

## POSSIBLE FUTURES FOR THE HR FUNCTION IN DIFFERENT MARKET

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# **Possible futures for the HR function in different market situations**

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## **Abstract**

A hypothetical model is made of the possible future prospects for the human resource management (HRM) function - as an internal, specialised function - within organisations. This model is based on two premises. Firstly that the market situation will influence how many and what type of employees have the power to influence organisational financial performance. And secondly that the type and number of employees with the ability to influence financial performance will in turn influence how the HRM process is managed.

In order to develop this model the major roles of traditional and current HR function are first outlined and from these, six key areas of possible HR activities are then elicited. Four possible market scenarios differing in the degree to which employees can influence organisational financial performance are then outlined and related to these six key areas of possible HR activities.

The results suggest that in four of the six key areas clear tendencies to outsource HR activities can be expected. However in the fifth area, that of the creation and development of High Performing Work Systems, the internal HR function may play an important role, but only within labour intensive organisations operating in highly competitive market situations. In contrast it is suggested

that in the sixth area, that of long term organisational development and change, the internal HR function will have a key role across a variety of market and employee situations.

Key words: HRM function, HRM roles, HRM process, market forces, competitive forces, high performance work systems.

## **Introduction**

The aim of this paper is to develop a hypothetical model with the purpose of using it to examine possible future directions for the HR function in general and for the internal HR department in particular.

Our basic premise is that top management will only countenance the presence of an internal HR function if it is clearly seen to add more value to the companies' operations than other possible ways of managing human resources. And this ability for an internal function to add value will be strongly influenced by the market situation of the company concerned.

The starting point for developing our model must be the current activities performed by the HR function. This will be outlined in the next section. After presenting the six key areas in which the HR function has build up its credits, we develop in the next section a hypothetical model, showing a variety of market situations, in which employees differ in importance as far as their contribution to a sustained competitive advantage is concerned. Out of this model we present a number of scenarios and related hypotheses for further research. Finally we discuss the case for change agency and implications for the HR function.

## **The current state of the HRM function.**

Since its inception the HRM function has survived because it has become adept at transforming itself to meet the challenges posed by business change (Kerr & von Glinow, 1997; Wintermantel & Mattimore, 1997; Legge, 1995; Kochan *et al*, 1986). These transformations rest on the many

traditions underpinning modern HRM as we know it today (Kerr & von Glinow, 1997; Beardwell & Holden, 1997). The literature indeed would suggest that HRM is heterogeneous in terms of:

1. The process involved in managing human resources: tasks and skills required in the performance of HRM activities e.g. recruiting, selecting, eliciting effective performance, managing collective labour relations, etc.
2. Schools of thought or perspectives that can be brought to bear in analysing its role in organizations, e.g. critical HRM theory, best practice HRM, strategic-fit HRM, etc.

We will concentrate in this paper on discussing the tasks involved in the human resource process and the skills required by those involved in managing the process.

*Reviewing the literature: the HRM process and who is involved*

A review of the literature throws up many frameworks for considering HRM tasks, skills and roles. Some are merely lists of things that HRM specialists do, while others are more encompassing, considering the HRM pattern within organisations from a more ideal type perspective (Tyson & Fell, 1986; Ulrich, 1997). Ulrich (1997) argues that HRM specialists can create value by acting as 'Administrative experts', 'Employee Champions', 'Change Agents' and 'Strategic Partners'. Tyson & Fell (1986) also offer an ideal-type model based on roles and consistent expectations in terms of decision making, planning horizon, degree of discretion, and involvement in creating organisational culture.

They propose three ideal type roles: 'Clerk of Works', 'Contracts Manager', and 'Architect'. A brief description of these ideal type roles follows, including reference to overlap with other prominent models included for comparative purposes.

The Clerk of Works is allowed little discretion in carrying out personnel work, has a short time horizon as regards decision making, and plays a reactive, ad hoc role being totally subservient to line managers. The main tasks for which the Clerk of Works is responsible include routine administration and welfare issues. This compares with Storey's (1992) 'Handmaiden' ideal type personnel specialist. The 'handmaiden' is involved in 'tactical and non-interventionary' personnel management tasks. The handmaiden services the line organisation in the areas of administration, welfare and personnel flow issues. Both Clerk of Works and Handmaiden performance tasks associated with Ulrich's administration category, and Torrington's (1989) 'acolytes of benevolence' and 'human bureaucrat'.

The 'Contracts' Manager' in Tyson & Fell's typology, along with Ulrich's 'Employee Champion' and Storey's 'Regulator' are all broadly responsible for formulating and monitoring procedures, agreements with unions, employment rules and employment relations issues. As the employment relations situation, and the relationship between labour (collectively) and management changes, so too will the role of persons charged with monitoring and regulating contracts. The contracts' managers and even the clerk of works in Tyson & Fell's typology may move in the direction of the 'adviser' in Storey's scheme. The advisor is a person who has managed to secure a role as internal consultant, advising on new developments, and offer advice as an expert. We see here overtones of Legge's seminal work on 'deviant innovators', personnel specialists who engineer change by

convincing human resource' consumers', including unions, senior and line management of the value of initiatives based on expertise and values other than those premised on cost cutting and control.

The 'architect' (Tyson & Fell), or 'changemaker' (Storey) or Change Agent/Strategic Partner (Ulrich) are all ideal type roles associated with human resource specialists who seek to build a bridge between strategic organisational needs and what human resource management can offer in terms of adding value. People filling this role act as business partners, strategic managers of human resources in order to add value and contribute to the organisation's performance at a business level. They undertake the vital role of 'problem solver' and 'organisational diagnostician' in terms of Legge's (1978) original formulation.

