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1: Introducing Human Resource Management
Christine Cross and Sarah Kieran

LEARNING OUTCOMES

By the end of this chapter you will be able to:

- Define the term ‘human resource management’ (HRM)
- Understand the history and evolution of the HRM function
- Describe the role, structure and main activities of the HRM function
- Understand the role of organizational context in HRM
- Describe the key models and theories underpinning the study of HRM
- Recognize what the term ‘strategic HRM’ (SHRM) means

THIS CHAPTER DISCUSSES:

Introduction 2
Evolution of HRM as an Organizational Function 3
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HRM and the Business Context 6
Features of HRM 7
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INTRODUCTION

Human resource management (HRM) is the term most widely used to describe the activities a business engages in to manage its relationship with employees. Thus, if you are an employer, a manager or an employee, or will be in the future, the issues dealt with in this book are going to be relevant to your working life. Interestingly, your understanding and experiences of HRM will be influenced by your position. You may experience all three roles – employee, manager and employer – as you progress in your career, and your understanding and experiences of HRM might change in the process. This is what makes the study of HRM so interesting. However, it can make the practice of HRM, especially the successful practice of HRM, challenging for businesses.

In every organization the employer needs a successful, profitable business. The manager needs the right people, in the right place, doing the right thing to meet business targets. The employee needs a job they feel capable of, in a fair and safe environment, which pays them appropriately. HRM, therefore, is firstly about understanding and meeting the needs of these three stakeholders. It is also about appreciating that there are potential links between each of these needs but that some stakeholders are quite powerful while others may have very little, if any, power at all.

In order to manage these relationships, organizations choose from a range of policies and practices, which together make up their HRM strategy, such as:

- how to recruit and select employees ➤Chapter 3
- what terms and conditions employees work under ➤Chapter 5
- how to ensure that everyone in the organization is treated equally ➤Chapter 6
- how to deal with employees who break organizational rules ➤Chapter 7
- how to pay and reward employees ➤Chapter 8
- what learning and development opportunities the organization should pay for ➤Chapter 9

However, the employer might also want a business that is always innovating and breaking new ground competitively. The manager may want a highly motivated, engaged and flexible team, going beyond the requirements of their day-to-day job. The employee might want new challenges, to develop new skills and have opportunities to advance or earn more money. When we consider HRM from these perspectives, the policies and practices become more complex and the potential links between them more pronounced. For example, how you train someone to build an existing product might be clear. However, how do you develop someone’s skills to invent a new product? Should there be a difference in how you reward someone for building an existing product versus inventing a new one? Furthermore, different employees are likely to interpret and react to the same HR policy or practice in different ways. Their prior experiences, their age, their role in the organization etc. are all likely to influence their response.

It is also important to realize that not all businesses operate in the same context. It is likely that McDonald’s will make different strategic choices on its HRM policies and practices to the choices the owner of your local convenience store will make or, indeed, the choices you might make if you were starting up your own business. In addition, not all businesses view things the same way. Often, the perspective the owner or CEO has of human resources (HR) will determine the extent to which they recognize the role of the other two stakeholders in the business: the managers and the employees. This is referred to as the HR philosophy of the organization.

Does the CEO believe that managers and employees are stakeholders? Are they involved in some of the decisions the business needs to make? These are a few of the questions facing those responsible for HRM. In this first chapter, we explore some of these issues and discuss the process involved in answering these questions, so that organizations make the appropriate HR choices. Given that the focus of this book is on providing an overview of HRM, it would be impossible to include a detailed description of every single issue involved in the strategic choices we are talking about. Instead, we concentrate on identifying some of the key concepts and encourage you to read more about these in order to further your understanding of them. To help you in this endeavour, a further reading list is provided.
CONSIDER THIS

Can you think of any potential links between the needs and wants of the employer, the manager and the employee? Is it possible for all three stakeholders to be satisfied? Will different types of businesses have different HR needs? For example, a car manufacturer as compared to a chain of hotels?

We begin by exploring the history of how organizations have managed relationships with their employees, and how this has evolved, leading us to the practice of HRM as we know it today. We then look at the contemporary meaning of HRM and explore the role it plays in organizations. Building on this understanding, we identify the key HRM practices in which businesses today commonly engage and consider the importance of the environmental context within which these choices occur. Finally, the key models involved in the study of HRM and the concept of ‘strategic HRM’ are explored. At the end of this chapter, you should be able to understand why HRM is such an important area of study for you as future managers and form your own perspective on its role in business.

EVOLUTION OF HRM AS AN ORGANIZATIONAL FUNCTION

The history of HRM is very interesting and its evolution, it could be said, reflects that of society in general. As we explore its rich history, you will see how HRM today, while evolving in phases over the last 200 years or so, is still very much engaged in practices that originated during each of these phases.

Industrial Welfare

The origins of HRM can be found in the industrial revolution in England in the late nineteenth century. The advent of steam power, iron production and new machine-based manufacturing methods led to the development of the factory system. At this time, the circumstances for men, women and children in these new factories were dreadful. There were, however, some enlightened employers who wanted to improve working conditions. This was often driven by their religious values, as many of these factories were owned by Quakers. In the 1890s, these employers started providing workplace and family amenities such as lunchrooms, medical care and housing. The impetus for some employers was humanitarian concern and religious principles, but, for others, it was more pragmatic as they began to recognize the link between the welfare of their employees and the level of production in their factories. This led to the creation of stand-alone employment offices where a ‘welfare officer’ dealt solely with employment issues. This first phase in the evolution of HRM, known as the ‘welfare movement’, represented a shift in the way management viewed employees and resulted in the creation of some of the HR practices which are often taken for granted at work today, such as compliance with health and safety legislation or the provision of employee benefits like sick pay and pensions. Importantly, however, it established the link between employee welfare and productivity, which is still central to HRM practice today.

