

THE CHANGING MISSION OF HUMAN RESOURCES MANAGEMENT

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SUMMARY

The paper attempts to present a case for an approach to Human Resources Management (HRM) which is based on aligning HRM policies, programs and practices to the strategy of the organization served, its culture, its external and internal environment and its technology of production and on aligning the different elements of HRM programs and practices to each other, using the “best fit” principle. Based on evidence derived from the case histories of major companies in the recent past, the paper will demonstrate that only this approach to HRM will add value to the organization served and will provide it with a competitive edge which is something the traditional “best practices” approach to HRM is not capable of doing. Lastly, a case is presented for the need to manage with metrics.

Keywords: Best practice, best fit, alignment, consistency, continuity, metrics

1. HRM AND ORGANIZATIONAL SUCCESS (OR FAILURE)

Human resources are key factors to organizational success or failure. There is a fast-growing and high-quality body of empirical research demonstrating that HRM policies have an impact on organizational performance (Baron and Kreps, 1999, p. 4). The evidence is strong that what are called High Performance HR Practices, such as employee recruitment and selection procedures, incentive compensation, performance management systems, and extensive employee involvement and training can improve many outcome measures, such as productivity, product quality, and innovative work practices (Eichinger et al. 2004, p. 48).

Based on the available empirical research and evidence, we can be convinced that organizational success with poor HRM policies is impossible, and that the effects of improved HR policies on organizational success are potentially enormous (Baron and Kreps, 1999, p. 4).

The issue, which needs to be addressed, however, concerns the specific HRM policies, programs and practices, which will bring about success or failure. What needs to explore is whether there exists a body of leading edge HRM policies and practices, which will serve any organization well at all times and which will be effective with any organization’s culture and business strategy; or whether HRM policies and practices should be tailored to fit in the broader context of what the organization is trying to do (Baron and Kreps, 1999, p. 16).

2. THE TRADITIONAL APPROACH TO HUMAN RESOURCES MANAGEMENT (HRM)

Traditionally, HRM has been looked at as a provider of fairly mundane services: staffing the organization, deploying and redeploying employees, making sure those employees would be properly paid, training and developing those employees, managing industrial relations, etc. The different nature of those services gave rise to the organization of Human Resources work along process lines. Typically, HRM work would be organized by process and HRM units would provide the following services to the organizations they served:

- Workforce Management (recruitment and selection, deployment and redeployment, retention of best talent, downsizing and restructuring)
- Compensation and Benefits
- Performance Evaluation and Performance Management
- Career Management, Training and Development
- Safety and Wellbeing
- Employee Relations and Industrial Relations
- HR Research and Controlling

This process approach to organizing HR work remains unchanged until today. However, some changes have been occurred, namely in the understanding of how those processes should be designed and executed. The traditional thinking was that if the major HR processes were of a leading edge nature or at least “state of the art”, then HRM would do its job and serve the organization well. Accordingly, one would attempt to design those processes based on what was considered “best of breed”, but without much regard for the organization’s culture, its business model and strategy and without much consideration for the internal and external environment in which the organization operated. The approach was to benchmark HRM policies and practices against the outside and to adopt what was considered “best practice” for the organization’s own use. That way, it was believed, the organization would have leading edge HRM policies and practices, which would best serve the interests of the organization.

3. WHY THE TRADITIONAL APPROACH TO HRM IS NO LONGER WORKING

This “best practice” approach described under 2. above may have had its merits in former times when the internal and external environment were fairly stable, economies not in constant turmoil, technological progress slow and culture change rare and in any case slow. In today’s world, however, where change is continuous and the need to adapt to changes in the environment is urgent, a stable set of HRM policies and practices will no longer serve the best interests of an organization. Nor will HRM policies and practices resulting from adopting “best of breed” practices of other companies contribute to the success of an organization.

The recent history of IBM is a good case in point. In the 60ies, 70ies and 80ies of the last century, IBM was widely admired for its HRM policies. Full employment without regard for the ups and downs of the company’s fortune in the market place, a lead policy of compensation and extremely generous benefits were corner stones of those policies. Together with the belief in “respect for the individual”, those policies were intended to be immutable and remain in place forever. As it turned out, those policies served the company well in times when it had a near monopoly in the market, but proved to be disastrous in the early nineties when the company’s fortunes changed and the need for large-scale restructuring arose. Rather than do the necessary and lay off employees no longer needed, cut down on oversized pay and benefit packages and, more generally, change the entrenched culture of entitlement, executive management clung to the old policies and risked bankruptcy. The rest is history: the board forced out old management, brought in a new CEO who then brought about the necessary changes in HRM (and other) policies.