#### *From Typologies to Six Areas within the Human Resource Process*

Distilling from these various typologies, we can identify core areas within which actors involved in the HRM process can add value. We believe these areas to be changing and so consider them a moving target rather than a fixed portfolio of activities for any HRM function as time goes on. Furthermore, we see the possibility for these areas to decrease and increase with importance according to changes in market and competitive factors, as well as the degree to which employees provide a truly competitive edge. Therefore, rather than discussing ideal type roles within the human resource process, we discuss six areas in the HRM process and the skills and tasks required to perform them. The six areas we discuss are:

- The welfare area
- Managing collective labour agreements



- Administration
- Flow strategies
- High performance work systems
- Managing change

We highlight key developments and sources of change in each area, as well as practical implications for those actors involved in the HRM process.

### *The Welfare Area*

The first area of expertise for the HRM function derives from the 'welfare tradition'. The expertise of the HRM function in welfare matters originally developed through the provision of medicines, advice and basic training for workers (Niven, 1967; Megginson, 1985). Employees today, however, face problems very different to those that spawned the welfare tradition. On basic welfare issues, legislation has usurped the role of benevolent employers in providing safe and healthy work environments. The government in many countries makes provision for basic income levels and housing. Employee problems today that might be couched in terms of 'welfare' issues are changing and tend to be more individualistic in nature. They arise in such areas as the necessity to balance home and work life with more and more dual career families (Handy 1995) with their consequent stress problems (Campbell Quick *et al*, 2000), and the changing pattern of employment away from lifetime employment towards portfolio careers (Jones & de Fillippi, 1996). One can argue that such problems can be tackled more effectively through external consulting with specialists who tailor their advice to the individual needs of employees, rather than through broad-based initiatives instigated by the HRM function. There is also a counter argument

that work related issues contributing to work-family conflict (e.g. role conflict, burnout) can be dealt with most effectively from within the organisation because they are a function in part of job design, allocation of responsibilities, organisational culture, etc. Whatever the case, welfare issues in modern organisational life require those responsible to respond with knowledge and skills on a par with the increasing ambiguity and pressure of modern working life. The old HRM skills brought to bear in getting organisations to change their general procedures and systems may not be as relevant to current employee problems as was once the case. As employee welfare problems shift from collective areas of concern to more individualistic areas, increasingly tailored advice and consulting will be required. If specialist agencies can afford to train their experts to a higher level, and offer a more cost effective service to organisations, the HRM specialist may find it increasingly difficult to match the benefits that outsourcing can bring.

### *Managing Collective Agreements*

The second area in which we have seen advances in HRM management is in the area of managing collective agreements. The importance of having skilled 'contracts managers' in house varies considerably across different countries as the importance of formal trade unions rises or falls. For example, in the UK and France there has been a major diminution and in Germany a more gradual diminution in their power over the last few years. In contrast in Belgium, the Netherlands and Scandinavia trade unions have largely held on to their powers. Again trade union strength varies across different business sectors with the public sector in many countries still retaining power. In some countries, trade union links with their members are strengthened by formal responsibilities that are invested in them by governments. In Belgium unions play a critical part in the unemployment benefit scheme. In other countries where unions must fend for themselves the basis

for belonging to trade unions has also changed from having a majority of members who regard their membership as a moral imperative to having a majority which regard their membership fee as an economic investment. Members are demanding value for money from their union in the same way they would from their garage that repairs their car, or from their local supermarket. In such circumstances trade unions serve the interests of members best by negotiating contracts with external service providers resulting in benefits such as group discounts for insurance or pensions. Unions may also provide help for individuals in times of need such as access to lawyers in cases of redundancy. These developments do not augur well for the future of a HRM function based on traditional 'contracts management' expertise (Tyson & Fell, 1986). The collective bargaining function in modern organisations has already been undermined by legal changes, and also changes in reward systems and contracts with employees. The more collective bargaining decreases as a key feature of organisations, the less power the traditional HRM function will yield.

### *Administration*

The third area in which the HRM function is experiencing change is in that of managing the administrative aspects arising from recruitment, selection and continuing employment. Two recent trends deserve attention. Firstly, these tasks are increasingly outsourced to specialist agencies providing an often convenient and less expensive alternative to a full-scale HRM function. The number of HRM specialists hired to perform these tasks in house is therefore decreasing in many organisations. Secondly, the move to decentralise management activities, which has swept the corporate world in the last ten years results in the devolution of responsibility for recruitment, selection and employment maintenance to line managers and even to fellow employees (Pauwe, 1996). Self-managing teams are increasingly used to select team members as part of their

development (Flood, Gannon & Paauwe, 1996). Selection can also be outsourced to specialist agencies including recruitment experts. This means that selection and employment administration involve fewer HRM specialists, and at the same time, a wider range of actors. Finally, routine employment maintenance activities such as pension administration and salary arrangements are also removed from the HRM function and passed onto specialist agencies. Storey (1992) has argued that administrative aspects of managing personnel at work, often carried out by 'handmaidens', are prone to outsourcing on the explicit understanding that if they can be done cheaper elsewhere, that will be the case.

#### *Flow Strategies*

The fourth area of expertise in which the HRM function has been involved is in advising line management on strategies for input, throughflow and output of HRM. HRM planning and selection models, including HRP (Nkomo, 1988), are used to advise managers on how best to manage the flow of people into the organisation. Scenario planning and Delphi techniques are among the tools that HRM specialists can offer managers to encourage them to think more systematically about access to the type and number of people they require. In terms of throughflow, classic tools such as ITN (Identification of Training Needs) programmes are used by HR managers in helping line managers to advance people at a suitable rate. Finally, HRM specialists advise managers on premature retirement, outplacement services and termination programmes thus facilitating the output function. The value of advice given by HR managers in this fourth area of established HRM expertise is reliant upon stability and routineity in the business domain (Keegan, 1997). When the environment is stable and work is routine, the HRM function has the time to put its tools to best effect. Selection can take place on the basis of clear job descriptions. The HRM function has the

time to instigate training and development programmes before they lose their relevance, and employees can be paid on the basis of job classification schemes that have been carefully evaluated by the HRM function working closely with other interested parties.

