

CHAPTER 1

Human resource management and its external contexts

INTRODUCTION

This chapter provides the theoretical and practical backgrounds to the rest of the book. It does this by giving an outline description, analysis and overview of contemporary human resource management (HRM) within the United Kingdom (UK) and the external contexts driving it. These contexts are identified within the framework of the strategy, insights and solutions professional area of the CIPD's HR Profession Map (CIPD 2009). HRM, loosely defined as the managing of people at work, has undergone significant changes in its purposes, structures and activities in recent years. This chapter starts by examining the factors influencing these developments and considers the changing nature of HRM and how it has developed historically. The chapter then identifies and discusses some key issues on the HRM agenda. These include: how the human resources (HR) function is organised, HR and performance, line managers and HR, outsourcing HR, HRM and ethics, and HR strategy. Next, the chapter summarises the major institutional, external contexts impacting on the HR function that influence HR strategy and practices; issues that are revisited in greater depth later in the book. Finally, the chapter puts these developments into a global context by discussing some trends in international HRM.

LEARNING OUTCOMES

By the end of this chapter, readers should be able to understand, explain and critically evaluate:

- the changing nature and forms of contemporary HRM and HR practices in the UK
- the principal factors driving these changes
- some key issues in HRM, such as HR strategy and delivery of HR

- the external contexts affecting organisations and the HR function
- developments in international HRM.

In addition, readers should be able to:

- evaluate the impact of these changes on HRM practices in organisations
- review the impact of external contexts on HR work and HR practice
- understand how these changes affect their own organisations
- relate contemporary HR practices to the HR Profession Map.

DEFINING AND UNDERSTANDING CONTEMPORARY HRM

Providing a definitive definition of contemporary HRM is problematic. This is because there is no generally agreed framework for understanding and analysing the HR function; there are only competing models. In practice, the HR function within organisations in the UK (and elsewhere) is infinitely flexible, organisationally contingent over time and driven principally by the external contexts of the age; and these often change within short periods of time. Indeed, the history of HR in the UK and elsewhere shows that it has had to change its priorities and focus its activities by re-inventing itself continuously. This has been largely in response to external socio-economic factors beyond the immediate control of HR practitioners or senior managers. For these reasons a variety of definitions, frameworks and models can be found in any of the basic (or not so basic) texts and in the wide range of articles examining and exploring the functions, roles and antecedents of contemporary HRM in organisations. However, some understanding of the differing frameworks and intellectual underpinnings of HRM is necessary, if readers are to identify, understand and analyse the major external and internal contexts within which HR professionals operate today. It is these dynamic contexts which provide a continuing theme throughout the text.

One major text in the field, Marchington and Wilkinson (2008), defines HRM curtly as the management of employment. Another standard text provides no agreed definition of HRM but distinguishes between 'soft' and 'hard' versions of it. These writers, drawing upon Guest (1987) and Storey (1992), claim soft HRM 'recognises employees as a resource worth investing in, and tends to focus on high commitment/high involvement human resource practices.' Hard HRM 'identifies employees as a cost to be minimised, and tends to focus on "flexibility techniques" and limited investment in learning and development' (Beardwell and Claydon 2007, pp671, 675). Boxall and Purcell (2008) regard HRM in the English-speaking world as all those activities associated with the management of employment relationships in the firm.

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by **David Farnham**

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FROM PERSONNEL MANAGEMENT TO HRM

For Torrington *et al* (2008, p6), the term HRM is used in two ways. They provide a useful distinction between 'HRM mark 1' and 'HRM mark 2'. The first is a *generic term* used to describe the body of management activities which have been traditionally labelled 'personnel management'. The second is regarded as a *distinctive approach* to HRM and suggests a specific philosophy towards carrying out 'people-oriented organisational activities'. Generic HRM seeks to achieve four key objectives: staffing, performance, change-management and administration. These organisational objectives are delivered primarily by personnel/HR specialists or personnel/HR generalists. HRM as a distinctive approach to managing people delivers organisational objectives by HR professionals in collaboration with line managers.

Guest (1987), in turn, has identified a number of 'stereotypical' features distinguishing the personnel management tradition (HRM mark 1) from the distinctive HR tradition (HRM mark 2). Personnel management is specialist and professionally driven. Its features include: a short-term, ad hoc time perspective; a pluralist, collective approach to managing employment relations; bureaucratic, centralised, organisational structures; and cost minimisation evaluation criteria. The distinctive, 'new' HR tradition (HRM mark 2) is largely integrated with line management. Its features include: a long-term, strategic time perspective; a unitary, individual approach to managing employment relations; more organic, devolved, flexible organisational structures; and maximum utilisation of human resources.

Interestingly, Torrington *et al* identify six main periods or 'themes' in the history of personnel management and its transition into contemporary HRM. Indeed, as Gennard and Kelly (1997, p31) have perceptively observed, delivery of the personnel/HR function has always been flexible and has adjusted its dominant values historically 'as macro circumstances change'. Legge (1995, p xiv) argues, however, that the apparent overshadowing of personnel management by the distinctive HRM tradition lies in its function as 'a rhetoric about how employees should be managed to achieve competitive advantage [rather] than as a coherent new practice'. Keenoy (1990) goes further in his critique of the new HRM, viewing it as 'a wolf in sheep's clothing'. For him, HRM is more rhetoric than reality and simply supports ideological shifts in the employment relationship, driven by market pressures.

Torrington *et al* (2008) describe the first theme in the evolution of personnel management and HRM in the UK as 'social justice'. This originated on a limited scale amongst a few enlightened employers in nineteenth-century Britain. These employers promoted a welfare approach to managing people by attempting to ameliorate working conditions and avoid adversarial industrial relations. Second, in the first half of the twentieth century, 'humane bureaucracy', influenced by managerial practitioners and observers such as Taylor (1911), Fayol (1916) and Mayo (1933) came to the fore in management practices. Taylor's 'scientific management' principles adopted a work study, incentive-based approach to managing people. This was followed by the 'human relations' school, originating

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in Mayo's works reported in the Hawthorne experiments, and later others, which aimed at fostering good 'human relations', high morale and efficiency at work. Third, in response to strong trade unions in the 1960s, a period of 'negotiated consent' was fostered by personnel and industrial relations managers. This aimed at containing union power and managing workers by representative systems and collective agreements. Fourth, from the late 1960s, the focus was on 'organisation' provided by personnel specialists. They did this by developing career paths, opportunities for personal growth and workforce planning. Fifth, the recent 'HRM' theme, with its focus on performance management, planning, monitoring and control, flexibility and employees as individuals, emerged and grew in the English-speaking world throughout the 1980s, 1990s and 2000s. This was in response to what is loosely described as globalisation and neo-liberal economic policies.

A sixth theme claimed by some observers, such as Bach (2005, pp28–9), is a 'new HR'. Driven by employer demands for competitive advantage, this theme is characterised by a 'new trajectory' in response to significant long-term trends in the business context. These include a global perspective, issues of legal compliance, the emergence of 'multi-employer' networks (or 'permeable organisations'), engagement of individual employees emotionally at work, and a customer-centred focus in business. This trend or theme seems to reflect a shift away from the 'management of jobs' by organisations to the 'management of people' within them (Lepak and Snell 2007).

In their summary review of the HR literature, Beardwell and Clark (2007) identify five comparative models of personnel management and HRM. They describe these as: the planning perspective, people management perspective, employment relations perspective, structure/systems perspective, and role perspective. In each case, practices and theories of managing people within each of the personnel management and HRM traditions differ. In outline, personnel management in the planning perspective is reactive and marginal to corporate plans. In the people management perspective, people are a variable cost, subject to compliance and organisational control. In the employment relations perspective, personnel management accepts that self-interest dominates at work and that conflicts of interests among stakeholders are inevitable. Personnel management in the structure/systems perspective imposes control of staff from the top and control of information flows downwards. In the role perspective, personnel management is specialised, professional and driven by personnel specialists.

Within the HRM tradition, HRM is strategy-focused and central to the corporate plan in the planning perspective. In the people management perspective, HRM views people as social capital capable of being developed and committed at work. In the employment relations perspective, HRM supports coincidence of interests among stakeholders and de-emphasises conflict in the workplace. HRM in the structure/systems perspective promotes employee participation and informed choice by staff, with open channels of communication to management aimed at building employee trust and commitment. In the role perspective, HRM is largely integrated into line management.

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Clearly from this brief outline of some of the recent literature in the field, there is no universally agreed definition of contemporary HRM or the practices it incorporates; an issue which is explored more fully in Chapter 5. However, two observations can be made. First, HRM in the UK, as elsewhere, is historically 'path dependent'. This means, and explains how, institutions, social structures or patterns of behaviour in the present are limited by what has happened in the past, even though past circumstances may no longer apply. Second, as Guest (1997, p266) has argued, this lack of consensus about HRM arises from the 'absence of a coherent theoretical basis for classifying HRM policy and practice'. In examining the key literature in the area, Guest identifies three broad categories of general level theory about contemporary HRM. These are: *strategic* theories, such as those of Miles and Snow (1984) and Schuler and Jackson (1987); *descriptive* theories, such as those of Beer *et al* (1985) and Kochan *et al* (1986); and *normative* theories, such as those of Walton (1985) and Pfeffer (1994). Each theoretical category originates in different sets of assumptions about HRM. These are contingency theory, systems theory and motivation theory respectively. What these theoretical schools have in common is that contemporary HRM is deemed to be distinctive in some way or other from traditional personnel management; debates that are revisited later in this book. A summary of the main features of personnel management and HRM is provided in Figure 1.1.

Figure 1.1 From personnel management to HRM: a summary

The personnel management tradition	The human resources management tradition
Driven by employer needs to treat people fairly in organisations	Driven by employer needs for competitive advantage in the marketplace
Operates in relatively stable market conditions	Operates within competitive markets and a change agenda
Is a traditional approach to managing people, with a strong administrative purpose	Is a distinctive approach to managing people, with a strong strategic purpose
Is short term, with an ad hoc perspective	Is long term, with a strategic time perspective
Adopts a pluralist frame of reference to organisation and people management	Adopts a unitary frame of reference to organisation and people management
Negotiates with trade unions where they are recognised	Manages employees individually rather than collectively
Is delivered, monitored and policed by personnel specialists	Is delivered by HR professionals in collaboration with line managers



ACTIVITY 1.1

What do you understand by the 'strategic theories' of HRM, 'descriptive theories' and 'normative theories'? Which approach is the most useful for HR practitioners and why?

