CHAPTER- I

Introduction

The study of human resource management (HRM) has changed rather dramatically during the 20th century. Beginning with the work of F.W. Taylor around the turn of the last century, the focus of managing people in organizations was on developing precise analytical schemes to select and reward an individual. This focus was typically for the purposes of motivating, controlling and improving the productivity of entry level employees.

During the 1920s work on these analytical schemes expanded to encompass issues of appraisal and training individuals, essentially for the same purposes. While the focus during the first quarter of the 20th century was on the individual employee, the second quarter was to see it shift to the group. Elton Mayo’s work at the Hawthorne plant focused on improving the productivity of individuals by experimenting with groups. His efforts included changing the group composition and incentive schemes. They also included changing environmental conditions, namely lighting and the physical arrangements. Knowledge of groups and the impact of group on individuals advanced with the work of Kurt Lewin during the 1930s and into the 1940s. Yet with few notable exceptions, such as the work of Chester Barnard on Chief Executive Officers, this work was focused primarily on the people doing the work.

During the 1950s and 1960s much of the work concerned with managing individuals in organizations highlighted individual needs and motivation. Advances were being made in selection and development: the Second World War with assessment centre expanded to the private sector and the development of tests for selection and placement continued. Work in performance appraisal and training progressed.

Yet, again, most of the work focused, explicitly or implicitly, on improving the performance of the individuals doing the work in the organization. At this time,

however, the more applied work in these areas related to managing and motivating individuals became the domain of those identifying primarily with personnel psychology and organizational psychology. The more theoretical work came under the new domain of organizational behaviourists.

During the 1970s another discipline evolved under the name of Human Resource Management (HRM). Encompassing the methodological traditions of the personnel, industrial and organizational psychologists and theoretical frameworks of the organizational behaviourists, HRM took on a broader focus. This focus included concern for the safety and health of the worker as well as individual satisfaction and performance. Industrial relations and planning for personnel needs also came within the domain of HRM. Yet throughout the work on all the HRM topics, the primary focus of attention remained on the entry-level employee.

In the late 1970s and 1980s, the discipline of organizational strategy started to make an impact upon HRM. Environmental forces, namely more intense international and domestic competition for companies, also began to make an impact. This dual blow reflected the continued theoretical and applied sides of HRM. The result of this within HRM was recognition that a substantial number of organizational characteristics not generally addressed actually had/have substantial impact upon HRM. Thus, organizational characteristics such as structure, size, strategy, culture and product and organizational life cycle began to be incorporated into the work under the HRM label.

In the 1990s, forces of global competition, worldwide labour availability, business ethics, and the environment are winning the attention of HRM. Of course, this does not mean that the issues of the 1970s and 1980s can be forgotten. To the contrary, these are all carried forward, making the job of HRM challenging, rewarding and exciting.  

The challenges of 2000s which are related to HRM according to J.N. Sharma are: the strategic approach to HRM, the increasing globalization of HR activities,
maintaining ethical policies and behaviour within the organization, and the need to
demonstrate the cost-benefit utility of HR endeavours.6

The term “resource” is a dynamic concept. This term is neither easy to define
nor easy to delimit in scope. The word resource refers to a function, rather than to a
thing or substance, it is a means to an end, and as that end or goal changes, resources
may change with it. On the other hand, applies to any thing, person, action, etc., to
which one turns for aid in time of need or emergency.7

Human Resource (HR) is the total knowledge, skills, creative abilities, talents,
and aptitudes of an organization’s work force, as well as the value, attitudes, and
benefits of the individual involved.8 On the other hand it is a whole consisting of inter-
related, inter-dependent and interacting physiological, psychological, sociological and
ethical components.9

The term HR can also be explained in the sense that it is a resource like any
natural resource. It does mean that the management can get and use the skill,
knowledge, ability etc., through the development of skills, tapping and utilizing them
again. HR has also been regarded as human factor, human asset, human capital and
the like. The term labour and manpower had been used widely denoting mostly the
physical abilities and capacities of employees. The term personnel had been used
widely in the recent past to denote persons employed in any services. Thus, this term
denotes the employee as a whole but it does not clearly denote various components of
HR like skill, knowledge, value, etc.10

Among different roles of HR, the most important roles are transaction,
translation, transitional and transformation in an organization.11

1. The Transaction: This role refers to the routine yet essential sub functions of
HRM that assures that the day-to-day tasks are carried out. The transaction
roles include the traditional personnel or HR administration activities: hiring
and firing, making sure employees are paid in a timely and accurate manner.

---

8 Megginson, L.C., Personnel and Human Resource Administration (Homewood: Richard D. Irwin, Inc.), 1997,
p. 4.
11 Kossek, E.E., Block, R.N., “New Employment Relations: Challenges and Basic Assumptions”, in E.E.Kossek,
and handling of grievances. These day-to-day activities of personnel administration are important for ongoing administrative roles, but may not necessarily transform the firm to meet future competitive business pressures. The goal of HR activities associated with the transition role is to reduce administrative people’s costs associated with accomplishment work tasks.

2. The Translation: This role refers to the communication responsibilities associated with listening and responding to employees’ and customers’ concerns, as well as explaining to and implementing for employees the policies established by higher management. The translation role includes the communication of any HR policy such as equal employment opportunity laws, business-operating objectives, or customer needs to employees. If employees and management understand each other well and have a common line of sight regarding organizational and individual goals, operational excellence is likely to occur.

3. The Transition: This role refers to execution of HR activities, policies and practices to make the necessary ongoing changes to support or improve business operational and strategic objectives. Typically, this role focuses on the implementation of new or revised HR practices and substantive and procedural changes in HR policies and practices.

4. The Transformation: This role refers to new HR practices and systems typically accompanying new organizational structures, and may also accompany organizational cultural transformation. This occurs when a firm decides to make a fundamental change in the nature of its HRM practices, work systems based on how jobs are designed and organized, organizational structures, and cultures to support major strategic change. The transformation role includes the globalization of all policies and practices, instigating a high commitment work culture with team based work systems, merging and transforming two organizations involved in a merger and acquisition or an international joint venture, or developing a more collaborative and less militant relationship with a union.
Human Resource Strategy

HRM cannot be conceptualized as stand-point alone on corporate issues strategically it must flow from and be dependent upon the organization’s (market-oriented) corporate strategy.12

With the changing dynamics of the HR functions and its becoming more strategic in nature, there is greater need for HR strategy. Organizations and companies that are enduringly successful are those that begin as early as possible to define and embody in their activities as unique competitive position vis-à-vis HR.

The term ‘strategy’ is widely used in and presupposes importance and in the words of the Oxford Concise Dictionary is, ‘general ship’. Thus strategy is associated with the long-term decisions taken at the top of the enterprise and is distinguished from operational activities. Strategy came from the Greek word ‘strategos’, which means ‘a general’. Strategy’s original literary meaning is ‘the art and science of directing military forces’. The term strategy is frequently used in the corporate world today. It describes the steps taken by an organization in achieving its vision and mission. Strategy is concerned with determining which option will provide maximum benefits. Thus it is in a way, which enables an organization to determine the alternatives available in achieving its objectives and mission and the selection of the alternatives to be pursued. According to Jauch and Glueck13 “Strategy is a unified, comprehensive and integrated plan that relates the strategic advantages of the firm to the challenges of the environment. It is designed to ensure that the basic objectives of the enterprise are achieved through proper execution by the organization.”

Basically any strategic process can be broken down into two phases:

1. Strategy Formulation: Strategy formulation is concerned with making decisions with regard to defining the organization’s vision and mission, establishing long and short-range objectives to achieve the organization’s vision, and selecting the strategy to be used in achieving the organization’s objectives.

2. Strategy Implementation: Strategy implementation is concerned with aligning the organization structure, systems and processes with the chosen strategy. It

---

involves making decisions with regard to matching strategy and organizational structure and providing organizational leadership pertinent to the strategy and monitoring the effectiveness of the strategy in achieving the organization’s objectives.

Implementing change of strategic dimensions (i.e., decisions with long-term effects) is likely to involve persuading employees to make changes in their working styles and methods. Moreover, the expectation may be that they change towards something that is ill-defined, uncertain and unfamiliar. Not surprisingly, the management of strategic change can be highly problematic.\(^{14}\)

While reviewing the strategic decisions in management, Johnson\(^{15}\) suggests that they are likely to be concerned with some of the following:

* The long-term direction of the organization;
* The scope of the organization’s activities;
* The matching of organizational activities to the environment;
* The matching of the organization’s activities to its resource capability;
* Strategic decisions are likely to have major resource implications for an organization;
* Strategic decisions are likely to involve a higher degree of uncertainty;
* Strategic decisions are likely to demand an integrated approach for managing the organization;
* Strategic decisions are likely to be concerned with sustaining change.

HRM is, in some manner, strategic when it follows closely the corporate strategy of the organization. Developing a HR strategy in a newly emerging industry or in a business undergoing revolutionary technological changes is a daunting proposition. In such cases, managers face a high level of uncertainty about the needs of the employees, the policies that prove to be the most desired, and the best configuration of activities and technologies to deliver them. Because of all this uncertainty, changes and pullouts of employees, the retention of the productive human element and many such other factors are of critical importance.

\(^{15}\) Ibid., p. 4.
HR strategy is a long term direction of the HR function in an organization. It describes the best options suitable to an organization for managing its HR in the line with the available systems and processes, resources, and environment. HR strategy enables an organization to remain effective and efficient in managing people in line with the changing business environment. It is a comprehensive approach covering the vital issues such as HR commitment, HR competence, HR productivity and HR globalization, etc. Many organizations worldwide are realizing this and are thus adopting a strategic focus to HR issues.

The HR strategy is “a strategic look at HR functions in line with the business functions for organizations”. Consistent with the strategy literature, we conceptualize HR strategy as an outcome: the pattern of decisions regarding the policies and practices associated with the HR system. Implicit in this definition are two core assumptions. First, we assume that the focus of attention needs to be on the HR system, not the HR function. The HR system is one of numerous organizational systems (e.g., finance system, marketing system), each of which play a role in the formulation of organization-wide strategies and each of which is composed of function-specific subsystems. In the case of HR, these subsystems are focused on staffing and development, appraisal and set of rewards, and employee relations (i.e., work systems design and workforce governance). Although in many organizations the HR function has primary responsibility for the implementation of decisions having to do with each of these sub-systems, other functional units, along with the human resource function, may play an important role in making the decisions in the first place, as well as in implementing them.

Therefore, organizational HR strategy includes a case for change of vision, the mission of the function, definitions of the customers, the design criteria, relationships, the transition process and the implication for stakeholders.

(I) HR Productivity Strategy

The rapid pace of globalization and the forces driving it have created new market conditions. The structure of international and domestic markets has changed

17 Ibid.
and production systems have been transformed in goods and services, information, finance and other tradable commodities. In the globalized economy competitiveness means an ability to take the most advantageous position in a constantly changing market environment. The major determinants of the ability to sell products and services in highly competitive markets are no longer the relative cost advantages. More and more, competitiveness is based on quality, speed, technical superiority, and service and product differentiation. In the ultimate analysis though, one of the major determinants of competitiveness, whether at national, sectoral or enterprise level, is rising total productivity.

The changing nature of production and its organization as well as the changing nature of the markets, require new conceptions of productivity, its improvement and management. Many of the concepts, tools and techniques of productivity improvement were developed when ‘modern enterprise’ was emerging out of the industrial revolution and production was structured along Taylor’s principles. The new form of production system based on enterprise networks and value chains, new forms of work organization such as production cells and autonomous groups, and other flexible production systems that are evolving in response to rapidly changing customer preferences and expectations all mean that new productivity paradigms and approaches must be developed. The importance of the human resource as the key to productivity and competitiveness must be fully appreciated and taken into consideration.

It is a truism that productivity is a fundamental source of national development and corporate survival. The standard of living is determined by the productivity of a country’s economy, which is measured by the value of goods and services produced per unit of national resources (human, capital and physical). Productivity then defines competitiveness. The full potential of productivity has not yet been realized. There is over-whelming evidence worldwide, both in developed and developing countries, that conscious efforts can bring about dramatic one-time productivity improvements as well as very substantial (5-9 per cent) annual productivity increases.

---

Most productivity approaches were developed in a specific context, and their limitations become evident when they are applied in the widely varying economic social and cultural conditions under which enterprises operate. Even the same organization requires different approaches at different times because of new problems and the changing external environment.

The traditional interpretation of productivity, focusing on labour or the efficient use of resources, cannot meet the complex and diverse competitive needs of business. The economic conditions which prevailed when the productivity concept was propounded, dictated that labour should be the primary concern. Over a period, other resources such as capital, energy and materials were brought into the ambit of productivity considerations to reflect their relative importance and contribution. This view prompted the development of productivity techniques which focused on reducing waste and improving efficiency. Productivity meant producing ‘more and more’ with ‘less and less’. It is in this context that the works of Adam Smith and Frederick Taylor focused on the division of labour, identifying and standardizing the best methods of doing work to achieve higher performance. This view can at best be considered as resource productivity and is only one dimension of the productivity equation.

However, many managers still continue to perceive it as a function of labour efficiency or resource utilization.

Productivity is probably the most widely discussed yet least understood concept of the present management era. Most managers do not know (1) what productivity really means, (2) how vital it is to them and their organization, (3) that it can be improved significantly, (4) how to measure and analyze it, (5) what factors affect it, and (6) how to improve it.

Besides resource utilization (efficiency) and output (effectiveness), productivity has been considered as working smarter rather than harder, as in attitude of mind; as a process of change; as improving the quality of life and creating wealth; as a journey without an end; as a destination; as a concept of mind; a march towards perfection. Clearly, productivity means different things to different people as they tend to focus on the dimensions and factors which are relevant to them. However, a problem arises if they do not shift the emphasis to other dimensions to reflect
changing conditions. These and other reflections on productivity cannot really be considered as different definitions, they are various interpretations focusing on priorities that are important in a given economic and social context or focusing on different perspectives.

