# THE NATURE OF HUMAN RESOURCE MANAGEMENT

## THE OBJECTIVES OF THIS CHAPTER ARE TO:

1  REVIEW KEY CURRENT DEVELOPMENTS IN HUMAN RESOURCE MANAGEMENT

2  EXPLAIN THE DIFFERENT WAYS IN WHICH THE TERM 'HUMAN RESOURCE MANAGEMENT' IS USED

3  SET OUT THE MAIN OBJECTIVES OF THE HUMAN RESOURCE FUNCTION

4  REVIEW THE HISTORICAL EVOLUTION OF THE MODERN HR FUNCTION

5  EXPLAIN THE PHILOSOPHY OF HRM THAT IS ADOPTED IN THIS BOOK

6  INTRODUCE MAJOR CURRENT DEBATES IN THE FIELD OF HRM

Human resource management (HRM) is the basis of all management activity, but it is not the basis of all business activity. A business may depend fundamentally on having a unique product, like the Dyson vacuum cleaner, or on obtaining the necessary funding, like the London bid to stage the Olympic Games, or on identifying a previously unnoticed market niche, like Saga Services. The basis of management is always the same: getting the people of the business to make things happen in a productive way, so that the business prospers and the people thrive.

## HUMAN RESOURCE MANAGEMENT FOR THE TWENTY-FIRST CENTURY

Businesses are diverse. Prisons, restaurants, oil companies, corner shops, fire brigades, churches, hotel chains, hospitals, schools, newspapers, charities, doctors' and dentists' surgeries, professional sports teams, airlines, barristers' chambers and universities are all businesses in the sense that they have overall corporate missions to deliver and these have to be achieved within financial constraints. They all need to have their human resources managed, no matter how much some of the resourceful humans may resent aspects of the management process which limit their individual freedom of action.

Managing resourceful humans requires a constant balancing between meeting the human aspirations of the people and meeting the strategic and financial needs of the business. At times the balance can shift too far in one direction. Through the 1960s and 1970s the human aspirations of senior people in companies and public sector operations tended to produce large staffs, with heavyweight **bureaucracies** and stagnant businesses. One consultancy in the 1970s produced monthly comparative data measuring company success in terms of profitability and the number of employees – the more the better. At the same time the aspirations of employees lower down in the bureaucracy tended to maintain the status quo and a concentration on employee benefits that had scant relevance to business effectiveness. By the end of the twentieth century financial imperatives had generated huge reactions to this in the general direction of '**downsizing**' or reducing the number of people employed to create businesses that were lean, fit and flexible. **Hierarchies** were '**delayered**' to reduce numbers of staff and many functions were '**outsourced**', so as to simplify the operation of the business, concentrating on core expertise at the expense of peripheral activities, which were then bought in as needed from consultants or specialist suppliers. Reducing headcount became a fashionable criterion for success.

By the beginning of the twenty-first century the problems of the scales being tipped so considerably towards rationalisation were beginning to show. Businesses became more than slim; some became anorexic. Cost cutting achieved impressive short-tem results, but it cannot be repeated year after year without impairing the basic viability of the business. Steadily the number of problem cases mounted. In Britain there was great public discussion about problems with the national rail network and the shortage of skilled staff to carry out maintenance and repairs or lack of trained guards.

**WINDOW ON PRACTICE**

In February 2003 the *Columbia* space shuttle disintegrated over Texas during re-entry to the earth's atmosphere. All seven crew died. In August an official inquiry was severe and unequivocal in its condemnation of cost cutting that took no account of safety requirements. NASA staff had been reduced from 32,000 to 19,000 and its budget had been cut by 40 per cent. Much of the responsibility for safety had been subcontracted to Boeing, and NASA's safety culture had become '**reactive**, complacent and dominated by unjustified optimism, displaying no interest in understanding a problem and its implications'.

HR managers need to be particularly aware of the risks associated with cost cutting, as they may be the greatest culprits. The British National Health Service has long been criticised for inefficient use of resources, so large numbers of managers and administrators have been recruited to make things more efficient. Many of these new recruits are HR people who may be perceived by health professionals as creating inefficient and costly controls at the expense of employing more health professionals. We are not suggesting that these criticisms are necessarily justified, but there are undoubtedly situations in which the criticisms *are* justified.

There is now a move towards redressing that balance in search for an equilibrium between the needs for financial viability and success in the **marketplace** on the one hand and the need to maximise **human capital** on the other.

## BUSINESSES, ORGANISATIONS AND HUMAN RESOURCE MANAGEMENT

Most books on management and the academic study of management use the term 'organisation' as the classifier: organisational behaviour, organisational psychology, organisational sociology and organisation theory are standard terms because they focus on the interaction between the organisation as an entity and its people or with the surrounding society. So far we have used the word 'business'. We will not stick to this throughout the book, but we have used it to underline the fact that HR people are concerned with the management of resourceful humans *not* employed within the organisation as well as those who are. The above criticism of NASA's complacency was because they had lost the sense of ownership and responsibility for a human capital input simply because the people were employed by a different organisation. HR people have to be involved in the effective management of all the people of the business, not only those who are directly employed within the organisation itself. We need to remember that organisation is a process as well as an entity.

**ACTIVITY 1.1**

We use the word 'organisation' to describe an entity when we are describing the place where we work ('my organisation'), a particular business enterprise ('Shell is an international organisation') or as a general term to describe undertakings ('over 200 organisations were represented at the conference'). Organisation as a process describes how something is done ('the organisation of the conference was very efficient'; 'the project failed due to poor organisation'). Think of examples of HR work which are organisation as a process.