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THE HR PROFESSION MAP

It is useful to conclude this introductory section by drawing upon the CIPD's HR Profession Map and its commentary on contemporary HR practices (CIPD 2009). The outcomes of the Map are based upon in-depth interviews with senior practitioners across the main economic sectors in the UK in 2008–09. Four issues stand out:

- The Profession Map covers not only the technical elements of professional competence required in the HR profession but also the behaviours.
- The Map describes what HR professionals need to do, what they need to know, and how they need to do it within each of 10 professional areas (outlined below) and eight behaviours, organised into four bands of professional competence.
- Areas of expertise in the Map are organised by professional competence, not by organisation structures, job levels or roles.
- The breadth and depth of the HR profession are covered from small to large organisations, fundamental to 'sophisticated' practices, local to global levels, corporations to consultancies, charities to public services, and traditional to progressive activities.

The CIPD's approach to contemporary HR practice in the Profession Map is a normative, competence-based one. A major conclusion is that a significant shift has taken place in the focus of HR. There has been a move away from a primary focus on supporting line managers and helping them manage people well to one ensuring that 'the organisation has the sustainable capability it needs to deliver its aims both today and in the future'. The Map seeks to do this by examining what HR people do and what they deliver across every aspect and specialism of the HR profession. The professional areas identified within the Map, in addition to 'strategy, insights and solutions', are 'leading and managing the human resources function', 'organisation design', 'organisation development', 'resourcing and talent planning', 'learning and talent development', 'performance and reward', 'employee engagement', 'employee relations' and 'service delivery and information'.

Three observations emerge from the CIPD's analysis. First, the HR Profession Map identifies the underpinning knowledge, skills and behaviours that HR professionals need to have if they are to be successful. Second, it creates a clear and flexible framework for career progression, recognising that both that HR roles and career progression vary. Third, the Map also provides a comprehensive view of how HR adds sustained value to organisations in which it operates, now and in the future (CIPD 2009). The CIPD's HR Profession Map, in short, places HRM at the heart of promoting improved performance, the effective managing of people at work and sustainable capability.



ACTIVITY 1.2

To what extent is your organisation practising HRM or personnel management? Provide indicators justifying your judgement.

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SOME KEY ISSUES IN HRM

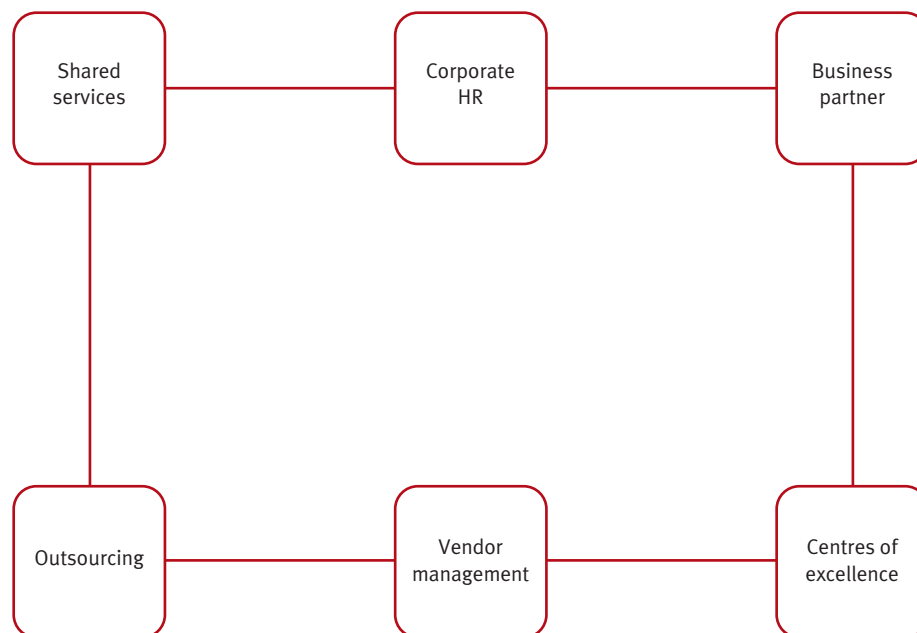
Given the changing contexts of HRM and HR practices, some key issues in contemporary HRM have emerged out of these developments. These contexts have affected the nature and structure of the HR function, its links with performance, HR and line managers, outsourcing HR, ethics and HRM, and HR strategy.

DEVELOPMENTS IN THE HR FUNCTION

A number of developments have taken place within the HR community and HR work in recent years. First, research by the CIPD (2008) as part of its study on the changing HR function agenda has identified some major changes in the structure of HR in large private and public sector organisations. This reveals that many large organisations are adopting variants of Ulrich's (1997) multi-legged model of HR structures, rather than having centralised HR departments as in the past. This has resulted in HR functions becoming more specialised and being divided between 'shared services', 'business partners', 'centres of expertise' or 'vendor management', overseen by 'corporate HR'. These roles are illustrated in Figure 1.2.

- **Shared services.** Those working in shared services undertake a lot of HR administrative tasks and provide information and advice through intranets and call centres to clients. Staff are often employed for their good interpersonal, customer service and team management skills, which can be prioritised over their HR knowledge.

Figure 1.2 Current roles in the HR function



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- **Business partners.** This HR role varies widely. Some business partners report to senior HR managers, others to senior line managers. Research shows that business partners are expected to work with business units or line managers on strategic development, organisational design, business performance or change management.
- **Centres of expertise.** Other HR practitioners provide support to business partners, develop detailed policy for corporate HR, and act as reference points for shared services when dealing with complex queries. The most common centres of HR expertise are people resourcing, employment relations, pay and rewards, learning and development, and organisational development.
- **Vendor management.** These staff provide third-party services, such as pension administration, managed through service-level agreements.
- **Corporate HR.** Those working in corporate HR have responsibility for developing HR and people strategy. Corporate HR players increasingly have a governance role, ensuring that organisations uphold corporate values, comply with their legal requirements and follow 'good practice' HR.

According to the CIPD (2008), the separation of transactional, generalist HR roles from transformational specialist ones within large organisations has led to changing skill requirements, and some recruitment problems, within the HR profession. In small and medium-sized enterprises, in contrast, HR is still likely to take on more traditional people management and development activities, based on generalist roles.

As noted below, a second development within HR is continuing delegation of some HR activities to line managers. The HR areas that line managers typically deal with include recruitment and selection, pay and reward, performance management, grievances and discipline, coaching, and learning and development. It is generally accepted that some line managers have skills gaps in people management and development activities and therefore have difficulties implementing HR policies effectively. Devolving HR activities to line managers has implications for HR professionals, who need to be facilitators, help line managers carry out their HR/people management and development activities effectively, and support line managers in getting the most out of the people resources. In designing and developing HR policies and procedures, HR practitioners also need to be aware that these will be delivered by line managers and that line managers need ownership of them; a theme developed further later in this chapter.

A third set of developments is in learning and development (L&D), where the focus is on 'learning' rather than 'training' and where the skills of those working in the field have changed. Today, business awareness and consultancy skills are highly valued among L&D practitioners. They provide solutions to business problems and support organisational change. There has also been a professionalisation of those delivering work-based learning, with staff working in these areas being increasingly certificated and well qualified. E-learning and blended learning have become important as technology develops, in a field where virtual learning environments, podcasts and gaming technology are increasingly

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popular. Coaching line managers has also been identified as a very effective L&D practice.

HRM AND PERFORMANCE

Since the 1980s and 1990s, there have been fundamental changes in the structures and management processes of organisations in the private and public sectors. Adjustments to the functions, structures and roles of the HR function are partly in response to these changes but also reflect the revolution in information and communication technologies (ICTs) outlined above. Three changes stand out. In this period, first, many large-scale hierarchical organisations have become divisionalised. This has resulted from breaking them up into a number of semi-autonomous operations or quasi-businesses, responsible for all the business activities within their areas of jurisdiction. Examples of divisionalisation include splitting large companies into separate, independent organisations, creating executive agencies and trusts in the public services and, in multinational businesses, setting up international product (or services) divisions with responsibility for individual products on a European or global basis (Hughes 2003, Geppert and Mayer 2006). Second, budgetary devolution is now commonplace. This has resulted in allocating responsibility for managing activities within planned financial resources or targets to the lowest possible levels within organisations. Third, internal markets have been created. This is where services are traded between ‘purchasers’ and ‘providers’ to ensure that different groups are responsive to the needs of each other and that such activities are cost-effective. In short, divisionalisation, devolved budgeting and internal markets have resulted in a fundamental shift from the management of tasks in the private and public sectors to management by financial performance (Sisson and Storey 2000).

It follows that the search for improved performance from individuals and groups within organisations is now a crucial managerial goal in most businesses and public enterprises. Customised HR practices and promoting appropriate employee behaviours play critical roles in facilitating this. The framework within which performance is organised, measured and reviewed is established in dedicated, organisational, performance management systems. The underlying aim of these systems is to get the best outcomes and highest efforts from individuals, teams and organisations, in pursuing corporate goals.

A principal feature of performance management is that it connects the objectives of an organisation with the job targets of individuals and focuses on work improvement, learning, development, motivation and reward. A performance management system starts with the induction of new staff when they join an organisation and has four elements: defining performance standards and setting targets, reviewing and appraising performance, reinforcing performance standards, and supporting individuals through counselling and other means to meet performance standards. The review process then identifies the learning and development needs of individuals and allocates rewards for measured outcomes (Armstrong and Baron 2005).

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Leading organisations seek therefore to develop, in collaboration with HR professionals, systematic frameworks designed to improve individual and organisational performance in ways that can be measured and reviewed. Analysing claimed links between HRM and performance is now a major area of interest for both researchers and policy-makers. A wide range of studies has attempted to demonstrate the positive relationship or links between certain 'bundles' of HR practices and high organisational performance (Appelbaum *et al* 2000, West *et al* 2002, Godard 2004).

