

**MICHAEL ARMSTRONG  
WITH STEPHEN TAYLOR**

13TH EDITION

# **ARMSTRONG'S HANDBOOK OF HUMAN RESOURCE MANAGEMENT PRACTICE**

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**MICHAEL ARMSTRONG  
AND STEPHEN TAYLOR**

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# PREFACE TO THE 13TH EDITION

The 13th edition of the *Handbook of Human Resource Management Practice* includes an entirely new part containing three chapters covering the increasingly important subject of international human resource management. Other new chapters have been added on rewarding special groups and employment law. The chapters on HRM, motivation and engagement have been completely revised. Apart from these substantial changes, the handbook has been brought up-to-date by reference to the findings of a number of significant research projects and other investigations of how HRM operates in practice. The plan of the book is illustrated in the ‘route map’ shown in Figure 0.1.

The companion website at [www.koganpage.com/armstrong/HRMPresources](http://www.koganpage.com/armstrong/HRMPresources) provides extensive additional resources for lecturers and students. These comprise:

- A lecturers’ manual containing notes on how teaching could be organized by reference to the chapters in the main text and the supplementary material in the manual. Suggestions are made on various kinds of semesters and guidance is provided on the links between the handbook text and CIPD programmes. The manual includes sections for each of the first 43 general HRM chapters containing a summary of the main learning points, an outline of the subject matter, discussion points and questions with comments on the points to be considered. There are 136 multiple choice questions, 78 case studies and four role playing exercises. Most of the chapters contain supplementary abstracts from relevant HRM literature – a total of 150.
- Additional material is provided for lecturers in the shape of 613 PowerPoint slides with notes covering all the chapters except the toolkits.
- A students’ manual consisting of material which can be used to reinforce the contents of the main book. Summaries of each chapter are provided and in addition most of the chapters include supplementary abstracts from relevant HRM literature (150 in all). To assist in revision, the extra material includes 135 multiple choice questions and 420 ‘flash’ cards containing questions and answers about key aspects of the subject matter. There are also 43 case studies.
- A glossary of HRM terms (988 entries).
- An HRM bibliography (832 entries).

**FIGURE 0.1** *Handbook of Human Resource Management Practice* route map

# PART I

## The practice of human resource management

### PART I CONTENTS

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- 01 The essence of human resource management (HRM)
- 02 Strategic HRM
- 03 Delivering HRM – systems and roles
- 04 HRM and performance
- 05 Human capital management
- 06 Knowledge management
- 07 Competency-based HRM
- 08 The ethical dimension of HRM
- 09 Corporate social responsibility

### Introduction

---

Human resource management (HRM) is a comprehensive and coherent approach to the employment and development of people. HRM can be regarded as a philosophy about how people should be managed, which is underpinned by a number of theories relating to the behaviour of people and organizations. It is concerned with the contribution it can make to improving organizational effectiveness through people but it is, or should be, equally concerned with the ethical dimension – how people should be treated in accordance with a set of moral values. HRM involves the application of policies and practices in the fields of organization design and development, employee resourcing, learning and development, performance and reward and the

provision of services that enhance the well-being of employees. These are based on human resource (HR) strategies that are integrated with one another and aligned to the business strategy.

Some people object to the term ‘human resources’ because it implies that people can be manipulated like any other factor of production. Instead they favour ‘people management’. But HRM is the most commonly used term.

Whatever term is adopted the approach should be based on the principle laid down by Schneider (1987: 450): ‘Organizations are the people in them; that people make the place.’ He went on to explain that: ‘Positive job attitudes for workers in an organization can be expected when the natural inclinations of the persons there are allowed to be reflected

in their behaviours by the kinds of processes and structures that have evolved there.'

