indeed, it is likely that a threshold level of HR management quality is required to facilitate alignment (Becker & Huselid, 1998). Thus, it may be likely that higher quality HR management systems will become a necessary, but not sufficient, form of organizational infrastructure to provide a long-term source of competitive advantage.

In any case, we believe that the alignment argument will need to be significantly better developed to be useful for both science and practice. For us, the answer lies in a more complete explanation of the processes through which investments in the workforce—and in workforce management systems—help firms to implement their strategies and to create wealth. Our recent research has focused on workforce differentiation as a key component of

successful strategy execution and, ultimately, firm performance (Becker & Huselid, 1998, 2006; Becker et al., 2009; Beatty, Huselid, & Ulrich, 2001; Huselid, Beatty, & Becker, 2005; Huselid, Becker, & Beatty, 2005). The essence of our argument is that some jobs are more valuable (strategic) than others, and they should be managed accordingly. This means that disproportionate investments must be made in strategic roles, ensuring that the organization places top talent in these positions. For less value-added roles, the organization must make informed decisions about the *right* level of talent that it needs in these roles, and the answer might well be that top talent is not needed in many jobs. Attracting, selecting, developing, and retaining world-class talent represents a very significant investment for most organizations, and the harsh reality is that most organizations simply do not have the time or resources to do this for all organizational roles. This means that a decision about where and how to invest must be made, which we believe should focus predominately on strategic jobs.

For us, strategic jobs are those that affect a firm's overall business success though developing the requisite strategic capabilities needed to execute strategy. How does this happen? A key attribute of strategic jobs is that the incumbents holding those roles exhibit substantial variability in the job performance, thus providing a *context* for business impact through a focus on improving individual employee performance (Huselid, Beatty, & Becker, 2005; Huselid, Becker, & Beatty, 2005). A focus on strategic capabilities and strategic jobs as the focal point of workforce management system design represents a significant potential source of value creation for most firms. But also, differentiation by strategic capability instead of hierarchical level in the organization represents implementation challenges for managers, and theoretical and empirical challenges for academics.

## **Key Research Questions on Workforce Differentiation**

The belief that the same job may contribute to strategic success in dramatically different ways across firms, as well as within firms, depending on its location within the firm's strategic capabilities, is likely to have significant implications for both the science and the practice of HR management. As a result, we believe that a focus on the antecedents and consequences of workforce differentiation represents a significant new opportunity for the HR strategy literature, one that has the potential to provide the theoretical and empirical foundation for a deeper understanding of the causal processes linking HR management systems with firm performance.

A focus on workforce differentiation raises many new and potentially interesting questions for both scholars and practitioners. Specifically: How do we identify strategic jobs? What are the implications of interdependencies between strategic and nonstrategic jobs? What are the implications of workforce differentiation on HR elements such as job design, recruitment, selection, performance management, promotions and exits, and so forth? What are the economic returns to workforce differentiation? What are the social and psychological consequences of making disproportionate investments in a few strategic jobs? Finally, what are the implications of strategic jobs for HR professionals? Realizing this promise will require cross-discipline as well as cross-level theory, data collection, and analysis. We highlight some of the key opportunities for scholarship in this domain below.

*Operationalizing strategy.* The first challenge is to develop and validate new measures of organizational strategy. While prior work has often focused on identifying strategic type or positioning strategy, we believe that new work will be needed to focus on extracting the workforce implications of a given competitive strategy. The key differentiating point is that these measures need to be diagnostic in nature; namely, future work must move beyond simply identifying what a strategy *is* to identifying what *must happen* for it to be executed effectively. While such work has historically been outside the domain of the HR strategy literature, progress on this front is important to facilitate the next step in this process, operationalizing strategic capabilities.

