CHAPTER – II

HUMAN RESOURCE MANAGEMENT

Human Resource Management has evolved due to enlightened employers trying hard, over the years, to improve the lot of their workers. Kautilya, a great Indian philosopher and Statesman has observed centuries ago that there existed a sound base for systematic management of human resources during his times\(^1\) in the fourth century B.C. Moses originated the principle of division of labour.\(^2\) The Babylonians had a code for incentive wage plans in 1800 B.C.\(^3\) Thus human resource management in some form or the other has been practised in various parts of the world since the dawn of civilisation. With the onset of the Industrial Revolution, the position underwent a radical change.

Industrial Revolution is a word used to describe a number of changes which took place in England between 1760 and 1850. It brought about far reaching changes in the economic life of people. Numerous inventions took place during that period which changed the entire system of production and distribution. The use of machines involved a change in the methods of industrial organization and brought about a change from the domestic system to the factory system of production involving large scale and complex division of labour. The discovery of steam as an important source of power helped to increase the production many times over. The use of

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3. Ibid.
machines necessitated a large amount of capital, which led to concentration of economic power and growth of large enterprises.

It is against this background the origin of modern human resource management can be traced.

**Figure 2.1**

**Stages in the Evolution of Human Resource Management**

![Stages in the Evolution of Human Resource Management](image)

**Industrial Revolution Era**

The industrial revolution consisted essentially of the development of machinery. This brought about mass production of goods. Large-scale production brought about increased output and the accumulation of capital. Business and commerce were greatly accelerated and the owners of businesses and entrepreneurs did well. But labour fared poorly and was considered a commodity to be bought and sold.
But the consequence of grouping workers into shops and factories, and of the specialisation of labour, was a gradual emergence of more systematic attention to the design of jobs to the choice of workers for those Jobs (selection), to the provision of pay and benefits (compensation), and to the welfare of employees both on and off the job. In the late 1800's when unions were battling for recognition and violent strikes become a significant concern, these developments in management practices accelerated. By the early 1900's, many of the components of modern human resource management were falling into place.4

Scientific Management Era

The scientific management of the late 1800's and early 1900's concentrated particularly on job design, selection, and compensation. The name most closely associated with this movement is Fredrick W. Taylor who worked in the steel industry in the late 1870's. Taylor believed in the same techniques used by scientist in the laboratory—experimentation, forming and testing hypotheses and proposing theories based on research and testing could be used by management to increase efficiency in the work place.

The scientific management movement owes its origin to Frederick W Taylor who is known as the father of scientific management. He was the first to recognise and emphasise the need for adopting a scientific approach to the task of managing an enterprise. He started his experiments in the steel industry in the Midvale and Bethelom plants. He tried to diagnose the causes of low efficiency in industry and came to the conclusion that much of the waste and inefficiency is due to the lack of order and system in the methods of management. He therefore suggested that those responsible for

management should adopt a scientific approach in their work, and make use of "scientific methods" for achieving higher efficiency. Taylor advocated a thorough planning of the job by management and emphasised the necessity of perfect understanding and co-operation between the management and the workers both for the enlargement of profits and the use of scientific investigation and knowledge in industrial work. He summed up his approach in these words:


Science, not rule of thumb.
Harmony not discord.
Co-operation not individualism.
Maximum output, in place of restricted output.
The development of each man to his greatest efficiency and prosperity.6

According to Taylor "planning should be the result of co-operation between the management and workers and that a provision should exist for compensating the personnel with financial incentives".7 The ideas of Taylor led to a separate discipline called "Human Engineering".

**Contributions of Scientific Management:**

The chief contributions of scientific management are:

1. Emphasis on rational thinking on the part of management.
2. Focus on the need for better methods of industrial work through systematic study and research.
3. Emphasis on planning and control of production.
5. Development of incentive plans of wage payment based on systematic study.

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6 Ibid.
6. Focus on the problem of fatigue and rest in industrial work.
7. Focus on the need for a separate personnel department.

But after some decades, this approach began to lose its popularity. Many management thinkers were tempted to modify the views of Taylor. The most important among them are Henry Gantt, Frank and Lilian Gilbreth. They made scientific management more humanised and meaningful to followers of Taylor. Henry Gantt propounded the "Gantt Chart and the Task and Bonus Wage System". Frank Gilbreth formulated the "Laws of Efficient Motion." His wife Lilian Gilbreth applied the principles of Psychology to principles of scientific management.

**Paternalistic Era**

Robert Owen, a British industrialist is considered to be a great scholar of management thought. He was manager of different cotton textile mills between 1800 and 1828. He brought many social changes and was the first person who gave due emphasis to labour welfare. Robert Owen, who is considered to be the father of personnel management, worked for the welfare of the workers and tried to develop a spirit of co-operation between the workers and the management. He was of the view that the returns from investment in human resources would be much higher than the investment in machinery and equipment. He worked for the betterment of workers and tried to improve their working conditions.

Robert Owen adopted a paternalistic attitude towards his employees.