Productivity has been viewed from three related but different perspectives. These three perspectives in productivity are:

1. Conceptual Perspective (What productivity is): Emphasizing the relationship between output and input, the conceptual perspective considers productivity as a comprehensive whole incorporating both the input dimension (efficient use of resources) and the output dimension (effective accomplishment of goals). A comprehensive view is essential to match the multidimensional competitive profile and diverse needs of organizations; it has the capacity to integrate various dimensions of a productive and healthy organization. Such a view of productivity would focus on both outputs-what is required by the customer and stakeholders - and the input, processes employed and materials consumed in the process of production. Productivity means how much and how well we produce from the resources used20. The following points need emphasis in the present scenario:
   (a) Put Outputs First: To meet the challenge of the business environment, productive enterprises have reversed the emphasis in the productivity equation to make effectiveness (products and services) the first priority in the overall strategy of the enterprise. The questions “Are we doing the right things?” and “Are we producing the goods required by the customer?” determine effectiveness. To increase effectiveness, products and services must meet the following criteria: (i) Meet customer needs; (ii) Minimize negative environmental impact; (iii) Help employees gain experience.
   (b) Continue the Emphasis on Waste Reduction: Having decided on the products and services that an organization should produce, the focus shifts to the resources used and the methods employed to produce and deliver them i.e., the efficiency aspect. Wastes are potential resources. Identifying them requires

critical examination of all aspects of the organization from the customers' point of view. Any activities, materials, space, machines, employees that are not used or do not add value are considered a waste.

c) Productivity is Value Added: To emphasize market orientation and outward focus, productivity is increasingly perceived and analyzed as a value-adding idea because value is decided by the customers and the community. In a way value added represents the wealth generated by the firm. It reflects the effective utilization of company assets, particularly the skills and knowledge of its HR and management in converting raw materials into products, which customers will buy. Owners and employees share a part of the value added. This view represents a departure from the conventional concept in which workers are treated as a cost. It reflects the notion that employees are partners in the organization and have a share in the value generated inside the company (Figures No. 1.1, 1.2) value added can be increased either by improving the value to customers (increasing sales) or by reducing wastes and costs.

---

**Figure No. 1.1**  
Value Added Established by HR

---

Source: Adapted from Shimizu et al., 1997.  

---

(d) Shift Focus to Value Creation: Some managers and researchers consider improving the effectiveness and efficiency of current operations to be productivity improvement. But, in a rapidly changing environment, this approach may not be adequate to meet business imperatives. The focus must shift to value creation or productivity innovation. It requires a continuous effort to develop innovative responses to market changes through path-breaking products and services, new business, and new way of doing business to satisfy the needs of existing customers and attract new customers. To be relevant in the changing environment, productivity must focus on:

- Doing the right things first by continuously reviewing and identifying changing customer and social needs, and developing products and services to satisfy them.
- Doing things right by constantly reviewing and improving design, manufacture and delivery to keep on satisfying changing needs.

2. Improvement Perspective (How to improve it): The second perspective embodies a multitude of approaches to productivity improvement. Recent
literature and research have underscored the critical role of HR in enhancing productivity. The importance of soft factors such as innovation, creativity, motivation, knowledge, information, training, skills and values has been highlighted.

(a) Factors Influencing Productivity: In a global environment, a host of factors operating at international, national, organizational and individual levels could influence productivity as shown in Figure No.1.3. To create a better understanding of the interaction between these factors, they are shown as four concentric circles representing the four levels. Any improvement in the factors shown on the outer circle has the capacity to influence the levels that lie within that circle. A change in the vision and style of management will affect the motivation of all employees in the organization. Similarly, changes in national economic policy creating a more competitive environment will have an impact on all organizations, though to different degrees. International dynamics and national policies create the environment and provide the means for enterprises to improve their performance, while people carry out actual improvements at organizational level. Second, the factors are not of equal importance and their influence is situational. Therefore, a critical analysis of the nature of these factors, their influence on each other, and their contribution to improving productivity in a given situation, determines their relative position in the strategy. Generally speaking, the following factors are critical in the present environment.
(i) Employees are the Source of Improvement: Productivity improvement is a process of thinking and making changes in the way that products are designed, manufactured, delivered and used, maintained and disposed off. In this process, the HR plays the most vital role because it is the only resource which

---

has the ability to think of changes and implement them. Miyar\textsuperscript{24} has explained this aspect in the following words “In these efforts, the most important is the human factor according to our analysis and experience. Some people mention capital as the most important for industrial development and some others quote technology as the driving force for productivity. Yes, they are important, but capital would be misused by human misappropriation, and high technology can never be maintained without matching human resource development and constant upgrading by human efforts. This last point is particularly valid in the days of very fast technological development.”

In this age when knowledge, creativity and innovation have emerged as the majors competitive weapons, the role of employees has become more important than ever before. The way that employees think about the organization, their role, their ambitions, their jobs, their values and vision, shapes their behaviour and participation in the organizational processes. Therefore, it would not be wrong to say that employees are the source of productivity i.e., the fountainhead of improvement.

(ii) Management Drives Improvement and Performance: Management takes decision and makes choices with regard to products and services, technology, systems, practices and above all values, motivation and HRD. It sets the tone and direction for the organization and creates an environment which either hinders or promotes productivity and performance.

It is management which weaves together the role and contributions of various resources into a composite whole that serves the purpose of the customer and society. It is management which determines an organization’s values, and hence the corporate culture which sustains or undermines an organization’s commitment to productivity\textsuperscript{25}.

(iii) Technology and Business Processes are Critical: Besides technology, business processes play a critical role in achieving higher productivity. A research study points out that: “The evidence that adoption of advanced


technology is positively related to performance is overwhelming. But does this positive association reflect the impact of the technology on the efficiency of the adopting firm, or is it primarily a manifestation of well-managed efficient firms being more likely to adopt advanced technologies?\textsuperscript{26}

(b) Shift Focus to Organizational Productivity: The focus must shift to improving organizational performance in order to achieve the goals defined by the customer and society, and to realize the management vision. The aim is to achieve excellent performance by the organization as a whole, rather than by individual units or departments, because it is the organization that competes in the market place. Many managers tend to equate their own performance with organizational performance. And in the process, organizational productivity suffers because without a focus on the whole organization, functional performance is likely to work against each other. We do not need excellent functions but excellent organizations. Consider a simple decision of the purchasing department to buy certain raw materials at the lowest price. This could result in increased inventories (larger quantities) or in rejection because of reduced specifications which may affect overall organizational performance. This is sub-optimization. Considerations of organizational performance will create a greater understanding of the contribution required from various factors or departments. To achieve optimum productivity, the organizational system should be expanded to include all the elements that affect the organization and those that are affected by the organization. This would bring the concerns of suppliers, customers, the community and government into the considerations for decision making. This approach will link the organization with the environment in a dynamic and organic fashion.

3. Goal Perspective (purpose of improvement and sharing gains): The third view relates to the scope and goal of productivity improvement. This approach observes productivity growth as a major means to generate wealth and improve the quality of life in society, and to enhance competitiveness and

quality of working life with enterprise\textsuperscript{27}. To be self-sustaining productivity must lead to the satisfaction of all stakeholders—employees, customers, owners, the community and suppliers. And in future, it will concern itself with seeking affluence of a kind that will provide equitable material wealth as well as spiritual satisfaction\textsuperscript{28}.

\textbf{(II) HR Commitment Strategy}

HR commitment to work in organization and commitment to an organization are essentially two different concepts, although those are related to one another. Studies of job satisfaction and job involvement have in the past tended to focus primarily on jobs, ignoring the organisations to which the employees belong. However, recent concerns have been more organization-orientated, with increasing interest in organisational commitment as the secret of raising productivity. More and more employees have been encouraged to commit through an intensive socialization process, which now plays a key role in the formation of an integrated management system, alongside the development of an internal labour market and articulation of a unique company philosophy.\textsuperscript{29} Commitment refers to attachment and loyalty. According to Porter\textsuperscript{30}, commitment is the relative strength of the individual’s identification with, and involvement in, a particular organization. It consists, of these three factors; (1) a strong desire to remain a member of the organization; (2) a strong belief in and acceptance of, the values and goals of the organization; (3) a readiness to exert considerable effort on behalf of the organization.

An alternative, although closely related, definition of commitment emphasizes the importance of behaviour in creating commitment. Salancik\textsuperscript{31} puts it ‘commitment is a state of being in which an individual becomes bound by his actions to beliefs that sustain his activities and his own involvement’.

Three features of behaviour are important in binding individuals to their acts: the visibility of the acts; the extent to which the outcomes are irrevocable; and the

\textsuperscript{27} Monga, R.C., op. cit., pp. 7-12.
degree to which the person undertakes the action voluntarily. Commitment, according to Salancik, can be increased and harnessed 'to obtain support for organizational ends and interests' through such ploys as participation in decisions about actions.

As the interest in commitment has increased, so too has the amount of research. Various discoveries have been made. First, the concept was split into subcategories-usually dichotomic: a typical distinction is attitudinal commitment versus calculative commitment, with the former playing a larger part in employee commitment. Second, although the determinants used for organizational commitment tended to be wide-ranging (for example, personal and job characteristics, organizational characteristics, labour market conditions and the organizational framework of HRM), employee internalization, identification, compliance, and the like were found to be closely related to the concept. Third, organizational commitment was found to influence employees’ withdrawal behaviours: although according to the past researches it did not have any positive impact on employees’ intentions to search for other jobs.

The importance of commitment: The concept of commitment plays an important part in HRM philosophy. As Guest32 has indicated, HRM policies are designed to ‘maximize organizational integration, employee commitment, flexibility and quality of work’. The role of an employee is to do a job or to carry out specific tasks. This may necessitate working with others: a work place is not a mere economic group, but requires teamwork or grouping behaviours. To facilitate the process, some form of commitment is needed. This may appear in several forms which, although closely related, do differ. However, this entry will focus instead on organizational commitment.

In order to pursue high productivity in an organization as well as in a macro economy, managers have concentrated their concern on HRM. They have been keen to maintain high motivation, good teamwork, good human relations, good attendance and low turnover of the workplace. Firms, trade unions and governments have also been keen to maintain stable industrial relations and a low percentage of industrial disputes. All of the above contribute to maintaining the good performance of organizations, industrial society and the economy.

In order to pursue a high quality of working life, satisfaction of the workforce is essential and industrial stress and alienation should be avoided. Although satisfaction is a topic which has attracted attention, it has tended to concentrate only on job satisfaction. Satisfaction within the workplace and within an organization is also important.

Satisfaction and commitment are related and influenced by one another. However, even if this is not the case, employee job satisfaction and their commitment to an organization should be of great concern to employers. Improving the quality of working life should be one of the goals of HRM as higher quality levels could reduce complaints within the workplace, labour militancy at the firm level and industrial disputes at the macro-economy level.

Three features of behaviour are important in binding individuals to their acts: the visibility of the act, the extent to which the outcomes are irrevocable, and the degree to which the person undertakes the action voluntarily. Commitment, according to Salancik, can be increased and harnessed “to obtain support for organizational ends and interests” through such plays as participation in decisions about actions.

The School of Thought About Commitment: Organisations facing increased competition and coping with change and turbulence are more anxious than ever before to get people to identify more closely with their objectives and values. In many ways, organisations are becoming more fragmented. There have been two schools of thought about commitment:

(i) ‘From Control to Commitment’ School: From control to commitment school was led by Walton in 1985 who saw commitment strategy as a more rewarding approach to human resource management, in contrast to the traditional control strategy. His theme was that improved performance would result, if the organization moved away from the traditional control-oriented approach to workforce management, which relies upon establishing order, exercising control and ‘achieving efficiency in the application of the workforce’. He argued that this approach should be replaced by a commitment

---

35 Ibid.
strategy. He suggested that workers respond best—and most creatively—not when they are tightly controlled by management, placed in narrowly defined jobs, and treated like an unwelcome necessity, but, instead, when they are given broader responsibility, encouraged to contribute and helped to achieve satisfaction in their work. Walton suggested that in the new commitment based approach:

“Jobs are designed to be broader than before, to combine planning and implementation, and to include efforts to upgrade operations, not just to maintain them. Individual responsibilities are expected to change, as conditions change teams, not individuals, often are the organizational units accountable for performance. With management hierarchies relatively flat and differences in status minimized, control and lateral coordination depend on shared goals. And expertise rather than formal position determines influence.”

(ii) The ‘Japanese/Excellence’ School: The Japanese/Excellence School is represented by writers such as Pascale and Athos in 1981, and Peter and Waterman in 1982, which looked at the Japanese model and related the achievement of excellence to getting the wholehearted commitment of the workforce to the organization. Attempts made to explain the secret of Japanese business success by such writers as Ouchi and Pascale and Athos led to the theory that the best way to motivate people is to get their full commitment to the values of the organization by leadership and involvement. This might be called the ‘hearts and minds’ approach to motivation and, among other things, it popularized such devices as quality circles. Peters and Austin wrote: “Trust people and treat them like adults, enthuse them by lively and imaginative leadership, develop and demonstrate an obsession for quality, make them feel

---

they own the business, and your workforce will respond with total commitment."40

Determinants of Organizational Commitment Factors Based on the Japanese Style of HRM: Determinants of organizational commitment factors based on the Japanese style are categorized as employee’s propensity to commit, organizational context, labour market conditions and HRM policies. Employees’ propensity to commit includes personal background, job characteristics and work experience. Organizational context (characteristic) include size, hierarchy, centralization, cohesiveness and technology, labour market conditions means job opportunities, pay trends and any other changes outside the organization. Organizational policy of HRM include emphasis on encouraging key employees, long-term employment, seniority based reward system, and recruitment of new graduates. Commitment to organization is usually emphasized in newcomers’ orientation, instruction by seniors, in-house training, internal promotion and information sharing. Other firm-specific devices related to compensation include bonus payments, employee stock ownership plan, profit sharing, fringe benefits and the pay system. Background factors such as organizational culture and local culture (both national and regional) also have some influence on organizational policy and employee attitudes.