Scientific Management

The next phase in the development of HRM, known as the ‘scientific management movement’, is credited to Frederick Taylor in the early part of the twentieth century. An American managing engineer in a steel factory, he became interested in finding the ‘one best way’ of working that would increase production (Taylor, 1914). His work led to the development of a systematic approach to the design of jobs and to systems of employment and pay. Taylorists aimed to increase productivity through greater efficiency in production practices, selection and training practices and, interestingly, incentivized pay for workers (also known as pay for performance) (Chapter 8). With the emergence of the production line and large factories in the 1920s, positions such as ‘labour manager’ and ‘employment manager’ emerged. Their work involved the centralization and standardization of certain employment-related functions, such as hiring, payroll, record keeping, and dealing with issues such as absences, recruitment and queries over bonuses (CIPD, 2012). The contemporary concepts of lean manufacturing (working on eliminating waste...
from the manufacturing process] and continuous improvement [an ongoing effort to improve products, services or processes], underpinned by HR practices such as job specifications and performance management, have their foundations in the scientific movement. It is also important to note that the recognition of the link between pay and performance in scientific management is still central to HRM practice today Chapter 8.

This scientific approach to work led to the tight control of workers. Thus, these practices often met with resistance from workers and are closely associated with the rise of collective action and trade unions. Throughout the 1800s, the employment relationship was recognized as having an imbalance of power between a powerful employer and a relatively powerless employee. To counteract this imbalance, employees throughout the industrial revolution had begun to group together to form or join trade unions. Their aim was to exert greater power over the employment relationship and, therefore, have greater influence over their working conditions than would otherwise be the case. In so doing, it gave employees a forum to express solidarity, to have collective protection and to improve their terms and conditions of employment. The scientific management movement led to a significant increase in this already established trade union membership. In the USA, trade union membership doubled between 1896 and 1900 and again between 1900 and 1904. In the UK, a quarter of employees held trade union membership by 1914. Consequently, the HR role at this time largely concentrated on industrial relations in the organization. Again, it is important to note that, although the origins and subsequent development of trade unions can be traced back to before scientific management, the role of industrial or employment relations is still very much central to HRM practice today. This aspect of HRM is covered in more detail in Chapter 5.

Trade unions – an organized group of workers which represents members’ interests in maintaining or improving the conditions of their employment by acting collectively as a way to challenge employer power.

Industrial relations – the relationship between employers and employees, with a focus on those areas of the employment relationship where employers deal with employee representatives, such as trade unions, rather than individuals.

**Behavioural Science**

The third phase in the evolution of HRM stems from around the time of the Second World War and the work of Elton Mayo and his colleagues in the USA [Mayo, 1949]. Known as the ‘Hawthorne Effect’, as they concerned employees in the Hawthorne plant of the Western Electrical Company, these experiments observed employee performance under a range of different working conditions. The results highlighted new areas of concern for employers and led to an emphasis on personal development, a better understanding of group work, and the importance of working conditions as a means of motivating employees. Yet again, it is important to note that the link between employee behaviours and organizational outcomes, for example the link between motivation and productivity, is still very central to contemporary HRM practice. This shift in focus became known as the ‘behavioural science movement’, and research in this area has been growing consistently ever since Chapter 12.

The 1960s and 70s saw the introduction of a large body of legislation, both in Europe and the USA, which provided rights for employees around dismissals, equal pay, pension rights, and health and safety. In addition to managing the employment relationship through negotiations and interactions with trade unions, this development created additional work as those with responsibility for the employment relationship were now also charged with understanding and applying these pieces of legislation. The emergence of the job title ‘personnel officer’ and the business discipline of ‘personnel management’ (PM) can be traced to around this time. By the end of the 1970s, PM had become recognized as a critical process in organizations and a stand-alone theory in the study of management and organizations.

**BUILDING YOUR SKILLS**

You are an entrepreneur in a new business start-up and you want to hire two new people to work with your existing team of three. You do not have enough money to hire someone to look after the HR aspects, so how will you deal with the management of people in your business? What are the key considerations?
INTRODUCING HUMAN RESOURCE MANAGEMENT

HRM TODAY

This brings us to the most recent phase in the evolution of human resource management, starting in the USA in the 1980s, when the concept as we know it today began to emerge. During the 1960s and 70s, personnel management and human resource management largely coexisted as terms and were used interchangeably. However, in the 1980s, there was a move to differentiate traditional PM from HRM. The ‘personnel management’ of the past was associated with the control and cost-effective operations of employees, adherence to employee legislation, and was dominated by industrial relations and negotiations with trade unions. HRM of the future was becoming more focused on the employee as an asset rather than a cost, and employment relations were becoming increasingly more focused on relationships with the individual rather than the trade union.

There are a number of factors that led to this changing perspective. The recession of the 1980s and the resultant high unemployment levels, coupled with significant competition in the marketplace, especially from Japan, led to a focus on productivity and ‘excellence’, seen to be associated with leading-edge companies. Rapid technological developments were not just changing the type of industries for which employees were needed, but with the advent of information and communications technology (ICT), the ‘job of the employee’ versus the ‘job of the machine’ (or computer) changed forever. There was a decline in traditional manufacturing industries and a significant growth in the service sector and the emergence of the knowledge worker. This brought about a decline in trade union membership and the perceived significance of trade unions in managing the employment relationship. Furthermore, with the development of more recent technologies, such as the smartphone and mobile broadband, where and when employees worked changed dramatically. New concepts such as working from home, teleworking and virtual teams emerged. At the same time, shifting demographics, the move towards a 24/7 society and changing workforce values led to employers and employees seeking a more individualized approach to the employment relationship for the benefit of both stakeholders.

