

Strategic human resource management

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- 1.1** explain what is meant by human resource management
 - 1.2** understand the historical development of human resource management in Australia and New Zealand
 - 1.3** understand the relationship between human resource management and management, and describe approaches to human resource management
 - 1.4** describe the HR manager's role
 - 1.5** understand key human resource management activities performed in organisations
 - 1.6** understand the role of human resources in organisational productivity and performance
 - 1.7** discuss the ethical issues facing human resource management
 - 1.8** explain the meaning of strategy
 - 1.9** explain the meaning of strategic human resource management
 - 1.10** describe a strategic approach to human resource management
 - 1.11** understand human resource management outcomes and performance, and appreciate the strategic challenges facing human resource management.
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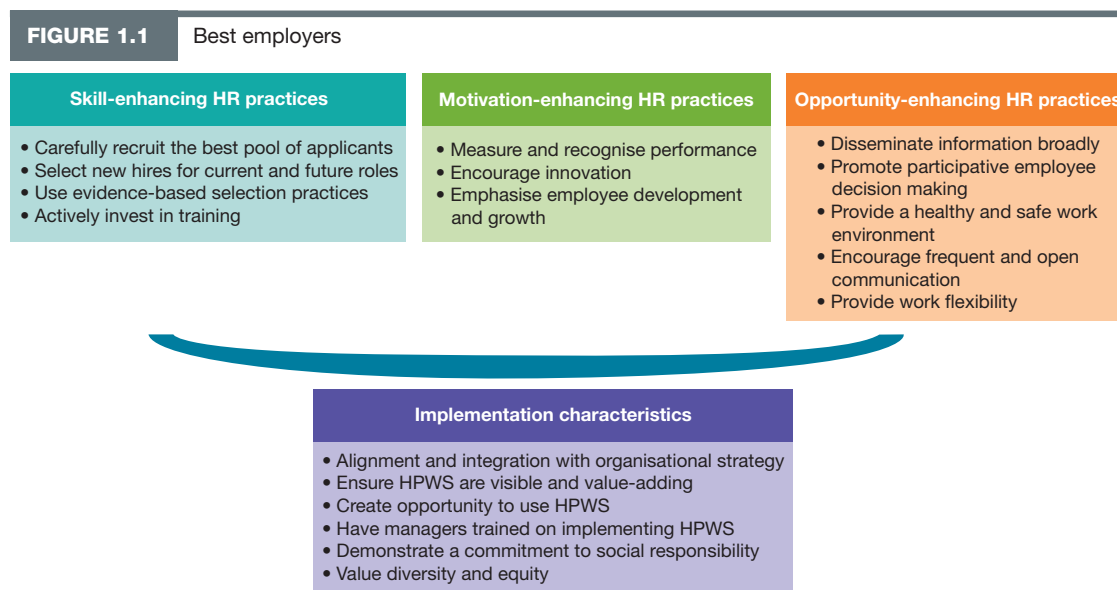
1.1 What is human resource management?

LEARNING OBJECTIVE 1.1 Explain what is meant by human resource management.

The focus of **human resource management (HRM)** is on managing people within the employer–employee relationship. Specifically, it involves the productive use of people in achieving the organisation’s strategic business **objectives** and the satisfaction of individual employee needs. It adds value by designing and implementing HR policies and practices that motivate employees to translate their know-how into productive behaviour.¹

HRM seeks to strategically integrate the interests of an organisation and its employees. As such, it is much more than a set of activities relating to the coordination of an organisation’s human resources. HRM is a major contributor to the success of an enterprise because it is in a key position ‘to affect customers, business results and ultimately shareholder value’.² Arguably, the critical role of HRM has only become more pronounced following the COVID-19 crisis in 2020. As Bremen, Willis Towers Watson’s managing director of Human Capital and Benefits, notes, ‘The week that trillions of dollars of market value came out of the global economy because people could not work and consume and live normally — really ended any debate over the value of HR to the enterprise ... HR’s seat at the table was solidified, permanently.’³

When it comes to gaining the productive contribution of people, HRM is either part of the problem or part of the solution. Among leading international companies including Google, General Electric, Johnson & Johnson, Microsoft, PepsiCo and Apple, to Australian leaders such as Cisco, Insentra, Atlassian, Canva and Salesforce,⁴ there is unequivocal recognition that people are their most important resource, and organisations must take responsibility and purposeful action to maximise their contributions while also nurturing and supporting employees (see figure 1.1).



Arguably, the aforementioned organisations all benefit from **high-performance work systems (HPWS)**. Also known as ‘HR bundles’, ‘high-involvement work systems’ and ‘high-commitment work systems’, HPWS seek to align HRM practices and policies with the strategic goals of the organisation.⁵ HPWS are believed to effect organisational outcomes (e.g. financial outcomes, turnover rates, productivity) by enhancing employee knowledge, skills, abilities and other characteristics (KSAOs); enhancing **human capital**; and motivating employees.⁶ By aligning HRM practices and policies, HPWS allow organisations to create value and gain competitive advantage through the leveraging of their human, physical and organisational resources.⁷ Research suggests there is a positive relationship between HPWS and organisational performance.⁸ For example, Saridakis and colleagues found HPWS accounted for 8 per cent of the variance in firm financial and operational performance.⁹ Although various HPWS frameworks exist, Jiang and colleagues argued they can be distilled into three overarching categories: (1) skill-enhancing HR practices (recruitment, selection and training), motivation-enhancing HR practices (performance management, compensation, employee development), and (3) opportunity-enhancing HR practices (job design, information dissemination and participative decision making).¹⁰ The overall positive effect of HPWS may be a result of different mechanisms. Skill-enhancing HR practices have a direct

positive effect on organisational financial outcomes, as well as an indirect effect through both enhanced human capital and operational outcomes, and a reduction in voluntary turnover. Motivation-enhancing HR practices also have a direct positive effect on financial outcomes, but also positively contribute to both human capital and employee motivation. Finally, opportunity-enhancing HR practices have an indirect effect on financial outcomes through enhanced employee motivation and operational outcomes.¹¹

Although research strongly supports the effectiveness of HPWS on a variety of organisational outcomes, it is important to consider their potential to be 'part of the problem' when trying to gain the contribution of employees. Consistent with this, research shows that poor HRM practices are linked to poor performance.¹² Indeed, some have argued HPWS are simply a means of exploiting employees for financial gain. Such exploitation may occur when HPWS increase employee stress and role overload.¹³ Additionally, it is possible HPWS will still not be universally effective. For example, employees with low levels of intrinsic motivation may require additional structure, supervisory assistance and external regulation to perform well. Furthermore, there is evidence suggesting the value of high-performance HR may be affected by a number of factors including national culture, organisational strategic orientation and the effectiveness of their administration.¹⁴

Research suggests there are several strategies organisations can use to mitigate potential pitfalls associated with HPWS. For example, when employees feel they have control over their specific tasks and responsibilities,¹⁵ they perceive HPWS more favourably than when they feel low levels of control. Organisational leaders should also use clear and informative communications to ensure that employees understand all HR policies and practices being implemented.¹⁶ Importantly, there is a distinction between HPWS implementation (the presence of different types of HR activities and policies) and how employees actually evaluate HPWS effectiveness and quality.¹⁷ That is, the mere presence of HPWS is necessary, but not sufficient. To yield the best outcomes, HPWS must be visible to employees, increase employees' opportunities to use HPWS, and ensure line managers are skilled in the implementation of these systems. Critically, HPWS must be aligned and integrated with the organisation's overarching strategies.¹⁸ The evidence is clear: HPWS are positively related to superior organisational performance, when implemented correctly.¹⁹

The HR manager, as with any other functional manager in marketing, production or finance, is responsible for performance. The position exists foremost to help achieve the strategic business objectives of the organisation. Yet the evidence suggests that few HR managers have a good understanding of the businesses in which they work.²⁰

A survey by Fairfax Business Research shows that a significant proportion of managers believe HRM's major contribution is as a provider of information.²¹ According to Ulrich, HR people spend 60–80 per cent of their time in administrative activities and less than 20 per cent on the roles of strategic partner, employee advocate and consultant on important HR issues.²² Research by Dainty similarly suggests that many Australian HR managers remain marginalised from strategy formulation.²³ An Australian study, similarly, found that key HR activities (such as recruitment, selection, training, occupational health and safety (OH&S), employee benefits and industrial relations) were outsourced because of needs to improve quality and efficiency, gain access to specialised knowledge, reduce costs, acquire up-to-date information and to allow HR to focus on its strategic role.²⁴ Companies such as AMP, ANZ, IBM and Westpac are also embracing robot technology to automate routine administrative tasks in HR and other functions.²⁵ An HR Pulse survey showed that while senior managers overwhelmingly thought HR was critical, less than half felt that HR was functioning effectively in their organisation.²⁶ Nevertheless, HR managers, consistently rate their contributions more favourably than do other stakeholders.²⁷

In order to be accepted as strategic business partners, HR managers need to understand the organisation's business fully and align HPWS with business strategies and demonstrate that they can actively contribute to the **bottom line**.²⁸ According to Walker, managers 'do not perceive people-related issues and initiatives to be as important as financial, sales and other business concerns'.²⁹ This is despite studies showing that firms can benefit from having HR managers as part of their top management and that HR programs have a positive effect on organisational performance.³⁰ Australian research, for example, demonstrates that better performing companies have HR representation at the board level.³¹ Finally, a review of research studies by Liu and others showed HRM added significant value via increased productivity, decreased employee turnover and greater financial returns.³² Clearly, there is a need for HR managers to create a better understanding among line managers of the valuable contribution to be made by HRM and to adopt strategies to improve their relationships with line managers.³³ Says Cascio, 'It's time for HR managers to step up and be counted'.³⁴ To do this, HR managers must have a vision for the organisation's success, make decisions based on hard data and accept responsibility for their decisions.³⁵

1.2 Historical development of HRM

LEARNING OBJECTIVE 1.2 Understand the historical development of human resource management in Australia and New Zealand.

To fully appreciate what human resource management is, one should understand its historical development in Australia and New Zealand. This closely mirrors its broader development in the United States of America and the United Kingdom, but is also informed by the economic, social and political context. Dunphy provides a useful foundation on which to examine the historical development of HRM in Australia.³⁶ Integrating his review and modern trends, the field developed across four periods: (1) the early 1900s to the late 1950s, (2) the 1960s to the early 1970s, (3) late 1970s to late 1990s and (4) 2000 to the present. Over this period, HRM has developed from a relatively minor 'housekeeping' and 'minding' function to playing a major contributing role in the design and implementation of corporate strategy.

The first period ranged from the early 1900s to the late 1950s. During this period, businesses were largely informed by the functional models that served key institutions — the military and the church. Additionally, the work of Babbage and Ford in the United States of America was having a profound impact on how organisations perceived employees. Together with both the passing of World War I and II, organisations were largely focused on production and cost savings. To achieve these desirable outcomes, organisations often relied on job specialisation — the reduction of tasks to small, repetitive and efficient activities — which was hailed as a major success in other organisations, such as the Ford automobile manufacturing lines. It was during this period that the first 'personnel managers' were appointed in Australia. Personnel managers occupied the key functions of selecting, deploying and compensating staff, as well as assisting in retiring and firing. The primary focus of personnel managers was on reducing labour costs and ensuring the technical efficacy of staff. In New Zealand, personnel managers were far less common. Rather, organisations were adopting 'industrial nurses'. In 1946, a study by Hare found a total of 38 industrial nurses were working in New Zealand.³⁷ Interestingly, in 1943 the Personnel and Industrial Welfare Officers Association was founded,³⁸ the first official collection of personnel-related professionals in Australia. Not long after, in 1945, the New Zealand Institute of Management was founded.³⁹

The 1960s to early 1970s marked a second period of change. Organisations were growing at record pace, both in size and through diversification, largely spurred by the economic boom and rapid rate of change. This period was also characterised by labour scarcity, meaning there was a lack of talent to recruit, select, train and deploy. Notably, organisations were no longer simply looking for technical skills; rather, they began looking for talent that had broader knowledge, skills and abilities that would lend themselves to working on more complex tasks, interdependently. Indeed, as Katz noted,⁴⁰ 'we need to cope with such organizational realities as the attracting of people into organizations, holding them within the system, [e]nsuring reliable role performance, and in addition stimulating actions which are generally facilitative of organizational accomplishment.'

Together, the demand for and scarcity of talent created ideal conditions for employees to occupy a more agentic role in the labour market. They could choose who they wanted to work for. This shift in labour market power dynamics led organisations to focus increasingly on issues of work motivation, job satisfaction and employee retention. One of the first field experiments to tackle the issue of employee motivation and satisfaction was at Luv Pet Foods. This study found that the redesign of work to emphasise greater employee control and more interesting tasks dramatically improved productivity and employee satisfaction. This early work emphasised the role of employee experiences at work in driving real organisational outcomes. To this end, projects like the Agnew Nickel Mine (Western Australia) and Woodlaw (New South Wales) are examples of organisations that sought to align their corporate strategy with human resource planning.

Personnel management began undertaking a broader range of activities including managerial selection, career planning, performance appraisal and training. The use of more sophisticated, evidence-based selection procedures became more prominent as tools to identify and develop talent. This period also saw the rise of behavioural scientists, sociologists and psychologists across Australian universities. For example, the University of Melbourne, the University of Western Australia and the University of Otago all introduced courses related to personnel management. Consistent with the changing nature of the work undertaken, 'personnel management' began appearing as 'employee division' and 'human resource division'. The Personnel Officers Association of Australia also changed its name to the Institute of Personnel Management Australia.⁴¹

The third period was from the late 1970s through to the late 1990s. Faced with growing international competition from emerging Asian markets, Europe and the United States, as well as general economic

downturn due to a move away from manufacturing and minerals, organisations in Australia and New Zealand were largely focused on survival.⁴² Human resource or employee divisions were cut back to be ‘lean and hungry’;⁴³ while simultaneously being recognised as key strategic assets. In the early 1980s, the first academic articles discussing ‘strategic human resource management’ were published in *Human Resource Management* (USA), contributing to the growth of both academic and practitioner interest in how human resources could contribute to strategic goals. Coinciding with rising awareness about strategic HRM was a growing awareness that corporate culture mattered, particularly as a means of enhancing employee motivation, commitment and skill.

