Chapter-1
People Management –
Introduction and Theoretical Considerations

“In most UK workplaces the management of people has been progressively moving closer to the HRM model and away from the PM model over the last 20 years, and the most recent evidence suggests strongly that this is continuing. We can assume that the UK is not unique in this, and that giving due weight to local cultural and contextual factors, similar changes in the management of people has been happening worldwide in the developed and developing economies” Henderson (2011).

Introduction

Human resource management (HRM)* is a new approach to personnel management which considers people as the key resource. It subscribes to the notion that it is important to communicate well with employees. It also involves the people by making them know what is going on and to fostering their commitment and identification with the organization. In addition, a strategic approach to the acquisition, management and motivation of people is emphasized.

As a result the managers turned from reactive to proactive and by giving utmost value to people. The added value that people can contribute to an organization is emphasized also by human capital theory (Armstrong, 2009). By taking this clue the modern theorists started using human resource management and people management synonymously. Though some agencies and individual writers have made a distinction between human resource management and people management there is no clear distinction. For same human resource management is a much larger and an all encompassing concept, while people management is limited, whereas for some both the concepts are one and the same except in assigning duties to line and staff people or in using various tests in recruiting candidates for senior and junior positions or in treating the employees. Such a distinction, however, is slowly disappearing with the realization that the broadness and all-inclusive nature of the concept depend on the context in which it is used. For example, people management may have somewhat restricted meaning when used in the national or international context, but in the

* The terms, HRM and People Management are used synonymously in the research work.
organizational context there are evidences (studies of Henderson, 2011; Jackson, 2002; Rudman, 2000), of it being used in the same sense synonymously as in human resource management (HRM).

The present research work is titled as people management with the inspiration after reviewing the work led by David Guest and John Purcell in the United Kingdom and David Ulrich and Mark Huselid in the United States which demonstrates convincingly that selected people management practices, implemented within a supportive organisation culture, lead to a positive psychological contract, with beneficial outcomes for individual satisfaction and organisational performance. Three key conclusions can be drawn from these research studies (Guest and Conway, 1997, Patterson et al., 1997):

- The key elements of good people management practice are job design, skills development, and a climate of regular, systematic involvement;
- Good people management practices are associated with a positive psychological contract based on trust, fairness, and delivery of the deal;
- An organisation culture in which employees believe their employers will look after their interests has positive outcomes for work performance.

The research led by David Guest (2000) that managers believe there is a link between their use of human resources management practices and how the business performs. Mostly, managers also agree that the link is not directly causative between human resources management practices and organisational performance, but that it depends on the quality and the commitment of the people doing the work.

1.1-Importance of People:

People:

Humans are social beings; and they very rarely live and work in isolation. Whether consciously or unconsciously, they are always in interaction with other people and continuously plan, develop, manage and cease relations with others.
These relations are not appeared anywhere of nowhere. They depend on actions and ability to manage actions. From an early age people gain knowledge and experience on understanding others and the way they behave in certain situations. Later in life they develop on this understanding further and carry it to workplace.

However, dealing with people is probably the most difficult thing the management will ever encounter in life. As people are very complex creatures. Not a single person thinks, feels, sees, hears, tastes, understands and behaves the same way. They all come from different ethnic, cultural, national, religious and political backgrounds. This makes each and every one unique with different set of morals, beliefs and values. This complexity and variety also reflects in everyday work lives. People’s characteristics, values and beliefs form attitudes and behaviours that strongly influence their choice of employment.

Scientists argue that people’s genes and their environment affect their intellectual capacity, their intentions and their tendencies which generate people’s actions and determine their behavior. People do things their own way, for their own reasons. In other words, people have different agendas some of which are kept hidden. Almost every day organization strategizes on how to manage people effectively. The quest to establish a set of universally accepted policies and procedures of people management in every organization still seems to be a utopia.

However, this complexity and variety in the workplace often regarded as a problem. It is true that complexity is a management challenge, however, complexity is simply about the way people are. After all, everything changes and nothing is stable. Nevertheless, the law of cause and effect states that for every action there is a reaction. When this is applied to people management the input of HR practitioners affects people’s actions and reactions. Thus, in this sense, managing people can be seen as the most important task at work.

Management cannot simply set certain policies and procedures in place and then sit back and watch the days go by. Managers need to put in the time and the effort it
takes to deal with the complexities of employees. However, realistically, it is extremely difficult and in most cases impossible, to achieve this task fully. Some people will be content with the present management others will be unhappy about the decisions management makes. Some employees will work hard to achieve the goals that are set by management, while others will be unhelpful, obstructive and uncooperative. There will be organizational complexities in the macro-environment (inside the organization) and micro-environment (outside the organization). Internally, managers need to respond to a very diverse workforce and variety of business models for various different business units.Externally, things can be worse for managers where the complexity, variety and diversity is even higher in customer needs, logistics, cultural values, government regulations, investors, etc.

In addition, organizations have to deal with interdependence. It is evident that every organizational function and process is interdependent. In other words, everything is related to everything else. For example, according to the ‘the butterfly effect’ when a butterfly moves its wings on one side of the world, it can create a tornado in the other (Gleick, 1998). The less rigid organizational borders are, the easier it gets for the organization to take advantage of globalization. Because the more open minded and flexible an organization is, the easier it will be to adapt new structures, philosophies and ways of performing that is needed to meet the demands of customer base.

Moreover, the business environment today is no clearer than of yesterday. Although organisations are flooded with more and more information each day, they cannot always interpret, understand and make sense of information. Most of the time, people in organisations have to cope with ambiguity. Employee meetings, management reports, executive directives are becoming less solid and more open to interpretation. This, of course, is not always a harmful environment for organisations, because it allows people to have flexibility in their decisions and the way they do certain tasks, but nevertheless it will be naive to assume that every employee can cope with ambiguity and interpret information correctly and apply their understanding to tasks effectively.
It is clear that management on its own cannot cope with everyday tasks and processes of organizational life and find effective ways to manage people by constantly providing clear guidelines and instructions, keeping the morale and motivation high and finding better ways for each employee to develop and flourish in the workplace. The demands of the changing nature of individuals and work require a more sophisticated management function which focuses not only on the short-term, day-to-day concerns of the individual and the organisation, but also on long-term, strategic organizational goals and individual needs.

1.2-Organizations:

Organizations are an important part of daily lives and it is hard to imagine a day without engaging in a task that does not have an input from an organisation (e.g. schools, universities, hospitals, places of worship, local government, etc.) Mullins (2005) describes an organisation as “a consciously, coordinated unit created by groups in society to achieve specific purposes common aims and objectives by means of planned and coordinated activities”. Organizations are created by people who decide to work together in order to attain their specific objectives. Organizations function through the division of labour and on a hierarchy of authority. People and business processes are structured to achieve organizational objectives.

There are three main types of organizations in the business environment: private, public and non-government organizations. Private sector organizations are governed by the laws of capitalism. Their main aim is to make private profit and they have no governmental component in their structure. Apollo Hospital Ltd., Coromandel International Limited, Spencer, More, Reliance are some of the examples of private sector organizations existing in India.

Public sector organizations, on the other hand, are owned and controlled by the government. Their main aim is not to make profit, but to deliver government services to citizens at national, regional and local levels. The RINL, Neyvelli Lignite Corporation, Ltd., BHEL are some of the examples of public sector organizations in India.
Non-Government Organizations (NGO’s) are the ones that provide goods and services for the benefit of society without seeking private profit in return. Any profit that is made by a non-profit organisation is kept in the organisation for future use and not owned by any individual or a group. Non-Government Organizations (NGO’s) for example are: Help Age India, Deepalaya, LEPRA Society, etc., existing in India.

Organizations depend on people. There can be no organisation without people. Organizations do what people do. An organisation behaves the way its employees behave, the way its managers direct it. If there are no people, it is just a collection of buildings, car parks and some furniture.

Although organizations are mostly seen as physical structures (e.g. a particular building), they are social systems or a set of social processes. A social process such as an organization can include a range of social practices such as meetings, discussions, policies, regulations, bureaucracies and so on. Buchanan & Huczynski (2004) defines an organisation as “a social arrangement for achieving controlled performance in pursuit of collective goals”.

There are many forces affecting organizations, these can be divided into two groups: Competitive and social forces (Sparrow and Hiltrop, 1994). There are likely to be countless competitive and social forces that can affect an organisation but for practical reasons we can group them as follows:

- Competitive forces: National and international competition, productivity, removal of trade barriers, privatization and rapid changes in technology;
- Social forces: Unemployment, ageing workforce, immigration, shift to knowledge workers, skill shortages, changing customer values and labour mobility.
1.3-People in Organizations:

Organizations are created by the rules and resources drawn upon and enacted by people; and the nature of organizations is a result of people’s actions. Thus an organization’s behaviour reflects people’s psychological, ethnic, racial, cultural, political and social make-up. People are the most important assets of an organization.