These conditions in which the HRM function has thrived for many decades contain now the seeds for its potential demise. If work is routine and stable, it can easily be outsourced to specialist agencies. Where work is non-routine and unstable, as is increasingly the case, tried and tested HRM tools and techniques do not add value to a firm's activities. In this context, the internal HR department may be replaced by internally autonomous work groups and line managers who are closer to the front line and thus better in touch with the changes taking place. They may well perceive that the classic HR tools and techniques take too long and are no longer relevant, and so they simply take over formerly designated HRM tasks.

### *High performance work systems*

The fifth area we consider to be important is the area in which human resource managers apply their skills and expertise, often under rapidly changing conditions, towards the creation of high performance work systems.

The main features of a high performance work system, distilled from the literature in the area (Huselid, 1995; Delerty & Doty, 1996; Pfeffer, 1998; Lawler, 1996), include the following:

- Devolution of responsibility to employees within flatter organisations
- Increased emphasis on line managers as human resource managers
- Learning as a priority instilled in all organisational systems

- Decentralisation of decision making to autonomous units and employees
- Performance measures for employees linked to financial performance indicators at the organisational level
- Increased emphasis on the customer focused nature of employee work

These features of high performance work systems lay increased emphasis on teamwork, training and development, flexibility of employees and of job definition, and high trust management methods (Kim & Mauborgne, 1997).

It can be clearly seen from the above outline that the creation of high performance work systems is expensive in terms of both time and money. And it is complicated since it will often require major changes in attitudes and behaviour on the part of both employees and organisations. It will therefore only be attempted by organisations who clearly perceive they have little choice.

However, should an organisation choose this route, then by aiding this process, HRM specialists can add value at a strategic level and create the conditions under which outsourcing the function becomes unwise and ineffective.

The kinds of organisations who may perceive they have but little choice in this matter will be those having to cope with the unstable and fast changing environments which tend to render traditional HR tools and techniques less relevant. Such fast changing market situations have arisen in those areas where the power of buyers has increased. (Galbraith, 1995). Intensified competition increases the importance of putting the consumer at the heart of all business activities (Galbraith, Lawler & Associates, 1993). Placing the customer in a central role means that all those who have

direct or indirect contact must be able to gear their work towards adding value to services and products demanded by increasingly fickle customers (Reich, 1991; Galbraith, 1995). In this context the empowerment of employees (Pfeffer, 1998), the establishment of self managing teams (Flood *et al*, 1996), and the rapid development, introduction and exit of new products and services, and the development of knowledge and learning (Leonard, 1997), all become vital to organisational survival.

For those firms where innovation and creativity genuinely provide a competitive edge, human resources may be valued even more than other resources. In the context of knowledge based service activities, Quinn argues that:

*Physical positions like a raw material source, a plant facility, or a product line rarely constitute a maintainable competitive edge today. This is especially true of manufactured products. They can be too easily bypassed, back-engineered, cloned, or slightly surpassed in performance. A truly maintainable competitive edge usually derives from developing depth in skill sets, experience factors, innovative capacities, know-how, market understanding, databases, or information distributed systems – all service activities – that others cannot duplicate or exceed (1992: 62).*

However, the willingness of employees to submit to such major changes as are demanded by the installation of high performance work systems is likely to be small when they feel themselves surrounded by insecurity such as that caused by downsizing and outsourcing. A number of

interventions are prescribed by theorists of high performance work systems to enhance the perception of security felt by employees. (Pfeffer, 1998; Huselid, 1995). Security can be achieved through involving employees in developing the organisation's vision, and enhanced by guarantees of long-term employment. Although this is not a realistic option for firms operating in some scenarios, it is for other firms. Training and development interventions can also be used to reassure employees of their security within the organisation. Rather than fear the changes, employees will be more likely to embrace them if they can be assured that they too will benefit from them. The reciprocal commitment developed through genuine initiatives creates the basis for an orientation towards risk-taking, knowledge sharing and personal initiative. In such an environment, the pursuit of innovation, with all its attendant risks, transforms into an opportunity rather than a threat to ones livelihood. In order for employees to fully utilise their talents, their creativity, and their knowledge, the environment must be such that it is safe and valuable to do so. Pfeffer uses the following analogy to drive home the point:

*Think about meeting someone and falling in love. You tell the person, "I care about you and want you to be with me. Come be with me, take care of me, be loyal to me and devoted to my interests – and by the way, when I find you no longer interesting or useful, you're out." Let me suggest that this is not likely to be a very effective pick up line. Nor is it a very effective corporate pick-up line, even if it is what many organizations implicitly (or explicitly) say to their workforce (1998: 180-181).*



Openness with regard to the situation in the organisation, and guarantees of rewards to employees, in the form of gainsharing, stock options and security of employment tenure, can also help to realign workers efforts with organisational goals in a period of instability.

From the above description the complexity of the changes involved in the creation and development of high performance work systems can be clearly seen. And an internal HR department can expect but little help - or competition - from outside. Facilitation in this task cannot be provided by outside consultants for two main reasons. Firstly the trust and understanding necessary to help persuade a work force to accept such changes can only be built up over time. And secondly, every work situation will be slightly different and so there is, as yet, no standard tool-kit. So there is no competition from outsiders with an already existing body of knowledge and experience, which can easily, flow across organisational boundaries.

However, unfortunately it would appear that the HR function has not yet grasped this opportunity. In recent years, organisations attempting to transform themselves into high performance work systems have reported to us that their efforts were thwarted by inadequate HRM back up. The HRM function, as yet, has not demonstrated a clear capacity to encourage teamwork amongst people coming from different parts of the organisation, from different employers, and from different backgrounds in terms of employment contracts. Perhaps even more importantly, the HRM function in a high performance work systems must be able to help managers with twenty or more years experience in 'command and control' employment situations to adapt to demands for a new mentoring, coaching and supporting managerial style. The HRM function also needs to help employees to develop a flexible orientation to their tasks, to training needs, to teamwork, and to

the necessity for continuous learning on the job. Finally, the development of meaningful agreements with trade unions covering large groups of workers who have very different work contracts is also a priority for the HRM function. This shifts the emphasis from contracts management towards working with trade unions in order to develop contractual flexibility in terms of training needs, learning opportunities and job development in response to changing organisational needs.