Human resource managers administer the **contract of employment,** which is the legal basis of the employment relationship, but within that framework they also administer a psychological contract for **performance**. To have a viable business the employer obviously requires those who do its work to produce an appropriate and effective performance and the performance may come from employees, but is just as likely to come from non-employees. A business which seeks to be as lean and flexible as it can needs to reduce long-term cost commitments and focus its efforts on the activities which are the basis of its **competitive advantage**. It may be wise to buy in standard business services, as well as expertise, from specialist providers. Performance standards can be unambiguously agreed and monitored (although they rarely are), while the contract can be ended a great deal more easily than is the case with a department full of employees.

We refer to a **contract** for performance because both parties have an interest in performance. The employer needs it from the employee, but an employee also has a psychological need to perform, to do well and to fulfil personal needs that for many can best be met in the employment context. Schoolteachers cannot satisfy their desire to teach without a school to provide premises, equipment and pupils. A research chemist can do little without a well-equipped laboratory and qualified colleagues; very few coach drivers can earn their living unless someone else provides the coach.

## DEFINING HUMAN RESOURCE MANAGEMENT

The term 'human resource management' is not easy to define. This is because it is commonly used in two different ways. On the one hand it is used generically to describe the body of management activities covered in books such as this. Used in this way HRM is really no more than a more modern and supposedly imposing name for what has long been labelled 'personnel management'. On the other hand, the term is equally widely used to denote a particular approach to the management of people which is clearly distinct from 'personnel management'. Used in this way 'HRM' signifies more than an updating of the label; it also suggests a distinctive philosophy towards carrying out people-oriented organisational activities: one which is held to serve the modern business more effectively than 'traditional' personnel

management. We explore the substance of these two meanings of human resource management in the following paragraphs, referring to the first as 'HRM mark 1' and the second as 'HRM mark 2'.

## HRM mark 1: the generic term

The role of the human resource functions is explained by identifying the key **objectives** to be achieved. Four objectives form the foundation of all HR activity.

### Staffing objectives

Human resource managers are first concerned with ensuring that the business is appropriately staffed and thus able to draw on the human resources it needs. This involves designing organisation structures, identifying under what type of contract different groups of employees (or subcontractors) will work, before recruiting, selecting and developing the people required to fill the roles: the right people, with the right skills to provide their services when needed. There is a need to compete effectively in the employment market by recruiting and retaining the best, affordable workforce that is available. This involves developing employment packages that are sufficiently attractive to maintain the required employee skills levels and, where necessary, disposing of those judged no longer to have a role to play in the organisation.

### Performance objectives

Once the required workforce is in place, human resource managers seek to ensure that people are well motivated and committed so as to maximise their performance in their different roles. Training and development has a role to play, as do reward systems to maximise effort and focus attention on performance targets. In many organisations, particularly where trade unions play a significant role, human resource managers negotiate improved performance with the workforce. The achievement of performance objectives also requires HR specialists to assist in disciplining employees effectively and equitably where individual conduct and/or performance standards are unsatisfactory. Welfare functions can also assist performance by providing constructive assistance to people whose performance has fallen short of their potential because of illness or difficult personal circumstances. Last but not least, there is the range of employee involvement initiatives to raise levels of commitment and to engage employees in developing new ideas.

### Change-management objectives

A third set of core objectives in nearly every business relates to the role played by the HR function in effectively managing change. Frequently change does not come along in readily defined episodes precipitated by some external factor. Instead it is endemic and well-nigh continuous, generated as much by a continual need to innovate as from definable environmental pressures. Change comes in different forms. Sometimes it is merely structural, requiring reorganisation of activities or the introduction of new people into particular roles. At other times cultural change is sought in order to alter attitudes, philosophies or long-present organisational norms. In any of these scenarios the HR function can play a central role. Key activities include the

recruitment and/or development of people with the necessary leadership skills to drive the change process, the employment of change agents to encourage acceptance of change and the construction of reward systems which underpin the change process. Timely and effective employee involvement is also crucial because 'people support what they help to create'.

## Administration objectives

The fourth type of objective is less directly related to achieving competitive advantage, but is focused on underpinning the achievement of the other forms of objective. In part it is simply carried out in order to facilitate an organisation's smooth running. Hence there is a need to maintain accurate and comprehensive data on individual employees, a record of their achievement in terms of performance, their attendance and training records, their terms and conditions of employment and their personal details. However, there is also a legal aspect to much administrative activity, meaning that it is done because the business is required by law to comply. Of particular significance is the requirement that payment is administered professionally and lawfully, with itemised monthly pay statements being provided for all employees. There is also the need to make arrangements for the deduction of taxation and national insurance, for the payment of pension fund contributions and to be on top of the complexities associated with Statutory Sick Pay and Statutory Maternity Pay, as well as maternity and paternity leave. Additional legal requirements relate to the monitoring of health and safety systems and the issuing of contracts to new employees. Accurate record keeping is central to ensuring compliance with a variety of newer legal obligations such as the National Minimum Wage and the Working Time Regulations.

### ACTIVITY 1.2

Each of the four types of HR objective is important and necessary for organisations in different ways. However, at certain times one or more can assume greater importance than the others. Can you identify types of situation in which each could become the most significant or urgent?

## Delivering HRM objectives

The larger the organisation, the more scope there is to employ people to specialise in particular areas of HRM. Some, for example, employ employee relations specialists to look after the **collective relationship between management and employees**. Where there is a strong tradition of collective bargaining, the role is focused on the achievement of satisfactory outcomes from ongoing negotiations. Increasingly, however, employee relations specialists are required to provide advice about legal developments, to manage consultation arrangements and to preside over employee involvement initiatives.