IBM’s history reminds us of an important fact: HRM policies and practices must “fit” the firm’s strategy and its culture and must be attuned to the internal and external environment. In a world that is undergoing rapid change, this need to continually adjust HRM policies and practices is an important ingredient of success.

4. WHEN HRM POLICIES AND PRACTICES WILL “FIT”

4.1 ALIGNMENT

Above all, HRM policies and practices must fit in the broad context of how and where and under what circumstances a firm operates and what it is trying to accomplish. Michael Porter as cited by Baron and Kreps (1999) has identified five factors which are of importance in this context:

- The social, political, legal and political environment
- The workforce
- The organization's culture
- The organization's strategy
- The technology of production and organization of work

Numerous examples of how context will affect HRM policies and practices come to mind. Here is just one which illustrates how certain pay and benefit practices will make extremely good business sense in a specific situation and little or no sense under different circumstances: the early Microsoft had a practice of combining broad-based stock option plans with fairly modest cash compensation. In the years (roughly from 1985 to 2000) when the company's stock price was “on a run”, i.e. was going up year after year, this was an excellent way of rewarding employees, retaining the best talent, aligning employee and shareholder interests and saving cash compensation costs at the same time. Later, when the stock moved sideways for many years, those same compensation and benefit practices no longer made good business sense and, had they been continued, would not have achieved their intended purpose. Consequently, Microsoft had to change its compensation practices and had to increase cash compensation for its employees in a significant way.

4.2 CONSISTENCY

Not only must HR policies and practices be aligned to the organization's strategy, its culture, its environment, its workforce and its technology, HR policies and practices must also be internally complementary or at least consistent. Ideally, they must support each other, lend strength and meaning to each other and will reinforce themselves that way. As a minimum, however, HR policies and practices must not clash with each other.

According to Baron and Kreps (p. 39), there are three aspects of consistency:

- Most importantly, the different policies and practices making up an organization's HRM system must be internally consistent, meaning they must be aligned to each other. They should emphasize (or deemphasize) the same themes and messages and must be based on the same basic view of man. If that view is that what makes employees tick is money and status, then this view must be reflected in the company's recruitment policies, its compensation practices, in the way performance is recognized and rewarded, in the way employees are developed and promoted, etc. And if the view is that what really matters is the psychological bond which holds employees and the organization together, then the entire set of HR policies and practices must emphasize this “we are one family” theme. With Baron and Kreps, we refer to this kind of consistency as “single-employee” consistency, meaning that “the different pieces of HR policy that bear on a single employee should be consistent with one another” (Baron and Kreps, 1999, p. 39).

- Consistency also means that different employees should be treated the same way in similar situations. This is referred to as “among-employee” consistency (Baron & Kreps, 1999, p. 39).
- Lastly, there is a case to be made for a certain degree of consistency over time, i.e. continuity.

A few more thoughts on the three different aspects of consistency are in order and are presented below.

4.2.1 Single-employee Consistency

This is the most important aspect of consistency. Unless the various pieces of the HRM system really “fit”, HRM will not contribute to the success of the organization. A couple of examples will illustrate why this is so:

- An elaborate performance evaluation system will make little or no sense if it is not complemented by compensation practices, which emphasize performance, i.e. make sure that there is significant pay differentiation based on individual or team performance. Likewise, staffing decisions, i.e. decisions on who is allowed to stay, who will be promoted, who will be terminated, must be performance based. In addition, training and development must have a strong link to performance. If an organization does not promote people on merit, if it does not differentiate, pay based on merit, if it does not terminate those who do not perform, why evaluate performance in the first place? On the other hand, if all the proper links between the pieces of the system are in place, an organization can credibly live a performance-based culture and will derive significant benefits from that. In the absence of those links, any reference to performance as an important theme will remain a mere lip service.
- Organizations should also be consistent when deciding whether they will focus on individual or team performance. When it is individual performance, then this principle must not only be observed in assessing performance but also when making pay decisions and when deciding on promotions. They must also decide whether the emphasis is on egalitarianism or meritocracy, on centralization or decentralization, trust or distrust in relations between the firm and its employees, focus on outcomes (getting the job done) or process (following rules), etc. (Baron and Kreps, 1999, p. 42). Only to the extent that an organization sends consistent messages to its employees about these topics, employees will know what is expected of them (Baron and Kreps, 1999, p. 43).

