**Chapter 1**

**The Nature of Human Resource Management**

**Learning Objectives**

After studying this chapter, the student should be able to accomplish the objectives given below.

1. Describe contemporary human resource perspectives
2. Trace the evolution of the human resource function in organizations
3. Identify and discuss the goals of human resource management
4. Discuss the setting for human resource management
5. Discuss the job of human resource managers from the perspectives of professionalism and careers

**Chapter Outline**

**Introduction**

Regardless of their size, mission, market, or environment, all organizations strive to achieve their goals by combining various resources into goods and services that will be of value to their customers. But increasingly managers are beginning to view less tangible resources as the most critical for gaining a competitive advantage. For example, successful organizations need information not only about consumers but also about the firm’s competitive environment to help managers make decisions, solve problems, and develop competitive strategies.

Therefore, many experts in the field have come to recognize that no set of resources is more vital to an organization’s success than its human resources. **Human resources (HR)** are the people that an organization employs to carry out various jobs, tasks, and functions in exchange for wages, salaries, and other rewards. **Human resource management (HRM)** refers to the comprehensive set of managerial activities and tasks concerned with attracting, developing, and maintaining a qualified workforce—human resources—in ways that contribute to organizational effectiveness. More and more organizations are coming to appreciate the dramatic impact that effective human resource management can have on all aspects of the organization.

**I. Contemporary Human Resource Management Perspectives**

In most organizations today, the role of human resource management has become quite important. For instance, the passage of Title VII of the Civil Rights Act of 1964 (and various court decisions that followed it) made it clear that organizations had to find ways to hire, reward, and manage people effectively within the limits of the law. As a result, the human resource management function came to require dedicated professionals who could balance legal and ethical concerns with the need of organizations to survive and be profitable.

The top HR executive at most companies today has the status of vice president or executive vice president and is a fully contributing member of the firm’s executive committee, the body composed of key top managers that makes major policy decisions and sets corporate strategy. Today, most firms use a term such as *human resource management* to reflect more accurately the sophistication and maturity of the function.

Many aspects of the modern HRM function actually date back to the 1980s and 1990s. Some of these firms went out of business, and employees lost their jobs. Some firms were acquired by other, more successful companies, and in the aftermath many employees of the acquired firm were seen as redundant and let go. As knowledge became more critical in gaining competitive advantage, HR managers helped define strategies to acquire or develop knowledge resources.

Today, many large organizations hire outside firms to handle payroll, insurance and benefits, and even recruitment and selection in some cases. This practice, commonly known as **outsourcing**, has resulted in smaller HR staffs within companies and more reliance on outside consultants to provide the services once provided by those staffs. In what has been termed a post-affirmative action world, issues regarding differential test performance of members of different ethnic and racial groups, especially in high-stakes situations (where jobs or entrance into academic institutions are involved), are becoming more rather than less complex.

|  |
| --- |
| **Contemporary Challenges in HR: Labor Shortage? Or Labor Surplus?**  During challenging economic times like people have faced the last decade or so, the press routinely reports large job cuts and predicts high unemployment. But at the same time, U.S. businesses in some sectors are facing a growing labor shortage. There are actually several reasons. First, individuals have entered the retirement bulge associated with the baby boomer generations. This means that there are more workers retiring than there are younger workers entering the workforce. Second, the U.S. workforce has a growing misalignment between what workers can and are willing to do and what employers need for them to do and between where jobs are located and where workers live. Even some professional jobs are facing the same challenges. |

**II. Evolution of the Human Resource Function**

The Industrial Revolution of the eighteenth century sparked a greater interest in business growth and expansion, and large-scale business operations began to emerge throughout Europe and the United States. **Scientific management**, in turn, was concerned with structuring individual jobs to maximize efficiency and productivity. The major proponents of scientific management, such as Frederick Taylor and Frank and Lillian Gilbreth, had backgrounds in engineering and often used time-and-motion studies in which managers used stopwatches to teach workers precisely how to perform each task that made up their jobs.

Labor would use the production standards established by management as a way to work even more slowly. Still, scientific management helped augment the concepts of assembly-line production, division of labor, and economies of scale that gave birth to the large businesses that transformed domestic and international economies throughout the twentieth century.

