10th edition

A Handbook of

HUMAN RESOURCE

MANAGEMENT

PRACTICE

Michael Armstrong

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Part I

Managing people

This part underpins the rest of the Handbook. It deals with the approaches and philosophies that affect how people are managed in organizations, the roles of the HR function and its members, and the special considerations that affect international people management. The term 'people management' embraces the two related concepts of human resource management (HRM) and human capital management (HCM), which are defined and explained in the first two chapters. These have virtually replaced the term 'personnel management', although the philosophies and practices of personnel management still provide the foundations for the philosophy and practices of HRM and HCM. The relationships between these aspects of people management are modelled in Figure 0.2.

People management

The policies and practices which govern how people are managed and developed in organizations.

Human resource management

'A strategic and coherent approach to the management of an organization's most valued assets – the people working there who individually and collectively contribute to the achievement of its objectives.'

Human capital management

'An approach to obtaining, analysing and reporting on data which informs the direction of value-adding people management strategic investment and operational decisions at corporate level and at the level of front line management.'

Personnel management

'Personnel management is concerned with obtaining, organizing and motivating the human resources required by the enterprise.'

(Armstrong, 1977)

Figure 0.2 Relationship between aspects of people management

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Human resource management

The terms 'human resource management' (HRM) and 'human resources' (HR) have largely replaced the term 'personnel management' as a description of the processes involved in managing people in organizations. The concept of HRM underpins all the activities described in this book, and the aim of this chapter is to provide a framework for what follows by defining the concepts of HRM and an HR system, describing the various models of HRM and discussing its aims and characteristics. The chapter continues with a review of reservations about HRM and the relationship between HRM and personnel management and concludes with a discussion of the impact HRM can make on organizational performance.

HUMAN RESOURCE MANAGEMENT DEFINED

Human resource management is defined as a strategic and coherent approach to the management of an organization's most valued assets – the people working there who individually and collectively contribute to the achievement of its objectives.

Storey (1989) believes that HRM can be regarded as a 'set of interrelated policies with an ideological and philosophical underpinning'. He suggests four aspects that constitute the *meaningful* version of HRM:

1. a particular constellation of beliefs and assumptions;
2. a strategic thrust informing decisions about people management;
3. the central involvement of line managers; and
4. reliance upon a set of 'levers' to shape the employment relationship.

HUMAN RESOURCE SYSTEM

Human resource management operates through human resource systems that bring together in a coherent way:

- *HR philosophies* describing the overarching values and guiding principles adopted in managing people.
- *HR strategies* defining the direction in which HRM intends to go.
- *HR policies*, which are the guidelines defining how these values, principles and the strategies should be applied and implemented in specific areas of HRM.
- *HR processes* consisting of the formal procedures and methods used to put HR strategic plans and policies into effect.
- *HR practices* comprising the informal approaches used in managing people.
- *HR programmes*, which enable HR strategies, policies and practices to be implemented according to plan.

Becker and Gerhart (1996) have classified these components into three levels: the system architecture (guiding principles), policy alternatives and processes and practices.

See Figure 1.1.

MODELS OF HRM

The matching model of HRM

One of the first explicit statements of the HRM concept was made by the Michigan School (Fombrun *et al*, 1984). They held that HR systems and the organization structure should be managed in a way that is congruent with organizational strategy (hence the name 'matching model'). They further explained that there is a human resource cycle (an adaptation of which is illustrated in Figure 1.2), which consists of four generic processes or functions that are performed in all organizations. These are:

1. *selection* – matching available human resources to jobs;
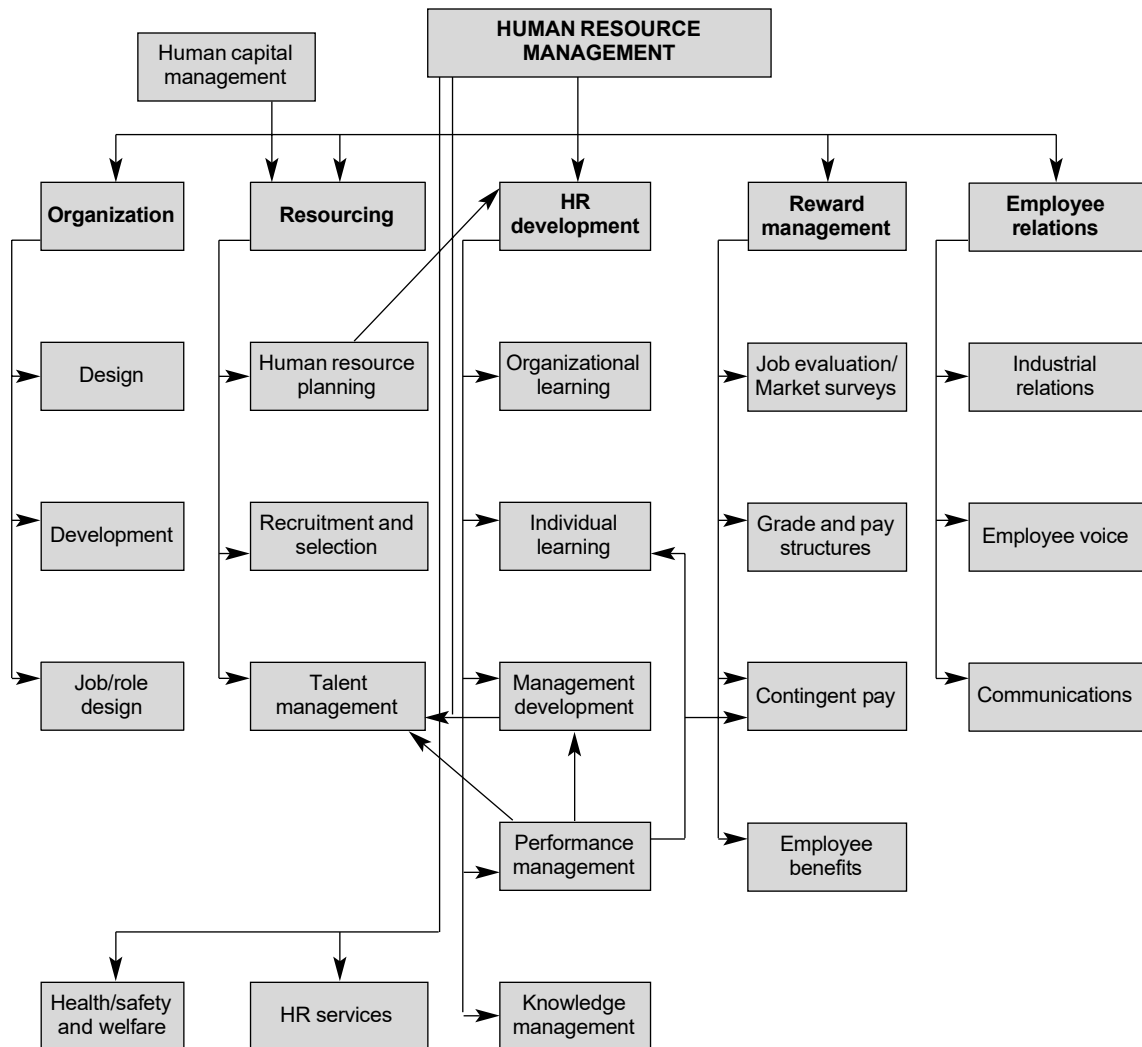
Figure 1.1   HRM activities