The importance of people as vital assets is largely overlooked today. This is what is happening today in the business environment. Organizations are becoming larger than life and take on their own characters, images, attitudes and intelligence. Large corporations are even taking this one step further and becoming very influential in the way major economic and military powers of the world make their decisions on political, economic, social, technological, environmental and legal affairs.

The importance of people in organizations is immense because it is the people that plan, design, implement, sustain and end an organization’s life. From this rather simplistic but vital point, it can assume that one of the most important functions in an organisation is the management of the human resource function.
The management of organizations in the last few decades can be summarized in the assertion that there has been a move from institutional authority embodied in the structures of the organizations towards more flexible relations of management. There is a shift in the management paradigm from ruling to governing. It can be traced back to Foucault’s *governmentality* (Foucault, 1991). The shift can be traced from ruling to governing, that is, towards guiding, directing, motivating and shaping people to do what is best for them and for organizations as a whole. Thus organizations are constantly redefining themselves as they are managed.

In the late 1980s business and management research began to highlight that some organizations are managed better than others. They soon discovered that what they really meant was that some managers are better at getting the job done through establishing relationships. Previous research highlights that those managers spend around 80% of their time interacting with their employees and they are successful.

Dissatisfaction with the quality of services is one of the main reasons why effective people management is necessary in organizations. Changing expectations of customers, growth in internet usage, and rapid development of e-Commerce have pressured organisations in every sector to make improvements in its service delivery and employee effectiveness. Organisations are transforming from traditional bureaucratic institutions to flexible service organisations with a focus on employee effectiveness and development.

It is evident that individual skill and talent is no longer sufficient for organizational success. The really important element is the human capital. Human capital often refers to the characteristics and skills people bring to an organisation such as commitment, loyalty, expertise, etc. However, human resources are very different from other resources in organizations. As mentioned earlier, people have different backgrounds, values, beliefs, levels of experience and knowledge, so, their contribution to the organisation as a resource is highly unpredictable, unique and has potential for further development. The organizations to be successful have to recognize human
value. Jackson (2002) presents a conceptual framework for locks of human value which is presented below:

**Figure-1.2**

**Conceptual framework for locus of human value**

![Conceptual framework for locus of human value](image)

Source: Jackson (2002)

1.4-People, Organisations and Employment:

Today the success of individuals and organizations are measured by their adaptability to change. Organizations have abandoned the traditional thinking of what work is and how people should work. Employment now means more than having a job. It is not just something an individual does, but a combination of shared responsibilities and duties between the organisation and the individual. Employment consists of two sets of contracts: *legal* and *psychological*.

A legal contract is a written agreement between the individual and the organisation that sets out the terms and conditions of employment. A psychological contract, in contrast, is a metaphor used to describe a set of unwritten and unspoken set of expectations between the individual and the organisation.

The changing nature of work and organisation has led to a situation where there are no longer jobs for life. This means individuals no longer have to have long-term contracts and organisations are not guaranteed to have employees that will stay loyal.
and committed. Traditionally organizational commitment is the ultimate norm but nowadays an employee can walk out of the door with intellectual assets after a couple of months notice and start working for the competitor organisation.

It is evident that employee commitment, motivation and job satisfaction are related and dependent on each other, and that their combination leads to improvements in employee performance. However, mutual trust, commitment and the bond between the individual and the organisation is no longer strong. Instead of relying on traditional methods of improving and developing commitment, there is a need to find new ways to build an effective bond between the individual and the organisation.

People management can be a useful function in building this bond by sustaining inward investment in organisations. It is absolutely vital that organisations should see their employees as valuable assets not just like a file or a number in a spreadsheet. Employees are now expecting their employers to invest on their training and development and in return the organisations expect employees to be flexible, creative and productive. This psychological contract can be seen as a fair deal since it does not favour the employees and cannot easily be put in practice by the organisations.

The psychological contract does not favour the employees because employees no longer have long-term job security and are constantly vulnerable to changing employment conditions. Employees always have to find ways to improve their knowledge and develop their skills because the labour market is fierce. There is always someone who has more qualifications, who can speak more languages, who can type faster, etc. In addition, many organisations offer short-term contracts, mostly on project basis (eg. Software Companies). Therefore, the future of one’s employment is not very clear. It might take months or years to find a new employer or a new project to work for.

It is not easy for organisations to find time and resources to allocate for training and development of its employees. Although employees have training and development needs, organisations have customers to satisfy and deadlines to meet. Work
responsibilities of the employee have to be allocated to someone else if he/she needs to be away in training for a week or two. This might mean recruiting other employees on a short-term basis and more employees mean more wages to be paid. In this sense, psychological contract is not an easy agreement for an organisation to fulfill.

Organisations not only have to match the organizational needs, but also the values of its employees. The responsibility of the employment of psychological contract is mostly given to the HR function because HRM is a set of policies and procedures that govern the nature of work and regulate the relationship between the employee and the organisation.

1.5-Significance of HRM:

Fundamental changes in the business environment have created a sudden shift in focus of HR function, say Frost, et. al., (1992). These changes include:

- Rapid rate of business change: high uncertainty;
- Raising costs, increasing competitive pressures and margins;
- Rapid technological change: increasing demands for new skills through resourcing, education and retraining;
- Complex organization: product, geography, technologies, business function, customers / markets;
- Flatter, learner and more flexible organizations;
- Changing demographics, limited labour availability;
- Responding to external forces; legislation and regulation, litigation, union relations and union avoidance, etc; and
- Increasing multinational competition and collaboration, multilateral relationship.

Companies are beginning to recognize the importance of people to the success of business. Human resource issues are, in fact, business related issues as they influence the essence of business – profitability, survival, competitiveness, adaptability and flexibility.

1.6-People for Competitive Advantage:

It has become a widely held premise that people provide organizations with an important source of sustainable competitive advantage. The resource-based view
suggests that the human resource system can contribute to sustained competitive advantage through facilitating the development of competencies that are firm specific and generate tacit organizational knowledge (Reed and DeFillipp, 1990; Barney, 1992; Wright and McMahan, 1992; Lado and Wilson, 1994). Within the resource-based framework, the firm is viewed as an excess of resources and capabilities which are not freely bought and sold in the spot market (Conner, 1991; Rumelt, 1987: Wernerfelt, 1984). A firm’s resources encompass all input factors – tangible and intangible, human and non-human, which are owned or controlled by the firm and that enter into the production of goods and services to satisfy human wants (Amit and Schoemaker, 1993).

Competitive strategy based on human resources is difficult to imitate. The adoption of sophisticated HRM policies and practices is seen as one of the major keys to competitive advantage in the modern world. This is not because such practices can be formidable weapons in highly competitive environments, but because of the inability of competitors to formulate an effective response in the short term (Poole and Jenkins, 1996). Part of the rationale for this argument stems from the work of Porter (1985) who has argued that national prosperity is created, not inherited. He says that HRM can help a firm attain competitive advantage by lowering costs, by increasing sources of product and service differentiation, or by both. Achieving competitive advantage through human resources requires that these activities be managed from a strategic perspective. Dunlop (1989) also makes a similar point that economic growth and improvement in productivity depend on the investment in human resources. In addition, in a major survey of European nations, HRM was found to be the most important function in all the main countries covered (Hilb, 1992).

Schuler and Jackson (1987), drawing largely on a behavioural psychology perspective, have addressed the link between HRM practices which can contribute to competitive advantage insofar as they elicit and reinforce the set of role behaviours that result in lowering costs, or enhancing product differentiation, or both. MacDuffie and Kochan (1991), Snell and Dean (1992) contended that investment in firm specific
human capital can generate competitive advantage. The sustained superior performance of the most admired companies, such as Marriott, Bory-Warner and Merck have been attributed to unique capabilities for managing human resources to gain competitive advantage (Ulrich and Lake, 1990).

Greer and Ireland (1992) have posited that a firm which is able to stockpile human resources during periods of economic downturn for use in the future is likely to achieve competitive advantage over the competitors who indulge in hire and fire practices. It has also been argued that proper staffing practices could result in a firm to build and sustain competitive advantage (Wright and Snell, 1991). Five major groupings of HRM policies and practices that are germane to competitive advantage are Culture, Organization Structure, Performance Management, Resourcing, Communications and Corporate Responsibilities (Sparrow et. al., 1994).

Combined with evidence from recent studies linking HRM activities and firm performance, Huselid et. al., (1997) prove the decade old argument that investments in people are a potential source of competitive advantage.

Achieving competitive success through people involves fundamentally altering and by thinking about the workforce and the employment relationship. It means achieving success by working with people, not by replacing them, or by limiting the scope of their activities. It entails seeing the workforce as a source of strategic advantage, not just as a cost to be minimized or avoided (Pfeffer, 1984).