As Keegan and Francis (2010: 873) noted: HR work is now 'largely framed as a business issue'. The emphasis is on business alignment and strategic fit. These are important requirements but focusing on them can lead HR professionals to place correspondingly less emphasis on employee needs and motivations when developing their new and altered arrangements. A simplistic view of the business imperative permits little room for considering how HR strategy should impact on individual employees. HRM indeed aims to support the achievement of business goals but, equally, it should aim to build

a relationship based on trust, openness and personal fulfilment.

This first part of the handbook deals with the broad areas and concerns of the practice of HRM covering its conceptual basis, the strategic framework within which HRM activities take place and the various factors that affect it, including the impact of HRM on performance, the specific functions of human capital management, knowledge management and competency-based HRM and, importantly, the ethical and social responsible considerations that need to be taken into account when practising HRM. International HRM is dealt with in Part IX.

## References

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Keegan, A and Francis, H (2010) Practitioner talk: the changing textscape of HRM and emergence of HR business partnership, *The International Journal of Human Resource Management*, 21 (6), pp 873–98

Schneider, B (1987) The people make the place, *Personnel Psychology*, 40 (3), pp 437–53

# 01

## The essence of human resource management (HRM)

### KEY CONCEPTS AND TERMS

Added value	Humanism
Agency theory	Institutional theory
AMO theory	Matching model of HRM
Commitment	Motivation
Contextual model of HRM	Organizational behaviour theory
Contingency theory	Organizational capability
European model of HRM	Resource-based theory
5-P model of HRM	Resource dependence theory
Hard HRM	Soft HRM
Harvard framework	Strategic alignment
HR philosophy	Strategic human resource management (SHRM)
Human capital theory	Transaction costs theory
Human relations	Unitarist
Human resource management (HRM)	

### LEARNING OUTCOMES

On completing this chapter you should be able to define these key concepts. You should also know about:

- The fundamental concept of HRM and how it developed
- The meaning of HRM
- The goals of HRM
- The philosophy of HRM
- The underpinning theories
- The reservations made about HRM
- Models of HRM
- The position of HRM today

## Introduction – the HRM concept

Human resource management (HRM) is concerned with all aspects of how people are employed and managed in organizations. It covers the activities of strategic HRM, human capital management, knowledge management, corporate social responsibility, organization development, resourcing (workforce planning, recruitment and selection and talent management), learning and development, performance and reward management, employee relations, employee well-being and the provision of employee services. It also has an international dimension. As described in Chapter 3, HRM is delivered through the HR architecture of systems and structures, the HR function and, importantly, line management.

The practice of referring to people as resources as if they were any other factor of production is often criticised. Osterby and Coster (1992: 31) argued that: ‘The term “human resources” reduces people to the same category of value as materials, money and technology – all resources, and resources are only valuable to the extent they can be exploited or leveraged into economic value.’ People management is sometimes preferred as an alternative, but in spite of its connotations, HRM is most commonly used.

### **The development of the HRM concept**

The term HRM has largely taken over that of ‘personnel management’, which took over that of ‘labour management’ in the 1940s, which took over that of ‘welfare’ in the 1920s (the latter process emerged in the munitions factories of the First World War). HRM largely replaced the human relations approach to managing people founded by Elton Mayo (1933) who based his beliefs on the outcome of the research project conducted in the 1920s known as the Hawthorne studies. Members of this school believed that productivity was directly related to job satisfaction and that the output of people would be high if someone they respected took an interest in them. HRM also shifted the emphasis away from humanism – the belief held by writers such as Likert (1961) and McGregor (1960)

that human factors are paramount in the study of organizational behaviour and that people should be treated as responsible and progressive beings.

An early reference to human resources was made by Bakke (1966). Later, Armstrong (1977: 13) observed that in an enterprise ‘the key resource is people’. But HRM did not emerge in a fully fledged form until the 1980s through what might be called its founding fathers. These were the US academics Charles Fombrun and his colleagues in the ‘matching model’, and Michael Beer and his colleagues in the ‘Harvard framework’ as described on page 9.