2. *appraisal* – performance management;
3. *rewards* – 'the reward system is one of the most under-utilized and mishandled managerial tools for driving organizational performance'; it must reward short as well as long-term achievements, bearing in mind that 'business must perform in the present to succeed in the future';
4. *development* – developing high quality employees.
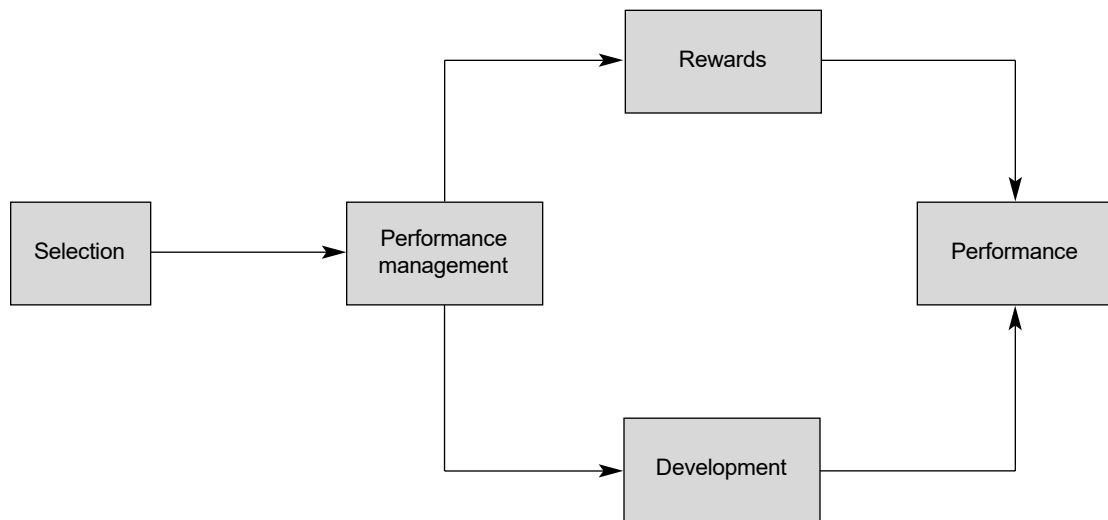
Figure 1.2 The Human Resource Cycle (adapted from Fombrun *et al*, 1984)

The Harvard framework

The other founding fathers of HRM were the Harvard School of Beer *et al* (1984) who developed what Boxall (1992) calls the 'Harvard framework'. This framework is based on the belief that the problems of historical personnel management can only be solved:

> when general managers develop a viewpoint of how they wish to see employees involved in and developed by the enterprise, and of what HRM policies and practices may achieve those goals. Without either a central philosophy or a strategic vision – which can be provided *only* by general managers – HRM is likely to remain a set of independent activities, each guided by its own practice tradition.

Beer and his colleagues believed that 'Today, many pressures are demanding a broader, more comprehensive and more strategic perspective with regard to the organization's human resources.' These pressures have created a need for: 'A longer-term perspective in managing people and consideration of people as potential assets rather than merely a variable cost.' They were the first to underline the HRM tenet that it belongs to line managers. They also stated that: 'Human resource management involves all management decisions and action that affect the nature of the relationship between the organization and its employees – its human resources.'