It can be seen that if the HR function is to capitalise upon an organisations' need to develop a High performance Work systems, then it still has much to learn.

### *Managing change.*

There are two major reasons why the key area of managing change may be interesting for the HR function; one is internal and the other external.

As far as the internal reason is concerned, then perhaps the single greatest employee related expense large companies have incurred over the past twenty years has been the amount of money they have invested in trying to change and adapt themselves. Researchers at the Harvard Business School tracked the impact of change efforts among the Fortune 100 group of companies over the fifteen years from 1980 to 1995. Virtually all of these companies implemented at least one change programme during this time but only 30% of these initiatives produced an improvement in bottom line results that exceeded the companies cost of capital. And in less than half did the change process lead to an improvement in market share price. And this all despite each company, on average spending \$1 billion on change programmes over this 15-year period. (Nohria quoted in Ulrich, 1998).

And now, the current challenges posed to old economy businesses by the Internet and by net related start ups only serve to increase the pressure on companies of all kinds to change and to adapt (see for example Leebaert, 1998 and Shapiro and Varian, 1999).

The importance of this major movement for the internal HR function is clear.

It lies in the possible reasons why, despite the clear need and even clearer expenditure, so much of the change effort to date has failed. Pascale, Milleman and Gioja (1997) are forthright in their conclusions. They studied change attempts over time at three of the worlds largest organisations: Sears Roebuck and company; Royal Dutch Shell and the United States Army, who had all been in existence for over 100 years and had all retained their essential identity in that they had neither been either taken over by others nor disaggregated into fragments. They report finding four distinct indicators that are highly predictive of performance both in good times and in bad. Change efforts would be blocked and be likely to fail if one or more of the following was present.

- Employees did not believe they had power. They did not believe that they could effect organisational performance. They did not believe they had the power to make things happen.
- Individuals identified more with their profession, working team or functional unit than they did with the organisation as a whole
- Organisation members handled conflict by attempting to smooth problems over rather than by confronting and resolving them
- The organisation did not learn and could not deal with new ideas.

If we are to believe the above findings then not only is the ability to change seen as such a major value -adding activity by most large organisations that they are willing to spend large sums in supporting it. But, despite this, it is also highly likely to fail. And the reasons for failure lie primarily with the attitudes, beliefs and behaviours of employees. So a major possible value adding activity for the internal HR function could be to act as change agent in order to minimise the negative factors found by Pascale et al to impede successful organisational change. Such cultural factors as they identified are difficult to change using outside consultants. Insiders have a better feel for when change is possible and are better able to set up and take part in the critical informal social networks without which most attempts to increase individual learning and to facilitate social change will fail (Brown and Duguid, 2000).

The second reason why managing change is interesting for the HR function is external. The last ten years have seen major growth in the number of mergers, acquisitions, and global alliances, as organisations attempt to become more innovative whilst at the same time reducing their exposure to major financial risk. And again the whole field of mergers and acquisitions has conspicuously failed to yield the expected financial benefits to date (see *The Economist*, 22 July 2000)

Whilst the reasons for this failure are unclear as yet and probably very complex, many observers agree that at least part of the problem lies in the difficulties the employees from different organisations have in working closely together. These difficulties include problems caused by differences in organisational cultures, by the re-tailoring of organisation design and governance to fit the new situation and by the many and varied problems arising from globalisation, such as the bringing together of reward structures across national boundaries, top team building with multinational teams etc.

Again these areas will offer fertile ground for a HR departments' input.

### **Different market situations, role of employees and effects on the HR function**

While the forces we have described so far (intensified competition, increasing demands from consumers, etc.) are important forces for many organisations, they not do apply equally to all firms in all contexts. Similarly, we do not want to suggest that the 'people' issues we have raised apply in the same strength or in the same way to all organisations.

So, using a series of twenty case studies which have been carried out by the authors in Europe the USA and SE Asia<sup>1</sup> we have developed a hypothetical model whose purpose is to outline possible relations between market forces and the role of employees and thus of the HR function.

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INSERT FIGURE 1 HERE

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It is based on the contention that investments in human capital (employees) are justified, in the eyes of top management, only in so far as such investments yield better future returns in the form of increased economic value than other possible forms of investment. Those potential returns will vary from context to context. We do not believe that employees make a critical difference in all cases to the competitive success of the firm, and we will explore further when they do, when they do not, and how the human resource management process is shaped in these different contexts.

In order to develop the model we will outline four possible market scenarios and discuss the role of employees and of the HR function within each scenario.

Needless to say that, apart from our case studies, we have also been inspired by the so called resource based theory of the firm and its subsequent application to the area of human resources.

Based on the widespread usage of the resource based perspective we skip a more detailed explanation and simply refer to for example Wright *et al* (1994) who develop an extensive theoretical argument which justifies the applicability and feasibility of using the resource based paradigm on the issue of human resources.

#### *Scenario one*

In this first scenario, we imagine a situation in which there is strong competition, labour intensity, and survival is dependent on the majority of people in the organisation since all, including even routine workers, are expected to be innovative and involved in continuous performance improvement.

#### Hypothesis 1

*In a highly competitive market situation, between labour intensive firms, where financial success is dependent on the majority of employees, then the internal HR function will develop high performance work systems.*

There are many examples of firms that find themselves in the scenario we describe here.

Automotive and electronics firms and many key members of their respective supply chains, are classic examples. However, it is also expected that as restrictions are reduced and competition in formerly regulated sectors increases, more businesses will move in this direction. Sectors such as

banking and insurance, pharmaceuticals, as well as companies in the broad engineering field, will all become subject to the pressures now faced in the automotive and electronics sectors.