This gave rise to, for example, tailored personal development, individual performance-related reward and non-standard hours of work. The combination of all these developments necessitated new HR policies and practices to manage these changes effectively. This resulted in the establishment of the HR function in line with other business functions, such as finance and marketing, and a corresponding rise in the position of the HR profession.

However, the differences between PM and HRM are still being debated. For some, HRM is simply a ‘relabelling’ or ‘repackaging’ of PM with a new title. In many organizations, employees are still considered a labour cost that must be efficiently managed like any other resource, albeit the HR practices through which they manage the employment relationship have become more complex. On the other hand, however, for many other organizations, HRM represents a new paradigm, where employees are considered a unique strategic asset. Barney’s VRIO model (1991) suggests that an organization’s employees are its single most important strategic differentiator. They are valuable, rare, inimitable (not easily copied) and organized so, though competitors can copy your marketing or service strategy quite quickly, they cannot easily take all your employees and everything they have to offer. In reality, many organizations today engage in a range of HR practices to meet the different needs and roles of employee groups across the business. Some of these practices will be aligned more closely with a PM perspective while others, in the same organization, may reflect a more contemporary HRM approach. In addition, different organizations will have different HR philosophies which might be more consistent with either a PM or HRM perspective. Sometimes this is due to the personal values of the CEO and the style of the senior leadership team. However, the nature and demands of the organization’s business context are always a significant factor influencing the approach taken to HRM. Given the global landscape in which businesses have to compete today – the fast pace of technological developments, changing consumer needs and the impact of global economies on local businesses – the focus on HRM as a strategic contributor to the organization is increasing.
STRATEGIC HRM

This contemporary perspective of HRM emphasizes the contribution HRM can make towards business success and identifies HRM as an essential component of business strategy (Schuler and Jackson, 1987; Lengnick-Hall and Lengnick-Hall, 1988; Huselid et al., 1997). The term strategic human resource management (SHRM) has emerged as a direct result. In differentiating between SHRM and HRM, we see that SHRM takes a macro-level approach within the context of organizational performance, whereas HRM operates at the micro-level. The integration between HRM and business strategy is believed to contribute directly to organizational performance (Guest et al., 2003).

The linkages between the context of the organization, the high-level features of the HR approach and the specific practices in which the organization then engage are all critical components of SHRM (Jiang and Messersmith, 2017).

HRM IN THE GLOBAL BUSINESS ENVIRONMENT

Geert Hofstede’s cultural dimensions

Business context, for example business size, industry sector, location etc., plays an important role in shaping HR policy and practice. Therefore, when an organization has multiple sites across different countries, it complicates its approach to HR. For a start, global HR functions must contend with different cultures in each of its sites. One way of ensuring a successful approach is to explore the different cultures within these sites and the impact this might have on the transfer of HR practices across a global organization. The work of Geert Hofstede (1980) explored different cultures globally and developed a number of ‘cultural dimensions’ which HR should consider when designing its policies and practices. One example is the cultural dimension of power distance. Power distance highlights that all individuals in societies are not equal. In some cultures, employees expect to have some power in dealing with their managers (low power distance), while in other cultures employees accept that they do not have any power when dealing with their managers (high power distance). The USA, for example, would have a low power distance whereas China would have a high power distance. Therefore, if a senior manager seeks a US employee’s opinion, that employee might be more comfortable with disagreeing with their superior than a Chinese employee. What might the implications of this be for US senior managers hoping to engage Chinese employees in product innovation (a US organization operating in China)?

Visit www.geert-hofstede.com to read further and explore your country’s cultural dimensions.

HRM AND THE BUSINESS CONTEXT

Organizations are effectively all distinctive, each operating in their own business context or internal environment. Even those that produce similar products for similar market segments are essentially different. This distinctiveness is created by many different factors internal to the organization, including:

- **the size and structure of the organization:** for example, small organizations employing small numbers of people tend to have less formal procedures and policies and flatter hierarchical structures than larger organizations
- **the sector the organization operates in:** depending on whether it is a private, public or voluntary body, its approach to HRM may differ
- **organizational lifecycle:** the length of time the organization has been operating, whether or not it is still in a growth phase, has reached maturity, or might be under threat and in decline
- **the financial health of the organization:** often associated with its lifecycle and relating to overall performance and profitability
- **the values and ideology of senior management:** deeply held beliefs and values about the way people should be managed affect issues such as communications, reward systems, management style and equality
INTRODUCING HUMAN RESOURCE MANAGEMENT

- Organizational culture: ‘the way we do things around here’
- Workforce characteristics: the different education, qualifications, skill sets, demographics and aspirations of its employees, often across different types of jobs, for example knowledge workers, production operatives or customer service personnel

However, organizations also operate in an external, environmental context, which presents further opportunities and constraints. The external context comprises many different factors, including:

- Competition: the economic forces of globalization and consumer behaviour, which impact the organization as their competitors launch new products or services, increase or decrease prices, find new routes to market or enter new markets
- Technology: the increasing pace of technological advancements such as machine-learning, robotics and big data not only influences what the business produces for the market but equally how it produces it
- Labour market: the availability of employees to meet the needs of the organization’s workforce characteristics
- Legislation and regulation: the local and national policies which determine how the business can operate, for example how it must manufacture its products to health and safety guidelines, or whether or not it must recognize trade unions
- Ethics: how the business must comply with corporate governance and how it responds to expected corporate and social responsibilities and its customers’ ethical expectations of them.

