

HUMAN RESOURCE MANAGEMENT

Assessment 1

ANALYSIS OF THE CURRENT AND PREDICTED CHANGES IN THE EXTERNAL ENVIRONMENT IN RELATION TO THE PEOPLE RESOURCING STRATEGIES

CASE STUDY PQRS Ltd.

1. RESOURCING STRATEGIES – DEFINITIONS, HISTORY

Human resource management is one of the five basic functions of modern organisations. There are numerous definitions of HRM as “strategic, integrated and coherent approach to the employment, development and wellbeing of the people working in organizations” (Armstrong, M., 2012), but perhaps the most synthesized philosophy of HRM is explained by Boxall and Purcell (2003) as “all those activities associated with the management of employment relationships in the firm”. Despite the multitude of ideologies, concepts and approaches, HRM exists in every organisation – “HRM is an inevitable consequence of starting and growing an organization” (Boxall, Purcell et al. 2009).

The development of the HRM through different concepts and strategies started by the US scholars Michael Beer and Charles Fombrun and their colleagues with the creation of the “Harvard framework” and “Michigan model” or the “matching model”, which state that critical task of the management is to seamlessly implement the formal structure and human resource systems so they complement each other in order to achieve the strategic goals of the organisation. This is considered as the foundation of the strategic HRM concept (Armstrong, M., 2012).

HRM employs different theories, strategies, policies and practices that help to pursue the strategic aims (strategic integration) and should ultimately lead to gaining competitive advantage of an organisation, while improving the well-being of the employees.

“HR strategy was defined by Boxall and Purcell (2016: 26) as ‘the critical set of economic and socio-political choices that managers make in building and managing a workforce.’” (Armstrong, Brown 2019).

- **Hard and Soft HRM**

Hard HRM considers the employees as any other economic factor and focuses on the performance, cost control and minimising investment in human resource, often resulting in low levels of employee commitment.

Soft HRM (collaborative HRM) emphasise on investing in human capital, providing well-rewarded and satisfying work. This strategy creates loyalty, positive relationship between employer and employee, based on mutual trust and employee participation in the organisational decision-making. (Wilton, N., 2016).

- **Contract based view and Resource based view**

Contract based view focuses on the formal and informal agreements of a contract and their modification in order to save cost.

“Resource-based theory states that competitive advantage is achieved if a firm’s resources are valuable, rare and costly to imitate” (Armstrong, M., 2012:7). Emphasis is on the internal resources of

the organisation and people are considered as key strategic asset and a key factor for achieving competitive advantage.

- **Psychological contract**

Psychological contract is a range of unwritten assumptions or expectations existing between the employer and the employees. A system of beliefs where employees believe they are expected to carry out certain activities and the response they expect from their employer, and vice versa. (Armstrong, 2012). It is usually assumed that employees owe hard work, commitment, loyalty in return for high pay, job security.

New psychological contract is a more modern form where employees expect more flexibility, training or financial incentives in return for their performance and commitment.

- **Vertical and Horizontal Fit, Bundling**

In their book Strategic Human Resource Management(1984) Fombrun, Tichy and Devanna outline the so called “Michigan model” of HRM which proposed that HRM systems and the organisation structure should be managed in a way that is congruent with organisational strategy. This is essentially the concept of vertical fit.

“Horizontal fit refers to the internal consistency of the organisation’s HR policies or practices, and vertical fit refers to the congruence of the HR system with other organisational characteristics such as firm strategy. An ideal configuration would be one with the highest degree of horizontal fit” (Armstrong, Brown 2019). A number of researches state that implementation of single strategy does not achieve the same efficiency without adopting other changes, hence “bundling” of different strategies and practices will enhance the effect.

- **Best fit, Best practice**

Best practice

Best practice model makes the assumption that there are certain number of practices that are the best and can be universally applied in any situation and will lead to the best performance of the organization. Most often categorised as “high commitment”, high involvement” and “high performance”. There is a variety of lists of such best practices, but most popular perhaps has been outlined by Pfeffer (1988):

- Employment security
- Selective hiring
- Extensive training
- Sharing information
- Self-managed teams
- High pay contingent on company performance
- Reduction of status differentials

Best fit

Based on the contingency theory it focuses on the congruency of the HRM and business strategies of the organisation with the circumstances (external context). Best fit can be considered as vertical alignment between the organisation’s business and HR strategies (Armstrong, 2012). There are three models lifecycle, competitive strategy and strategic configuration.