In the UK they were followed by a number of commentators who developed, explained and frequently criticized the concept of human resource management. Legge (2005: 101) commented that: ‘The term [HRM] was taken up by both UK managers (for example, Armstrong, 1987; Fowler, 1987) and UK academics’. Hendry and Pettigrew (1990: 18) stated that HRM was ‘heavily normative from the start: it provided a diagnosis and proposed solutions’. They also mentioned that: ‘What HRM did at this point was to provide a label to wrap around some of the observable changes, while providing a focus for challenging deficiencies – in attitudes, scope, coherence, and direction – of existing personnel management’ (ibid: 20). Armstrong (1987: 31) argued that:

HRM is regarded by some personnel managers as just a set of initials or old wine in new bottles. It could indeed be no more and no less than another name for personnel management, but as usually perceived, at least it has the virtue of emphasising the virtue of treating people as a key resource, the management of which is the direct concern of top management as part of the strategic planning processes of the enterprise. Although there is nothing new in the idea, insufficient attention has been paid to it in many organizations.

However, commentators such as Guest (1987) and Storey (1995) regarded HRM as a substantially different model built on unitarism (employees share the same interests as employers), individualism, high commitment and strategic alignment (integrating HR strategy with the business strategy). It was also claimed that HRM was more holistic than traditional personnel management and that, importantly,

it emphasized the notion that people should be regarded as assets rather than variable costs.

## **The conceptual framework of HRM**

HRM as conceived in the 1980s had a conceptual framework consisting of a philosophy underpinned by a number of theories drawn from the behavioural sciences and from the fields of strategic management, human capital and industrial relations. The HRM philosophy has been heavily criticized by academics as being managerialist and manipulative but this criticism has subsided, perhaps because it became increasingly evident that the term HRM had been adopted as a synonym for what used to be called personnel management. As noted by Storey (2007: 6): ‘In its generic broad and popular sense it [HRM] simply refers to any system of people management.’

## **HRM practice today**

HRM practice is no longer governed by the original philosophy – if it ever was. It is simply what HR people and line managers do. Few references are made to the HRM conceptual framework. This is a pity – an appreciation of the goals, philosophy and underpinning theories of HRM and the various HRM models provides a sound basis for understanding and developing HR practice. But account needs to be taken of the limitations of that philosophy as expressed by the critics of HRM set out later in this chapter.

## **Aim of this chapter**

The aim of this chapter is to remedy this situation. It starts with a selection of definitions (there have been many) and elaborates on these by examining HRM goals. Because the original concept of HRM is best understood in terms of its philosophy and underpinning theories these are dealt with in the next two sections. Reference is then made to the reservations made about HRM but it is noted that while these need to be understood, much of what HRM originally set out to do is still valid. However, as explained in the next section of the chapter, HRM is more diverse than interpretations of the

original concept can lead us to believe. This is illustrated by the various models summarized in this section which provide further insights into the nature of HRM. The chapter ends with an assessment of where the concept of HRM has got to now. Following this analysis the next two chapters explain how in general terms HRM is planned through the processes of strategic HRM and delivered through the HR architecture and system, the HR function and its members, and, importantly, line managers.

## **HRM defined**

Human resource management can be defined as a strategic, integrated and coherent approach to the employment, development and well-being of the people working in organizations. It was defined by Boxall and Purcell (2003: 1) as ‘all those activities associated with the management of employment relationships in the firm’. A later comprehensive definition was offered by Watson (2010: 919):

HRM is the managerial utilisation of the efforts, knowledge, capabilities and committed behaviours which people contribute to an authoritatively co-ordinated human enterprise as part of an employment exchange (or more temporary contractual arrangement) to carry out work tasks in a way which enables the enterprise to continue into the future.