The labour force in this scenario can make a real difference in terms of potential to add value. As we have already outlined, they should be multi-skilled, highly motivated, customer oriented, trustworthy and responsive. To meet this tall order requires a commitment on the part of the organisation to invest in its employees. Furthermore, to be genuinely responsive to customers, such employees must be empowered with both the skills and the responsibility to act on behalf of their organisations, although of course this is not easy (Forrester, 2000). If this is achieved, the investment in employees will naturally reduce their substitutability. The organisation is then in a position of interdependence with employees, and must intervene to reduce labour dissatisfaction and turnover. In fact, the organisation must become an 'employer of choice' for these employees. To achieve this, the HRM function must be represented on the top management team, and must be capable of demonstrating how employees can play a decisive role in increasing corporate competitiveness. As discussed, recent management literature is replete with references to how best the HRM function can manage employees as valuable assets through high performance work systems (Huselid, 1995; Delery & Doty, 1996; Pfeffer, 1998; Lawler, 1996), but the practical details are yet to be fully understood, or their contribution demonstrated.

### *Managerial action*

Despite the potential for high performance work systems to improve the position of the HRM function in this scenario: where competition is strong, labour intensity prevails and the success of the firm is dependent on the majority of workers, there are as yet no clear models to guide

managerial action. Some lessons, however, are emerging from recent survey and case based research. Following the work of Pfeffer (1995) and Lawler (1996), a deep commitment on the part of senior management is a core requirement. The HRM function should be equipped with skills in organisational development, team building and career management. In many cases, HRM specialists must learn new tools and techniques to be effective (Kerr & Von Glinow, 1997). One might even argue that at this level, human resources finally reaches many of the promises put forward for the function since the term came to prominence in the early 1980s, and as far back to the work of Legge (1978) on deviant innovation in personnel management. In particular, performance management through selection, rewards, development and organisation-wide communications must become tightly integrated with the firm's business goals. In the words of Beatty & Schneier:

*HR must now be judged on whether it enhances the firm's competitive advantage by adding real, measurable economic value, ...not merely on its perceived value" (1997:29).*

This scenario may offer the HRM function a real role for the future and a sustainable position in which outsourcing is neither an easy nor advantageous option for top management. However, investment in high performance work systems is only warranted in case where employees can make a decisive contribution. Where they cannot, it may be wiser to aim at a 'satisficing' level of human resource management rather than an optimising level.

*Scenario two*



There are many companies where, in contrast to scenario one, firms rely on only a minority of organisation members for survival. We envisage a scenario in which there is strong competition, labour intensity, but where financial success is dependent on the minority of people. This gives rise to the following hypothesis;

#### Hypothesis Two

*In a highly competitive market situation, between labour intensive firms, where financial success is dependent on a small minority of employees, then the HR concerns of the important minority will be looked after by top management and most other HR functions will eventually be outsourced.*

Examples of such situations can be found in the advertising, fashion, sport and entertainment industries. A record company can be highly successful because of the performance of one or two artists it has under contract. Similarly in the property field and in many commodity markets, what matters often is the ability of one or two top people who have the personal social networks and negotiating abilities to land important contracts. In this setting, the performance of relatively few people can impact on the success of the entire organisation in a highly disproportionate way. Top managers are often aware of this fact and nurture their stars whilst de-emphasising the importance of the other employees. Such stars are often of great importance in the eyes of key stakeholders and very difficult to replace or imitate. Although poor performance on the part of others may lead to a deterioration of service to a client (however good a copywriter, a rude receptionist may lead to account loss; however excellent a singer, poor sound and bad lighting may ruin a show) this fact alone does not offer the HRM function a sustainable future because these employees are easily replaced on the open market and do not warrant the kind of attention given to core workers. They

can have a negative impact, but rarely can they make a crucial difference in terms of competitive advantage. The minority of staff is too important to be managed by a HRM function, and the majority of staff tends to perform work that can be easily outsourced. There are few options in this scenario for the internal HRM function to position itself strategically. How long it can survive is contingent upon the resources top management is willing to devote to it. Given the increasingly intense nature of competition in many industries, top management may not be benevolent for very long, and the prospects for the function are not, therefore, very good.

### *Scenario Three*

In capital intensive firms (like f.e. oil refinery, pharmaceuticals, airline companies) operating in a highly competitive market situation three different sorts of employee groups can be distinguished. Firstly a small group which can have a positive impact on the organisations' financial success, secondly a somewhat larger group which can have an important negative effect on financial success and thirdly a large group, who exert very little influence on financial success. The presence of these three groups gives rise to the following hypotheses.

### Hypothesis Three

*In capital intensive firms operating in a highly competitive market situation the HR concerns of the small group of employees which can have a positive impact on the organisations' financial success will be looked after by top management.*

### Hypothesis Four

*In capital intensive firms operating in a highly competitive market situation the internal HR department will concentrate on creating and developing commitment within the medium sized group of employees, which can have a negative impact on the organisations' financial success.*

#### Hypothesis Five

*In capital intensive firms operating in a highly competitive market situation the HR affairs of the large group of employees which can have neither a positive nor a negative impact on the organisations' financial success will be largely outsourced.*

In the past, capital intensive firms in strongly competitive environments treated all of their employees in the same expensive way and thus were often regarded as the 'best' group of employers. In recent years, the growth of major competition has meant that this practice has had to be curtailed. In reality, we can recognise at least three groups of employee who have a separate status in these organisations and a different impact in terms of its success. Nowadays, treating all three groups the same way is seen as unnecessarily expensive. Therefore, we envisage a third scenario in which there is strong competition, capital intensity, and three categories of employees who differ in importance. The HRM function working in this context must organise its tasks and mould itself to treating these different groups in different ways so as to add maximum value to the organisation through these activities.

The essence of companies in this scenario is that they are capital intensive. Their profit depends on efficient utilisation of their invested capital, e.g. of their plants, aeroplanes, etc. To refine our

analysis, we identify three groups of employees within this scenario who differ in the degree to which they can or cannot influence the profitability of the organisation. All three possibilities present different challenges for the HRM function in terms of how it can best position itself.