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10 Ibid., p. 67.
He regarded the workers as children who must be cautiously guided, trained and protected. He, therefore, improved the conditions of employees by removing, them from adverse environmental conditions and provided them with satisfactory working, and living conditions. He advised other manufacturers to devote more attention to workers in order to increase productivity because the workers according to Owen are the vital machines. The views of Robert Owen were strongly supported by Charles Babbage. According to Babbage, "the emphasis should be on multiplicity of interests between employers and workers and on the division of labour, for such division of labour would reduce the waste in raw materials, achieve savings through more effective placement of workers, produce economies through a different wage scale based on skill level, save time by not switching from task to task, gain efficiencies stemming from familiarisation with special tools and stimulate workers inventions pertaining to tools and methods".\(^{12}\)

**Industrial Psychology Era**

Applications of psychology to business and industry (Industrial Psychology) began to emerge in 1890's and 1900's as psychologists studied selling techniques and ways of testing job candidates. The most notable industrial psychologist was Hugo Munsterberg, whose major contributions were:

- The analysis of jobs in terms of their physical, mental and emotional requirements; and

- The development of testing devices for selecting workers.\(^{13}\)

In industrial psychology era, greater emphasis was given to

\(^{12}\) Ibid.

individual and group relationships in the work place. The role of psychology and sociology in the understanding of individual and group behaviour in an organisation was emphasised. Hugo Munsterberg is regarded as the father of industrial psychology. His contributions to industrial management were particularly notable in the field of emotional requirements of workers. Top management personnel began to realise that "human resources are the most valuable assets that any organisation possesses and that these, other resources are useless".\textsuperscript{14}

**Human Relations Era**

What came to be called the human relations' movement has been a major influence on modern human resource management. This movement is characterised by its focus on group behaviour and workers' feelings as they relate to productivity and morale. Elton Mayo and others of the Harvard Graduate School of Business Administration conducted experiments at the Hawthorne plant of the Western Electric Company at Chicago. The important features of the Hawthorne experiment are:

1. A business organisation is basically a social system. It is not just a technoeconomic system.
2. The employee can be motivated by psychological and social wants because his behaviour is also influenced by feelings, emotions and attitudes. Thus, economic incentives are not the only method to motivate people.
3. Management must learn to develop co-operative, attitudes and not rely merely on command.
4. Participation becomes an important instrument in human relations' movement. In order to achieve participation, effective two-way

\textsuperscript{14} Ibid.
communication network is essential.

5. Productivity is linked with employee satisfaction in business organisations. Therefore management must take greater interest in employee satisfaction.

6. Group psychology plays an important role in any business organisation. We must therefore rely more on informal group effort.

7. The industrial psychological era emphasises that man is a living machine and he is far more important than the inanimate machine. Hence, the key to higher productivity lies in employee morale. High morale results in higher output.¹⁵

The researchers began some experiments to determine how lighting affected workers and their output. In one experiment, production increased when the lighting was improved, but in another experiment, it also increased when the lighting was severely reduced. After three years of experimentation with such ‘illogical’ results the researchers concluded that, in experiments involving, people, it was impossible to change one variable (lighting) without affecting other variables such as worker interaction or worker-supervisor interaction. It became clear that it was human interaction that was affecting morale and motivation, which in turn, were affecting production.

The findings of the Hawthorne Experiment put emphasis on the importance of understanding of the needs of both management and workers of the special aspects of work performances. The basic conclusion was that sociological and psychological phenomena often exerted even greater influences on output than the physical conditions of work. Therefore, management must be mainly concerned with the informal, spontaneous behaviour of work groups and the sentiments and attitudes of employees.

The Behavioural Science Era

Further enquiry and experimentation led researchers to conclude that productivity depended at least in part on the extent to which the employees became a team and cooperated wholeheartedly and spontaneously. Worker co-operation and enthusiasm seemed to be related to the interest in the work group shown by the supervisor and experimenters, the lack of coercion or force, and the extent to which workers participated in making decisions and changes that would affect them.

Human relationists made very significant contribution to management thought by bringing into limelight human and social factors in organisation. The behavioural science movement is an outgrowth of the human relations studies. The method of research in the behavioural era made use of data obtained from experiments, observations and surveys in disciplines like sociology, anthropology, psychiatry, sociology, social psychology and psychology. The various theories formulated in the behavioural science era are:

(a) Maslow's Need Hierarchy Theory or Deficit Theory of Motivation: According to Abraham Maslow who propounded the Need Hierarchy Theory, "There is a series of needs some of which are lower in the scale or system of values, in individual or social context and some are higher. Higher needs cannot be satisfied or even felt if the lower needs remain unsatisfied. A satisfied need is not a motivator".16

The features of his theory are as follows:

i. People have a wide range of needs, which motivate them to strive for fulfilment.

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ii. Human needs can be definitely categorized into five types:
physical needs, safety or security needs, affiliation or social
needs, esteem needs and self-actualisation needs.

iii. These needs can be arranged into a hierarchy. Physical needs
are at the base whereas self-actualisation needs are at the apex.

iv. People gratify their physical needs first, when the need is
satisfied, they feel the urge for the next higher level of need.

v. Relative satisfaction of lower level need is necessary to
activate 'the next higher level of need'.

vi. A satisfied need does not motivate human behaviour. It only
triggers or activates the urge for the next higher level of needs.

(b) **Herzberg Two Factors Theory of Motivation:** Herzberg propounded
the two-factor theory of motivation. According to him there are two
separate sets of conditions which are responsible for motivation and
dissatisfaction of workers. The motivational factors or satisfiers are
directly related to the job content itself. Motivational factors are
achievement, recognition, the work itself, advancement etc. The
dissatisfiers, maintenance and hygiene factors do not provide motivation.
They avoid unpleasantness and are necessary to maintain current status of
satisfaction. Herzberg found ten maintenance factors; the most important
among which are interpersonal relations with peers, supervisors and
subordinates, salary, job security, status, work conditions etc.17

(c) **McGregor's Theory X and Theory Y.** McGregor propounded two
contrasting kinds contrasting of management views about the nature of
man. He called the hard approach "Theory X" and the soft or permissive
approach as "Theory Y".