1.7-Business Strategy and HRM:

The desirability of a close relationship between a firm’s business strategy and human resource management has been well established (Tichy, 1983; Ferris et. al., 1984; Smith, 1982; Walker, 1981; Alpander and Botter, 1981; Dyer, 1983, 1984a; Lorange and Murphy, 1983; Devanna et. al., 1981; Tung, 1984; Tichy et. al., 1982; Cook and Ferris, 1986; Golden and Ramanujam, 1985; Schuler, 1992; Schluler and Jackson, 1992). Several models have been developed which prescribe how business
strategy and HRM should be linked. The existing literature on linkage between business strategy and HRM may be classified into three dominant models; (i) a reactive model of HRM, in which strategy drives human resource policy, (ii) a proactive model, in which human resources planning is involved in the strategy formulation stage itself, and (iii) a match model which prescribes simultaneous action for design and implementation of business strategy and HR strategy. A summary of major studies / views/ reflections of various researchers and authors focusing on this linkage are given in Srinivas,(2001) Table-1.1.

The diagram figure-1.3 shows, human resources or people management practices affect employee quality, commitment and flexibility – and these characteristics are associated with higher productivity and improved products and services, which feed through in turn to the firm’s financial results.

**Figure-1.3**

![People Management Practices Diagram](image)

Source: Rudman, (2000)

**People management and business performance:**

Thompson and Richardson, (1999), based on a review of the academic literature, concluded that the link between people management and business performance could be summarized in terms of three main theoretical approaches:

1. **The best practice approach**

   This approach holds that a set of people management policies is the key to improved performance in all situations. Jeremy Pfeffer (1998), for example, argues that an organization’s success depends on how it treats its employees.
He identifies seven people management policies which “seem to characterize most, if not all, of the 3 systems for producing profits through people” and provides empirical evidence to support the contention that most organisations would benefit from these practices. Pfeffer’s ‘high performance work system’ involves:

- emphasizing employment security;
- concentrating on recruiting the right people in the first place;
- using self-managing teams and decentralization;
- providing high levels of remuneration which are tightly linked to organisational performance;
- spending heavily on training;
- reducing status differentials; and
- sharing information.

2. The Contingency Approach

Advocates of the contingency approach argue that human resources policies and practices must fit with other organisational factors if they are to contribute to improved performance. Randall Schuler and Susan Jackson (1987), for example, have shown that the choice of human resources policies and practices should be influenced by the organization’s market positioning and strategies.

3. The Configurational Approach

This approach emphasizes the need for people management practices to fit with each other, as well as with other strategies. It is sometime referred to as ‘bundles’ theory.
Table-1.1
LINKAGES BETWEEN BUSINESS STRATEGY AND HRM

<table>
<thead>
<tr>
<th>Author(s) / researcher (s)</th>
<th>Views/ reflections/ research findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Harvey (1983); Leontiades (1982); Migliore (1986); Sweet (1982); Gerstein and Reisman (1983)</td>
<td>Described human resources strategy as developing a match between certain strategic or organizational conditions and certain specified aspects of human resource processes or skills.</td>
</tr>
<tr>
<td>Tichy et al. (1982); Ackerman (1986); Miller (1987)</td>
<td>There is a widespread belief that HRM is the dependent variable and the business strategy the independent variable in the relationship. The view is that HRM should in some sense follow business strategy.</td>
</tr>
<tr>
<td>Miles and Snow (1984)</td>
<td>Human resources practices are part of the systems and processes that are expected to be consistent with strategy. Presumably, HR polices influence employee behavior. If different employee behaviours are required to implement different strategies. Then HR policies should systematically vary with organizational strategy.</td>
</tr>
<tr>
<td>Linkow (1985)</td>
<td>The HRD department has a two-fold role to play in strategy development. It should be involved in formulating corporate strategy; then it should develop its own, consistent with the strategy of the organization.</td>
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<tr>
<td>Beer. et al., (1985); Hendry and Pettigrew (1986); Miller (1987)</td>
<td>Approaching HRM from a business strategy perspective, they argue that HRM will be effective only when human resource strategy is integrated with business strategy.</td>
</tr>
<tr>
<td>Carroll (1987)</td>
<td>Compensation systems were designed to fit business strategies.</td>
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<tr>
<td>Author(s) and Year</td>
<td>Summary</td>
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<tr>
<td>Buller (1988)</td>
<td>Organizations are realizing that the success of their long-range planning and strategic approaches rests on corresponding analyses and planning by human resources.</td>
</tr>
<tr>
<td>Beatty and Schneier (1988)</td>
<td>Performance management systems were designed to help managers access and manage strategic performance.</td>
</tr>
<tr>
<td>Lengnick-Hall and Lengnick-Hall (1988)</td>
<td>Found the links between staffing system and strategic as a whole with an organization stay in the product life cycles.</td>
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<tr>
<td>Kelly (1989)</td>
<td>Business strategy would give direction to HR activities, and HR issues, internal and external, would be considered in the business planning process.</td>
</tr>
<tr>
<td>Niehaus and Price (1991)</td>
<td>To remain competitive in a constantly changing environment, many organizations are making human resources a significant part of their long range business and strategic planning.</td>
</tr>
<tr>
<td>Armstrong and Murlis (1991)</td>
<td>Reward management strategies and policies are driven by strategic changes occurring inside the organization.</td>
</tr>
<tr>
<td>Hendry and Pettigrew (1992)</td>
<td>The upshot is that matching is not the issue. Rather, it is a question of being aware of the opportunities and constraints afforded for the development of HRM that emerge out of complex patterns of strategic and structural change.</td>
</tr>
<tr>
<td>Beaumont (1993)</td>
<td>The central aspect in the human resource management literature is of a strategic focus. The need for (i) human resource policies and practices to be consistent with overall business strategy and (ii) the need for individual components of a human resource</td>
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</tbody>
</table>
Further, related literature suggests a number of analytical links between business strategy and HRM. These links are briefly discussed:

1.7.1- **Portfolio theory**: This theory advocates plotting market growth rate against relative market share of a firm. The implication for HR strategy is that during the life cycle of a business, the HR strategy and policies need to be adapted to changing conditions (Starkey and McKinley, 1993).

1.7.2- **Competitive strategy and value chain**: The value chain positions human resources as central in determining how businesses compete on an ongoing basis (Porter, 1985).

1.7.3- **Life cycle analysis and types of strategy**: Product life cycle has an impact on HR strategies. Type of strategy has a key implication in the way human resources are managed.

1.7.4- **Competencies and strategic intent**: Human resources are clearly a critical ingredient in any organization’s core competence. A further concept is the notion of

<table>
<thead>
<tr>
<th>Author (Year)</th>
<th>Description</th>
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<tbody>
<tr>
<td>Costa (1993)</td>
<td>Human resources practices contribute to strategy development and implementation.</td>
</tr>
<tr>
<td>Waterman (1994)</td>
<td>Provided an important insight on the connection between strategy and effective management of people; he says people are the strategy.</td>
</tr>
<tr>
<td>Peck (1994)</td>
<td>Found relationship between organization strategy and HR. He also concluded that strategy / HR links are stronger in effective organizations than ineffective ones.</td>
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strategic intent and the related notion of core competencies (Hamel and Prahalad, 1989; Hamel, 1993).

1.7.5-Strategy and styles: This is another variable which may have an impact in shaping HR and corporate strategy links (Goold and Campbell, 1987).

1.8-HR and Business Policy Linkages:

Golden and Ramanujam (1985) proposed a four-level model in the context of linkages between human resources and business policy. These are:

1.8.1-Administrative linkage: Little or no linkage between HR and strategic business functions.

1.8.2-One-way linkage: A linkage exists, though not highly integrated, following sequentially from a strategic business planning to HR, and HR is seen as a resource but not a strategic business partner.

1.8.3-Two-way linkage: Information flows both to HR planners from business planners and vice-versa. A sense of reciprocity and inter-dependence exists in the relation.

1.8.4-Integrative linkage: The interaction between HR and business managers is dynamic, frequent, formal and informal. The senior HR executive is involved in strategic decisions even when they may not involve people.

Nininger (1982) has suggested that human resource planning is carried out at the same time as strategic business planning in a parallel process. This process is shown in Figure- 1.2. He further adds that successful linking of HRM with Strategic Business Planning is dependent upon participation within and across the levels of organization.
1.9-HRM and Life Cycle of Organization:

One major problem with existing HRM systems is that they are fragmented, incomplete, and sometimes built on faulty assumptions about human or organizational growth. Schein (1985) argues that successful organizations are those that are able to match organizational needs with individual needs, thus achieving organizational growth along with individual development, commitment, creativity etc. He advocates a model aligning strategic human resource management with life cycle stage of an organization as given in Table-1.2.