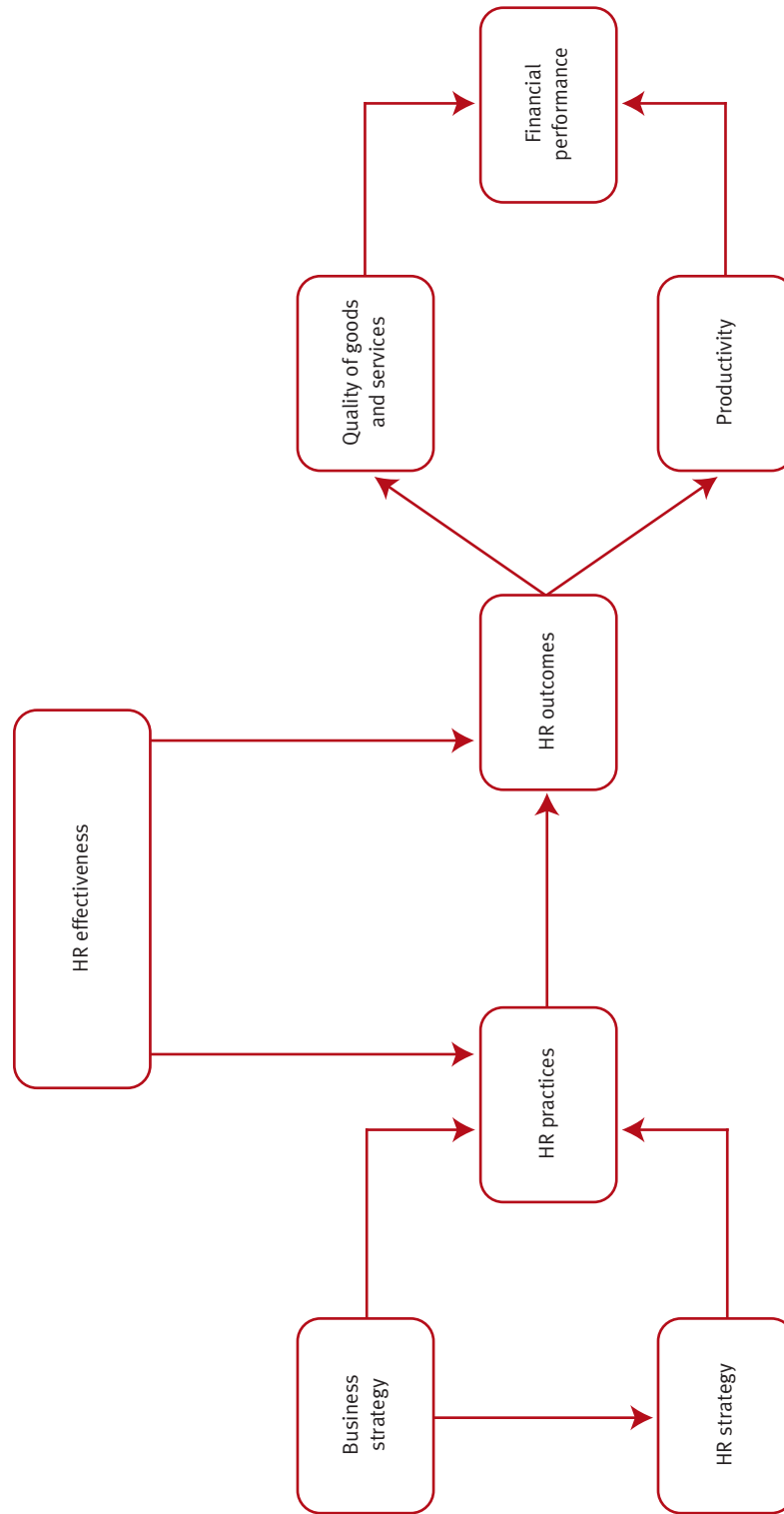
Guest *et al* (2003) provide a useful theoretical framework guiding this analysis, as illustrated in Figure 1.3. In outline, their model suggests possible links between a series of managerial inputs and performance outputs. The inputs are business strategy, HR strategy and HR practices. The HR practices include induction, job design, recruitment and selection, appraisal, pay and reward, training and development, financial flexibility, harmonisation, communication and job security. The outputs are effective HR outcomes, quality of goods and services, productivity and financial performance. Evaluating the effectiveness of these HR activities allows an assessment of how well they are working in practice. In this study, managing directors and HR professionals were asked to assess the effectiveness of each of the above HR practices. There were relatively little differences of opinion between them, with job security deemed to be one of the most effective HR practices and job design and appraisal being the least effective. The more HR practices used, and the more effectively they are used, the better organisational performance is likely to be. From this study at least, HR effectiveness appears to demonstrate the link between HRM and business performance.

There are also critiques of performance management systems. One is that they encourage a short-term view amongst UK managers, which may hamper organisational performance in the longer term. Second, there is growing concern that these systems add unduly to stress in working life for many employees, because of their focus on improving the bottom line. Third, and most importantly, performance management systems do not always deliver what they promise. The main driver of performance management is improving overall organisational effectiveness. However, writers such as Bevan and Thompson (1992) and others have found from surveys of performance management that there was no relationship between high-performing UK companies and performance management systems.

HRM AND LINE MANAGERS

Where HR professionals concentrate on developing strategy, designing performance management systems to match changing business priorities and other high-level business activities, line managers take on an important role in implementing HR strategies, policies and practices. Divisionalisation and devolved budgeting also promote delegation of HR activities. The importance of the line manager role in delivering HR has been highlighted by Hutchinson and Purcell (2003, p ix), amongst others. They found that the behaviour of first-line

Figure 1.3 Possible links between HRM and business performance

Adapted from Guest *et al* (2003).

managers was the most important factor explaining variations in job satisfaction and job discretion amongst employees. 'It is also one of the most important factors in developing organisational commitment.' It has been noted too that strengthening the relationship between managers and their employees results in a positive approach to employee performance and motivation. Such studies indicate that line managers can make real differences to employee attitudes and behaviour (Purcell *et al* 2003). They also demonstrate the critical role that line managers play in implementing HR policies (Renwick 2003).

To undertake their HR role successfully, line managers need to work closely with HR practitioners to maintain consistency and effectiveness in carrying out their HR activities. A survey by Industrial Relations Services (Industrial Relations Services 2004) asked respondents in 62 organisations about the areas of responsibility typically exercised by line managers. This reported, first, that they had major responsibility in absence management, performance appraisal, team briefing and staff development. Second, line managers and HR professionals had shared responsibility in induction, training and discipline. Third, line managers had little responsibility in recruitment, performance pay, promotions and welfare. Another, later, survey by the CIPD (2007), however, which also examined line management and HR responsibility for HR, found, first, that 39 per cent of line management respondents had main responsibility for recruitment and selection decisions and 10 per cent for training and development. Second, HR was a shared responsibility for 84 per cent of respondents in recruitment and selection, 59 per cent in training and development, 46 per cent in employee relations, and 35 per cent in pay and benefits. In general, successive surveys have highlighted increasing HR responsibilities being devolved to line managers in organisations, normally in conjunction with HR professionals as partners.

Devolving HR activities to line managers, however, is not without its difficulties. As Renwick (2003) points out, there are several problems in doing this. First, line managers do not always have the skills and competencies to manage people effectively. The low technical and educational bases of many UK line managers provide barriers to the effective devolution of HR activities in some organisations. Second, in other cases, line managers are not interested in HR work, believing that competence in the field is gained from a mixture of common sense and experience rather than from training. Line managers think they know how to manage people, motivate them and deal with their problems, but have problems doing this (Cunningham and Hyman 1999). Third, line managers have more pressing priorities than managing and developing the people working for them. HRM is low on their lists of management priorities. Moreover, they need support, recognition and rewards from top managers to become motivated to deal with HR issues effectively (Marchington and Wilkinson 2008). Fourth, the ways in which HR practices are implemented by line managers are often inconsistent and contradictory, resulting in often subjective and discretionary decision-making, unless HR support is provided (Hutchinson and Purcell 2003). Training line managers in their HR responsibilities and working in partnership with HR professionals appear to be key issues here.

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OUTSOURCING HR

In addition to delegating HR responsibilities to line managers, organisations commonly outsource some HR activities to outside bodies or agencies. Outsourcing HR is where organisations subcontract HR activities (and in some cases general commercial activities such as catering and maintenance) on grounds of cost savings, the need to draw on specialist external expertise not available internally, and obtaining independent HR advice from outside people with greater knowledge, skills and experience in their fields of competence than insiders have. Cost factors, for example, often cause managers to consider whether support functions can be provided more cheaply externally. Moreover, subcontractors commonly seek to provide a better service by drawing upon expertise unavailable to their client. Other factors increasing the incidence of outsourcing include the argument that firms gain competitive advantage by focusing their efforts on core business activities and distinctive areas of HR competence. There are also benefits associated with flexibility and leanness. Thus where a core activity is outsourced, suppliers can be changed when they perform badly or their prices become uncompetitive.

Outsourcing takes various forms, such as a shared service centre working for a single organisation, a joint venture between organisations combining HR resources or a multi-client call centre providing HR advice to several organisations (Cooke *et al* 2004). The sorts of HR activities typically outsourced include payroll administration, recruitment and selection, learning and development, executive search, and outplacement and redundancy counselling. Research carried out in the United States indicated four main areas of HR covered by outsourcing arrangements: general HR, transactional work, human capital activities, recruitment and selection. This study shows that reliance on outsourcing varied with organisational size and complexity, product market uncertainty and the importance of HR strategy to the business (Klass *et al* 2001).

A number of HR implications arise from outsourcing. There are legal issues to consider when an in-house activity is subcontracted, such as transfer of undertakings regulations. There may be issues associated with control of the subcontracted activities. There are implications regarding the regulation of performance levels. With outsourcing, performance is not regulated through a typical contract of employment, but is managed through commercial contracts and service level agreements. There are also implications for job security and work intensification within outsourced organisations (Taylor 2008).

ETHICS AND HRM

Ethical organisations have always existed although most businesses have traditionally been driven by economic not ethical goals. In the nineteenth century, for example, Quaker companies operated on distinctive ethical principles and firms such as Cadburys incorporated welfare policies into their business philosophies, which benefited their workforces. This was in contrast to most other firms at the time that were driven solely by the profit motive. Today

examples of successful businesses noted for the ethical principles they promote include the Co-operative Bank, Scott-Bader and Traidcraft.

Some argue that business organisations cannot have ‘ethics’ or be ‘ethical’, as they are not agents of morality and not driven by moral imperatives. However, organisations have sufficient structural complexity to be agents, so they can be called to account for their actions and the consequences of them. If a body can take decisions and implement them, then it must be responsible for those decisions (Kaptein and Wempe 2002). Indeed, as corporate legal entities, business organisations are accountable in law for some of their actions. Therefore part of corporate responsibility stems from legal requirements – such as employment law, health and safety and consumer protection – but part of this responsibility is moral or ethical. Being profitable is a virtue of business organisations but it is not their only virtue. As Kitson and Campbell (1996, p98) argue: ‘We can expect organisations to be socially responsible because that is part of the contract out of which they were created.’ It is a ‘condition of the permission that society granted that they exist in the first place.’