Since what works well in one organization may not be as appropriate for another and there is no such thing as universal solution, both practices are not mutually exclusive and can be applied together.

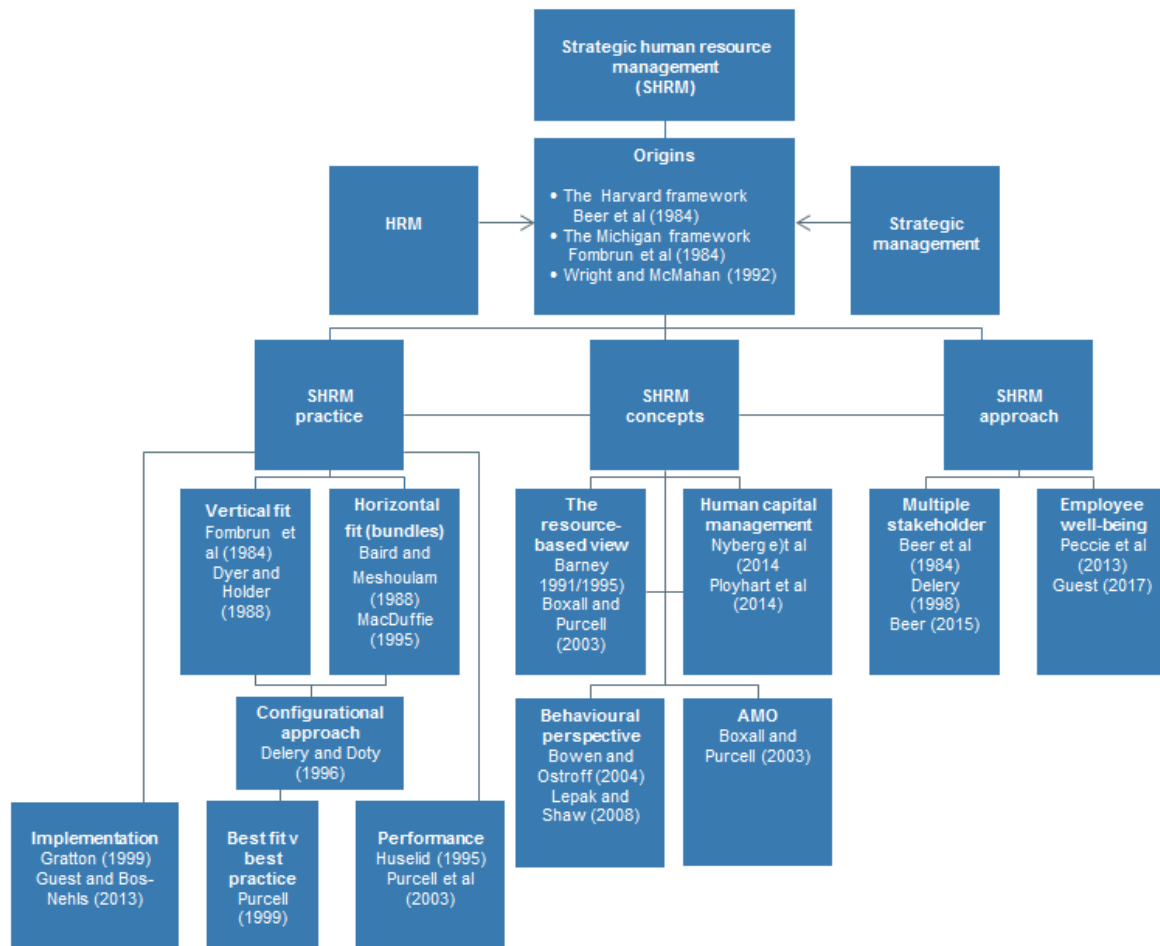


Figure 1 Model of the evolution of SHRM (Armstrong, Brown 2019)

2. RECRUITMENT AND SELECTION, WORKFORCE PLANNING

• Recruitment

“Recruitment is the process of finding and engaging the people the organization needs. Selection is that part of the recruitment process concerned with deciding which applicants or candidates should be appointed to jobs.” (Armstrong 2012).

• Selection

Selection is the process of assessing the suitability of candidates by using specific tools in order to choose the most suitable applicant for the role.

