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Human Resource Management

FOURTH EDITION

Trevor Amos • Noel Pearse • Liezel Ristow • Adrian Ristow

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Prior to joining CCS, he worked as a lecturer at in the Department of Management at Rhodes University, primarily responsible for Human Resource Management and Marketing at undergraduate and postgraduate levels. He has a Master's degree in Management from Rhodes University and presented a number of research papers at both local and international conferences.

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- Figure 10.1, The competing values framework. Quinn, R. E. & Rohrbaugh, J. (1983). *A spatial model of effectiveness criteria: Toward a competing values approach to organizational analysis. Management Science*. Institute for Operations Research and the Management Sciences.
- *Twelve key questions that measure the core elements of employee engagement* p. 126 & p. 127. 'The 12 questions that are used to measure the core elements of employee engagement'. Buckingham, M. & Coffman, C. (1999). *First break all the rules: What the world's greatest managers do differently.*

Key to icons

Four icons are used throughout this text to depict different components of the interactive learning process:

Definition

Activity

Example

Note well

1

Introduction to the management of people in sustainable organisations

Learning outcomes

Having completed this chapter, the learner will be able to:

- Present an understanding of an organisation as an open system.
- Describe the role of people in an organisation.
- Describe the role of a manager in an organisation.
- Explain the human resource management (HRM) function as a subsystem of an organisation.
- Define HRM.
- Describe the implications of sustainability for the HRM function in organisations.
- Advise on the role of HRM within an organisation.

Introduction

Our continued existence as human beings depends upon the constant satisfaction of our many and varied needs. These range from very basic needs (for example, food, water and shelter) to more advanced needs (for example, technology, information, healthcare and safe transport). Entrepreneurs typically identify these needs and satisfy them by establishing new business ventures in the form of organisations.

To be effective and sustainable, organisations need to be managed. Successful management requires not only the relevant technical ability and strategic-thinking capability but, importantly, also the ability to work with and through people.

It is generally accepted that, in an increasingly competitive global and national economic environment, the competitive advantage of an organisation no longer lies in its products or technology but in its people (De Saa-Perez & Garcia-Falcon, 2002). Evidence of this acceptance includes public acknowledgements in the form of statements, such as 'the most critical component of our business is our people'; 'it is only through our people that we will succeed'; or 'products alone do not sustain competitive advantage but the creativity, diversity and energy that people bring to the company'.

This notion of competitive advantage being in people is about creating conditions within the organisation that cannot easily be replicated by competitors. Competitors can easily produce similar products, access the same technology, or access the same capital markets. However, they cannot as easily create the same conditions that attract and retain human talent. By implication, therefore, they cannot copy the intellectual capital of the organisation that develops through the effective management of human talent. Intellectual capital is the ability of employees to apply and transform their knowledge and understanding into something of value to their jobs and the organisation. This creates wealth for the organisation – but it is a form of wealth that is not explained by the book value of its physical assets.

Besides competing on the basis of intellectual capital, there is another important reason why people are increasingly recognised as the critical organisational resource. The global economy is increasingly based on knowledge work through the rendering of services rather than products. People are therefore at the forefront of delivery in a knowledge-based, service economy. One way of understanding this role of employees in the organisation is to refer to the service profit chain of Heskett, Sasser and Schlesinger (1997). These authors make the case that the way to generate enduring revenue growth and profits is to build the kind of working environment that provides internal service quality to its people, resulting in employee loyalty and productivity, and, consequently, external service quality to customers.

The service profit chain, displayed in figure 1.1, illustrates how the employees of the organisation are central to attracting and retaining customers, and thereby ensuring organisational success. It is evident from the service profit chain that conditions created by management in the internal work environment of employees influence their levels of satisfaction, loyalty and productivity, and these have an impact on the level of service quality they provide to customers during the service encounter, and consequently on the level of customer satisfaction and loyalty experienced. Customer loyalty through repeat business and referrals is a critical requirement for the growth in revenue and profitability of an organisation. The challenge, then, is for managers to realise or achieve the competitive advantage that lies in their human assets.