Elements which are related to organizational policies have been omitted in conventional research of individual socio-psychology. The researchers have highlighted the behaviour of individuals, while ignoring the strategic aspects of organizations. More attention should be paid to the outcomes of organizational commitment. Outcomes are divided into two: merit and demerit. Merit outcomes include some work attitudes of employees: good attendance, less lateness and low turnover. Other outcomes would be high motivation, good disciplinary behaviour, less stress, less alienation, good teamwork, and good human relations in the workplace and stable industrial relations. Also, demerit outcomes include: greater stress, over work death, family strains, less self-development and less creativity.

40 Peters, T., and Austin, N., A Passion for Excellence (Glasgow: Collins), 1985.
Outcomes are a means to achieve the ultimate goals. The goals could be summarized as good organizational performance, high productivity and high quality of working life. Figure No. 1.4 shows the determinants of organizational commitment factors based on the Japanese style.

Figure No. 1.4
The Determinants of Organizational Commitment Factors
Based on the Japanese Style of HRM

Source: Adapted from Warner, M., 1996
(III) HR Competence Strategy

Competence is what people need to be able to do a job well. They are about stripping down jobs into their component parts and linking together the two basic elements of performance. What has to be done and to what standard. Competences are concerned with effect rather than effort, with output rather than input. Some people adopt what may be called the ‘output’ model of competence which is based on the proposition that the concept of competence is only meaningful when it can be demonstrated that competences, but of using them to good effect. Competences can be defined at three levels.43

1. Core Competences: These are the competences, which apply to the organization as a whole. They refer to what the organization has to be good at doing if it is to succeed. This could include such factors as customer orientation, producing high quality goods or delivering high quality services, innovation, adding value through the effective use of resources and managing costs.44 Core competences can be linked to its ‘balanced score card’ meaning if measuring organizational success as developed by Kaplan and Norton.45

2. Generic Competences: These are the competences shared by a group of similar jobs - financial accountants, systems analysts, team leader etc. They cover the aspect of the work, which they have in common and define the shared abilities they have to apply to deliver the results they are expected to achieve.

3. Role Specific Competence: These are the competences which are unique to a particular role and they define anything special which they have to be able to do in addition to any generic competences they may share with other people caring out broadly similar roles.

Competence Analysis: The term competence is used at three levels of analysis46:

1. Behavioural Competence: Behavioural competence is behavioural repertoires, which people input to a job, role or organizational context.

2. Management Competence: Management competence is knowledge, skills, values and attitudes. Knowledge attributes to the awareness of the subject in the present and future context. Updating of knowledge from time to time is must in the current business scenario. Skills are the capabilities; an individual has for effective management of a task. Skills are acquired through practice, experience and exposure. Values are intrinsic patterns of belief cherished over a period of time. They are guiding principles which facilitate one’s decision-making process. Attitudes reflect a HR professional’s persistent tendency to feel and behave in a particular way towards the employees and the systems. For example, if a person does not like working with industrial unrest, he may instinctively develop a negative attitude towards his work assignment.

3. Organization Competence: Organization competence are the resources and capabilities of the organization linked with business performance. The link with HR strategy is clear; the organizational level of analysis focuses on the core capabilities associated with business success. The managerial level competencies follow from these and the behavioural level ones in their turn from the managerial level.

Need for HR Competence Strategy: The field of HR is continually changing and expanding and HR professional must be able not only to manage change but also, to some extent, forecast it. It is important to be in tune with the environment and look for HR opportunities, for problems that might be building up in this area so that new resources and initiatives can be developed as a part of strategic HR planning. A comprehensive HR strategy should be supported by HR systems extending right down to the lowest cadre of the employees. Absence of an HR strategy for the organization leads to a mixed bag of individual motivation or alienation, growth or regression. As Muktesh Pant, observed, ‘In any business strategy people are more critical than plans. Effective implementation of strategy is possible only with motivated people’.

The HR function is very dynamic in nature. With the world changing rapidly, the behavioural pattern of people is also undergoing change. According to Marcy Fisher, Associate Director of the Shell Learning Centre, ‘the Human Resource Department is a major player in the company’s culture change efforts. HR has
established a core competency of change management skills and processes. Figure No. 1.5 shows HR competence strategy in the organization.

Figure No. 1.5
HR Competence Strategy


(IV) HR Globalization Strategy

Strategic Human Resource Management (SHRM) involves a set of internally consistent policies and practices designed and implemented to ensure that a firm's human capital (employees) contribute to the achievement of its business objectives. Schuler has developed a more comprehensive academic definition of SHRM:

“SHRM is largely about integration and adaptation. Its concern is to ensure that: (1) HRM is fully integrated with the strategy and the strategic needs of the firm; (2) HR policies cohere both across policy areas and across hierarchies; and (3) HR

---

practices are adjusted, accepted, and used by line managers and employees as part of their everyday work.”\textsuperscript{50}

According to Wright & McMahan, SHRM refers to “the pattern of planned human resource deployments and activities intended to enable an organization to achieve its goals”.\textsuperscript{51} In other words, some of the SHRM practices are macro-oriented, proactive and long term focused in nature, views human resources as assets or investments not expenses, implementation of the SHRM practices bears linkage to organizational performance and focusing on the alignment of the human resource with firm strategy as a means of gaining competitive advantage.\textsuperscript{52}

Several theoretical perspectives have been developed to organize knowledge of how HR practices are impacted by strategic considerations. Wright and McMahan\textsuperscript{53} have developed a comprehensive theoretical framework consisting of six theoretical influences. Four of these influences provide explanations for practices resulting from strategy considerations. These include, among others, the resource-based view of the firm and behavioural view. The two other theories provide explanations for HR practices that are not driven by strategy considerations: (1) resource dependence; and (2) institutional theory.

The resource-based theory of the firm blends concepts from organizational economics and strategic management.\textsuperscript{54} This theory holds that a firm’s resources are key determinants of its competitive advantage. Firms can develop this competitive advantage only by creating value in a way that is difficult for competitors to imitate. Traditional sources of competitive advantage such as financial and natural resources, technology and economies of scale can be used to create value. However, the resource-based argument is that these sources are increasingly accessible and easy to imitate. Thus they are less significant for competitive advantage especially in

\textsuperscript{53} Wright, P. M., and McMahan, G. C., op. cit.
comparison to a complex social structure such as an employment system. If that is so, human resource policies and practices may be an especially important source of sustained competitive advantage. Specifically, four empirical indicators of the potential of firm resources to generate competitive advantage are: value, rareness, immutability and substitutability. In other words, to gain competitive advantage, the resources available to competing firms must be variable among competitors and these resources must be rare (not easily obtained). Three types of resources associated with organizations are: (a) physical (plant, technology and equipment, geographic location); (b) human (employees’ experience and knowledge); and (c) organizational (structure, systems for planning, monitoring, and controlling activities, social relations within the organization and between the organization and external constituencies). HR practices greatly influence an organization’s human and organizational resource and so can be used to gain competitive advantages. The second theoretical influence is the behavioural view based on contingency theory. This view explains practices designed to control and influence attitudes and behaviours, and stresses the instrumentality of such practices in achieving strategic objectives. The cybernetic system explains the adoption or abandonment of HR practices resulting from feedback on contributions to strategy. For example, training programs may be adopted to help pursue a strategy and would be subsequently adopted or abandoned based on feedback. The fourth influence, based on transaction costs explains why organizations use control systems such as performance evaluation and reward systems. The argument is that in the absence of performance evaluation systems linked to reward systems, strategies might not be pursued. The other two theories provide explanations for HR practices that are not driven by strategy considerations but based on power and political influences, control of resources (resource-based theory) and expectations of social responsibility (institutional theory).


Barney, S.E., op. cit.


Implications for HRM Practices: The idea that individual HR practices impact on performance in an additive fashion is inconsistent with the emphasis on internal fit in the resource-based view of the firm. With its implicit systems perspective, the resource-based view suggests the importance of “complementary resources”, the notion that individual policies or practices “have limited ability to generate competitive advantage”. This idea, that a system of HR practices may be more than the sum of the parts, appears to be consistent with discussions of synergy, configurations, contingency factors, external and internal fit, holistic approach, etc. Drawing on the theoretical works of Osterman, Sannefeld and Peiperl, Kerr and Slocum and Miles and Snow, Delery and Doty identified seven practices that are consistently considered strategic HR practices. These are: (1) internal career opportunity; (2) formal training systems; (3) appraisal measures; (4) profit sharing; (5) employment security; (6) voice mechanisms; and (7) job definition.

An obvious question at this juncture is: How can organizations effectively adopt, implement and maximize HRM practices for valued firm level outcomes? That is, how can firms increase the probability that they will adopt and then effectively implement appropriate HRM practices? Insuring that members of the HRM personnel have the appropriate human capital or competencies has been suggested as one way to increase the likelihood of effective implementation of HRM practices.

Ulrich & Yeung argue that the future HR professional will need four basic competencies to become partners in the strategic management process. These include

---

60 Barney, S. E., op. cit., p. 56.
business competence, professional and technical knowledge, integration competence and ability to manage change.

On the other hand, the United Kingdom-based Management Charter Initiative (MCI)\textsuperscript{69}, an independent competence-based management development organization, identifies seven key roles and required competencies. These competencies required to manage roles like managing activities, managing resources, managing people, managing information, managing energy, managing quality and managing projects. Finally, Huselid, et al.,\textsuperscript{70} identified two sets of HR personnel competencies as important for HR personnel:

1. HR professional competence: It describes the state-of-the-art HR knowledge, expertise and skill relevant for performing excellently within a traditional HR functional department such as recruitment and selection, training, compensation, etc. This competence insures that technical HR knowledge is both present and used within a firm.\textsuperscript{71}

2. Business-related competence: This refers to the amount of business experience HR personnel have had outside the functional HR speciality. These capabilities should facilitate the selection and implementation of HRM policies and practices that fit the unique characteristics of a firm including its size, strategy, structure, and culture.\textsuperscript{72} In other words, these competencies will enable the HR staff to know the company's business and understand its economic and financial capabilities necessary for making logical decisions that support the company's strategic plan based on the most accurate information possible.

Strategic HRM and Organizational Performance: Researchers in SHRM posit that greater use of such practices will always result in better (or worse) organizational performance.\textsuperscript{73} Leonard found that organizations having long-term incentive plans for their executives had larger increase in return on equity over a four-year period than

\textsuperscript{69} Management Charter Initiative (MCI), Management Standards, Management Charter Initiative, United Kingdom, April, available at http://www.bbi.co.uk/whatis.html.
\textsuperscript{70} Huselid, M.A., Jackson, S.E., and Randall, R.S., op. cit.
\textsuperscript{71} Ibid.
\textsuperscript{72} Jackson, S.E., and Schuler, R.S., op. cit.
did other organizations. \textsuperscript{74} Abowd found that the degree to which managerial compensation was based on an organization’s financial performance was significantly related to future financial performance. \textsuperscript{75} Gerhart and Milkovich found that pay mix was related to financial performance. Organizations with pay plans that included a greater amount of performance contingent pay achieved superior financial performance. In combination, these studies indicate that organizations with stronger pay-for-performance norms achieved better long-term financial performance than did organizations with weaker pay-for-performance norms. \textsuperscript{76}

Terpstra and Rozell poisted five ‘best’ staffing practices and found that the use of these practices had a moderate and positive relationship with organizational performance. \textsuperscript{77} Finally, Huselid identified a link between organization-level outcomes and groups of high performance work practices. Instead of focusing on a single practice (e.g., staffing), Huselid assessed the simultaneous use of multiple sophisticated HR practices and concluded that the HR sophistication of an organization was significantly related to turnover, organizational productivity and financial performance. \textsuperscript{78}

In the case of requisite competencies for HR personnel, emerging evidence from empirical research demonstrates the increasing need for HR personnel to have both HR professional and business-related skills and competencies. A survey of HR executives in the US show that HR managers are spending relatively less time in record keeping and auditing, while their time spent in their activities as a business partner have doubled. The survey also revealed that HR managers believe that their HR staff’s most important skill needs are team skills, consultation skills and an understanding of business. \textsuperscript{79}

\textsuperscript{77} Terpstra, D.E., and Rozell, E. J., op. cit.
\textsuperscript{78} Huselid, M. A., op. cit.
Managerial competencies particularly in the HR function bring two advantages: (1) enhance the status of the HR department, and (2) act as important influences on the level of integration between HR management and organization strategy.

Research on managerial competencies by Rapo stressed that “the internal dynamism of the HR function serves as the most critical mechanism to keep the integration process going after it has been started under favourable organizational and strategic circumstances”.

Other studies show that if HR managers can evaluate their priorities and acquire new sets of professional and personal competencies, the HR function would be able to ride the wave of business evolution proudly with other functions in the organization.

Huselid, et al conducted an elaborate study of 293 firms in the US to evaluate the impact of human resource managers’ professional/technical competencies on HR practices and the latter’s impact on organizational performance. Results of the study suggest that consistent with the resource-based view of the firm, there exist a significant relationship between SHRM practices and firm performance. They found that: (1) HR related competencies and, to a lesser extent, business-related competencies increase the extent of effective implementation of SHRM practices and (2) consistent with recent studies linking HRM activities and firm performance. The studies support the argument that investments in human resources are a potential source of competitive advantage.

---

85 Huselid, M.A., Jackson, S.E., and Randall, R.S., op. cit.
Importance of the Human Resource Management

Human Resource Management is the use of several activities to ensure that HR is managed effectively for the benefit of the individual, society and the business.\textsuperscript{86} The HRM is of utmost significance from at least three stand-points.\textsuperscript{87}

1. Social Stand-point: Dwvedi has indicated that social stand point can serve at least five social goals as following:
   - It can help to maintain an even balance of jobs and jobholder to raise living standards of individuals in the society.
   - It can help people to avail of the best, most productive and most gainful jobs where they can be happy, enthusiastic and effective.
   - It can assist every member of the organization in maximizing his or her contribution and his or her reward in return for that contribution by developing and utilizing his or her best talents in their jobs.
   - It can help to ensure the best protection and conservation of HR to prevent its wasteful or careless use.
   - It can help people make their decisions with a minimum of direction and control serving the prominent goal in a fine society.