The Harvard school suggested that HRM had two characteristic features: 1) line managers accept more responsibility for ensuring the alignment of competitive strategy and personnel policies; 2) personnel has the mission of setting policies that govern how personnel activities are developed and implemented in ways that make them more mutually reinforcing. The Harvard framework as modelled by Beer *et al* is shown in Figure 1.3.
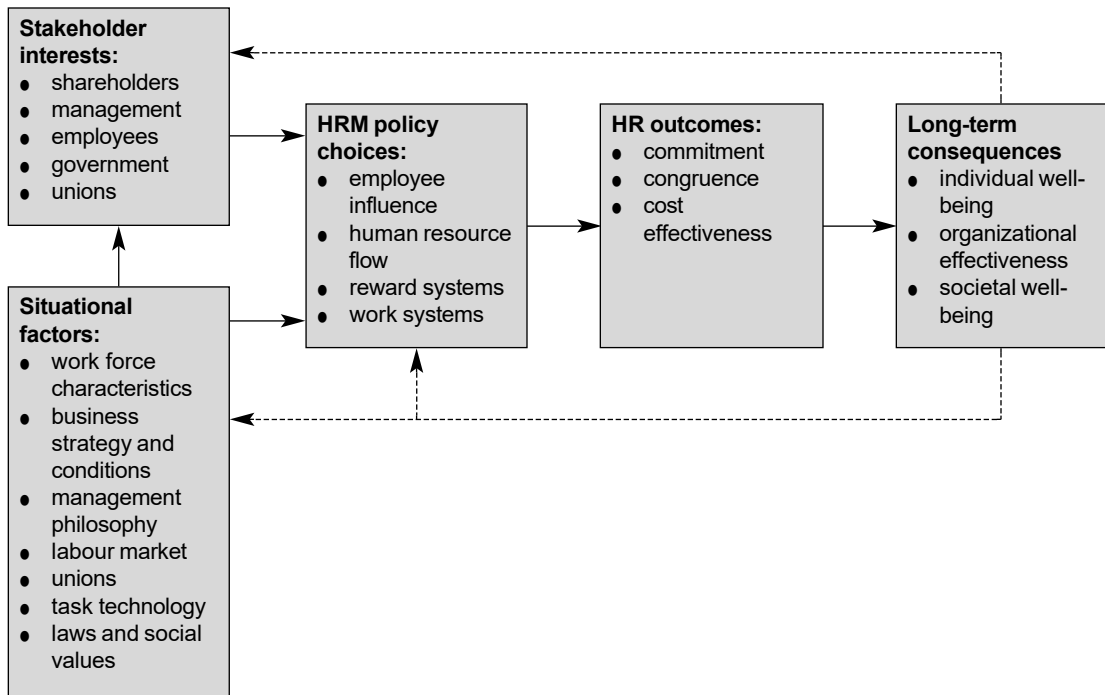
Figure 1.3 The Harvard Framework for Human Resource Management (*Source*: Beer *et al*, 1984)

According to Boxall (1992) the advantages of this model are that it:

- incorporates recognition of a range of stakeholder interests;
- recognizes the importance of 'trade-offs', either explicitly or implicitly, between the interests of owners and those of employees as well as between various interest groups;
- widens the context of HRM to include 'employee influence', the organization of work and the associated question of supervisory style;

- acknowledges a broad range of contextual influences on management's choice of strategy, suggesting a meshing of both product-market and socio-cultural logics;
- emphasizes strategic choice – it is not driven by situational or environmental determinism.

The Harvard model has exerted considerable influence over the theory and practice of HRM, particularly in its emphasis on the fact that HRM is the concern of management in general rather than the personnel function in particular.

AIMS OF HRM

The overall purpose of human resource management is to ensure that the organization is able to achieve success through people. As Ulrich and Lake (1990) remark: 'HRM systems can be the source of organizational capabilities that allow firms to learn and capitalize on new opportunities.' Specifically, HRM is concerned with achieving objectives in the areas summarized below.

Organizational effectiveness

'Distinctive human resource practices shape the core competencies that determine how firms compete' (Cappelli and Crocker-Hefter, 1996). Extensive research has shown that such practices can make a significant impact on firm performance. HRM strategies aim to support programmes for improving organizational effectiveness by developing policies in such areas as knowledge management, talent management and generally creating 'a great place to work'. This is the 'big idea' as described by Purcell *et al* (2003), which consists of a 'clear vision and a set of integrated values'. More specifically, HR strategies can be concerned with the development of continuous improvement and customer relations policies.

Human capital management

The human capital of an organization consists of the people who work there and on whom the success of the business depends. Human capital has been defined by Bontis *et al* (1999) as follows:

> Human capital represents the human factor in the organization; the combined intelligence, skills and expertise that give the organization its distinctive character. The human elements of the organization are those that are capable of learning, changing, innovating and providing the creative thrust which if properly motivated can ensure the long-term survival of the organization.

Human capital can be regarded as the prime asset of an organization and businesses need to invest in that asset to ensure their survival and growth. HRM aims to ensure that the organization obtains and retains the skilled, committed and well-motivated workforce it needs. This means taking steps to assess and satisfy future people needs and to enhance and develop the inherent capacities of people – their contributions, potential and employability – by providing learning and continuous development opportunities. It involves the operation of 'rigorous recruitment and selection procedures, performance-contingent incentive compensation systems, and management development and training activities linked to the needs of the business' (Becker *et al*, 1997). It also means engaging in talent management – the process of acquiring and nurturing talent, wherever it is and wherever it is needed, by using a number of interdependent HRM policies and practices in the fields of resourcing, learning and development, performance management and succession planning.

The process of human capital management (HCM) as described in the next chapter is closely associated with human resource management. However, the focus of HCM is more on the use of metrics (measurements of HR and people performance) as a means of providing guidance on people management strategy and practice.

Knowledge management

Knowledge management is 'any process or practice of creating, acquiring, capturing, sharing and using knowledge, wherever it resides, to enhance learning and performance in organizations' (Scarborough *et al*, 1999). HRM aims to support the development of firm-specific knowledge and skills that are the result of organizational learning processes.

Reward management

HRM aims to enhance motivation, job engagement and commitment by introducing policies and processes that ensure that people are valued and rewarded for what they do and achieve and for the levels of skill and competence they reach.

Employee relations

The aim is to create a climate in which productive and harmonious relationships can be maintained through partnerships between management and employees and their trade unions.

Meeting diverse needs

HRM aims to develop and implement policies that balance and adapt to the needs of its stakeholders and provide for the management of a diverse workforce, taking into account individual and group differences in employment, personal needs, work style and aspirations and the provision of equal opportunities for all.

Bridging the gap between rhetoric and reality

The research conducted by Gratton *et al* (1999) found that there was generally a wide gap between the sort of rhetoric expressed above and reality. Managements may start with good intentions to do some or all of these things but the realization of them – 'theory in use' – is often very difficult. This arises because of contextual and process problems: other business priorities, short-termism, limited support from line managers, an inadequate infrastructure of supporting processes, lack of resources, resistance to change and lack of trust. An overarching aim of HRM is to bridge this gap by making every attempt to ensure that aspirations are translated into sustained and effective action. To do this, members of the HR function have to remember that it is relatively easy to come up with new and innovatory policies and practice. The challenge is to get them to work. They must appreciate, in the phrase used by Purcell *et al* (2003) that it is the front line managers who bring HR policies to life, and act accordingly.