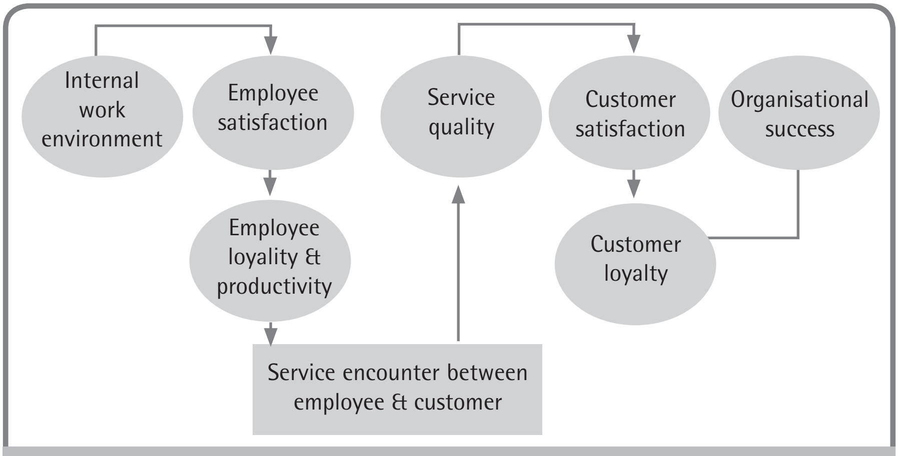

Figure 1.1 The service profit chain
Source: Adapted from Heskett, Jones, Loveman, *et al*, ***1994, pp. 164–174***

The purpose of this chapter is to develop a conceptual framework within which to understand organisations and the effective management of their human resources. This understanding will underlie the rest of the book, where various activities related to the management of people will be discussed in more detail.

1.1 Organisations

An organisation can be described as an arrangement of people in a systematic structure of jobs and authority, guided by processes, systems, policies and procedures, whose purpose is to accomplish a specific objective over time – for example, to educate students, manufacture a product or provide a service (Robbins & Coulter, 1996). An organisation does not exist in isolation but is part of a broader environment consisting of the economic, political, social, technological and ecological subenvironments, all of which are influenced by the local and global context, making the organisation an open system (Nadler & Tushman, 1983; Harrison, 1987). This understanding of an organisation is graphically represented in figure 1.2, where the organisation is represented by a broken circle to demonstrate its interaction with the environment.

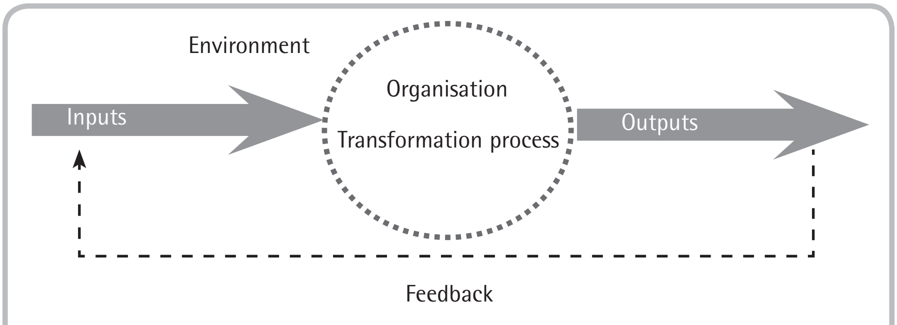

Figure 1.2 The organisation as an open system
Source: Adapted from Harrison, 1987

A system consists of a set of interrelated and interdependent subsystems and elements, and an open system is one that interacts with the environment. This can be compared to the human body – which is also a system – affecting and being affected by the environment, and consisting of a set of interrelating organs that ensure that the body functions. Another model that can help managers understand the nature of organisations is Higgins's (2005) 8-S model (see chapter 10).

Organisations take in resources (inputs) – also known as factors of production – from the environment (such as people, money, land, machinery, information and materials), and use them in the transformation process to produce or provide outputs – the products and services demanded by society. These products and services are then offered on the market for sale to households, other firms (shops, wholesalers etc) or the government. People are a critical resource in this system – arguably the most important resource. They activate the transformation process in organisations by applying their knowledge, ability and skills, and are compensated by the organisation for their effort.

Feedback in this system is important, as it provides information both from within the organisation as well as externally. This information can be used to correct and change the organisation for improved performance and survival.

From the perspective of systems theory, it is critical that managers see the 'big picture' of the organisation, have a clear sense of what makes the organisation successful and understand the role of HRM in contributing to this success. For our purposes, five criteria of organisational success will be discussed: efficiency, effectiveness, adaptability, congruence (or 'fit') and responsibility or sustainability.

Firstly, efficiency measures compare the inputs of a system with its outputs. The higher the level of outputs that are attained relative to the level of inputs, the more efficient the system. Think of a motor vehicle as a system. The further the car travels (output) on a litre of fuel (input), the more fuel efficient the car is said to be. This measure of fuel efficiency is typically reported as the number of litres required per 100 kilometres travelled. Similarly, organisations may measure their efficiency in terms of profitability – that is, the costs incurred (financial measure of inputs) to generate the organisation's sales revenue (financial measure of outputs). Profit ratios, such as return on investment or the gross profit margin, are essentially financial-efficiency measures. From an HRM perspective, the challenge is to develop measures of employee efficiency that can be monitored and thereby guide management action.