FEATURES OF HRM

Having considered their internal and external context, organizations must make some strategic choices about how they configure their HR function, the roles HR practitioners play, the HR policies they adopt, and the HR practices in which they engage. John Storey (1989) identified four critical features that he believes characterize contemporary HRM:

1. HRM is explicitly linked with corporate strategy.
2. HRM focuses on commitment rather than compliance of employees (see Walton, 1985 for a full discussion of this issue).
3. Employee commitment is obtained through an integrated approach to HR policies in the areas of rewards, selection, training and appraisal.
4. HRM is not just the domain of specialists in the HR function; rather HRM is owned by line managers as a means of fostering integration.

Thus, concepts such as ‘strategic integration’, ‘culture management’, ‘commitment’ and ‘investing in human capital’, together with a unitary philosophy, are considered essential parts of the HRM model. Much has been written on the characteristics associated with contemporary HRM since it first emerged in the 1980s. These are discussed in more detail in the following sections but are summarized here:

- A strategic approach to the management of people: a key feature of HRM is the link between HRM strategy and business strategy (Beer, 1984; Schuler and Jackson, 1987; Lengnick-Hall and Lengnick-Hall, 1988). Here, HRM is included in the creation of business strategy, and therefore workforce strategies are designed to support it.
- A unitarist frame of reference: a unitarist perspective views the employment relationship as one where both managers and employees have a common purpose and the organization is integrated and harmonious, acting as ‘one big happy family’ (Chapter 5).
- A ‘soft’ HRM approach: a distinction has been made in the literature between ‘hard’ and ‘soft’ HRM approaches. A ‘hard’ approach is one in which employees are a resource like any other and should be managed as such, while a ‘soft’ approach involves treating employees as valued assets and a source of competitive advantage, rather than simply using people as another resource (Storey, 1989).
• **HR policies and practices are integrated and consistent with the organizational culture:** *vertical integration* refers to the matching of HRM policies and practices with business strategy and is also referred to as ‘external alignment’. In addition, *horizontal integration* involves strong consistency and interconnection between HRM policies and practices internally in order to achieve effective performance (Schuler and Jackson, 1987; Huselid et al., 1997). This is also known as ‘internal alignment’.

• **Line managers work in partnership with HR:** as Storey (1995: 7) highlights: ‘if human resources really are so critical for business managers then HRM is too important to be left to operational personnel specialists’ (cited in Sikora and Ferris, 2014).

• **An evidence-based approach:** the design of HR practices is guided by appropriate business information, scientific evidence and critical thinking, and their outcomes are then measured through appropriate business metrics such as the organization’s key performance indicators (Rousseau and Barends, 2011; Angrave et al., 2016).

These features and characteristics show how the contemporary HRM function aims to enable organizational growth, productivity and profitability, through the creation of an HRM strategy in line with the overall business strategy. This HRM strategy will then determine the HR policies and practices in which the organization engages, as highlighted in Figure 1.1.

**HRM POLICIES AND PRACTICES**

Given how organizational context will influence the strategic HR choices the business will make, there are many different types of HR policies and practices in which the organization can engage. One way to examine the range of possible HR policies and practices is to follow the lifecycle of the employee (Figure 1.2). By their lifecycle, we
mean how employees are initially attracted to the organization, how they are recruited and selected, how their performance is managed, how they are developed, rewarded, engaged with over time, and ultimately how they come to exit the organization. While all organizations will develop policies and engage in practices across each stage of the lifecycle, as we have already discussed, the HR philosophy and environmental context will shape the choices they make. Sometimes these choices are more aligned with a more basic PM approach and at other times with a more complex HRM, or even strategic HRM, approach, as discussed later in this chapter.

**LINKING HR PRACTICES TO ORGANIZATIONAL OUTCOMES**

As mentioned earlier, an HRM approach aims to enable everyone in the organization (leaders, managers, teams and individuals) to contribute fully to meeting the organization’s strategic objectives. The strategy will determine the development of a range of HR policies, setting out principles or guidelines for the various practices within HR. Some policies will guide very tangible practices, such as how to recruit, develop and pay employees, while others will guide more intangible practices, such as how to motivate and engage employees. Ultimately, each HR policy should guide an HR practice that creates an organizational behaviour that leads to a desired organizational outcome. The example in Figure 1.3 on the next page looks at how an HR function might enable an organization to become more innovative.

Where organizations develop a suite of HR policies and practices which meet the characteristics outlined above, they are said to have achieved a high-performance work system (HPWS) (Guest, 1997). HRM, therefore, is not simply a set of individual practices; rather, it must be viewed as a system, where the elements are integrated and mutually reinforcing in order to produce an effective outcome at an organizational level (Schuler and Jackson, 2014). For an interesting overview of a broad range of high-performance work practices (HPWPs) which are said to comprise the high-performance work system, see Posthuma et al. (2013).
Who Benefits from HRM?

Before we move on, however, it is important to note that the aforementioned debate on the difference between PM and HRM is not about a label; the concerns run much deeper. During the social and economic changes of the 1960s and 70s, there was a belief among employees and trade unions that management did not share the same goals as employees, which led to employees referring to managers as ‘them’ and to themselves as ‘us’. The juxtaposition of ‘them and us’ highlighted the division between two sides with conflicting interests (Clegg, 1979). Despite significant advances in the theory and practice of HRM, its claims of a unitarist perspective and a decline in the role of trade unions, many would argue that the division between ‘them and us’ remains and is, in fact, wider than ever. Though contemporary HRM practices espouse notions of ‘nurturing’ every individual as a ‘unique talent’ and ‘unleashing the potential’ of employees, and new HR job titles such as ‘head of talent’ or ‘people director’ abound, it has been shown that many employees, including managers (Harding et al., 2014), are experiencing higher levels of control, less ownership of their work and increased work intensification (Boxall and Macky, 2014).