17 Herzberg, Frederick, *The Managerial Choice, To Be Efficient and to be
### Table 2.1

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<thead>
<tr>
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<th>Theory X</th>
<th>Theory Y</th>
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<tr>
<td>1.</td>
<td>Theory X assumes human beings to be inherently opposed to work</td>
<td>1. Theory Y assumes that work is as natural as play or rest.</td>
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<td>2.</td>
<td>Theory X emphasizes that people do not have ambitions and they shirk responsibility.</td>
<td>2. Theory Y assumes just the reverse,</td>
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<td>3.</td>
<td>Theory X assumes that people in general have little capacity for creativity.</td>
<td>3. According to Theory Y, the capacity for creativity is widely distributed in the population.</td>
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<td>4.</td>
<td>While in Theory, people lack self-motivation and need to be externally controlled and closely supervised in order to get maximum output.</td>
<td>4. According to Theory Y, people are self directed, creative and prefer self-control.</td>
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<td>5.</td>
<td>Theory X emphasizes upon the centralisation of authority.</td>
<td>5. Theory Y emphasizes decentralization and greater participation in decision making process.</td>
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**Theory X**: This is the traditional theory of human behaviour, which makes the following assumptions about human nature.

1. Management is responsible for organising the elements of productive enterprises —money, material, equipment, and people — in the interest of economic ends.
2. With reference to people, it is a process of directing their efforts, motivating them, controlling their actions, modifying their behaviour in order to be in conformity with the needs of the organisation.

3. Without these active interventions by management, people would be passive - even resistant to organisational needs. Hence they must be persuaded, rewarded, punished and properly directed.

4. The average human being has an inherent dislike of work and will avoid it if he can.

5. He lacks ambition, dislikes responsibility and prefers to be led.

6. He is inherently self-centered, indifferent to organisational needs.

7. He is by nature resistant to change.

8. He is gullible, not bright.\(^\text{18}\)

Theory Y: The assumptions of theory Y, according to McGregor are as follows:

a) Work is as natural as play or rest, provided the conditions are favourable, the average human being does not inherently dislike work.

b) External control and the threat of punishment are not the only means for bringing about efforts towards organisational objectives. Man can exercise self-control and self-direction in the service of objectives to which he is committed.

c) Commitment to objectives is a result of the rewards associated with their achievement. People select goals for themselves if they see the possibilities of some kind of reward that may be material or even psychological.

d) The average human beings, under proper conditions, do not shirk responsibility, but learn not only to accept responsibility but also to seek it.

e) The capacity to exercise a relatively high degree of imagination, ingenuity and creativity in the solution of organizational problems is widely, not narrowly distributed in the population.¹⁹

Personnel Specialist Era and Welfare Era

With the introduction of the factory system, a large number of persons were employed by one organization. These employees were to be controlled if the goals of that organization are to be achieved. With the increase in the number of employees, a separate personnel specialist had to be appointed. He was entrusted with three main responsibilities:

a) To assist the line managers to maintain optimum efficiency of the work force.

b) To assist management in the field of human relations, labour-management relations and to develop personnel policies and procedures.

c) To manage welfare services for the benefit of the employees.²⁰

DEVELOPMENT OF HRM AS A PROFESSION

The late nineteenth and twentieth centuries witnessed the emergence of human resources management as a profession. Some organisations established departments of labour welfare which would respond to complaints from unions, employees and monitor working conditions and wage policies. Some organisations employed wage clerks to set wage rates

¹⁹ Ibid., pp. 77-82.
based on time and motion studies and analysis of job tasks. Safety became very common in industry because industries wanted to reduce claims against themselves and they depended on the safety specialists to help ensure safer working conditions in their organisations.

These specialised personnel activities were grouped into large departments. Thus the modern HRM departments were born.

**HUMAN RESOURCES MANAGEMENT**

Human resource management (HRM) is the strategic and coherent approach to the management of an organisation's most valued assets - the people working there who individually and collectively contribute to the achievement of the objectives of the business. The terms "human resource management" and "human resources" (HR) have largely replaced the term "personnel management" as a description of the processes involved in managing people in organisations.

Human Resource management has a great impact and is interrelated to an enterprise's success and performance. Human resource management includes the components like employee's involvement and authorization, job planning, team work production system, and how to deal with employees and their requirements. In a business Setup like for an enterprise communication is an important tool, so in the Human Resource management it is done with great responsibility to improve the companies' profitability.

Human-Resource Management ("HRM") is a way of management that links people-related activities to the strategy of a business or organisation. HRM is often referred to as 'strategic HRM'. It's an essential part of every manager's responsibilities, but many organisations find it advantageous to establish a specialist division to provide an expert service dedicated to
ensuring that the human resource function is performed efficiently. It has several goals:

- To meet the needs of the business and management (rather than just serve the interests of employees);
- To link human resource strategies/policies to the business goals and objectives;
- To find ways for human resources to ‘add value’ to a business;
- To help a business gain the commitment of employees to its values, goal and objectives.  

Human Resource management is evolving rapidly. Human resource management is both an academic theory and a business practice that addresses the theoretical and practical techniques of managing a workforce.