Secondly, the success of a system can be examined in terms of its effectiveness. Effectiveness poses the question, 'Is the system doing the right thing?' That is, is it fulfilling its purpose? This will be determined by comparing the outputs of the system with the outputs it intended to produce. Consider the motor-vehicle example again: if a driver intended to travel from Johannesburg to Polokwane, but ended up in Cape Town instead, then the driver has not used the car very effectively. Or if a cellphone retail outlet had planned to generate most of its revenue from the sale of cellphones, but at the end of the financial year discovered that the greatest proportion of its revenue actually came from the sale of cellphone accessories, then it has not been effective. Examining organisations from this perspective involves comparing the planning stage of managerial activity – and particularly the goals that were set – with the information collected through management control activities (ie measures of output attained).

Adaptability is a third indicator of a system's success. In understanding entities as open systems, it is recognised that the entity needs to adapt to its external environment if it is to at least survive. The external environment of organisations, both in South Africa and internationally, is characterised by global ultra-competitive markets, rapid change and uncertainty. The environment, and its potential influence on the organisation, needs to be understood by management so that the organisation can be positioned to meet the challenges and take up the opportunities of the environment. Political, economic, social, technological and global forces influence the HRM system of the organisation. An important consideration regarding political influence is the legislative system designed and enforced by government. This influences HRM, in that the legislation contained in certain Acts of Parliament provides prescriptive minimum conditions of employment and guidelines as to acceptable and unacceptable HRM practice. It could then be argued that the reason for managing staff effectively is to avoid litigation, but this is a short-sighted perspective. People need to be managed effectively for ethical, humanitarian as well as business reasons. Examples of the various forces that have an impact on the HRM system of an organisation are discussed in chapter 4; chapter 2 focuses on South African labour and other legislation affecting the HRM system.

Adaptability is important if the organisation is to remain relevant and survive within a challenging and dynamic environment. Strategic planning is the management tool used to position an organisation in relation to its external environment. It includes conducting an analysis of the external environment, and assessing the internal strengths and weaknesses in formulating strategies and strategic objectives for the organisation, to maintain a competitive advantage over competitors. A strategy is a way of doing something; it is a game plan for action, and needs to be implemented successfully if the strategic objectives are to be met and a competitive advantage established and maintained. In implementing a strategy, each functional area in an organisation (typically, HRM, finance, marketing and production) has a critical role to play. Each needs to be aligned with the general strategy of the organisation (known as vertical integration) while mutually supporting one another (horizontal integration). HRM has a critical role to play in strategy formulation and implementation. For more on the role of HRM in strategic management, see chapter 4.

The fourth indicator of an organisation's success is that of congruence, or fit. A system relies on the interdependence of its components, so these elements need to work together to achieve the outputs of the system efficiently and effectively, and to ensure the system is successfully adapting to its external environment. See Higgins's (2005) 8-S model in chapter 10 for insight into the components of an organisation that need to be aligned to ensure success. We are all familiar with the grating sound that a car emits when the driver does not use the gear lever and clutch in a coordinated way. And we have seen a sports team lose because the members fail to work as a team. Similarly, a bureaucratic organisational structure and inflexible processes may restrict the creative behaviour required by a particular strategy requiring innovation.

Building upon this systems view of organisations is the stakeholder approach to strategy (Freeman, 1984). Stakeholders are groups and individuals who may either have some effect on the organisation or may be affected in some way by the organisation's activities. Stakeholders are both internal to the organisation (eg employees, managers and owners) and external parties (eg customers, suppliers, government and the local community) who have expectations of how the organisation should operate. A normative view of stakeholder theory makes the assumption that the interests of all stakeholders are of intrinsic value (Donaldson & Preston, 1995) and therefore, at a minimum, they need to be acknowledged by the organisation. The challenge is to deal constructively and effectively with the multiple and often competing interests of the various stakeholders. Although this is a complex exercise, the expectations that various stakeholders have of the organisation need to be managed responsibly – which is the fifth indicator of organisational success. The requirement of responsibility is often expressed as organisational sustainability.

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Organisational sustainability addresses the interplay between the economic, environmental and social impacts of business activity, and can be defined as the pursuit of long-term success combined with endeavours to make a positive impact on the society and environment in which the organisation lives and works, to meet the needs of current and future generations (Gilbert, Stevenson, Girardet & Stren, 1996; Chartered Quality Institute, 2015). This sustainability approach recognises that the organisation is located within society and not apart from it, and that, in turn, society is located within a natural environment. This means that the success of the organisation is to a large degree based on responsible engagement with external stakeholders and responsible management of the natural environment. Essentially, one can argue that organisations have a moral obligation to engage in solving social and environmental problems or, at a minimum, that it is in their best interest to do so (Jackson, Farndale & Kakabadse, 2003; Zohar & Marshall, 2004).