*Group One - Positive impact:*

We envisage a small group of employees that is extremely important to a capital-intensive firm experiencing strong competition because of their potentially positive impact on profitability. We can think of examples such as:

- An engineer in an oil refinery plant who redesigns part of a refinery that provides a greater yield and this considerably benefits the profitability of the company.
- A member of an R&D team in a pharmaceutical company who develops a new drug, the impact of which is enormous in terms of the firm's future stream of revenues.
- An exceptionally gifted airline executive who manages to forge successful alliances in a network of airlines to secure his or her organisation the best landing slots and interlocking route networks.

For these organisations, a small number of people can exert a huge influence on the financial success of the overall organisation, where the priority is to leverage expensive capital equipment to maximum benefit. In these circumstances, which are somewhat like those, which prevail in scenario two above, top management will tend to nurture those key people directly rather than leaving it to a HRM function. In organisations with these kinds of 'stars', the traditional all round contribution of the HRM function is less valued.

*Group two - Negative impact:*

The second group of people we can identify are those who are important as a consequence of the high negative impact they might have on profitability. This group of employees may, on the surface, perform rather routine work and be easily replaced. However, they also have the capacity, through waste, to hit hard at the bottom line. By waste, we refer to capital left idle, under-utilised, or damaged. Some examples of this group of employees include:

- A careless truck driver who brushes the wing of an aircraft causing tens or even hundreds of thousands of pounds worth of damage.
- A negligent maintenance worker whose carelessness severely undermines the safety of a specific chemical processes with disastrous environmental effects.
- A pilot who overlooks or misinterprets a signal, necessitating an emergency landing or crashing and causing serious financial damage and even loss of life.

The challenges for the HRM function are of an unusual nature in circumstances where people are important in terms of their potential negative impact, and the tasks we associate within HRM must therefore change. Here, the role of the HRM function is to use all its tools and influence to persuade people whose jobs are routine and highly circumscribed to follow procedures in the same way, all the time, with no exceptions. The commitment of employees must be 100% at all times. In this scenario however, commitment refers not to hard work, creativity or innovation as is often the case with HRM theorising, but rather to careful handling of expensive and complex machinery, conscientiousness in following safety procedures, and the elimination of risks arising from carelessness.

An added complication for the HRM function is that oftentimes the tasks entailed in this kind of work are boring for workers. Since the groundbreaking work of human relations theorists of the 1930s and the work of the socio-technical theorists in the 1950s, HRM departments have been urged to involve people and build their potential through devolved decision making. By contrast, we have here a market and competitive scenario in which this deeply entrenched wisdom is inappropriate. The rule-like basis for many jobs in capital intensive firms inhibits initiatives to involve people. Conventional HRM wisdom about how to win employee commitment through enhancing their discretion must be overturned in this scenario if the HRM function is to put in place appropriate policies. The challenge becomes one of helping to fight the boredom and lethargy that can go hand in hand with jobs where employees are required to act in a limited way. We can think of initiatives such as user friendly work scheduling as an example of the kinds of advances the HRM function can make in this context (Galbraith, Lawler & Associates, 1993). To win commitment and dedication the HRM function may have to consider lifetime employment, good pay, job rotation and opportunities for training and development. The last two initiatives are especially important if the routine and potentially demotivating nature of work is not to cause problems such as carelessness and lack of commitment to safety. The point of such initiatives is to increase the attractiveness of the work situation without increasing the discretion of workers with regard to the performance of their tasks. However, there are few lessons for HRM managers on how to maintain the conditions of tight control and strict discipline, whilst at the same time providing a rewarding environment for employees. Because the function cannot involve workers fully or utilise their knowledge and creativity in an open manner, the future for the function in this scenario is difficult to grasp. It demands a complex role, in which the main contribution is to

prevent damaging behaviour and as such prevention is difficult for others to perceive and therefore such activities will have low visibility in the organisation.

*Group Three - Neither positive nor negative:*

There is a third group of employees in the capital intensive, strong competition context. This group is larger than the other two, but has an impact that is not significant in either a positive or negative direction, on profitability. The work of this group is largely routine and the labour market is not tight. Such groups of employees are the administrative staff, maintenance workers, catering staff, cleaning staff and other such categories. There is a growing tendency in capital intensive firms to outsource the work of these people to low wage countries. In the case of British Airways, a large volume of administrative work was outsourced to India in order to take advantage of lower labour costs for routine task completion. Given this tendency, and given the inability of this group of employees to significantly effect profitability one way or the other, it is unlikely that top managers in this scenario will see a HRM function as a high priority.

From this analysis of capital intensive firms operating in a competitive market place, there is some evidence that a HRM function, which can aid the development of high levels of commitment and dedication among relevant workers, would be seen as adding major value to the business.

However as most other employees are concerned, then the HRM function will be marginalised or simply not have the opportunity to play a key role. This is because line managers prefer to attend directly themselves to the minority of workers who truly add value and the care of those that do not add value can be more cheaply covered by outside agencies.

### *Scenario Four*

The final scenario that we discuss in terms of the implications for the future of the HRM function is the sector characterised by the absence of, or restricted nature of, competition. This situation leads to the following hypothesis:

#### Hypothesis Six

*In a market situation with no competition, the internal HR function will continue performing its traditional role*

There are several settings in which absent or restricted levels of competition prevail, including local and central government in many parts of Europe. For example:

- Utilities companies supplying water, electricity and gas.
- Organisations in the educational and health care sectors.

Organisations operating in these sectors tend to work close to the 'customer', delivering services at the local level and interacting with the local communities they serve. These organisations can be seen as delivering a very valuable service to their local communities, and their survival can be legitimised in this manner. However, since the 1980s, market rhetoric has crept slowly into this sector and organisations protected from competition are increasingly perceived as inefficient and ineffective when judged within a paradigm of market led competition. The key question in terms of the survival of these organisations is how long a society is prepared to pay for the inefficiencies that are perceived as inherent to these sectors. As long as society is willing to pay the price, those employed by these organisations will to some extent be protected from exposure to more results



and performance oriented environments. The increasing emphasis on market driven services and the results oriented rhetoric evident in most Western European countries since the 1980s may indicate that societies are less willing to subsidise organisations protected from competition.