POLICY GOALS OF HRM

The models of HRM, the aims set out above and other definitions of HRM have been distilled by Caldwell (2004) into 12 policy goals:

1. Managing people as assets that are fundamental to the competitive advantage of the organization.
2. Aligning HRM policies with business policies and corporate strategy.
3. Developing a close fit of HR policies, procedures and systems with one another.
4. Creating a flatter and more flexible organization capable of responding more quickly to change.
5. Encouraging team working and co-operation across internal organizational boundaries.
6. Creating a strong customer-first philosophy throughout the organization.
7. Empowering employees to manage their own self-development and learning.

8. Developing reward strategies designed to support a performance-driven culture.
9. Improving employee involvement through better internal communication.
10. Building greater employee commitment to the organization.
11. Increasing line management responsibility for HR policies.
12. Developing the facilitating role of managers as enablers.

CHARACTERISTICS OF HRM

The characteristics of the HRM concept as they emerged from the writings of the pioneers and later commentators are that it is:

● diverse;
● strategic with an emphasis on integration;
● commitment-oriented;
● based on the belief that people should be treated as assets (human capital);
● unitarist rather than pluralist, individualistic rather than collective in its approach to employee relations;
● a management-driven activity – the delivery of HRM is a line management responsibility;
● focused on business values.

The diversity of HRM

But these characteristics of HRM are by no means universal. There are many models, and practices within different organizations are diverse, often only corresponding to the conceptual version of HRM in a few respects.

Hendry and Pettigrew (1990) play down the prescriptive element of the HRM model and extend the analytical elements. As pointed out by Boxall (1992), such an approach rightly avoids labelling HRM as a single form and advances more slowly by proceeding more analytically. It is argued by Hendry and Pettigrew that 'better descriptions of structures and strategy-making in complex organizations, and of frameworks for understanding them, are an essential underpinning for HRM'.

A distinction was made by Storey (1989) between the 'hard' and 'soft' versions of HRM. The hard version of HRM emphasizes that people are important resources through which organizations achieve competitive advantage. These resources have therefore to be acquired, developed and deployed in ways that will benefit the organization. The focus is on the quantitative, calculative and business-strategic aspects of

managing human resources in as 'rational' a way as for any other economic factor. As Guest (1999a) comments:

> The drive to adopt HRM is... based on the business case of a need to respond to an external threat from increasing competition. It is a philosophy that appeals to managements who are striving to increase competitive advantage and appreciate that to do this they must invest in human resources as well as new technology.

He also commented that HRM 'reflects a long-standing capitalist tradition in which the worker is regarded as a commodity'. The emphasis is therefore on the interests of management, integration with business strategy, obtaining added value from people by the processes of human resource development and performance management and the need for a strong corporate culture expressed in mission and value statements and reinforced by communications, training and performance management processes.

The soft version of HRM traces its roots to the human-relations school; it emphasizes communication, motivation and leadership. As described by Storey (1989) it involves 'treating employees as valued assets, a source of competitive advantage through their commitment, adaptability and high quality (of skills, performance and so on)'. It therefore views employees, in the words of Guest (1999a), as means rather than objects, but it does not go as far as following Kant's advice: 'Treat people as ends unto themselves rather than as means to an end.' The soft approach to HRM stresses the need to gain the commitment – the 'hearts and minds' – of employees through involvement, communications and other methods of developing a high-commitment, high-trust organization. Attention is also drawn to the key role of organizational culture.

In 1998, Legge defined the 'hard' model of HRM as a process emphasizing 'the close integration of human resource policies with business strategy which regards employees as a resource to be managed in the same rational way as any other resource being exploited for maximum return'. In contrast, the soft version of HRM sees employees as 'valued assets and as a source of competitive advantage through their commitment, adaptability and high level of skills and performance'.

It has, however, been observed by Truss (1999) that 'even if the rhetoric of HRM is soft, the reality is often hard, with the interests of the organization prevailing over those of the individual'. And research carried out by Gratton *et al* (1999) found that in the eight organizations they studied, a mixture of hard and soft HRM approaches was identified. This suggested to the researchers that the distinction between hard and soft HRM was not as precise as some commentators have implied.

The strategic nature of HRM

Perhaps the most significant feature of HRM is the importance attached to strategic integration, which flows from top management's vision and leadership, and which requires the full commitment of people to it. Guest (1987, 1989a, 1989b, 1991) believes that this is a key policy goal for HRM, which is concerned with the ability of the organization to integrate HRM issues into its strategic plans, to ensure that the various aspects of HRM cohere, and to encourage line managers to incorporate an HRM perspective into their decision-making.

Legge (1989) considers that one of the common themes of the typical definitions of HRM is that human resource policies should be integrated with strategic business planning. Sisson (1990) suggests that a feature increasingly associated with HRM is a stress on the integration of HR policies both with one another and with business planning more generally.

Storey (1989) suggests that: 'The concept locates HRM policy formulation firmly at the strategic level and insists that a characteristic of HRM is its internally coherent approach.'

The commitment-oriented nature of HRM

The importance of commitment and mutuality was emphasized by Walton (1985a) as follows:

> The new HRM model is composed of policies that promote mutuality – mutual goals, mutual influence, mutual respect, mutual rewards, and mutual responsibility. The theory is that policies of mutuality will elicit commitment, which in turn will yield both better economic performance and greater human development.

Guest (1987) wrote that one of the HRM policy goals was the achievement of high commitment – 'behavioural commitment to pursue agreed goals, and attitudinal commitment reflected in a strong identification with the enterprise'.

It was noted by Legge (1995) that human resources 'may be tapped most effectively by mutually consistent policies that promote commitment and which, as a consequence, foster a willingness in employees to act flexibly in the interests of the "adaptive organization's" pursuit of excellence'.