This period also saw the rise in Labor governments, which enacted a range of political reforms directed at addressing pressing workplace-related issues.⁴⁴ Greater political attention — with downstream policy implications — was paid to equal opportunity and unions, as well as occupational health and safety. The Institute of Personnel Management Australia was rebranded as the Australian Human Resources Institute (1992)⁴⁵ and shortly thereafter the Human Resource Institute of New Zealand was also established (1999).⁴⁶

The last period ranged from the turn of the century (2000) to the present day. The early 2000s were characterised by increasing globalisation and new technology. Globalisation put business ethics, corporate social responsibility and employee wellbeing at the forefront.⁴⁷ Rapid technological advancement has also been a key characteristic of this period. For example, the introduction of fibre-optic cables for high-speed internet access, increasing mobile connectivity, burgeoning social media (e.g. LinkedIn, Twitter, Facebook, TikTok), as well as the general rise in big data and digital productivity systems (e.g. Slack, Greenhouse and Dropbox).⁴⁸ The Y2K economic crisis (2008–09) featured prominently in the first decade of the new millennium and put finance and IT leaders in the spotlight.⁴⁹ This period also saw two important shifts specifically related to human resource management: (1) the emergence of ‘people and culture’ departments and chief human resource officers (CHROs), as well as (2) the COVID-19 pandemic.

The emergence of ‘people and culture’ departments and managers is an interesting shift in the history of human resource management, and one that played out globally. In Australia, organisations like Scouts Australia, Nexia, San Churro, Hays, BizCover, the Queensland Parliamentary Service and the New South Wales Aboriginal Land Council (in partnership with Peoplecorp)⁵⁰ have all made the change to similar new branding (e.g. ‘people and workplaces’, ‘people relations advisors’).⁵¹ The shift to ‘people and culture’ departments and managers is arguably a means of exonerating human resource management departments and managers from perceptions that HRM is primarily concerned with bureaucratic and administrative activities (i.e. ‘paper-pushers’). Notably, the shift in term may also signal to employees and the organisation that ‘people’ and ‘culture’ are at the centre of their business — a move that helps humanise employees and delineate people from innate ‘resources’. As Allen, Managing Director of Everest People in New Zealand, puts it, ‘People and culture is a more progressive [than ‘human resource management’] approach to managing people — it is more holistic and people focused, and not so policy based.’⁵²

Related to the rebranding of HRM is the emergence of the chief human resource officer (CHRO). Coming to prominence in the early 2000s, the chief human resource officer ‘is responsible for developing and executing human resource strategy in support of the overall business plan and strategic direction of the organization’.⁵³ This new role in the ‘c-suite’ has been argued to be ‘[w]ithout a doubt, ... the second most important person in any organization. From the point of the CEO, the director of HR should be at least equal to the CFO’.⁵⁴ Evidence of the importance of this role can be derived from reports showing an ever-growing presence of CHROs among Fortune 200 companies including Netflix, Hewlett Packard, PayPal, Alphabet/Google and AstraZeneca.⁵⁵ In 2022, Fortune published its first ever ‘CHRO Daily’ newsletter, further demonstrating the growing attention paid to this role.⁵⁶ A recent survey suggests several interesting trends among Fortune 200 CHROs. First, CHROs appear to be increasingly educated, with postgraduate qualifications in psychology, law and an MBA. Second, they appear to have in-depth HR experience prior to their appointment (93 per cent). Indeed, companies with a CHRO who had prior industry-related experience prior to their appointment were 35 per cent more likely to report an annual revenue increase than companies led by a CHRO without prior relevant experience.⁵⁷ Third, females are outpacing males in their appointment as CHROs. In 2021, 70 per cent of newly appointed CHROs in Fortune 200 companies identified as female.

First appearing in late 2019, the COVID-19 pandemic has transformed because ‘[a]t its core the COVID-19 pandemic is a human crisis’.⁵⁸ Indeed, by late June 2020, 93 per cent of the world’s employees were impacted by some type of workplace closure or measure.⁵⁹ Although the challenges associated with COVID-19 were many and multifaceted, they can be classified into three primary categories:⁶⁰ economic shocks (e.g. supply–demand, market and supply disruptions, and business closures), changing

social behaviour (e.g. social distancing, diminished travel, global rise in mental health problems),⁶¹ and organisational challenges (e.g. workforce illness and death, job insecurity, increased work complexity, closure of physical workplaces). In essence, the COVID-19 pandemic forced organisations to modify existing HPWS to meet the evolving business context.⁶² Notable shifts in HPWS occurred in ensuring adequate resources for home offices, upskilling and reskilling employees to work across dynamic and new technologies and to redesign jobs and organisational systems to be virtual, the use of personal protective equipment (e.g. masks), as well as reimagining employee recruitment, selection, training and performance management strategies.⁶³ Although the globe is slowly moving to a 'post-COVID-19 era', the implications of the pandemic are still being fully realised as organisations continue to develop, deploy and re-evaluate their HPWS as a function of the change brought about by COVID-19. A key area of contention continues to be the physical workplace. Having endured long periods of remote and hybrid working arrangements, employees and organisations are now navigating the reality of working outside the physical workplace. In a nationally representative survey of 1421 knowledge workers across Australia, conducted in March 2022, 44 per cent of employees had some form of flexible work arrangement, and equal parts worked full-time in the office (23 per cent) and fully remote (23 per cent).⁶⁴ Interestingly, a survey of Australia's top 60 CEOs found that they believe the trend towards flexible work arrangements was not only likely to stick around, but is likely to increase in years to come.⁶⁵

1.3 HRM and management

LEARNING OBJECTIVE 1.3 Understand the relationship between human resource management and management, and describe approaches to human resource management.

While HRM is **management**, management is more than HRM. HRM is that part of management dealing directly with people, whereas management includes marketing, management information systems, production, research and development, and accounting and finance. Because the purpose of HRM is to improve the productive contribution of people, it is intimately related to all other aspects of management. Managers manage people, and the management of an organisation's human resources is primarily a line or an operating management responsibility. The degree to which HRM activities are divided between line or operating managers and the HR manager (and their departments) varies between organisations. The precise balance between line and HR management is determined by an organisation's strategic business objectives, its culture and structure, and the quality of its operating and HR managers.⁶⁶

A human resource specialist in one organisation, for example, may directly handle all negotiations with unions, while in another organisation operating managers may take responsibility for all union negotiations (the HR manager may have an advisory role or no involvement at all). Top management recognition of HRM's effect on organisational performance means that some line managers now compete with HRM specialists for HR responsibilities.⁶⁷ Recently, there has also been debate among HR experts regarding the shifting of responsibility for some HR activities to other functions (e.g. remuneration to the accounting department).⁶⁸ One survey, similarly, found that line managers have increased their role and responsibility for HR matters (especially in occupational health and safety, recruitment and selection and human resource development [HRD]) and that HR managers have little or no influence over key decisions.⁶⁹ Consistent with this, there is evidence indicating that line managers, rather than HR managers, have become the organisation's change agents and that HR managers are being marginalised.⁷⁰ One CEO, for example, sees himself as the primary architect of human resources, while at NAB line managers are being trained as people managers.⁷¹

Not surprisingly, the devolution of HR to line managers is a controversial issue. Some research suggests that this devolution can lead to role ambiguity, conflict, loss of credibility, reduced competence and execution difficulties.⁷² In contrast, another study suggests that the devolution of HR activities to line managers improves the image of the HR department and sees HR less involved in administrative work and more involved in strategic activities.⁷³

Adding to the debate is a trend for HR managers to incorporate other functions into their portfolio of responsibilities; for example, Commonwealth Bank's Group Executive Human Resources and Group Services is responsible for HR, marketing and communications.⁷⁴ In Japan, HR managers are generalists who have experience in other functions (such as accounting and marketing). As a result, an appointment to HR is seen as a springboard to top management. This is in contrast to Australia and the United States, where very few HR managers become CEOs.⁷⁵ Ann Sherry, former CEO of Carnival Australia, comments: 'My human resources experience makes me a better boss. HR is a great training ground for business leaders.'⁷⁶

Such expanded responsibilities have identified the HR manager as a core member of the management team rather than an isolated professional specialist. Lawler, echoing this approach, argues for an integration of functions that drive organisational effectiveness and for HRM to assume a new identity. The HRM function, according to Lawler, should become the organisational effectiveness function and include HR social responsibility, communications, strategy, organisation design and sustainability.⁷⁷

Approaches to HRM

Two distinct theoretical approaches to HRM can be distinguished: **instrumental HRM** and **humanistic HRM**.⁷⁸ The instrumental (or hard) approach stresses the rational, quantitative and strategic aspects of managing human resources. Performance improvement and improved competitive advantage are highlighted. It is supremely important to the hard approach to HRM to integrate HR policies and practices with the organisation's business strategy, with the emphasis being on human resource management.

In contrast, the humanistic (or soft) approach, while still emphasising the integration of HR policies and practices with strategic business objectives, recognises that competitive advantage is achieved by employees with superior know-how, commitment, job satisfaction, adaptability and motivation. Employees are seen as proactive contributors to the organisation's strategic business objectives rather than as passive units to be allocated rationally along with any other factor of production. Consequently, the soft approach emphasises employee development, collaboration, participation, trust and informed choice. The aim is to generate resourceful employees through HRM.

While the hard approach risks creating industrial conflict, the soft approach can also create union problems. Trade unions, for example, may have serious objections on ideological and practical grounds to performance appraisal, pay-for-performance and incentive systems that reflect an individualistic rather than a collectivist approach to the management of the workforce. Furthermore, HRM's stress on mutual interest, cooperation, communication and other soft aspects may be construed as cynical manipulation of workers and a means to weaken the power of the union. With this said, the contribution of unions and Australia's broader industrial relations system has been argued to be a critical ingredient underpinning the nation's response to COVID-19 through enhanced flexibility.⁷⁹ Indeed, the introduction of various social systems (e.g. 'JobKeeper' in Australia)⁸⁰ for vulnerable industries during the pandemic is at least partially attributed to the successful collaboration of unions and organisations in lobbying governments.⁸¹ In practice, it appears that HR managers are able to reconcile both roles.⁸²

Overall, there is a general trend for public organisations to utilise humanistic approaches to HRM; whereas private organisations continue to rely more heavily on instrumental approaches.⁸³ A recent study of workplaces found that organisations employing an instrumental approach to HRM experienced lower employee performance following layoffs than organisations employing a humanistic HRM approach. Interestingly, the difference in employee performance was still significant five years later.⁸⁴

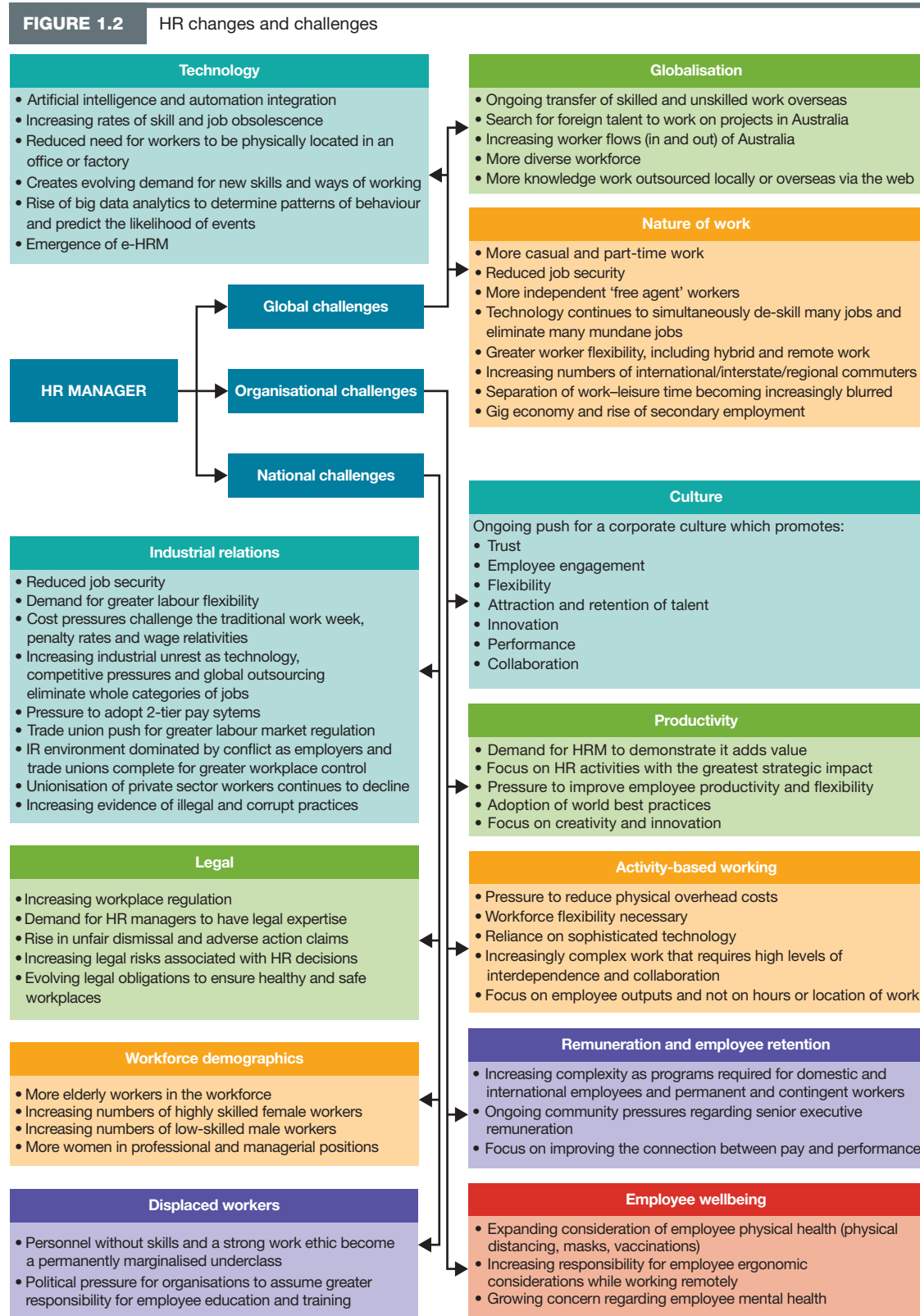
1.4 The multiple roles of the HR manager

LEARNING OBJECTIVE 1.4 Describe the HR manager's role.

