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Nature of Human Resources Management

Abstract: Nature of Human Resources Management The importance and relevance of Human Resources Management (HRM) in an organizational context is beyond any debates in the 21st century. Beside physical, financial and intangible resources, human resources - after Theodor W. Schultz, the human capital – has a strategic role in operating organisations. Human capital - the collective value of capabilities, knowledge, skills, life experiences, motivation of organizational workforce – with its loyalty and cooperation if it is once won, can contribute a lot to success in the long run. The writing aims to highlight the basic functions and the possible roles of HRM that may facilitate this success among the numerous challenges it may face.

Defining Human Capital

There are several types of resources that affect organizational performance. These are:

- 1.) *Physical*: buildings, land, furniture, computers, vehicles, etc.
- 2.) *Financial*: cash, financial resources, stocks, etc.
- 3.) *Intangible*: specialized research capabilities, IT systems, design, operating processes, etc.
- 4.) *Human*: individuals' talents, capabilities, experience, knowledge, skills, relationships, etc.

All these assets are crucial in varying degrees in different organizations. But the human factor is the “glue” that holds all other assets together and guide their use to achieve results.¹ It is also important to note that human capital is not solely the people in the organization – it is what those people bring and contribute to organizational success.

Human capital is the collective value of capabilities, knowledge, skills, life experiences, motivation of organizational workforce. Schultz, an economist who won the Nobel Prize in 1979, argued in 1981 that economic development depends on the application of knowledge, calling this aspect of economics ‘human capital’ and offering this definition.² But the contribution of this human capital or human resource to the organization is typically variable and unpredictable.

It is also very important to highlight that employees, human capital, differ from other types of resources, because of their ability to evaluate and to question management’s decisions and actions, and their commitment, loyalty and cooperation always has to be won. Otherwise they might leave the organization. In addition, employees has the capacity to form groups and trade unions to defend or further their own economic interests.

Defining Human Resources Management

As human capital has become viewed as more critical to organisational success, many organisations have realized that people can provide competitive advantage to them. But what does **Human Resources Management (HRM)** contribute to this phenomenon?

The term “human resources” or “human capital” we discussed in the first chapter. The term “management” may be applied to either a social group or a process. When applied to a social group, we mean people in high positions in an organization. A manager is an organizational member who is institutionally empowered to determine and/or regulate certain aspects of the actions of others. If we look upon the term “management” as a process, we have to identify four possible perspectives:³

¹ Mathis, Jackson (2008) p. 5.

² Schultz (1981)

³ Bratton, Gold (2003) p. 9-11.

- 1.) the science perspective,
- 2.) the political perspective,
- 3.) the control perspective,
- 4.) the practice perspective,

Figure 1: Management as science, politics, control and practice

<p>Management as science Successful managers are those who have learned the appropriate body of knowledge, skills and competencies. As Fayol (1949) put it: planning-organizing-directing-controlling, a rationally designed set of tools for realizing organizational goals.</p>	<p>Management as politics Successful managers are those who can work out and cope with unwritten laws in the organization. Workplace is a miniature society with politics (power struggles, influencing others) pervading all managerial work.</p>
<p>Management as practice Successful managers are those who can work out and cope with contradictory demands and pressures.</p>	<p>Management as control Successful managers are those who can exploit and control workers. Control is the central focus of management activity.</p>

Source: Watson (1986)

We can generally say that HRM deals with the design of formal systems in an organization to ensure the efficient use of human talent to accomplish organizational goals.⁴ With other words we can also say that HRM means programmes, functions and activities to maximize individual and organisational goals simultaneously.

As John Bratton has put it: HRM is a strategic approach to managing employment relations which emphasizes that leveraging people’s capacities is critical to achieving sustainable competitive advantage, this being achieved through a distinctive set of integrated employment policies, programmes and practices.⁵

The nature of relationship between individuals and employers is clearly an issue of central importance to HRM. The employment relationship describes dynamic interlocking relations that can exist between individuals and their work organization. These interlockings have the following perspectives:

- 1.) economic perspective
- 2.) legal perspective
- 3.) social perspective
- 4.) psychological perspective

The most obvious aspect of the employment relationship is economic: exchange of pay for work. When people enter a workplace, they enter into a *pay-effort bargain*, which places both obligations and rights on both employer and employee.