2. Professional Stand-point: From the professional stand-point, HRM is also of great significance. It can serve at least six professional goals. They are as:
   - It can help to maintain and respect the dignity of the individual members.
   - It can provide maximum opportunities for personality development of each participant in the organization.
   - It can provide relationships to ensure effective allocation of services to different jobs.
   - It can help through employment effective utilization of people’s talents and interests in work-setting.
   - It can ensure conservation of HR, preventing the waste resulting from madness, partial employment, errors in placement, inefficient application, etc.

• It can lead to increased productivity making available ever increasing standards of living.

3. Individual Stand-point: The HRM is also significant from the stand-point of the objectives of individual enterprise. This can create attitudes which motivate the work force to accept the special goals of the enterprise. It can be achieved at least in three ways:

• It can help in the attainment of goals of the enterprise by obtaining capable people employing effective recruitment and selection techniques.

• It can help in the attainment of goals of the enterprise through effective utilization of the efforts of HR.

• It can help in the attainment of goals of enterprise by maintaining the willingness of people to work through equal provisions of opportunities for satisfaction of human needs not only physiological and security but also need of love, esteem and self-actualization.

Human Resource Management

HRM is an approach to the management of people, which is based on four fundamental principles:

1. People are the most important assets an organization has and their effective management is the key to its success.

2. Organizational success is most likely to be achieved if the personnel policies and procedures of the enterprise are closely linked with, and make a major contribution to, the achievement of corporate objectives and strategic plans.

3. The corporate culture and the values, organizational climate and managerial behaviour emanating from that culture will exert a major influence on the achievement of excellence. This culture must be managed, which means that strong pressure, starting from the top, needs to be exerted to get the values accepted and acted upon.
4. Continuous effort is required to encourage all the members of the organization to work together with a sense of common purpose. It is particularly necessary to secure commitment to change.88

HRM can broadly be 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 or sustainable competitive advantage.89

As described by Beer et al., HRM involves all management decisions and actions that affect the relationship between the organization and employees its human resources.90

According to Pettigrew and Whipp who suggest that: HRM relates to the total set of knowledge, skills, and attitudes that firms need to complete. It involves concern for and action in the management of people, including: selection, training and development, employee relations and compensation. Such actions may be bound together by the creation of an HRM philosophy.91

The first statements of HRM philosophy were made by a number of American academics writing in the 1980s. Tichy, Fombrun and Devanna (1982) stated that:

“The long-run competitiveness of American industry will require considerably more sophisticated approaches to the human resource input that deal with its strategic role in organizational performance ... and the strategic human resource concepts and tools needed are fundamentally different from the stock in trade of the traditional personnel administrator.”92

They suggested that the ‘psychological contract’ between management and employees should offer ‘challenging meaningful work in return for a loyal, committed and self-motivated employee’. They emphasized the need to:

- Devise all organization-wide selection and promotion system which supports the business strategy;

---

• Create internal flow of people to match the business strategy;
• Match key executives to the business strategy;
• Commit managers to weighing human resource issues with the same level of attention as they give to other functions such as finance, marketing and production.

The influential Harvard School, as represented by Beer and Spector, expressed its philosophy as follows:

“We believe that a set of basic assumptions can be identified that underlies the policies that we have observed to be part of the HRM transformation. The new assumptions are”:

• Proactive system-wide interventions, with emphasis on fit, linking HRM with strategic planning and cultural change;
• People are social capital capable of development;
• Coincidence of interest between stakeholders can be developed;
• Power equalization is sought for trust and collaboration;
• Open channels of communication to build trust and commitment;
• Goal orientation; and
• Participation and informed choice.

Walton, also of Harvard, developed the concept of mutuality: “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”.

And Foulkes underlined the strategic nature of HRM: “Effective HRM does not exist in a vacuum but must be related to the overall strategy of the organization”.

As a result of these pioneering statements the following main tenets of HRM have emerged:

---

Employees as Valued Assets: The fundamental belief underpinning HRM is that the sustainable competitive advantage is achieved through people. They should therefore be regarded not as variable costs but as valued assets in which to invest, thus adding to their inherent value.

Strategy and Culture are important: Organizational effectiveness can significantly be increased by paying close attention to the development of integrated business and HR strategies, and by shaping the culture of the organization.

Emphasis on Commitment rather than on Compliance: The optimum utilization of HR will be achieved by developing consistent and coherent policies which promote commitment to the organization, and unleash the latent creativity and energies of the people who work there, thus leading to enhanced performance. One of the main themes of HRM is that “a dominant emphasis on the common interests of employer and employed in the success of the business will release a massive potential of initiative and commitment in the workforce.”

Leap and Crino has inferred that the most important personnel / HR objectives which are as following:

1. To establish employee recruitment and selection system for hiring the best possible employees consistent with the organization’s needs;
2. To maximize the potential of each employee in order both to attain the organization’s goals and ensure individual career growth and personal dignity;
3. To retain employees whose performance helps the organization realize its goals and to release those whose performance is unsatisfactory; and
4. To ensure organizational compliance with state and federal laws that is applicable to the personnel / HRM function.

The objectives of HRM are derived directly from the philosophical perspective. These objectives can be summarized as follows:

1. To enable management to achieve organizational objectives through its workforce;
2. To utilize people to their full capacity and potential;

---

3. To faster commitment from individuals to the success of the company through a quality orientation in their performance and that of the whole organization;
4. To integrate HR policies with business plans and reinforce an appropriate culture or, as necessary, reshape an inappropriate culture; 98
5. To develop a coherent set of personnel and employment policies which jointly reinforce the organization’s strategies for matching resources to business needs and improving performance;
6. To establish an environment in which the latent creativity and energy of employees will be unleashed;
7. To create conditions in which innovation, team-working and total quality can flourish; and
8. To encourage willingness to operate flexibly in the interests of the ‘adaptive organization’ and the pursuit of excellence. 99

There are a number of features which can be said to characterize HRM approach and these are described below. But it should be noted that these characteristics of HRM would be applied in many distinctive ways in different organizations. The most characteristic features of HRM are that:

1. It is a top management driven activity;
2. The performance and delivery of HRM is a line management responsibility;
3. It emphasizes the need for strategic fit- the integration of business and personnel strategies;
4. It involves the adoption of comprehensive and coherent approach to employment policies and practices;
5. Importance is attached to strong cultures and values;
6. It places emphasis on the attitudinal and behavioural characteristics of employees;
7. Employee relations are unitarist rather than pluralist, individual rather than collective, high trust rather than low trust;
8. Organizing principles are organic and decentralized with flexible roles and more emphasis on teamwork; and

9. Rewards are differentiated according to performance, competence or skill.\textsuperscript{100}

**Role of the Human Resource Management**

HR departments in effective organizations in highly competitive environments today must play many roles in the organization. So, the role of the HRM is as follows\textsuperscript{101}:

1. Linking HRM to the Business Role: HR managers were often concerned only with making staffing plans, providing specific job training programmes or running annual performance appraisal programmes. With the growing importance of HRM to the success of the organization, HR managers and their departments are getting more involved in the organization, and establishing a partnership with line managers. They are getting to know the needs of the business, where it is going, where it should be going and helping it to get there.

2. Enabler Role: In reality, HR programmes succeed, because line managers make them succeed. The HR department’s fundamental job, therefore, is to enable line managers to make things happen. Thus, in the more traditional HR activities such as selecting, interviewing, training, evaluating, rewarding, counseling, promoting and dismissing- the HR manager is basically providing a service to line managers. In addition, the HR department administers direct and indirect compensation programmes. It can also assist line managers by providing information about, and interpretation of fair employment legislation, and safety and health standards.

   To fulfill these responsibilities, the HR department must be accessible. The HR staff should be as close as possible to the people. A trend in this role of being accessible and of providing services and products to others is called customarization. This word means viewing everybody as a customer, whether internal or external to the organization, and then putting that customer first.

   For HR departments, customers are typically other line and staff managers. Increasingly, customers include other organizations and even the

\textsuperscript{100} Armstrong, M., op. cit., pp. 22-23.
non-managerial employees. Another important part of customization is benchmarking. Benchmarking is a structured approach for looking outside an organization by studying other organizations and adopting the best outside practices to complement internal operations with creative new ideas. One of the greatest values of benchmarking that organizations find is learning about the practices that are used by competitors and other companies to achieve their results. As such, benchmarking provides insights into new ways of carrying out HRM and challenges ‘business as usual’ methods.

3. Monitoring Role: Although the HR department may delegate much of the implementation of HR activities to line managers, it is still responsible for seeing that activities are implemented fairly and consistently. This is especially true today because of the complex set of legal regulations. Responses to these regulations can best be made by a central group supplied with accurate information, the necessary expertise and the support of top management.

   Expertise is also needed for implementing HR activities such as distributing employee’s benefits. Since employing HRM experts is costly, organizations hire as few as possible and centralize them. Their expertise then filters to other areas of the organization.

   In organizations with several locations and several divisions or units, tension often exists between the need to decentralize and the need for centralizing the expertise necessary to comply with complex regulations. A major trend in this role of monitoring and coordinating development is the use of computer technology and HR information systems.

4. Innovator Role: Important and ever-expanding roles for the HR department include providing up-to-date application of current techniques and development and exploring innovative approaches to HR problems and concerns. Benchmarking certainly helps in the innovator role. Today, organizations, are asking their HR departments for innovative approaches and solutions on how to improve productivity and quality of work-life while complying with the law in an environment of high uncertainty, energy conservation and intense international competition. They are also demanding
approaches and solutions that can be justified in economic terms. To achieve this and to better manage the organization’s HR, HRM utilizes a contribution assessment.

The HR department can demonstrate its contribution to the organization in many ways. As HR departments seek to become partners with the rest of the organization in providing strategic direction, they are being proactive in providing evidence of their contributions.

While the contribution of HR department can be assessed using many criteria or standards, these contributions can be grouped into two categories:

1. Doing the right thing means the HR department does things which are needed by the organizations to be successful. In essence, assessors ask if the department is helping the organization be more successful in areas such as competitiveness, profitability, adoptability and strategy implementation. It is facilitating the work of line managers and employees in their efforts to contribute to the maximum of their potential.

2. Doing things right means that the HR department does the right things as efficiently as possible. Of course, the organization wants to employ the best people, but they want to do it at the least cost per employee possible. The HR department wants to facilitate the work of the line managers, but they want to do it in a way that minimizes the benefit and minimizes the cost.

5. Adaptor Role: It is increasingly necessary that organizations adapt new technologies, structures, processes, cultures, and procedures to meet the demands of stiffer competition. Organizations look to the HR department for the skills to facilitate organizational change and to maintain organizational flexibility and adaptability. One consequence of this adaptor role is the need to be more future-orientated. Fostering a mind-set of continuous change and offering education programmes help foster flexible and adaptable workforce.

**Functions of the Human Resource Management**

HR managers work with the organization’s HR to help to achieve the organization’s goals. The organization must attract, select, motive, and retain qualified people. At the same time, employees must be permitted to satisfy HR needs.
There are six functional areas associated with HRM that is illustrated in Figure No. 1.6.

I. Human Resource Planning: ‘Manpower Planning’ and ‘Human Resource Planning’ (HRP) are synonymous. In the past, manpower planning was widely used, but now the emphasis is on HRP which is broader based.\textsuperscript{102}The HRP is part of an organization total resource planning. It influences and is influenced by the organization’s business plans, interact with organization plans, and contributes to business decisions concerning. HRP is concerned with to utilization of resources to help attain an organization’s objectives. On the other hand, HRP is “an anticipating future business and environmental demands on organizations and meeting the personnel requirements directed by those conditions.”\textsuperscript{103} This implies that HRP could be an important input into strategic plans. Unfortunately, evidence suggests that the link between HRP and SHRM often is not emphasized in practice.

\textsuperscript{102} Mamoria, C.B., Personnel Management (Bombay: Himalaya Publishing House), 1989, p. 169.
Process of HRP: The planning process of HR is essential to meet the staffing needs that result when complex and changing organizations encounter a dynamic business environment. This process is one of the most crucial, complex and continuing managerial functions. The process of HRP is illustrated in Figure No. 1.7.

Figure No. 1.7
The Process of Human Resource Planning

Source: Adapted from Mondy and Nove

---

104 Sharma, J.N., op. cit., p. 35.
The HRP process includes three key elements:

1. **HR inventory**: Data which describe the present workforce in quantitative and qualitative terms. HR inventory consists of a series of activities, viz.
   - Identification of skills required to accomplish organized goals and objectives;
   - Making available these skills over a period of time in view of changing requirements, and utilization of skills available to the best satisfaction of the participants and the maximum advantage of the organization in the context of their changing expectations. It may be noted that performance of these activities is a function of HR policy relating to:
     - requirement, selection, placement and induction;
     - promotion, transfer and separation;
     - training and development;
     - remuneration and its other aspects, and
     - performance and profitability of the enterprise

2. **HR forecast**: The HR required at specified times in the future, described either in gross numbers or in specific categories such as skill, educational level, and experience.

3. **HR plans**: Specific action plans for bridging the gap between the forecasts and the inventory. A schematic diagram of the HRP process key elements is presented as Figure No. 1.8.

---

II. Recruitment and Selection: When the HR supply is lower than the HR demand in the organization then there is shortage of HR. In this situation, organization resorts to HR increase strategy. Recruitment is one of the HR increase strategies in organizations. Recruitment is an important part of achieving strategic goals.