Another common area of specialisation is in the field of training and development. Although much of this is now undertaken by external providers, there is still a role
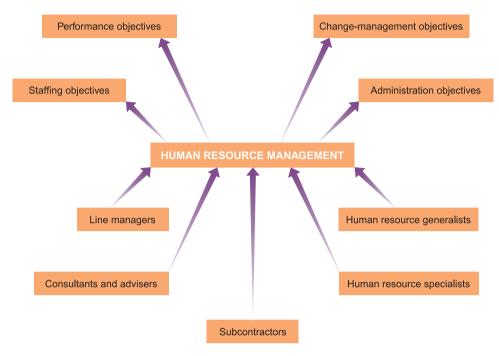
**Figure 1.1** HRM roles and objectives

for in-house trainers, particularly in management development. Increasingly the term 'consultant' is used instead of 'officer' or 'manager' to describe the training specialist's role, indicating a shift towards a situation in which line managers determine the training *they* want rather than the training section providing a standardised **portfolio** of courses. The other major specialist roles are in the fields of **recruitment and selection**, health, safety and welfare, compensation and benefits and human resource planning.

In addition to the people who have specialist roles there are many other people who are employed as human resources or personnel generalists. Working alone or in small teams, they carry out the range of HR activities and seek to achieve all the objectives outlined above. In larger businesses generalists either look after all personnel matters in a particular division or are employed at a senior level to develop policy and take responsibility for HR issues across the organisation as a whole. In more junior roles, human resource administrators and assistants undertake many of the administrative tasks mentioned earlier. Figure 1.1 summarises the roles and objectives of HRM.

Most HR practitioners working at a senior level are now professionally qualified, having secured membership of the Chartered Institute of Personnel and Development (CIPD). The wide range of elective subjects which can now be chosen by those seeking qualification through the Institute's examinations has made it as relevant to those seeking a specialist career as to those who prefer to remain in generalist roles. However, many smaller businesses do not need, or cannot afford, HR managers at all. They may use consultants or the advisory services of university departments. They may use their bank's computer to process the payroll, but there is still a human resource dimension to their managers' activities.

### ACTIVITY 1.3

Which of the various HR roles described above would you be most interested in undertaking? The generalist role, a specialist role or perhaps that of a consultant or subcontractor?

What are the main reasons for your choice?

## HRM mark 2: a distinctive approach to the management of people

The second meaning commonly accorded to the term 'human resource management' denotes a particular way of carrying out the range of activities discussed above. Under this definition, a 'human resource management approach' is something qualitatively different from a 'personnel management approach'. Commentators disagree, however, about how fundamental a shift is signified by a movement from personnel management to human resource management. For some, particularly those whose focus of interest is on the management of collective relationships at work, the rise of HRM in the last two decades of the twentieth century represents something new and very different from the dominant personnel management approach in earlier years. A particular theme in their work is the contention that personnel management is essentially *workforce centred*, while HRM is *resource centred*. Personnel specialists direct their efforts mainly at the organisation's employees; finding and training them, arranging for them to be paid, explaining management's expectations, justifying management's actions, satisfying employees' work-related needs, dealing with their problems and seeking to modify management action that could produce an unwelcome employee response. The people who work in the organisation are the starting point, and they are a resource that is relatively inflexible in comparison with other resources, like cash and materials.

Although indisputably a management function, personnel management is not totally identified with management interests. Just as sales representatives have to understand and articulate the aspirations of the customers, personnel managers seek to understand and articulate the aspirations and views of the workforce. There is always some degree of being in between management and the employees, mediating the needs of each to the other.

HRM, by contrast, is directed mainly at management needs for human resources (not necessarily employees) to be provided and deployed. Demand rather than supply is the focus of the activity. There is greater emphasis on planning, monitoring and control, rather than mediation. Problem solving is undertaken with other members of management on human resource issues rather than directly with employees or their representatives. It is totally identified with management interests, being a general management activity, and is relatively distant from the workforce as a whole. David Guest (1987) emphasises the differences between the two approaches in his model illustrating 'stereotypes of personnel management and human resource management' (see Figure 1.2).

An alternative point of view, while recognising the differences, downplays the significance of a break between personnel and human resources management. Such

| | Personnel management | Human resource management |
|---|---|---|
| Time and planning perspective | Short term, reactive, ad hoc, marginal | Long term, proactive, strategic, integrated |
| Psychological contract | Compliance | Commitment |
| Control systems | External controls | Self-control |
| Employee relations perspective | Pluralist, collective, low trust | Unitarist, individual, high trust |
| Preferred structures/ systems | Bureaucratic/mechanistic, centralised, formal defined roles | Organic, devolved, flexible roles |
| Roles | Specialist/professional | Largely integrated into line management |
| Evaluation criteria | Cost minimisation | Maximum utilisation (human asset accounting) |

**Figure 1.2**
Personnel versus HRM

a conclusion is readily reached when the focus of analysis is on what HR/personnel managers actually do, rather than on the more profound developments in the specific field of collective employee relations. Legge (1989 and 1995) concludes that there is very little difference in fact between the two, but that there are some differences that are important; first, that human resource management concentrates more on what is done to managers than on what is done by managers to other employees; second, that there is a more proactive role for line managers; and, third, that there is a top management responsibility for managing culture – all factors to which we return later in the book. From this perspective, human resource management can simply be seen as the most recent mutation in a long line of developments that have characterised personnel management practice as it evolved during the last century. HRM is therefore the latest new dimension to be added to a role which has developed in different directions at different stages in its history. Below we identify four distinct stages in the historical development of the personnel management function. HRM, as described above, is a fifth. On the companion website there is a journalist's view of contemporary HRM to which we have added some discussion questions.

## THE EVOLUTION OF PERSONNEL AND HR MANAGEMENT

### Theme 1: social justice

The origins of personnel management lie in the nineteenth century, deriving from the work of social reformers such as Lord Shaftesbury and Robert Owen. Their criticisms of the free enterprise system and the hardship created by the exploitation of workers by factory owners enabled the first personnel managers to be appointed and provided the first frame of reference in which they worked: to ameliorate the lot of the workers. Such concerns are not obsolete. There are still regular reports of employees being exploited by employers flouting the law, and the problem of organisational distance between decision makers and those putting decisions into practice remains a source of alienation from work.