**Table-1.2**  
**Linking HRM with Strategic Business Planning**

<table>
<thead>
<tr>
<th>Business Planning Steps</th>
<th>Human Resource Planning Steps</th>
</tr>
</thead>
<tbody>
<tr>
<td>Starting Point</td>
<td>Mission statement</td>
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<tr>
<td></td>
<td>Macro-environmental analysis</td>
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<td></td>
<td>Macro-resource analysis</td>
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<tr>
<td></td>
<td>Key business assumptions</td>
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<td></td>
<td>Business implications</td>
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<td></td>
<td>Critical business issues</td>
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<td></td>
<td>Strategy development and evaluation</td>
</tr>
<tr>
<td>End Points</td>
<td>Approval</td>
</tr>
</tbody>
</table>

Source: Nininger, James, R. (1982).
Organizations undergo five stages of development, with different HRM needs in each stage; say Baird and Mesholaum (1992). One programme or approach does not work everywhere; programmes must fit at each stage (Table-1.3). They further point to the main advantage of viewing HRM in terms of developmental stages is that it provides a way of understanding what an organization will need in the future.

Grundy (1997) argues that strategic HRM and planning involves linking business strategy with organization strategy.

**Table-1.3**

<table>
<thead>
<tr>
<th>Life cycle stage</th>
<th>Key culture strategic Features</th>
<th>Implications for strategic HRM</th>
</tr>
</thead>
</table>
| Growth           | • Large variety of culture changes  
                   • Levels of cohesion decline  
                   • Emergence of middle management  
                   • Need to get people to accept new ways of thinking.  
                   • Diversification of business activities  
                   • Line/staff differences | • Initiation of career development activities.  
                   • Inducting new recruits  
                   • Management development activities.  
                   • Development of high performing teams  
                   • Involvement in the management of change.  
                   • Reinforcement and maintenance of cultural values and beliefs.  
                   • Dealing with ambiguity and uncertainty |
| Maturity         | • Institutionalization of values and beliefs.  
                   • Evolutionary rather than revolutionary changes.  
                   • Intertie may emerge in organization. | • HRM function should be well established.  
                   • Maintenance of HRM activities may be more appropriate  
                   • Lack of career opportunities may require novel HRM approaches |
| Decline          | • Culture may act as a defence against a hostile environment  
                   • Major decisions may have to be taken  
                   • Readjustment necessary | • Management of change  
                   • Reassure employees that problems are being tackled  
                   • Organizing problem-centered project/task activities. |
Table-1.4
Organizational Stages and HRM Needs

<table>
<thead>
<tr>
<th>Organizational stage</th>
<th>Human resource management needs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Stage I: Start Up</strong></td>
<td>• Entrepreneurship, founder management, informality, limited products and markets • Recurring to find key people, basic compensation and administrative systems</td>
</tr>
<tr>
<td><strong>Stage II: Growth</strong></td>
<td>• Dynamic growth, technical specialization, expanded product lines and markets, added formality • Advanced recruiting capability, training and socialization programmes to adapt new employees to the organization.</td>
</tr>
<tr>
<td><strong>Stage III: Control</strong></td>
<td>• Competition for resources, pressure to increase productivity, controlled investments. • Cost control of HR programmes, controlled investment in business related skills. Computer used to analyze costs.</td>
</tr>
<tr>
<td><strong>Stage IV: Integration</strong></td>
<td>• Diversification, decentralization, product groups or divisions, project management. Focus on coordination and integration. • Effective integration mechanisms between the various HR components, planning and organization development capability.</td>
</tr>
<tr>
<td><strong>Stage V: Flexibility</strong></td>
<td>• Adaptability, collaborative teamwork, team action, full integration across functional areas, multiple products and markets. • Highly developed monitoring and scanning capability, flexibility to adjust to market and environmental needs.</td>
</tr>
</tbody>
</table>


To the current and emerging pool of management skills, thus identifying key shifts and gaps and areas for intervention. Figure -1.2 shows how competitive strategy influences the current organization position and its stages of development. It also shows the linkages between strategic human resources planning and development with competitive strategy. The absence of a clear HR strategy linked to corporate strategy may thus adversely impact the organizational effectiveness. This may occur through adversely impact the organizational effectiveness. This may occur through lack of
attention to crucial HR issues, or through wasted effort on poorly implemented HRM. In the absence of a robust HR strategy clearly linked with corporate strategy, HRM programmes may easily lack direction, clarity, coherence add critical marks to add real, value, especially where there is a high element of emergence in HR strategy.

Figure -1.4
Strategic human resources planning and development, organization and strategy


1.10-HRM and Organizational Performance:

The impact of HRM policies and practices on organizational effectiveness is an important topic in the fields of Human Resource Management, Industrial Relations and Industrial and Organization Psychology (Kleiner, 1990; Boudreau, 1991; Jones and Wright, 1992). There is a growing consensus among HR professionals that organizational human resource policies can, if properly configured, provide a direct and economically significant contribution to a firm’s performance. Substantial amount of evidence suggests that individual human resource practices, as well as internally consistent systems or bundles or HR system, can indeed directly influence

Over the years, researchers have collected a fair amount of empirical evidence that certain HR practices can directly affect a firm’s performance. Over the past decade, numerous studies conducted both within specific industries and across industries have demonstrated that enormous economic returns were obtained through the implementation of what are variously called high involvement, high performance or high commitment management practices. Table-1.5 provides findings of some of the empirical work carried out in this context. Pfeffer (1994), drawing on his research in companies ranging from Men’s Warehouse, Service master, Volkswagen and AES to Apple Computer, United Airlines and Banks in USA and Germany, builds an irrefutable business case that there is a direct correlation between strategic HRM and economic success. Schuler and MacMillan (1984) made a similar point that effectively managing human resources gives many benefits, including greater profitability.

**Table-1.5**

**Major Studies in HRM-Organizational Performance Relationship**

<table>
<thead>
<tr>
<th>Researchers (s)/ author(s)</th>
<th>Views / reflections / research findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bluedon (1982)</td>
<td>Extremely high or low levels of employee turnover reduced profits.</td>
</tr>
<tr>
<td>Flamholtz (1985)</td>
<td>The economic returns from investment in human resources policy and practices are substantial.</td>
</tr>
<tr>
<td>Guzzo, Jettie and Katzell (1985)</td>
<td>HR management interventions involving training goal setting etc. had a significant positive effect on productivity.</td>
</tr>
<tr>
<td>Katz, Kochan and Gobeille (1985)</td>
<td>Effective Industrial Relation System (operation-aliased as fewer grievances, disciplinary actions and lower absenteeism) increased product quality.</td>
</tr>
<tr>
<td>Becker and Olson (1986)</td>
<td>Strikes have a substantial negative effect on shareholder equity.</td>
</tr>
<tr>
<td>Schuster (1986)</td>
<td>Use of greater number of HR interventions like assessment centres, flexible work schedules, gain sharing and organizational development had a substantial and positive effect on firm’s performance.</td>
</tr>
</tbody>
</table>
In almost all the organizations irrespective of size one can expect to find a personnel function, just as finance or marketing function. It is appropriate to define personnel management. Personnel management assists with the management of people in an organization. It is concerned with establishing, maintaining and developing systems which provide the framework of employment. These systems operate throughout an employee’s employment with the company, starting with the system for entry (recruitment and selection) through the management of the employment relationship (reward, appraisal, development, industrial relations, grievance and discipline), finishing with the termination of the relationship (retirement, resignation, redundancy and dismissal). However, in the smaller organization this level of specialization may not prevail, and the personnel function is performed by a manager who handles personnel matters in conjunction with other duties. In very small organizations, personnel matters may be handled as part of the manager's other duties.
organizations personnel activities could be carried out by all managers. Even where personnel management is normally seen as a specialist function, it could be carried out by other managers where the amount of work did not warrant employing a specialist. The concept of HRM, by contrast, involving all managers irrespective of the size of the organization. (McKenna, Beech and Buckley, 1999).

As already mentioned the researcher uses the phrase ‘people management’ as a generic term to cover both ‘personnel management’ (PM) and ‘human resource management’ (HRM) throughout the research.

Broadly, the ‘people management’ functions – whether it is defined as ‘personnel management’ or as ‘human resource management’ it may be explained as: All the management decisions and actions that directly affect or influence people as members of the organisation rather than as job-holders (Henderson, 2011).

In other words, people management is not executive management of individuals and their jobs. Management of specific tasks and responsibilities is the concern of the employee’s immediate or responsible manager – that is, the person to whom his or her performance is accountable. In other words people managers – whether ‘personnel managers’ or ‘human resource managers’ – do not have line authority over employees (Henderson, 2011).