## **The goals of HRM**

The goals of HRM are to:

- support the organization in achieving its objectives by developing and implementing human resource (HR) strategies that are integrated with the business strategy (strategic HRM);
- contribute to the development of a high-performance culture;
- ensure that the organization has the talented, skilled and engaged people it needs;
- create a positive employment relationship between management and employees and a climate of mutual trust;



- encourage the application of an ethical approach to people management.

An earlier list of HR goals was made by Dyer and Holder (1988: 22–28) who analysed them under the headings of contribution (what kind of employee behaviour is expected?), composition (what headcount, staffing ratio and skill mix?), competence (what general level of ability is desired?) and commitment (what level of employee attachment and identification?). Guest (1987) suggested that the four goals of HRM were strategic integration, high commitment, high quality and flexibility. And Boxall (2007: 63) proposed that ‘the mission of HRM is to support the viability of the firm through stabilizing a cost-effective and socially legitimate system of labour management’.

## The philosophy of human resource management

Doubts were expressed by Noon (1992) as to whether HRM was a map, a model or a theory. But it is evident that the original concept could be interpreted as a philosophy for managing people in that it contained a number of general principles and beliefs as to how that should be done. The following explanation of HRM philosophy was made by Legge (1989: 25) whose analysis of a number of HRM models identified the following common themes:

That human resource policies should be integrated with strategic business planning and used to reinforce an appropriate (or change an inappropriate) organizational culture, that human resources are valuable and a source of competitive advantage, that they may be tapped most effectively by mutually consistent policies that promote commitment and which, as a consequence, foster a willingness in employees to act flexibly in the interests of the ‘adaptive organization’s’ pursuit of excellence.

Storey (2001: 7) noted that the beliefs of HRM included the assumptions that it is the human resource that gives competitive edge, that the aim should be to enhance employee commitment, that HR decisions are of strategic importance and that

therefore HR policies should be integrated into the business strategy.

## Underpinning theories of HRM

The original notion of HRM had a strong theoretical base. Guest (1987: 505) commented that: ‘Human resource management appears to lean heavily on theories of commitment and motivation and other ideas derived from the field of organizational behaviour.’ A number of other theories, especially the resource-based view, have contributed to the understanding of purpose and meaning of HRM. These theories are summarized below.

### Commitment

The significance in HRM theory of organizational commitment (the strength of an individual’s identification with, and involvement in, a particular organization) was highlighted in a seminal *Harvard Business Review* article by Richard Walton (1985).

#### Source review

From control to commitment –  
Walton (1985: 77)

Workers respond best – and most creatively – not when they are tightly controlled by management, placed in narrowly defined jobs and treated as an unwelcome necessity, but, instead, when they are given broader responsibilities, encouraged to contribute and helped to take satisfaction in their work. It should come as no surprise that eliciting commitment – and providing the environment in which it can flourish – pays tangible dividends for the individual and for the company.

The traditional concept of organizational commitment resembles the more recent notion of organizational engagement (see Chapter 15).

## **Motivation**

Motivation theory explains the factors that affect goal-directed behaviour and therefore influences the approaches used in HRM to enhance engagement (the situation in which people are committed to their work and the organization and are motivated to achieve high levels of performance).

## **The resource-based view**

Resource-based theory expressed as ‘the resource-based view’ states that competitive advantage is achieved if a firm’s resources are valuable, rare and costly to imitate. It is claimed that HRM can play a major part in ensuring that the firm’s human resources meet these criteria.

## **Organizational behaviour theory**

Organizational behaviour theory describes how people within their organizations act individually or in groups and how organizations function in terms of their structure, processes and culture. It therefore influences HRM approaches to organization design and development and enhancing organizational capability (the capacity of an organization to function effectively in order to achieve desired results).

## **Contingency theory**

Contingency theory states that HRM practices are dependent on the organization’s environment and circumstances. This means that, as Paauwe (2004: 36) explained: ‘The relationship between the relevant independent variables (eg HRM policies and practices) and the dependent variable (performance) will vary according to the influences such as company size, age and technology, capital intensity, degree of unionization, industry/sector ownership and location.’