Rapid change and increasing competitive pressures (see figure 1.2) have seen a more complex and demanding HR role emerge (characterised by increased responsibilities, greater visibility and direct business impact) (see figure 1.3).⁸⁵ A vice-president of human resources, for example, says, 'Successful HR leaders now must have a vision for their company's success, make hard decisions based on empirical evidence and accept responsibility for the results of those decisions'.⁸⁶

Today's HR manager, as a result, is expected to understand the business as well as any line manager, and to be their equal in contributing to the organisation's competitive success.⁸⁷ To do this, the HR manager must be able to develop and implement HR strategies that support the organisation's business objectives, improve productivity and enhance employee wellbeing.⁸⁸ This shift, however, has been criticised for marginalising employee-focused HRM responsibilities and downgrading ethical considerations. It is also argued that the change from a pluralist approach to people management in favour of the unitarist approach of HRM has meant HR managers have become too management focused, to the detriment of employees.⁸⁹ According to critics, this shift has created role conflict, damaged HR creditability and challenged HR's role as an employee advocate (especially in times of economic stress). As a consequence, it is asserted that the HR practitioner may face a personal ethical dilemma as HR policies and practices reflect more and more 'hard' HRM — emphasising organisation as opposed to employee needs.⁹⁰ There is, however, considerable evidence to show that high-performance HR policies and practices enhance both the image

of HR and organisational performance, and have positive effects on employee capability and motivation (which translate into a more competitive workforce and successful organisation).⁹¹ Finally, research shows that employee-centred and strategic roles are not necessarily opposed and can be successfully managed by HR professionals.⁹²



The changes in the HR manager's role have also launched an expansion of the HRM portfolio of responsibilities to include other service activities (e.g. public relations, communications and corporate services) and/or line activities such as finance and marketing. It is worth noting that other functional heads, such as chief financial officers, chief information officers and chief legal officers, increasingly see HR as part of their natural remit.⁹³ Some experts predict that people analytics may become separate from HR as HR becomes more data driven.⁹⁴ The potential split may occur due to a persisting and critical skills gap among HR professionals in relation to their knowledge of and ability to competently leverage big data.⁹⁵ Indeed, there is a growing consensus that '[a] big data approach is a "must have" capability' among HRM professionals.⁹⁶

As HRM becomes more business oriented and strategically focused, a number of key roles can be identified (see figure 1.3); however, the emergence of the CHRO position has made the initiating and driving of strategy perhaps the most fundamental of HRM roles (see figure 1.4).⁹⁷

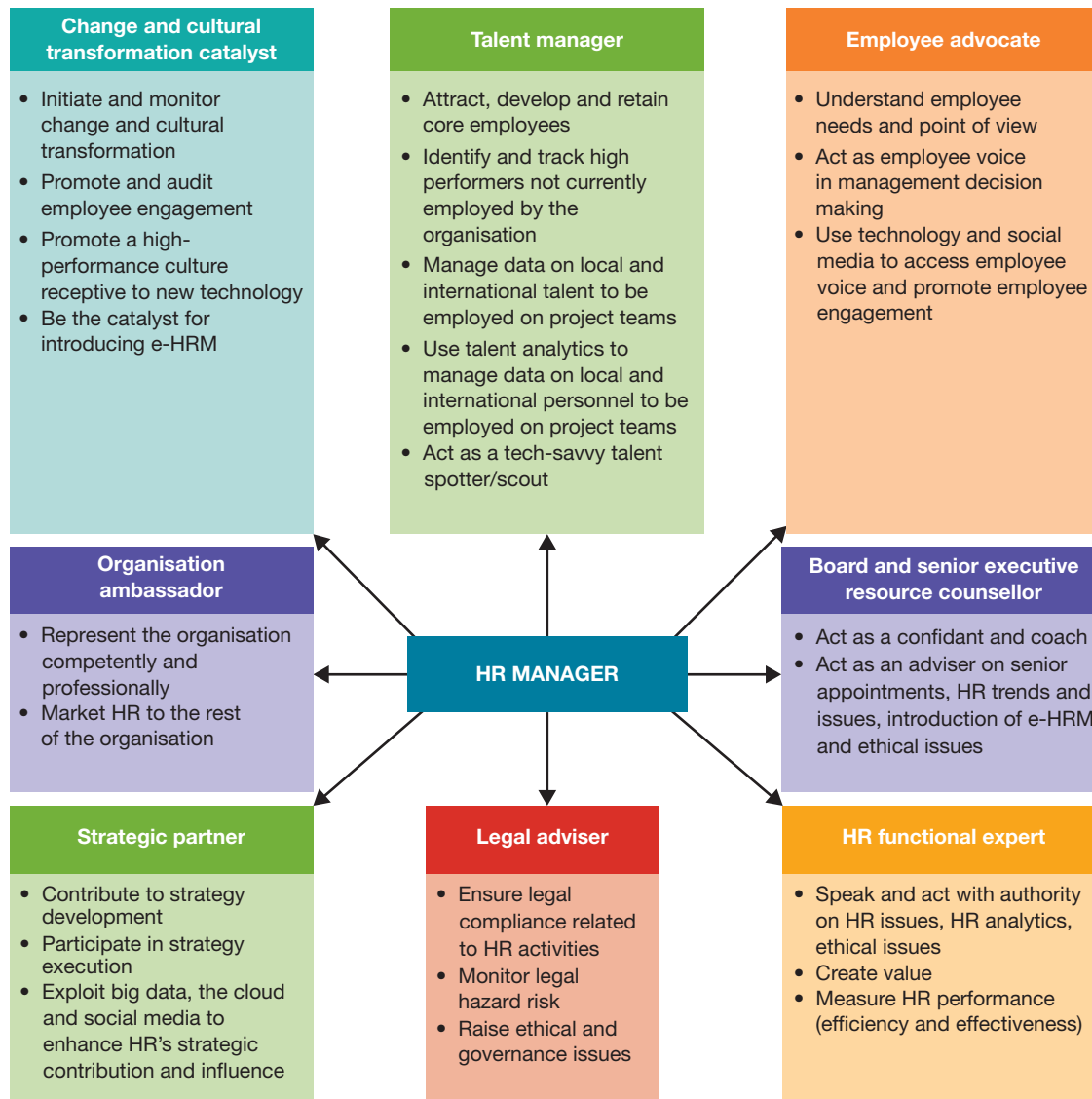
Strategic partner

'HR professionals', says Ulrich, 'play a strategic partner role when they have the ability to translate business strategy into action'.⁹⁸ This facilitating role allows the HR manager to become part of the business team. To achieve this, the HR manager must be able to ask appropriate questions and contribute to business decision making. Consequently, the HR manager must have business acumen, a customer orientation and an awareness of the competition in order to be able to link business strategies to HR policies and practices and fulfil the role of **strategic partner**. There is evidence to indicate that there is a growing awareness of the need for HR managers to become actively involved at the strategic level and recognition that organisations that have a CEO who appreciates the significance of HRM have a competitive advantage.⁹⁹ The rise of the CHRO role has also seen HR embedding itself more in the business operations of the organisation and becoming more strategic in its focus, but less aligned with the HR profession.¹⁰⁰ As a result, some tensions have arisen among the ranks of HR practitioners because of the perceived downgrading of transactional HR work and the belief that a strategic emphasis sacrifices the interests of employees.¹⁰¹ Finally, the 'low status, low pay' traditionalists may regard 'high pay, high status' business-oriented and strategically focused HR managers as competitors who are too closely identified with management.¹⁰² Despite the potential challenges associated with the increasingly visible strategic HR role of CHROs, it has been argued that CHROs are 'the true power behind an organization's leadership. They help leadership make good decisions for the business ...'.¹⁰³

HR functional expert

To become **functional experts**, HR professionals must be able to re-engineer HR activities through the use of technology, rethink and redesign work processes, seek the continuous improvement of all organisational processes, see HR as creating value, and measure HR results in terms of efficiency (cost) and effectiveness (quality).¹⁰⁴ The functional expert is aware of current HR and related research and specialist information sources (including big data analytics), and implements best practice HR to improve decisions and deliver results.¹⁰⁵ The HR manager should be able to demonstrate the connections between employee attitudes and behaviour, and business issues and outcomes (e.g. how employee engagement can drive performance, and how training can lead to employee feelings of improvement, resulting in increased customer satisfaction).¹⁰⁶ Research indicates that the competency levels of HR managers in high-performing firms are significantly higher than those of HR managers in low-performing firms.¹⁰⁷ Research also shows that the IT knowledge of HR professionals is modest, which limits their ability and motivation to introduce and extract the full HR benefits offered by e-HRM.¹⁰⁸ The new focus on technology is reshaping HR expertise requirements and is demanding that those entering the HR profession think about the skills they will need in a business world dominated by the cloud, big data analytics and social media.

FIGURE 1.3 The multiple roles of the HR manager



WORKFORCE READINESS

The following traits will position the HR manager as a key member of the management team.

- Know the business* — understand the organisation, its finances, its people, its products and services, its customers and its business environment.
- Speak 'bottom-line' language* — demonstrate how HRM improves business performance and reduces costs.
- Demonstrate how HR can add value* — show how HRM can help line managers to better achieve their performance objectives. To do this, focus on HR activities with the greatest strategic impact, establish clear HRM objectives and measure their progress.
- Embrace technology* — show how e-HRM and big data analytics facilitate employee engagement, organisation performance and strategy development.
- Provide professional and ethical advice* — understand, articulate, and model HRM know-how including as an exemplar of ethical behaviour and through the communication of HR-related risks.
- Make the line managers' job easier* — avoid administrative trivia and a bureaucratic 'police' role. Have a working knowledge of other areas of the business and be ready to accept assignments outside of HRM, where appropriate.

Employee advocate

The HR professional must be able to relate to and meet the needs of employees. This can be achieved, says Ulrich, by being the employees' voice in management discussions, by being fair and principled, by assuring employees that their concerns are being heard and by helping employees to find new resources that enable them to perform their jobs successfully.¹⁰⁹ 'These activities', says Ulrich, 'will help employees to contribute more fully because they will have the competence to do a good job and the commitment to do it right'.¹¹⁰ It is essential that HR be perceived as a safe place to go where a fair hearing for employees is guaranteed.¹¹¹ People with 'small jobs and small voices' must be able to count on HR to protect and defend them when they are being inappropriately treated by management or their fellow employees.

Employee surveys are typically used to measure employee sentiment. The survey results are regarded as business (and not just HR) data and are analysed to identify relationships between employee sentiment (e.g. job satisfaction) and business outcomes. To gain full value from employee surveys the HR manager, therefore, must search for patterns that demonstrate how employee attitudes and behaviour affect business outcomes (such as reduced labour turnover, increased productivity and higher customer satisfaction).

The dual responsibility of strategic business partner and **employee advocate**, however, can create tensions and the HR manager must learn how to balance the demands of both.¹¹² It is incumbent on the HR manager to consider employee responses to any HR initiatives designed to enhance organisational performance (e.g. not all employees desire participation in decision making, regarding it simply as extra work for the same pay).¹¹³

Agent for change and cultural transformation

The HR manager needs to act as a **change agent**, serving as a catalyst for change within the organisation. This can be achieved by leading change in the HR function and by developing problem-solving communication and influence skills. In short, the HR manager must know how to manage change.¹¹⁴

The HR function must also change. It must be transformed to deal creatively and pragmatically with emerging challenges. By acquiring new competencies, the HR function will become more critical and strategic than ever before.¹¹⁵ Rousseau and Barends, for example, argues that one way for HRM to reinvent itself is via the development and maintenance of learning environments, where knowledge creation, sharing and dissemination are valued.¹¹⁶

Although the CEO and top management are the 'culture champions', in practice, it is the HR manager who is likely to spend most time monitoring and designing policies and practices to ensure that the desired culture is established and maintained.¹¹⁷ It is the HR manager who should initiate discussions with the CEO and top management about the need for cultural change (especially when the 'real' culture is straying from the 'stated' culture). One of the world's largest indexes of corporate culture is the 'Culture 500', which measures and compares over 500 US organisations, across nine dimensions of culture (agility, collaboration, customer orientation, diversity, execution, innovation, integrity, performance and respect). Using big data (analysed using machine learning techniques from over 1.4 million employee reviews)¹¹⁸, companies including Netflix, Mastercard, Toyota, Hilton, Accenture, HP and Nordstrom all took the top prize as 'culture champions'.¹¹⁹

Talent manager

The recognition that people make a difference to organisation performance means that the effective management of talent is vital to organisational competitiveness. The focus of the HR manager therefore centres on identifying, hiring and developing the human resources critical to the organisation's success. The role calls for the HR manager to target and establish dossiers on potential candidates who possess the knowledge, skills and abilities required by the organisation (now or in the future) to achieve its strategic objectives. This involves the HR manager being knowledgeable about the organisation and its short- and long-term business objectives, labour markets, the characteristics and locations of talented people and their current organisations. Once identified, the HR manager will need to develop relationships with targeted individuals, university faculties, executive search firms and recognised industry mentors. An internet presence (especially via social networking sites) can be used to attract and track the progress of desirable candidates (and to promote the organisation as an employer of choice).¹²⁰

The HR manager's development role centres on 'wealth created through and by people in the organization'.¹²¹ This is particularly important in the case of knowledge workers where the difference in performance can be great. Microsoft claims that their top software developers are 10 000 times more

productive than their average software developers.¹²² The recognition that it is high-quality people who make the difference to business success is forcing HR managers to pay more attention to employees who add value and to quickly remove those who do not.¹²³ By building skill levels the HR manager allows individual employees to benefit from increased job satisfaction and improved job prospects while creating value for the organisation.¹²⁴

Organisation ambassador

The HR manager is now expected to be a role model for everything the organisation stands for. The values, culture, strategies and the nature of the business must be clearly understood and communicated. It is essential that the HR manager is seen as a knowledgeable resource capable of representing the organisation with employees, trade unions, government officials, customers, the media and the general community. It is a given that HR managers must be capable of marketing the value of the HR function within their organisations.¹²⁵

Board and senior executive resource

Apart from financial acumen and knowledge of the business, the HR manager should be at the forefront in contributing to the board of directors' understanding of how HR policies and practices promote business success and mitigate risk.¹²⁶ The HR manager should be regarded as a valued adviser on trends (e.g. the ageing population) and issues (e.g. executive pay and succession planning). The HR manager must also be prepared to tackle problems of corporate governance and ethical issues.¹²⁷ Finally, the HR manager should be able to act as counsellor, confidant and coach to the senior executive team (including assistance in the resolution of interpersonal or political conflicts).¹²⁸

Legal adviser

The increasing legalisation of the workplace means that HR managers must be knowledgeable about the law. The complexities and pitfalls associated with employment termination, equal opportunity employment (EEO), OH&S and the Fair Work Commission (FWC) are such that ignorance of the law places the HR manager at risk of prosecution, professional embarrassment and career meltdown.¹²⁹ Such are the emerging legal hazards for HR practitioners that the Australian Human Resources Institute (AHRI) has introduced a scheme of professional indemnity insurance for its members.¹³⁰ HR practitioners can now be prosecuted and held accountable for incompetence, wrong advice and failure to comply with workplace laws. HR managers clearly have a legal duty to ensure that there is organisational compliance to workplace laws.¹³¹ In response to the complex regulatory environment (which is increasingly involving activities in the HRM portfolio) some organisations are appointing legal professionals as HR managers.¹³² This suggests a re-examination of the education, academic qualifications, knowledge, skills and abilities of HR practitioners may be required. Indeed, postgraduate qualifications in law are among the most common educational qualifications of recent CHRO appointments in Fortune 200 organisations.¹³³ Most recently, the COVID-19 pandemic created a novel legal context that human resource managers had to navigate. For example, the evolving state and federal legislation related to vaccination requirements and essential workers put human resource managers at the centre of legal decisions related to furloughs and terminations.