Peter Drucker and others in North America used human resource management as early as the 1950s without any special meaning, and simply as another label for ‘personnel management’ or ‘personnel administration’. From 1980s, HRM grew as a concept and had come to mean a ‘radically different philosophy and approach to the management of people at work’ (Storey, 1989) with an emphasis on performance, workers’ commitment, and rewards based on individual or team contribution, differing significantly in all of these from the corresponding aspects of traditional personnel management.

One of the main characteristics of HRM is the devolution of many aspects of ‘people management’ from specialists directly to line managers. HRM itself has been
called ‘the discovery of personnel management by chief executives’. Thus, line managers over the past ten years or so have frequently been confronted with HRM decisions and activities in their day-to-day business in a way that was not the case previously.

This process has been accelerated by other developments which add to the burden of the line manager while increasing the effectiveness of the organisation as a whole. Outsourcing of traditional personnel management departments’ routine functions has happened on a massive scale in the last two decades. Outsourcing of non-core functions, allowing the organisation to concentrate on its core competencies, has been one of the single most important organisational factor in the private and public sector organizations in recent times (Henderson, 2011). This cannot be reversible in the near future. In the case of HR services the ‘dis-integrating’ effects of outsourcing have been amplified by such related developments as ‘e-HR’, in which the use of new technologies allows the provision of ‘self-service’ HR to employees and managers, and ‘HR business partnering’, in which large organisations disperse ‘HR partners’ to constituent businesses (Caldwell and Storey, 2007).

The outsourcing does not remove the day-to-day burden of HR from line managers but it may increase. But it does not remove the need for HR specialists, and they are the same – highly specialized, technical experts who act as consultants, either internally in the case of larger organisations, or externally. This means that it is important now for line managers to communicate effectively with HR specialists and weigh their advice in an intelligent and knowledgeable manner.

Torrington. et. al., (2008), describes the general role of people management as comprising specific objectives under four headings: staffing, performance, change management, and administration. All these are also included in human resource management function by many researchers.

**Staffing objectives** are firstly concerned with ‘getting the right people in the right jobs at the right times’ – i.e. the recruitment and selection of staff, but increasingly these days also advising on subcontracting and outsourcing of staff. Staffing also concerns
managing the release of employees from the organisation by, for example, resignation, retirement, dismissal or redundancy.

**Performance objectives** people managers have a part to play in assisting the organisation to motivate its employees and ensure that they perform well. Training and development, reward and performance management systems are all important here. Grievance and disciplinary procedures are also necessary, as are welfare support and employee involvement initiatives.

**Change management objectives** include employee relations/involvement, the recruitment and development of people with the necessary leadership and change management skills, and the construction of rewards systems to underpin the change.

**Administration objectives** include the maintenance of accurate employee data on, for example, recruitment, contracts and conditions of service; performance; attendance and training; ensuring organisational compliance with legal requirements, for example in employment law and employee relations; and health and safety.

General Managers are increasingly involved directly in all of the first three types of objectives. Other than in managerial oversight for legal compliance issues, administration objectives tend to remain with dedicated PM/HR support staff.

The above closely reflects the arguments in David Ulrich's highly influential Harvard Business Review article of 1998, 'A new mandate for human resources', which has helped to shape human resources (HR) in the new century. After acknowledging that some commentators had been calling for the 'abolition of HR' on the grounds of serious doubts about its contribution to organisational performance, Ulrich agreed (Ulrich, 1998) that: there is good reason for HR's beleaguered reputation. It is often ineffective, incompetent and costly. His solution was for HR to be 'reconfigured' to focus on outcomes rather than on traditional processes such as staffing or compensation (Henderson, 2011): HR should not be defined by what it does but by what it delivers – results that enrich the organization's value to customers, investors and employees. His recommendations were:
First, HR should become a ‘partner’ with senior and line managers in strategy execution;

Second, it should become an ‘expert’ in the way work is organized and executed, delivering administrative efficiency to ensure that costs are reduced while quality is maintained;

Third, it should become a ‘champion for employees’, vigorously representing their concerns to senior managers and at the same time working to increase employees’ contribution – ‘that is, employees’ commitment to the organisation and their ability to deliver results’; and

Finally, HR should become an ‘agent of continuous transformation’; shaping processes and a culture that together improves an organization’s capacity for change.

Ulrich’s model of the HR role has set the agenda for people management in the twenty-first century as being essentially about its contribution to organisational performance.

Holbeche (2007), reference has written that building organisational capability is HR’s heartland, and she added that HR managers can help make capitalism human. These two statements more or less sum it all up (Henderson, 2011).

To many people human resource management is seen as just a fancy re-labeling of what used to be called ‘personnel management’. But to many managers and management theorists it is vital to the survival and success of organisations in the twenty-first century. Why they think so really derives from one single, simple idea: that people – their skills, knowledge and creativity – are the key resource for economic and organisational success in what Peter Drucker (1993) called ‘the knowledge-based economy’.

The people management in large organisations has evolved by the 1970s in developed free-market economies, and this was typically termed as ‘personnel management’ (PM) or ‘personnel administration’ (PA)/ or human resource management (HRM). It is the predominantly Taylorist organisation of work, which in turn had developed to exploit the technology available for the mass production of industrial goods. It acknowledged and incorporated the institutions of collective industrial
relations recognizing the role and power of trade unions (Henderson, 2011).

The Taylorist industrial practices became the standard model for all large organisations, for even those in service industries and in the public sector, and PM techniques used in industry – e.g. in recruitment and selection – were usually assumed to be best management practice.

The revolution in people management occurred in the 1980s which overturned the established paradigm of personnel management in favour of ‘human resource management’ (HRM). If today, over a quarter of a century later, one surveys the academic and professional management literature on people management, whether aimed at specialists or at general managers, one would think the revolution had been total (Henderson, 2011). Normative models of HRM and examples of HRM ‘best practice’ abound, with little or no trace of traditional personnel management.

However, on empirical evidence, it can be concluded that there has been a revolution, but that it is not complete in terms of either organisational culture or management practice.

New techniques of people management have been developed within HRM. It is often the scope and manner of their use, and the intent behind their employment, that differs in the two approaches. For example, psychometric testing and personality profiling have been available for decades but in PM these were used only for executive and other highly paid appointments. Many firms adopting HRM now routinely apply such techniques to all appointments, the intention being not to predict whether one high-cost appointment will be successful in a particular role but rather to ensure that all employees can accept a strong common culture.

The following discussion is about the two paradigms in people management: ‘personnel management’ (‘PM’) and ‘HRM’, the latter being predominant, and increasingly so, but with most organisations still showing some mixture of the two.

The evolution of each of paradigms: People management originated in India in
the nineteenth century amidst the factory conditions of the first Industrial Revolution. The East India Company rule was restricted by the Factory Acts of the 1881, which compelled factory owners to consider the well-being of their workforces, at least to some degree. Enlightened industrialists motivated by Gandhian ideals appointed ‘welfare officers’ to monitor and improve the conditions and lives of workers. Their actions would often seem intrusive and paternalistic today – for example, they discouraged drinking out of work hours as well as during. Caring for the welfare of employees was thus the first true ‘people management’ role in the sense of organisational responsibility beyond that of specific job performance.

With the rise of industrial trade unionism in the twentieth century another role evolved in people management – that of negotiating and communicating with the collective representatives of the workforce on behalf of the organisation.

The rise of ‘scientific management’ and the organisation of industrial work along Taylorist lines also led to increased interest in more rigorous selection of personnel administered by management, instead of the haphazard traditional methods which often relied on the contractors to pick men and women for work. It also led to management taking an interest in organizing and providing skills training.

The consequences of World War II and influence of social scientists – particularly as emphasized in the Human Relations School – started to exert a direct influence on work in the areas of job design, attempting to ameliorate the worst side-effects of scientific management while still achieving its productive and economic benefits. Although such developments might not affect people management directly, they shaped the culture in which it was operating and evolving. The conscious application of social science also encouraged the use of more sophisticated techniques in recruitment and selection, which had an impact on people management policies and practice.

By the 1970s a fairly consistent set of activities and roles had developed for people management, which in most large organisations was perceived as a specialist management function, usually termed Personnel Management and comprising the
areas of recruitment and selection, pay and conditions of service, employee welfare, industrial relations, training and development, and employee exit (retrenchment, redundancy or retirement). Most day-to-day people management, especially in the area of employee relations, was handled by personnel specialists and not by line managers. In India the professional status of personal management was supported by the formation of a body for Personnel Management which was now titled as the National Institute of Personnel Management (NIPM).

There were several critics, Peter Drucker (1955) thought that ‘personnel administration’, as he called it, was just a set of unrelated, albeit individually important, and activities. The Drucker critique can be read now as an early plea for people management to be returned to line managers as later advocated by HRM models. The ambiguity of traditional personnel management was noted with the welfare role expected by employees but efficiency and cost-control increasingly demanded of it by management (Legge, 1995).