Recruitment and selection is a multi-stage process and includes the following elements (Armstrong 2012):

- Defining requirements.
- Attracting candidates.
- Sifting applications.
- Interviewing.
- Testing.
- Assessing candidates.
- Obtaining references.
- Checking applications.
- Offering employment.
- Following up.

- **Workforce planning**



Figure 2 Workforce planning process (CIPD, 2019)

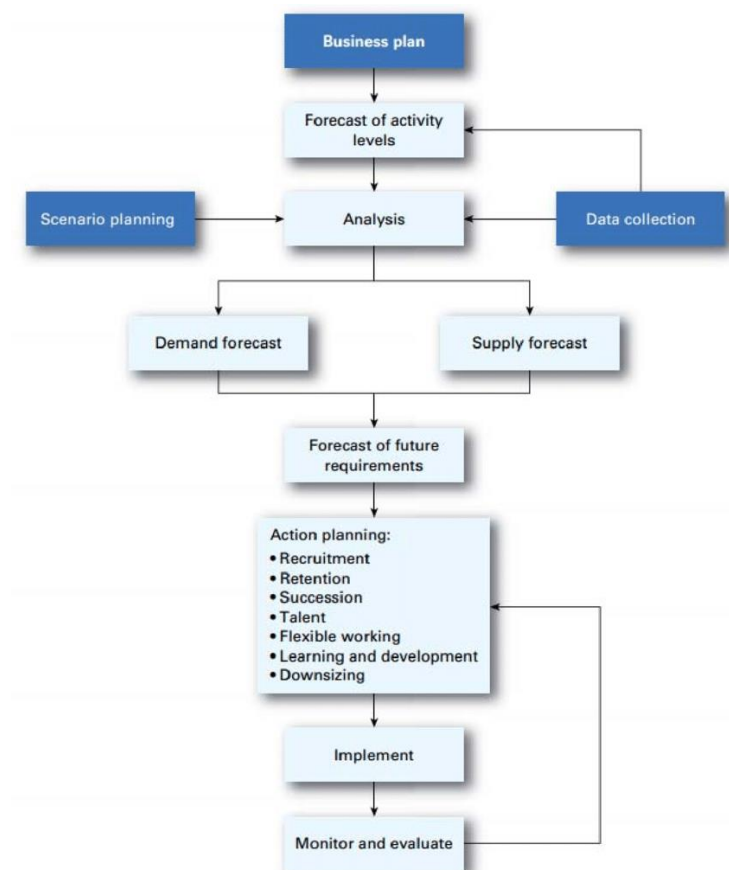


Figure 3 Workforce planning flowchart (Armstrong 2012)

Workforce planning is a core process in the HRM which aim is to align the organisation's business strategy with its changing needs of people with the right skills at the right place and time, in order to achieve the strategic objectives of the organisation. It is used to analyse the current workforce and determine the future workforce needs and apply appropriate solutions. It can be tailored to suit any type or size of an organisation. Planning includes:

- Talent plans
- Organisation and structure plans
- Employee utilisation plans
- Learning and development plans
- Performance and motivation plans
- Reward plans
- Employee relations plans
- Communications plans

3. EXTERNAL ENVIRONMENT, LABOUR MARKET, DIVERSE WORKFORCE

- **External environment**

Analysis of the external environment or PESTLE (Political, Economic, Social, Technological, Legal, Environmental) analysis is a tool used to analyse the key external factors that have impact on an organisation. Results from this analysis can provide valuable data for the managers in the decision-making process. Each of the analysed factors influences both the activity of the organization as a whole and its HRM strategies.

Political: Tax; industry regulations; trade restrictions and reform; tariffs; political stability.

Political factors have a strong influence in the UK right now. Government regulations affect every aspect of the HRM and require quick adaptation to any changes. They are mainly related to the existing market regulations in the EU, but most of all with the upcoming Brexit. There is a great deal of uncertainty about the future development of the situation, and the business needs to adjust its HRM strategies in order to be prepared for the upcoming turmoil.

Economic: Economic growth/decline; interest, exchange rates, inflation and wage rates; minimum wage; working hours; unemployment (local and national); credit availability; cost of living

Economic conditions are perhaps the most influential factor. As the dynamics of processes in the modern economy (downturns and upswings, inflation) influence the personnel demand it is necessary contingency HR plans to be prepared for such situations. The unemployment rate is another important factor influencing the labour market since it affects the pay rates and must be taken into account.