But this emphasis on commitment has been criticized from the earliest days of HRM. Guest (1987) asked: 'commitment to what?' and Fowler (1987) has stated:

> At the heart of the concept is the complete identification of employees with the aims and values of the business – employee involvement but on the company's terms. Power in

the HRM system remains very firmly in the hands of the employer. Is it really possible to claim full mutuality when at the end of the day the employer can decide unilaterally to close the company or sell it to someone else?

People as 'human capital'

The notion that people should be regarded as assets rather than variable costs, in other words, treated as human capital, was originally advanced by Beer *et al* (1984). HRM philosophy, as mentioned by Karen Legge (1995), holds that 'human resources are valuable and a source of competitive advantage'. Armstrong and Baron (2002) stated that:

> People and their collective skills, abilities and experience, coupled with their ability to deploy these in the interests of the employing organization, are now recognized as making a significant contribution to organizational success and as constituting a significant source of competitive advantage.

Unitary philosophy

The HRM approach to employee relations is basically unitary – it is believed that employees share the same interests as employers. This contrasts with what could be regarded as the more realistic pluralist view, which says that all organizations contain a number of interest groups and that the interests of employers and employees do not necessarily coincide.

Individualistic

HRM is individualistic in that it emphasizes the importance of maintaining links between the organization and individual employees in preference to operating through group and representative systems.

HRM as a management-driven activity

HRM can be described as a central, senior management-driven strategic activity that is developed, owned and delivered by management as a whole to promote the interests of the organization that they serve. Purcell (1993) thinks that 'the adoption of HRM is both a product of and a cause of a significant concentration of power in the hands of management', while the widespread use 'of the language of HRM, if not its practice, is a combination of its intuitive appeal to managers and, more importantly, a response to the turbulence of product and financial markets'. He asserts that HRM is about the rediscovery of management prerogative. He considers that HRM policies

and practices, when applied within a firm as a break from the past, are often associated with words such as commitment, competence, empowerment, flexibility, culture, performance, assessment, reward, teamwork, involvement, cooperation, harmonization, quality and learning. But 'the danger of descriptions of HRM as modern best-management practice is that they stereotype the past and idealize the future'.

Sisson (1990) suggested that: 'The locus of responsibility for personnel management no longer resides with (or is "relegated to") specialist managers.' More recently, Purcell *et al* (2003) underlined the importance of line management commitment and capability as the means by which HR policies are brought to life.

Focus on business values

The concept of HRM is largely based on a management and business-oriented philosophy. It is concerned with the total interests of the organization – the interests of the members of the organization are recognized but subordinated to those of the enterprise. Hence the importance attached to strategic integration and strong cultures, which flow from top management's vision and leadership, and which require people who will be committed to the strategy, who will be adaptable to change, and who will fit the culture. By implication, as Guest (1991) says: 'HRM is too important to be left to personnel managers.'

In 1995 Legge noted that HRM policies are adapted to drive business values and are modified in the light of changing business objectives and conditions. She describes this process as 'thinking pragmatism' and suggests that evidence indicates more support for the hard versions of HRM than the soft version.

RESERVATIONS ABOUT HRM

For some time HRM was a controversial topic, especially in academic circles. The main reservations have been that HRM promises more than it delivers and that its morality is suspect.

HRM promises more than it can deliver

Noon (1992) has commented that HRM has serious deficiencies as a theory:

> It is built with concepts and propositions, but the associated variables and hypotheses are not made explicit. It is too comprehensive… If HRM is labelled a 'theory' it raises expectations about its ability to describe and predict.

Guest (1991) believes that HRM is an 'optimistic but ambiguous concept'; it is all hype and hope.

Mabey *et al* (1998) follow this up by asserting that 'the heralded outcomes (of HRM) are almost without exception unrealistically high'. To put the concept of HRM into practice involves strategic integration, developing a coherent and consistent set of employment policies, and gaining commitment. This requires high levels of determination and competence at all levels of management and a strong and effective HR function staffed by business-oriented people. It may be difficult to meet these criteria, especially when the proposed HRM culture conflicts with the established corporate culture and traditional managerial attitudes and behaviour.

Gratton *et al* (1999) are convinced on the basis of their research that there is:

> a disjunction between rhetoric and reality in the area of human resource management between HRM theory and HRM practice, between what the HR function says it is doing and that practice as perceived by employers, and between what senior management believes to be the role of the HR function, and the role it actually plays.

In their conclusions they refer to the 'hyperbole and rhetoric of human resource management'.

Caldwell (2004) believes that HRM 'is an unfinished project informed by a self-fulfilling vision of what it *should* be'.

In response to the above comments it is agreed that many organizations that think they are practising HRM are doing nothing of the kind. It is difficult, and it is best not to expect too much. Most of the managements who hurriedly adopted performance-related pay as an HRM device that would act as a lever for change have been sorely disappointed.

But the research conducted by Guest and Conway (1997) covering a stratified random sample of 1,000 workers established that a notably high level of HRM was found to be in place. This contradicts the view that management has tended to 'talk up' the adoption of HRM practices. The HRM characteristics covered by the survey included the opportunity to express grievances and raise personal concerns on such matters as opportunities for training and development, communications about business issues, single status, effective systems for dealing with bullying and harassment at work, making jobs interesting and varied, promotion from within, involvement programmes, no compulsory redundancies, performance-related pay, profit sharing and the use of attitude surveys.

The morality of HRM

HRM is accused by many academics of being manipulative if not positively immoral.

Willmott (1993) remarks that HRM operates as a form of insidious 'control by compliance' when it emphasizes the need for employees to be committed to do what the organization wants them to do. It preaches mutuality but the reality is that behind the rhetoric it exploits workers. It is, they say, a wolf in sheep's clothing (Keenoy, 1990a). As Legge (1998) pointed out:

> Sadly, in a world of intensified competition and scarce resources, it seems inevitable that, as employees are used as means to an end, there will be some who will lose out. They may even be in the majority. For these people, the soft version of HRM may be an irrelevancy, while the hard version is likely to be an uncomfortable experience.