In the late nineteenth and early twentieth centuries some of the larger employers with a paternalist outlook began to appoint welfare officers to manage a series of new initiatives designed to make life less harsh for their employees. Prominent examples were the progressive schemes of unemployment benefit, sick pay and subsidised housing provided by the Quaker family firms of Cadbury and Rowntree, and the Lever Brothers' soap business. While the motives were ostensibly charitable, there was and remains a business as well as an ethical case for paying serious attention to the welfare of employees. This is based on the contention that it improves **commitment** on the part of staff and leads potential employees to compare the organisation favourably *vis-à-vis* competitors. The result is higher productivity, a longer-serving workforce and a bigger pool of applicants for each job. It has also been argued that a commitment to welfare reduces the scope for the development of adversarial industrial relations. The more conspicuous welfare initiatives promoted by employers today include employee assistance schemes, childcare facilities and health-screening programmes.

## Theme 2: humane bureaucracy

The second phase marked the beginnings of a move away from a sole focus on welfare towards the meeting of various other organisational objectives. Personnel managers began to gain responsibilities in the areas of staffing, training and organisation design. Influenced by social scientists such as F.W. Taylor (1856–1915) and Henri Fayol (1841–1925) personnel specialists started to look at management and administrative processes analytically, working out how organisational structures could be designed and labour deployed so as to maximise efficiency. The humane bureaucracy stage in the development of personnel thinking was also influenced by the **Human Relations School**, which sought to ameliorate the potential for industrial conflict and dehumanisation present in too rigid an application of these **scientific management** approaches. Following the ideas of thinkers such as Elton Mayo (1880–1949), the fostering of social relationships in the workplace and employee morale thus became equally important objectives for personnel professionals seeking to raise productivity levels.

## Theme 3: negotiated consent

Personnel managers next added expertise in bargaining to their repertoire of skills. In the period of full employment following the Second World War labour became a scarce resource. This led to a growth in trade union membership and to what Allan Flanders, the leading industrial relations analyst of the 1960s, called 'the challenge from below'. Personnel specialists managed the new collective institutions such as joint consultation committees, joint production committees and suggestion schemes set up in order to accommodate the new realities. In the industries that were nationalised in the 1940s, employers were placed under a statutory duty to negotiate with unions representing employees. To help achieve this, the government encouraged the appointment of personnel officers and set up the first specialist courses for them in the universities. A personnel management advisory service was also set up at the Ministry of Labour, which still survives as the first A in ACAS (the Advisory, Conciliation and Arbitration Service).

## Theme 4: organisation

The late 1960s saw a switch in focus among personnel specialists, away from dealing principally with the rank-and-file employee on behalf of management, towards dealing with management itself and the integration of managerial activity. This phase was characterised by the development of career paths and of opportunities within organisations for personal growth. This too remains a concern of personnel specialists today, with a significant portion of time and resources being devoted to the recruitment, development and retention of an elite core of people with specialist expertise on whom the business depends for its future. Personnel specialists developed techniques of manpower or workforce planning. This is basically a quantitative activity, boosted by the advent of information technology, which involves forecasting the likely need for employees with different skills in the future.

## Theme 5: human resource management

This has already been explained in the previous pages.

### ACTIVITY 1.4

Think of an HR management role with which you are familiar. To what extent can you identify in it the presence of activities inherited from each of the five stages in the development of modern HRM?

## A PHILOSOPHY OF HUMAN RESOURCE MANAGEMENT

The philosophy of human resource management that is the basis of this book has been only slightly modified since it was first put forward in 1979 (Torrington and Chapman 1979, p. 4). Despite all the changes in the labour market and in the government approach to the economy, this seems to be the most realistic and constructive approach, based on the earlier ideas of Enid Mumford (1972) and McCarthy and Ellis (1973). The original was:

> Personnel management is most realistically seen as a series of activities enabling working man and his employing organisation to reach agreement about the nature and objectives of the employment relationship between them, and then to fulfil those agreements. (Torrington and Chapman 1979, p. 4)

Our definition for the fifth edition in 2002 was:

> Human resource management is a series of activities which: first enables working people and the organisation which uses their skills to agree about the objectives and nature of their working relationship and, secondly, ensures that the agreement is fulfilled.
> (Torrington, Hall and Taylor 2002, p. 13)

This remains our philosophy. Only by satisfying the needs of the individual contributor will the business obtain the commitment to organisational objectives that is needed for organisational success, and only by contributing to organisational success will individuals be able to satisfy their personal employment needs. It is when employer and employee – or business and supplier of skills – accept that mutuality and reciprocal dependence that human resource management is exciting, centre stage and productive of business success. Where the employer is concerned with employees only as factors of production, personnel management is boring and a cost that will always be trimmed. Where employees have no trust in their employer and adopt an entirely instrumental orientation to their work, they will be fed up and will make ineffectual the work of any HR function.

Figure 1.3 represents the contents of this book in the six main parts. After the three-chapter introduction in Part I come the six parts, which each have the same format: strategic aspects, operational features and a concluding Focus on skills which highlights an interaction that is central to that set of operations. This is the HRM process, a strategic core with operational specialist expertise and a strong focus on dealing with people face to face.
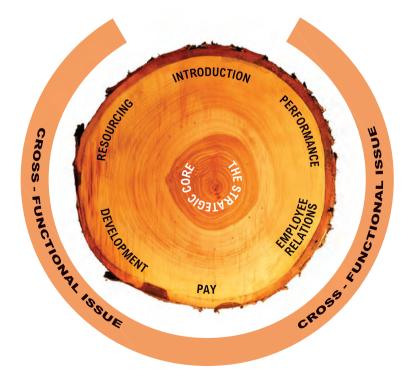


**Figure 1.3** The personnel/HR process

Human resource managers are like managers in every other part of the organisation. They have to make things happen rather than wait for things to happen, and to make things happen not only do they need to have the right approach; they also have to know their stuff. Read on!