CUTTING EDGE

COVID-19 and human resources

'One of the lessons of the pandemic is that we have to put the "human" back into human resources' says Brian Kropp, group vice president and chief of research in the HR practice at Gartner.¹³⁴ Indeed, there is little doubt that the COVID-19 pandemic has thrust human resource management into a new era. Although the full impact of COVID-19 on Australian and New Zealand organisations continues to come to fruition, this unprecedented global challenge demanded the full spectrum of HRM roles.

There were several emergent issues that organisations and their employees had to navigate.¹³⁵ One of the most dramatic shifts related to the widespread introduction of working from home (otherwise known as remote work). Estimates in Australia suggested that up to two-thirds of employees were working from home in June 2021. Pre-COVID, only 42 per cent of employees reported working 'sometimes' or 'always' at

home. From an organisational perspective, working from home presented issues around the management of employees, virtual teamwork, and the need for virtual leadership and management. Employees' jobs had to be redesigned to varying degrees in order to be carried out virtually — across geographical locations and over (a)synchronised communication. Working as part of a virtual team presented unique challenges. Without the rich communication available through face-to-face interaction, teams were increasingly prone to communication deficiencies and breakdowns in collaboration. Working from home also necessitated different approaches to leadership and general management. Organisations had to navigate choices around e-monitoring of employees and concerns related to performance. Many organisations sought to leverage new dynamic policies and practices, including increased visibility of senior leaders and line managers to provide enhanced support to employees.¹³⁶

Employees also had to navigate a great amount of change. The requirements to work from home did not impact all employees uniformly. For example, research suggests 22 per cent of employees with children were 'always' or 'often' actively looking after their children while at home. Furthermore, research suggests this pattern is disproportionately reliant on women, who often perform the majority of domestic duties.¹³⁷ Additionally, employees working from home had to navigate the work requirements of others potentially sharing their 'remote offices' (e.g. physical space, schedules, working practices like videoconferencing and telephone calls). Working from home also raised issues around work and non-work boundaries. Indeed, videoconferencing — a critical technological tool to overcome the transition to working from home — was also rife with potential issues around sight lines that may increase employee stress and invade privacy. Working from home also contributed to employees feeling isolated and lonely. Prior to the pandemic, loneliness had already been considered an epidemic in many first-world countries. Challenges of employee isolation and loneliness coincided with global rises in mental health issues.¹³⁸ Organisations had varying approaches to combat this issue, including virtual festivities (e.g. birthday parties, Friday morning tea), social clubs (e.g. reading clubs, daily groups who did their chores at the same time), as well as educational activities (e.g. webinars, TedTalks), and staff fitness programs (e.g. yoga and at-home workouts).¹³⁹

Organisations and their employees continue to establish a new norm as working from home policies and practices evolve. With this said, working from home appears to be here to stay. A recent survey found that over one-third of Australian employees would leave their current jobs if their employer introduced the requirement for employees to work in the office full-time.

QUESTION

Which roles did HR managers have to use the most when transitioning to, and now maintaining, a workforce that works from home?

1.5 HRM activities

LEARNING OBJECTIVE 1.5 Understand key human resource management activities performed in organisations.

HRM involves the acquisition, development, reward and motivation, maintenance and departure of an organisation's human resources. Certain key HRM activities must be undertaken to satisfy these aims: each activity is interrelated and together they represent the core of HRM.

Human resource planning (see chapter 2) is the process by which an organisation attempts to ensure that it has the right number of qualified people in the right jobs at the right time. It does this by comparing the present supply of people with its projected demand for human resources. This comparison leads to decisions to add, reduce or reallocate employees internally. HR planning is used to achieve more effective and efficient use of human resources, satisfied and better developed employees, and effective equal opportunity planning.¹⁴⁰

Industrial relations (IR) (also called **employee relations** or employment relations; see chapter 4) in this text deals primarily with employee attitudes and behaviour and the relationships between an organisation and its employees. If relationships are characterised by open communication, fair and equitable HR policies and practices, and high work and life satisfaction, there will be trust, cooperation, commitment and high performance. However, if they are characterised by poor communication, unfair and discriminatory HR policies and practices, and low work and life satisfaction, there will be conflict, mistrust, low commitment and poor performance.¹⁴¹ Industrial relations traditionally takes a broader perspective, involving governments, industrial tribunals, employer associations, trade unions, industrial law, awards, terms and conditions of work, grievance procedures, dispute settlement, advocacy and collective bargaining.¹⁴²

Job analysis defines a job in terms of specific tasks and responsibilities and identifies the KSAOs and qualifications needed to perform it successfully (see chapter 5). The products of job analysis are job descriptions (describe the job) and job specifications (describe the type of person needed for the job). Job analysis answers basic questions such as: Which tasks should be grouped together and considered a job? How should a job be designed so that employee performance is enhanced? Job analysis is significant because it represents a basic starting point for HR planning and other HR activities such as recruitment, selection, and training and development. Job analysis, for example, facilitates the development of valid selection systems, helps protect from legal challenge and enhances employee perceptions of fairness.¹⁴³

Recruitment is the process of seeking and attracting a pool of applicants from which qualified candidates for job vacancies within an organisation can be selected (see chapter 6). A job vacancy may be filled from within or outside the organisation. Some of the different methods used to recruit employees include job posting, newspaper advertising, social networking sites and executive search.

Selection involves choosing from the available candidates the individual predicted to be most likely to perform successfully in a job (see chapter 7). Steps in the selection process include computer screening, reviewing applications, psychological testing, employment interviewing, reference checking and completing a medical examination. Based on the information gathered, a selection decision is made.

Performance appraisal is concerned with determining how well employees are doing their jobs, communicating that information to the employees and establishing a plan for performance improvement (see chapter 8). The information generated by the appraisal process is also used for linking rewards to performance, identifying training and development needs, and making placement decisions. Research shows that performance appraisal (when perceived as accurate and fair) is a practical tool for employee motivation and development.¹⁴⁴ Other research indicates that performance appraisal can have a significant effect on job satisfaction, commitment, turnover intentions, trust, organisational citizenship and behaviour.¹⁴⁵

Human resource development activities focus on the acquisition of the KSAOs required for employees to learn how to perform their jobs, improve their performance, prepare themselves for more senior positions and achieve their career goals (see chapter 9). These activities substantially enhance employee (and organisational) knowledge, skills competitiveness and capacity to adapt and change. They are also a powerful communicator that the organisation is interested in the wellbeing of its employees.¹⁴⁶

Career planning and development activities benefit both employees — by identifying employee career goals, possible future job opportunities and personal improvement requirements — and the organisation — by ensuring that qualified employees are available when needed (see chapter 10).

Change and cultural transformation are the inevitable results of globalisation, new technology and competitive pressures forcing organisations and employees to become more innovative, more flexible, more skilled and more productive (see chapter 13). Cultural transformation is key to making things happen and changing the way people work.¹⁴⁷ Employees who ‘fit’ with the organisation’s culture are more likely to experience confidence and satisfaction in their work. Employees who don’t ‘fit’ are more likely to withdraw, suffer stress and experience little job satisfaction.¹⁴⁸ How change and culture are managed clearly affects organisation performance and employee quality of work life.¹⁴⁹ Organisational cultures high on adaptability and involvement, with strong core values and a clear strategic direction, for example, are more likely to achieve positive measurable results from the introduction of the balanced scorecard (see chapter 8 on managing performance).¹⁵⁰ Likewise, corporate cultures supportive of work–life balance produce less strain on employees, achieve improved job performance, and have reduced absenteeism and labour turnover.¹⁵¹

Employee compensation refers to the collection of both remuneration and benefits provided by the organisation to employees in exchange for work (see chapter 11). Remuneration refers to the cash rewards — such as the base pay, bonuses, incentive payments and allowances — employees receive for working in an organisation. Controversy exists over the precise motivational impact of cash rewards, but there is no doubt that they are an important mainspring in motivating employees and reinforcing employee behaviours demanded by the organisation’s business strategies.¹⁵² Research indicates a positive relationship between pay systems and organisational performance.¹⁵³

Benefits are sometimes referred to as indirect or non-cash remuneration. They include life insurance, disability insurance, medical and hospital insurance, long-term sickness and accident disability insurance, annual leave, sick leave, maternity leave and tuition refund programs. By improving the quality of work life, benefits reinforce the attractiveness of an organisation as a place to work and emphasise that it cares about its employees.

Employee health and safety pertains to the physical and psychological wellbeing of employees (see chapter 12). Organisations are required to provide a safe work environment free from physical and

psychosocial hazards. Since the emergence of COVID-19, substantial progress has been made in expanding HRM policies and practices related to the physical and psychological wellbeing of employees.

Managing diversity and successfully integrating Australia's multicultural population into the workforce to maximise the contribution of all employees represents a special challenge to HR managers (see chapter 14). Australia is one of the most culturally diverse countries in the world, with 30 per cent of the population being born overseas. According to the Australian Bureau of Statistics, the top ten countries from which people living in Australia come are: England, India, China, New Zealand, Philippines, Vietnam, South Africa, Italy, Malaysia and Sri Lanka.¹⁵⁴ The cultural diversity of Australia is also reflected in the fact that 21 per cent of Australians speak a language other than English at home. The most common non-English languages are Mandarin, Arabic, Cantonese and Vietnamese.¹⁵⁵ There is growing recognition that multicultural HR policies and practices provide significant benefits by lessening the time spent explaining instructions and directions, reducing mistakes caused by misunderstanding, and reducing industrial accidents and workplace tensions caused by poor communication. However, research suggests that Australian employers have embraced a 'legalistic compliance approach' to diversity management and do not view it as a source of competitive advantage.¹⁵⁶ Discrimination, for example, has been associated with reduced enthusiasm and engagement, decreased job satisfaction, burnout, lower employee wellbeing, negative employee perceptions of organisational justice and employee physical withdrawal (lateness, absenteeism and intent to quit).¹⁵⁷

1.6 HRM, productivity and organisation performance

LEARNING OBJECTIVE 1.6 Understand the role of human resources in organisational productivity and performance.

Leading organisations use a variety of performance measures (e.g. customer satisfaction, product quality and profitability) to evaluate their performance. HRM performance can be similarly assessed (e.g. by measuring absenteeism, labour turnover and employee engagement). A common indicator of organisation and HRM performance is **productivity**. Productivity can be measured at the individual, group and organisation levels.¹⁵⁸ In basic terms, productivity relates to the output of goods and services divided by its input. Productivity can be improved by using the same (or lower) level of inputs, to produce the same (or higher) level of outputs. However, while the concept is simple, the accurate measurement of productivity, in practice, is both more complex and difficult.¹⁵⁹ Two approaches can be employed — **total (or multi) factor productivity** and **single factor productivity**. Total factor productivity is the ratio of total outputs to total inputs (labour, capital, materials, technology and energy).

Total factor productivity:

$$\frac{\text{Output}}{\text{Labour} + \text{Capital} + \text{Materials} + \text{Technology} + \text{Energy}}$$

Single factor productivity measures the ratio of outputs to a single category of inputs. Labour productivity, for example, can be measured as follows:

Labour productivity:

$$\frac{\text{Output}}{\text{Labour costs}}$$

and

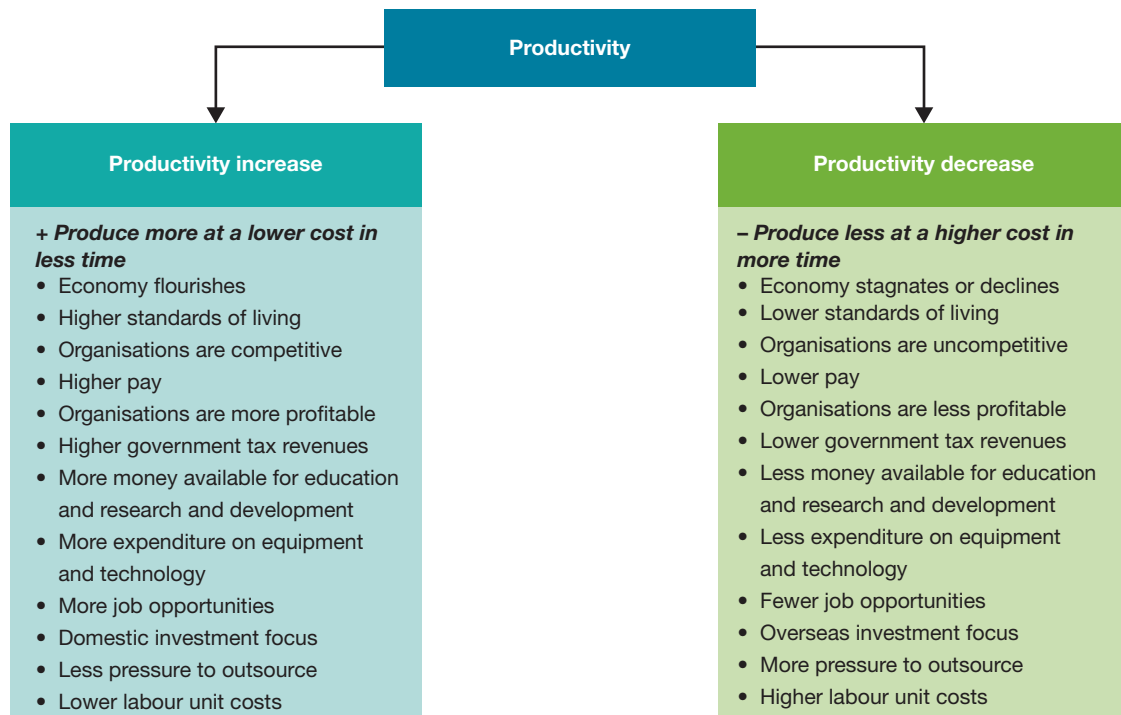
$$\frac{\text{Output}}{\text{Number of employees}}$$

While labour productivity can be easily measured, it may be influenced by changes in one or more of the other factors (e.g. new technology). Managers can therefore easily misinterpret the real reasons for a productivity change.¹⁶⁰

Productivity improvements are necessary for the economy and the organisation to be competitive (see figure 1.4). Improving labour productivity clearly relates to HRM. Employee recruitment, selection and retention determine the quality and availability of employees. HRD gives workers the know-how and skills to perform. Remuneration programs motivate employees to perform. Employee engagement programs foster job satisfaction, commitment, loyalty and effort. Organisations can improve labour productivity by giving employees more knowledge, better skills, more resources and better designed jobs.