Social: Cultural norms and expectations; population growth rates; demographics; career attitudes; health and safety.

Workforce demographics is major influencing factor. The change of generations, their values and life perception (work-life balance) and the cultural diversity of the workforce require appropriate work environment and different recruitment approaches.

Technological: New technologies are continually emerging (for example, in the fields of robotics and artificial intelligence), and the rate of change itself is increasing.

The rapid technological progress has a serious impact on the processes in the economy as a whole. Trends in replacing human labour with robotic systems and artificial intelligence are reflected in both

increased productivity and cost reductions, but also in staff reductions and downsizing. The more sophisticated equipment will require people with higher qualifications or expensive training.

Legal: Changes to legislation impacting employment, access to materials, quotas, resources, imports/exports, and taxation.

Possible changes in employment legislation as a result of leaving the EU, as well as the publicly discussed future changes in immigration policy, will further complicate the labour market situation. The demand for labour is likely to increase mainly due to the lack of migrant workers.

Environmental: Climate change and the increased need to switch to sustainable resources; ethical sourcing (both locally and nationally, including supply chain intelligence).

Modern environmental requirements, the gradual transition to renewable energy, climate change and global warming require the recruitment of highly qualified personnel and specific knowledge, which has to be reflected in the workforce planning.

- **Labour market**

A labour market is the place where workers and employees interact with each other. “The most general definition of the labour market is that it consists of workers who are looking for paid employment and employers who are seeking to fill vacancies”(Julie Beardwell, Tim Claydon 2010). The labour market functions with demand and supply of labour and can be local, national or international. The market is balanced by the competition, which means that offered and demanded pay rates can vary within certain market-imposed limits. Depending on the demand-supply labour market could be “tight” – high demand, or “loose”-high supply.

Today's labour market in UK is being defined as "tight" (with fierce competition for talent) and therefore more complex recruitment strategies, retention initiatives, reorganization and development activities need to be implemented in order to attract the desired people. In such circumstances employees are in position to demand more benefits, flexibility, working environment, higher pay.

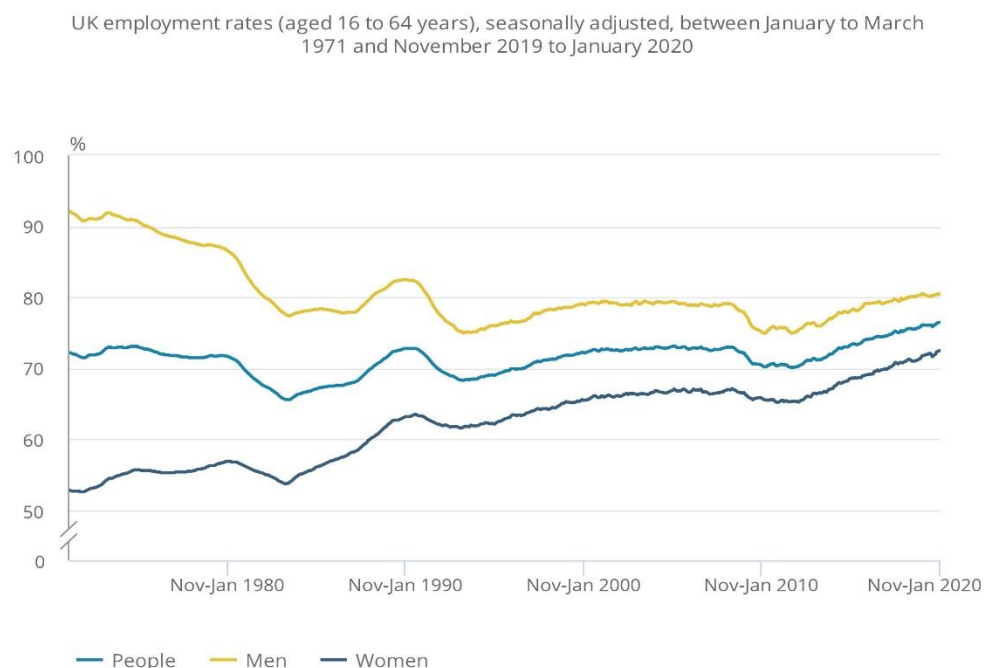


Figure 4 UK employment rate (ONS March 2020)