4.2.2 Among-employee Consistency

This kind of consistency is highly desirable because it touches upon basic notions of fairness and equity. In its most rudimentary form, among-employee consistency means that employees working side by side should enjoy the same terms and conditions, meaning they should have the same or similar pay, be covered by the same benefits, enjoy equal job security and be subject to the same rules and regulations governing all aspects of employment. This principle of among-employee consistency is as important as it is difficult to achieve in practice. The reasons for this difficulty are many-fold:

- There has been a paradigm shift in how and on what legal basis people are employed. Full-time regular employment is no longer the norm but becoming the exception in many organizations. As a rule, full-time regulars are complemented by part-time employees, temporary employees, contract personnel, agency and vendor personnel, consultants and employees in subsidiaries, joint ventures and affiliates of some sort.

When and where this is the case, employment terms and conditions are likely to differ. After all, different employment models are often used precisely because they allow the use of different terms and conditions. Where this is the case, charges of unequal treatment and discrimination are likely to arise and teaming between employees belonging to different groups will take a toll.

- Among-employee consistency is also affected by the way global companies manage their business. Increasingly, they will manage their business as a portfolio of businesses and will divest selected business areas when needed just as they will invest in new business areas on an ongoing basis, resulting in increasing resource dynamics with significant population churn. Among other things, this means that when investments are made in new business areas, employees with different terms and conditions must be absorbed and integrated. This takes time and different terms and conditions are likely to persist for extended periods of time. Within the EU, the Acquired Rights Directive (Directive 2001/23/EC) even aims to ensure that in case of the “transfer of an undertaking” the terms and conditions of employment are maintained for the employees affected. This will virtually guarantee that among-employee consistency does not exist.

Almost needless to say, in the absence of among-employee consistency, creating a motivated workforce committed to the organization’s goals and values represents a significant challenge.

4.2.3 Continuity

Continuity in the sense of consistency over time is another important aspect of consistency. Employees should be subject to a stable set of HRM policies and practices because sudden and frequent changes create ambiguity and will leave employees confused and unable to understand what is expected of them. But it is obvious that consistency over time can conflict with the need to change HRM policies and practices in response to changes in the organization’s strategy, its culture, its environment, or its technology of production. The challenge any organization will have is to strike the right balance between the need for continuity and the need to make the necessary changes.

5. THE NEED FOR METRICS

In addition to the improved understanding we have today of the need to have HRM policies and practices aligned to the organization’s strategy and environment and to have consistency of those policies and practices, there is now a much better understanding of the need to have a meaningful set of metrics which must guide the work of HRM.

In the not so recent past, HRM programs and practices were not believed to be subject to quantitative analysis. Rather, the belief was management should engage in deep thinking about the kind of HRM programs and practices needed and should execute those believed to serve the interest of the organization best.

Today, it is increasingly understood that metrics can play a very useful role in analyzing the effectiveness of HRM programs and practices. Metrics are used to evaluate the effectiveness of the organization’s many HR policies and practices (Werner & Schuler & Jackson, page XVII). Metrics will track the progress HRM is making in delivering value to the organization and will answer the questions whether specific HRM programs will do what they were designed to do. A few simple examples will illustrate this point:

- It is often claimed that the grant of stock options will help retain key employees. It is also claimed that stock options will align the interests of managers who receive option

grants with the interests of shareholders. Based on this belief, many companies have implemented stock option programs. Simple metrics could be used to substantiate (or refute) those claims. One could simply compare the attrition rate (turnover rate) of employees with and without stock options and one will have a much better understanding of what stock options will do to retain a company's best talent. Likewise, comparing the financial performance and stock market performance of companies with and without stock option programs will allow us to make a judgment about the effectiveness of the claimed alignment of interests.

- Simple metrics could also be used to establish how effective different recruitment and selection methods are. Comparing the on-the-job success of employees recruited from different sources or the job success of employees selected by different recruiters will provide the answer.
- Metrics are also useful to track the efficiency of an organization's HRM programs and practices, using simple productivity measures. One could track the development of those measures over time and/or could use them to benchmark the organization's productivity against the outside.

More recently, the work on metrics has evolved further and resulted in the use of a so called Balanced Scorecard, a combination of hard and soft measures. This has been extended into the HR Scorecard to measure the accomplishment of all of the above (Eichinger et al., 2004).

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