This highlights an inherent conflict in the role played by the HR function, where the question is often expressed as follows: Am I representing the best interests of the employee, or the best interests of the organization? Is the role of HR to act as an organizational guardian or as an employee champion? This is an issue many HR professionals struggle with and there is no simple answer. Ultimately, it must be recognized that, as a business function, HR does not exist to ‘serve’ the employee but exists to enable a successful and sustainable business for its owners. Therefore, HR is accountable to the employer, and the more closely it is aligned to the employer’s business strategy, the more successful the outcome of the HR strategy (Tichy et al., 1982; Guest et al., 2003). However, given its accountabilities around compliance with employee legislation and the known link between employee wellbeing, motivation and productivity, is HR not also accountable to the people who make up that organization? Does this imply HR has a broader role to play then in the ‘world of work’ and even a role in the impact of corporations on society? This is discussed in more detail in Chapter 14. To conclude, the real debate in HRM, therefore, is not the difference between PM and HRM but the role HR plays in ensuring it meets the needs of the business while recognizing the ‘human’ in human resources. Each organization’s HR function, and indeed each HR professional or people manager, must determine whether one can be successfully and sustainably achieved without the other.

As we begin our journey into the world of HRM, it will be up to you to consider this debate. As you progress through this book, you will acquire knowledge on the theory and practice of HRM. It is hoped that this knowledge will allow you to form your own opinions, and develop your own HR philosophy,
whether you are an employer, manager or employee. Let us start by looking at the structure of the HR function itself.

**STRUCTURE AND ROLE OF THE HR FUNCTION**

As it is a key organizational function, in the same way that finance or marketing is, you will see that HR is typically positioned at the same level in the organizational chart (see Figure 1.1 on page 8). However, the size of the organization has an impact on how the HRM function is configured. If, after college or university, you decide to start up your own company, are you likely to have an HR function from the beginning? The answer is probably no. You will make all the decisions yourself about who to hire, what to pay them and how to dismiss them if needs be. Given the significant amount of legislation governing the employment relationship, many business owners use consultants to advise them on specific HR-related issues, or they outsource the main HR functions. This allows them to reduce costs while still ensuring specialist expertise, although it is external to the company. The outsource provider can manage all or part of the HR function, including pay and benefits, administration and the creation of new organization-specific HR policies and practices.

In large organizations, however, such as a multinational corporation (MNC) like Apple or Toyota, the function will be sizeable and highly structured. It is typically led by an HR director, who has a seat on the board of directors, where they have access to and the support of the senior management team. This situation provides a real opportunity for the integration of HR strategy and business strategy. As has been mentioned before, however, the HR philosophy of the owner or CEO will determine the level of involvement HR might have with the business strategy. As Fombrun and colleagues (1984), at the Michigan School in the USA, identified the different ways HR strategy can be linked to business strategy. These include:

- **a separation model** where there is no connection between the two
- **a fit model** where the organizational strategy precedes and influences the HR strategy
- **a dialogue model** where the HR strategy has an opportunity to influence the business strategy as it is being developed
- **a holistic model** where they are developed in tandem

Typically, the more engaged an owner or CEO is with the concept of their organization’s human resources as a strategic asset, the more likely they are to engage in an HR structure with increased levels of influence over the business strategy.

**CONSIDER THIS**

Do different organizational contexts require stronger links between the business strategy and HR strategy? Compare the differences between how a factory making cakes and one making medical devices might approach the development of its business and HR strategies.

How the HR function is configured after that often depends on the organization’s context, needs and preferences. Some may organize around specialist roles. These often follow the lifecycle of the employee as outlined by Beer et al. (1984). The different specialisms within the HR function mirror the path of the employee lifecycle as already shown in Figure 1.2.

Other organizations may work with generalist roles, where an HR generalist works with a specific group of employees, for example production operators, and handles all the issues related to that group. As the alignment of HR with the business strategy is vital to HR’s successful contribution, the role of the HR business partner has emerged in recent years. Developed by David Ulrich and colleagues (2012), the HR business partner is seen as a consultant to the organization, working closely with line managers to ensure that HR practices enable the successful delivery of business strategy. This increased focus on the alignment of HR strategy with business strategy has, in some organizations, led to a separation of the function into operational and strategic teams. The operational team focuses on the day-to-day responsibilities of HR, which could be viewed as the more traditional PM role. This allows the strategic team of business partners to focus on practices more associated with strategic HRM, such as the acquisition and development of ‘talent’, that is, those employees who are considered to add strategic value to the organization ▶ Chapter 2 ◀. This allows HR to identify and support strategic projects and to focus...
on long-term business strategies and organizational needs (Gaines Robinson and Robinson, 2005).
Interestingly, however, while HR practitioners view strategic partnership as the most important aspect of their roles, Murphy (2010) found that only 15% of HR time is spent on strategic activities.

Many HR practitioners believe the answer to this issue might lie in technology. The creation of a shared services approach is where all the routine ‘transactional’ HRM services are provided from a central, often remote, location to all parts of the business. These typically include recruitment administration, compensation and benefits administration, answering employee queries related to HR policies, and providing advice to managers on employee issues such as discipline and absenteeism. Many of these services can even be provided in a ‘self-service’ manner via online solutions. The benefit for the organization is that this reduces the number of HR employees working at an operational level and allows them to focus on taking a more strategic approach.