- the estimated employment rate for people was at a joint record high of 76.5%; this is 0.4 percentage points up on the year and 0.3 percentage points up on the quarter
- the estimated employment rate for men was 80.4%; this is largely unchanged on the year and 0.1 percentage points up on the quarter
- the estimated employment rate for women was at a record high of 72.5%; this is 0.7

UK unemployment rates (aged 16 years and over), seasonally adjusted, between January to March 1971 and November 2019 to January 2020

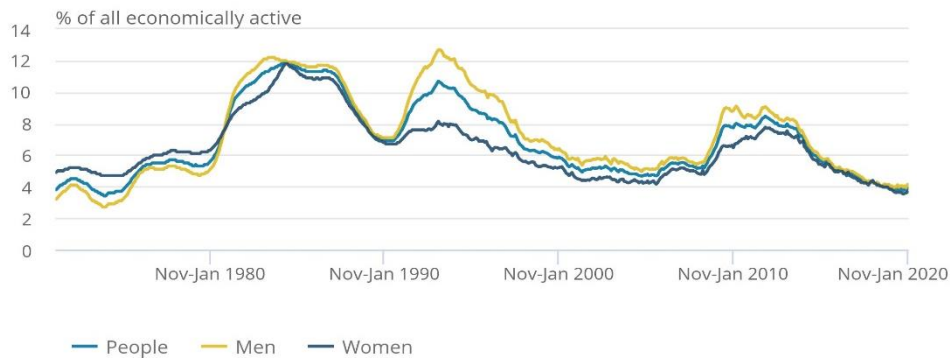


Figure 5 UK unemployment rates (ONS March 2020)

- percentage points up on the year and 0.5 percentage points up on the quarter
- the estimated UK unemployment rate for all people was 3.9%; this is largely unchanged compared with a year earlier and 0.2 percentage points higher than the previous quarter
- the estimated UK unemployment rate for men was 4.1%; this is 0.1 percentage points higher than a year earlier and 0.2 percentage points higher than the previous quarter
- the estimated UK unemployment rate for women was 3.7%; this is down 0.2 percentage points on the year but up 0.1 percentage points on the quarter

• Diverse workforce

It is common knowledge that humans are not born the same, even twins. Therefore, we could argue that diversity is a collection of external and internal characteristics of a person such as gender, race, age, personality, origin, disability, etc. If we were able to place this diversity of individualities in a common environment where everyone felt significant, then everyone's talent and abilities would be fully deployed, bringing benefits to all.

4. CASE STUDY – PQRS Ltd.

PQRS Ltd is a computer software company, employing 250 people at offices located in a Scottish city. It has been established for over 20 years. The firm occupies a niche market producing and maintaining specialist computer software for the motor trade. Three-quarters of its staff are computer programmers. The others are salespeople, administrators and managers.

The challenges that the company faces under the influence of external factors can be grouped as follows:

Economic factors

- Highly competitive “tight” labour market - the specific skills of the staff, the high demand for IT professionals globally and very high salaries in the sector make retaining the quality workforce difficult task. As a result, the company has 45% staff turnover.
- Narrow circle of clients - the company produces niche product with specific application
- Globalization - software products are not dependent on the geographical location of the manufacturer and competing manufacturers can produce products in locations with lower remuneration of highly skilled labour

Social factors

- Demographics - we can assume that the demographic profile of the staff is young people of the new generation, mainly men who have different than traditional understandings of work-life balance, as well as different attitudes to careers and working environments.

As a conclusion, since attracting and retaining highly qualified staff is a key issue for the company, a number of practices could be applied in order to cope with the problems and gain competitive advantage..

- Developing a talent bank in order to fill vacancies quickly
- Flexibility – provide options for part time jobs, work from home and flexible hours – this is perhaps the most important step as, apart from being attractive for the employees, it will bring multiple benefits:
 - Diversify the staff as it would give opportunity to people with appropriate qualifications to be able to work flexible (e.g. mothers, students).
 - It is very cost effective – not many people would be necessary to work in the office, allowing the company to hire smaller premises at better location.
 - Economised money from office relocation and maintenance could be allocated for additional financial incentives.
- Company branding
- Introduction of “Soft HRM” approach – It is typical for the IT sector and would help improve the staff retention

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