## DEBATES IN HRM

The world in which human resource managers exist and with which they interact is continually changing, generating new issues and conundrums to consider. While in most cases managers have a fair degree of choice about how to deal with new ideas and new sets of circumstances, the choices themselves are often difficult. Our final task in this opening chapter is to introduce readers to a number of these issues in general terms. All raise themes to which we will return at various stages later in the book.

In one way or another all the major debates that occupy HR professionals, analysts and commentators concern the appropriate response to the major trends which are evolving in our business environment. But people differ in their analysis of the extent and nature of these developments and this colours their ideas about whether or not radical **change** in the way that people are managed is or is not appropriate. Here we can usefully distinguish between three separate fields of debate.

The first is concerned with understanding and conceptualising the nature of current responses. How are organisations dealing with the issues that they face in terms of the management of their people? Are they developing new approaches that differ fundamentally from those that have been established for some time or are we witnessing a more steady, considered evolution of practice?

The second field of debate concerns what HR managers *should* be doing. Are new or radical changes in policy and practice necessary? Or is the correct response to environmental developments the further refinement of more familiar approaches? Further debate concerns the extent to which the answer to these questions is broadly the same for all employing organisations or whether it differs quite profoundly from industry to industry or firm to firm.

A third debate is oriented towards longer-term future developments. Many believe and have argued persuasively that we are currently witnessing changes in our business environment which are as fundamental and significant as those which accompanied the industrial revolution two hundred years ago. They further argue that the world of work which will emerge in future decades will be wholly different in major respects from that we currently inhabit. It follows that those organisations which 'see the future' most clearly and change accordingly stand to gain most. But are these predictions really accurate? Could the analysis on which they are built be faulty in key respects?

Of course it is also possible to ask rather different kinds of questions about the HR practices that are being, will be or should be developed, which in turn lead us to engage in various types of debate. Some, for example, focus exclusively on the requirements of the organisation and the search for competitive advantage. What can the HR function do which will maximise organisational growth, effectiveness and efficiency? However, many also like to think more broadly and to concern themselves with the impact of employment practice on the workforce and on society in more general terms. Hence we also engage in debates that are essentially ethical in nature or which have a prominent ethical dimension.

## Key environmental developments

The major trends in our contemporary **business environment** are well understood, well documented and uncontroversial. People differ, though, in their understanding of the speed of change and of the extent to which all organisations are or will be affected. As far as product markets are concerned the big trend is towards ever more intense competitive pressures, leading some to argue that we are now entering the era of hyper-competition (Sparrow 2003, p. 371). This is being driven by two major developments, the significance of which has increased considerably in recent years.

First, we are witnessing moves towards the globalisation of economic activity on a scale that has not been experienced before in human history. More and more the markets for the goods and products we sell are international, which means of course that competition for those markets as well as our established ones is also increasingly becoming international. Large organisations that were able to dominate national markets a decade or two ago (many owned and operated by governments) are now mainly privately owned and faced with vastly more competition from similar organisations based all over the world. This has led to consolidation through the construction of global corporations and strategic alliances whose focus in terms of people management is also international.

The second major antecedent of hyper-competition is technology, which moves forward at an ever-accelerating pace year by year. Developments in information technology, energy production, chemical engineering, laser technology, transportation and biotechnology are in the process of revolutionising the way that many industries operate. It is partly the sheer pace of change and the need for organisations to stay ahead of this very fast-moving game which drives increased competition. Being the first to develop and make efficient use of new technologies is the means by which many organisations maintain their competitive position and can thus grow and prosper.

But IT, and in particular the growth of e-business, is significant too because it has the potential vastly to increase the number of competitors that any one organisation faces. This is because it makes it much easier for customers and potential customers to compare what your organisation can offer in terms of price and quality with what others can offer.

What does this mean in practical terms from the point of view of the HR manager? First, it means that practices continually have to be developed which have the effect of enhancing an organisation's competitive position. Ways need to be found of improving quality and of bringing to market attractive new products and services, while at the same time ensuring that the organisation remains competitive in terms of its cost base. Second, it means that a good deal of volatility is the norm and that change, often of a profound nature, is something that people working in organisations must expect and be ready for. So a capacity for organisational flexibility has become central to the achievement and maintenance of competitive advantage. Third, there are direct practical outcomes. For example, HR managers have to learn how to manage an international workforce effectively and how best to attract, retain and develop and motivate people with those relatively scarce skills that are essential if an organisation is effectively to harness and deploy evolving technologies.

For the HR manager, however, unlike colleagues in other areas of management, responding to product market developments is only part of what is needed. Other

major environmental trends are equally important and must also be understood and built into decision making. There are two areas which are particularly important:

- labour market trends
- the evolution of employment regulation

Developments in the labour market are significant partly in terms of the numbers of people and skills available, and partly in terms of attitudes towards work and the workplace. Major developments appear to be occurring in both these areas. Many industries, for example, have found themselves facing skills shortages in recent years. The impact varies from country to country depending on relative economic prosperity, but most organisations in the UK have seen a tightening of their key labour markets in recent years. Unemployment levels have remained low, while demographic trends have created a situation in which more older people are retiring than younger people are entering the job market. There are all kinds of implications. For a start, employers are having to make themselves more attractive to employees than has been necessary in recent years. No longer can they simply assume that people will seek work with them or seek to remain employed with them. In a tight labour market individuals have more choice about where and when they work, and do not need to put up with a working environment in which they are unhappy. If they do not like their jobs there are more opportunities for them to look elsewhere. So organisations are increasingly required to compete with one another in labour markets as well as in product markets. This has implications for policy in all areas of HRM, but particularly in the areas of reward, employee development and recruitment.