The people management policies and practices which are usually termed ‘HRM’ originated in Cotton mills in India and gradually spread by Philanthropist organizational owners like Tata’s. These represented a significant break with the personnel management paradigm. A number of factors led to this new management thinking, principally loss of faith in the traditional approach to mass production, the example of Japanese work organisation and manufacturing processes, and the realization of the impact of new technology on work practices (Gallie. et. al., 1998).

The remarkable success of Japanese manufacturers in the 1970s and 1980s in capturing Western markets for sophisticated products, such as electronics and cars, brought to head long-standing concerns about traditional Taylorist/ Fordist models of work organisation all over the world. These models were characterized by low- or semi-skilled work, close supervision, pay being linked to quantity of output, and – at least in mass-production industries – assembly-line technologies in which the pace of work was controlled by machine. Academic studies had shown concern about some of the human effects of Taylorism and Fordism for decades, and this led to the rise of the Human
Relations School, but by the 1980s it was recognized by business and managers as well that the costs of such systems were becoming unacceptable in terms of low levels of job involvement and weak commitment to the employing organisation. There was an increasing willingness on the part of employees to disrupt production to achieve higher financial or other rewards despite the damage such action could have on the long-term health of the organisation. It had also become recognized that these traditional systems of work organisation were intrinsically unable to produce the quality output now required to compete in a global marketplace (Beer. et. al., 1984).

The perceived superiority of the Japanese model was confirmed for many Western managers and academics by an influential MIT study in the 1980s which concluded that Fordist methods would inevitably be replaced in the car industry by the 'lean productions' model of work organisation typified by Toyota’s work methods. This approach to work organisation was seen to combine the best features of both craft-production and mass production (Kenney and Florida, 1993) and to achieve very high levels of employee commitment with resulting benefits in quality and flexibility.

Technology also played a part in shifting managerial concern towards human resources. Managers had become aware that the rapid development of new technologies in competitive markets meant that organisations faced continual technological change, which in turn implied the need for continuous learning by employees. Employers would have to be able to assess individual employees' training needs and provide the necessary investment in changing and upgrading skills.

All this implied the development of a much closer relationship between managers and employees, and therefore also changes in the work of managers as well as that of workers. In particular, it meant that the traditional approach of managing people – 'personnel management' or 'personnel administration,' which had evolved to help manage Taylorist/Fordist organisations more effectively – was no longer viable. In an increasingly competitive global economy, with advancing technology and better-educated workforces, it was not enough to manage people reactively or passively. In the industries, the competitive advantage is not the result of capital investment but from
human resources, and these had to be managed proactively and strategically if an organisation was to be successful.

The collectivized employment relationship, in which trade unions represented the workforce and bargained with employers on its behalf for wages and conditions of employment (often on an industry-wide basis), had come to be seen by management as a hindrance to the adoption of the new technologies and work practices which were necessary to compete with the Japanese. In fact most Japanese workers in the major exporting industries were unionized but the Japanese trade unions did not share the pluralist culture of their counterparts in the West.

Initially, in the west the new human resource policies were linked to non-unionized and Greenfield sites (Foulkes, 1980; Kochan, et. al., 1994). Typically, these were in large-scale manufacturing, where the Taylorist/Fordist pattern of work organisation had been most dominant, but the new approach soon exerted influence in all sorts of organisations and in every part of the economy, including services and the public sector.

Theoretical and academic models of HRM signaled from the outset the importance of strategy in normative models of HRM. HRM was regarded as superior to personnel management or personnel administration partly because it was supposed to be ‘strategic’ in two senses: (i) the function itself was conceived of in strategic rather than reactive ways; and (ii) the HRM strategy would be intimately linked to, and consciously supportive of, overall business and corporate strategies.

The managerial perceptions of how people view relationships within their organisations are important in analyzing of human resource management. The ‘frame of reference’ will influence how the organizations expect people to behave, how the organization think they ought to behave, and how the organization react to the behavior of others. The three major perspectives: the ‘pluralist’, the ‘unitarist’ and the ‘radical’ or ‘critical’ (Fox, 1966) are discussed:
1.11-The pluralist perspective:

It rests on the assumption that society consists of various groups which will each have their own interests and beliefs. It is naive to pretend that the interests of workers and managers/owners can be fully reconciled, and so institutions such as trade unions and arrangements such as collective bargaining are needed to achieve workable compromises between these differing interests. In the pluralist view, conflict at work is seen as inevitable, because management and workers will not have identical interests, but conflict is not in itself ‘wrong’. The issue is not to try to eliminate it, which would be impossible, but rather how it should be handled. In cases where conflicts seem to be insoluble at the workplace or industry level, third-party intervention – often through state agencies. (e.g. Government Labour Department-through Conciliation, Arbitration and Adjudication, in India).

1.11.1-The unitarist perspective:

From this perspective a work organisation has a purpose (or set of purposes) common to all members of it – owners, managers and workers. So there should be no real conflict of interest between these groups. Everyone has the same ultimate interest in high levels of efficiency which will generate high profits and add to shareholder value – and allow the payment of high wages.

It is a win-win situation for all concerned. Managers and those they manage are all members of the same ‘team’. Management has special leadership responsibilities and it has to pursue policies which allow the organisation to achieve its goals and satisfy shareholders (and other stakeholders), but which are also fair to employees. On this view, conflict within the organisation between management and the workforce is perceived as being the result of some sort of failure; it is not regarded as necessary or inevitable – in principle, at least, it could be eliminated. From this perspective trade unions are often seen as competing for the loyalty of the employees, and collective bargaining may be regarded as unnecessary.

The unitarist perspective in its purest form was traditionally found in private,
typically family-owned employers, but HRM is usually associated with unitarism (sometimes termed ‘neo-unitarism’ to distinguish it from the earlier, more paternalistic, family-firm version).

1.11.2-The radical/critical perspective:

Quite different from the above two perspectives, this is derived originally from the Marxist view of society and industrial capitalism. In essence this saw all work as inevitably being exploitative of workers. Conflict between management and labour was unavoidable as part of wider class conflict in society. Management always, and inevitably, represented the interests of capital. There may be few unreconstructed Marxists in the twenty-first century, but shades of post-Marxist thought persist, and there are cultural and social radicals of various types who reject the mainstream, free-market culture in which most organisations now operate. To such radicals, as to nineteenth- and twentieth-century Marxists, work organisations reflect the inherently unfair or oppressive structures of society and help to buttress these same structures.

Postmodern intellectuals often share this view (McKinlay and Starkey, 1998), and many writers on HRM and management within the Critical Management School hold a radical perspective in this sense (Legge, 1995, and Thompson and McHugh, 2002).

From this perspective even ‘enlightened’ management practices and philosophies such as the Human Relations School, or employee ‘empowerment’, or profit-sharing are really either hopelessly naive or doomed attempts to overcome the inevitable exploitative nature of capitalism/existing society, or are conscious and cynical strategies to fool the employees (Henderson, 2011). Even pluralistic industrial relations structures are seen in this light.

The practical considerations such as quality, competition and technology led to questioning of the traditional forms of people management. Management theorists were as concerned as practicing managers and governments were about the evident failure of the Taylorist/Fordist approach and produced a number of academic models of HRM.
The theoretical heritage of HRM includes the managerial writings of Peter Drucker, the Human Relations School, human capital theory, and Organisational Development. Interest in HRM proceeded alongside other developments in economics, business strategy and organisational change. Many of these ideas revolved around the notion of the resource-based theory of the firm (Barney, 1991) and core competencies (Prahalad and Hamel, 1990), which argued that sustained competitive advantage ultimately derives from a firm's internal resources provided that these (i) can add value, (ii) are unique or rare, (iii) are difficult for competitors to imitate, and (iv) are non-substitutable. The human resources concept fit such a list of criteria well (Storey, 2001).

One of the first and most important, intellectual proponents of HRM was the Harvard Business School (HBS). The faculty and alumni of the School agreed in the early 1980s that a new course in HRM was required to equip general managers to deal with the changes that were occurring both in society and in the competitive environment in which business had to operate. Accordingly, in 1981, HBS introduced a course in HRM in its core MBA curriculum, the first new required course since Managerial Economics twenty years before (Beer. et. al., 1984). The primary intention of Beer et al was to develop a framework for general managers to understand and apply HRM in their organisations. Figure 1.4 shows the Harvard model of HRM.
The central issue here is performance – managing human resources to achieve positive HR outcomes in terms of a committed workforce, working in harmony with the objectives of the organisation and achieving competence and cost effectiveness. These outcomes in turn lead to positive long-term consequences: firstly organisational effectiveness, but also individual and society's well-being.