"People are our most valuable asset" is a cliche which no member of any senior management team would disagree with. Yet, the reality for many organisations is that their people remain:

(i) under valued
(ii) under trained
(iii) under utilized
(iv) poorly motivated, and consequently
(v) perform well below their true capability

The rate of change facing organisations has never been greater and organisations must absorb and manage change at a much faster rate than in the past. In order to implement a successful business strategy to face this challenge, organisations, large or small, must ensure that they have the right people capable of delivering the strategy.

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The market place for talented, skilled people is competitive and expensive. Taking on new staff can be disruptive to existing employees. Also, it takes time to develop 'cultural awareness', product/process/organisation knowledge and experience for new staff members.

As organisations vary in size, aims, functions, complexity, construction, the physical nature of their product, and appeal as employers, so do the contributions of human resource management. But, in most the ultimate aim of the function is to: "ensure that at all times the business needs," that is neither overstaffed by the right number of people with the skills relevant to the business needs", that is, neither overstaffed nor understaffed in total or in respect of any one discipline or work grade.

Defining Human Resource Management (HRM) is a difficult task as there are many competing definitions. This arises because of the debate centred over whether HRM is any different from, or an advance upon, the more traditional term of personnel management, or whether it is just 'old juice in new bottles'. So, rather than provide a shopping list of definitions of HRM, it is better to start with the brief survey of Personnel Management in terms of its content and development.

PERSONNEL MANAGEMENT

'Personnel Management' has been defined by Edwin Flippo, as the planning, organizing, directing and controlling of the procurement, development, compensation, integration, maintenance and separation of human resources to the end that individual, organisational and societal objectives are accomplished."22 An organisation has various resources: money, raw materials, machinery, time, buildings, people. The personnel

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manager is chiefly concerned with the latter and seeks to ensure that people contribute as effectively as possible towards the organisation's objectives. Thus, he or she is just as concerned in the end with the efficient use of resources - particularly human resources - as are all the other managers. The best fit person to job, the provision of good working conditions, fair reward for effort, proper training and sometimes a sympathetic ear, all help but, inevitably, the interests of the organisation and the employee are sometimes quite different. Because the personnel manager is a manager, he or she must always have the needs of the organization very much in mind.

Despite their title, personnel managers do not in the main manage people - apart from those who work under them in personnel departments. Their role in most organisations is mainly advisory, providing a specialist service to those who manage the employees, and their advice is not always taken! However, the function has grown greatly in importance as labour has become more expensive, legislation more complex and as people have demanded more influence on how their working lives are spent. In many organisations nowadays personnel managers occupy posts at the most senior level and make an essential contribution to policy formulation. Their advice must, however, be based on knowledge and experience and must be seen as valuable, and preferably as essential if it is to be listened to.

The Content of Personnel Management

Currently, personnel managers are involved in three main areas of work:

1. Employee resourcing

This covers the following areas:

i. recruitment.

ii. selection.
iii. remuneration.
iv. job evaluation.
v. human resource (manpower) planning and forecasting.
vi. terms and conditions of work.
vii. managing staff turnover and retention.
viii. record keeping.
ix. health and safety.
x. welfare.

2. Employee relations

This covers the following areas:

i. industrial relations.
ii. individual and collective relationships at work.
iii. collective bargaining.
iv. negotiation
v. consultation.
vi. information.
vii. communication.
viii. participation.
ix. redundancy.
x. dismissal.
xi. grievance handling.
xii. equal opportunities.

3. Employee development

This covers the following areas:

i. induction.
ii. needs analysis.
iii. design of training programmes.
iv. direct training.
v. evaluation of training.
vii. managing training consultants.
vi. education-business links.
vii. career development and succession planning.
ix. appraisal of performance and potential.
x. counselling and coaching.

This is by no means an exhaustive list, but it certainly comprises a very wide range of activities which are within the purview of many personnel departments. However, it would not be accurate to infer that the average personnel office or even manager is an expert in all of these. We are now in an era of specialisation, and the division of labour within the personnel profession is such that consultancy in, for example, pensions or management development are viable and much sought after sources of expertise. So, how did personnel management get to where it is today, and what is the current direction of development?

Origins and Development of Personnel Management

The scope of personnel management is bound up with the emergence and development of the personnel profession.

1913 Welfare Workers Association founded.

1917 Name changed to Central Association of Welfare Workers.

1919 Name changed to Central Association of Welfare Workers (industrial).

1919 Name changed to Welfare Workers Institute.

1924 Name changed to Institute of Industrial Welfare Workers Incorporated.

1931 Name changed to Institute of Labour Management.

1934 Staff Management Association formed as an affiliated group.

1946 Name changed to Institute of Personnel Management.

In 1994, the name was changed to the Institute of Personnel and Development. This reflects, to a considerable degree the increasingly strategic role for personnel professional as viewed by the IPD.

There have been various attempts to describe these developments. Of these, Cuming\(^{24}\) describes four main stages:

1. Welfare period.
2. Scientific management.
3. Industrial relations.
4. Manpower planning.

and Torrington and Hall\(^{25}\) outline six stages with corresponding stereotypes of the personnel manager:

1. The social reformer.
2. The acolyte of benevolence.


3. Humane bureaucrat.
4. The consensus negotiator.
5. Organisation man.
6. Manpower analyst.

In both cases the changing role of personnel management was shaped by the economic, political and organisational environment. Briefly, the origins of personnel management lie in the 19th century social reform movement for the improvement of working and living conditions, and the religious movements concerned with the welfare of industrial workers - hence the appointment of the first company welfare officers. The period between the two World Wars was associated with a shift in focus away from welfare and paternalism to a concern with the efficiency - of the firm as an organisation that was growing in size, specialisation, and the division of labour. The 'Scientific Management' school associated with the work of Frederick W Taylor and Henri Fayol shifted the focus of personnel to efficiency, scientific methods, measurement and analysis. The post 1945 period of full employment, labour scarcity, the growth of unionisation and nationalised industries, all directed the attention of the personnel manager towards managing industrial relations, with a major emphasis upon collective bargaining and joint consultation. Again, the environment changed in the late 1950s as the UK economy was best with declining rates of growth in labour productivity. Was the organisation designed and managed to maximise effectiveness? This question shifted the attention of the personnel manager to the issues of organisation and management development, and manpower planning. These issues did not go away during the 1970s and became all the more pertinent in the conditions of grooving market competition in the 1980s. The availability of computers to assist planning, and the concern for core groups in the workforce, pushed
personnel in the direction of systematic and strategic management of the human resource - Human Resource Management.

FROM PERSONNEL TO HUMAN RESOURCE MANAGEMENT?

Human Resource Management is seen to differ in a number of ways from personnel management:

(i) The degree of identification with management interests/ the extent of involvement with employees needs.
(ii) The degree of emphasis on planning, monitoring and control/fire-fighting and problem solving.
(iii) The extent of the focus on human resources rather than employees.
(iv) Emphasis upon people as a high potential, strategic resource for achieving competitive advantage.
(v) The development of integrated personnel strategies, linked to clearly define corporate goals and culture.
(vi) Emphasis upon mutuality of interests between management and employees.

There are a number of possible causes which can be used to explain these differences:

1. An increasing identification with management interests, rather than employee needs, can be traced to two factors: the changing role of line managers, and the concern of personnel specialists to establish their own power base within organisations.

The changing role of line managers has much to do with changes in corporate strategy and associated organisational restructuring and in systems for financial management control and production control. In the former, the
move towards delegated budgets, leading towards the creation of cost centres at business unit level, simultaneously gives line managers more discretion and more responsibility. Similarly, the creation of profit centres (a change which is associated with the wider move from a functional to a divisional organisational structure) places even greater emphasis upon the autonomy and accountability of lower level managers. Not only do they have to minimise costs - they are now responsible for maximising profits, and this will require greater initiative.

With respect to production control systems, developments such as 'just-in-time' aimed at reducing work-in-progress to a minimum, and computer based techniques such as 'materials requirements planning', and 'manufacturing resource planning' are designed to increase efficiency and to make costs savings. While it means that fewer supervisory and inspection staff will be required leading to a leaner and less bureaucratic administrative structure, it also means that the quality of decision making and the control and effective deployment of staff is a key to success. The implication of this is that the line managers need to draw upon a number of techniques with respect to recruitment and selection, training and development, and remuneration and reward. These skills can no longer be the exclusive preserve of the personnel department, and responsibility for this must be to some extent delegated to line managers.

These new developments in management control systems have created some unease within the personnel profession as to whether they constitute an opportunity or a threat. A number of problems have been identified with the current role of personnel management:

1. Role ambiguity: is it the 'welfare role' the 'arbitrator role' or the 'conformist innovator' where professionalism is defined in terms of
demonstrating the worth of this expertise to the achievement of organisational success?

Low status and lack of power and authority: the onset of the recession in the early 1980s reflected the falling status of personnel in comparison with other managers. Many middle level personnel staff were made redundant, with a consequent polarisation between personnel directors, and personnel officers at the company or unit level. There is also evidence that personnel professional are excluded from the major management decisions. For example, human assets are rarely considered in decisions on company acquisition policy, and personnel managers are only involved in relatively peripheral aspects after the decision has been made - such as the transfer of pension rights. Personnel managers are normally excluded from decisions on reorganisation following the introduction of new technology, and are not always in the forefront of decisions on organisational change. Finally the successive waves of mergers and acquisitions, plus corporate restructuring since the late 1960s has been accompanied by the spread of management accounting practices - especially in multi-divisional companies. This is reflected in the flow of accountants into general management positions at all levels and the decentralisation of industrial relations and personnel issues to the level or operating subsidiaries. Given that accounting conventions tend to see the employment of labour as a cost rather, than an asset, and that the personnel profession has been reluctant until, fairly recently, to engage with computer technology, in any personnel managers feel threatened. Whilst all this has been good news for accountants interested in managerial careers, it poses problems for those who believe that the personnel function has a part to play in the overall formulation of corporate strategy.

It is thus not surprising that considerations of their status and power draw personnel professionals to speak increasingly of HRM as a board level function, and to emphasise the cost effectiveness of a systematic professional approach to human resource issues.

2. An increasing emphasis on planning, monitoring, and control rather than fire-fighting and problem solving, can also be seen to arise from concern at the same developments — especially with respect to management control systems and management accounting. The availability of computer applications in the area of computerised personnel information systems (CPIS) can take personnel administration beyond mere record keeping.

3. An increasing focus on 'human resources' rather than 'employees' is again a response to the process of acquisition, merger, and corporate restructuring over the last twenty years. In addition, the increasingly competitive environment that has confronted business means that personnel managers are anxious to avoid the conflagration that can surround decisions on short-time working and redundancy. The need to develop a more flexible response to the manpower needs of the organisation is seen as a preferable option. Hence the use of agency and sub-contracted workers rather than direct labour, and the growth of consultancy and other specialist sources of expertise.