Recruitment is "a process to discover the sources of manpower to meet the requirements of the staffing schedule and to employ effective measures for attracting that manpower in adequate number to facilitate effective selection of an efficient working force."\textsuperscript{108}

\textsuperscript{107} Ibid.
Edwin B. Filppo defined recruitment as “the process of searching for prospective employees and simulating them to apply for jobs in the organization.” 

These definitions can be analyzed by discussing the processes of recruitment through systems approach.

Recruitment Policy: Recruitment policy of any organization is derived from the personnel policy of the same organization. Recruitment policy by itself should take into consideration the government’s reservation policy, policy regarding sons of soil etc., personnel policy of other organization regarding merit, internal source, social responsibility in absorbing minority sections, women etc. Recruitment policy should commit itself to the organization personnel policy like enriching the organization’s HR or serving the community by absorbing the weaker sections and disadvantaged people of the society, motivating the employees through internal promotions, improving the employee loyalty to the organization by absorbing the retrenched or laid-off employees or casual employees or depending of present/former employees etc. The following factors should be taken into consideration in formulating recruitment policy. They are (i) government policies; (ii) personnel policies of other competing organizations; (iii) organization’s personnel policies; (iv) recruitment sources; (v) recruitment needs; (vi) recruitment costs; and (vii) selection criteria and preference.

Process of Recruitment: The process of recruitment involves five elements, viz:

(i) The internal and external environments;
(ii) The evaluation in alternative ways;
(iii) The employee requisition;
(iv) The internal and external sources; and
(v) The internal and external methods.

The process of recruitment is illustrated in Figure No. 1.9.

---

Selection: Selection is the most significant phase of HR attraction. Although lack of accuracy creates some problems, but some situations are forecasted for indemnification in some countries. The goal of selection is to attract the most suitable individuals, obtaining the organizational goals and comparing job applicants’ conditions with job specification.

Selection is “the process of choosing from a group of applicants those individuals best suited for the particular position”, on the other hand; selection is “the process through which the organization chooses from a group of applicants those individuals best suited for the open position and for the company.”

---

112 Ibid., p. 198.
The process of selection follows a standard pattern that is illustrated in Figure No. 1.10.

**Figure No. 1.10**
The Process of Selection

- External Environment
- Internal Environment

1. Reception of Application
2. Preliminary Interview
3. Application Blank
4. Psychological Tests
5. Interview
6. Background Investigation
7. Waiting List of Desirable Applicants
8. Final Selection by Interviews
9. Physical Examination
10. Rejected Applicant
11. Placement

Source: Adapted from Sharma, J.N.113

III. Human Resource Development: The human resource development includes three key elements:

1. Training and Development: The training function viewed differently in each organization, and this is a primary factor in its structure. Training can be a significant management tool in bringing about change. Increased attention is being paid to training and development activities is long-range organization

---

113 Sharma, J. N., op. cit., p.130.
planning and shorter-range, detailed HR projections, as new and disadvantaged HR are brought into the workforce as hourly paid employees and as members of the management team. Training is “short-term process utilizing a systematic and organized procedure by which non-managerial personnel learn technical knowledge and skills for a definite purpose”, but development is “a long-term educational process utilizing a systematic and organized procedure by which managerial personnel learn conceptual and theoretical knowledge for general purpose.”

Process of Training and Development: The purpose of training and development involves six elements, viz.: (i) determine training and development needs; (ii) establish specific objectives; (iii) select appropriate method; (iv) select appropriate media; (v) implement programme; and (vi) evaluate results. The process of training and development is illustrated in Figure No. 1.11.

Figure No. 1.11
The Process of Training and Development

Source: Mondy and Nove

---

113 Mamoria, C.B., op. cit., p. 308.
2. Performance Appraisal: Performance appraisal requires managers to gather information on how effective each individual is at accomplishing delegated duties. Communicating this information to subordinates enables them to know how well they are doing and to correct less than acceptable behaviour. Performance appraisal also permits management to identify the outstanding performers and in effect raise their performance standard by promoting them to more challenging positions. Performance appraisal is defined as a system that provides a periodic review and evaluation of an individual’s job performance. The overriding purpose of any performance appraisal system is to improve the overall effectiveness of the organization. The performance appraisal process beginning by considering the external and internal environment.\textsuperscript{116} The process of performance appraisal involves five activities, viz.: (i) identify specific performance appraisal goals; (ii) establish expectations (job analysis); (iii) examine work performed; (iv) appraise performance, and (v) discuss appraisal with employee. The process of performance appraisal is illustrated in Figure No. 1.12.

\textbf{Figure No. 1.12}

\textbf{The Process of Performance Appraisal}

- Identify Specific Performance Appraisal Goals
- Establish Expectations
- Examine Work Performed
- Appraise Performance
- Discuss Appraisal with Employee

\textsuperscript{116} Mondy, R.W., and Nove, R.M., p. 401.
\textsuperscript{117} Ibid., p. 371.
3. Career Planning: Career planning is important to both the individual and the organization to ensure that people with the necessary skills and experience will be available when needed. The major focus of career planning should be on helping the employees achieve a better match between personnel goals and the opportunities that are realistically available in the organization. Career planning is “a process where by an individual sets career goals and identifies the means to achieve them.”

Process of Career Planning: The process of career planning is a continuous endeavour, which begins with a person’s placement in an entry level job and initial orientation. Job performance will then be observed and compared with the job standards. At this stage, strengths and weaknesses will be noted, which will enable management to assist the employee in making a tentative career decision. Naturally, this decision can be altered at a later date as the process continues. This tentative career decision is based on a number of factors, including personnel needs, abilities, aspirations, as well as the needs of the organization. Management can then schedule training and development programs that relate to the employee’s specific needs.

According to Mc Mahon, et al., career planning is an ongoing process. It takes into consideration the changes that occur in people and organizational environment. Not only do the firm’s requirements change, but also individuals may choose to revise their career progression. The process of career planning is illustrated in Figure No. 1.13.

---

118 Ibid., p. 336.
119 Ibid., pp. 342-43.
IV. Compensation and Benefit: Compensation refers to every type of reward that individuals receive in return for performing organizational task. Direct financial compensation consists of the pay a person receives in the form of wages, salary, bonuses, and commissions. Indirect financial compensation includes all financial rewards that are not direct. Non-financial compensation consists of the satisfaction that a person receives by performing meaningful job tasks or forms the psychological and physical environments in which the job is performed.

The job that a person is hired to do is a major determinate of the amount of financial compensation he/she will receive. Organization pay for the value they attach to certain duties, responsibilities, and other job related factors. Job evaluation is that part of a compensation system by which management determines the relative value of

---

Source: Adapted from Mondy.\textsuperscript{121}

\textsuperscript{121} Ibid., p. 343.
one job compared to other. Four basic job evaluation methods are used in organizations: (1) the ranking methods; (2) the classification method; (3) the factor comparison method; and (4) the point method. When selecting method, many firms choose one and modify it to fit their particular needs.\textsuperscript{122}

Compensation Strategies: The compensation strategy suggests new approaches for using practices and policies to reduce organizational quit rates. A strategic perspective on compensation focuses on the set of compensation policy decisions that help the organization acquire and sustain competitive advantage. Different compensation strategies comprise different types of pay practices.

Compensation studies have shown how pay strategies can enhance organizational performance, especially the strategies that fit the overall business strategy. This line of inquiry concludes that the best compensation strategy for an organization depends on its unique strategy and mission. There is no ideal compensation strategy, although some authors contend that certain pay strategies are universally beneficial.\textsuperscript{123}

New Forms of Base Pay: Employers are revamping traditional methods for setting based pay for jobs. Among the most promising pay-setting approaches for retention are\textsuperscript{124}:

1. Career Ladders: This form represent a series of defined steps within a career field (e.g., engineering, HR). Each step is a promotion entailing greater responsibilities, pay, and career advancement. High-tech firms have long popularized dual career ladders for engineers and scientists to deter them from leaving their profession (and company) for more “prestigious” and rewarding managerial job. At microsoft career tracks for software design and test engineers encourage them to stay in technical fields by offering recognition and pay comparable to what general managers earn. The typical career path within a functional specialty is to move from new hire to mentor, team lead, and then manager of a functional area for an entire product.

\textsuperscript{122} Ibid. pp. 447-48.
\textsuperscript{124} Ibid. pp. 155-59.
2. Skill-Based or Knowledge Based Pay: Skill-based pay rewards companies can’t afford to be concerned with internal equity. However, traditional pay structures strive to ensure both external and internal equity. Besides paying competitively, conventional approaches try to pay incumbents in more skilled or demanding jobs higher wages than those in less skilled or less responsible jobs. Global competitive and economics pressures nevertheless are pushing companies away from this twin goal and toward “market wage-setting” or “market pricing”, which based pay on information drawn from salary surveys.

More than this, market pricing frees corporations from the costly bureaucratic apparatus required to maintain internally equitable pay structures (e.g., elaborate job evaluation plans and detailed job descriptions). In addition, some companies carry out special surveys that focus on “hot” skills and “high tech” skills to better track escalating wages in this more turbulent job market. By closely monitoring market rates, companies can erect high-paid pay structures for “hot talent” occupations or establish “premium” ranges for employees for the depth, breadth, or type of skills they obtain and apply to their work. Skill based pay differs from conventional job-based pay by basing wages on what incumbents know rather than on what they do.

Proponents claim that knowledge based pay structures furnish both intrinsic and extrinsic rewards to employees. These plans encourage employees to learn new skills or jobs, increasing variety and challenge at work. Skill based pay plans also offer more rapid pay increases (based on fairer criteria, such as employee demonstration of skill mastery) than do conventional job-based pay plans, although limited training opportunities may slow pay progress.

3. Market Pricing: Many companies are relying exclusively on external market forces to set salaries, de-emphasizing concern with the fairness of internal pay differential among jobs. This jobs cluster within the main wage structure. By keeping abreast of the compensation, market pricing help firms more readily ward off overtures from outside companies for their essential talent.

4. Broad Banding: This form encourages incumbents to focus on meeting business requirements rather than narrow job descriptions and rewards
incumbents for lateral transfers, not just upward mobility. Broad banding might improve retention in several ways.

Contingent Pay: According to Armstrong and Murlis,125 payments in addition to the base rate can be related to performance, competence or skill. These are sometimes referred to as ‘variable pay’, but this has acquired the special meaning of payments in the form of cash bonuses which are not consolidated into basic pay. Therefore, the term contingent pay here is to cover the various forms of additional financial rewards.

Contingent pay consists of payments related to individual performance, contribution, competence or skill or to team or organizational performance. A distinction can be made between performance (what a person achieves) and contribution (the impact made by that person on the performance of the team and the organization). The level of contribution will depend on the competence, skill and motivation of individuals, the opportunities they have to demonstrate their competence and the use they make of the guidance and leadership they received.

The main types of contingent pay are: individual performance-related pay; competence-related pay; skill-based pay; shop-floor incentive and bonus schemes; sales force incentive schemes; executive incentive and bonus schemes; employees and executive share schemes; team rewards; gain sharing; profit sharing; profit related pay and other cash payments.

Variable pay is the payment of cash to individuals in the form of performance pay or bonuses on the basis of their own performance or that of their team or organization. Variable pay has to be re-earned. It is ‘pay at risk’ which is awarded for specific achievements. The employee risks not being paid the bonus again unless the same, or a higher, level of performance is achieved by reaching or exceeding new targets.

Variable pay is not consolidated into base pay, as often happens with performance-related pay. The argument against consolidation is that it assumes that past performance will continue at the same level in the future and should therefore be rewarded with a permanent increase in pay. It is, in fact, a sort of gift that goes on

giving an annuity. But there is no basis for the confident assumption that past performance predicates future performance. The future does not necessarily resemble the past. The rationale for variable pay is that the additional pay should be re-earned every year and employees have to accept the risk that they might not re-earn it.

Variable pay has always been the rule in executive pay, sales representatives’ remuneration and payment-by-result schemes for manual workers. It has been less common in performance-related pay schemes, although organizations with such schemes are increasingly turning towards the use of achievement or sustained high performance bonuses, often in the form of ‘spot’ payments for a particular achievement.

However, competence-related and skill-based payments are usually consolidated. This is on the assumption that the achievement of certain levels of competence or skill does predict continuing performance at those, or higher, levels. Consolidation recognizes that the acquisition of competence or skill enhances the value of individuals to the organization in the longer term and, in fact, increases their market worth.

There are three basic reasons for using contingent pay:

1. Motivation, pay related to performance, competence or skill motivate people to achieve higher levels of performance and to increase the range and depth of their competencies or skills.

2. Message, contingent pay delivers a general message that the organization regards performance, competence or skill as important – ‘this is what we expect you to do and this is how we will reward you for doing it.’ It can also deliver messages that certain values, behaviours or aspects of performance are important; for example quality, customer service, leadership and team working.

3. Equity, it is right and proper that pay should be related to people’s performance, contribution, competence or skill.

The first reason is probably the most popular one, but it is also the most dubious. Contingent pay can motivate but only if a number of stringent conditions are satisfied.
Contingent pay can also deliver messages about values and expectations. It can make certain aspects of the psychological contract more explicit and it can focus attention on the things that matter. But it is not the only way of delivering such messages. There are others, namely the normal processes of management and leadership. Contingent pay can underpin and support these processes, it cannot replace them.

Contingent pay can enable an organization to do the following:
1. Establish a clear relationship between pay and performance, competence or skill;
2. Build on the benefits of performance management by recognizing achievement in a tangible way, reinforce a performance-orientated culture;
3. Demonstrate that the organization believes in the importance of developing skills and competencies;
4. Reward and therefore reinforce team as well as individual effort;
5. Concentrate effort in priority areas, clarifying key issues;
6. Attract and retain people who are confident in their ability to deliver results but expect to be rewarded accordingly;
7. Improve pay competitiveness;
8. Improve employee commitment by enabling them to share in the success of the organization.

