Path dependency in strategic human resource management:

A case study in Victorian electricity generation

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ABSTRACT

Contemporary strategic human resource management (SHRM) scholars frequently apply the resource based view (RBV) to argue an organisation’s human resources and practices can achieve the inimitability, value, rarity and non-substitutability required for sustainable competitive advantage. According to the RBV, the inimitability of an asset is due in part to its path dependency. However, path dependency has received little attention from SHRM scholars. Path dependency models examine processes in path creation and lock-in over time. Using case-study and qualitative methods, this research examines path dependent processes in SHRM in a Victorian electricity generator. The findings identify critical junctures and reinforcing factors that lock-in SHRM paths in the organisation which influence organisational performance.

Keywords: strategic human resource management; human resource management and organisational performance

STRATEGIC HUMAN RESOURCE MANAGEMENT AND PATH DEPENDENCY

This paper reports on qualitative research examining path dependency in Strategic Human Resource Management (SHRM) in a Victorian electricity organisation. Contemporary SHRM scholars frequently adopt the resource based view (RBV) to argue an organisation’s people and human resource practices can achieve the inimitability, value, rarity and non-substitutability required of assets to confer a sustainable competitive advantage (Barney 1991a; Paauwe & Boselie 2003). Asset inimitability is due in part to the asset’s ‘path dependency’ (Peteraf 1993). Path dependency is implicit in the SHRM literature, for example Wright and McMahan (1992) point to unique historical conditions and Dierickx and Cool (1989) identify time paths of accumulation associated with building resource assets. However path dependency is relatively unexplored in the SHRM literature. This research contributes to the development of a conceptual framework of path dependency in SHRM.

The aim of this paper is to explore the processes of path dependency in SHRM. First, it identifies the importance of path dependency in the SHRM literature. Second, it examines the extant literature and classical model of path dependency. Third, it justifies why case study and qualitative research methods are suitable to exploring path dependency. Fourth, it reports on the case study findings and
analysis. Fifth, the paper concludes that further evaluation and development of the classical model of path dependency will contribute to theory and practice in SHRM.

Path dependency in the SHRM literature

SHRM is defined as ‘the pattern of planned human resource deployments and activities intended to enable an organisation to achieve its goals’ (Wright & McMahan, 1992, p298). SHRM scholars cite evidence of path dependency in SHRM (Colbert 2004; Dierickx & Cool 1989; Lepak & Snell 2002; Wright, McMahan & McWilliams 1994). For example, Colbert (2004) suggests past employee relationships can constrain or expand how organisations manage human resources. However a full understanding of path dependency is lacking in both the theoretical and empirical SHRM literature (Arthur 1994; Boxall & Purcell 2002; Colbert 2004; Huselid 1995; Legge 2005; Wright, Dunford & Snell 2001; Wright, Gardner, Moynihan & Allen 2005; Wright, McCormick, Sherman & McMahan 1999). In particular, the SHRM literature lacks an understanding of the processes involved in the creation and lock-in of SHRM paths that restrain or build organisational human resource assets (Barney 1991b; Barney, Wright & Ketchen 2001; Colbert 2004; Delery 1998; Wright et al. 2001). For example, Wright and Snell (1998), suggest there is a lack of research that attempts to understand the processes associated with how single organisational entities select, integrate and evaluate SHRM in pursuit of competitive advantage. One of the few examples of research exploring path dependency in SHRM is Boxall and Steeneveld’s (1999) longitudinal study of New Zealand consultancies. These authors found a relatively short lived period of competitive advantage in one firm that was attributed to path dependency in its SHRM. Other empirical SHRM research indicates path dependent processes exist but they do not explore these processes. For example, Cappelli (1999) found employer choices for structuring their internal labour markets were constrained by the historic legacy of past choices in business and production models, human resource policies and practices, and the quality and character of labour relations embedded in the system. This paper continues in the SHRM research tradition of investigating path dependency in the “black-box” of SHRM.