As it has been estimated that approximately one third of the UK labour force is employed in the 'periphery' (part-time, contract, agency workers etc.) it is no longer appropriate to think solely of the recruitment and training of full-time permanent employees operating under a full contract of employment, who can be offered a career with the organisation. The implication is that the selection of techniques for recruitment, selection, development, and motivation of employees will no longer just be a question
of achieving 'best fit' to the organisation's requirements for a particular type of human resource.

4. An increasing emphasis on people as a high potential strategic resource again focuses attention on flexibility, but this time not so much in relation to the sourcing of jobs, but in terms of their design. Creating the 'round peg' to fill the 'round hole' may not be the most farsighted approach in times of intensifying competition and change. Hence, the traditional job description and its use in recruitment, selection, and job evaluation is no longer valid. Instead task definitions and skill profiles become more appropriate, jobs themselves can be seen as 'menus' of different 'dishes' -which can be added and subtracted as appropriate, and people can become 'multi-skilled', turning their hand to a range of jobs.

Because this will entail continuous development of their skills to meet the changes, there has to be a change of perception: people are a vital resource that is likely to provide a competitive edge by enabling a rapid response to be organisational needs and priorities.

5. An increasing awareness of the importance of integrated personnel strategies, linked to clearly defined corporate goals and culture means that account has to be taken of corporate strategy development and implementation on the one hand, and the link between the vision of corporate leaders, the capability of the organisation's human resources, and the communication of this to senior managers on the other.

Manpower and training plans constructed in direct relation to business plans are clearly a major instrument in ensuring an alignment of HRM activities with business objectives.
Human resource programmes are designed to implement corporate plans, and to reinforce, and where necessary, reshape corporate culture. While the techniques involved in these programmes will be drawn from the familiar repertoire of personnel management, the difference of the HRM approach is that these activities can be made more purposeful and relevant by integration with corporate strategy.

6. An increased emphasis on mutuality of interest between management and employees involves moving beyond the conventions of British 'industrial relations' (namely the emphasis upon management-union relations and the institutions of collective bargaining) towards a broader approach to 'employee relations' involving discussion, consultation, and communication with all employees, and not just with members of a recognised representative body. This is not just a question of de-recognition and single union agreements, but also involves moves towards harmonisation of terms and conditions, and more informal means of communication such as team briefing.

Is HRM Really Different From Personnel Management?

The basis of the distinction between personnel management and HRM as outlined above should be clear, but while most definitions would concur with the statement that: “HRM is a strategic approach to the acquisition, motivation, development and management of the organisation's human resources”

There is no complete consensus, and indeed quite a considerable debate as to the precise content of HRM, and even as to whether it is

27 Armstrong, M., Personnel Management (London: Kogan Page Ltd.), 1989, p. 120.
conceptually distinct in practice from sophisticated personnel management. The debate has been far ranging, and there is not sufficient space to do justice here. However, what follows is a synopsis of soave of the main points:

1. 'Old lemonade in New Bottles'

Here HRM is just seen as relabelling of personnel management jobs without a corresponding change in roles. Granted this, others would argue that packaging can be a useful marketing tool - especially if it results in personnel and employment policies being taken more seriously by corporate management.

2. HRM is a Reflection of the Changing Environment of Business

With the increased competitiveness of the 1980s, and the appearance of 'macho management', 'the new realism', and the 'new right', HRM is an attempt to justify the shift away from the pluralistic perspective of personnel management to the unitary framework that assumes that the interests of the business and its employees must necessarily, be congruent.\(^28\) There will be employee involvement - but on the company's terms.\(^29\)

3. HRM is not Necessarily Ideal for All Organisations

Several observers claim that there is ample evidence that different business environments and functions need different organisational structures and cultures,\(^30\) and that there are five conditions that an organisation must be

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30 Ibid.
able to fulfil if HRM is to succeed. These are corporate leadership, strategic vision technological/production feasibility, employee/industrial relations feasibility, and the ability to get HRM policies in place.

4. HRM takes a Stereotyped View of the Preceding Personnel Practice

People management has always been a responsibility of line managers and not the exclusive preserve of the personnel profession. The nature of the profession itself is debatable, in that it lacks a generally accepted and enforceable code of conduct, and of all practising personnel managers, only about one half are qualified, and a quarter are members of the HRM. It may appear that corporate personnel departments are 'disappearing' and their work is downgraded, but structures are variable. Just because there is no personnel department or it is very small at corporate level does not mean that strategic matters are being ignored.

5. The Central Concerns of HRM are not New

They can be traced back to the 1950s writings on goal directed leadership (Drucker) and management by integration (McGregor) and the behavioural science movement of the 1960s (Maslow, Argyris, and Herzberg), with the emphasis upon integration, involvement, and the quality of working life of employees. Since the 1960s, the wholistic emphasis.

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6. HRM Lacks Internal Logical Consistency

It has been described as a 'patchwork quilt concept, stitched together from the diverse currents of change.'\textsuperscript{35} For example, the highly instrumental approach to the management of employee conflicts with the assertion that an employee-centred strategy is necessary. It is also unclear as to where the strategic focus lies.