Contingency theory is associated with the notion of fit – the need to achieve congruence between an organization’s HR strategies, policies and practices and its business strategies within the context of its external and internal environment. This is a key concept in strategic HRM.

## **Institutional theory**

Organizations conform to internal and external environmental pressures in order to gain legitimacy and acceptance.

## **Human capital theory**

Human capital theory is concerned with how people in an organization contribute their knowledge, skills and abilities to enhancing organizational capability and the significance of that contribution.

## **Resource dependence theory**

Resource dependence theory states that groups and organizations gain power over each other by controlling valued resources. HRM activities are assumed to reflect the distribution of power in the system.

## **AMO theory**

The ‘AMO’ formula as set out by Boxall and Purcell (2003) states that performance is a function of Ability + Motivation + Opportunity to Participate. HRM practices therefore impact on individual performance if they encourage discretionary effort, develop skills and provide people with the opportunity to perform. The formula provides the basis for developing HR systems that attend to employees’ interests, namely their skill requirements, motivations and the quality of their job.

## **Social exchange theory**

Employees will reciprocate their contribution to the organization if they perceive that the organization has treated them well.

## **Transaction costs theory**

Transaction costs economics assumes that businesses develop organizational structures and systems that economize the costs of the transactions (interrelated exchange activities) that take place during the course of their operations.

## Agency theory

Agency theory states that the role of the managers of a business is to act on behalf of the owners of the business as their agents. But there is a separation between the owners (the principals) and the agents (the managers) and the principals may not have complete control over their agents. The latter may therefore act in ways that are against the interests of those principals. Agency theory indicates that it is desirable to operate a system of incentives for agents, ie directors or managers, to motivate and reward acceptable behaviour.

## Reservations about the original concept of HRM

On the face of it, the original concept of HRM as described above had much to offer, at least to management. But for some time, HRM was a controversial topic, especially in academic circles. The main reservations as set out below have been that HRM promises more than it delivers and that its morality is suspect:

- Guest (1991: 149) referred to the ‘optimistic but ambiguous label of human resource management’.
- HRM ‘remains an uncertain and imprecise notion’ Noon (1992: 16).
- ‘The HRM rhetoric presents it as an all or nothing process which is ideal for any organization, despite the evidence that different business environments require different approaches’. (Armstrong, 2000: 577)
- HRM is simplistic – as Fowler (1987: 3) wrote: ‘The HRM message to top management tends to be beguilingly simple. Don’t bother too much about the content or techniques of personnel management, it says. Just manage the context. Get out from behind your desk, bypass the hierarchy, and go and talk to people. That way you will unlock an enormous potential for improved performance.’
- The unitarist approach to industrial relations implicit in HRM (the belief that management and employees share the same concerns and it is therefore in both their interests to work

together) is questionable. Fowler (1987: 3) commented that: ‘At the heart of the concept is the complete identification of employees with the aims and values of the business – employee involvement but on the company’s terms. Power in the HRM system remains very firmly in the hands of the employer. Is it really possible to claim full mutuality when at the end of the day the employer can decide unilaterally to close the company or sell it to someone else?’ Later, Ramsey *et al* (2000: 521) questioned the unitarist assumption underlying much mainstream management theory that claims that everyone benefits from managerial innovation.