Until recently, there was relatively little mention of ethics in the HRM literature in the UK, although it is growing, stimulated by the growth in ethical investment and ethical consumerism discussed earlier. A different picture emerges in the United States, where ethics and ethical behaviour feature prominently in both HR practice and academic research. Yet almost every HR decision and issue poses ethical questions, since they deal with people issues covering recruitment and selection, managing performance, equal opportunities, learning and development, employee relations, pay and rewards, and termination of employment. Marchington and Wilkinson (2008) argue persuasively that ethical and socially responsible HR practices may become even more elusive as organisations devolve HR activities to line managers, who are required to meet corporate targets that stress production and service targets as their first priorities. However, ethical recruitment and selection, for example, demand properly drafted job descriptions and person specifications, candidates only being invited to interview where they meet the essential requirements and unsuccessful candidates having their applications returned to them, with the selectors’ reasons for their decision. Applicants can also be given the results of any assessments made of them. Perhaps the underlying argument for ethical HR practices is that companies adopting them benefit by gaining employee commitment, the trust and loyalty of their workforce and improved organisational performance.

Winstanley *et al* (1996, p5ff) have written that ‘the relationship between ethics and human resource management is emerging as a subject of serious academic enquiry.’ They have identified three main issues: ethical concerns, ethical frameworks and putting ethics into practice. They raise concerns about the lowering of employment standards, for example, where several types of undesirable change have been identified. These are, first, job insecurity and risk at work. Second, new forms of work organisation and management control are giving rise to surveillance and control of employees at work. Third, deregulation of management decision-making in firms is leaving little scope for power-based

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employee participation in the workplace, and this element in contemporary HRM 'is at best unsympathetic to the exercise of democratic rights by employees or to stakeholder models of corporate governance.' Fourth, the rhetoric of HRM, with its themes of commitment and identification, fits poorly with the trend towards less secure employment and evidence of diminished employer commitment to employees, with 'a relentlessly instrumental orientation to the employment relationship on the part of employers.'

Winstanley *et al* (1996, p9ff) also claim that the prevailing common-sense ethical framework justifying contemporary HRM policies based on their utilitarianism to organisations is a weak principle for ethical action. They identify a number of alternative ethical frameworks lending themselves to analysing HRM. These are:

- **Basic human, civil and employment rights.** This seeks greater job security, openness, and transparency, and aims to avoid making scapegoats at work.
- **Social and organisational justice.** This aims to provide procedural principles for evaluating current employment practices.
- **Universalism.** This emphasises the Kantian principle of treating individuals as ends in themselves and not just means to ends.
- **Community of purpose.** This seeks to adopt a stakeholder and more communitarian view of the firm rather than just a stockholder one.

Another level of engagement with ethics is for HR professionals to utilise appropriate frameworks that help to explain and analyse the nature of changes taking place in the employment relationship and to use the frameworks 'more prescriptively'. In seeking ways of putting ethical principles into practice in HRM, Winstanley *et al* (1996, p11) propose the use of employment charters, legal regulation, innovation in good practice and challenging 'the inevitability thesis' on the demise of job security. They are unconvinced that the 'ethical stewardship' role of HR professionals in raising awareness of ethical issues is a viable one. 'There is the risk that assuming ownership of the "ethical" issues and conscience in the organisation might yet again serve to decrease their status.' Drawing on Connock and Johns (1995), they conclude that ethical leadership must come from the top of organisations. It must 'not be part of the ghetto of human resource management'. In their view, growing interest in stakeholding, ethical consumerism and international labour standards are some of the most significant developments putting ethics and HRM on the political agenda.

HR STRATEGY

A key feature of HRM mark 2, as indicated above, is its role in and contribution to HR strategy formulation and implementation, which Tyson (1995, p3) describes as the as the intentions of an organisation towards its employees. He defines HR strategy as 'a set of ideas, policies and practices which management adopt in order to achieve a people-management objective'. Rather than consisting of a detailed document, covering all areas of people management, HR strategy is now conceived as an incremental process. It is aimed at influencing key HR practices promoting improved performance and competitive advantage

at work, taking account of organisational politics and what is possible in the circumstances. A main characteristic of an effective HR strategy, whatever form it takes, is its integration with business strategy. There are a number of models of HR strategy, which are fully examined in Chapter 5, but each is underpinned by the idea that HR policies and practices need to support the goals of a business, whatever sector it is in, if they are to be effective. HR strategies, in other words, need to have 'external fit' with business strategies and be vertically integrated with them (Fombrun *et al* 1984, Guest 1987, Schuler and Jackson 1987, Pfeffer 1998). Vertical integration thus refers to the links between business strategy, the external contexts and HR policies and practices.

In addition to 'external fit', it is also argued that there needs to be 'internal fit' between different aspects of HR strategy. This 'horizontal integration' of HR means that HR strategy needs to achieve a high level of compatibility of its various elements, not creating policy conflicts between them. One common critique of HR specialists is that they fail to co-ordinate their HR policies and practices to promote consistent and unambiguous messages from management to employees. For example, an HR policy aimed at reducing headcount may be contradictory to another promoting learning at work. Similarly, an incremental pay system without an incentive element, say, may work against a recruitment and selection policy that seeks to attract self-motivated people expecting personal rewards for good performance. A number of studies show that clear benefits accrue from organisations having an appropriate 'mix' of internally consistent HR practices, integrated together and supporting rather than negating one another (Huselid 1995, Wood 1995).

In the managerial literature on HR strategy, then, it is argued that the greater the degree of vertical and horizontal integration within an organisation, the more effective its HR strategy is likely to be. The nature and feasibility of the possible links between business strategy and HR strategy, and the internal consistency of HR strategy, are consistent themes in the strategy literature (Boxall and Purcell 2008).

There is a body of critical literature, however, that challenges these assumptions and questions the links between HRM and its strategic integration with business policy. Legge (1995, p116), for example, argues, first, that the 'matching' approach is based upon a classical, rational approach to strategy that assumes a top-down, unitary planning process which is simplistic and not congruent with reality. She highlights the conceptual problems and 'fuzziness' permeating the major strategy models used to match HR policies with business strategy. Second, this raises doubts 'about their operationalisation in empirical research and the consequent validity of such studies' findings'. She sees these matching models being mainly employed at the normative level, rather than being empirically tested (Golden and Ramanujam 1985). According to one study, an examination of the processes of strategic and HRM change called into question whether managers actually have a genuinely free choice in strategic stance anyway (Storey and Sisson 1993). Third, Legge (1995, p124) questions whether the close matching of strategy and HR policies is desirable anyway. She asks, for example, whether it is possible to

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have corporate-wide, mutually reinforcing HR strategies, where an organisation operates in highly diversified product markets and, if not, does it matter in terms of organisational effectiveness? Lastly, she questions, in terms of internal integration, whether developing an organisational culture supportive of a particular business strategy stops employees adopting different behaviours in response to changing market demands. In other words, there can be inflexibilities resulting from too close a match between HR strategies and business strategies.



ACTIVITY 1.3

Identify any *three* of the above developments in HR that affect your organisation, showing why they are important within it. What sorts of problems arise from these HR developments and how does your organisation address them?

THE EXTERNAL CONTEXTS OF HRM

To summarise the debate so far, contemporary HRM provides a distinctive approach to managing people at work. Although traditional personnel management approaches remain in some organisations, what Torrington *et al* (2008) describe as the 'HRM theme' is the dominant trend in people management in firms and public organisations today. Contemporary HRM by this analysis has a strategic focus, is integrated with line management and is individualistic in its orientation. The work that senior HR professionals commonly undertake, certainly within leading-edge organisations, is scanning their environments in response to external change, working closely with senior managers as business partners, and building HR capability at individual and organisational levels.

HR practitioners also work in complex, changing organisational contexts. In order to address the HR issues arising from these circumstances, HR professionals have to understand these contexts and try to manage them by developing and implementing appropriate HR strategies and practices, in the short, medium and long terms. In this section, what HR professionals 'need to know' to perform effectively in responding to the major *external* contexts impinging on organisations is briefly explored. The external contexts of HRM are important because HR practices, in any country, are socially embedded in their wider, institutional, external contexts. This means that organisations are affected by external forces that require managers to adapt their internal organisational structures and behaviours to deal with them (Berger and Luckman 1967). As Pfeffer and Salancik (1978) argue, organisational activities and outcomes are accounted for by the contexts in which the organisation is embedded. For illustrative purposes, a summary of these external contexts, known by the acronym STEEPLE, and some key drivers within them, is provided in Figure 1.4. The *internal* contexts facing HR practitioners are considered in Chapter 2 and the *business and managerial* contexts in Chapter 3.

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Figure 1.4 The external contexts of organisations: some key drivers

Field	Examples of key drivers of strategy
Socio-cultural	Demography by size, age, other social characteristics and geographical distribution, working population, gender, ethnicity, education and training, religion, social values and beliefs
Technological	Information and communication technologies, biotechnology, medical advances, nanotechnology, robotics, technological change, research and development
Economic	Macro-economic policy, markets and prices, price levels, global trends, market structures, size of firms, profits, public spending, taxation, consumption and investment spending, wages and salaries, public services, imports and exports, exchange rates, balance of payments, employment and unemployment, labour and capital markets
Environmental	Global warming, conserving natural resources, sustainable development, pollution, carbon footprints, protecting the eco-environment
Political	Party politics, government, opposition, public administration, public policy, devolved assemblies, local government, pressure groups, public opinion, EU institutions, international organisations
Legal	Contract law, employment law, health and safety, consumer protection law, company law, codes of practice, regulatory bodies, the legal system and the courts, the European Court of Justice
Ethical	Balancing stakeholder interests, ethics in the workplace, ethical business relations, ethical production, ethical consumption, ethical purchasing, promoting employee welfare, human rights, corporate social responsibility

STRATEGY, INSIGHTS AND SOLUTIONS

Drawing upon the HR Profession Map in the professional area of strategy and solutions, a range of prescriptive, underpinning knowledge has been identified that HR practitioners with the highest levels of professional competence ‘need to know’ to perform effectively. A selection of these are summarised and described below.