Of course employment relationship has also a *legal aspect* which is set into force through the employment contract of the parties. In modern labour systems the legal framework of the relationship is determined by national labour codes, collective agreements and employment contracts. These of course regulate labour relationships due to international (International Labour Organization, ILO) or European standards and rules.

The third distinguishing component of the employment relationship is that it involves a *social* relationship. Employees are not isolated individuals but members of groups responding to social norms that influence their actions in the workplace. Trade unions and work councils are institutionalized forms of collective employee actions.

⁴ Mathis, Jackson (2008) p. 4.

⁵ Bratton, Gold (2003) p. 3.

The fourth component of the employment relationship is a two-way exchange of perceived promises and obligations between employees and their organization – a *psychological contract*.⁶ The term is a metaphor that captures a wide variety of unwritten expectations and understandings of the two parties about their mutual obligations. While for instance legal contract is identical, individuals have different perceptions of their psychological contract.

The environment faced by HR is a challenging one – changes are occurring rapidly across a wide range of issues. A study by the Hudson Institute entitled *Workforce 2020*⁷ has highlighted some of the most important workforce issues that have obvious influence on HRM activity. These are:

- 1.) Economic and technical change: global competition of economic forces, increase in information technology
- 2.) Workforce availability and quality concerns: significant workforce shortages in qualified, experienced workers in several fields, growing need for “contingent workers” like: temporary workers, independent contractors, part-timers, teleworkers.
- 3.) Demographical issues: aging of workforce, growing need for work-life balance
- 4.) Organizational restructurings: mergers and acquisitions, downsizings, outplacement, outsourcing human capital.

Human Resources Management Functions

If we once understand the term HRM and we learn the definition of HRM, we should answer the next questions: What do HRM professionals do? How do they manage to harmonize individual and organizational goals? How can they channel individual employee goals into the organization’s strategy? There are short and long answers to these questions. To put it short, we list the basic or in other words key functions of HRM. The rest of the material gives the longer, detailed answers in the following chapters.

- 1.) **Planning:** This activity includes preparing forecasts of future HR needs with regard of the organization’s economic, financial, legal, etc. environment, mission and objectives as well as internal strengths and weaknesses, including structure, culture, technology, size.
- 2.) **Analysing and evaluating jobs:** *Job analysis* is a systematic way to gather and analyse information about the content and human requirements of jobs and the context in which jobs are performed. *Job evaluation* is a process during which we define the relative importance, worth of a job within the organization, so that employees may be paid accordingly.
- 3.) **Staffing:** The aim of staffing is to provide a sufficient supply for qualified individuals to fill jobs in an organization. Job analysis is used when *recruiting* applicants for open jobs. *Selection* is the process of choosing individuals who possibly have relevant qualifications to fill jobs in the organization. It is a matching process between applicant and position through measurements. Staffing ends with *orientation* or *assimilation* when HR professionals together with managers and occasionally with the help of mentors, integrate the new employee into the organization.
- 4.) **Talent Management and Developing:** Beginning with orientation of new employees, *development* includes different types of trainings that make employees fit their jobs. It is also very usual that the organization wants the employee fit for a future job, so *talent management* and *carrier planning* appear as HRM activities.
- 5.) **Performance Appraisal:** This HRM system aims to assess how well employees perform in their jobs, where are their strengths and possible weaknesses.
- 6.) **Compensation:** Rewarding in the form of pay, incentives, and benefits is a bases for performance in an organization. To be competitive, organizations examine the competitors’ as well as their own compensation systems and develop or refine it according to needs and possibilities.

⁶ The psychological concept was written about in the early 1960s but has in recent years become a fashionable topic.