The accusation that HRM treats employees as means to an end is often made. However, it could be argued that if organizations exist to achieve ends, which they obviously do, and if those ends can only be achieved through people, which is clearly the case, the concern of managements for commitment and performance from those people is not unnatural and is not attributable to the concept of HRM – it existed in the good old days of personnel management before HRM was invented. What matters is how managements treat people as ends and what managements provide in return.

Much of the hostility to HRM expressed by a number of academics is based on the belief that it is hostile to the interests of workers, ie that it is managerialist. However, the Guest and Conway (1997) research established that the reports of workers on outcomes showed that a higher number of HR practices were associated with higher ratings of fairness, trust and management's delivery of their promises. Those experiencing more HR activities also felt more secure in and more satisfied with their jobs. Motivation was significantly higher for those working in organizations where more HR practices were in place. In summary, as commented by Guest (1999b), it appears that workers like their experience of HRM. These findings appear to contradict the 'radical critique' view produced by academics such as Mabey *et al* (1998) that HRM has been ineffectual, pernicious (ie managerialist) or both. Some of those who adopt this stance tend to dismiss favourable reports from workers about HRM on the grounds that they have been brainwashed by management. But there is no evidence to support this view. Moreover, as Armstrong (2000a) pointed out:

> HRM cannot be blamed or given credit for changes that were taking place anyway. For example, it is often alleged to have inspired a move from pluralism to unitarism in industrial relations. But newspaper production was moved from Fleet Street to Wapping by Murdoch, not because he had read a book about HRM but as a means of breaking the print unions' control.

Contradictions in the reservations about HRM

Guest (1999a) has suggested that there are two contradictory concerns about HRM. The first as formulated by Legge (1995, 1998) is that while management rhetoric may express concern for workers, the reality is harsher. Keenoy (1997) complains that: 'The real puzzle about HRMism is how, in the face of such apparently overwhelming critical "refutation", it has secured such influence and institutional presence.'

Other writers, however, simply claim that HRM does not work. Scott (1994) for example, finds that both management and workers are captives of their history and find it very difficult to let go of their traditional adversarial orientations. But these contentions are contradictory. Guest (1999b) remarks that, 'It is difficult to treat HRM as a major threat (though what it is a threat to is not always made explicit) deserving of serious critical analysis while at the same time claiming that it is not practiced or is ineffective.'

HRM AND PERSONNEL MANAGEMENT

A debate about the differences, if any, between HRM and personnel management went on for some time. It has died down recently, especially as the terms HRM and HR are now in general use both in their own right and as synonyms for personnel management. But understanding of the concept of HRM is enhanced by analysing what the differences are and how traditional approaches to personnel management have evolved to become the present day practices of HRM.

Some commentators (Hope-Hailey *et al*, 1998; Keenoy, 1990b; Legge, 1989, 1995; Sisson, 1990; Storey, 1993) have highlighted the revolutionary nature of HRM. Others have denied that there is any significant difference in the concepts of personnel management and HRM. Torrington (1989) suggested that: 'Personnel management has grown through assimilating a number of additional emphases to produce an even richer combination of experience… HRM is no revolution but a further dimension to a multi-faceted role.'

The conclusion based on interviews with HR and personnel directors reached by Gennard and Kelly (1994) on this issue was that 'it is six of one and half a dozen of the other and it is a sterile debate'. An earlier answer to this question was made by Armstrong (1987):

> HRM is regarded by some personnel managers as just a set of initials or old wine in new bottles. It could indeed be no more and no less than another name for personnel management, but as usually perceived, at least it has the virtue of emphasizing the virtue of treating people as a key resource, the management of which is the direct concern of

top management as part of the strategic planning processes of the enterprise. Although there is nothing new in the idea, insufficient attention has been paid to it in many organizations.

The similarities and differences between HRM and personnel management are summarized in Table 1.1.

Table 1.1 Similarities and differences between HRM and personnel management

Similarities	Differences
1. Personnel management strategies, like HRM strategies, flow from the business strategy. 2. Personnel management, like HRM, recognizes that line managers are responsible for managing people. The personnel function provides the necessary advice and support services to enable managers to carry out their responsibilities. 3. The values of personnel management and at least the 'soft' version of HRM are identical with regard to 'respect for the individual', balancing organizational and individual needs, and developing people to achieve their maximum level of competence both for their own satisfaction and to facilitate the achievement of organizational objectives. 4. Both personnel management and HRM recognize that one of their most essential functions is that of matching people to ever-changing organizational requirements – placing and developing the right people in and for the right jobs. 5. The same range of selection, competence analysis, performance management, training, management development and reward management techniques are used both in HRM and personnel management. 6. Personnel management, like the 'soft' version of HRM, attaches importance to the processes of communication and participation within an employee relations system.	1. HRM places more emphasis on strategic fit and integration. 2. HRM is based on a management and business orientated philosophy. 3. HRM attaches more importance to the management of culture and the achievement of commitment (mutuality). 4. HRM places greater emphasis on the role of line managers as the implementers of HR policies. 5. HRM is a holistic approach concerned with the total interests of the business – the interests of the members of the organization are recognized but subordinated to those of the enterprise. 6. HR specialists are expected to be business partners rather than personnel administrators. 7. HRM treats employees as assets not costs.

The differences between personnel management and human resource management appear to be substantial but they can be seen as a matter of emphasis and approach rather than one of substance. Or, as Hendry and Pettigrew (1990) put it, HRM can be perceived as a 'perspective on personnel management and not personnel management itself'.

HOW HR IMPACTS ON ORGANIZATIONAL PERFORMANCE

The assumption underpinning the practice of HRM is that people are the organization's key resource and organizational performance largely depends on them. If, therefore, an appropriate range of HR policies and processes are developed and implemented effectively, then HR will make a substantial impact on firm performance.