What is path dependency?

The main feature of path dependency is that once ‘locked-in’, policy and practice paths become routines or genetic blueprints that are very difficult to change (Nelson & Winter 1982). Path
dependency can be viewed in both hindsight and foresight. The retrospective view on path dependency describes it as ‘historical sequences in which contingent events set in motion institutional patterns or event chains that have deterministic properties’ (Mahoney 2000: 508). The prospective view on path dependency describes it as trajectories in which organisations can accumulate strategic assets ‘by choosing appropriate time paths of flows over a period of time’ (Dierickx & Cool 1989: p1509).

The classical model of path dependency was developed by Arthur (1989) for the economics and technology disciplines. It describes a process where decision makers start with unconstrained decision choices that after some critical juncture become constrained and then reinforced by reactive sequences that lock-in a particular path (Arthur 1989, Mahoney 2000). Reactive sequences that reinforce and lock-in a particular path include network externalities (Katz & Shapiro 1985), complementary assets (Teece 1986), supporting infrastructure (Nelson 1996) and learning by using (Rosenberg 1982).

The purpose of this research is to determine the utility of the classical model of path dependency in SHRM. This requires exploration of unconstrained SHRM decision choices, critical junctures and reactive sequences that lock-in SHRM policies and practices over time.

RESEARCH METHOD

The case study method was selected to examine the classical model of path dependency in SHRM. Case study method allows for exploration of historical events in their context (Pettigrew 1990) and identification of important critical and complex sequences of events often overlooked in survey methods (Birley & Moreland 1998; Denzin 1989; Stake 1995; Taylor & Bogdan 1984; Yin 2009).

The case study organisation is one of four base-load electricity power generators situated in Victoria’s Latrobe Valley. This organisation operates in a competitive market and has a long history which has been well-documented. This situation made selection of this organisation instrumental (Stake 2000) as it provides a ‘natural experiment’ suitable for investigating path dependency in SHRM (Hammersley 2002).

Data were collected on the case-study from academic, media, industry, historical and company publications and 20 semi-structured interviews with past and current managers, human resource staff and union officials. The data collected facts, perceptions and explanations of critical events, policies
and practices relating to SHRM in the organisation both before and after its privatisation. Semi-
structured interviews explored the participants perceptions of workplace relationships, labour
outsourcing strategies, HRM policies and practices, and other factors considered relevant to SHRM in
the organisation.

Qualitative analysis was applied to the data as recommended by Miles and Huberman (1994). Nvivo8 software was used to reduce, sort and cluster the interview data into key themes (Denzin & Lincoln 2000). Content analysis was performed to determine how strongly themes were identified by those interviewed (Miles & Huberman 1994). All data were then examined to identify the organisation’s unconstrained SHRM decision choices, critical junctures and reactive sequences that locked-in SHRM policies and practices.

CASE STUDY FINDINGS AND ANALYSIS

Until its privatisation in 1996 the case-study organisation was part of the State Electricity
Commission of Victoria (SECV). Throughout its history the purpose of the SECV has been to
guarantee continuous supply of electricity to the people of Victoria (Edwards 1969).

The SECV’s coal mining and electricity production operations are located 150 kilometres south-
east of Melbourne, Australia. It was initially established in early 1920 following threats to Victoria’
coal supplies by the New South Wales’ miner’s strike of 1916 (McGoldrick 1984). This situation is
represented in the path dependency model as a point in time when SECV managers had unconstrained
decision choices to make about prospective employment at the site. However, little was done and it
was not until November 1920, when there were 36 employees, did the SECV begin to manage
working conditions by engaging a timekeeper (McGoldrick 1984). Spaull’s (1969) analysis of working
conditions and relationships in this period concluded that poor living conditions and erratic industrial
and social conditions created an ‘isolated mass’ of workers in the Latrobe Valley.