**A. Origins of the Human Resource Function**

As businesses such as General Motors (started in 1908), Bethlehem Steel (1899), Ford Motor Company (1903), Boeing (1916), and other industrial giants launched during this era expanded rapidly and grew into big companies, they obviously needed to hire more and more workers. For example, the emergence and growth of large labor unions such as the United Auto Workers and the passage of the Fair Labor Standards Act in 1938(which established a minimum wage) and the National Labor Relations Act in 1935 (which dealt with unionization procedures) made it necessary for businesses to have one or more managers represent the interests of the business to organized labor and to administer the emerging set of laws and regulations that governed labor practices.

For example, in England, Charles Darwin’s work was used by some theorists to popularize the idea that individuals differed from each other in important ways. In France, the work of Alfred Binet and Theophile Simon led to the development of the first intelligence tests, and, during the course of World War I, several major armies tried using these tests to assign soldiers to jobs. These efforts continued in the private sector after the end of World War I, and by 1923, books such as *Personnel Management* by Scott and Clothier were spelling out how to match a person’s skills and aptitudes with the requirements of the job.

Another important ingredient in the origins of the human resource function during this period was the so-called **human relations era**, which emerged following the **Hawthorne studies**. Between 1927 and 1932, the Western Electric Company sponsored a major research program at its Hawthorne plant near Chicago. This research, conducted by Roethlisberger and Mayo, revealed for perhaps the first time that individual and group behavior played an important role in organizations and that human behavior at work was something managers really needed to understand more fully.

During this era, for example, Abraham Maslow popularized his **hierarchy of human needs**. And Douglas McGregor’s well-known **Theory X** and **Theory Y** framework also grew from the HR movement. The basic premise of the HR era was that if managers made their employees more satisfied and happier, then they would work harder and be more productive.

**B. Personnel Management**

Growing organizations began to create specialized units to cope with their increasing hiring needs, deal with government regulations, and provide a mechanism for better dealing with behavioral issues. During the 1930s and 1940s, these units gradually began to be called **personnel departments** (the word *personnel* was derived from an Old French word that meant “persons”).They were usually set up as special, self-contained departments charged with the responsibility of hiring new workers and administering basic human resource activities such as pay and benefits. The recognition that human resources needed to be managed and the creation of personnel departments also gave rise to a new type of management function—**personnel management**.

During this period, personnel management was concerned almost exclusively with hiring first-line employees such as production workers, salesclerks, custodians, secretaries, blue-collar workers, unskilled labor, and other operating employees. The manager who ran the personnel department was soon called the **personnel manager**. Personnel management evolved further during World War II. Psychologists were consulted to help develop selection tests, for example, to assess individual skills, interests, and abilities more accurately. During the 1950s, the lessons learned during the war were adapted for use in private industry. New and more sophisticated techniques were developed, especially in the area of testing, and companies also began to experiment with more sophisticated reward and incentive systems. Labor unions became more powerful and demanded a broader array of benefits for their members.

Although other managers accepted personnel as a necessary vehicle for hiring new operating employees, personnel management was also seen primarily as a routine clerical and bookkeeping function. The 1964 Act, combined with several subsequent amendments, executive orders, and legal decisions, made the processes of hiring and promoting employees within the organization far more complex.

**C. Human Resource Management in the Electronic Age**

One of the most dramatic changes in people’s lives over the past 10 years or so has been the increasing presence of technology. Bigger, faster computers have allowed firms to compile large amounts of data and keep better track of employees, and new approaches to data analysis allow organizations to monitor patterns of behavior and preferences of those employees. Surveillance technology allows organizations to literally watch what employees do on the job (and in some cases, off the job as well). Organizations have changed the way they advertise jobs to recognize that, today, most potential applicants search for jobs by accessing one of the many job-search Web sites(such as Monster.com). Training programs can now be purchased from vendors and provided to employees online, allowing them to take classes and training at their own pace.