Some see strategy as a corporate level concern, with line management and business units being concerned with operational issues.\textsuperscript{36} Others would argue that HRM is not always strategic, and depending upon the nature of the business and product market, cannot always be left to the corporate lever\textsuperscript{37} '... strategic human resource management encompasses those decisions and actions which concern the management of employees at all levels in the business and which are directed towards creating and sustaining competitive advantage.'\textsuperscript{38} Other work associated with the Warwick Centre for Corporate Strategy and Change makes the distinction between strategic HRM (involving seeing people as a strategic resource in securing competitive advantage, utilising manpower planning to ensure appropriate fit between employment practices and business policy, and designing a coherent employment policy to meet the business goals) and traditional HRM (which appears to rest on the strategic and philosophical assumption that recognising and seeking to meet the needs of people leads to a competitive advantage). This leads Keenoy to conclude that there is rather a rich variety of HRM practice, and there is not necessary conflict with

\textsuperscript{36} Torrington, Derek and Hall, Laura, The Human Resource Function the Dynamics of Change and Development, op. cit.
\textsuperscript{38} Ibid.
personnel management. They are 'complementary rather than mutually exclusive forms of practice'!

In all organizations there are many resources that affect organizational performance. Organizations must manage four types of assets:

- **Physical**: Buildings, land, furniture, computers, vehicles, equipment, etc.
- **Financial**: Cash, financial resources, stocks, financial securities, etc.
- **Intangible**: Specialized research capabilities, patents, information systems, designs, operating processes, etc.
- **Human**: Individuals with talents, capabilities, experience, professional expertise, relationships, etc.

All these assets are crucial in varying degrees in different organizations. But the human assets are the "glue" that holds all the other assets together and guides their use to achieve results.39

**Human Capital**

Traditionally human capital is defined as incarnated fund of human abilities, knowledge, skills and motivations to encourage human productivity. So human capital is not only the body of knowledge, abilities that a human has; at the same time human capital involves acquired knowledge as well to use in this or that area of social activity that contributes to growing productivity of labour and production. At that, using of accumulated resources of human capital leads to the increase of earnings (income flow) of the given employee, that, in its turn, encourages forming

interest among employees and in the next cycle leads to the growth of investments in human capital. Consequently motivation is a necessary element to make the process of renewing the human capital (forming — accumulating - using) cyclically closed.

As A. S. Dyatlov considers, at the end of 19-th — beginning 20-th centuries there were formed two directions of economic thought which discussed the definition of the term “human capital”. The majority of scholars defined the man himself as capital: L. Valras, G. M. Clark, H. D. McLeod, G. McKulokh, T. Tunen, T. Witshtane, W. Farr, I. Fisher wereaddicted to this point of view. The representative of another direction, such as F. List, G. Mill, W. Rosher, N. Senior, Kh. Sidjuic, El. Z. Walsh, considered that the capital is presented as inherited and possessed by man qualities and abilities. As El. Mill wrote, “An individual himself ... is not capital. A human is an aim for whose sake the wealth exists. But his possessed abilities that act only as a method and are being realized only by means of work can be referred to the category of capital without any doubt”.

Forming of human capital like accumulating physical and financial capital requires taking assets out of current consuming to get extra return in future. It is also considered as a long — term benefit; it needs expenditures to be repaired and exploited; it can become out of date before its physical amortization. These two types of capital are similar to be main factors of social renewing process, and in conditions of modem market economy they are able to make a special income; their interaction takes place as a component of total production capital that makes income. Forming of both capitals needs essential expenditures and taking a lot of assets and time out of current consuming that makes a loss. Investments to both types of capital allow providing long — term effect; both capitals can accumulate and act as a reserve. Every type of capital can be expressed in monetary terms and the
result of their use can be measured in natural and monetary forms. Both types of capital have physical and moral amortization.

At the same time the similarity between human capital and capital in its traditional understanding can’t be considered absolute. Firstly, in nowadays society an individual is not the subject for buying — selling. As a result, market sets only the prices on renting human capital (as wage and salary rates) while there is no price on its assets. Secondly, human capital is able to increase its efficiency in market sector as well as out of market. Obtainable income may be expressed in monetary or not monetary forms. Consequently, consuming aspects of investments in human capital are not less important than manufacturing ones.

Besides differences among qualitative characteristics of human capital we should recognize human and social capital that is defined as capital of interaction. If physical capital takes evident materialistic forms we could hardly say that about human capital. It appears in skills and knowledge acquired by an individual. Social capital is less tangible as it appears while interacting of individuals. Like physical and human capital, social capital makes easier manufacturing activity. As any other social capital inclines to grow or depreciate depending on its place in the system of social, market relations among participants of the social process.

Two types of human capital can be distinguished:

- consuming, created by services consumed directly (creative and educational activities);

- productive, its consuming encourages social utility (designing means of production, technologies, manufacturing services and products).
According to the forms of realization in terms of human capital the following can be distinguished:

1) alive capital which includes knowledge, health incarnated in a human;

2) subjective capital that is created when knowledge is being accomplished in physical, material forms;

3) institutional capital that is the institutions contributing to use all kinds of human capital.

Besides human capital is classified according to the types of investments emphasizing educational capital, health capital and culture capital. The health capital is the investments to a human to form, support and improve his/her health and ability to work. Investments in health, its care, helping to reduce the sickness and death rate, extend human’s able-to-work life and consequently the time of human capital functioning. Culture capital is a system of culture values accepted by an individual. Culture capital is forming under the influence of educational technologies - purposeful studying in specialized institutes as well as studying by accumulating experience and information in everyday and work life.

In more details we can present the given classification with the following elements:

1) Intellectual capital (level of education, knowledge);

2) Fund on training at manufacturing (qualification, skills, experience);

3) Fund of health (psycho — physical and emotional characteristics);
4) Fund of economy — important information (about prices and earnings);
5) Fund of migration (mobility of human resources);
6) Motivation of economic activity;
7) Fund of free time (recreating and general cultural level of renewing human resources).