The European telecommunications industry represents an interesting case in point. It is only in recent years that organisations in this sector have begun to be faced with competition. In country after country, an organisational revolution is taking place in this sector as firms grapple with the challenges posed by intense competitive pressures. In the midst of these changes, Chief Executives are often relieved of their duties. They are far from the only casualties, with HRM functions frequently close behind. Many HRM functions in this sector have experienced changes in staff numbers, priorities and modes of working. They are forced in the directions outlined in scenarios one and two. For industries that continue to be shielded from competition, the function may remain as it is. However, given the possible threats from outsourcing, this is likely to be, for most, only a temporary option.

### **The case of change agency.**

From the above four scenarios it can be seen that competition brings change in every scenario where it exists. It brings internal change in the sense that new work structures and procedures may be required; new attitudes and behaviours will be required of many employees; different sorts of scarce personnel may have to be recruited from outside and some old long serving staff members may have to be released from their contracts. The pace of innovation has to be speeded up, waste has to be reduced and everywhere cycle times lowered and performance improved. And it brings external change in the way that management seek to reduce financial risk through setting up

alliances and co makership agreements with supply chain partner companies, and to reduce competitive risk through merging and taking over companies which are seen to be challenging their market position.

And as long as competition continues, the change and adaptation process required of those organisations involved will not diminish. The situation is dynamic. As one competitor achieves a temporary advantage, so this will stimulate others to follow suit, and so on. It is a situation of permanent rather than just temporary change.

In all such situations there is a clear need for internal as well as external change managers and facilitators. External change agents are often skilled in starting up change. The whole start up process can be clearly structured, is often predictable, and will be similar across a variety of organisations. External consultants are often experts in involving top management, they can ensure current market threats are clearly communicated to all involved, they can oversee the appointment of steering groups, and above all they can provide the large scale initial training involved.

Such expertise was very useful when market conditions favoured the old Lewinian three-step change model of unfreezing, change and then refreezing. But now, as we have outlined above, most organisations need to be able to manage situations of permanent rather than just temporary change. Many modern organisations will never again reach a state of refreezing. So the guidance and management of longer-term continuous change, rather than expertise in starting up a change process, is what is needed. And here external consultants have understandably far less expertise because every organisations' change process is likely to develop differently.

External consultants, whose value lies primarily in their knowledge of what change needs to be started and how such change may best be accomplished, will have major difficulties in judging when the organisation is ripe for further change steps. The longer the change process lasts the more important it is that internal change agents take over its managing because the longer it lasts the less predictable it is. And only those present within the organisation can recognise the way in which things are developing and thus can guide longer-term change in the desired direction.

External change managers have great difficulty in forming a good overview of the real situation in the organisation and in its market places. They will not be geared into the important informal networks, which can provide a rounded view about what is really happening. They often will not really understand the importance of any strong organisational national or professional cultures present in the organisation. And thus they will lack the necessary information and intuition to be able to move a change process successfully forward. The opportunity is clearly present for the internal HR department to move into the field of long term change agency. The only question is how many current HR professionals are capable of fulfilling such a role.

*Possible other scenarios.*

It might be suggested that we have not considered the case where some individuals may be unimportant from an organisational point of view in the sense that they are unable to exert any positive influence upon organisational performance, but where they cannot easily be replaced from outside. Our argument would be that, whenever individuals carry out a function which is necessary for organisational survival, if they cannot be easily replaced, then they become key in the eyes of the company because, if they leave, their leaving will have a clear negative impact. Such individuals

therefore could form a rationale for the existence of an internal HR department as covered by Hypothesis Four above.

### **Implications for the HR function.**

The picture painted by our hypothetical model is not a rosy one for the HR function. It suggests that the future for the internal HR department will lie in the areas of assisting the development of High Performance Work Systems, and in facilitating long-term continuous organisational change. And it suggests that the future for those members of the function who pursue their careers outside traditional organisations, will lie in their becoming specialised consultants able to offer good quality service at cheaper prices than their internal colleagues.

Training HR professionals to become developers of High Performance Work Systems and to facilitate long-term continuous organisational change will not be easy. It will not be easy firstly because few traditional HR departments are likely to offer much relevant experience. The HRM environments of many organisations in the past were so restricted by legislation and by trade union agreements that the amount of freedom for the function to develop and implement improvements was minimal. Working within such organisations is therefore unlikely to be a good training ground for new style human resource managers.

And it will not be easy because any training will have to cover not just one but rather three different areas. Firstly, in both the job of assisting the development of High Performance Work Systems, and in facilitating long-term continuous organisational change there are some tools and techniques, which can be relatively easily learnt. Secondly both jobs need a high degree of social

skills, which cannot be so easily learnt. And finally an element of creativity and innovation is necessary for successful fulfilment of both roles.

For example there is a body of knowledge in existence to help in the development of high performance work systems. Lists of possible performance measures are available, techniques to help in team development can easily be found and there is ample easily accessible material on the empowerment process. All this can be learnt.

Similarly, every consultancy worth its fees, and many large organisations besides, have change management training programmes, which can be easily downloaded either from the shelf or from the net. Such programmes are clear on what needs to be done and give guidance also sometimes on how to achieve it.

But such a richness of tools techniques and information is not sufficient to make people who can assist in forming high performance work systems or facilitate long term change management. In addition more 'tacit' style knowledge and social skills are needed. New style human resource managers must be able to empathise with the unique problems and dilemmas of their partners. They must understand the challenges their partners face as well as the role of the HRM function in meeting these challenges. The ability to develop the much-needed trust demanded by the role is also likely to be crucial. As we have seen, trust is vital in a fast moving and competitive environment, as the predictability and stability in the environment declines (Kim & Mauborgne, 1997).

And empathy and understanding can best be developed through broad experience. Candidates for new style HRM roles must have experience of different kinds of organisations such as those we have outlined in this article in order that they may be able to compare and contrast these differing market situations. Broad experience will allow HRM managers to speak the language their partners –including top management, line managers, client managers and employee representatives- speak. And broad experience will make it easier to empathise with their client groups.