FIGURE 1.4

Productivity outcomes



Improving labour productivity requires improving employee–management relationships. HPWS that make work more satisfying and rewarding lead to increases in employee **discretionary effort** and productivity. Organisations that promote skills development, employee participation, high relative pay and job security similarly achieve lower turnover rates and higher sales growth.¹⁶¹ Critics of high-performance HRM, however, argue that increased employee discretionary effort is not the product of higher job satisfaction and commitment but the result of **work intensification** and management pressure (leading to increased worker stress and poorer work–life balance).¹⁶² Other research shows that while enriched jobs are associated with employee wellbeing (as measured by job satisfaction and contentment) and that employee voice is positively associated with job satisfaction, HPWS are also related to increased worker anxiety (caused by greater management pressure on employees to improve their performance).¹⁶³

Macky and Boxhall also argue that HPWS are associated with higher job satisfaction, but when management pressures employees to work longer hours and they feel overloaded workers are likely to experience greater job dissatisfaction, higher stress, greater fatigue and poorer work–life balance. Macky and Boxhall conclude that HPWS, if used to intensify work, may produce organisation gains but have a negative effect on workers. In contrast, HPWS that promote and reward employee involvement are likely to be beneficial to workers. Greater empowerment that allows employees to work smarter but without undue pressure to work harder will enhance employee wellbeing.¹⁶⁴

In summary, while research suggests strong links between HPWS and positive worker attitudes and behaviour, some results remain contradictory. The precise relationship between productivity and HPWS — which specific systems or combination of systems are the most significant (and for which employees and for which organisations and in what situations) — remains unclear.¹⁶⁵

Guest, as a result, says that it is impossible to assert with any great confidence exactly what is the relationship between HRM and organisation performance.¹⁶⁶ HR managers, therefore, while recognising that high-performance HRM may bring employees many advantages (such as increased autonomy and involvement) need to ensure that such benefits are not outweighed by disadvantages (such as work intensification, insecurity and stress).¹⁶⁷

HRM and risk

HR managers increasingly face pressure to focus more and more on **risk** management. Protection of themselves, their organisations and employees from financial loss, 24-hour social media scrutiny, negative publicity, physical attack, sabotage, security breaches and legal action are ever present. Dealing with such risks means that HR managers must frequently take action without knowing (with complete certainty) what the outcomes will be.

The danger is that HR managers, as a result, may become risk averse and fail to see opportunities and/or take appropriate action. A balanced approach to risk taking is required if HR managers are to enhance the organisation's chances of gaining a competitive advantage.¹⁶⁸ The HR manager should be able to understand how and where things may go wrong and the extent of any negative effects. The probabilities of something happening, therefore, need to be thoroughly assessed to minimise uncertainty. HR managers also need to monitor the success of both their risk assessments and their subsequent actions. HR managers (and organisations) that proactively manage risk are less crisis prone and are better placed to deal with a crisis should it arise. Research also indicates that risk is best managed in organisations that have cultures that emphasise flexibility and innovation and get their employees involved and committed.¹⁶⁹

Some examples of HR risks are listed below.

- *Behaviour risk* — are our managers ethical? Do they set a good example? Do our remuneration systems reward behaviours our organisation wants to promote? What is the risk of employee bad behaviour to our public image?
- *Reputational risk* — are our **human resource information systems (HRIS)** secure? Are we able to identify rogue employees? Does our culture promote good governance?
- *Security risk* — do we have emergency plans in operation? Are our facilities secure?
- *Culture risk* — do we tolerate diversity of opinion? Is there the risk of 'group think'?
- *Talent risk* — are we at risk of losing our top performers? Are we investing sufficiently in our people? Do our employees have the right skills? Are we hiring the right people? In a 2020 survey of Australian CEOs, KPMG found CEOs perceived talent risk to be the number one risk factor to their organisation's long-term business growth.¹⁷⁰

1.7 Ethical issues and HRM

LEARNING OBJECTIVE 1.7 Discuss the ethical issues facing human resource management.

HR managers today are increasingly faced with complex, ambiguous and conflicting issues involving questions of morality and standards of behaviour. What is good or bad or right or wrong? At times, there may be no clear-cut distinction between what is ethical or unethical. For example, is management's prime responsibility to shareholders (the owners of the business) or employees? Organisations must change to survive yet this may result in employee terminations, job insecurity and stress. Is it ethical for companies to require employees to use English at work? Should top managers receive performance bonuses while employees lose their jobs? Should companies monitor employee email?

Factors that influence ethical behaviour include a person's personality and national culture, the situation and its importance to the individual, the corporate culture and the existence of clear, unambiguous organisational policies and codes of conduct. Failed insurer HIH had a culture of fear that led to cover-ups, tolerance of incompetence, misuse of company funds, misinformation, abrogation of responsibility and corruption.¹⁷¹ Convicted former CEO Ray Williams gave out \$10 000 gold watches as gifts, installed a marble and gold bathroom in his office, and gave favoured staff \$400 000 interest-free home loans.¹⁷²

Corporate wrongdoing

Corruption now poses a serious challenge for many societies and is present in Australian companies, trade unions, political parties and public organisations.¹⁷³ In 2014, Australia was not listed among the world's top 10 countries on the Corruption Perceptions Index (CPI) — the first time since the inception of the CPI in 1995. Over subsequent years, Australia's score has consistently declined to the new record low of 73 out of a possible 100.¹⁷⁴ In 2022, Australia was ranked 18th out of 180 countries. In stark comparison, New Zealand was ranked number 1 (tied with Denmark and Finland) in 2022 with a score of 88.¹⁷⁵ The lack of a Federal Independent Commission against Corruption (ICAC), an absence of transparency in government contracting and soft penalties are claimed to have contributed to Australia's downwards slide.¹⁷⁶ In Australia, while having anti-corruption provisions, the laws are seen as weak, as not being aggressively enforced and carrying anaemic penalties.

Compliance culture

Although the risks associated with corrupt and unethical behaviour are significant for both individuals and organisations (and especially so when doing business internationally) a culture of compliance (which promotes ethical behaviour and monitors ongoing business activities) appears to be absent in many Australian organisations.¹⁷⁷

A robust compliance program consists of clearly stated values, an explicit policy statement, and unequivocal top management endorsement reinforced by ongoing training and periodic auditing.¹⁷⁸ A survey by top accounting firm Deloitte, however, shows that 40 per cent of Australian executives working for organisations with international operations say that they don't have (or they don't know) if a formal compliance program is in place in their organisation to manage corruption.¹⁷⁹

Corrupt practices

The top three economic crimes affecting Australian firms are asset misappropriation, cybercrime and procurement fraud. PwC found that economic crimes (including fraud, bribery and corruption) are on the increase in Australia. Cybercrime, in particular, is seen as a major threat. In the most recent report, the Australian Institute of Criminology estimated the cost of serious and organised crime was between \$24.8 and 60.1 billion in the 2020–21 period.¹⁸⁰ This is in stark contrast to the previously reported \$2 billion per year in 2016.¹⁸¹ The massive increase is, at least in part, attributed to the pandemic, which may have created more opportunity for corrupt practices as well as more powerful analytical tools to detect and quantify serious and organised crime.

HR and corrupt behaviour

The many prominent cases of corporate wrongdoing (e.g. CBA, Coles, HSBC, IOOF, Toll) raise questions regarding HR's role as a champion of ethical behaviour.¹⁸² For example, could such behaviour have been prevented or mitigated by knowledgeable HR practitioners?¹⁸³ Parkes and Davis suggest that the failure of many HR professionals to challenge unethical and/or corrupt practices may be the result of HR's lack of power and voice in organisations and the personal risk associated with speaking out.¹⁸⁴

Corporate culture and corruption

Finally, if the culture of an organisation (starting at the top) tolerates or encourages employees to misbehave, it will not drive right outcomes.¹⁸⁵ Banking cultures emphasising materialistic values and status seeking, for example, encourage cheating, dishonesty and fraudulent behaviour.¹⁸⁶

According to researcher Alain Cohn and colleagues, bank employees are basically honest, but it's the cultural norms at the workplace that can make them dishonest.¹⁸⁷ Similarly, CBA's 'senior management has been accused of establishing a culture of pushing product down punters' throats, of flogging stuff first and foremost, and correspondingly rewarded and punished people on that basis'.¹⁸⁸ ANZ, NAB, Westpac, Macquarie Bank and AMP similarly have faced allegations of misconduct, unethical behaviour, conflict of interest and repeated compliance breaches.¹⁸⁹

Interestingly, although banks globally have paid a fortune in penalties for unethical and illegal behaviour, all retain lofty goals promoting ethical behaviour. ANZ for example, aspires to be the 'most respected bank across the Asia Pacific region'.¹⁹⁰ CBA — despite admitting during the royal commission into banking to having wrongly sold insurance to 60 000 unemployed customers — also seeks to be 'a highly trusted financial institution' in all its activities and 'to operate at the highest levels of ethical behaviour'.¹⁹¹ Although banking is a very salient example, approximately 20 per cent of employees reported experiencing a 'cultural crisis' in the last two years within their own organisation. A cultural crisis was defined as a 'significant incident indicative of troubling workplace attitudes and behaviours'.¹⁹²

Whistleblowing

People who expose the misdeeds of work colleagues to maintain ethical standards and protect against wasteful, harmful or illegal acts (e.g. fraud, corruption or maladministration) are called **whistleblowers**. Amendments to the Corporations Act that went into effect in July 2019 state of all 'public companies, large proprietary companies, and corporate trustees of superannuation entities regulated by APRA that they are required to have a whistleblower policy and make it available to their officers and employees by 1 January 2020'.¹⁹³ This development offers increased legal protection for whistleblowers who have in the past risked

retaliation via threats, abuse, ridicule, social isolation, termination and career meltdown.¹⁹⁴ Broadly, a whistleblower policy should provide information about the legal protection available to whistleblowers; clear processes for the receipt, investigation and resolution of protected disclosures; and information on how the organisation will protect whistleblowers from retaliation.¹⁹⁵

HRM has a responsibility to ensure that compliance systems and the organisation's culture promote ethical behaviour, trust, open communications and accountability (highly ethical cultures clearly define what is acceptable and unacceptable behaviour). Appropriate HR policies and practices that provide employees with 'safe' options to inform management must be in place. Employees who act in good faith must know that they will be protected and given procedural fairness.¹⁹⁶ Research, for example, shows that whistleblowing disclosures are positively related to the availability of anonymous reporting and organisational support.¹⁹⁷ An associated problem for the HR manager is the disgruntled employee who makes malicious allegations damaging the reputation of both innocent employees and the organisation. The hurt to corporate and personal reputations, risk of legal action and embarrassing media coverage because of whistleblowing activities should never be underestimated. HR managers also need to take an interest in the lives of their employees and be alert to changes in behaviour and changes in spending habits.¹⁹⁸ Recently, Deloitte undertook legal action against former restructuring director Paul Quill, who they claim submitted fraudulent expense claims worth at least US\$3 million (2016 to 2022). The money was allegedly used to fund a lavish lifestyle including the acquisition of at least 100 pieces of art, designer furniture, luxury clothing and accessories, and even a hot tub.¹⁹⁹

1.8 What is strategy?

LEARNING OBJECTIVE 1.8 Explain the meaning of strategy.