First, HR practitioners need an understanding of their own organisation’s strategy, its performance goals and drivers, and the sector in which they work. These cover the market factors impacting upon performance, including demography, customers, competitors and globalisation. They need to know, understand and speak the language of the business they work for and the ‘full range of human resources levers’ driving organisational performance. Second, HR practitioners need a broad understanding and technical capability of all 10 HR professional areas (summarised below), with in-depth knowledge in one or two of them, including strategy, insights and solutions. Third, they need to know or access relevant employment and discrimination law in both their local and international jurisdictions. Fourth, they need to know the external and internal

influences, including political and economic ones, impacting on the directions, shape and performance of their organisations and the HR levers that can be applied within them. Fifth, HR practitioners need to be able to shape and lead change programmes and know how to develop organisational strategies and operating plans in response to these forces. Sixth, they need to know how to determine organisational capability and resourcing levels to support the delivery of HR strategy and plans. Finally, HR professionals at the highest levels of professional competence need to know ‘what external human resources thought leaders and benchmark companies are doing in a variety of areas’. They also need to consider how these lessons ‘may apply to [their] own organisation’, which necessitates developing ‘fit-for-purpose (though stretching) human resources solutions and anticipation of need’ (CIPD 2009, p9).

THE SOCIO-CULTURAL CONTEXT

In the social sphere, population trends are a key driver. There are, however, counter-cyclical shifts in population trends. On the one hand, there is rising population growth in the UK and globally, although this is offset by falling birth rates in west and east Europe generally. Higher immigration into the UK and Europe results in increases in the size of the potential labour force, depending on the ages of the migrant populations and their age distributions. It also affects the supply and demand for goods and services in product markets and public services. On the other hand, a generally ageing population, as is the case in most of west and east Europe, results in not only losses of skills, knowledge and competencies from the labour market but also increased demand for different kinds of goods and services by both younger and older people. It places greater demands on pension funds and social services for the elderly, as opposed to fashionable consumer goods for younger people delivered by leading-edge, hi-tech businesses. Another mega-social trend is increasing socio-economic inequality, with rising affluence for wealthy people and elite groups. This is accompanied by increased relative deprivation for others, rises in asset prices (such as housing stock) and rises in private debt. All these social developments have both strategic and HR implications for organisations in terms of demand for labour, supply of labour and demand for products or services.

At the micro-social level, there are a number of distinctive social trends, all of which impact on organisations, employees, the customers they serve and the HR function. These developments include changing sources of social identity, increased dependency on drugs and alcohol, rising divorce rates, and rising numbers of single-parent households. One social consequence emerging out of these trends is increased solo-living (or single-person households) amongst all age groups. Other social trends include increased self-satisfaction and personal narcissism, with reduced interest in social conformity as well as greater preparedness to take personal responsibility for the self. Underpinning these trends is increased individualism and reduced collectivism at home, at work and in society. The impacts of these developments on working life are wide ranging. These include rising demand for flexible working arrangements and contractual flexibility, more individually oriented HR policies and practices, a

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lower propensity to unionise and take organised industrial action, and more job mobility within the workforce (Office for National Statistics 2009b).

THE TECHNOLOGICAL CONTEXT

There have been ground-breaking technological innovations in society during the past decades. These have implications for organisations, managers and workers. The most obvious examples are the World-Wide Web, email, intranets, Blackberries, video-conferencing and, in HRM particularly, the introduction of HR databases, electronic payroll systems and electronic record systems, all linked with innovative ICTs. During the past 10 years or so, ever-newer forms of ICTs have been launched, most of which have implications for how people construct their identities and how they are managed at work. These include Google's search engine; Wikipedia, an online free encyclopaedia; Twitter, claimed to be one stage on from Google by applying human intelligence and recommendation to the ordering of information; and, since 2007, the BBC iPlayer. Other technological communication innovations include the iPhone, with its touch screen, rotating screen and zooming screen; Craigslist, the classified advertising database now operating in over 50 countries; and Facebook with over 300 million people active on the website. Developments in medical and health technologies are also extending life expectancies and how long people work and remain in the labour market. Other important technological drivers include improvements in biotechnology, hi-tech medicine and a remarkable range of complex pharmaceutical products.

As Soete (2001) points out, a number of implications arise out of the applications of these new technologies. First, there has been the dramatic reduction in the costs of digital information and communication processing, which is not showing any sign of decreasing returns and is unlikely to do so in the future. Second, there has been the technologically driven 'digital convergence' between communication and computer technology at all levels, which is rendering feasible any combination of communication forms. Third, there has been the rapid growth in international electronic networking, both terrestrial and through satellites. Fourth, these developments affect communication between individuals, within organisations, amongst organisations, and increasingly between individuals and machines. They affect all aspects of society, including work, business and the public sector. Fifth, these technologies render physical space and distance irrelevant in many business, working and human transactions. This effectively makes ICTs the first global, technological transformation process. They radically affect how people work, what they do at work, and how people are managed within organisations.

THE ECONOMIC CONTEXT

In the economic sphere, a number of indicative trends are discernible. One is market uncertainty arising out of recession and slow macro-growth in the 2010s. This, in turn, is likely to be offset eventually by an economic upturn and, most probably, the continued globalisation of business activities. The economy

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is also affected by government macro-economic policies, such as fiscal policy, monetary policy and its own economic activities, as well as by international economic forces. On the business front, for example, an increased role played by international or multinational companies in national economies, and more intense international competition for goods and services, contributes to falls in demand in domestic markets and a rise in unemployment. These and other economic forces impinge on demand for labour, the types of labour required by firms and public organisations, and labour supply. They determine how people are recruited, trained or retrained. On the other hand, with hyper-competitive conditions in some markets, pressure is put on competing firms to retain labour, reskill it or make it redundant. Firms have to adjust their HR policies and practices accordingly.

In the wider labour market, there continues to be increased demand for higher-skilled workers by UK employers and reduced demand for lower-skilled ones. Certainly in the UK, there appears to be limited growth in skills levels. These create recruitment, training and general HR issues for many organisations. At micro-level, there are indications of greater willingness by some workers to switch jobs and employers, resulting in higher labour turnover, increased transaction costs for employers, and personal disruption for the individuals concerned (Office for National Statistics 2009a). There are also significant changes in the structure of the economy, the manufacturing and extractive sectors being much less important than a generation ago, with increased activity in private and public services today. This has implications for education and training policy generally and for the employment prospects for existing and potential workers particularly, such as graduates in higher education.

Within the European single market, people, goods, services and money move around as freely as they do within one country. People travel across the European Union's (EU) internal frontiers for business and pleasure. Alternatively, they stay at home and enjoy a vast array of products being imported from all over Europe (and beyond). Some argue that the single market is one of the EU's most important political achievements. The single market is certainly at the core of the EU today. Ever since the Single European Act, which established a single market in 1992, the EU has swept away the vast array of technical, regulatory, legal and bureaucratic barriers that formerly stifled free trade and free movement of goods, services and people. In terms of the free movement of goods and services, the single market relies largely on the regulatory authorities to guarantee competition. In terms of the free movement of labour, one consequence is that skilled professional workers can work anywhere in the EU, resulting in firms having to adjust their recruitment and HR policies to this market situation. Thus the UK's economic prosperity, its job creation prospects, and the opportunity for firms and their workforces to benefit from it, are intimately linked with general levels of economic activity in mainland Europe. Indeed, according to the European Commission (2009a), the single market has created several million jobs since its launch and generated more than €800 billion in extra wealth during this time.

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THE ENVIRONMENTAL CONTEXT

To protect the ecological environment, there are a number of issues on the business agenda. These include increased interest in sustainable development, sustainable investment and sustainable consumption by producers, investors and consumers respectively. For individuals wanting sustainable production and investment, for example, this means avoiding not only activities likely to cause illness, disease or death, or to destroy and damage the environment, but also those organisations that treat people dishonestly or with disrespect. Second, for firms, it means choosing methods of working and investing that focus primarily on the effects of the company's products or services on the environment, people and communities. Another positive strategy is listing the environmental benefits that producers would like to see their organisations promote. For workers, this can mean good working conditions and for investors the need to articulate what they would like to see their money support. Environmentally-sensitive consumers, in turn, may seek to buy products (or services) which are produced ethically, do not harm the environment and promote the well-being of people at work. From an HR viewpoint, sustainable producers, investors and consumers expect companies to act decently in their dealings with staff. This means acting ethically in their relations with suppliers and local communities and managing their businesses with all their organisational stakeholders.

One outcome of this growing interest in environmental issues has been the emergence of 'green HR policies' by a number of environmentally conscious businesses. These companies are noted as developing strategic environmental management policies, especially in the United States. In one survey of 93 US companies, it was reported that some companies were undertaking common green HR initiatives, whether as part of a strategic business plan or a one-off practice. These included 78 per cent which were using either the World-Wide Web or teleconferencing to reduce travel, 76 per cent promoting reduction of paper use, and 68 per cent implementing wellness programmes fostering employees' proper nutrition, fitness and healthy styles of living (Bucks 2009). Clearly, this trend is likely to continue, given the shift to 'green' the economy by some leading politicians and pressure groups. All these environmental developments have implications for the HR function and the ways in which people are managed at work.

Although green advocacy is limited, employees can have a key role in building a business's reputation for green HR, and contented workers can become 'green' advocates. A number of initiatives are possible. First, 'green' businesses can get the support of their stakeholders in promoting a sustainable business model. Second, a variable pay element can link pay to 'eco-performance', with the concept of eco-performance being an extension of a common HR practice used in environmentally friendly businesses. Third, employees can help customers understand the importance of 'green living', by highlighting the green practices of their own businesses. Fourth, rewards can be provided to employees who follow green practices established within their firms. These include: recycling office paper, turning off lights and appliances when staff are not in a room, and

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convincing customers they should recycle their packaging. Employees, in short, can be ambassadors for everything good about their company. An important one is advocating sustainability just as naturally as promoting their business over the competition.

THE POLITICAL CONTEXT

In the political context and in a global age, political support for free market economics and centre-right government remains generally strong amongst the electorates of the UK, Europe and internationally. National, European and international policy-makers follow this pathway. Within the UK, there is continuing public support for increased government promotion of a competition-and-choice economic agenda. The main political institutions impacting on HR in the UK are Parliament, devolved assemblies in Scotland, Wales and Northern Ireland, and local authorities, including large bodies such as the Greater London Assembly. In Europe, there are the political institutions of the EU (see Chapter 10).