- HRM is ‘macho-management dressed up as benevolent paternalism’ Legge (1998: 42).
- HRM is manipulative. Willmott (1993: 534) asserted that: ‘any (corporate) practice/value is as good as any other so long as it secures the compliance of employees’. HRM was dubbed by the Labour Research Department (1989: 8) as ‘human resource manipulation’. John Storey (2007: 4) referred to ‘the potential manipulative nature of seeking to shape human behaviour at work’.
- HRM is managerialist. ‘The analysis of employment management has become increasingly myopic and progressively more irrelevant to the daily experience of being employed. While the reasons for this development are immensely complex... it is primarily a consequence of the adoption of the managerialist conception of the discourse of HRM’ (Delbridge and Keenoy, 2010: 813).
- HRM overemphasizes business needs. Kegan and Francis (2010) have rightly criticized the increasing focus on the business partnership role of HR at the expense of its function as an employee champion. An illustration of this is provided by the Professional Map produced by the British Chartered Institute of Personnel and Development (CIPD), which as stated by the CIPD (2013: 2): ‘Sets out standards for HR professionals around the world: the activities, knowledge and behaviours needed for success.’ The map refers to ‘business’ 82 times but to ‘ethics’ only once and ‘ethical’ only twice.

These concerns merit attention, but the more important messages conveyed by the original notion of HRM such as the need for strategic integration, the treatment of employees as assets rather than costs, the desirability of gaining commitment, the virtues of partnership and participation and the key role of line managers are still valid and are now generally accepted, and the underpinning theories are as relevant today as they ever were.

And it should be remembered that these objections, with the exception of the last one, mainly apply to the original concept of HRM. But today, as explained in the final section of this chapter, HRM in action does not necessarily conform to this concept as a whole. The practice of HRM is diverse. Dyer and Holder (1988) pointed out that HRM goals vary according to competitive choices, technologies, characteristics of employees (eg could be different for managers) and the state of the labour market. Boxall (2007: 48) referred to ‘the profound diversity’ of HRM and observed that: ‘Human resource management covers a vast array of activities and shows a huge range of variations across occupations, organizational levels, business units, firms, industries and societies.’ There are in fact a number of different models of HRM as described below.

## Models of HRM

The most familiar models defining what HRM is and how it operates are as follows.

### **The matching model of HRM**

Fombrun *et al* (1984) proposed the ‘matching model’, which indicated that HR systems and the organization structure should be managed in a way that is congruent with organizational strategy. This point was made in their classic statement that: ‘The critical management task is to align the formal structure and human resource systems so that they drive the strategic objectives of the organization’ (ibid: 37). Thus they took the first steps towards the concept of strategic HRM.

### **The Harvard model of HRM**

Beer *et al* (1984) produced what has become known as the ‘Harvard framework’. They started with the

proposition that: ‘Human resource management (HRM) involves all management decisions and actions that affect the nature of the relationship between the organization and employees – its human resources’ (ibid: 1). They believed that: ‘Today... many pressures are demanding a broader, more comprehensive and more strategic perspective with regard to the organization’s human resources’ (ibid: 4). They also stressed that it was necessary to adopt ‘a longer-term perspective in managing people and consideration of people as a potential asset rather than merely a variable cost’ (ibid: 6). Beer and his colleagues were the first to underline the HRM tenet that it belongs to line managers. They suggested that HRM had two characteristic features: 1) line managers accept more responsibility for ensuring the alignment of competitive strategy and HR policies; 2) HR has the mission of setting policies that govern how HR activities are developed and implemented in ways that make them more mutually reinforcing.

### **Contextual model of HRM**

The contextual model of HRM emphasizes the importance of environmental factors by including variables such as the influence of social, institutional and political forces that have been underestimated in other models. The latter, at best, consider the context as a contingency variable. The contextual approach is broader, integrating the human resource management system in the environment in which it is developed. According to Martin-Alcázar *et al* (2005: 638): ‘Context both conditions and is conditioned by the HRM strategy.’ A broader set of stakeholders is involved in the formulation and implementation of human resource strategies that is referred to by Schuler and Jackson (2000: 229) as a ‘multiple stakeholder framework’. These stakeholders may be external as well as internal and both influence and are influenced by strategic decisions

### **The 5-P model of HRM**

As formulated by Schuler (1992) the 5-P model of HRM describes how HRM operates under the five headings of:

- 1 HR philosophy – a statement of how the organization regards its human resources,