No training package in change management can tell the participants when the organisation is ripe for the next step in a continuous change programme. Gut feel and intuition, coupled with membership of the key informal social networks come into play here. And these only come from credible broad experience in the business (Klein, 1998).

Finally creativity. Some situations, which an internal HR function will face when pursuing the role of assisting in the development of High performance work systems and long term continuous change, will never have been faced before. There will be no easy tool or technique, no social network partners, which can help them in this situation. They will have to be creative enough to devise their own solution to the problem, to implement it, and then to modify or scrap it and try again as required. So HR professionals in these roles should have had previous experience in working in environments in which they were continuously challenged to improve on what they were doing, continuously having to devise better ways of carrying out their responsibilities. They should have themselves been trained in a manner that promotes continuous experimentation and learning (Mc Cauley *et al*, 1994).

For human resource specialists operating in scenarios where employees do not provide the lever to achieve competitive success, routine administration and contracts management expertise are likely to be outsourced. Specialist recruitment, selection, training, outsourcing and development agencies are proliferating all the time, whilst legal and accounting functions within large organisations can also undertake work previously in the domain of human resource administration. Where employees do not offer a distinct competitive advantage, organisations may choose to buy rather than make their human resource expertise. This, in our view, presents the greatest threat to internal human resource specialists. The prospects for their removal from the HRM process is greatest where outsourcing offers an efficient and cost effective alternative to the internal specialist human resource management function (Adams, 1991; Paauwe, 1996).

So we suggest that such previously internal HRM specialists will have to change careers and become external agents performing aspects of the HRM process outside of the formal HRM function structure. They will thus be operating in a different world; a world in which they will be subjected to greater pressures in terms of other (competing) external agents and assessed according to stricter business criteria.

## **Conclusions**

Despite the ritual protestations by company chairmen in their annual reports thanking employees for their contribution in the preceding year, we believe that in many organisations employees do not make the essential difference between success and failure. To argue that they do is to ignore that distinctly different dynamics effect firms in different market situations.

Our argument is simple. In a competitively tough situation, differences in perception of employees as either important or unimportant in their influence upon the attainment of strategic goals will impact the way in which top management treats the function responsible for advising on how best employees can be utilised, i.e. the HRM function. If top management sees the majority of the workforce as having a relatively unimportant influence on financial success, then the function will be downgraded and its activities and responsibilities are liable to be outsourced. If only a small number of employees are perceived to be important for success, then line management will most likely manage them themselves whilst contracting out all other HRM related work. However, if top management perceives that the majority of employees are important in terms of their influence on organisational performance, then the HRM function has a chance to take its place as a fully-fledged partner at the top management table.

The areas of most fruitful future development for the HRM function- and their key to this seat at Board level- are assisting in the development of high performance work systems and facilitating the managing of long term continuous organisational change. The contexts in which this development is possible have been discussed, and the very real difficulties inherent in both these two new key areas of HRM activity outlined.

Through this we hope to have stimulated other researchers to take this debate further. In order to do so hypotheses have been developed, which can act as a useful starting point.

Roger Williams  
Jaap Paauwe  
Anne Keegan

Rotterdam/London, October 2000



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## **Note**

In total 20 case studies have been carried out, of which 10 in Holland, 5 in the USA and 5 in South East Asia. These cases are part of a PhD project aimed to describe and analyse performance improvement change projects in large companies. Information concerning HR issues is prominently present. The majority of the participating companies operate on international markets

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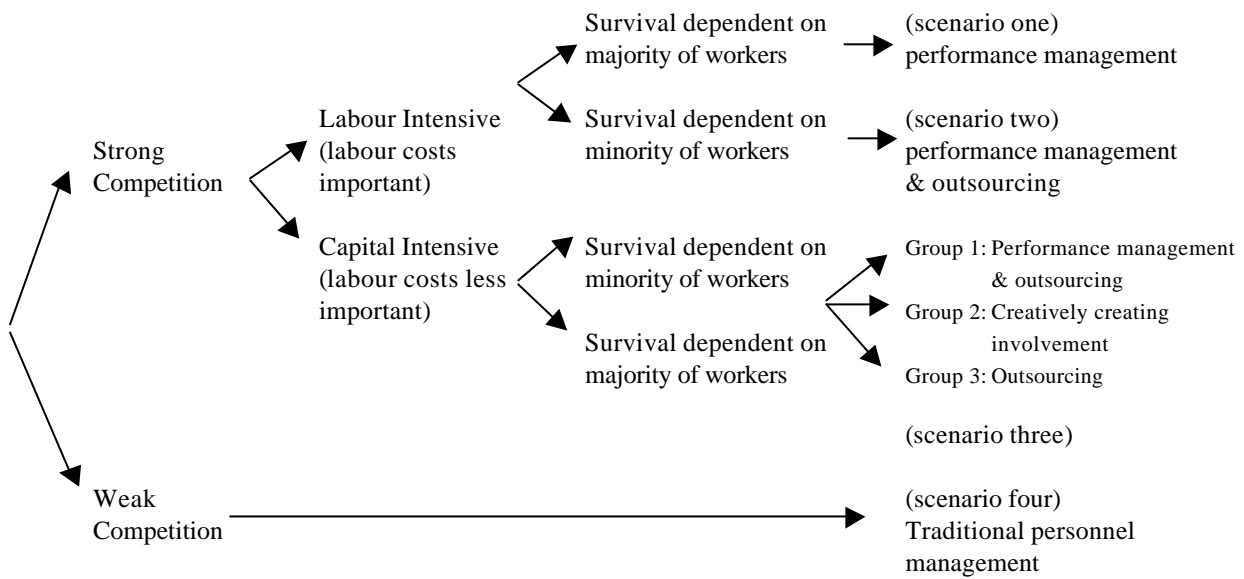
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# Appendix

**Figure 1: Types of market situation and competitive environment in relation to the HRM function**





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