According to Schermerhorn, 'Strategy defines the direction in which an organisation intends to move and establishes the framework for action through which it intends to get there'.²⁰⁰ It involves a consistent approach over time and reflects the organisation's approach to achieving its objectives. The purpose of **strategy** is to maintain a position of advantage by capitalising on an organisation's strengths and minimising its weaknesses. To do this, an organisation must identify and analyse the threats and opportunities present in its external and internal environments — for example, external influences such as the change from a pro-union to a pro-business government (or vice versa), the elimination of tariffs, an increase in the rate of unemployment, an increase in interest rates and a decline in union membership all have significance for an organisation. Thus, organisations need to develop strategies to deal with these external influences if they are to avoid a **reactive**, short-term approach to management. Similarly, internal influences such as the quality of an organisation's human resources, its degree of management expertise and its structure and culture can each be a source of strength or weakness. Strengths in HRM, for example, will enable an organisation to better attract, retain and motivate quality employees. Consequently, HRM strategies need to be developed as an integral part of an organisation's overall strategy.²⁰¹

E-HRM and strategy

The increasing sophistication and usage of IT in HRM presents organisations and HR managers with many challenges and opportunities (see chapter 3). In particular, the emergence of **e-HRM** has the potential to enhance the strategic contribution of HR.²⁰² In order to realise this potential, HR managers need to be involved in the development of corporate strategy.²⁰³ Research suggests that the higher the HR manager's expertise, the more likely that e-HRM will have a strategic orientation.²⁰⁴

Other research indicates that where e-HRM is used to facilitate relationship opportunities between the organisation and its employees via improved HR services, better transparency and the direct empowering of employees (e.g. via job postings, web-based recruitment, e-newsletters, e-learning) the greater the trust in the HR department.²⁰⁵ Computer-savvy generations expect information on demand, feel comfortable with computerised communications and often prefer them to face to face interactions.²⁰⁶ E-HRM thus has the capacity to allow HR to remain in constant contact with employees, become the organisation's 'go to' representative and signal the importance of its relations with employees.²⁰⁷

Big data, HRM and strategy

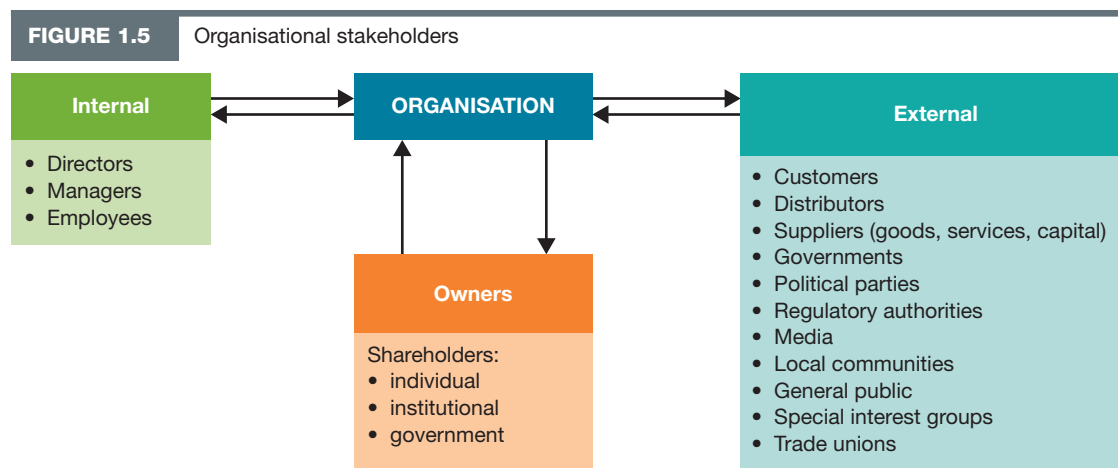
Big data is a source of competitive advantage because it generates much valuable information for use in HR strategic planning (see chapter 2). A study by MIT researchers shows that organisations that focus on data-driven decision making have higher productivity levels and higher profiles.²⁰⁸ Big data analytics makes

possible increasingly accurate predictions about the world and its people, be they employees, managers, customers or trade unionists.²⁰⁹ It allows the HR manager, for example, to make evidence-based decisions on the likely rate of inflation, the probable demand for labour, the likely cultural fit of a job applicant and the probability that an employee will have an accident or engage in corrupt practices. According to some experts, it is only by mining such data-based insights that HR can be sure that its activities are helping the organisation move in the right direction.²¹⁰ Organisations and HR, however, will need to rethink how they collect, use and manage data that can touch on the most intimate and sensitive aspects of people's lives. For example, how much should they know about their employees? Who should have access to the data? If servers are located outside of Australia can Australian privacy laws be enforced? Questions such as these raise serious and complex ethical, legal and security issues.

HR managers, nevertheless, need to generate solutions that are evidence based, have scientific validity and provide a return on investment.²¹¹ A survey by Accenture of Australian CEOs, however, found that a significant gap exists between the importance given to HR initiatives and the effectiveness of their execution. The fundamental cause of this gap was poor use of data analytics.²¹²

Organisational stakeholders

A **stakeholder** is a person (e.g. an employee or a shareholder) or group (e.g. a company, trade union or government) that has a vested interest in an organisation's operations and performance (see figure 1.5). Stakeholders try to influence the way an organisation operates by supporting or opposing its strategies.²¹³ For example, employees may go on strike or quit, customers may buy elsewhere, shareholders may sell their shares and trade unions may create an industrial dispute.



Stakeholders may have common or conflicting interests. For example, customers may seek low prices, whereas suppliers may desire high prices for the goods and services they supply to the organisation. Similarly, workers and trade unions may want increased wages and benefits, while management, directors and shareholders favour lower costs, increased productivity and higher profits. Stakeholders seeking lower costs may perceive this as desirable because it benefits the customer, makes suppliers more efficient and enables the organisation to be more competitive. However, others may see such interests as exploitative, unethical and socially irresponsible.

Not surprisingly, an organisation may often find it difficult to simultaneously satisfy all of its stakeholders (particularly as their interests may be quite different and directly conflict with each other). The HR manager, similarly, faces multiple stakeholders (employees, line managers, trade unions etc.) who may compete to influence HR decision making. It is, therefore, essential that the HR manager realise that different stakeholders have different expectations and appreciate what is important to each stakeholder.²¹⁴ Individual stakeholders also may find themselves in conflict situations. Employees may want higher wages and improved benefits but as shareholders (via their superannuation fund) they may desire higher profits and higher dividends to gain the maximum benefit at retirement (see figure 1.6). When addressing multiple stakeholders' interests, organisations need to prioritise. This involves trade-offs and difficult choices because all stakeholders expect something from the organisation (as indeed the organisation expects something from its stakeholders). Stakeholders that are recognised as the most

important will have their interests incorporated into the organisation's objectives and strategies, while others will have their interests downplayed or ignored. For an organisation to continue to survive and prosper, its most important stakeholders are usually its customers, employees and shareholders.²¹⁵

It should be noted, however, that stakeholder management does not necessarily have to be a zero sum game where gain for one stakeholder means loss to another. Interest is now centred on an approach that recognises the interdependence of stakeholders. This is because organisations that see their stakeholders as partners gain a competitive advantage. For example, a positive relationship has been shown between improved employee attitudes, customer satisfaction and financial performance.²¹⁶ The Mirvac Group, for example, has gone public with its green commitments by listing on the London Stock Exchange's sustainable and ethical index (the FTSE4 Good Global Index). Mirvac claims its environmental leadership is a response to investor and community concerns. Mirvac has gained 'green creditability', a marketing edge and investor support.²¹⁷

FIGURE 1.6 Examples of stakeholder interests



Organisations increasingly are taking into account the interests of the wider community and acting in a socially responsible way. This has led to organisations focusing on their environmental and social performance as well as their financial performance (the so-called triple bottom line) (see table 1.1). In doing so, however, organisations must stress what they (and other stakeholders) are getting and giving up from socially responsible decisions.²¹⁸ Organisations also face risks if social responsibility is primarily used for public relations and image-building purposes.²¹⁹

A notable trend among Australian organisations is setting 'net-zero targets'. In a 2021 report by Greenpeace Australia Pacific Ltd, only 51 per cent of Australia's top 80 emitting ASX200 companies had set a net-zero or carbon neutral target. Of the 80 companies, only 16 had committed to reducing their emissions by switching to 100 per cent renewable energy sources. Australia's leading polluters — AGL, Santos and Qantas — have all introduced 'green' policies and targets; however, these have been criticised for being simple 'greenwashing'.²²⁰ As Wu and colleagues explain, greenwashing has 'often been used to refer to firms' focus on salient aspects of CSR [corporate social responsibility] and negligence of the unobservable aspects'.²²¹ These authors argue transparency is key. That is, organisations with low levels of transparency are more likely to adopt a profit-driven approach to greenwashing (negative); whereas those organisations with higher levels of transparency are more likely to genuinely engage in socially responsible behaviour and mitigate additional costs associated with greenwashing their operations.

TABLE 1.1 Triple bottom line considerations

Performance factor	General objectives	Performance measure	Performance review
Financial What do we have to do to sustain and improve our financial position?	• Be profitable	• Income • Expenses • Assets • Liabilities	Shows: • how actual performance compares with performance objectives • how well the organisation improved its financial position
Social What do we have to do to operate in a socially responsible way?	• Obey the law • Do what is right • Contribute to society	• Legal compliance • Equal opportunity • Employee wellbeing • Employee development • Health and safety • Charitable activities • Corporate governance • Work–family balance • Public safety	Shows: • how actual performance compares with performance objectives • how well the organisation contributed to the welfare of society
Environmental What do we have to do to protect and improve the natural environment?	• Respect the environment	• Pollution control • Waste management • Restoration	Shows: • how actual performance compares with performance objectives • how well the organisation improved the quality of the environment

Strategic intent

Hamel and Prahalad claim that companies that have achieved global leadership ‘invariably began with ambitions that were out of all proportion to their resources and capabilities. But they created an obsession with winning at all levels of the organization and then sustained that obsession over the 10–20-year quest for global leadership.’²²² Hamel and Prahalad call this obsession **strategic intent**.²²³ Audacious ambitions can aid long-term success by focusing and applying organisational energies to a unifying and compelling goal.²²⁴ Collins and Porras found that companies that experience enduring success such as 3M and Johnson & Johnson have core **values** and a core purpose that remain fixed ‘while their business strategies and practices endlessly adapt to a changing world’.²²⁵ Wesfarmers, for example, uses the four core values of integrity, openness, accountability and boldness to guide the delivery of its longstanding objectives.²²⁶ Core values assist in decision making and are brought to life by the implementation of policies and practices that reinforce them. They play a key role in the shaping of the organisation’s culture.²²⁷ Evidence, however, suggests that many managers and employees are unaware of their organisation’s core values and that companies without values outperform those that do (which raises questions about the practical value of corporate values).²²⁸ This is especially the case when companies list integrity as a core value but demonstrate little or no integrity in their business dealings. Poor cultures and unethical conduct pervade the global banking industry.²²⁹ ANZ, CBA, Macquarie and NAB, for example, have all been involved in financial scandals and suffered regular criticism for their poor cultures, incompetence, conflicts of interests and bad behaviours.²³⁰

Many organisations desperately need HRM strategic intent: ‘Improvements in the strategic management of people also require a commitment to sustained long-term action.’²³¹ In addition, HRM needs leaders who can articulate direction and save their organisations from change via drift. Such managers, argues Moss Kanter, ‘create a vision of a possible future that allows themselves and others to see more clearly the steps to take’.²³²

Achieving this requires organisations to move from their traditional **conscript mindset** to a **volunteer mindset** where the discretionary effort of motivated and well-trained employees produces a competitive advantage.²³³

What is strategic management?

Thompson and Strickland define strategic management as ‘the process whereby managers establish an organisation’s long-term direction, set specific performance objectives, develop strategies to achieve these objectives in the light of all the relevant internal and external circumstances and undertake to execute the chosen action plans.’²³⁴

The aims of strategic management are to help the organisation to achieve a competitive advantage — the special edge that permits an organisation to manage environmental influences better than its competitors do — and to ensure long-term success for the organisation. Strategic management does this by giving managers consistent guidelines for action and by allowing the anticipation of problems and opportunities. BHP Billiton, for example, defines itself as an international company headquartered in Australia and benchmarks itself against its global competitors. Telstra (telecommunications), Coles and Woolworths (retail) have all considered strategic moves into banking and financial services.²³⁵ Companies are having to ask themselves: What is our core business? Are we in the right business? Can we pick the changes affecting our business? Car manufacturers, such as BMW, are now engaged in a battle with Apple and Google to maintain ownership of the ‘brains’ that will power cars of the future.²³⁶ Who are our customers? What KSAOs must be in place? What management systems are needed? Who are our competitors? US web retail giant Amazon, for example, plans to sell groceries online in the United Kingdom making use of the latest robotics technology, which poses a major competitive challenge to traditional supermarkets.²³⁷ What are their buying criteria? US car buyers, for example, now care less about the size and price and more about whether or not their mobile devices synchronise with their vehicle.²³⁸ How best do we satisfy our customer’s needs?²³⁹

Components of strategic management

Strategy formulation involves selecting an organisation’s mission, or purpose, and key objectives (What is our business? What should it be?); analysing the organisation’s internal and external environments (Who are our customers? Who should they be? Where are we heading? Is our market share growing or declining? Do we need to diversify? What major competitive advantages do we enjoy? Do we emphasise internal growth or growth through acquisition?); and selecting appropriate business strategies (Can we realistically expect to achieve an objective given our talents, resources and limitations? Which of the available alternatives is the best?).

Strategy implementation, in turn, involves designing an organisation’s structure and control systems and evaluating the selected strategy in achieving the organisation’s key objectives (What remedial action is needed to make the strategy work? What changes need to be made to the original strategy?).

Figure 1.7 shows the different stages in a strategic management model. This model integrates the stages that occur in both strategy formulation and strategy implementation.

Organisational mission and objectives

The first steps in strategic management are to define the mission (or purpose) and the prime objectives of the organisation. Jones and Kahaner claim that **mission statements** ‘are the operational, ethical and financial guiding lights of companies. They are not simply mottoes or slogans; they articulate the goals, dreams, behaviour, culture and strategies of companies’.²⁴⁰ Take, for example, several of the mission statements from companies recognised in Fortune’s Top 10 ‘Great Place to Work’ list²⁴¹ in 2022: Cisco Systems — to connect everything, innovate everywhere, and benefit everyone²⁴²; Accenture — to deliver on the promise of technology and human ingenuity²⁴³; and Nvidia — building a company that lets us do our life’s work, at the highest level of our craft.²⁴⁴ Atlassian, an exemplar ‘best company’ in Australia, notes its mission ‘is to help unleash the potential of every team’.²⁴⁵

The organisation’s mission statement thus provides the context and direction for the formulation and evaluation of HRM objectives, strategies and action plans. The mission statement identifies why the organisation exists and what its focus is: What is the business of the organisation? What will it be? What should it be? The key objectives identify what the organisation plans to achieve. They are the concrete ends or goals that represent the ultimate purpose of the organisation (see figure 1.8). Strategies, in turn, represent the means through which these objectives are pursued at any given point of time.