The idea of HR business partners was popularized by David Ulrich, who sees them as part of a successful modern HR function, along with shared services and centres of expertise. There has been a move in larger organizations towards separating out the role of the HR business partner from the more administration and relationship oriented role of HR. As the CEO of a large corporation, how would you structure the HR function? Would your response be the same if you worked for a small business?

To help you consider the issues above, visit www.macmillanihe.com/carbery-cross-hrm-2e and watch the video of Fiona Evans from the Zoological Society of London talking about the strategic role of HR.

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**Roles and Competencies of the HR Practitioner**

Ulrich and colleagues, through ongoing, global research with HR practitioners, line managers and HR consultants over the last 20 years, have been exploring the evolution of the HR function (Ulrich et al., 2008, 2012). Their work highlights the increasing complexity of the role. The organizational chart in Figure 1.4 shows the various aspects of the HR function discussed thus far and some examples of the types of practices associated with each area.

Along with the need to focus on specialist areas, Ulrich et al. (2008, 2012) stress the importance of HR practitioners developing the key competencies necessary to deliver a successful and sustainable HR strategy. They believe these competencies are as important as, if not more important than, the configuration of the HR function, as HR practitioners have an impact across four different dimensions:

1. They operate at an individual level, building effective relationships and good reputations across the business.
2. They operate organizationally, as they are responsible for the design and delivery of appropriate HR practices that reach right across the organization.
3. They operate contextually, as their understanding of the internal and external environments specific to their organization are vital in developing the appropriate HR strategy.
4. They operate at a strategic level, as they have a role in developing leader, manager and employee perceptions of the HR function as adding value and enabling them to deliver on the business strategy, rather than just managing the more basic operations of the employment relationship.

In the latest iteration of Ulrich et al.’s (2012) research, the following competencies needed in the mix of the HRM function were identified:

1. **Credible activists** where HR practitioners deliver on their promises, are trusted by the business, and take action in a positive manner as and when needed by the business.
2. **Capability builders** where HR practitioners identify the core processes and capabilities which will positively impact on the business strategy and then deliver the appropriate HR practices to build and sustain these capabilities in the workforce.
3. **Change champions** where HR practitioners enable the organization to respond to the external pressures and pace of change, engaging key stakeholders and enabling flexible and adaptable capabilities in the organization.

4. **Innovators and integrators** where HR practitioners use the latest scientific evidence and business insights to continuously develop new HR practices, in a sustainable and integrated manner, as and when they are needed by the business.

5. **Technology proponents** where HR practitioners have the skills to leverage available technologies, which facilitate the effective and efficient delivery of HR practices, but also to use HR analytics to ensure these HR practices are positively impacting the business strategy. Chapter 11.

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**The Role of the Line Manager**

In reflecting on the different roles in the HR function, it is important to appreciate that simply having a range of HRM policies and practices aligned with the business strategy does not automatically mean that high levels of organizational performance and the realization of that business strategy will follow (Purcell et al., 2003). The role of the line manager, a key stakeholder, in feeding into the design of HR practices and their implementation and interpretation locally across the organization is critically important (Purcell et al., 2003). For many years, the literature has identified that the various day-to-day HR practices, once the sole remit of the HR department, need to be devolved to line managers in order to allow for faster decision-making that is more in tune with business needs. The rationale is that the line manager is the person who works most closely with the employee (Whittaker and Marchington, 2003; Trullen et al., 2016).

The types of activities traditionally devolved to line managers include employee selection, discipline and performance management. HR provides support and guidance to line managers in these activities, which also allows HR the time to move towards aligning the people management agenda with the strategic goals of the organization. However, increasingly, with more evolved strategic HR practices, line managers are being included in the design and development of HR practices at an earlier stage, as it ensures a more successful and sustainable implementation and interpretation of the practice as HR envisaged (Trullen et al., 2016). This move towards a partnership approach between HR and the line manager is central to achieving successful outcomes for the employee and the organization. Of course, this requires a higher
involvement of HR in developing and supporting line managers to engage in these HR practices locally. This development and support is critical as line managers often believe they are already busy enough with the technical aspects of their role (Whittaker and Marchington, 2003).

THEORETICAL BASIS OF HRM

Having explored the history of HRM and the various elements which go into the design and practice of HRM today, we must now reflect on its theoretical foundations. A number of models are considered particularly influential in understanding the basis of HRM in organizations. Two of the most influential models originated in the USA, and essentially legitimized HRM as a key business process and significantly enhanced its status as an important organizational function.

The Michigan Model of HRM

The first model we will look at is known as the ‘fit’ or ‘contingency’ model and was developed in the Michigan Business School by Fombrun, Tichy, Devanna and colleagues in the 1980s (Tichy et al., 1982; Fombrun et al., 1984). This model stresses the importance of that alignment or ‘fit’ we discussed earlier, firstly between the HR strategy and the business strategy (vertical integration or external alignment) and secondly between the HR practices themselves (horizontal integration or internal alignment). Shown in Figure 1.5, it suggests that this fit can be achieved with a relatively straightforward suite of HR practices and highlights five key areas on which HRM should focus:

1. Selection of the most suitable individuals to meet the needs of the business.
3. Appraising performance and providing feedback.
4. Providing rewards for appropriate performance that achieve specific goals.
5. Developing employees to meet the needs of the business.