*Operationalizing strategic capabilities.* Strategic capabilities represent the bundle of information, technology, and people needed to implement a firm's strategy (Collis & Montgomery, 1994). Strategic positions, as we describe below, are nested within a firm's strategic capabilities. As such, the second challenge is to develop and validate new measures of strategic capabilities, as a precursor to the identification of strategic positions. As a corollary, it will also be important to develop intermediate measures of strategy implementation based on performance of individual strategic business processes, which can help to locate strategic jobs within a firm's value chain.

*Operationalizing strategic jobs.* The third challenge involves developing better measures of the strategic jobs construct. Strategic jobs are positions that affect strategy (through a firm's strategic capabilities) and exhibit high variability in employee performance. In fact, it is the high levels of variance in employee performance that make strategic jobs so important to identify and manage effectively. From a manager's perspective, variance equals opportunity, and the goal is to identify and invest in strategic jobs, increasing mean performance while reducing its variance.

As a corollary, strategic jobs can exist at any level in the organization. In fact, given the effort and energy devoted to jobs located at the higher levels of an organization's hierarchy, in our experience the most strategic roles in any organization are midlevel, and not senior-level, jobs. What is important in this context is to understand the role of each job (or cluster of jobs) in implementing the firm's strategy. Inherently, it can take years to recover investments in people, as talent is the first-level investment in the firm's value chain. Thus, understanding how a firm creates wealth through workforce investments can be complicated, and the line of sight to valued firm-level outcomes is not always direct. Yet, developing such an understanding is key for both practitioners and academics.

*Measuring workforce differentiation.* We use the term *HR architecture* to describe the HR practices, systems, employee competencies, and employee behaviors that together help to implement the firm's strategy (Becker & Huselid, 1998, 2006; Huselid & Becker, 1995). A key theme in this conceptual framework is the recognition of the important potential of positive and negative complementarities or synergies in business results. We use the term *internal fit* to describe the relationship among HR management practices, while the term *external fit* is used to describe the relationships between the entire HR management architecture and the organization's strategy (Huselid, 1995).

Prior work on the measurement of the HPWS construct is extensive (for reviews, see Becker & Huselid, 1998, 2006). Most of this work attempts to develop an overall measure of HR management quality; related work also has focused on measuring the effects of complementarities and fit within and among HR management policies and systems. In contrast to this “average main effects” focus, developing an effective measure of workforce differentiation will be necessary to assess the extent to which firms have really optimized their investments in HR and differentially invested in strategic positions. The key point is that scholars will need to measure HR practice variation *within* strategic capabilities, not the average level of HR practice quality *across* the firm. Evaluating this model will require measurement of the HR practices used for strategic as well as nonstrategic positions and the construction of measures of fit for each of these value chains.

*Implementing an HR architecture.* Introducing the strategic job construct means that both scholars and practitioners will also need to think differently about the design and implementation of the HR architecture. We believe that an important focus for future work is rethinking HR practices in light of strategic jobs. An important source of tension to be addressed in this process is the relative emphasis on differentiation versus integration of HR management practices such as job design, recruitment, selection, performance management, rewards, and promotions and exits. Indeed, one of the key challenges in this line of research is that the choice is not *whether* to recruit, select, appraise, reward, and so on, for strategic versus nonstrategic jobs (which would dramatically simplify the construct development and measurement processes) but, rather, *how* these practices will differ across categories of employees. Thus, a key research question is, What do we do the same for everyone (e.g., staffing, performance management, compensation), and where do we differentiate (e.g., in which roles do we invest additional resources to ensure the attraction, selection, development, and retention of top talent)? What HR practices are likely to be the most effective in reducing the variance and increasing the mean in strategic positions? What is now important is not the average level of HR quality in a firm but, rather, the purposeful variance across jobs and strategic capabilities. Indeed, we would argue that the relative impact of alignment for strategic jobs is much greater than for nonstrategic jobs.