But contingent pay does not provide an easy answer to achieve these highly desirable objectives. It is hard to get it right and it often fails to deliver, because the process has been misconceived, badly introduced or poorly managed.

The criteria for a successful performance, competence or skill-related pay scheme are as follows:
1. Individuals and teams know the targets and standards they are required to meet.
2. The reward is clearly and closely linked to accomplishment or effort. People know what they will get if they achieve targets or standards and can track their performance against them.
3. Fair and consistent means are available for measuring or assessing performance, competence or skill.
4. People must be able to influence their performance by changing their behaviour and/or they should be able to develop their competencies and skills.

5. The rewards should be meaningful.

6. The reward should follow as closely as possible, the accomplishment that generated it.

The choice of approach: The first choice is whether or not to have contingent pay related to performance, competence or skill. Public or voluntary sector organizations still with fixed incremental systems (pay spines) where progression is solely based on service may want to retain them because they do not depend on possibly biased judgments by managers and they are perceived as being fair – everyone gets the same. However, the fairness of such systems can be questioned. Is it fair for a poor performer to be paid more than a good performer simply for being there?

The alternative to fixed increments is either spot rates or some form of contingency pay. Spot rate systems in their purest form are rare except in smaller organizations and new businesses where the need for formal practices has not yet been recognized. Even on the shop-floor, where high day rates are paid and there is no payment-by-results scheme, there is often a factory-wide bonus scheme. Some organizations may not have a graded pay structure for staff with scope for salary progression in grades. But the so-called spot rates for jobs are usually varied by paying people what it is believed they are worth. This is a variety of contingency pay, although pay decisions in these circumstances are often arbitrary and unsystematic.

If it is decided that a more formal type of contingency pay should be adopted, the choice is between the various types of performance pay, competence-related pay and skill-based pay.

1. Performance Pay: Performance pay is, of course, the most popular choice. It has been a traditional component of the pay packet of many shop-floor workers, most sales staff is on some form of commission and executive bonus schemes are the norm in most companies. Performance-related pay continues to be popular in spite of negative reports from many research projects and some trade unions.
2. Competence-related Pay: Increasing interest is being expressed in competence-related pay. This is seen by some as a more desirable alternative to performance-related pay for the following reasons:
- It can contribute to raising the competence levels of the organization.
- It fits with the concepts of continuous development and career development pay.
- It can be an integrated part of a total competence-based approach to HRM.

3. Skill-based pay: Skill-based pay has been tested over a longer period than competence-related pay and, has sometimes been found wanting. It is, however, an interesting method of rewarding shop-floor employees for their skill attainments with a view to enlarging the skill base and encouraging multi-skilling.

4. Competence-related Pay: Pay can be related to competence in two ways: as a people-based process (people orientation process) which links pay to the level of competence attained by individuals, or as a job-based process (job-orientation process) which uses competence headings wholly or partly to evaluate jobs or roles. Some pay arrangements described as competence related or competence based use both processes; some use one or the other.

   Competence-related pay can be defined as a method of rewarding people wholly or partly by reference to the level of competence they demonstrate in carrying out their roles. This definition makes three important points:

   1. Pay is related to competence. The link between competence and pay may not be direct enough to imply that pay is based on competence. Levels of competence may be difficult to measure with any precision. This contrasts with payment for skills rather than competencies. It is appropriate to refer to skill-based pay because the acquisition and use of skills can be measured with a fair degree of accuracy through accreditation or validation processes.

   2. People may be rewarded wholly or partly by reference to their level of competence. Competence-related pay is not an all-or-nothing affair. Competence assessment may be a factor, but not the only factor, in determining pay levels or increases. Performance may also be a factor to a greater, equal or lesser extent. Increases in pay maybe made in response to
market pressures – increases in the individual’s ‘market worth’. And the rate of pay of individuals will be related to their peers. The fact that in practice competence is often not the only consideration is another good reason for referring to competence-related rather than competence-based pay.

3. Competence-related pay is related to the level of competence people demonstrate in carrying out their roles. Competence is about performance. It is concerned with behaviours which deliver performance, not the behaviours themselves. Competence-related pay is not about the acquisition of competence. It is about the effective use of competence to generate added value. Competence levels cannot properly be measured simply by observing how people behave. They can only be assessed by considering the impact people’s behaviour has on their performance at work.

One of the problems surrounding the concept of competence-related pay is defining what competence means. This is a jargon-ridden area haunted by academics indulging in semantic obfuscation.

The most familiar definition of competence was produced by Boyatzis. He defined a ‘competency’ as: ‘An underlying characteristic of an individual which is causally related to effective or superior performance’.

The implication of this and other definitions of competence or competency is that it refers to the capacity of people to meet the requirements of both their present and their future roles. Competence does not, therefore, just relate to present performance; it also predicts future performance because it is deemed to be a continuing characteristic which is normally irreversible. This contention is arguable, but it underpins one of the common assumptions of competence-related pay, that competence-related increase should be consolidated into base pay.

One of the problems surrounding the concept of competence or competency is that the term is used to refer to the ability to perform a job or task competently and also to how people ought to behave in order to carry out a role with competence. Many academic commentators are concerned that a distinction should be made between competence and competency. Dire consequences, result for anyone who

mixes these two things up. Following Boyatzis, it is suggested by Woodruffe\textsuperscript{127} that these two concepts should be kept quite separate:

1. Competence should be used to refer to areas of work in which the person is competent.
2. Competency should be used to refer to the dimensions of behaviour lying behind competent performance.

Another way of making this distinction is to distinguish between work-based ‘hard competences’ (work-orientation competences) and behavioural or ‘soft competences’ (behaviour-orientation competences).

1. Work-based or hard competences refer to expectations of work performance and the standards and outputs that people carrying out specified roles are expected to attain. They are concerned more with effect rather than effort; with impact rather than input. This is broadly in line with an element of competence as: ‘A description of something which a person who works in a given occupational area should be able to do. It reflects action, behaviour or outcomes which have real meaning in the occupational sector to which it relates’.

2. Behavioural or soft competences refer to the personal characteristics people bring to their work roles in such aspects as team working, achievement orientation, leadership and strategic perspective.

This may not be the sort of jargon that appeals to line managers but it at least clarifies the difference between approaches tied to the ability to perform a role and those which refer to behavioural traits.

Further complications are provided by the notions of threshold competencies, which are the basic competencies/proficiencies required to do a job, and differentiating competencies, which define the behavioural characteristics which high performers display as distinct from those characterizing less effective people the performance dimensions of the role.

The concept of competence is made even more complex by the contention of some people that competence embraces both behaviour and knowledge and skills;

while others claim that competence is about the effective use of knowledge and skills, not the knowledge and skills themselves.

One way out of this semantic jungle is to remember that competence-related pay must depend on some method of measuring competence. To do this, it is useful to distinguish between the input, process and output aspects of performance and how competence can be measured under each heading. As an input, competence can be measured by the capacity within people to do their work well. Capacity refers to what people bring to their work in the form of knowledge, skills and personal attributes. As a process, competence can be measured in terms of the behaviour required of people in order effectively to convert inputs into outputs. As an output, competence is measured by the outcomes of the behaviour of people in making the best use of their knowledge, skills and attributes.

In a sense, these are three models of competence, and organizations have to choose which model or combination of models to use in relating pay to competence.

Here are some definitions of competence used by organizations with competence-related pay:

- Bass Brewers: Displayed behaviours or attitudes which have been identified as key to the success of a business and are shared by everyone at every level. They are a reflection of knowledge, skill and personal qualities.
- Blue Circle Cement: Attributes necessary to be successful at the job.
- Boots: Any personal trait, characteristic or skill which can be shown to be directly linked to effective or outstanding job performance.
- Thomas Cook: The knowledge, experience and skills required meeting the demands of a role and the aptitudes required to perform a role to the required standard.
- Colonial: Descriptions of core knowledge, skills, attitudes and abilities which result in effective performance at different job levels. They provide a structured way of describing effective performance in terms of observable behaviour.
- Glaro Wellcome: What you know, what you do and how you do it, which when applied by an individual or a team, leads to positive outcomes for the company.
Portsmouth Housing Trust: Competence is about what people do, how they behave—when they are carrying out their roles well. People are fully competent when they use their knowledge and skills—their expertise effectively and have the personal qualities required achieving the results expected of them.

• Unisys: The ability to perform a job-related task to a predetermined standard.

• Volkswagen UK: The key attributes, skills and knowledge required for a job.

• Woolwich Building Society: The characteristics needed to achieve successful performance.

Many of these definitions refer in one way or another to the ‘input’ aspect of competency, i.e. knowledge, skills, attitudes, attributes and abilities. Most of them also refer to outputs in the shape of effective performance. The ‘process’ aspect of competency (behaviour, how the work is done) is mentioned by four of the companies. At the Bank of Scotland, a distinction is made between technical competences (the actual things and relative value of what people do in their work) and personnel competences (the attributes and behaviours that determine how employees carry out their work).

Competence in these organizations is therefore often treated as a mix of ‘hard’ and ‘soft’ competence or by reference to each of the input, process, output aspects of competence. Some companies such as Glaxo Wellcome are output aspects of competence, and are now trying to get out of the semantic morass into which organizations have been plunged by the competence industry. They are anxious to produce definitions of competence which, mercifully, are free from management jargon. Others such as ICL have abandoned the word competence altogether and use ‘capability’ instead.

However, whether or not competence definitions are jargon ridden, any organizations contemplating the introduction of competence-related (or capability-related) pay should define what they mean by competence or capability. It is also important to remember that whatever definition they adopt, it must be expressed in language that people can understand and use as part of their everyday working life.

Competence-related Pay Criteria: When developing a competence-related pay scheme the fundamental question to be answered is; to what extent do we want to pay for what people do, how they do it, or a combination of the what and how? When
people are paid for what they do, this is directly related to their performance and they are being paid for competence. Each competence heading has to provide an answer to the question: ‘What does a person in this role have to do?’ An important subsidiary question has also to be asked: ‘What evidence will be available to measure what has been done and achieved and how will we get it?’ These were precisely the questions used when Portsmouth Housing Trust developed their competence assessment process.

If, alternatively, behavioural dimensions are used, then competences are the criteria. They may be core or generic competences under general headings such as, at Colonial, providing leadership and direction, ensuring achievement of goals and maximizing other’s contributions. Or they may be expressed in terms of core values such as achievement, leadership, customer focus, team working, innovation and creativity. Behavioural competences are frequently used as the criteria for competence-related pay.

A competence approach is concerned more with effect than behaviour; with impact rather than input. It is saying that competence is about performance and that increases in competence are only rewarded when they lead to higher levels of contribution. As Shakespear said: ‘Skill is nothing, a mere hoard of gold, ’till it is set to work.’ However, a focus on the effective use of competences rather than their acquisition – on delivered performance – means that competence-related pay begins to look suspiciously like performance-related pay.

A behaviour-oriented competency approach (e.g. Hay McBer) does appear to flow naturally from the construction of competency frameworks for recruitment, promotion and developmental purposes. Competency analysis therefore becomes an integrating process. But there is a danger of assessment being referred to personality traits so that competency-based appraisal schemes begin to look like the discredited merit rating systems of the 1950s and 1960s. And concentrating on behaviour gives the impression that people will be rewarded for behaving nicely, irrespective of the degree to which that behaviour impacts on results.

To avoid this problem, some organizations such as the Bank of Scotland incorporate both competencies in their assessment framework. This seems to work

---

128 Shakespear, Henry IV, Part 2.
well for them although it may horrify those who believe that ‘never the twain shall meet’.

An interest in competence-related pay is sometimes expressed simply because competency frameworks have already been established for developmental and recruitment purposes. So why, it is asked, should they not be extended as a basis for performance management and reward? Thus an integrated approach to human resource management would be furthered.

This is an adequate reason for considering the introduction of competence-related pay but there are more compelling ones:

- High-performance organizations need high levels of competence and it is proper to reward people according to their level of competence and the contribution they therefore make to the success of the business.
- Rewarding people according to their competence delivers the message that competence is important. An argument often used in favour of performance-related pay is that if an employer is serious about performance and wants employees to share this view, and then pay should be linked to performance. The same argument can be used to justify competence-related pay.
- Competences add value and predict success. It is right to pay for attributes that lead to successful performance.
- Competence-related pay can help to integrate generic and individual competences with the core competencies of the organization.
- It can provide for the alignment of rewards with core values.
- It can support a culture devoted to learning, growth and continuous development.
- It can deliver messages to people about the behaviour expected of them in such aspects of work as team membership, flexibility, continuous improvement, customer relations.
- It can reward the development of the competences required to take on new or enlarged responsibilities in flatter or process-based organizations. Thus it recognizes people who are willing and able to take on broader roles rather than continuing to work within the framework of their existing job description.
• It can provide rewards for flexibility – the need to deploy a wider range of skills in rapidly changing situations.

• It can focus attention on the competences required in knowledge-based organizations which are selling services or solutions, not products, and are therefore people rather than task – or product-orientated.

• Competences are geared to sustained performance and are better predictors of future performance than what people happen to have done in the past. Why, it is argued, should companies be committed to paying for past performance with no guarantee that it will continue in the future? The 1996 survey conducted by the IDS\textsuperscript{129} found that in many companies competence-related pay is seen as a way of paying for future rather than past performance.

• It is recognized that it is necessary to assess and reward what people bring to a role in the shape of their knowledge, skills, attributes and competences as well as the results they achieve.

• The organization is dissatisfied with the existing job evaluation scheme because it is believed to be bureaucratic, rigid, and expensive and time consuming. It may also be felt that the factors used for measuring job size are inappropriate – they do not represent the organization’s values on the criteria for reward and/or they are not linked to the organization’s competence framework.

• The organization is disenchanted with its existing performance-related pay scheme because it concentrates on outputs and ignores inputs.

Competence-related pay works through processes of:

• Competence analysis to define core, generic and individual competences and levels of competence – a number of methods may be used, embracing different types of competence or competency;

• Assessing levels of competence for individuals and relating these assessments to their pay;

• Evaluating jobs or roles using competence headings as the criteria for making comparisons.