Criticisms of this model include the one-way nature of the HR and business strategy relationship, and the lack of recognition of employee interests and behaviour choice, in that it assumes that all employees are the same. For this reason it is said to be a low-involvement model of HRM or the ‘hard’ approach which we discussed earlier. Despite these criticisms, this model has been shown to be very effective in many types of organizations and forms the basis of the ‘best fit’ approach to HRM, discussed later in the chapter.

‘Universal’ Approach to HRM

The second dominant model was developed by Beer and his colleagues around the same time as the
INTRODUCING HUMAN RESOURCE MANAGEMENT

Michigan model but at Harvard University [Beer et al., 1984]. Referred to by the authors as the HR Territory Map, but now more commonly referred to as the ‘universal’ or ‘soft’ approach to HRM, this model recognizes the influence that various stakeholders and situational factors have on the development of HR policies and practices [Beer et al., 1984]. Stakeholders have a financial interest in the organization and include shareholders, leaders, managers, employees and other external stakeholders such as the government. Each stakeholder has different interests and the model assumes that these interests are legitimate. Therefore, they should be reflected in the HRM strategy, which is as closely aligned to the business strategy as possible. Situational factors must also be considered in the development of the HR strategy and include aspects of the economic climate, the state of the labour market, the characteristics of the workforce, trade union membership and legislation. The model focuses specifically on how the development of HR practices, incorporating these stakeholder interests and situational factors, will lead to a change in organizational behaviours or the building of organizational capabilities, which in turn lead to specific organizational outcomes (we considered an example of how diverse workforces create innovative behaviours see p. 10).

The main contribution of this model was to highlight the potential benefits of adopting a ‘soft’ approach to HRM. The inclusion of stakeholders and situational factors in the model was well received; however, some would still argue that manager and employee interests are only being considered in order to meet the needs of the employer. The model has also received criticism for its complexity and high-involvement approach. It suggests there is a formula for building organizational capability but does not provide a list of HR practices for organizations to follow. The search for this ‘formula’ has been likened to a search for the holy grail [Boselie et al., 2005] or the key to unlocking a ‘black box’ [Purcell, 2003].

Guest Model of HRM

In the UK, David Guest [1989] considered the benefits of both the low-involvement and high-involvement models. In an effort to balance the ‘fit’ and ‘universal’ elements, he built on these models by identifying four key principles that, if followed, would combine to increase organizational effectiveness:

1. Strategic integration: HR policies must be aligned to the needs of the business strategy, and the various aspects of HRM must be consistent and mutually supportive.
2. High commitment: commitment is sought, in that employees are expected to identify closely with the interests of the organization and behave accordingly.
3. **Flexibility**: this involves the ability and willingness of employees to demonstrate flexibility and adaptability to change as business demands change.

4. **High quality**: the quality of management and staff is important in achieving high performance.

Guest believed that these outcomes could best be achieved through appropriate HRM practices in the areas of:

- organizational and job design – job design is the process of arranging work in a way that reduces job dissatisfaction often resulting from repetitive and mechanistic tasks
- change management – the management of change within the organization
- recruitment and selection → Chapter 3
- appraisal, training and development → Chapters 7 and 9
- HR movement through, up and out of the organization → Chapter 4
- reward and communication systems → Chapter 8

Ultimately, the three theoretical models discussed here identified the importance of aligning HRM with business strategy. Once again, however, we are dealing with the question of how we identify the HR practices that will enable our organization to achieve optimal organizational performance. In SHRM theory, there are three different perspectives as to how the design and development of such practices can be approached.

**Strategic HRM Contingency Approach**

The ‘contingency’ or ‘best fit’ approach is the belief that organizational context provides the direction as to which HR practices should be chosen. Proponents of this view believe there is no universal answer to the choice of HR practices; the choice is contingent on the context of the organization and its business strategy. So, each organization can choose a different set of practices, depending on their organization-specific context and strategy. External alignment is the key issue (Fombrum et al., 1984; Schuler and Jackson, 1987; Lengnick-Hall and Lengnick-Hall, 1988; Guest, 1997). A number of influential models have been proposed that aim to identify which mix of HR practices is appropriate in

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**Table 1.1** Guest model of HRM: demonstrating strategic integration

given organizational situations (Miles and Snow, 1978; Schuler and Jackson, 1987; Sisson and Storey, 2000). For example, the work of Schuler and Jackson (1987) suggests that different competitive strategies (Porter, 1985) imply the need for different employee behaviours and thus different sets of HR practices. The most effective way to manage people will therefore depend on issues specific to the organization, such as industry sector, organizational size and economic conditions (see below for more detail on the impact of organizational context on HRM choices). Though considered effective across all business contexts, there is evidence to show that the contingency model is most effective in service environments.

Strategic HRM
Universalist Approach

The universalist approach focuses on the existence of one set of HRM ‘best practices’ aimed at creating and enhancing high levels of employee commitment and performance; these will result in superior levels of organizational performance, regardless of the context in which the organization operates and the competitive strategy of the firm. Pfeffer’s (1998) work was influential in this approach. He identified a set of HRM practices, which result in higher performance. His initial work identified thirteen practices, which he later reduced to seven:

- recruiting the right people
- high wages clearly linked to organizational performance
- employment security
- information sharing
- investment in training and skill development
- self-managed teams and decentralized decision-making
- reduced status differentials.

These HR practices are also referred to as high involvement (Guthrie, 2001) and high commitment (Arthur, 1994). A significant amount of research has focused on testing the existence of these practices. Many studies have indicated a positive relationship between the adoption of a high performance work system and firm-level performance outcomes such as productivity and innovation (for example Appelbaum et al., 2000; Datta et al., 2005; CIPD, 2006; Guthrie et al., 2011), especially in service contexts.