The Holy Grail sought by many commentators on human resource management is to establish that a clear positive link between HRM practices and organizational performance exists. There has been much research, as summarized in Table 1.2, over the last decade or so that has attempted to answer two basic questions: 'Do HR practices make a positive impact on organizational performance?' 'If so, how is the impact achieved?' The second question is the most important one. It is not enough to justify HRM by proving that it is a good thing. What counts is what can be done to ensure that it is a good thing. This is the 'black box' mentioned by Purcell *et al* (2003) that lies between intentions and outcomes.

Ulrich (1997a) has pointed out that: 'HR practices seem to matter; logic says it is so; survey findings confirm it. Direct relationships between investment and attention to HR practices are often fuzzy, however, and vary according to the population sampled and the measures used'.

Purcell *et al* (2003) have cast doubts on the validity of some of the attempts through research to make the connection:

> Our study has demonstrated convincingly that research which only asks about the number and extent of HR practices can never be sufficient to understand the link between HR practices and business performance. As we have discussed it is misleading to assume that simply because HR policies are present that they will be implemented as intended.

Further comments about attempts to trace the link have been made by Truss (2001) who, following research in Hewlett-Packard, remarked that:

Our findings did lend strong support to the argument put forward by Mueller (1996) that the informal organization has a key role to play in the HRM process such that informal practice and norms of behaviour interact with formal HR policies... We cannot consider how HRM and performance are linked without analysing, in some detail, how policy is turned into practice through the lens of the informal organization.

Research outcomes

A considerable amount of research has been carried out to establish the link between HRM and firm performance. The outcomes of some of the main projects are summarized in Table 1.2.

Table 1.2   Outcomes of research on the link between HR and organizational performance

Researcher(s)	Methodology	Outcomes
Arthur (1990, 1992, 1994)	Data from 30 US strip mills used to assess impact on labour efficiency and scrap rate by reference to the existence of either a high commitment strategy* or a control strategy*.	Firms with a high commitment strategy had significantly higher levels of both productivity and quality than those with a control strategy.
Huselid (1995)	Analysis of the responses of 968 US firms to a questionnaire exploring the use of high performance work practices*, the development of synergies between them and the alignment of these practices with the competitive strategy.	Productivity is influenced by employee motivation; financial performance is influenced by employee skills, motivation and organizational structures.
Huselid and Becker (1996)	An index of HR systems in 740 firms was created to indicate the degree to which each firm adopted a high performance work system.	Firms with high values on the index had economically and statistically higher levels of performance.
Becker *et al* (1997)	Outcomes of a number of research projects were analysed to assess the strategic impact on shareholder value of high performance work systems.	High performance systems make an impact as long as they are embedded in the management infrastructure.

Table 1.2 *continued*

Patterson *et al* (1997)	The research examined the link between business performance and organization culture and the use of a number of HR practices.	HR practices explained significant variations in profitability and productivity (19% and 18% respectively). Two HR practices were particularly significant: (1) the acquisition and development of employee skills and (2) job design including flexibility, responsibility, variety and the use of formal teams.
Thompson (1998)	A study of the impact of high performance work practices such as teamworking, appraisal, job rotation, broad-banded grade structures and sharing of business information in 623 UK aerospace establishments.	The number of HR practices and the proportion of the workforce covered appeared to be the key differentiating factor between more and less successful firms.
The 1998 Workplace Employee Relations Survey (as analysed by Guest *et al* 2000a)	An analysis of the survey which sampled some 2,000 workplaces and obtained the views of about 28,000 employees.	A strong assocation exists between HRM and both employee attitudes and workplace performance.
The Future of Work Survey, Guest *et al* (2000b)	835 private sector organizations were surveyed and interviews were carried out with 610 HR professionals and 462 chief executives.	A greater use of HR practices is associated with higher levels of employee commitment and contribution and is in turn linked to higher levels of productivity and quality of services.
Purcell *et al* (2003)	A University of Bath longitudinal study of 12 companies to establish how people management impacts on organizational performance.	The most successful companies had what the researchers called 'the big idea'. The companies had a clear vision and a set of integrated values which were embedded, enduring, collective, measured and managed. They were concerned with sustaining performance and flexibility. Clear evidence existed between positive attitudes towards HR policies and practices, levels of satisfaction, motivation and

Table 1.2 *continued*

			commitment, and operational performance. Policy and practice implementation (not the number of HR practices adopted) is the vital ingredient in linking people management to business performance and this is primarily the task of line managers.

* In the US research projects set out in Table 1.2 reference is made to the impact made by the following strategies: *A commitment strategy* – a strategy, as described by Walton (1985b) which promotes mutuality between employers and employees. *A control strategy* – as described by Walton (1985b), one in which the aim is to establish order, exercise control and achieve efficiency in the application of the workforce but where employees did not have a voice except through their unions. *High performance work systems* – these aim to impact on performance through its people by the use of such practices as rigorous recruitment and selection procedures, extensive and relevant training and management development activities, incentive pay systems and performance management processes.

How HR makes an impact

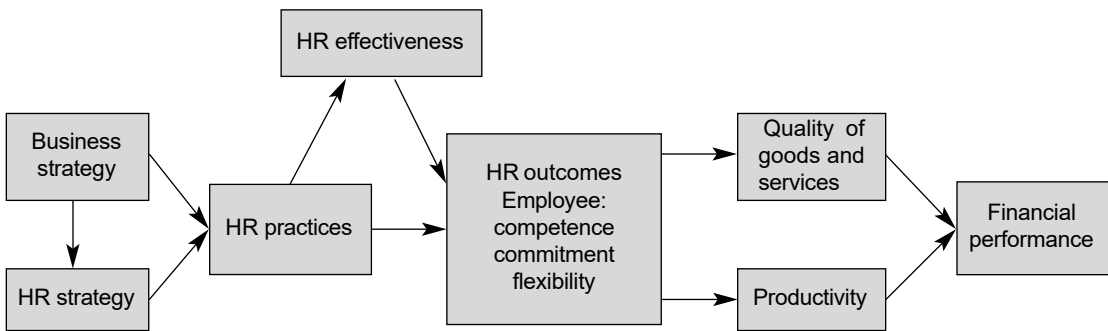In Guest *et al* (2000b) the relationship between HRM and performance was modelled as shown in Figure 1.4.