This overview of systems thinking highlights a number of issues that are important in managing the human resources of the organisation (see Harrison [1987] and Nadler & Tushman [1983] for a more detailed discussion of systems theory in organisations). It demonstrates the interconnectedness of the human resource function with the rest of the functions of the organisation, highlighting the central role of people management. It also indicates how the role of HRM needs to be exercised – that is, to ensure an efficient, effective, adaptable organisation, where the system components all work together in a coordinated and congruent way.

1.2 The role of people in organisations

Jack Welch, former chief executive officer (CEO) of General Electric (GE) demonstrated his regard for people and their importance in the following statement (Welch, 2001, p. 156):

> . . . GE's all about finding and building great people . . . I'm over the top on lots of issues, but none comes as close to the passion I have for making people GE's core competency.

No organisation, irrespective of its size, can exist without people, and managers cannot be successful in isolation. As the only active resource necessary to activate and convert the other more passive resources into need-satisfying goods and services, people are a prerequisite for the formation and continued existence of any organisation. They contribute individually and collectively to an organisation's achievement of its strategic objectives and its maintenance of a competitive advantage. Therefore, the challenge for any organisation is to manage and engage with people in ways that they can fulfil their maximum potential and thereby contribute to a successful organisation.

It is accepted that competitive advantage does not lie in products alone but in the people of the organisation and how they are managed (ie the organisation's HRM capability). No matter how sophisticated a company's technology or equipment, or how healthy its financial status, people problems can be detrimental to the success and survival of an organisation. Just think of what happens to a business when its employees go on a strike, or when staff are not engaged and committed enough to perform well. The business cannot function at full capacity, cannot produce quality goods or provide a quality service to its customers, and may face the possibility of having to close down.

The idea of intellectual capital is one way of conceptualising the role of people in creating an organisation's competitive advantage. Intellectual capital can be broken down into three elements, namely human capital, structural capital and relational capital (Moon & Kym, 2006). Human capital is an individual-level construct consisting of employee capability, employee satisfaction and employee sustainability. Together, these three elements describe the ability and motivation of an individual to perform within an organisation in the longer term.

Structural capital refers to those formal organisational arrangements that an organisation adopts to facilitate human and relational capital. Structural capital includes the culture that is created, organisational processes and information systems that are put into place, and the management of intellectual property (which includes patents or trademarks). Managers therefore need to ensure that they successfully create, sustain and develop the organisation's intellectual capital. This requires managing each employee, managing a host of relationships, and putting structures, systems and procedures in place that facilitate and promote such management.

Relational, or social capital refers to the capabilities that arise in an organisation through the network of relationships between employees, customers and the community. It is therefore concerned with fostering relationships among people within the organisation, who will be able to interact effectively with parties outside the organisation in a way that creates value for the organisation and builds strong bonds with key stakeholders.

An organisation is clearly a social entity in which managers need to work with and through other people to achieve its goals. Managers therefore need to ensure that the people of an organisation are engaged and committed to doing their best for the organisation.

1.3 Managing people effectively

The people of any organisation are its source of competitive advantage. However, to realise this advantage, the organisation requires HRM capability. HRM capability resides in the HRM function within the organisation, and in the ability of line managers to manage productively and realise the potential of the people in the organisation. Those managers most likely to succeed not only see the 'big picture' and set up an effective HRM system to support the achievement of the organisation's objectives, but also have an informed understanding of and ability to manage the human aspects of the organisation. While personally able to manage individuals and groups, they also ensure that others in management positions are able to manage people with the support of the HRM system. Successful managers know that engaged, committed people make effective organisations, and that effective organisations have the best chances of profitability and long-term sustainability.

1.3.1 The HRM function and its role

HRM is the system of philosophies, policies, programmes, practices and decisions that affect the attitudes, behaviour and performance of the people of an organisation, so that they are satisfied and engaged, perform well and contribute to the organisation achieving its strategic objectives. HRM practices include human resource planning, job analysis, job profiling, job design, recruitment, selection, onboarding, training and development, performance management, compensation, grievance management, management of discipline and maintaining good labour relations. As can be seen in figure 1.3, these practices are part of the process of planning and organising the human resource system, activating and leading the human resource system, and controlling the system to achieve the necessary human resource outcomes, and hence the long-term success of the organisation.