In February 1921, the SECV appointed its first full-time chair, Sir John Monash, a distinguished
soldier, engineer and scholar (McGoldrick 1984). Spaull (1969), reports that between 1924 and 1926
the SECV workers initiated and won four strikes. However they lost the 1927 strike when an estimated
20,000 workers across the state were stood-down due to loss of electricity caused by the strike action.
Although the union and their members did not win that strike, Sir John Monash stated he would bring the SECV management back into ‘personal touch’ with the miners and resurrect trust between them. The 1927 strike represents a critical juncture in the relationship path. According to Spaull (1969) this strike was followed by a pattern of industrial harmony. A major factor reinforcing lock-in of the new harmonious path was the establishment of the company town of Yallourn. Fletcher (2002) describes Yallourn as an ideal town built to secure contented workers. By 1969, the SECV employed over 18,000 workers state-wide, including 900 apprentices in 28 trades, 27 blue collar unions and six white collar unions (Edwards 1969). One ex-SECV HR staffer recalls that the role of the SECV employment office was to ‘get people off the streets’ which he suggested was akin to a form of social security. Local people describe these SECV jobs as ‘slow easy and comfortable’. Gibson’s (1981) view was that SECV workers were ‘infantilized and controlled as well as protected and pampered’ (p654).

By the late 1970’s 24 unions and 346 shop stewards represented 9000 workers in the Latrobe Valley (Benson 1991). Most SECV work was done in-house with little work going to contractors (Kazakevitch, Foster & Stone 1997). Other than industrial stoppages due to state and federal political matters there were no more major industrial disputes until 1977. The 1977 dispute was due to SECV maintenance rank and file workers and their shop stewards wanting to regain a lost ‘special industry’ (Benson & Goff 1979). However, National Wage Indexation at that time prevented them receiving this. Consequently, when the rank and file went on strike there was no support for them from any source including the union hierarchy, industrial tribunals or the wider community. Benson, Hince and Griffin (1983) argue that this eleven-week maintenance workers strike, in which some 500,000 workers were laid off across the state ‘was the catalyst that hastened the process of change within the SECV’ (p18). The path dependency model could be used to describe the official union hierarchy, industrial tribunals and community attitudes as network externalities (Katz & Shapiro 1985) that locked-in the Wage Indexation path which these workers could not break.

Until the 1980’s, Australia’s external third party industrial relations system was ruled by legislation that reinforced a centralised and rigid employment relations system. In the 1980s, Australia’s employment regulatory framework changed to support an enterprise bargaining system in which management were given the opportunity to achieve organisational strategy, structures, cultures
and labour that improved business productivity and profitability (Frenkel 1986). Against a background of deregulation and market competition policies, the government had legislated new network externalities (Katz & Shapiro 1985) that supported the SECV substantially change its macro-level industrial relations policy (Benson et al. 1983).

In the mid-1980s the SECV devolved its centralised HRM function from Melbourne Head Office (HO) to each power station. In 1987 HO appointed a new human resource (HR) manager to the case-study organisation. The role of the new HR manager was to ‘educate them in terms of appropriate personal management and human resource management processes’ (ex-HR manager). He was an experienced HR practitioner new to the region and the industry who said it felt ‘like being dropped behind the enemy lines’ (ex-HR manager). This manager describes his HR work as progressive and proactive. He introduced many new HR initiatives designed to develop cooperative non-adversarial workplace relationships, in the areas of health and safety, helping-a-mate, quality action teams and interaction management. He also introduced a lot of training to enhance communications, decision making and dealing with difficult situations. The HRM manager recalls one breakthrough in 1992 when the Enterprise Agreement negotiations took just 48 hours to complete due to a communications consultant training them to work ‘through how we were going to develop the relationships rather than dealing with the usual adversarial stuff’ (ex-HR manager). The appointment of the HR manager would be described in the path dependency model as supporting infrastructure (Nelson 1996) intended to reinforce new SHRM in the organisation. Although his new SHRM regularly met with inertia due to entrenched past practices the new HR manager continued to attempt to shape a new SHRM path through ‘learning by using’ (Rosenberg 1982) new HR practices.