\textsuperscript{129} IDS. Paying for Competence (London: Industrial Data Services), 1996.
These processes are described below.

Competence-related pay processes are based on competence analysis, which may be concerned with core, generic or specific competences and results in the development of competence profiles. These competence profiles provide the basis for individual competence assessment and pay.

1. Organizational Core Competences: Organizational core competences comprise what the organization and, therefore, the people within it, have to do in order to succeed. As described by Prahalad and Hamel,\textsuperscript{130} a company’s core competences are its critical resources and represent the collective learning in the organization. They suggest that ‘core competence is communication, involvement and a deep commitment to working across organizational boundaries. It involves many levels of people and all functions’. Prahalad and Hamel assert that core competence does not diminish with use but competences still need to be nurtured and protected. They point out that western companies have traditionally had an advantage in the stock of skills they possess but question their ability to reconfigure them to respond to new opportunities. Finally they state that ‘an obsession with competence building will characterize the global winners of the 1990s’.

Core competencies, as described by Prahalad and Hamel, define what the business has to do to achieve competitive advantage by ‘consolidating corporate-wide technologies and production skills into competencies that empower individual businesses to adapt quickly to changing opportunities’. They do not refer specifically to individual behaviour and it is necessary to distinguish between business core competences (the Prahalad and Hamel model) and behavioural core competences.

Behavioural core competences are the fundamental qualities which usually apply to all people in the organization but sometimes only refer to certain categories of employee, e.g. managers. The level of demonstrated behaviour individuals achieve in each core competency area will determine

their own effectiveness and will collectively influence organizational effectiveness.

Business and behavioural core competences can be used in different ways when developing role competence profiles throughout an organization. Business core competence frameworks can establish the headings under which generic or individual roles are defined. They can also set out the key factors which should be taken into account when preparing generic or individual role competence definitions.

Behavioural core competences are different in that they can stand alone to form a self-contained framework which applies to everyone in the organization, albeit to different degrees. The term core competency is also used more loosely to apply to similar categories of people such as managers, team leaders, scientists or sales representatives. It is preferable to refer to these as generic competences. If the words core and generic are used interchangeably it can cause confusion.

2. Generic Competences: Generic competencies are those common to categories of employees such as managers, team leaders, design engineers, branch managers, personnel specialists, accountants, machine operators, sales assistants or secretaries.

Generic competences may be defined for job families where the nature of the task is fundamentally similar but there are significant differences in the level of work undertaken.

3. Specific Competences: The task-related competences specific to individuals or small groups of role holders which are not included in the generic competences profile for the role.

Competence profiles can, consist of a combination of behavioural core competences, generic competences and specific competences.

But there is not standardized or generally accepted composition for competence profiles. In some organizations they are developed in line with one or other of the models described above. Others rely on one or a combination of any two of the three headings of core, generic or specific competences.
The Advantages and Disadvantages of Competence-related Pay: Advantages of the competence-related pay as following:\(^1\):

- Focus attention on the need for higher levels of competence;
- Encourage competence development;
- Fit delayered organizations by facilitating lateral career moves;
- Encourage staff to take ownership of their own development;
- Help to integrate role and generic competences with organizational core competences.

Disadvantages: The disadvantages are that:

- Unless very careful control is exercised, costs may escalate if employees are paid for competences they rarely, if ever, use;
- Assessment and documentation of competence levels can be time consuming and expensive;
- The effectiveness of competence-related pay depends on the fair and consistent measurement of competence levels, and this may be difficult;
- It requires considerable resources in terms of training and support;
- There is the possibility of gender bias;
- The process makes considerable demands on the commitment and skills of line managers.

It is noticeable that the list of disadvantages is mainly concerned with the way in which competence-related pay is administered. It is indeed certain that it can be time consuming and can make considerable demands on management and administrative resources. Managers may not be able to, or want to cope with the new demands made on them.

But the disadvantages can be contained if the following is done:

- Rewards are related to the effective use of competences rather than merely to their acquisition.
- Competence levels are described in terms of specific work-related behaviours.
- Thought is given to the evidence that can be made available to indicate competence levels and how it can be obtained, analyzed and assessed.

• It is recognized in advance that competence-related pay will require the mobilization of extensive management resources and will take time to implement and manage.
• Steps are taken to plan the use of these resources, the implementation programmes and procedures and the management programmes and procedures, on the assumption that all the effort will be worthwhile.
• The implementation of competence pay decisions is monitored from an equal value point of view with analytical job evaluation support as necessary.
• It is recognized that, although a key aim of competence pay is to support continuous development, there will be limits to how far anyone can progress. The scope for progression and the existence of these limits will have to be made clear to employees.
• Managers are involved in developing the process and trained in its use- the emphasis from the top is that handling this area of their responsibilities is regarded as a key managerial competence requirement.
• Continuous support and guidance is available to line managers from HR or specially nominated and trained colleagues.

The advantages are mainly to do with the developmental aspects of competence-related pay in flatter organizations and its use in integrating corporate, HR and reward strategies. These advantages are compelling for those organizations wanting to adopt an integrated approach to reward and development. But, even if the advantages are believed to outweigh the disadvantages and the latter can be managed, the organization should consider the extent to which it is ready for competence-related pay before taking any steps to introduce it.

V. Safety and Health: Safety is primarily the responsibility of the Personnel Management (PM) in every organization. Organizations should plan, formulate and implement a safety policy and programmes. The procedure to be adopted naturally depends upon the size of an organization, the number of plants it operates, the nature of the industry in which it is engaged, the production technology it uses, and the attitude of the top management. After it has spelt out its safety policy, an organization should be-to establish a safety programme, the primary goals of which should be to reduce the number of hazardous factors which are likely to cause accidents, and to
develop safe working habits among its employees. Safety involves protecting employee from injuries due to work related accidents.

The term health is a positive and dynamic concept and implies more than an absence of illness.

VI. Labour Relations: Prior to the advent of HRM, employee/labour relations were often called industrial relations and were concerned with the interactions between the employer (represented by management) and the work-force (typically represented by trade unions). It involved the processes of collective bargaining, negotiation and consultation, and occurred at two levels: the organization and the industry. Employee relations differ from industrial relations in so far as there is an emphasis on direct communication with the work-force and liaison with employees at the level of the individual. This creates a scene where there is reduced interaction with trade unions.

While traditional collective bargaining concentrated on pay settlements and conditions of work, HRM approaches are sought to broaden the involvement of employees and take a more participative approach to management through increased communication, flexibility and a broader agenda.

Similarities and Differences between Personnel Management (PM) and Human Resource Management (HRM)

The similarities between PM and HRM are as follows:

1. PM strategies, like HRM strategies, flow from the business strategy;
2. PM, 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 PM and at least the “soft” version of HRM are identical with regard to “respect to 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 PM and HRM recognize that one of their essential processes is that of placing the right people in the right jobs, thus ensuring that the organization’s HR are matched to ever-changing organizational requirements.

5. The same range of selection, appraisal, training, management development and reward management techniques are used in HRM and in PM.

6. PM, like the ‘soft’ version of HRM, attaches importance to the processes of communication and participation within an employee relation system.

The differences between PM and HRM are as follows:

1. PM is an activity aimed primarily at non-managers, whereas HRM is less clearly focused, but is certainly more concerned with managerial staff;

2. HRM is much more of an integrated line management activity, whereas PM seeks to influence line management;

3. HRM emphasizes the importance of senior management being involved in the management of culture; whereas PM has always been rather suspicious of organization development is related guitarist, social-psychologically orientated ideas.

4. The strategic nature of HRM is another difference commented on by a number of people who, in effect, dismiss the idea that traditional PM was ever really involved in the strategic areas of business.

Perhaps the most significant difference is that HRM is based on a management and business-oriented philosophy. It is a central, senior management-driven strategic activity, and it is developed, owned and delivered by management as a whole to promote the interests of the organization which they serve.\textsuperscript{136}

\textbf{Approaches to Human Resource Management}

The approaches to HRM will be governed by the policy goals of the enterprise and may be hard or soft depending on the philosophy of top management. But it is possible to devise a model of the HRM cycle which describes broadly how it operates. So, there are three approaches to HRM as follows:

1. Policy Goal Approach: HRM provides a coherent and distinctive set of propositions about an approach to management which seeks to make the best

\textsuperscript{136} Armstrong, M., op. cit., pp. 34-38.
use of the most recent research to promote positive organizational outcomes. This approach should be based on four policy goals:

1. Strategic Integration: Ensuring that HR and business strategies are integrated, coherent HRM policies and practices are evolved and that these are used by line managers as part of their everyday work.

2. Commitment: Binding employees to the organization.

3. Flexibility: Creating structure which is adaptive and receptive to innovation, basing job design on job enrichment or autonomous work group principles and multi-skilling to meet to requirements of this type of design.

4. Quality: Ensuring high quality management and staff who deliver high quality goods and services.

II. Hard and Soft Approach: In the hard HRM focuses on managing and controlling employees so as to achieve the organizations strategic goals, whilst soft HRM gives more recognition to the needs of employees and the importance of their commitment to the organization.

Soft Approach: There are two models in soft HRM which are as follows:

a) The Harvard Model: This model was first put forward in 1984 by Michael Beer in the book Managing Human Assets, takes a soft HRM approach similar to that of Walton and was devised primarily to inform general managers of improved ways of managing people. The Harvard model can be dealt with four HR categories:

1. Employee Influence: The question of how much responsibility, authority and power is voluntarily delegated by management and to whom.

2. HR Flow: This means making decision on recruitment, selection, promotion, termination of employment, job security, career development, advancement and fair treatment.

3. Reward System: How employees are extrinsically and intrinsically rewarded for their work. Extrinsic rewards are tangible pay and benefits: pay, overtime pay, bonuses, profit sharing, pensions, holiday entitlement, health insurance,
and other benefits. Also intrinsic rewards are intangible benefits and are said to strongly influence employees’ motivation, job satisfaction and organizational commitment. These rewards (intrinsic rewards) are rewards from the work itself, such as sense of purpose, achievement, challenge, involvement, self-confidence, self-esteem and satisfaction. A further recommendation of the Harvard model is that, when making HRM policy decisions, manager should consider the four Cs': commitment; competence; congruence (compatibility); and cost-effectiveness.

4. Work System: Work system is the ways in which people, information, and activities and technology are arranged, at all of the organization.

The A. Pinnigton and T. Edwards conceptual overview of HRM is represented diagrammatically as a ‘map of the HRM territory’ (see Figure: No. 1.14).

Figure No. 1.14
A Map of the HRM Territory

Source: Pinnington, A., Edwards, T J
Ibid., p. 8.

73
b) Guest’s Model: A second soft HRM model was discussed by David Guest in 1987. Guest argued that HRM in the UK should be about designing policies and practices to achieve four main outcomes: (1) Strategic integration (Planning/Implementation); (2) High employee commitment to the organization; (3) High workforce flexibility and adaptability; and (4) High quality workforce.

Guest proposed that these four HRM outcomes will lead to the desirable organizational outcomes of high job performance, stronger problem solving, greater change consistent with strategic goals, and improved cost-effectiveness, while also reducing employee turnover, absences, and grievances. Guest’s model of HRM is illustrated in Table No. 1.1.

<table>
<thead>
<tr>
<th>Policies</th>
<th>HR outcomes</th>
<th>Organizational outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organizational and job design</td>
<td>-</td>
<td>High job performance</td>
</tr>
<tr>
<td>Policy formulation and implementation/management</td>
<td>Strategic planning/implementation</td>
<td>High problem-solving</td>
</tr>
<tr>
<td>of change</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recruitment, selection and socialization</td>
<td>Commitment</td>
<td>Successful change</td>
</tr>
<tr>
<td>Appraisal, training and development</td>
<td>Flexibility/Adaptability</td>
<td>Low turnover</td>
</tr>
<tr>
<td>Manpower flows-through, up and out of the org</td>
<td>-</td>
<td>Low absence</td>
</tr>
<tr>
<td>Reward system</td>
<td>Quality</td>
<td>Low grievance level.</td>
</tr>
<tr>
<td>Communication system</td>
<td>-</td>
<td>High cost-effectiveness i.e.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>full utilization of HR</td>
</tr>
</tbody>
</table>

Source: Guests, D.E. [140]

Guest’s model is similar to the Harvard model, but has seven HR policy categories instead of four. Four of Guest’s categories are broadly the same as Beer’s Harvard categories (see Table No. 1.2).

Table No. 1.2
The Similarities Between the Guest’s Model and the Harvard Model

<table>
<thead>
<tr>
<th>Harvard Model</th>
<th>Guest’s Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>HR flow</td>
<td>Manpower flow and recruitment, selection and socialization.</td>
</tr>
<tr>
<td>Reward systems</td>
<td>Reward system</td>
</tr>
<tr>
<td>Work systems</td>
<td>Organizational and job design</td>
</tr>
<tr>
<td>Employee influence</td>
<td>Policy formulation and management of change, employee appraisal, training and development and communication systems.</td>
</tr>
</tbody>
</table>

Source: Field Survey

Hard Approach: In the year 1984, Fombrun, Tichy and Devanna proposed a different model of HRM, frequently referred to as the Michigan School because one of its main proponents was an academician from the University of Michigan’s Graduate School of Business Administration, although the ideas were generated in partnership with researchers from two other well-known American universities, Wharton and Columbia. The British academician, John Storey, describes this model as ‘hard’ HRM because it emphasizes treating employees as a means to achieve the organizations’ strategy, as a resource that is used in a calculative and purely rational manner. Hard HRM focuses more than its soft version on using people as resources and as a means towards the competitive success of the organization. Hard HRM assumes that increasing productivity will continue to be management’s principal reason for improving HRM, while this is a major factor in many private and public sector organizations; it clearly is not the only one.