Figure 1.4 Model of the link between HRM and performance (*Source*: Guest *et al*, 2000b)

The messages from research, especially that carried out by Purcell *et al* (2003), are that HR can make an impact by leading or contributing to:

- the development and successful implementation of high performance work practices, particularly those concerned with job and work design, flexible working, resourcing (recruitment and selection and talent management), employee development (increasing skills and extending the skills base), reward, and giving employees a voice;
- the formulation and embedding of a clear vision and set of values (the big idea);
- the development of a positive psychological contract and means of increasing the motivation and commitment of employees;
- the formulation *and* implementation of policies which, in the words of Purcell *et al* (2003) meet the needs of individuals and 'create a great place to work';
- the provision of support and advice to line managers on their role in implementing HR policies and practices;
- the effective management of change.

HRM IN CONTEXT

HRM processes take place within the context of the internal and external environment of the organization. They will be largely contingent on the environmental factors that affect them.

Contingency theory

Contingency theory tells us that definitions of aims, policies and strategies, lists of activities, and analyses of the role of the HR department are valid only if they are related to the circumstances of the organization. Descriptions in books such as this can only be generalizations that suggest approaches and provide guidelines for action; they cannot be prescriptive in the sense of laying down what should be done. Contingency theory is essentially about the need to achieve *fit* between what the organization is and wants to become (its strategy, culture, goals, technology, the people it employs and its external environment) and what the organization does (how it is structured, and the processes, procedures and practices it puts into effect).

Contextual factors

There are three main contextual factors that influence HR policies and practices.

1. Technology

The technology of the business exerts a major influence on the internal environment – how work is organized, managed and carried out. The introduction of new technology may result in considerable changes to systems and processes. Different skills are required and new methods of working are developed. The result may be an extension of the skills base of the organization and its employees, including multiskilling (ensuring that people have a range of skills that enable them to work flexibly on a variety of tasks, often within a teamworking environment). But it could result in de-skilling and a reduction in the number of jobs (downsizing).

New technology can therefore present a considerable threat to employees. The world of work has changed in many ways. Knowledge workers are employed in largely computerized offices and laboratories, and technicians work in computer integrated manufacturing systems. They may have to be managed differently from the clerks or machine operators they displace. The service industries have become predominant and manufacturing is in decline. New work environments such as call centres have become common and tele-working (working from home with a networked computer) is increasing.

2. Competitive pressures

Global competition in mature production and service sectors is increasing. This is assisted by easily transferable technology and reductions in international trade barriers. Customers are demanding more as new standards are reached through international competition. Organizations are reacting to this competition by becoming 'customer-focused', speeding up response times, emphasizing quality and continuous improvement, accelerating the introduction of new technology, operating more flexibly and 'losing cost'.

The pressure has been for businesses to become 'lean organizations', downsizing and cutting out layers of management and supervision. They are reducing permanent staff to a core of essential workers, increasing the use of peripheral workers (subcontractors, temporary staff) and 'outsourcing' work to external service providers. The aim is to reduce employment costs and enable the enterprise easily to increase or reduce the numbers available for work in response to fluctuations in the level of business activity. They become the so-called 'flexible firms'. The ultimate development of this process is the 'virtual' firm or corporation, where through the extensive use of information technology a high proportion of marketing and professional staff mainly work from home, only coming into the office on special occasions to occupy their 'hot desks', and spending more time with their customers or clients.

Another response to competitive pressures is business process re-engineering (BPR), which examines the process that contains and links those functions together from initiation to completion. It looks at processes in organizations horizontally to establish how they can be integrated more effectively as well as streamlined. It can therefore form the basis for an organizational redesign exercise. From an HR point of view, the outcome of a BPR exercise may well be the need to attract or develop people with new skills as well as pressure for the improvement of team working. It also emphasizes the importance of an integrated – a coherent – approach to the development and implementation of HR policies and employment practices. Re-engineering often promises more than it achieves and is not regarded as highly as it once was, not least because it often neglected the human aspects, giving insufficient attention to the management of change and retraining staff.

3. Responses affecting people

The responses to the increased use of technology and to economic and competitive pressures have changed the nature of people management in a number of ways. These include slimmer and flatter organization structures in which cross-functional operations and teamworking have become more important, more flexible working patterns, total quality and lean production initiatives, and the decentralization and devolvement of decision-making.

The challenge to HRM

Ulrich (1998) suggests that environmental and contextual changes present a number of competitive challenges to organizations that mean that HR has to be involved in helping to build new capabilities. These comprise:

● *Globalization*, which requires organizations to move people, ideas, products and information around the world to meet local needs. New and important ingredients must be added to the mix when making strategy: volatile political situations, contentious global trade issues, fluctuating exchange rates and unfamiliar cultures.
● *Profitability through growth* – the drive for revenue growth means that companies must be creative and innovative and this means encouraging the free flow of information and shared learning among employees.
● *Technology* – the challenge is to make technology a viable, productive part of the work setting.
● *Intellectual capital* – this is the source of competitive advantage for organizations. The challenge is to ensure that firms have the capability to find, assimilate,

compensate and retain human capital in the shape of the talented individuals they need who can drive a global organization that is both responsive to its customers and 'the burgeoning opportunities of technology'. They have also to consider how the social capital of the organization – the ways in which people interact – can be developed. Importantly, organizations have to focus on organizational capital – the knowledge they own and how it should be managed.

- *Change, change and more change* – the greatest challenge companies face is adjusting to – indeed, embracing – non-stop change. They must be able to 'learn rapidly and continuously, and take on new strategic imperatives faster and more comfortably'.