Environmental analysis

The objective of analysing the external environment is to identify any strategic opportunities and threats that may be present. Changes in government legislation may pose a threat by restricting business opportunities or by increasing competition. Mining companies, for example, are re-evaluating their investments

in Australia because of the risks and costs associated with tax reforms, infrastructure deficiencies, energy and water security, industrial relations rigidities and increasing government red tape.²⁴⁶

FIGURE 1.7 Strategic management model

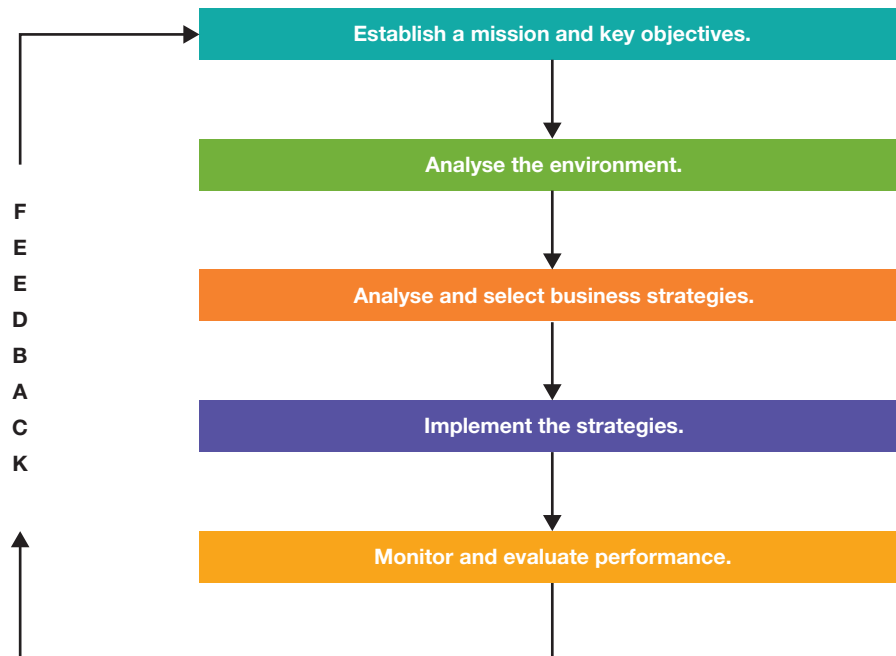
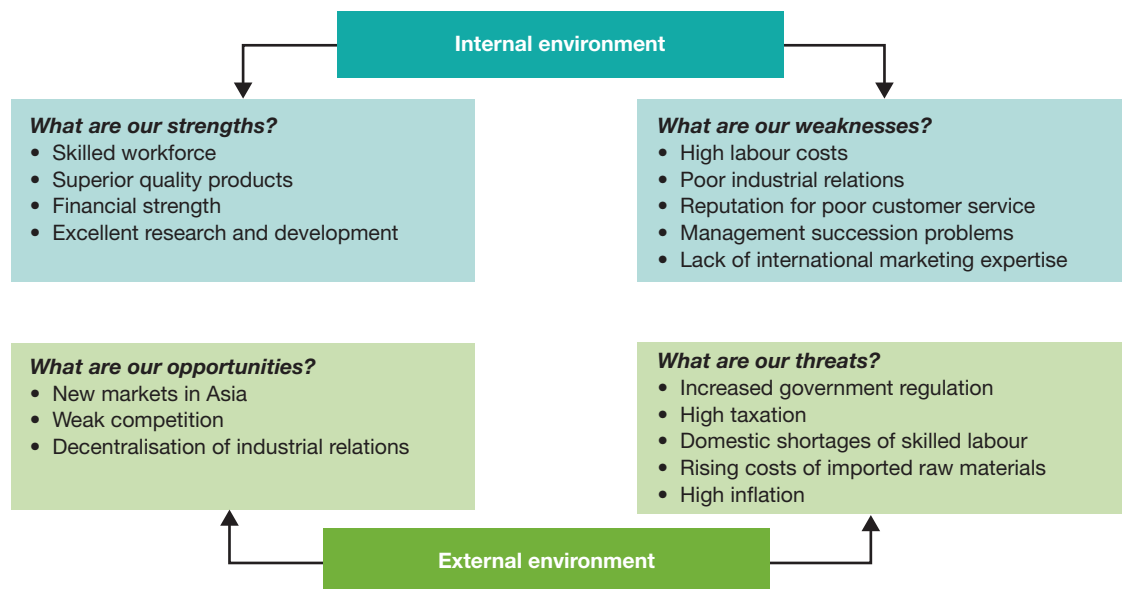


FIGURE 1.8 SWOT analysis



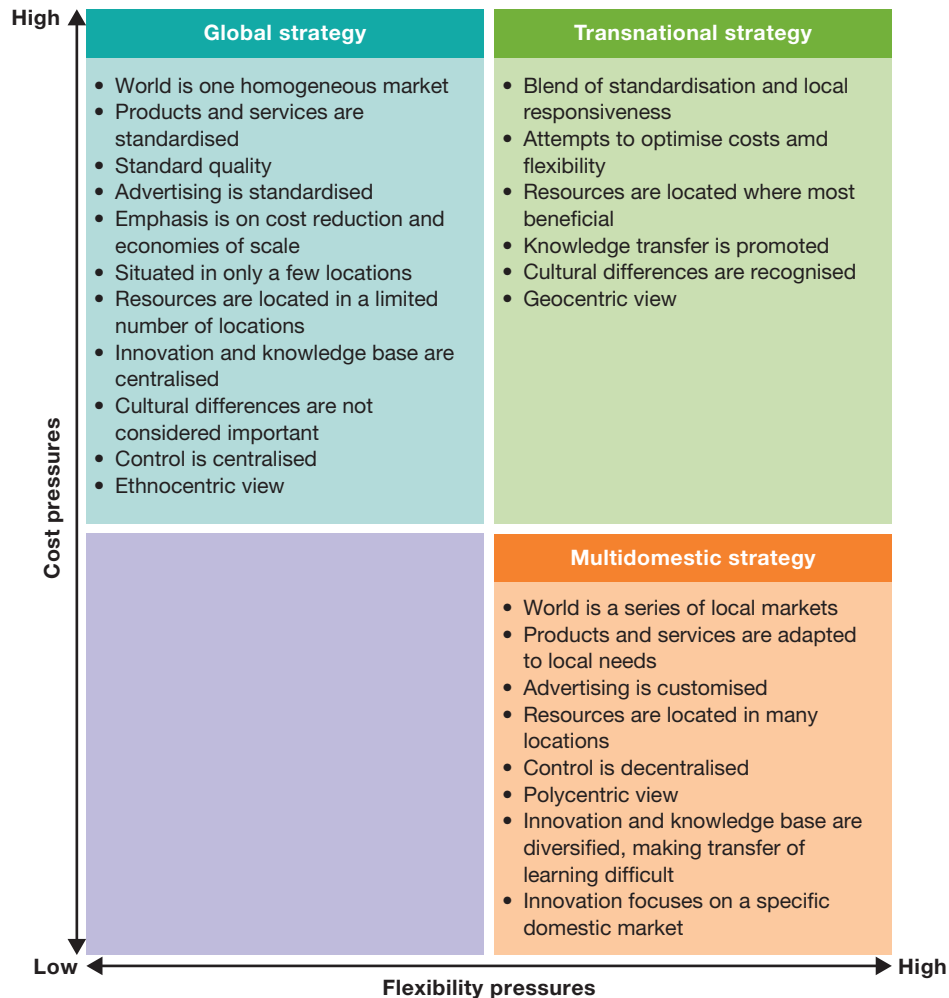
Similarly, analysis of the internal environment aims to identify the organisation's strengths and weaknesses. The organisation may possess special technological advantages, but lack the marketing expertise to successfully implement a strategy. To help determine what must be done to achieve the mission and objectives, it is critical that management analyses both the external environment and the organisation's internal capabilities and resources. Only then can the internal strengths and weaknesses be deployed to take advantage of external opportunities and to minimise external problems.²⁴⁷

Strategy selection

This step involves generating a series of strategic options based on the organisation's objectives and a comparison of its internal strengths and weaknesses and its external opportunities and threats (a **SWOT analysis**). Alternative strategies generated by a SWOT analysis are evaluated to identify which one will best achieve the organisation's objectives. The aim is to select the strategy that gives the best alignment or fit between the external and internal environments (see figure 1.9). Although popular with managers, it should be noted that the SWOT technique has been criticised for generating too many factors, not prioritising them and being more a decision aid than a focused analytical tool.²⁴⁸

FIGURE 1.9

International strategies



The selection of strategy thus involves managers being **proactive** (instead of reactive) to changes in their organisation's environment. The premise of **strategic choice** is that management can facilitate the organisation's successful adaptation to changing circumstances by shaping the organisation's objectives and policies. Thus, instead of permitting external influences to determine the future of the organisation, management anticipates change and actively develops long-term strategies to cope with environmental pressures. This also includes the development of an HR strategy to define 'the organisation's long-term objective with regard to human resource issues'.²⁴⁹ Recognising the active role played by management in shaping HRM means rejecting the traditional view of management as being reactive and responding to trade union or other environmental influences. Finally, Debrah argues that the concept of strategic choice highlights the necessity of linking organisational strategies with HR strategies 'to achieve desirable outcomes in the workplace'.²⁵⁰

Strategy implementation

It is critical for successful strategy implementation that employees accept the changes demanded by the new or revised strategies. Similarly, an organisation's structure must be designed to enhance the implementation of a strategy. This involves arranging the organisation's physical and human resources to carry out the strategy. A strategy needs an appropriate structure if it is to work, and there are questions that must be answered: Should the structure be flat or tall? How are task responsibilities to be allocated (division of labour)? Is decision making to be centralised or decentralised (degree of delegation)? To what extent should the organisation be divided into sub-units such as divisions and departments (departmentalisation)? Other key issues include developing appropriate budgets, information systems, HR systems (control based or commitment based?) and policies and procedures to enhance strategy implementation. Wesfarmers, for example, rigorously applies target setting, performance measurement and reward systems with a strong **value-added** and accountability focus.²⁵¹

Performance evaluation

Management must decide how to monitor and measure performance so the effectiveness of a strategy can be evaluated. One approach may involve setting performance objectives, measuring performance, comparing actual performance with targeted performance and taking any corrective action required. This **management by objectives (MBO)** approach has the advantage of integrating planning and control. Alternatively, management may decide to establish detailed bureaucratic controls involving impersonal rules and procedures and the standardisation of activities. For strategic planning to be successful, it is important to achieve a fit between the organisation's strategy, structure, culture and methods of control.

Feedback

Strategic management is an ongoing process. The implementation of a strategy must be monitored to determine the extent to which it is realising the organisation's major strategic objectives. In short, managers must ask whether the strategy is being implemented as planned, and whether it is achieving the desired results. Thus, feedback systems are necessary for management to determine whether its strategies are working as planned.

Conflict, politics and strategic change

Strategic management appears to be a process of rational decision making. This is not the case in reality. Conflict and politics arise with strategic change. Individual functions and divisions have agendas that may not be identical, so conflict over resources and the need for change may produce power struggles within the organisation. Similarly, not all strategies are implemented in a logical way: they may be shaped, changed and developed by managers making small adjustments to existing strategies. That is, managers make incremental changes (as opposed to revolutionary changes) in strategy based on their experiences in managing the business.²⁵² Managers often have to make decisions and plan in rapidly changing environments (which frequently involve political and other pressures), so it is important that they remain 'focused on long-term objectives while still remaining flexible enough to master short-term problems and opportunities as they occur'.²⁵³

Types of strategies

Although numerous approaches to classifying strategies have been developed, the key ones highlighted in this text are as follows.

Growth

An organisation can expand either through internally generated growth (e.g. McDonald's and Woolworths) or through acquisitions, mergers or joint ventures (e.g. Westpac's takeover of St George Bank). Growth may be concentrated on building existing strengths (e.g. food for McDonald's and financial services for NAB) or on moving into new or unrelated areas of business. For example, Australia Post has diversified its portfolio to now include various insurance products (home and contents, car, and travel).²⁵⁴

Retrenchment

The emphasis of retrenchment is on performance improvement by increasing productivity, cost-cutting, downsizing, re-engineering, and selling or shutting down business operations. BlueScope, Qantas and Telstra are examples of companies employing this strategy in an effort to become more competitive. Retrenchment strategies are common in today's cutthroat environment.

Stability

This is a neutral strategy that attempts to maintain the status quo by pursuing established business objectives. A stability strategy is often used when an organisation is performing well in a low-risk environment or when an organisation needs to consolidate after a period of rapid growth or restructuring.

A combination of growth, retrenchment and stability

An organisation can pursue more than one strategy at the same time. A large organisation, for example, may be expanding in some business or geographical areas and retrenching in others.

International strategies

Organisations face two important considerations when selecting an international strategy: cost efficiency (via standardisation of products and services) and customisation (that is, tailoring a product or service to meet the unique needs of a particular market) (see figure 1.11).²⁵⁵ Although the various strategies discussed below appear clear-cut, in reality the distinctions are often blurred, reflecting a matter of degree rather than an absolute difference (also see chapter 15).

A global strategy

Organisations such as Coca-Cola, Intel and Toyota, which seek cost efficiencies and treat the world as a single market, typically prefer to operate in a few select locations offering low costs. (India and China, with their cheap labour and low manufacturing costs, are classic examples.) A global strategy reflects an **ethnocentric orientation**, plays down the importance of cultural differences, emphasises the similarities between markets, involves centralised decision making (typically at the corporate headquarters) and results in the grouping of major activities (e.g. research and development, manufacturing and marketing) in a limited number of key locations.

Such a strategy limits learning and the creation and transfer of knowledge because the focus is restricted to a few key locations. As a result, the emphasis is on the exploitation of existing knowledge, with learning centred on the parent company's culture, markets and environment. The organisation therefore may not be able to respond quickly or in appropriate ways to changes in a particular location.

Organisations adopting a global strategy are frequently found in industries such as pharmaceuticals, semi-conductors and some consumer goods. Coca-Cola, Levi's jeans, Colgate-Palmolive toothpaste, Gillette razors, Harley-Davidson motorcycles, McDonald's hamburgers and Starbucks coffee, for example, are marketed in similar fashion around the world.²⁵⁶

A multidomestic strategy

Some organisations, however, may need to modify their products or services to satisfy local requirements if they want to gain a competitive edge. KFC and McDonald's, for example, create menus tailored to local food and taste preferences, while Honda produces motorcycles specially designed to satisfy local requirements (although using common technology). This strategy is often used by consumer goods companies such as Bristol Myers, Procter & Gamble and Unilever, and is also common among music and fashion companies.²⁵⁷

A multidomestic strategy reflects a more **polycentric orientation**. It is sensitive to cultural differences but gives less attention to the similarities between markets. While a multidomestic approach is responsive to local needs, it creates barriers to the transfer of knowledge across the various parts of the organisation because of its decentralised decision making and diversified operations.