Organisations in both the private and public sectors have to plan responses to the political pressures emanating from these bodies, using appropriate strategies, policies and practices if they are to prosper or at least survive. They do this by drawing upon the support of organised pressure groups, political lobbying or campaigning publicly. Another ongoing political development is privatisation and marketisation. These are normally offset by increased state and European regulation of private and public businesses on the grounds of accountability and the public good. Both the corporate and public sectors have to address the legal requirements arising out of regulation, such as employment legislation or health and safety law as outlined below. Most importantly in the political sphere, there is increasingly active government involvement in labour markets. This too provides both opportunities and threats to organisations as employers. On the one hand, they have to reward, train and develop existing staff to retain them. On the other, they have to compete with one another for scarce skills and competencies in the open labour market.

THE LEGAL CONTEXT

The legal landscape of employment has expanded exponentially in the last 30 years and there is no sign that this trend will diminish. This is especially the case in regulation of the individual employer–employee relationship, encapsulated in the contract of employment, employment protection, discrimination legislation and health and safety at work. In terms of the contract of employment, unfair dismissal and redundancy laws are the major areas of legal intervention. Discrimination law now ranges across sex, equal pay, ethnicity, disability, religion, age and atypical employment. Health and safety incorporates working time and related working issues. Legislation covering a statutory national minimum wage, statutory sick pay, family friendly policy, human rights and transfer of undertakings are all now recognised fields of employment law. HR departments have to comply with these legal rules, monitor and evaluate them.

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In terms of regulatory activity by the UK government, devolved assemblies in Scotland, Wales and Northern Ireland, and local authorities, there is no simple explanation why such an extensive regulatory regime has emerged on a piecemeal basis in the past 20 years. However, a number of factors appear to have influenced the rise of the regulatory state. These include UK membership, first, of the European Common Market and, latterly, of the EU, the decline of trade unionism and collective bargaining, macro-economic policy promoting employment (or at least not increasing unemployment), and political expediency (Taylor and Emir 2009). As Moran (2003, p7) concludes, the private character of the UK's former self-regulatory system has been transformed 'to be replaced by tighter state controls; and the institutions and cultures bequeathed to us by the Victorians have either disappeared or are embattled.' Many HR issues are intrinsically linked with these developments.

THE ETHICAL CONTEXT

Creating, exchanging and distributing wealth in market economies like that of the UK is full of moral ambiguities. In the private sector, for example, businesses exist primarily to make profits. To earn profits, businesses produce goods or services and engage in the buying and selling of goods, services and other factor inputs. If profit making is the first claim on business activities, supporters of stockholder theory (ie that businesses exist primarily for those owning 'stock' or 'shares' within them) argue that there is no need for businesses to act ethically towards their stakeholders, other than shareholders, because the prime responsibility of business is to make money. Others argue, in contrast, that producers should consider the effects of their actions on their wider stakeholders and take their interests into consideration. Producing goods like tobacco and alcohol for profit, for example, is explicitly unethical because of the dangers to the health of people. Some also argue that it is unethical for top business executives to receive excessive reward packages (the 'fat cats' syndrome), when their company's employees are on low wages, non-permanent contracts and are doing what many would perceive as demanding, stressful, low-quality work. Those arguing for social responsibility and ethical responses in business organisations, therefore, say business is not exempt from ethical concerns but must recognise, respond to and manage them appropriately (Mellahi and Wood 2003).

There is, however, no universal model of corporate ethics. Business ethics, or ethical corporate practices, are both subjective and contingent upon those pursuing or evaluating them. Corporate ethics raises questions about how firms should deal with those business issues that have implications for their stakeholders. But firms do not produce universalistic answers to these questions. Chryssides and Kaler (1993, p3) claim that business ethics has two aspects. 'One involves the specific situations in which ethical controversy arises; the other concerns the principles of behaviour by which it is appropriate to abide.' These include: ethics of employment, including pay, unions, workers' rights, equal opportunities and non-discrimination; ethics of accounting, finance, restructuring and investing; and ethics of information technology and whistle-blowing.

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Central to the study of corporate ethics is the assumption that ‘moral rules’ apply to business behaviour, just as they do to individual behaviour and that certain actions are wrong or immoral and others are right or moral. Thus it is generally agreed that employers expect their employees not to steal from them, parties to a contract expect each other to honour it and suppliers expect the businesses dealing with them to pay them promptly. The problem is that there is no universal benchmark of morality. Different people resolve moral dilemmas in business using different approaches and alternative frames of reference; this is the case with HR issues too (Sternberg 2004).



ACTIVITY 1.4

Undertake a STEEPLE analysis of your organisation. Identify the main drivers impacting on HR strategy and HR practices within it. Describe and analyse how any *three* of these drivers impact on your organisation's HR strategies/practices. Give examples of the HR strategies/practices used to respond to them in each case.

DEVELOPMENTS IN INTERNATIONAL HRM

This section addresses briefly the extent to which HRM is a universal model of ‘good’ HR practice or whether it is culturally and country specific. A second issue is trends in international HRM and whether there is convergence in HRM internationally.

THE ORIGINS AND PROGRESS OF HRM

As noted earlier in this chapter, the origins of HRM as a distinctive way of managing people (HRM mark 2), which has a strategic focus, is integrated with line management and is individualist in orientation, were laid in the United States during the 1980s. By this time, the scientific management, human relations and human capital schools of management theory about managing people had been largely rejected by many management practitioners. Scientific management had been based on effective job design and payment systems; human relations on social and psychological insights promoting harmony in the workplace; and human capital theory on investing in labour as an asset in firms, not viewing it as a cost, to raise labour productivity (Schultz 1971). Interestingly, most of these studies about managing people had also originated in the United States.

The next stage, debated first within the United States, was to move on from the flawed studies of the so-called ‘in search of excellence’ literature (Tiernan *et al* 2001). The crucial issue was to find a framework through which organisations could link their strategic goals with the people they employed, so as to promote organisational effectiveness in conditions of market competitiveness and technological innovation. In 1984, two seminal works on HRM were published.

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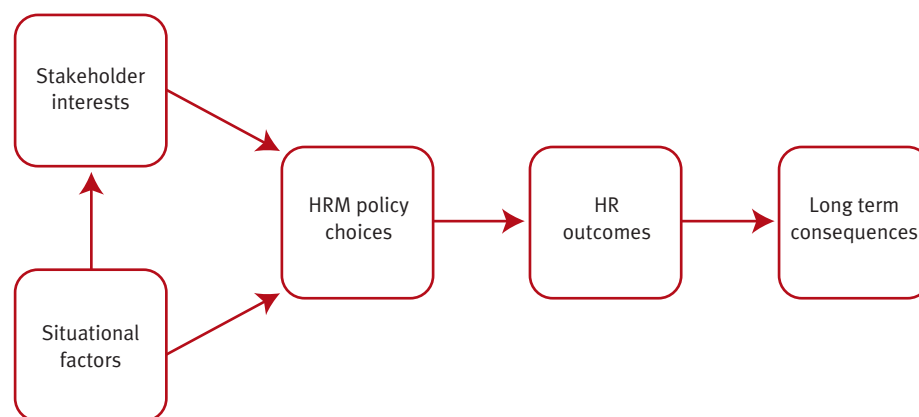
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One, promoting a 'soft' version of HRM, was developed at Harvard Business School by Beer *et al* (1985). This model of HRM starts with analysing stakeholder interests in the business and the business's situational factors. As indicated in Figure 1.5, the Harvard model provides a 'map' of the determinants of HR policy choices and HR outcomes for developing employee commitment within organisations. HR policy choices include employee influence and rewards. HR outcomes include employee commitment, competence, congruence and cost-effectiveness. Within the model, business strategy is developed in relation to employee needs, with the long-term consequences of HRM being individual, organisational and societal well-being.

The other important work at this time was the Michigan model of HRM promoted by Fombrun *et al* (1984). This is a 'hard' version of HRM, emphasising the importance of having a tight 'fit' between HR strategy and business strategy, which defines and determines the types of employee performance required by organisations. The aim of this model is to improve overall organisational performance, with the underpinning goal of creating a strategically-based value system promoting high employee performance. It is based on an 'HR cycle', as illustrated in Figure 1.6. The focus of this cycle is employee performance. The search for performance is reinforced by adopting HR selection processes that appoint employees with appropriate aptitudes, knowledge and values. Effective selection is supported, in turn, by an appraisal system enabling employee performance to be reviewed regularly and a development system aiming to improve performance shortcomings. Finally, the reward system is designed to distinguish and compensate different levels of performance. The HRM cycle then restarts through an iterative process.

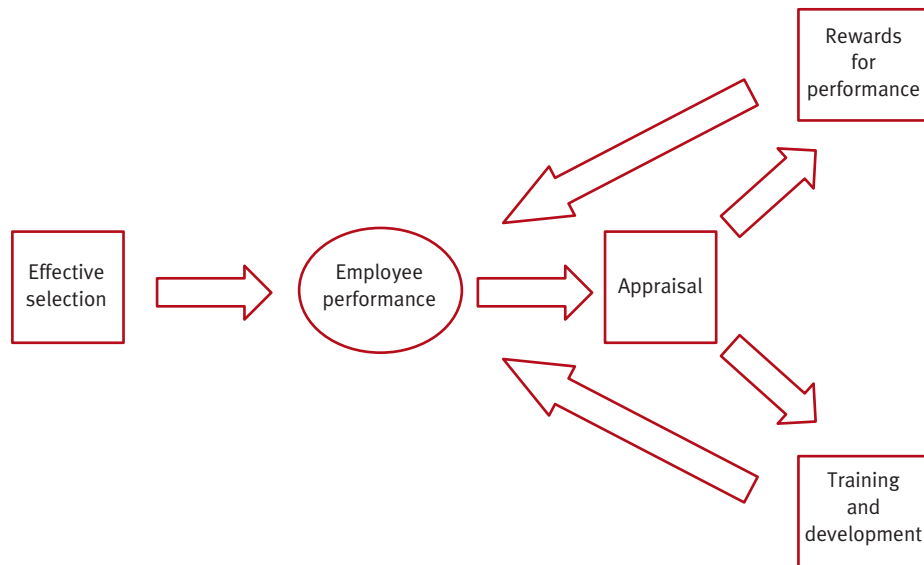
As a result of these path-finding and subsequent studies, the concepts of strategy and strategic HRM were, by the 2000s, firmly incorporated in both the literature and practice of HRM. This was despite problems regarding the nature, significance, consequences and possible applications of the concepts involved.