The managers have at least some degree of discretion in their HR policies. The situational factors and stakeholder interests discussed in the model may impact on managerial decisions on HRM, but none of these will determine which HRM polices are followed. The choice made will have outcomes and long-term consequences both of
which, as the model shows, may feed back into policy choices, and, in the longer term, also into the stakeholder interests and situational factors.

The Harvard model impacted the worldwide. Hollinshead and Leat (1995), used the model as a framework to examine HRM in Germany, France, Italy, the Netherlands, Sweden, the UK, Japan, Australia and the USA. However, as these authors acknowledge (1995), although the fundamental principles and relationships identified by the model are pretty much universal, it is always necessary when applying it in a specific country, or in making comparisons between countries, to give due weight to specific cultural factors.

There are significant developments in management practice and theory since the 1980s when the Harvard model was first conceived – for example, in areas such as knowledge management, talent management, ethics and corporate governance, the details of which often transcend the limits of the Harvard model. Technological advances also had an impact on work including HRM (e.g. online recruitment, teleworking, the use of virtual teams). The model has proved to be remarkable because, it still serves as a wide-ranging 'map of the HRM territory'. It is still probably the best single model to give general managers an initial picture of what HRM entails and what it tries to achieve. The biggest single omission from the Harvard model is the neglect of learning and development.

1.11.3-Universalist versus contingency:

One of the faultlines in the theoretical debates on HRM has been an argument that in one form or another has run through all of management literature from the time of Taylor's 'scientific management' to the present day. This is whether there is one best way to manage – i.e. is there a set of principles which if applied correctly will always bring better performance, or does it depend on the particular circumstances and factors such as the nature of the work and technology that is employed? This is sometimes referred to as the 'universalist versus contingency' debate.

Somewhere between the two extremes lies the 'best fit' view: there may or may
not be eternal, universally applicable management techniques but experience (sometimes supported by theory) shows that, given similar structures and contexts, successful organisations tend to employ the same methods or policies (Henderson, 2011).

There are debates in the arguments over whether there are specific ‘bundles’ of HRM which enhance performance. In reality, the debate in HRM is usually about the range and choice of techniques rather than one of absolute principle. There probably are some generic HR processes and general principles of people management common to all successful organisations (Boxall and Purcell, 2006). There are doubts about systematically and accurately selecting people for work, for example, whether it is effective or even ethical to screen employees’ personality profiles to select only those whom the organisation believes will conform to the company culture.

On the other hand, even non-radical critics have pointed out that the specific practices associated with HRM are actually rather varied in nature, even in the theoretical models, and some have questioned whether they really can be regarded as making up a coherent approach to the management of people. For example, performance-related payment systems on the one hand seem to represent an individualization of the employment relationship, whereas the promotion of team involvement – e.g. quality circles and total quality management (TQM) – represents the opposite (Gallie et. al., 1998).

1.11.4-Hard and soft models of HRM:

Two main variants of HRM were identified early in academic discussions of HRM: ‘hard’ HRM with an emphasis on the strategic, quantitative aspects of managing human resources as an economic factor in production, and ‘soft’ HRM rooted in the Human Relations School and emphasizing communication, motivation and leadership (Storey, 1989). All models of HRM are concerned with strategic issues, but ‘hard’ models typically have a stronger focus on ensuring that the HRM strategy ‘fits’ and is driven by the overall corporate strategy (Keenan, 2005). This is a matter of degree, however, since all
HRM models stress the importance of taking a strategic view of the human resource, but in the Harvard model, for example, the link to business strategy is implied rather than explicit. Table 1.6 shows a simple typology of HRM models with classification according to (i) the degree of emphasis on strategic fit, and (ii) a ‘hard’ or ‘soft’ model of HRM.

### Table- 1.6

**A typology of HRM models: hard / soft, and strategic fit**

<table>
<thead>
<tr>
<th></th>
<th>'Hard' HRM model</th>
<th>'Soft' HRM model</th>
</tr>
</thead>
<tbody>
<tr>
<td>strategic fit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>strategic fit</td>
<td>Huselid (1995)</td>
<td>[the Harvard model]</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Guest (1987)</td>
</tr>
</tbody>
</table>

Source: Henderson (2011)

It is apt to talk of two ‘traditions’ in people management: one largely following the ‘personnel management’ (PM) paradigm and the other the HRM paradigm – most organisations showing some aspects of each in their management of people, and few following either completely. Table 1.7 contrasts theoretical PM with theoretical HRM along a number of key characteristics.

These assumptions have already been challenged in a limited way within the context of Western human resource management (Ellig, 1997; Legge, 1989). A distinction has been made in the strategic human resource management literature between hard and soft perspectives. The hard approach reflects a utilitarian instrumentalism. This sees people in the organization as a mere resource to achieve the ends of the organization. The soft developmental approach sees people more as valued assets capable of development, worthy of trust, and providing inputs through participation and informed choice (Beer & Spector, 1985; Hendry & Pettigrew, 1990; Storey, 1992; Tyson & Fell, 1986; Vaughan, 1994).
A humanistic view of the intrinsic value of people in their own right (developing the potential of people in organizations as an end in itself), whereby people are seen as having a value for who they are, rather than what they can do for the organization (Jackson, 1998; Koopman, 1991; Lessem, 1994; Saunders, 1998).

Max Weber conceptualized ‘ideal types’ (Weber, 1949). An ideal type is formed by simplifying the description of complex reality to accentuate its most important features and ignore less relevant ones, so that what is really vital about the subject under study can be identified and understood. Weber did not mean that the ideal type is some completely hypothetical entity, but rather that it possesses all of the relevant features of the type exhibited in extreme clarity. Ideal types exist, but one cannot expect to find them empirically in their purest states.

For example, no actual coin in circulation meets perfectly all the requirements of its design because of imperfections in manufacture and wear in use, but one can have complete knowledge of what the coin ideally looks like – an ‘ideal type’. By comparing any actual coin to this ‘ideal type’ an expert can grade or classify the condition of a rare coin in terms of, for example, wear and damage, and so estimate its worth to a collector (Bailey, 1994).

The concept of ideal types is very useful in social science. For instance, an economist will not expect to find examples of ‘pure competition’ in any actual market in real life but by having an explicit model of pure competition and can make comparisons between the actual and the ideal and come to a reasoned judgement as to whether improvements in the degree of competition in the market to be pursued.

By believing the dictum of the anonymous statistician that ‘all models are wrong, but some are useful’, we can regard the descriptions of PM and HRM in Table 1.7 can be regarded as ‘ideal types’ of PM and HRM respectively (Henderson, 2011). The characteristics of the people management function can be studied in a real firm or organisation, and use the descriptions in Table 1.7 to help us to assess whether this was closer overall to the HRM model or the PM one.
In some contexts ideal types might seem to be similar to ‘normative models’, but not identical. The author of a normative model may expect it to be fully realizable in practice, whereas for the reasons given above, ideal types are not.

The differences in the characteristics of the two models are:

**Strategic nature:** The traditional PM was usually expected to work on a short time-scale – ‘fire-fighting’ (i.e., dealing with immediate problems such as industrial relations issues, or urgent staff shortages) rather than taking a long-term, strategic view of people management issues. The implications for the longer-term perspective for all HR issues, and the necessity for an articulated strategy for HRM, has to be coherent in itself and informed, and supported, by the business strategy of the organisation.

**The psychological contract:** It is not to be confused with the legal contract of employment, or any written statement of terms and conditions of employment. As the term implies, it exists purely in the mind of the employee and his or her managers, and so is unwritten and never clearly articulated. It has been described by Armstrong (2009) as follows: The psychological contract expresses the combination of beliefs held by an individual and his or her employer about what they expect from one another. There will always be some sort of psychological contract between the employee and the organisation, but David Guest concluded (Guest, 1996) that: a positive psychological contract is worth taking seriously because it is strongly linked to higher commitment to the organisation, higher employee satisfaction and better employee relations.

The PM model assumed that the basis of the psychological contract was compliance – the employee would do as he or she was told and the employer in turn expected of him/her. Management should be able to determine exactly what is required of the employee and enforce at least minimal compliance. The HRM model, on the other hand, assumes that the employee shows positive, willing commitment. Because more is expected from employees, management cannot always specify exactly what is required, and so employees must use their own judgement and initiative to a much greater
extent than in the past. They must also extend and upgrade their skills and knowledge bases.