Labour market conditions along with other social trends serve to shape the attitudes of people towards their work. In order to mobilise and motivate a workforce, HR managers must be aware of how these are changing and to respond effectively. One of the most significant trends in recent years, for example, has been a reduced interest on the part of employees in joining trade unions and taking part in their activities. A more individualistic attitude now prevails in the majority of workplaces, people focusing on themselves and their own career development rather than standing in solidarity with fellow workers. Another well-documented trend is the increased desire for employees to achieve a better balance between their home and work lives and their increased willingness to seek out employers who can provide this.

The growth in the extent and complexity of employment regulation is a third area which HR managers are obliged to grasp and the elements of which they must implement in their organisations. Prior to 1970, with one or two exceptions, there was no **statutory regulation** of the employment relationship in the UK. An individual's terms and conditions of employment were those that were stated in the contract of employment and in any collective agreements. The law did not intervene beyond providing some basic health and safety protection, the right to modest redundancy payments and a general requirement on employers and employees to honour the contractual terms agreed when the employment began. Since 1970 this situation has wholly changed. The individual contract of employment remains significant and can be enforced in court if necessary, but there has been added to this a whole range of statutory rights which employers are obliged to honour. The most significant are in the fields of health and safety, equal pay, unlawful discrimination and unfair dismissal. Much recent new law such as that on working time, family-friendly rights, consultation and discrimination on grounds of sexual orientation and belief has a European origin, and a great deal more can be expected in the years ahead.

Debates about how HR managers are and should be responding to these various trends form the focus of much of what follows in this book and you will find a much more detailed treatment of some in other chapters. The international dimension, for example, is discussed in Chapter 30 and ethical matters in Chapter 31. We focus on the work-life balance in Chapter 32, on labour market trends in Part 2 and on regulatory matters in Part 5. Below we briefly set out the main contours of three specific debates that have a general relevance to many of the topic areas we discuss later.

## The psychological contract

According to many, one consequence of these evolving environmental pressures is a significant and fundamental change in what has become known as 'the psychological contract'. This refers to the expectations that employees have about the role that they play and to what the employer is prepared to give them in return. Whereas a legal contract of employment sets out terms and conditions of employment, remuneration arrangements and the basic rules which are to govern the employment relationship, the psychological contract concerns broad expectations about what each party thinks it will gain from the relationship. By its nature the psychological contract is not a written document. Rather, it exists entirely within people's heads. But this has not prevented researchers from seeking to pin it down and to track the extent to which we are witnessing ongoing change in established psychological contracts.

While people disagree about the extent to which this change has in fact occurred, there is general agreement about the phenomenon itself and the notion that an 'old' psychological contract to which generations of employees have become accustomed is being superseded to some extent by a 'new' psychological contract which reflects the needs of the present business environment. From the employee perspective we can sum up the old psychological contract as follows:

> I will work hard for and act with loyalty towards my employer. In return I expect to be retained as an employee provided I do not act against the interests of the organisation. I also expect to be given opportunities for development and promotion should circumstances make this possible.

By contrast, the new psychological contract takes the following form:

> I will bring to my work effort and creativity. In return I expect a salary that is appropriate to my contribution and market worth. While our relationship may be short term, I will remain for as long as I receive the developmental opportunities I need to build my career.

A switch from the 'old' approach to the 'new' involves employers giving less job security and receiving less loyalty from employees in return. Instead, employees are given developmental opportunities and are expected to give the employer flexibility. The whole perception of the employment relationship on both sides is thus radically different. Moreover, moving from old psychological contracts towards new ones is

a problematic process that involves managers 'breaching' the established deal. This is likely to lead to dissatisfaction on the part of employees who are affected and to some form of collective industrial action in unionised settings.

The big question is how far has a change of this nature actually occurred? Are we really witnessing a slow decline in the old psychological contract and its replacement by the new one, or have reports of its death been exaggerated?

On this issue there is a great deal of disagreement. Many researchers claim to have found evidence of substantial change in many industries, particularly as regards reduced employee loyalty (e.g. Coyle-Shapiro and Kessler 2000, Maguire 2002). Yet others, notably Guest and Conway in their many studies conducted on behalf of the Chartered Institute of Personnel and Development (CIPD), have found relatively little evidence of any change in the state of the psychological contract. Their findings (e.g. Guest and Conway 2000 and 2001) suggest that while some change has occurred in the public sector, perceptions closer to the 'old' psychological contract remain a great deal more common than those associated with the 'new' approach.

It is difficult to reach firm conclusions about why these very marked differences of opinion exist. It is possible that the old psychological contract remains intact for most people, but that a significant minority, particularly managers and some public sector workers, have had to adjust to profound change. It is also possible that organisations have tried to move away from the old approach towards the new one, but have found it difficult to take their employees with them and have thus sought other methods of increasing their competitiveness. A third possibility, suggested by Atkinson (2003), is that the differences in the conclusions people reach about this issue derive from the methodologies they adopt when studying it. She argues that large-scale studies which involve sending questionnaires to employees have tended to report little change in the state of the psychological contract, while smaller-scale studies based on interviews with managers and trade union officials tend to report the opposite.

## ACTIVITY 1.5

How would you characterise your current psychological contract at work? To what extent and in what ways does it differ from psychological contracts you have experienced in previous jobs or from those of your friends and family?