*Impact of workforce differentiation on employees.* The HR strategy literature has predominately focused on firm-level outcomes such as turnover, productivity, profitability, and the creation of shareholder wealth. More recent research has begun to focus on the impact of HR management systems on more proximal outcomes, such as employee engagement and commitment. The workforce differentiation construct is clearly an employer-focused model, which is likely to have positive impacts on high performers in strategic roles. A new focus on workforce differentiation is likely to have the potential to have a significant impact on levels of employee trust and engagement, for example, as well as on conventional levels of employee capabilities and discretionary effort—potentially in both positive and negative directions—and perhaps to exhibit significant differences by level of employee performance. Thus, the impact of workforce differentiation on individuals, groups, and teams is likely to provide a rich opportunity for research as firms increasingly adopt this model (Becker et al., 2009).



*Integrating qualitative and quantitative data collection and analyses.* Consistent with the notion that path dependence and causal ambiguity are important sources of competitive advantage, we believe that the appropriate level of analysis is the strategic job—and the supporting systems of HR management practices—that is nested within each strategic capability (Becker & Huselid, 2010). There are also strong methodological reasons for such a systems focus, as a focus on individual HR management practices could either understate or overstate the results. Because HR management quality tends to be correlated across HR management practices, a focus on individual HR practices is likely to overstate their individual impact. In contrast, there is the potential for downward bias as a result of a focus on individual HR practices because it does not reflect the potential for positive complementarities or synergies among HR practices, in that mutually reinforcing HR management practices may create wealth beyond that which is possible by a focus on individual HR practices. In addition, it is also important to adopt a longitudinal perspective, as the nature of the phenomenon under study would suggest that today's workforce investments will affect a firm's subsequent strategic capabilities, which in turn affect its ability to execute its strategy, which ultimately affects its performance.

That said, evaluating the impact of workforce differentiation will likely require a combination of qualitative and quantitative data collection and analyses. For example, Siggelkow (2007) said that illustrative case studies are useful, even more so in longitudinal research. In the HR strategy literature this is especially true because the processes through which firms implement differentiated workforce strategies are not yet well understood. Thus, case studies (Becker et al., 2009) and new forms of learning media (Huselid, 2010) may become increasingly important components of the HR strategy literature.

## Conclusion

The nature of work and organizations has changed dramatically over the past two decades; the practice of HR much less so. Recent work in HR strategy on workforce differentiation provides many new interesting opportunities to begin to close this gap, but scholars will increasingly need to “peer over the fence” into adjacent domains and levels of analysis to answer these questions. Specifically, we believe that significant progress in the HR strategy literature will not be possible without a careful integration the literatures—micro and macro—from the domains of HR management, economics, sociology, psychology, strategy, and economics. And in doing so, the field will increase the probability that it can conduct research that is both interesting and influential (Bazerman, 2005).

A new focus on workforce differentiation may have significant implications for both the science and practice of HR management. Indeed, many large firms are making substantial investments in workforce differentiation models (e.g., Avon, BMS, GSK, IBM, ITT, Johnson & Johnson, Lockheed Martin, and many others). Such a shift may provide significant new research opportunities. Indeed, this situation represents a rare opportunity, as academics and practitioners are all interested in much the same issues: How do we manage the workforce for strategic advantage? For practitioners, this is likely to mean creation of competitive advantage and wealth through workforce management away from the benchmarking and best practice

approach to workforce management and toward strategic workforce differentiation. But it also involves significant managerial challenges associated with the identification, management, and communication issues associated with strategic positions.

For scholars, this means that cross-disciplinary work will likely be required. In an economic environment of diminished resources and extremely limited executive-level discretionary time to participate in research projects, doing this type of work will be an increasingly significant challenge. Indeed, our experience has been that it is more difficult, expensive, and time consuming to conduct applied research than ever before. But ultimately, we believe the workforce differentiation construct represents a significant opportunity for scholars to integrate micro and macro domains and to illuminate the causal processes linking investments in HR management systems with firm performance. We also believe that this trend will ultimately lead to a richer contribution to the science and practice of HR management.

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