Figure 1.5 The Harvard model of HRM



Adapted from Beer *et al* (1985)

Figure 1.6 The Michigan HR resource cycle



Adapted from Fombrun *et al* (1984)

However, a major debate in the field remains: is the North American HRM paradigm resulting in a convergence of HRM practices universally? Basically, convergence theory or the convergence thesis has a long history (Kerr *et al* 1960). It argues that factors specific to organisations explain HR strategies and policies, with country-specific factors being less important. Thus the US convergence thesis posits that HRM practices are converging internationally as a result of globally driven market and technological forces which affect all firms. Because these forces are universally self-evident, the HR practices associated with them will be transferred around the world (Locke *et al* 1995). In short, the 'market forces model' of convergence posits that market forces generate convergence in HRM within firms towards a US model of HR (Gooderman and Brewster 2003).

The divergence thesis, in contrast, argues that HR systems are determined by national, institutional contexts, not by market and technological forces. This is because national institutions are unique and do not respond readily to market and technological imperatives. Indeed, it is argued, institutional contexts are slow to change, because they derive out of deep-rooted value systems and beliefs. Moreover, change is path dependent and can only be understood in relation to the specific social contexts within which it takes place (Maurice *et al* 1986). Supporters of the divergence thesis argue, because of its North American origins, that HRM is a culturally specific model, largely relevant to Anglo-Saxon business cultures only. The basic assumptions underpinning the Anglo-Saxon approach to HRM are identified with, first, a strong tradition of 'free enterprise' and the 'right to manage'. This means that government intervention in business is expected to be either residual or supportive of it, and that firms are largely autonomous bodies within the market system. Second, the preferred pattern of employment

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relationships within Anglo-Saxon HRM is individually rather than collectively based; they are not generally subject to trade unionism and collective bargaining. Third, businesses exist primarily to enhance narrow 'shareholder' value, not broader 'stakeholder' interests. The divergence model, in short, suggests that deep-seated differences exist among countries, resulting in continuing divergence in HRM and no convergence in HRM amongst firms.

EUROPEAN AND INTERNATIONAL HRM

Other writers suggest that HRM in places like mainland Europe is essentially different from Anglo-Saxon HRM for a number of cultural, legal and institutional reasons. First, the culture of mainland Europe is far less individualistic than that of North America, the UK and many Commonwealth countries. Above all, the United States is an exceptional case and atypical of the rest of the world (Trompenaars 1985). Second, legislation in Europe protecting individual employment rights, promoting collective employee communication and information channels such as works councils, and providing extensive social security provisions is far more extensive than that found in the United States and elsewhere. Third, the 'Rhineland' model of business enterprise, despite recent reforms within it, contrasts with Anglo-Saxon capitalism by its promotion of the 'stakeholder economy'. Thus whereas the Anglo-Saxon model of 'shareholder' capitalism is characterised by the drive for short-term returns for investors, the Rhineland model is a regulated market economy based on political consensus and comprehensive systems of social security. Fourth, trade union rights are normally incorporated in the Rhineland model but not so strongly within Anglo-Saxon states. Fifth, public ownership is more widespread in mainland European countries than in the United States, whilst in countries like Germany interlocking shareholdings and close management of companies result in less pressure for short-term profits and fewer incentives to drive competitors out of markets (Randlesome 1993).

This analysis gives rise to a corresponding convergence thesis in the European literature, just as in the Anglo-American literature. This is called the 'institutional model of convergence', which suggests that institutional forces generate convergence in HRM amongst European firms towards a common European model of HR. As in the case of the United States, European management and European HRM are claimed to be specific in their nature and common in their culture. This is highlighted by Thurley and Wiridenius (1989), who claim that European management has three main characteristics. First, it is broadly linked to the idea of European integration. Second, it reflects key values such as pluralism and tolerance, although it is not consciously developed out of these values. Third, it is associated with a balanced stakeholder approach and the concept of 'Social Partners' in business.

Katz and Kahn (1978) argue, in turn, that cross-national analyses need to take account of the wider societal variables determining how organisations operate within their external contexts. The national institutional arrangements most affecting national business systems include their employment relations systems,

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political institutions, the legal framework of corporate governance, education and training systems, the legal system, and product, labour and capital markets. Thus, scope for corporate decision-making on employment issues in countries such as Belgium, France, Germany, the Netherlands and Spain is relatively low, because of the comprehensive labour market legislation in these countries. In the UK, Ireland and the Nordic countries, on the other hand, the state traditionally plays a more limited role in this area, so scope for independent corporate decision-making is greater. In terms of HR practices, the societal contexts of European (and other) countries are likely to explain differences in the extents to which multinational corporations are able to pursue distinctive HR policies within them.

A study by Brewster *et al* (2004, p434) of 23 European countries in the 1990s examined these issues of convergence and divergence, drawing on a large-scale empirical dataset. Figure 1.7 summarises this study's findings in terms of 'directional convergence' of HR practices amongst countries. This shows that there was strong evidence of directional convergence in four HR areas, considerable evidence in one area and weak evidence in two areas. The authors conclude that: 'From a directional convergence point of view, there seems to be a positive indication of convergence.' In terms of 'final convergence' of HR practices (ie whether countries are moving towards a common endpoint), however, the answer was not so conclusive. None of the HR practices converged 'at the end of the decade'. There were therefore some signs of HR convergence amongst European countries in the direction of trends. But there were very substantial differences, even continuing divergence, in final convergence. Differences amongst countries, in other words, appeared to be increasing. What this research appears to demonstrate is that whilst some directional convergence in European HRM is apparent, 'there is no unequivocal trend towards final convergence.'

Figure 1.7 Directional convergence in HRM in 23 European countries

Strong evidence	Considerable evidence	Weak evidence
Reduced size of HR departments	Some increases in flexible working practices	Little decentralisation of policy-making; more centralisation
Increased investment in human capital		No general decentralisation of HR responsibilities to line managers; slight centralisation
Increased communication with employees		
Increased use of variable and performance-related pay systems		

Adapted from Brewster *et al* (2004).

MULTINATIONAL CORPORATIONS

A multinational corporation (MNC) is a business organisation with headquarters in one country and operations in a range of others. There are numerous examples of US, UK, European and Asia-Pacific MNCs. These firms, by their very nature, are large organisations and their size means that they often have considerable power and influence globally and locally. The reasons why MNCs expand into different countries vary: reducing transport and distribution costs, avoiding trade barriers, securing supplies of raw materials or markets, and gaining cost advantages such as low labour costs. MNCs also bring benefits to host countries in terms of economic growth and employment opportunities, improvements in production techniques and the quality of human capital, availability of quality goods and services locally, government tax revenues, and improvements in local infrastructures. MNCs also have distinctive HR policies and practices in managing their multinational workforces.

An important characteristic of MNCs and their HR practices is the notion of 'embeddedness'. This suggests, despite the process of globalisation, that economic activity is firmly embedded in distinct national or regional settings or national business systems. The persistence of different national business systems means the contexts in which firms manage their workforces differ markedly. How MNCs manage their workforces across national borders is related to the national business systems of their countries of origin. The evidence relating to MNCs in the United States, for example, indicates that there is a strong 'country of origin' effect in areas such as performance management, diversity and employment relations. However, as MNCs spread geographically, the embeddedness of their original business system declines. Another characteristic of MNCs is that they have scope to tap into the HR practices of their countries of operation, besides their original one. Through the process of 'reverse diffusion' MNCs are able to draw upon HR practices in their foreign subsidiaries and spread these around their international operations subsequently. Since MNCs are embedded in distinct national business contexts, HR practices that are transferred across countries are amended when they are implemented in their new settings.

It is also argued that evidence of convergence across countries is most evident in relation to MNCs and that globalisation is driving a process of convergence of HR practices within them. Ferner and Quintanilla (1998) claim that the internationalisation of French, German and Swiss firms has coincided with them adopting many HR practices common amongst US and UK companies. These include devolved business units and performance-related pay. But other evidence indicates that marked differences amongst MNCs remain. For example, employment regulations differ between countries and there continues to be centralised collective bargaining in some countries but not in others. Thus what is considered normal or accepted practice in HRM continues to vary across national boundaries. One explanation is that while globalisation causes changes in national models of HRM and at firm level, 'these changes are not all occurring at the same pace, nor are they all in the same direction.' Another observation is that pressures of globalisation are not felt evenly across sectors within countries.

So there probably is 'no neat process of convergence'. HRM comes in different national styles but none of these 'is free from pressures to change' (Edwards and Rees 2006, p293).

CONCLUSION: HRM, HR STRATEGY AND HR SOLUTIONS

From the evidence provided in this chapter, to be effective in the business world today HR professionals need to understand the external contexts (STEEPLE) in which their organisation operates and the levers driving change within it. Appropriate and relevant HR strategies, operational HR activities and HR solutions are important factors in meeting organisational needs to promote competitive advantage in the marketplace. The underpinning argument is that people make a difference to organisational performance. Recruiting, selecting, deploying, rewarding, appraising and developing the 'right' people in organisations are necessary conditions for organisational effectiveness, efficiency and business success. Having the 'wrong' people lacking the knowledge, skills, attitudes, and customer-focus to match organisational expectations and requirements is seen to be antithetical to these objectives.

Current good practice indicates that the HR function is critical to formulating and delivering these business and HR objectives and promoting appropriate HR activities. To achieve this purpose, HR specialists have to understand the business they work in, its markets and the forces driving it in the sector where the business operates. They also need to understand their organisation's business strategy, its performance goals and drivers. More specifically, HR practitioners have to draw on insights to lead and influence decisions at strategic, tactical, team, and individual levels across the organisation. They feed these insights and observations to senior managers to influence strategy, as well as developing prioritised HR plans aiming to deliver the needs of the organisation in line with its overall HR strategy. Other roles for HR include: partnering line managers to address sensitive HR issues; advising and coaching managers on the implementation and delivery of HR plans; and, where change is on the agenda, developing project plans to support the implementation of change initiatives, for example during restructuring and mergers.

In carrying out their roles, HR practitioners have to understand the market factors impacting on performance, customers, competitors, globalisation, population change and other factors. Most importantly, in today's competitive business climate, they are expected to speak the 'language of their business' and be able to draw upon the range of HR toolkits available that influence organisational performance.

To be effective, the HR function has to build relationships with internal and external specialists, taking account of current good practice and emerging HR trends, as well as understanding the external HR market. HR is expected to oversee compliance with regulation and corporate policy and to ensure that the organisation has the right people in sufficient numbers, in the right

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places, with the right experience and capabilities, to deliver the goals of the organisation. HR specialists also need to understand relevant HR technical skills, with in-depth knowledge of some of them. In the HR Profession Map, these are leading and managing the HR function, organisation design, organisation development, resourcing and talent management, learning and talent development, performance and reward, employee engagement, employee relations, and information and service delivery. To support these activities, HR specialists have to access internal and external experts. Finally, HR professionals need to understand the external and internal influences affecting their business or organisation, including political influences impacting on the direction and shape of the organisation and its performance.