### Best practice v. best fit

The debate between **best practice** and **best fit** is an interesting one of general significance which has consequences across the field of HRM. As well as being a managerial issue it concerns one of the most significant academic controversies in the HR field at present. At root it is about whether or not there is an identifiable 'best way' of carrying out HR activities which is universally applicable. It is best understood as a debate between two schools of thought, although in practice it is quite possible to take a central position which sees validity in both the basic positions.

Adherents of a best practice perspective argue that there are certain HR practices and approaches to their operation which will invariably help an organisation in

achieving competitive advantage. There is therefore a clear link between HR activity and business performance, but the effect will only be maximised if the 'right' HR policies are pursued. A great deal of evidence has been published in recent years, using various methodologies, which appears to back up the best practice case (e.g. Pfeffer 1994; Huselid 1995; Wood and Albanese 1995; Delery and Doty 1996; Fernie and Metcalf 1996; Patterson *et al*. 1998; Guest and Conway 2000). While there are differences of opinion on questions of detail, all strongly suggest that the same basic bundle of human resource practices or general human resource management orientation tends to enhance business performance in all organisations irrespective of the particular product market strategy being pursued. According to David Guest this occurs through a variety of mechanisms:

> human resource practices exercise their positive impact by (i) ensuring and enhancing the competence of employees, (ii) by tapping their motivation and commitment, and (iii) by designing work to encourage the fullest contribution from employees. Borrowing from elements of expectancy theory (Vroom 1964, Lawler 1971), the model implies that all three elements should be present to ensure the best outcome. Positive employee behaviour should in turn impact upon establishment level outcomes such as low absence, quit rates and wastage, as well as high quality and productivity. (Guest 2000, p. 2)

The main elements of the 'best practice bundle' that these and other writers identify are those which have long been considered as examples of good practice in the HRM field. They include the use of the more advanced selection methods, a serious commitment to employee involvement, substantial investment in training and development, the use of individualised reward systems and harmonised terms and conditions of employment as between different groups of employees.

The alternative 'best fit' school also identifies a link between human resource management practice and the achievement of competitive advantage. Here, however, there is no belief in the existence of universal solutions. Instead, all is **contingent** on the particular circumstances of each organisation. What is needed is HR policies and practices which 'fit' and are thus appropriate to the situation of individual employers. What is appropriate (or 'best') for one will not necessarily be right for another. Key variables include the size of the establishment, the dominant product market strategy being pursued and the nature of the labour markets in which the organisation competes. It is thus argued that a small organisation which principally achieves competitive advantage through innovation and which competes in very tight labour markets should have in place rather different HR policies than those of a large firm which produces low-cost goods and faces no difficulty in attracting staff. In order to maximise competitive advantage, the first requires informality combined with sophisticated human resource practices, while the latter needs more bureaucratic systems combined with a 'low cost – no frills' set of HR practices.

The best fit or contingency perspective originated in the work of Joan Woodward and her colleagues at Imperial College in the 1950s. In recent years it has been developed and applied to contemporary conditions by academics such as Randall Schuler and Susan Jackson, John Purcell and Ed Lawler. In addition, a number of influential models have been produced which seek to categorise organisational contingencies

and suggest what mix of HR practices is appropriate in each case. Examples are those of Miles and Snow (1978), Fombrun *et al*. (1984) and Sisson and Storey (2000) – a number of which we look at in more detail in Chapter 2.

To a great extent the jury is still out on these questions. Proponents of both the 'best practice' and 'best fit' perspectives can draw on bodies of empirical evidence to back up their respective positions and so the debate continues.

## The future of work

Debates about what will happen in the future are inevitably speculative and impossible to prove one way or the other, but a great deal of attention and government research funding is currently being devoted to this issue. It matters a great deal from a public policy point of view because judgements about employers' human resource needs in the future must determine decisions about education and training now. Government actions in the fields of economic policy, employment legislation and immigration are also affected.

A good starting point is the work of influential writers such as Charles Handy (1994 and 2001), William Bridges (1995) and Jeremy Rifkin (1995). In different ways they have argued that the product market forces identified above will lead in future decades to the emergence of a world of work which is very different in many respects from that which most in western industrialised countries currently experience. Both the type of work we do and the nature of our contractual arrangements will, it is argued, change profoundly as we complete our journey out of the industrial era and into a new post-industrial age.

The first consequence will be a marked shift towards what is described as knowledge work. In the future, it is claimed, most people will be employed, in one way or another, to carry out tasks which involve the generation, interpretation, processing or application of knowledge. Automation and the availability of cheaper labour in developing countries will see further declines in much manufacturing activity, requiring the western economies to create wealth from the exploitation of scientific and technological advances. It follows that many more people will be employed for their specialist knowledge and that far fewer routine jobs will exist than is currently the case. Demand for professional and technical people will increase, while demand for manual and lower-skilled workers will decrease. It also means that competitive advantage from an employer's perspective will derive from the capacity to create and deploy knowledge more effectively than others can.

The second major claim that is made is that the 'job' as we have come to know it will become rarer and rarer. In the future many fewer people will occupy defined jobs in organisations. Instead we will tend increasingly to work on a self-employed basis carrying out specific, time-limited projects for organisations. This is inevitable, so the argument goes, in a highly volatile business climate. Organisations simply will not be able to offer long-term guarantees of work and so will be forced to stop offering contracts of employment in the way that they currently do. The future is therefore bleak for people who want job security, but bright for those who are happy working for many employers and periodically re-educating themselves for a new type of career.

In many respects these arguments are persuasive. They are based on a rational analysis of likely developments in the business environment as globalisation and technological advances further evolve. They remain, however, highly controversial

and are increasingly subject to challenge by researchers who argue that change on this kind of scale is not currently happening and will not happen in the near future.