However, critics of the universalist approach would argue that, as mentioned earlier, there is no formula for the most appropriate ‘bundle’ of HR practices for an organization, and the notion that this high performance work system can ever be realistically achieved is repeatedly questioned (Legge, 1995; Lewin, 2001). Becker and Gerhart, however, provide an interesting overview of the different bundles of HR practices found to be most widely used by organizations (Becker and Gerhart, 1996). There has in fact been much criticism of SHRM overall in terms of this lack of clarity around the appropriate mix of HR practices. Questions over the real levels of integration that can be achieved with business strategy, given that it is constantly evolving, and, most often, SHRM’s claim that there is a direct link between HR practice and firm performance, arise continuously in SHRM literature. There is a lack of evidence and consensus as to whether it is the HR practice that has led to performance, or just that high-performing organizations engage more in high-involvement, high-commitment HR practices. In recent years there appears to have been a rise in the use of low-involvement HRM with the growing use of zero hours contracts.
Examining HR practices at Netflix, Virgin, McDonald’s and Google

Throughout this chapter, we have discussed the different approaches that organizations can take with regard to their human resources: different HR ideologies, business contexts, levels of involvement by HR, and levels of commitment from employees. These approaches determine the strategic choices organizations make around their HR practices. Let us now take a brief look at a range of very different HR practices from around the world and ask the question, ‘What does this tell us about this organization?’

Vacation entitlements at Netflix and Virgin

In recent years two big name brands, Netflix in the USA and Virgin in the UK, decided to scrap vacation tracking and entitlements altogether. However, they were not ignoring their legal obligation to provide statutory annual leave to their employees – quite the opposite! These organizations made the bold decision to allow employees to take as much vacation time as they felt they needed, whenever they needed it – as long as it did not compromise their team or the business. It is felt that this more flexible approach will lead to higher creativity, flexibility and productivity among employees.

Learning and development at McDonald’s

McDonald’s takes the development of its human resources so seriously that it has built a state-of-the-art university campus on 80 acres in Illinois and similar campuses in Sydney, Munich, London, Tokyo, São Paulo and Shanghai to provide accredited programmes in management and leadership for all its employees. Employees can attain fully accredited degrees.
there, giving them access to postgraduate study in other state universities. It has also been noted that McDonald’s takes its employee development so seriously that Hamburger University’s selection procedure is tougher than that of Harvard!

**Retention at Google**

The main HRM tool that the company uses for retaining high-quality human resources is its compensation and benefits package. In addition to high salaries and wages, employees get a range of benefits which include free meals, dry cleaning, car washing, massages and a company doctor. The typical design of the company’s offices emphasizes fun and creativity, which also attracts and retains creative and innovative workers.

**Questions**

1. What role do you believe the business context plays in relation to each of these HR practices?
2. What different roles might HR and the line manager play in relation to implementing each of these practices?
3. What behaviours and other outcomes do you think each of these HR practices will produce for the organization?

**Sources**

Netflix Holiday Policy:
Pink, D. (2010) ‘Netflix lets its staff take as much holiday as they want, whenever they want – and it works’, *Telegraph*, 14 August

Virgin Holiday Policy:
Branson, R. (2014) ‘Why we’re letting Virgin staff take as much holiday as they want’, *Virgin*, 23 September

McDonald’s Training Policy:

Walters, N. (2015) ‘McDonald’s Hamburger University can be harder to get into than Harvard and is even cooler than you’d imagine’, *Business Insider* UK, 24 October
SUMMARY

In this chapter we have explored HRM and developed an understanding of the critical role it plays in organizations today. By considering the major characteristics of HRM and looking at who is responsible for HRM, we see where the HRM function should fit into the organizational structure. By understanding the link between business strategy and HRM, we can see how HRM adds value to an organization. The most important thing to recognize is the link between HRM and organizational performance and the extent to which HRM can shape the strategic objectives of the business. Having discussed HRM policies, practices and strategies in general terms, the rest of the book looks at specific aspects of the HR function, beginning with workforce planning and talent management in Chapter 2.

CHAPTER REVIEW QUESTIONS

1. Explain how HRM can contribute to improved organizational performance.
2. Legge (1995) has identified HRM as effectively being ‘old wine in a new bottle’. Do you agree with this perspective?
3. Identify the key characteristics of HRM.
4. Do you believe that there is one set of HR practices that can be used by an organization, regardless of the context the organization operates in?
5. Identify five key HRM practices in the employee lifecycle. Describe how each of these would operate in an organization in the manufacturing sector.
6. Explain how devolving HRM practices to line managers has an impact on the role of the HR function.
7. Explain how the seven practices identified by Pfeffer in the best practice approach to HRM can positively impact on organizational performance.
8. Explain the term ‘strategic human resource management’.

FURTHER READING


USEFUL WEBSITES

www.cipd.co.uk
The Chartered Institute of Personnel and Development website is an excellent starting point for anyone interested in HRM. CIPD is based in the UK and Ireland and is the world’s largest chartered HR and development professional body.

www.shrm.org
The Society for HRM is a US-based association that promotes the role of HR as a profession and provides education, certification and networking to its members.

www.hrdiv.org
The HR Division of the Academy of Management (www.aomonline.org) looks at how organizations can improve performance through effective management of their human resources. The British Academy of Management (www.bam.ac.uk) also has an HRM Special Interest Group.

www.ahri.com.au
The Australian HR Institute (AHRI) is the national association representing HR and people management professionals in Australia. The website contains lots of useful information, including research and reports.

For extra resources, including videos, multiple choice questions and useful weblinks, go to: www.macmillanihe.com/carbery-cross-hrm-2e.
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