In summary, taking account of its contextual circumstances, and to promote appropriate HR solutions, the HR function has to develop critical awareness of what is possible in terms of HR strategy and practices. It also has to recognise what is likely to be acceptable to managers and employees and how strategy and practice can be implemented and reviewed to promote organisational advantage. It does this in the light of the contextual constraints facing it.



KEY LEARNING POINTS

1. Historically, HRM has been infinitely flexible in adjusting to the dominant macro-economic, political and other contexts within which it has operated; HRM is historically path dependent. Contemporary HRM has emerged out of the drive for competitive advantage and the search for improved performance by organisations, whether in the private, public or third sectors, and changes in the external contexts. The latest, dominant 'trend' in HRM represents a distinctive approach to managing people at work, with a strategic focus, integrated with line management and individualistic in its orientation to the managing of people. However, HRM remains a 'contested terrain' both practically and theoretically.
2. The external contexts of HRM continually change and the HR function has to respond constantly to them by developing, implementing and evaluating appropriate HR strategies, policies and practices. The strategy, insights and solutions professional area of the CIPD HR Profession Map identifies the substantive knowledge and behaviours required by HR professionals in order to be effective in relation to the internal and external contexts of their organisations.
3. STEEPLE is a useful analytical tool enabling HR professionals and senior managers to identify and respond to the changing external contexts acting on organisations. It covers the current and longer-term socio-cultural, technological, economic, ethical, political, legal and environmental developments affecting HR strategy and practices.
4. Major developments in the structure of the HR function are the creation of 'shared services', the 'business partner' role, 'centres of expertise', the 'vendor management' role and 'corporate HR'. Within the new HR paradigm, some HR activities are devolved to line managers. In learning and development, the focus is increasingly on 'learning' rather than on training.

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5. With divisionalisation, devolved budgeting, internal markets and increased competition in product and service markets, the search for improved performance is a driving force in most organisations. Linking individual and group performance to the goals and objectives of organisations has been a critical element in the performance management cycle. This involves setting individual targets, finding ways of measuring them, appraising them, reviewing performance, rewarding performance, identifying training needs and setting new targets.
6. Delegation of HR activities to line managers results in them taking on an important role in implementing HR strategies and HR practices. To be effective in this role, line managers need to work with HR professionals and gain their support in managing their staff. Despite the difficulties of this, research shows that line managers play a critical role in motivating staff, promoting job satisfaction and improving performance.
7. Outsourcing of HR activities is another feature of contemporary HRM. It is used to save costs for organisations, draw on external professional expertise, and seek independent HR advice not available in the host organisation. Outsourcing takes various forms. HR activities typically outsourced include payroll administration, recruitment and selection, training and development, executive search, and outplacement and redundancy counselling.
8. Most HR decisions pose ethical questions, since they deal with people issues covering recruitment and selection, managing performance, equal opportunities, learning and development, employee relations, rewards and termination of employment. Also, demands for ethical investment and ethical consumption put further pressure on HR to ensure ethical decision-making in organisations. With the demise of traditional personnel management, and its 'mediatory' and 'welfare' roles between employer and employee, HR practitioners have to be aware of the ethical issues arising from employing people, rewarding them, appraising them, and managing them fairly and consistently.
9. To promote effective HR strategy, the emphasis is on integration. Vertical integration (or 'external fit') refers to the links between business strategy, the external contexts and HR policies and practices. Horizontal integration (or 'internal fit') refers to HR strategy with a high degree of compatibility amongst its various elements.
10. Internationally, a main debate has been the extent to which the Anglo-Saxon, 'new' HRM paradigm is a universal model of practice. On balance, the evidence suggests that HR practices tend to be country-specific, because of powerful institutional and historical path-dependent factors, with HRM diverging among countries rather than generally converging – although some directional convergence is noted in Europe. MNCs exhibit some convergence in HR practices among countries but they also import HR practices from their host countries into local businesses and adapt them.

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REVIEW QUESTIONS

1. Identify and discuss some of the main differences between the 'personnel management' tradition and 'HRM' tradition. Explain the shift towards an HRM approach to managing people at work in recent years.
2. How important is it to have ethical standards in HRM? Explain how the HR function can maintain ethical HRM standards in organisations.
3. In your organisation, what are the main external contexts that affect HR strategy and practice? How does your organisation attempt to manage these contexts? Demonstrate whether it does so effectively or not.
4. Provide examples of how any trends in international HRM impact on your organisation and its HR policies and practices.
5. Describe and analyse how the HR function in your organisation is structured, taking account of shared services, centres of expertise, the business partner role, the vendor management role and corporate HR. How could delivery of HR be improved in your organisation? Justify your response.



CASE STUDY

CASE STUDY 1.1 DISCRIMINATION ON GROUNDS OF AGE IN EUROPE

Background

In a current analysis of age discrimination in 30 European states, it is reported that public opinion has shifted dramatically since an earlier survey only a year ago. The majority of Europeans now perceive discrimination on grounds of age to be widespread, with opinions about the extent of age discrimination having turned around radically in the course of a single year. Last year, an outright majority of Europeans perceived discrimination on this ground to be rare (52 per cent). This year the balance has shifted, with 58 per cent now perceiving it to be widespread, compared with 37 per cent who believe it is rare. Two per cent think that discrimination on grounds of age is non-existent in their country and a further 3 per cent say they 'don't know'.

When respondents were asked to estimate the extent of age discrimination, they were not asked to differentiate whether it is on the grounds of old age or youth. Thus respondents would have had different ideas in mind when thinking about this question.

Regardless of the above distinction, the majority view in all but six countries is that age discrimination is widespread. In fact, in 22 of the 30 countries surveyed, this opinion is held by an absolute majority. Hungarian respondents top the list, with 79 per cent saying that age discrimination is widespread in their country. This is followed by respondents in the Czech Republic (74 per cent), France (68 per cent), Latvia (67 per cent) and the Netherlands (66 per cent).

Older respondents are more likely to say age discrimination is widespread, although it is uncertain whether respondents associate 'age discrimination' with a specific age group. But on the basis of this survey, respondents aged 40 or over are more likely to say that discrimination on ground of age is widespread. This is in direct contrast to other grounds of discrimination, which are more likely to be seen as widespread by the youngest groups of respondents. Women (60 per cent) are more likely to see age discrimination as being widespread than are men (55 per cent).

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Changes in perceptions of discrimination on grounds of age

Perception that age discrimination is widespread has increased throughout Europe. Since last year, the perception that age discrimination is widespread has increased from 42 per cent to 58 per cent (+16 points). This trend is noted in all countries surveyed, with the exception of Portugal, where only a minor increase was recorded (+2 points). Further, apart from Italy (+8 points), these shifts are above 10 percentage points in all other countries surveyed. The largest increases were recorded in Cyprus (+27 points), Romania (+25 points), France and the Netherlands (both +22 points).

The economic crisis seems to lie at the core of this shift in opinion: one of the perceived consequences of the crisis is that the jobs of older Europeans are less secure.

In 14 of the 30 countries surveyed, the majority view is that age discrimination is now less widespread. This view is particularly strong in Cyprus (77 per cent) and is next highest in Denmark (64 per cent) and Malta (62 per cent). Conversely, there are also three countries where at least six out of 10 respondents feel the contrary: 73 per cent of Hungarians, 65 per cent of Czech and 60 per cent of Slovaks think age discrimination is more widespread.

Experience of age discrimination

Age is the ground for discrimination that is most frequently experienced by respondents. Whilst public perceptions of age discrimination have shifted in the course of the year, the proportion of respondents reporting that they have been discriminated against has not changed. However, at 6 per cent, 'age' continues to represent the most common ground of self-reported discrimination. Unlike discrimination on ground of ethnicity, there

is no significant gap between experienced and witnessed discrimination on grounds of age, with 8 per cent of respondents reporting that they had witnessed this form of discrimination. This comparatively high figure may well be due to the fact that age is a shared attribute relevant to everyone, and young and old may be susceptible to suffer discrimination under various (often differing) circumstances. Age discrimination is 'most' prominent in the Czech Republic, with 11 per cent saying they have experienced it and 17 per cent saying that they have witnessed it. Other countries showing higher than average levels of reported discrimination, for both measures, are Sweden and Slovakia.

Tasks

1. Why has perceived age discrimination increased in Europe during the last year?
2. What factors account for differences in perceived and experienced age discrimination amongst European states?
3. The director of HR (Europe) in the MNC where you work is both surprised and concerned about this contextual issue and its possible impact on the company. As a senior HR executive in your company, you have been asked by the director of HR to:
 - a. Identify the possible ethical issues facing the company arising from the report summarised above.
 - b. Draft a policy paper indicating how to respond to any potential age discrimination within the company in the UK division.
 - c. Outline any learning and development issues arising from the above report to suggest how the company might implement a learning and development plan addressing age discrimination.

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EXPLORE FURTHER

BACH, S. (ed). (2005) *Managing human resources: personnel management in transition*. Oxford: Blackwell.

Examines and analyses all the contemporary debates about HRM practice, as well as the impacts of environmental change on the ways people are managed in the UK.

BEARDWELL, J. and CLAYDON, T. (eds) (2007) *Human resource management: a contemporary approach*. 5th ed. Harlow: FT/Prentice Hall.

In an edited volume, covers a range of topical HRM themes and debates of today, including HR strategy, gender and diversity, employee rights, and employee involvement and participation. Also examines international HRM issues, as well as the influence of multinational corporations on HR policy and practice.

MARCHINGTON, M. and WILKINSON, A. (2008) *Human resource management at work: people management and development*. 4th ed. London: CIPD.

Undertakes a critical review of current HRM theory and practice and is very strong on up-to-date research evidence. Is comprehensive in coverage and looks outside of the HR box in discussing major topics and includes material on HR research and change management skills.

TORRINGTON, D., HALL, L., TAYLOR, S. and ATKINSON, C. (2009) *Fundamentals of human resource management: managing people at work*. Harlow: Pearson Education.

Offers a comprehensive introduction to contemporary HRM issues affecting HR specialists and line managers, and covers a wide range of both theoretical topics and practical issues.

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