Table-1.7

'Ideal types' of personnel management and Human resource management

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Personnel management (PM)</th>
<th>Human resource management (HRM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic nature</td>
<td>Predominantly dealing with day-to-day issues</td>
<td>Dealing with day-to-day issues; but proactive in nature and integrated with other management functions</td>
</tr>
<tr>
<td></td>
<td>Ad-hoc and reactive in nature: a short-term perspective rather than strategic</td>
<td>A deliberately long-term, strategic view of human resources</td>
</tr>
<tr>
<td>Psychological contract</td>
<td>Based on compliance on the part of the employee</td>
<td>Based on seeking willing commitment of the employee</td>
</tr>
<tr>
<td>Job design</td>
<td>Typically Taylorist/Fordist</td>
<td>Typically team-based</td>
</tr>
<tr>
<td>Organizational structure</td>
<td>Hierarchical</td>
<td>Flexible with core of key employees surrounded by peripheral shells</td>
</tr>
<tr>
<td></td>
<td>Tendency to vertical integration</td>
<td>High degree of outsourcing</td>
</tr>
<tr>
<td>Remuneration</td>
<td>Collective base rates</td>
<td>Market-based</td>
</tr>
<tr>
<td></td>
<td>'Pay by position'</td>
<td>Individual and/or team performance</td>
</tr>
<tr>
<td></td>
<td>Any additional bonuses linked to Taylorist work systems</td>
<td>'Pay for contribution'</td>
</tr>
<tr>
<td>Recruitment</td>
<td>Sophisticated recruitment practices for senior staff only</td>
<td>Sophisticated recruitment for all employees</td>
</tr>
<tr>
<td></td>
<td>Strong reliance on external local labour market for most recruitment</td>
<td>Strong internal labour market for core employees. Greater reliance on external labour market for non-core</td>
</tr>
<tr>
<td>Training/development</td>
<td>Limited and usually restricted to training non-managerial employees. Narrowly job-related. Management development limited to top executives and fast-track candidates</td>
<td>Transformed into a learning and development philosophy transcending job-related training. An ongoing developmental role for all core employees including non-management. Strong emphasis on management and leadership development</td>
</tr>
<tr>
<td></td>
<td>A learning organisation culture</td>
<td></td>
</tr>
</tbody>
</table>

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**Employee relations perspective**

- **Pluralist**: collectivist; low trust
- **Unitarist**: individualistic; high trust

**Organisation of the function**

- Specialist/professional
- Separated from line management
- Bureaucratic and centralized
- Largely integrated into line management for day-to-day HR issues
- Specialist HR group to advise and create HR policy

**Welfare role**

- Residual expectations
- No explicit welfare role

**Criteria for success of the function**

- Minimizing cost of human resources
- Control of HR costs, but also maximum utilization of human resources over the long term

Source: Guest (1987)

**Job design**: The compliance sought in Taylorist organisational culture is reflected in the low degree of autonomy workers typically have in such a context. The PM model follows the scientific management principles in designing jobs. The greater commitment in the HRM approach implies that employees are allowed and encouraged to use self-control in matters of work and organisational discipline, rather than be driven by a system of compliance and direction imposed upon them by management. Team working and similar initiatives would be much more common under HRM than PM.

**Organisational structure**: Reflecting the higher-commitment working associated with HRM one can expect to find less hierarchical and more flexible organisational structures, with the team as the ‘organisational building-block’ and with fewer management levels. Organisations featuring PM will tend to be hierarchical, pyramid-shaped and bureaucratic. Those following HRM will typically be flexible with a core of key employees surrounded by peripheral shells of other workers. The core employees are not all senior executives – the core is defined as comprising those members of the organisation who possess the skills, knowledge and competence necessary for the organization’s success. Core workers usually possess considerable market attractiveness and they enjoy better remuneration and terms of employment than others. In return, they are expected to provide high levels of performance and flexibility in working, and accept the need for continuous learning and re-skilling to support incessant technological and process improvement. The peripheral shells of
employees act as buffers against short-term market fluctuations and can be relatively and easily shed or reinforced. Thus employees in those parts of the organisation will tend to be employed on short-term or temporary contracts. HRM organisations also tend to feature considerable outsourcing of non-core work (Henderson, 2011).

**Remuneration:** PM is usually associated with traditional approaches to remuneration, long pay scales characterizing the hierarchical organisational structure mentioned above, reflecting length of service rather than current contribution. Pay structures are usually agreed via collective bargaining, at least for non-managerial employees. The HRM approach to remuneration is more focused on rewarding contribution and is likely to be individually or team-based. This implies both the use of performance management and appraisal and the setting of base rates from the market rather than by means of collective agreements.

**Recruitment:** Sophisticated techniques such as the use of psychometric testing, psychological profiling and assessment centres have often been used with PM for recruitment and selection into senior executive posts, while much simpler and less costly methods usually suffice for non-managerial employment. With HRM these sophisticated tools are much more likely to be used for all employees, or at least core ones.

**Training and development:** When employees are viewed mainly as a cost, commitment to training is usually negligible, employers fearing that employees will be 'poached' by free-loading competitors who are not trained, and this would be the typical position in the PM paradigm. An exception was often made, however, in industries with collective agreements on apprentice training. Except for large PM organisations, management training and development would be virtually non-existent. When two UK academics, Iain Mangham and Mick Silver, surveyed management development in the mid-1980s, they reported a surprisingly high proportion of firms which seemed to do no management training at all, on the grounds that, as one respondent put it, 'We only employ managers who can do the job' (Mangham and Silver, 1986).

In HRM there is a culture of continuous development of all core employees who are seen as the originators and possessors of the organization's strategic competencies
necessary for sustainable competitive advantage. Senior managers are not exempt, the directors and CEO receiving ‘executive development’. This commitment would not be expected in the peripheral shells surrounding the core.

**Employee relations perspective:** The dominant managerial perspective within the organisation: personnel management typically operates in a unionized, pluralistic environment. This can be contrasted with the HRM model in which the employment relationship is much more individualized than when dealing with the workforce collectively. This is reflected in, for example, the absence of trade unions and the introduction of performance-related rewards systems.

The unitarist nature of HRM would seem to discourage the formation of a pluralist organisational culture, but in practice there have been examples where HRM has been successfully adopted within a previously pluralist culture while maintaining the pluralist style of collective bargaining in employee relations.

The organisation of the function differs in the two models. In the PM model the function tends to be seen as a specialist function which, in many important respects such as dealing with employee relations issues, is separate from line management. This often leads to the creation and maintenance of large, rather bureaucratic, personnel departments. The HRM model instead stresses that most people management, even employee relations, is actually just part of normal management, at least in its day-to-day aspects. Accordingly in the HRM model, where there are specialist HR departments, they will be small and highly specialized and their function is (i) to formulate HR policies and (ii) act as internal consultants to line managers. The line managers will implement most HR policy, only seeking the involvement of HR in particularly difficult issues.

**Welfare role:** There are at least residual expectations under PM of a welfare role, the personnel manager being the member of the management team who could be approached with personal problems. This always led to ambiguous perceptions of PM. By the time the PM paradigm had become fully established, there was no doubt that it was a management function with the primary objective of reducing and controlling labour
costs but many employees expected a fuller welfare aspect than was often given, and this was a principal reason for the ambiguity with which PM was often viewed. Many a times personnel managers often felt themselves to be caught between dissatisfied employees and unsympathetic management colleagues, neither of whom really understood what they were supposed to be doing. Marxist critics always saw PM as in any case reflecting the perceived contradictions of capitalism (Legge, 1989), but even dyed-in-the-wool free-marketers could see the possibility of perceived inconsistencies in the role of PM and unreconciled expectations here.

There is no explicit welfare role in HRM although proponents might argue that with its unitarist culture it is no longer necessary but critics would not agree.

The two models also show very different criteria for success of the function – i.e. how the organisation judges the performance of the people management function. In the personnel management model, the organisation will judge the effectiveness of the function by how well it minimizes unit labour costs; in the HRM model by how well it maximises the use of the organization's human resources.

In addition to the theoretical literature, empirical studies have shown that significant changes in the practice of managing people in modern organisations have occurred in recent years. Interpretations may sometimes be controversial, but that there have been changes is not in doubt.

The late 1980s and early 1990s saw a transformation in the vocabulary of management all over the world concepts such as ‘empowerment’, ‘team working’ and ‘commitment’ becoming widespread, along with ‘human resource management’ itself. Substantial survey evidence shows the adoption of a range of new practices which reflected HRM ideas: McKersie (1987); Storey (1992); Fernie. et. al., (1994); Osterman (1994); Wood and Albanese (1995) – even if these studies found less evidence of integrated adoption of the whole HRM programme, or of Walton's (1985) assumed transformation of the employment relationship ‘from control to commitment’ (Gallie. et. al., 1998).
Dave Ulrich (MacLachlan, 1998), categorically emphasizes that in the people (human resources) management organization the people: “should continually be asking: is my company really building the policies, the practices and the procedures that would make this an organisation everyone is delighted to work for? Because if we don’t, we are not only hurting the company, we are hurting the profession as a whole.”
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