As organizations introduced new technologies for manufacturing, communication, and human resource management, they also increased their need for more specialized employees. **Knowledge workers** are employees whose jobs are to acquire and apply knowledge, and they contribute to the organization by the nature of what they know and how well they can apply what they know.

**D. Emerging Human Resource Challenges**

The financial crisis that swept the world in 2008–2009 created havoc in most businesses. Many firms—including several large organizations—went out of business or came close to it. As a result many people lost their jobs, and it typically fell to the HRM department to determine how and when layoffs would take place, and to notify those employees who would be losing their jobs. As the stock market also fell during this time, most pension funds lost value, and some older workers decided that they could no longer afford to retire.

Stress can have a significant effect on how people behave at work, and problems arising from this increased stress often become the HRM department’s responsibility. Finally, around the world, many thought leaders are advocating the need for businesses to address social issues. This has taken, and continues to take, many forms. In any case, these new levels of concerns over social goals require different types of employees and different ways of treating those employees. As a result, these movements have major implications for HRM departments.

**III. Goals of Human Resource Management**

Figure 1.1 illustrates the four basic goals of the human resource management function in most organizations today.

**A. Facilitating Organizational Competitiveness**

All organizations have a general set of goals and objectives that they try to accomplish. Regardless of the time horizon or the level of specificity involved in these goals, they are generally intended to promote the organization’s ability to be competitive in fulfilling its purpose or mission.

**B. Enhancing Productivity and Quality**

**Productivity** is an economic measure of efficiency that summarizes and reflects the value of the outputs created by an individual, organization, industry, or economic system relative to the value of the inputs used to create them. **Quality** is the total set of features and characteristics of a product or service that bears on its ability to satisfy stated or implied needs. Most managers today realize that productivity and quality usually go hand in hand—that is, improving quality almost always increases productivity.

Actually improving productivity and quality, however, takes a major and comprehensive approach that relies heavily on human resource management. Thus in most organizations, HRM also has the goal of helping to enhance productivity and quality through different activities and tasks.

**C. Complying with Legal and Social Obligations**

A third fundamental goal of the human resource management function today is to ensure that the organization is complying with and meeting its legal and social obligations. The passage of the Civil Rights Act in 1964 really made this goal salient. More recently, changes in the Americans with Disabilities Act, as well as new legislation regarding equal pay for men and women brought new legal challenges to HRM departments.

**D. Promoting Individual Growth and Development**

Finally, a fourth goal for human resource management in most contemporary organizations is promoting the personal growth and development of its employees. This goal usually includes basic job-related training and development activities. But in more and more organizations, it is increasingly going far beyond basic skills training. Some firms, for example, now offer basic educational courses in English, math, and science for their employees. Many organizations also include some provision for career development—helping people understand what career opportunities are available to them and how to pursue those opportunities.

Individual growth and development may also focus on areas that do not relate directly to job responsibilities. For example, some organizations provide stress-management programs to help their employees better cope with the anxieties and tensions of modern life. Wellness and fitness programs are also becoming more common as organizations seek new and different ways to help their employees remain physically, mentally, and emotionally fit and better prepared to manage their lives and careers.

In general, more firms are seeing human resource management as part of the psychological contract that they have with employees: Provide a personally rewarding work experience in return for the employees’ working toward the firm’s strategic goals. A **psychological contract** is the overall set of expectancies held by the employee with regard to what he or she will contribute to the organization and held by the organization with regard to what it will provide to the individual in return.

**IV. The Setting for Human Resource Management**

Traditionally, all HR activities resided in a separate department, but this model is becoming rare. Instead, HR activities are carried out by both line and staff managers.

**A. Human Resource Management as a Staff versus Line Function**

**Line managers** were those directly responsible for creating goods and services; that is, their contributions to the organization were generally assessed in terms of their actual contributions and costs to the organization’s bottom line. **Staff managers**, on the other hand, were those responsible for an indirect or support function that would have costs but whose bottom-line contributions were less direct. Legal, accounting, and HR departments were usually thought of as staff functions. Their role was to support line management’s efforts to achieve organizational goals and objectives.