From the late 1980s to early 1990s approximately 7,000 SECV Latrobe Valley jobs were lost due to restructuring (McDermott & Herben 2004). One aspect of restructuring was the outsourcing of key maintenance and production services. No SECV employee was made redundant as those who left took Voluntary Departure Packages (ex-SECV HR Manager). By 1995 the case-study organisation’s production had increased from 640 to 1450 megawatts, the labour force decreased from 2300 to 500 employees and the budget costs cut from AU$100M to AU$85M per year. According to the ex-HR manager ‘there was a very, very big change in terms of productivity, efficiency, plant availability’.
By 1997 all SECV assets had been privatised and AU$16 billion gained in State revenue (Paton 1992). A manager from Melbourne HO said that privatisation was never in the original SECV commercialisation plan, he described it as ‘opportunistic rather than truly strategic’ (ex-SECV HO Manager). The case-study organisation was initially sold to private enterprise in 1996 for AU$2.4B. Not long after, about 150 managers, technical and administrative employees in the case organisation were put on personal employment contracts, with performance pay and a performance system supported by an internal remunerations tribunal. ‘What we were trying to do was just to bring people out of the stone-age in terms of employee relations’ (ex-HR Manager). In 1999 the Operations Manager of the business issued a new strategy called ‘Blueprint for the new millennium’ (company document). His Blueprint outlined a vision for a new organisational culture including:

- Organising around teams that were multi-skilled, performance focused, flexible and low in hierarchy;
- Effective communication to be structured, regular and direct;
- Leadership that was empowering, inspirational, people focussed;
- Rewards supporting teams, high performance, effort and productivity; and
- Business systems supporting teams and empowerment.

One Engineering team leader described this as a ‘quantum leap from where we were as a work force, a quantum leap from the culture of the valley’. He said that the Operations Manager, who was then promoted to CEO, ‘was dogmatic about the change and championed it at every occasion’. His ‘working together – working better’ strategy included plans for an ‘enabling’ Enterprise Agreement. The path dependency model would suggest that the new management in the new organisation thought they had unconstrained SHRM choices to create new SHRM paths. However, although this was a new business, old SHRM paths had been locked-in and these new plans were not in fact ‘unconstrained’.

In 2000 the power station was sold again for AU$1.3B. The loss of AU$1.1B by the initial purchasers became a windfall to the power station which now had a much smaller debt to service. Seeking ways to implement his Blueprint the CEO asked senior people ‘how are we going to get the things that we want, the financials right, the level of generation, get the maintenance done this way?’ (ex-HR manager). He was advised these were not possible under the ‘consult and agree’ conditions in
the 1997 Enterprise Bargaining Agreement (EBA). Under these conditions the organisation’s managers were always required to ‘consult and agree’ with employees and their representing union officials who were free to ‘not agree’. Management tested this ‘consult and agree’ condition in the industrial commission which upheld that it could not intervene in any EBA conditions. Although the manager thought he had unconstrained decision choices in the new organisation and new industrial relations system, the ‘consult and agree’ clause was reinforced and locked-in by institutional network externalities. According to all managers interviewed, this old path severely inhibited establishment of new SHRM.