⁷ Richard, D’Amico (1999)

- 7.) **Equal Employment Opportunity (EEO):** Compliance with equal employment opportunity laws and regulations affect all other HRM activities diversity of a workforce creates additional challenges for HRM.
- 8.) **Employee and Labour Relations:** Both trade unions and work councils have important roles in formulating employment conditions. Dealing with these two employee organizations is an HRM task that needs professionalism, special knowledge and spirit for open-minded cooperation.

In real sense, every manager in an organization is an HR manager. Sales-, IT-, Marketing-, Production managers all recruit, select and assimilate new employees, they all appraise individuals' performances, they all want their employees to go to trainings and go under further development procedures, and they all define salaries. However it is unrealistic to expect from them to know about the nuances of equal employment regulations, or how to design and administer a compensation system. For this reason many organizations have people in an HR department who specialize in these activities and offer their knowledge and service for organizational managers.

Current Challenges in HR

Beside the above mentioned classical HRM tools within an organization, of course many other factors may give new priorities to HR managers. These factors may arise from either environmental changes, external phenomena, or from the organization itself. These challenges differ from time to time, the list of them is endless. Nevertheless hereby you find some of the most recent ones.

1.) Organizational cost pressures

An overriding theme facing managers and organizations is to operate in a cost-effective way, which means continually looking for ways to reduce costs of all types: financial, equipment, or labour. There are of course many types of solutions, among which downsizings are also present - to increase productivity and reduce labour costs may push the organization towards effective operations.

Instead of using the term "downsizing", many organizations use the term "rightsizing", under which we usually mean the following decisions. These decisions all require HRM proficiency and excellence in execution.

- Eliminating layers of managers.
- Closing facilities.
- Merging with other organizations.
- Outsourcing.
- Outplacement.

Demonstrating administrative efficiency (E-HRM, self-service)

The administrative role of HRM is a basic role in organizations. This role can be fulfilled successfully only with the help of sophisticated IT systems and qualified HR workers. The most basic is the automation of payroll, benefits, working time/leave administration. Beyond these basic applications, the use of Web-based IT systems allow HR unit to become more efficient administratively and to deal with longer-term strategic goals. Web-based systems include these:⁸

- Bulletin boards: Information of HRM policies, job postings, training materials to inform employees world-wide.
- Data access: Linked to databases, an Intranet site provides employees an access benefits information such as sick leave usage.
- Employee self-service: Many HR systems enable employees to access and update their own personnel records like change in address, children data, marital status, etc. Obviously maintaining data-security is critical when employee self-service option is available.

⁸ Mathis, Jackson (2008) p. 21.

These solutions obviously free up time and capacity for HR staff members who previously spent considerable time answering routine employee inquiries.

2.) HR branding

Most organizations face difficulties in staffing. They either cannot recruit efficient applicants to job vacancies or cannot pay them according to their needs. Many organizations see the solution for this problem in HR Marketing/HR Branding – in the integration of HRM and marketing knowledge. To put it short: if we use marketing tools not only to promote our product or service, but the employer's nature and image, we will be able to attract qualified and interested applicants for job vacancies. As a result, the employer and HR is going to be a "brand", a unique and positive image linked to employment relationship. In this sense HR branding or marketing is not a separate HRM tool, rather a philosophy that affects (should affect) all operating HRM procedures.

3.) Equal Employment Opportunity/Compliance

The workforce of organizations are changing dramatically. It is more diverse ethnically, more women are in it than before and the average age of its members is considerably older. As a result of these shifts, HRM has to adapt to a more varied labour force both internally and externally.

The picture gets even more complex if we consider the ever growing differences among different generations within an organization. The "Y"- and "Z" generation members have characteristically different attitude towards work and life in general which also has to be handled by HRM.

4.) Work Life Balance (WLB)

Closely connected to the point above, the question of women and family gives extra sensitivity for organizations as well as HRM. The balance between work and family is a significant challenge. Although that balancing has always been a concern, the increased number of working women and dual-carrier couples has resulted in greater tension for many workers both male and female. Employers have had to respond to work/family concerns in order to retain employees. Among these responses we can mention: greater use of flexible hours, job sharing, child-care facilities.