At the same time it is necessary to distinguish intellectual capital as an element of human capital and as a broader general category that includes human capital as a necessary element.

Comparing terms “working capital” and “human capital” we can find rather close link between them. So, demographic and medical — biological elements of labour potential (according to the classification developed by M. I. Dolishniy) absolutely logically can be compared with the health capital as the component of human capital. Educational and professional — qualification components of these categories are similar except of the fact that psycho — physiological characteristics of a human are considered in terms of professional — qualification capital, but M. T. Dolishniy emphasizes on morale potential of a human.

Including competence, mobility and knowledge awareness of information — communication technologies to the structure of human capital is the result of the transformation to the information community with the high mobility of all its components.

The term “labour potential” according to its content is closer to the term “human capital”. In a simple way human capital can be interpreted as working potential that is realized under market conditions accepting productive nature of investments in economy of a human. Comparative characteristic of these categories is conducted according to various criteria (Table 2.2).
Referring to the environment that caused appearing the category of “human capital” we should mention that under the conditions of continuing transformations it is necessary to take into consideration that the economy of Ukraine is on the transition to information society. Its features suppose to be aware of information technologies and the fact that science is becoming an essential productive force.

Table 2.2
Comparative Characteristic of The Categories
“Labour Potential” And “Human Capital”

<table>
<thead>
<tr>
<th>Criteria of estimation</th>
<th>Category “Labour potential”</th>
<th>Category “human Capital”</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Environment for appearing</td>
<td>Command-administrative economy</td>
<td>Market economy</td>
</tr>
<tr>
<td>-hierarchy of interests</td>
<td>Society – Enterprise – Personality</td>
<td>Personality – Enterprise – Society</td>
</tr>
<tr>
<td>-type of “Social individual”</td>
<td>Traditional (Patriarchal) individual</td>
<td>“Economic individual”</td>
</tr>
<tr>
<td>2. Levels of forming</td>
<td>-state (macroeconomic); -regional (mezzo-economic); -microeconomic (level of enterprises); -personal (individual, family level).</td>
<td></td>
</tr>
<tr>
<td>3. Elements of internal structure</td>
<td>Level of education; Professional competence; State of health;</td>
<td>-awareness of economy-important information; - being motivated; - mobility; -informativeness;</td>
</tr>
<tr>
<td>4. Index of efficiency</td>
<td>Labour production</td>
<td>Wage age rate as an index of the efficiency of investments in human capital</td>
</tr>
</tbody>
</table>
Numerous factors influence forming and exploiting human capital. To manage this process effectively it is of great importance to classify these factors according to various scientific descriptors. Classifying descriptors include the following:

- Phases of renewing (factors of forming and factors of using);
- Type of influence in the process of renewing (intensive or extensive);
- Level of influence (macro-, mezzo-, microeconomic and individual);
- Type of influence (direct and indirect);
- Result of influence (positive and negative).

Using the classification of the factors that form human capital we can point out the most important of those that suppose adequate representation of socio-economic, nature, demographic, geopolitical, national — cultural and other conditions to provide effective development of the united economic area, in particular, of a region (Figure 2.2).
Factors of extensive and intensive influence

Intensive factors lead to the increase of human capital by mobilizing internal reserves of the system, that is, its qualitative parameters. On the other hand, extensive factors make the same effect due to the growth of quantitative parameters. At the same time, all factors, more or less intensive, influence on forming and using human capital. Nevertheless, we can point out three main factors that directly define the size of regional human capital: number of economic-active population and its growth rate, index of educational level and state of health of the population.

Human Capital and HR

Human capital is not solely the people in organizations—it is what those people bring and contribute to organizational success. Human capital is the collective value of the capabilities, knowledge, skills, life experiences, and motivation of an organizational workforce. Sometimes it is called intellectual capital to reflect the thinking, knowledge, creativity, and decision making that people in organizations contribute. For example, firms
with high intellectual capital may have technical and research employees who create new biomedical devices, formulate pharmaceuticals that can be patented, and develop new software for specialized uses. All these organizational contributions illustrate the potential value of human capital.

*Measuring the Value of Human Capital*

A fundamental question is whether better human capital management strategies create higher market values for companies, or whether financially successful companies have more resources to allocate to human capital initiatives. Research by Watson Wyatt on 750 large U.S., Canadian, and European firms concludes that superior human capital practices are a leading indicator of increased shareholder value rather than the reverse. Hiring the right people, supporting their creative thinking and productivity, and leveraging it all with the right technology seems to build superior business performance and shareholder value.40

In the United States, firms spend nearly twice as much as European firms on employee salary and benefits. Yet a ratio of pretax profit divided by compensation and benefit costs (Dollars of profit _ Dollars paid to employees) shows a “Human Capital Return on Investment” of 1.52 in the United States versus 1.14 for Europe. The interpretation of this difference is as follows: For $1,000 spent on employees in the U.S. a company returns $1,520. The same $1,000 in Europe generates $1,140. U.S. firms tend to be more flexible with their human capital investments and more likely to use pay-for-performance systems, which explain part of the difference.41

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The value of human capital in organizations can be seen in various ways. One is sheer costs. In some industries, such as the hospitality industry, employee-related expenditures exceed 60% of total operating costs. With that recognition comes an increasing need to measure how the value of human capital is changing. One study by Mercer, a global consulting firm, found that most chief financial officers (CFOs) see human capital as a key factor in creating value for shareholders. However, only 16% of the CFOs have calculated the return on human capital investments. Also, less than half of them assess the value of human capital and its impact on business performance.

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