These authors proposed a framework of SHRM that assumes the needs of the firm are paramount. They are of the opinion that organizations exist to accomplish a mission or achieve objectives and that strategic management involves consideration of three interconnected issues:

1. The mission and strategy must be considered.
2. The organization’s structure, personnel requirements, and tasks, must be formally laid out, including systems of accounting and communications.

---

3. HR system need to be established and maintained because people are recruited and developed to do job defined by the organization’s formal structure. The Michigan model of HRM is illustrated in Figure No. 1.15.

**Figure No. 1.15**

The Michigan Model of HRM

![Diagram of the Michigan Model of HRM]

Source: Fombrun, C.J., Tichy, N.M., Devanna, M.A.  

---

III. A Model of the HRM Cycle: Whatever the extent to which an enterprise inclines towards either the hard or the soft version of HRM, the approach adopted attempts to be internally coherent. This can be represented by the model of the HRM cycle. This model is based on the Michigan model, because, the Michigan model argues that within HRM there is a HR cycle affecting individual and organizational performance. The model of the HRM cycle is illustrated in Figure No. 1.16.

**Figure No. 1.16**

The Model of the HRM Cycle

![Diagram of the HRM Cycle]

---

---

112 Ibid., p. 35.
The four generic processes in this model which take place in all organizations are selection, appraisal, rewards and development.

Performance is a function of all the HR components: selecting people who are best able to perform the jobs defined by the structure, appraising their performance to facilitate the equitable distribution of rewards, motivating employees by linking rewards to high levels of performance, and developing employees to enhance their current performance at work as well as to persuade them to perform in positions they may hold in the future. Table No. 1.3 presents the approaches to HRM.

Table No. 1.3
Approaches to HRM

<table>
<thead>
<tr>
<th>Approach</th>
<th>Goals</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Policy Goal</td>
<td>1.1 Strategic integration; 1.2 Commitment; 1.3 Flexibility; and 1.4 Quality</td>
</tr>
<tr>
<td>(2) Hard &amp; Soft</td>
<td>2.1 Soft</td>
</tr>
<tr>
<td>2.1.1 Harvard Model</td>
<td>2.1.1.1 Employee influence</td>
</tr>
<tr>
<td>2.1.1.2 HR flow</td>
<td></td>
</tr>
<tr>
<td>2.1.1.3 Reward system</td>
<td></td>
</tr>
<tr>
<td>2.1.1.4 Work system</td>
<td></td>
</tr>
<tr>
<td>2.1.2 Guest’s Model</td>
<td>2.1.2.1 Strategic integration</td>
</tr>
<tr>
<td>2.1.2.2 High employee commitment to the organization</td>
<td></td>
</tr>
<tr>
<td>2.1.2.3 High work force flexibility and adaptability</td>
<td></td>
</tr>
<tr>
<td>2.1.2.4 High quality work force</td>
<td></td>
</tr>
<tr>
<td>2.2 Hard Michigan Model</td>
<td>Integration</td>
</tr>
<tr>
<td>The Mission of strategy</td>
<td></td>
</tr>
<tr>
<td>Organization structure</td>
<td></td>
</tr>
<tr>
<td>HRM</td>
<td></td>
</tr>
<tr>
<td>3. The Model of the HRM Cycle</td>
<td>Attempts to be internally Coherent</td>
</tr>
<tr>
<td>based on the Michigan Model</td>
<td>Integration</td>
</tr>
<tr>
<td>Selection</td>
<td></td>
</tr>
<tr>
<td>Performance Appraisal</td>
<td></td>
</tr>
<tr>
<td>Rewards</td>
<td></td>
</tr>
<tr>
<td>Development</td>
<td></td>
</tr>
</tbody>
</table>

Source: Field Survey

146 Devanna, M.A., Fombrun, C.J., and Tichy, N.N., op. cit., p. 41
Theoretical Perspectives to HRM

Theoretical perspectives based in sociology, economics, management, and psychology focus on different aspects of domain of HRM in context. There are eight theoretical perspectives relevant to understand HRM in context.\textsuperscript{147}

1. General System’s Theory: In general systems theory, the unit of analysis is understood as a complex of interdependent. An open system is dependent on the environment for inputs, which are transformed during throughput to produce outputs that are exchanged in the environment. Open system model seldom address organizations or large units within organizations. The open systems view of HRM has been developed further by Wright and Snell, who used it to describe a competence management model of organizations. Skills and abilities are treated as input from the environment, employee behaviours are treated as throughput, and employee satisfaction and performance are treated as outputs. In this model, the HRM sub system functions to acquire, utilize, retain, and displace competencies. Similarly, Snell’s description of HRM as a control system is based in open systems theory.

2. Behavioural Role Theory: Katz and Kahn focused on roles as the interdependent components that make up an organization system. Instead of using specific behaviour and job performances as the fundamental components, this perspective (theory) shifts the focus from individuals to social systems characterized by multiple roles, multiple role senders, and multiple role evaluators. Katz & Kahn defined role behaviours as “the recurring actions of individuals, appropriately interrelated with the repetitive activities of others so as to yield a predictable outcome”.\textsuperscript{148}

HRM is the organization’s primary means for sending role information through the organization, supporting desired behaviours, and evaluating role performances, it is effective, therefore, when it communicates internally consistent expectations and evaluates performances in ways that are congruent with the system’s behavioural requirements. System requirements are, in turn,

\footnotesize

presumed to depend on contextual factors such as business strategies and the nature of the industry. Role theory recognizes that the behavioural expectations of all role partners can influence the behaviour of organizational members. By implication, effective HRM helps employees meet the expectations of role partners within the organization (i.e. supervisors, peers, subordinates), at organizational boundaries (i.e. customers, and clients), and beyond (i.e. family and society). Thus the expectations of these role partners must be incorporated into an understanding of HRM.

3. Institutional Theory: Institutional theory views organizations as social entities that seek approval for their performances in socially constructed environments. Organizations conform to gain legitimacy and acceptance, which facilitate survival. Because multiple constituencies control needed resources, legitimacy and acceptance are sought from many stakeholders as a means to ensure continued survival.149

Research on institutionalization focuses on pressures emanating from the internal and external environments. Internally, institutionalization arises out of formalized structures and processes, as well as informal or emergent group and organization processes. Forces in the external category include those related to the state (e.g. laws and regulations), the professions (e.g. licenses and certification), and other organizations especially those within the same industrial sector. Regardless of the source of institutional pressures, two central assertions of this perspective are: (a) institutionalized activities are resistant to change, and (b) organizations in institutionalized environments are pressured to become similar. Thus, in this theoretical perspective, context is the major explanation for both resistance to change and the adoption of new HRM approaches. The first assertion suggests that HRM activities have deep historical roots in the organization, so they can not be understood completely without analyzing the organization’s past. From the second assertion it follows that HRM activities may be adopted by an organization simply because other organizations have done so. Thus, “managerial fads and fashion” ebb and flow

in part because a few legitimate organizations become fashion leaders that are imitated by other organizations that view imitation as a low-risk way to gain acceptance.\textsuperscript{150}

4. Resource Dependence Theory: Like institutional theory, resource dependence theory focuses on the relationship between an organization and its constituencies. However, resource dependence theory emphasizes resource exchanges as the central feature of these relationships, rather than concerns about social acceptability and legitimacy. According to this perspective, groups and organizations gain power over each other by controlling valued resources.\textsuperscript{151}

Furthermore, HRM activities and processes are assumed to reflect the distribution of power within a system. For example, personnel departments acquire power over other departments to the extent they make others dependent upon them by controlling the flow of HR into and through the organization. Thus, this theoretical perspective is somewhat similar to an integrationist’s perspective within psychology in that the actor (an organization or unit) and the environment work in conjunction as explanations for the behaviour of the actor.

Institutional and resource dependence theory were developed in context of understanding large public bureaucracies, where efficiency may not be among the most important goals. This is grounded on the notion that organizations and organizational interests gain power over one another by controlling the resources that their constituents are dependent on. Because dependence is the basis of power, those responsible for the human resource system may increase their level of influence in the organization by (a) enhancing the value of human resources to key organizational interests and (b) making other organizational interests dependent on them for ensuring the efficient and timely flow of HR. A strategic approach to HRM may offer the


potential to do both and may therefore offer particular appeal to those HR practitioners looking to gain greater influence in organizational affairs.¹⁵²

5. Human Capital Theory: In the literature of economics, human capital refers to the productive capabilities of people. Skills, experience, and knowledge have economic value to organizations because they enable it to be productive and adapted, thus people constitute the organization’s human capital. Like other assets, human capital has value in the marketplace, but unlike other assets, its potential values can be fully realized only with the cooperation of the person. Therefore, all costs related to eliciting productive behaviors from employees including those related to motivating, monitoring and retaining them constitute human capital investments made in anticipation of future returns.

Becker¹⁵³ and Gerhart¹⁵⁴ assume that higher earnings go to those who, by investing in them through education and experience, improve their skills, abilities and thus enhance their productive capacity. Because there are costs for doing so (i.e., time, tuition, opportunity costs), to the extent that an organization is willing to reward individuals for overcoming such barriers, the organization is likely to be successful in attracting and retaining individuals with these desired attributes. The theory therefore suggests two ways to enhance an organization’s human capital base: (a) by, widening the differentials between entry-level positions and KSA-rich executive positions in a pay structure and (b) by increasing the degree to which pay increases are contingent on human capital enhancement (i.e., knowledge or skill-based pay). Firm competitiveness and performance is likely to be enhanced to the extent that the organization expands and creates synergies on the basis of its in-house, human capital base¹⁵⁵ and to the extent that it can leverage these KSAs to increase operational flexibility.¹⁵⁶

Organizations can use HRM in a variety of ways to increase their human capital. For example, they can ‘buy’ human capital from the market (e.g. by offering desirable compensation packages) or “make” it internally (e.g. by offering extensive training and development opportunities). Investments of either type have associated costs, which are justifiable only to the extent the organization is able to productivity utilize the accumulated capital. In human capital theory, contextual factors such as market conditions, unions, business strategies and technology are important because they can affect the costs associated with alternative approaches to using HRM to increase the value of the organization’s human capital and the value of the anticipated returns, such as productivity gains.

6. Transaction Gains: Transaction cost assumes that business enterprises choose governance structures that economize transaction costs associated with establishing, monitoring, evaluating, and enforcing agreed upon exchanges. Predictions about the nature of the governance structure an enterprise will incorporate two behavioural assumptions: bounded rationally and opportunism (i.e. the seeking of self-interest with guile). These assumptions mean that the central problem to be solved by organizations is how to design governance structures that take advantage of bounded rationality while safeguarding against opportunism. To solve this problem, implicit and explicit contracts are established, monitored, enforced, and revised. The theory has direct implications for understanding how HRM practices are used to achieve a governance structure for managing the myriad implicit and explicit contracts between employers and employees. For example, organizations that require firm-specific knowledge and skills are predicted to create internal labour markets that bind self-interested and boundedly rational employees to the organization, while organizations that do not require these skills can gain efficiencies by competing for self-interested and boundedly rational talent in an external labour market. Contextual factors, in turn, partly determine whether the types and amounts of skills and knowledge a firm needs originate from the external market, the organization’s capability for developing them internally, and the costs of doing so.
7. Agency Theory: Yet perhaps one of the most influential theories affecting organizational appraisal and reward subsystem strategies in recent years is agency theory.\textsuperscript{157} Agency theory focuses attention on the contracts between a party (i.e. the principal) who delegates work to another (i.e. the agent). Agency relations are problematic to the degree that: (a) The principal and agent have conflicting goals, and (b) It is difficult or expensive for the principal to monitor the agent’s performance.

Contracts are used to govern such relations. Efficient contracts align the goals of principals and agents at the lowest possible cost. Costs can arise from providing incentives and obtaining information (e.g. about the agent’s behaviour and/or the agent’s performance outcomes). Agency theory appears to be particularly useful for understanding executive and managerial compensation practices, which are viewed as a means for aligning the interests of the owners of a firm (i.e. principals) with the managers in whom they vest control (i.e. agents). For example, agency theory suggests several conditions under which contracts are more likely to monitor behaviour (e.g. salary-plus-merit pay systems) and/or outcomes (e.g. commissions). Agency theory also has been used to predict occupation-based differences in job pricing methods (i.e. job evaluation vs. market pricing) and in pay variability. Agency and transaction costs theories share many similar assumptions about human behaviour and may be most useful when combined. For example, using these two theories, offer an insightful interpretation of the IIRM literature focusing on implications of the economic perspective for HRM utility estimates. Their discussion suggests various reasons for predicting that the utility of HRM activities will vary with conditions in both the internal and external environments of organizations. Such conditions include the other HR practices that are used by the organization, government regulations and their enforcement, technologies, union activities, and labour market conditions. These contextual factors can affect both the costs and potential gains associated with a particular HR practice.

Resource-based Theory: The resource-based theory of the firm blends concepts from organizational economics and strategic management. A fundamental assumption of this view is that organization can be successful if they gain and maintain competitive advantage. Competitive advantage is gained by implementing a value-creating strategy that competitors cannot easily copy and sustain and for which there are no ready substitutes. Human resource policies and practices may be an especially important source of sustained competitive advantage. Specifically four empirical indicators of the potential of firm resources to generate competitive advantage are: value, rareness, immitability and substitutability. In other words, to gain competitive advantage, the resources available to competing firms must be variable among competitors and these resources must be rare (not easily obtained). Three types of resources associated with organizations are: (a) Physical (plant, technology and equipment, geographic location); (b) Human (employees experience and knowledge), and (c) Organizational (structure, systems for planning, monitoring, and controlling activities, social relations within the organization and between the organization and external constituencies).

HRM greatly influences an organization’s human and organizational resources and so can be used to gain competitive advantage. Presumably, the extent to which HRM can be used to gain competitive advantage, and the means of doing so, are partly determined by the environments in which organizations operate.

---

158 Jackson, S. E. and Schuler, R. S., op. cit.
159 Barney, J., op. cit., p. 56.

84