The CEO then formed a strategy team to ‘fight for change’ to ‘get the issues out in the open, get them addressed’ (ex-HR manager). The ‘fight for change’ strategy included plans to retain company viability and avoid insolvency by hedging generation and distributor commitments in case there was a need to ‘turn the power station off and keep going’ (ex-HR manager). The company then invoked union work bans due to ‘a number of (company) strategies that were inflammatory’ (ex-HR manager). Production stopped for a month and the site was picketed, workers and unions paraded the streets and marched on the homes of managers. It ‘was a shock to everyone and very damaging to the workplace relationships’ (ex-HR manager). ‘There were senior managers driving the process who had relatives that were the victims’ (current HR staff). The 2001 dispute eventually went to the industrial courts. It was very litigious and required the company to attend 51 court appearances. On one particular day the company was in four different levels of court. The industrial commission eventually awarded an MX award that cancelled the 1997 EBA and its ‘consult and agree’ requirement (current HR staff). The dispute cost the company over AU$100 million. One union official said the MX award caused loss of ‘the heart of everything that is important to a shift worker essentially, like some control of their shifts, manning structures, job classifications…it was a)…a breach of faith straight out’. Managers still talk about the ‘long healing process’ following the 2001 dispute (HR Staffer).

Once the locked-in path requiring ‘consult and agree’ had been broken, the organisation then implemented the CEO’s ‘Blueprint for the new millennium.’ This was management’s ‘pattern of planned human resource deployments and activities intended to enable an organisation to achieve its goals’ (Wright & McMahan, 1992, p298). The interviews for this research took place seven years after
the MX decision and implementation of the new plan. In these interviews all managers and HR staff were very positive about the new workplace relationships built since the 2001 dispute. ‘This is probably the best people organisation I’ve worked in… people do tend to push the same way’ advised the Maintenance Manager. Our ‘fundamental position is all about people…Our success is based on the people we have…they can set you apart from the rest and not purely because of their knowledge but also because of innovation and the ability to find new products, new solutions to problems and that can make quite a difference, particularly seeing as the industry here is so competitive.’ This indicates that managers believe that a new and effective SHRM path has been locked-in.

Over this period the organisation has also established three integrated alliance businesses to provide administrative, mining, and engineering/maintenance services to its production function. Each integrated alliance employs a random mix of direct hire and strategic alliance employees and has its own business name, logo, Board of Management, budget, employee uniform and performance objectives. Currently there are 230 organisational and 220 strategic alliance employees on site. The production function is not outsourced. All staff and one of the union officials interviewed stated that the integrated alliance structure provides the organisation with superior performance. The Maintenance Manager, himself an alliance employee explains: ‘We really tried to remove the identities and say “look you now belong to an alliance, you’re now part of the boiler process team and whether you’re an engineer or a tradesman or whoever it really doesn’t matter to us”…the business it gets the benefit of having an outside supplier that specialises in this sort of service work (and)...the need for administration of all these contracts and stuff just disappears… you’re working together.’

The organisation’s Personal Development Plan was identified as the critical SHRM policy supporting the Blueprint for the new millennium strategy. ‘Every employee in the business has to do a PDP… So for common law contracts, people have inputs into the bonus scheme. For our award guys, it inputs into their career path matrix for the maintenance and operations roles and identifies their career aspirations’ (HR Leader). Changes to job design and organisational structure were also identified as influential to SHRM. ‘We’re very big on teams here. Our maintenance groups are all in teams, our operation groups are in teams… It’s a big break away from the SECV’ (Maintenance Manager). Leadership and empowerment were also important. ‘It’s about when you get a small team
of people who are empowered, who like working with each other and you’ve been led to that level
where you’re working purely on integrity rather than rules and regulations…we’ve certainly moved
away from the focus of management more to leadership empowerment’ (Operations Manager).

Overall the organisation’s new SHRM is considered by all managers and HR staff interviewed to
achieve what it is intended to do. As the Maintenance Manager explains; ‘the electricity market is a
very competitive market….the competition comes from having people that actually know your
plant…when you get the operators, the maintainers, the engineers all working as one, your business
will be far ahead of everybody else’.