A prominent critic of the views expressed by the predictors of radical change is Peter Nolan (*see* Nolan 2001 and Nolan and Wood 2003), who argues that the case is often overstated to a considerable degree:

> Change is evident, to be sure, but the shifts in the patterns and rhythms of work are not linear, pre-determined by technology or, as some writers have uncritically assumed, driven by universal trends in market globalisation. (Nolan and Wood 2003, p. 165)

Instead, according to Nolan and his colleagues, we are witnessing the resolute continuation of established approaches and some reversal of trends that began to develop in the 1980s and 1990s but which have since petered out. Job tenure in the UK, for example, has risen significantly in recent years while the proportion of people employed on fixed-term contracts and a self-employed basis has fallen. While we are seeing a slow growth in the proportion of people employed in professional and scientific roles (from 34 per cent to 37 per cent in the 1990s), there is no fall occurring in the number of manual jobs. At the same time the proportion of people employed in relatively low-skilled jobs in the service sector is growing quickly. Critics of Handy and the other futurologists have thus identified a gap between a rhetoric which emphasises fundamental change and a reality which gives little support to the view that we are in the process of shaping a 'new world of work'.

These different conceptions of the future may well derive from a preference for a focus on different types of environmental development. A reading of the major contemporary product market trends can easily lead to predictions of radical change. The twin forces of technological advance and globalisation do indeed point to a transformation of many aspects of our lives. But trends in employment are equally determined by developments in the labour market and regulatory environments. These suggest a strong preference on the part of both employees and law makers for a continuation of traditional approaches towards employment.

## WINDOW ON PRACTICE

### Flexicurity in Denmark

Government intervention is commonly seen as a barrier blocking the creation of **flexible labour markets** such as those that it is argued are necessary if the Western economies are to thrive in an increasingly volatile and knowledge-driven business environment. Labour market regulation serves to slow down progress towards a world of work in which most people are self-employed or employed on a series of short-term contracts for different organisations. In fact, as Madsen (2003) shows, the Danish experience appears to show that the opposite is the case.

Denmark has the highest level of employee turnover in Europe (30 per cent on average in recent years). It is also has a very high level of job turnover, between

10 per cent and 15 per cent of its jobs disappearing each year and being replaced with new ones. Around a quarter of the Danish workforce finds itself unemployed for some portion of every year, while as many as 10 per cent of the country's people are employed on fixed-term contracts. The proportion of small and medium-sized enterprises is also the highest in Europe. Economically, Denmark is a success story. Inflation has been low for a decade, overall unemployment rates are well below those of other major EU economies and growth has been stronger. In short, Denmark appears to be a good deal further down the road to the kind of 'future world of work' envisaged by Charles Handy than the other EU countries.

The major reason for this appears to be the Danish social security system, which is very generous in comparison with those of other countries. It is relatively easy to dismiss people (although less easy than in the UK), but people who do find themselves out of work suffer a great deal less in financial terms than equivalents elsewhere. They are, however, obliged as a condition of receiving benefit to take part in government-sponsored retraining and educational programmes. It is this highly sophisticated and expensive unemployment benefit system that seems to have allowed Denmark to develop highly flexible labour markets. It means that people are more willing to take on insecure roles and that employers are less concerned than they are elsewhere to avoid redundancies at all costs.

## SUMMARY PROPOSITIONS

**1.1** Human resource management is fundamental to all management activity.

**1.2** It is possible to identify two distinct definitions of the term 'human resource management'. The first describes a body of management activities, while the second signifies a particular approach to carrying out those activities.

**1.3** Human resource managers are concerned with meeting four distinct sets of organisational objectives: staffing, performance, change management and administration.

**1.4** HRM activities are carried out in various ways through various forms of organisational structure. In some larger organisations HR generalists work alongside specialists in particular HR disciplines.

**1.5** Human resource management can be characterised as the latest in a series of incarnations that personnel practitioners have developed since the origins of the profession over 100 years ago.

**1.6** The philosophy of human resource management in this book is that it is a series of activities which: first, enables working people and the business which uses their skills to agree about the nature and objectives of their working relationship; and, second, ensures that the agreement is fulfilled.

1.7 Most current debates about human resource management in general focus on the extent and nature of the responses needed in the face of developments in the business environment.

1.8 Three of the most prominent current debates focus on the nature of the psychological contract, the relative wisdom of the 'best fit' and 'best practice' approaches and predictions about the future of work.

## GENERAL DISCUSSION TOPICS

1 How do you understand the suggestion that the contract of employment is gradually changing to a contract for performance?

2 The philosophy of HRM set out at the end of this chapter makes no reference to the customer. David Ulrich, a professor at Michigan Business School, believes that it is important to refocus HR activities away from the firm towards the customer so that suppliers, employees and customers are woven together into a value-chain team. What difference do you think that would make?

3 How far do you think it is possible to agree with both the 'best fit' and 'best practice' perspectives on HRM? In what ways are they compatible with each other?

## FURTHER READING

*British Journal of Industrial Relations* (Vol. 41, No. 2)
The special edition, published in June 2003 was devoted to research on and debates about the future of work. Many leading writers in the field contributed articles which set out the first findings from a major national research project that has involved 22 universities.

Legge, K. (1995) *Human Resource Management: Rhetorics and Realities*. London: Macmillan
This provides a rigorous discussion of the differences between personnel management and HRM, as well as introducing and considering a series of other debates about the nature of HRM and its purpose for organisations. Other useful discussions include Guest (1999 and 2001), Tyson (1995) and Maund (2001).

Sparrow, P. and Cooper, C. (2003) *The Employment Relationship: Key Challenges for HR*. London: Butterworth-Heinemann
An excellent introduction to the major issues facing HR managers in the current business environment. The psychological contract and the evolution of new organisational structures are particularly well covered.

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An extensive range of additional materials, including multiple choice questions, answers to questions and links to useful websites can be found on the Human Resource Management Companion Website at **www.pearsoned.co.uk/torrington**.