Human Resources Management Roles

Several roles can be fulfilled by HRM in an organization. The nature and extent of these roles depend on both what upper management wants HRM to do and what competencies the HR staff have demonstrated. Three roles are identified in HRM literature:⁹

1.) Administrative role

Focus: Administrative processing and record keeping

Timing: Short term (less than 1 year)

The administrative role of HRM is heavily oriented to processing and recordkeeping. This role, if performed accurately, promptly and in a legally appropriate manner, may give a HRM good reputation in the organization. However, if HR is limited to administrative role, HR staff are seen primarily as clerical and lower-level administrative aides to organizations. Two major shifts can transform the administrative function: information technology and the outsourcing of HRM.

To improve administrative efficiency and responsiveness, more HR functions are becoming available via IT systems or the Internet. Web-based HRM technology surely gives big service to customers (employees and managers).

Increasingly, many HR administrative functions (retirement planning, benefit administration, payroll, outplacement services) are being outsourced to vendors worldwide. The primary reasons why HR functions are outsourced are:

- to save money on HR staffing,

⁹ See: Mathis, Jackson (2008) p. 10-14.

- to take advantage on specialized vendor expertise and technology,
- to install employment risks on vendor organizations,
- to be able to focus on more strategic HR activities.

2.) Operational role

Focus: Operational support of management

Timing: Intermediate term (1-2 years)

The operational role requires HR professionals to cooperate with operating managers, to identify HR problems, to implement needed HR programs and policies in the organization. In workflow it usually means managing compensation programmes, staffing for current openings, organizing training and development programmes or resolving complaints. These efforts of course require matching HR activities with the strategies of the organization.

3.) Strategic role

Focus: Organization-wide, global

Timing: Long term (2-5 years)

Differences between operational and strategic role of HR is shown in Figure 2. Many executives, managers and HR professionals increasingly see the need for HRM to become a greater strategic contributor to the “business success” of the organization. Even non-profit organizations such as governmental and social service entities must manage their human capital in a business-oriented manner. The role of HRM as a *strategic business partner* is often described as “having a seat at the table” and contributing to the strategic directions and success of the organization. This may mean the following tasks: involvement in strategic planning, planning compensation strategies, advising merger and acquisitions, advising downsizing or restructuring.

Figure 2: Operational to Strategic Transformation of HR

Operational (Employee focus)	Strategic (Organizational focus)
Reactive	Proactive
Collecting HR data	Measuring HR with metrics
Responding to goals and objectives set by executives	Helping set strategic goals
Complying with laws, policies and procedures	Developing and revising policies and procedures
Administering employee benefit programmes	Evaluating benefits based on strategy
Designing training programs	Identifying organizational training needs
Staffing jobs by recruiting and selecting employees	HR planning and linking with external staffing resources
Administering base compensation plans	Developing compensation plans focusing on employee performance and retention.

Source: Mathis, Jackson (2008) p. 13.

Four Sets of Capabilities for HR Professionals

Without long sentences and lists, here you can find the most important sets of capabilities of an HRM expert:

- 1.) Knowledge of business and organization: HR professionals must have business knowledge of the organization and its strategies if they are to contribute to strategy. They must understand the financial, technological and other facets of the industry and the organization.
- 2.) Influence and change management: HR professionals must have the ability of influencing others through relationship building, effective communication or leadership.
- 3.) Specific HR knowledge and expertise:
 - Greatest myth: major qualification necessity for HR is „liking to work with people”.
 - Technical knowledge and education is needed!
 - Field: tax- and labour law, finance, IT, wage/hour regulations etc.

- 4.) Personal credibility: HR professionals must have credibility personally and professionally, too. This means that they must develop effective internal relationships with individual executives, employees, managers, supervisors, or external experts.

Literature

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