The SHRM practices identified by those interviewed as contributing to its superior performance
are: the organisation’s integrated alliance and empowered team structure which ‘focuses everyone on
business imperatives’ (Administration Manager); the multi-skilling which makes ‘the guys there a
little bit higher skilled - as in - their level of understanding of the business and also the skill level’
(union official); elimination of demarcations ‘whether you are an operator or an electrician, if there’s a
task to be done and that person has a proven competence to do that and do it safely we can ask them to
do it. Now that was a hell of a mind shift. That wouldn’t happen at (our competitors)’ (Operations
Manager); and the elimination of fixed staffing, ‘(Our competitors) have nearly three times the
manning that we have, easy. So you can see quite quickly…their labour costs would be higher’
(Maintenance Manager).

The union response to these changes is mixed. One union official’s bitterness remains. He says the
organisation ‘still has got a whole range of serious management problems with its workforce.
Distrust…you know they are still talking that team language and all’. Another union official is more
positive, the ‘strategy now is to build bridges since then and try and build trust within the work
force...they try not to do anything now with their work force without engaging with them in a
discussion about things and everything like that…that dispute over there. I think changed (the
organisation) significantly. It actually gave them an edge in the power industry’.

The MX award would be described in the model of path dependency as path-breaking and path-
setting. It broke the old path but also became a critical juncture for the establishment of a new SHRM
path in the organisation. The new SHRM path was shaped and became locked-in by a chain of
reinforcing sequences including: the legal externalities supporting management’s right to manage (Katz & Shapiro 1985); complementary assets from the top-up labour provided by strategic alliances and a culture focused on leadership, empowerment and performance (Teece 1986); supported by SHRM infrastructure in the form of human resource policy and practices focusing on development and reward for group and individual behaviour and performance (Nelson 1996); and consequent learning by using (Rosenberg 1982), for example the hiring and firing of several managers until the right leaders were found (Administration Manager). All of these reinforcing factors contributed to lock-in of the new SHRM in the organisation.

DISCUSSION AND CONCLUSION

This paper reports on an examination of the classical model of path dependency in SHRM in a Victorian power generating plant. The research found that there were only a few occasions when management could make unconstrained SHRM decisions as indicated in the path dependency model. The research also identified the critical junctures indicated in the model which in this case were mainly in the form of industrial disputes (Arthur 1989, Mahoney 2000). The research also found reactive sequences indicated in the model that reinforce and lock-in particular paths. These include: network externalities (Katz & Shapiro 1985) such as the institutionalised legal system; complementary assets (Teece 1986), for example contingent skilled workers supplied by strategic alliances; supporting infrastructure (Nelson 1996) in the form of effective HR staff and policies; and, learning by using (Rosenberg 1982) through experience. These were followed by long periods of path lock-in.

The contribution of the research to the SHRM and RBV literature is that the experiences in this case-study organisation illustrate how the classical model of path dependency is useful to SHRM theory. That path dependency in SHRM can be viewed in hindsight as ‘unique historical conditions’ (Wright & McMahan 1992). It can also be viewed in foresight as trajectories of appropriate ‘time paths of flows over a period of time’ (Dierickx & Cool 1989: p1509).

The contribution of the research to the path dependency literature is that it confirms the presence of path dependent processes in SHRM. The findings also indicate that the classical model of path
dependency, developed for the harder disciplines of economics and technology, has application in the discipline of SHRM.

The research is however not without its limitations. It is based on single method analysis in one case-study organisation and it is therefore not generalisable. Nor does it include comparisons with like or competing organisations. This suggests further research of path dependency in SHRM is needed to strengthen knowledge of path dependent processes, including constraints on SHRM decision choices, critical junctures and reactive sequences that determine lock-in of SHRM policies. Further research comparing path dependent SHRM processes in like and competing organisations is also needed.

The contribution of the research to practice in SHRM is that it illustrates how SHRM paths are formed and why SHRM paths can be difficult to break. It also identifies that managers cannot assume they have unconstrained decision choices in SHRM. Finally it illustrates how SHRM choices can be used to unlock old paths and create new SHRM paths that build human assets for the competitive advantage of the organisation.
References


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