Today, however, many organizations have blurred this distinction. New forms of organizational design (such as teams and an emphasis on flatter and more decentralized organization) have made it more likely that many HRM activities are actually carried out by line managers. Line managers are intimately involved in most of the interventions designed to enhance performance, and they often make decisions about pay raises and promotions.

In some organizations, the HRM function is structured in a completely different way. In these firms, the human resource management department is structured around “centers of excellence.” In still other cases, the HR department itself functions as a consulting operation within the organization. In these arrangements, the HRM department budget is small, and the only way to hire and retain employees in that area is to provide services that other managers are willing to pay for.

**B. The Human Resource Department in Smaller versus Larger Organizations**

Responsibilities for carrying out HR functions may reside in a separate HR department, but many smaller organizations do not have such departments and must deliver the required services in different ways. Most small organizations require line managers to handle their basic HR functions.

A small independent business is generally operated in the same way, with the owner or general manager handling human resource duties. Payroll and other basic administrative activities may be subcontracted to businesses in the local community that specialize in providing such services for other local organizations. Very small organizations are exempt from many legal regulations.

As the firm continues to grow, however, more assistance is needed to staff the HR department, and so that department also grows. Indeed, in the largest organizations, HR functions are themselves likely to have specialized subunits. Figure 1.2 shows how Shell Oil has organized its HR function.

**C. The Human Resource Management System**

A **human resource management system** is an integrated and interrelated approach to managing human resources that fully recognizes the interdependence among the various tasks and functions that must be performed. This viewpoint is illustrated in Figure 1.3.By viewing the overall organization as a system, HRM then can be conceptualized as a subsystem within that more general organizational system.

The HRM subsystem both affects and is affected by the other functional subsystems throughout the organization. Thus, the global perspective on HRM includes the need to understand domestic similarities and differences in managing human resources in different countries and the role of international assignments and experiences in the development of human resource skills and abilities.

**Utility analysis** is the attempt to measure, in more objective terms, the impact and effectiveness of HRM practices in terms of metrics such as a firm’s financial performance. It remains the role of the HRM department, however, to develop these metrics and apply them to all HRM activities undertaken on behalf of the organization.

**V. Human Resource Managers**

Given the rapid and dynamic changes that have characterized this field, it should come as no surprise that HR managers represent a diverse set of professionals with a variety of backgrounds, experiences, and career objectives. In addition, contemporary HR executives must also possess general management abilities that reflect conceptual, diagnostic, and analytical skills. Thus, both a solid educational background and a foundation of experience are necessary prerequisites for success. Consistent with these changes, it is often more useful to conceptualize human resources as a center of expertise within the organization. This view of HRM is illustrated in Figure 1.4, which builds on the systems view of human resource management presented earlier in Figure 1.3.

**A. Professionalism and Human Resource Management**

Accompanying the shifts and changes in human resource functions and importance is a greater emphasis on professionalism, which is reflected by a clear and recognized knowledge base and a generally understood way of doing business. HR managers are no longer regarded as second-class corporate citizens, and more and more organizations are including a stint in human resources as a normal step on a person’s way to the top. Indeed, the salaries for HR executives continue to rise at an impressive rate. Human resource departments are also being viewed more and more as cost centers, with the goal of providing clear and measurable financial benefits to the organization.

Many human resource managers today belong to the Society for Human Resource Management (SHRM), the field’s largest professional HR association. SHRM has created the Human Resource Certification Institute (HRCI). The HRCI is the recognized symbol of HR certification in much the same way that the accounting profession uses the certified public accountant exam and credential to designate those individuals who have formally achieved basic minimal competencies in prescribed areas. The HRCI currently offers three core certifications: the Professional in Human Resources (PHR), Senior Professional in Human Resources (SPHR), and Global Professional in Human Resources (GPHR).

**B. Careers in Human Resource Management**

One obvious way to enter this profession is to get a degree in human resource management (or a related field) and then seek entry-level employment as an HR manager. Alternative job options may be as the HR manager for a small firm or as a human resource specialist in a larger organization. Some universities also offer specialized graduate degree programs in human resource management. Another route to HRM would be through line management. More and more firms are beginning to rotate managers through the HR function as part of their own personal career-development program.