A transnational strategy

Some organisations attempt to satisfy pressures for both standardisation and diversity by adopting a blend of global and multidomestic strategies. Products and services are standardised to a degree but are also made somewhat unique to meet local needs. In other words, centralisation and decentralisation strategies are employed simultaneously. People, capital and material resources are sought internationally. These organisations operate in a true global fashion with manufacturing, research and development, and other functions performed wherever they can be done best at the lowest cost.²⁵⁸

A transnational strategy reflects a **geocentric view** and values talent and diversity. Managers adopt a global mindset with an emphasis on flexibility and openness. A key to the success of this approach is a corporate culture that promotes learning and the transfer of knowledge and the employment of the best people. Nestlé has 98 per cent of its sales and 96 per cent of its employees outside of its home country, Switzerland. The CEO is German-American and several of the company's senior management are non-Swiss.²⁵⁹

Choosing strategies

It is important that HR strategies accurately reflect an organisation's master business strategy to ensure an appropriate fit. This enables HR action plans to support the master strategy and the direction of the organisation. Without this strategic alignment, confusion, frustration and inefficiencies result.²⁶⁰

The need for HRM strategies

Ever-increasing pressures have forced managers to critically rethink their approaches to HR management. People and their current and potential contributions were often overlooked in the past. According to Drucker, in the knowledge economy, employees are not labour, they are capital. Knowledge workers are the major wealth creators. It is now the productivity of capital (not its cost) that is decisive in determining organisational performance.²⁶¹ Merging business and HRM strategies is thus a critical source of competitiveness for organisations.²⁶²

Managers consequently must adopt a strategic mindset or way of looking at and thinking about the management of people. HR managers, in turn, have a responsibility to ensure that HRM is strategically aligned with the organisation's overall business objectives. If an organisation makes a strategic decision to expand, introduce new technology, reduce costs, improve quality or downsize, for example, HRM must support this choice. The HR manager must ask, 'Where are we now? Where do we want to be? How are we going to get there? What do we do when we get there?' A differentiator between the corporate winners and losers in the twenty-first century clearly will be the quality of an organisation's human resources.²⁶³

The need for competitive advantage (and particularly sustained competitive advantage) has made the strategic management of HRM critical to long-term business success.²⁶⁴

The aims of HRM strategies

HRM strategies outline the organisation's people objectives and must be an integrated part of its overall business strategy. HRM strategies, like marketing or manufacturing strategies, are functional strategies — that is, they guide the actions to be taken within a specific function. HR activities such as recruitment and selection, training and development, for example, should be guided by an organisation's HRM strategies.

The aim of a functional strategy is to support the organisation's business strategies. As a result, HRM strategies must focus on what line management sees as the main business issues. Only then can HRM activities be clearly related to the direction of the business. 'Asking the board to tuck on HR's pet concerns to a business strategy', says Price, 'does not guarantee integration.'²⁶⁵

HRM strategies aim to enable the organisation to achieve its strategic objectives by:

- ensuring that all business planning processes recognise from the outset that the ultimate source of value is people
- seeing that all concerned in strategic planning appreciate the HR implications of their proposals and understand the potential HR constraints if action is not taken
- achieving a close match between corporate business objectives and the objectives of the HR function
- designing and managing the culture, climate and organisational processes of the business to ensure that everyone can do their job better and that high-calibre people are found and kept
- identifying the firm's distinctive competencies and the types of people who will be needed to build and maintain those competencies
- ensuring that the resourcing activities of the organisation contribute to the development of competencies in the short and long term
- assessing the performance requirements needed to reach the organisation's strategic business objectives, and deciding how the requirements should be satisfied
- reviewing the levels of commitment throughout the organisation and planning ways to improve them where necessary.²⁶⁶

Overall, HRM strategic planning clarifies for employees and managers in an organisation and other stakeholders such as shareholders and unions how HRM intends to contribute, what methods it will use and what performance standards it is aiming for.

1.9 Strategic organisation and strategic HRM objectives

LEARNING OBJECTIVE 1.9 Explain the meaning of strategic human resource management.

Because they define the main issues to be worked on and determine policies and priorities, **strategic HRM** objectives must accurately reflect the strategic objectives and values of the organisation. Schuler, Galante and Jackson show that organisations can improve their environment for success by making choices about HR planning, staffing, appraisal, remuneration, training and development, and labour relations that are consistent with and support the corporate strategy.²⁶⁷

Other research similarly demonstrates that the closer the fit between an organisation's business strategy and its HRM strategy, the more positive the effect on HRM effectiveness and labour productivity.²⁶⁸ This means that HR objectives, policies and plans must be integrated with the organisation's strategic business objectives.²⁶⁹ When this happens, HRM becomes a true business partner in boosting the organisation's competitive advantage by helping achieve strategic objectives and employee growth.

HR objectives, policies and plans must be judged by how well they help achieve the organisation's strategic business objectives. The HR manager must ask: Do they work? Are they easy to understand and implement? Do they add value? Do they create a competitive advantage? Are they fair? Will they increase employee job satisfaction, commitment and motivation? Do they build the capacity for change? Do they promote a volunteer mindset? Do they reinforce the organisation's culture? Do they promote trust? Do they support the organisation's long-term business strategy? These questions are critical because research reveals that policies and practices are often inconsistent with strategy or are implemented in a piecemeal fashion.²⁷⁰ Furthermore, other research shows that information on employee perceptions and reactions to HR policies and practices is necessary to an improvement in HRM's contribution to organisational effectiveness.²⁷¹

Without such a strategic view, HRM will remain a set of independent activities, lacking in central purpose and coherent structure. It will be reactive rather than proactive in shaping a relationship between the organisation and its employees. It will fail to optimise opportunities for the organisation's survival and growth.

In a fast-changing, globally competitive world, it is human resources that provide the competitive edge. HR managers have a significant role to play in developing and implementing corporate strategy, especially when it is considered that the more effective HR becomes, the more competitive and differentiated the organisation becomes.²⁷²

Strategic HRM objectives and plans

Just as strategic HRM objectives must be in harmony with the organisation's overall aims, HRM activity plans must support the achievement of strategic HRM objectives. An organisation that has set profit improvement as a strategic business objective, for example, may need strategic HRM objectives that produce reduced labour costs (e.g. improved employee performance, reduced headcount). These objectives, in turn, necessitate action plans for specific HR activities such as developing performance-linked reward systems to promote employee motivation and productivity, appropriate training programs to maintain and enhance employee competence, and an appraisal and exit program to accurately identify and remove poor performers.

Strategic HRM objectives and plans can be linked to strategic organisational objectives such as:

- *cost containment* — by focusing on cost reduction via reduced headcount, improved expense control, improved productivity, reduced absenteeism and lower labour turnover
- *customer service* — by focusing on achieving improved customer service through recruitment and selection, employee training and development, and rewards and motivation
- *organisational effectiveness* — by focusing on organisational structure, job design, employee motivation, employee innovation, adaptability to change, flexible reward systems and employee relations
- *social responsibility* — by focusing on legal compliance and improvements in areas such as equal opportunity, occupational health and safety, and minority opportunities and development
- *integrity* — by focusing on the enhancement of the organisation's reputation for ethical behaviour, fair treatment of employees, honesty in communications and honouring of agreements.

All strategic HRM objectives and activities must be evaluated in terms of how they contribute to the achievement of the organisation's strategic business objectives. This means that they must:

- be measurable
- include deadline dates for accomplishment
- identify and involve the key stakeholders and HR customers to ensure the necessary collaboration
- nominate the individuals or parties responsible for implementation.

HRM policies and procedures

HRM **policies** are general statements that serve to guide decision making. As such, they direct the actions of the HRM function towards achieving its strategic objectives. HRM policies are generally put in writing and communicated to all employees. They typically serve three major purposes:

1. to reassure employees that they will be treated fairly and objectively
2. to help managers to make quick and consistent decisions
3. to give managers the confidence to resolve problems and to defend their decisions.²⁷³

Subjects covered by HRM policies include recruitment and selection, transfers, promotions, terminations and pay increases. The statement 'It is the policy of this organisation whenever feasible to promote from within', for example, gives a clear guideline to managers and employees about how promotional opportunities will be handled.

HRM **procedures** detail precisely what action is to be taken in a particular situation — for example, the specific steps to be followed when giving a pay increase, terminating an employee or handling a sexual harassment complaint. To promote trust in management and the organisation, it is extremely important that HR policies and procedures be perceived as fair and equitable.²⁷⁴

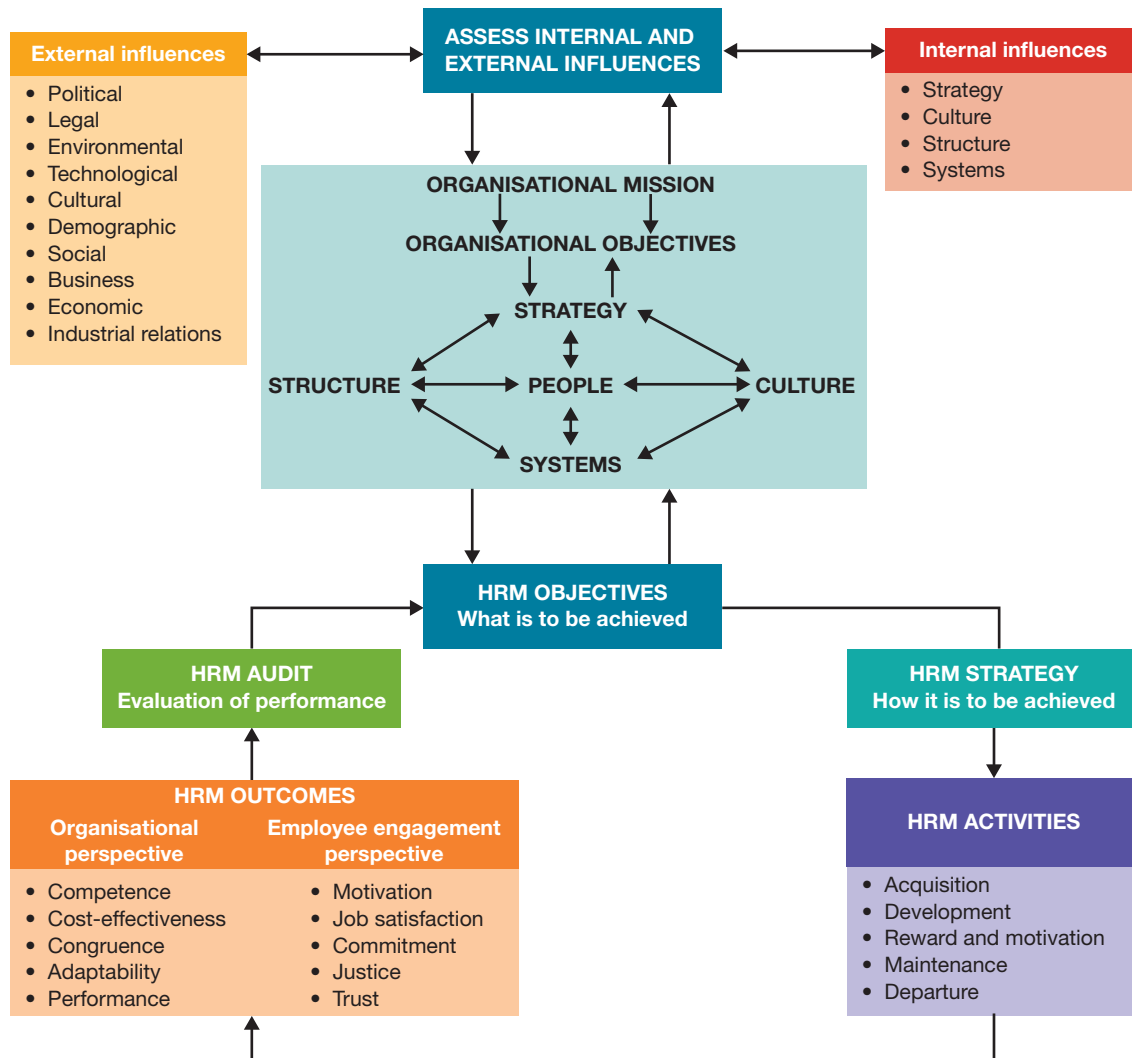
1.10 A strategic approach to HRM

LEARNING OBJECTIVE 1.10 Describe a strategic approach to human resource management.

Many factors affect HRM. Whether from the organisation's external or internal environment, the impact of a particular influence must be identified and considered by the HR manager. A diagnostic model thus provides the HR manager with an analytical framework to anticipate and prevent problems from arising (see figure 1.10). HRM does not operate in a vacuum. It is influenced by, and in turn influences, factors such as changes in technology, laws, social values and economic conditions that exist outside the organisation, as well as internal factors such as the organisation's culture, strategy, structure and systems.²⁷⁵ All of these have a significant influence on the organisation's HRM objectives, strategies and action plans (see figure 1.10). Equal employment legislation, for example, has had a particular effect on the way organisations acquire, develop and reward human resources. Similarly, research shows that government intervention has had a significant effect on Australian industrial relations.²⁷⁶ An integral part of strategic HRM therefore involves analysing **environmental influences** to identify those factors that inhibit the organisation and those that help it to achieve its objectives. An analysis of the strengths and weaknesses of the HRM function can also identify those positive and negative characteristics of HRM that promote or handicap the achievement of strategic objectives. Such analysis includes the quantity and quality of human resources available to the organisation.

If an organisation is to grow and remain competitive, its HR objectives and strategies must achieve the best alignment or fit between external opportunities and threats and the internal strengths and weaknesses of the organisation. The diagnostic model used in this book includes assessing internal and external influences, setting objectives and evaluating performance. Evaluation of outcomes provides feedback on HRM performance in the acquisition, development, reward and motivation, maintenance and departure of the organisation's human resources. It must be stressed that evaluation involves both employee and organisation-related outcomes. HRM is concerned with overall organisational performance and individual employee performance. Employee attitudes, behaviour and perceptions positively or negatively influence performance. High-performance HRM therefore cannot ignore HR outcomes from the employee's perspective.²⁷⁷

FIGURE 1.10 Strategic HRM diagnostic model



This comprehensive strategic approach generates more informed and purposeful HR management. Articulating the organisation's mission or purpose (why it exists), its objectives (what it wants to achieve), its strategies (how the objectives are to be achieved) and plans (the action steps required) helps direct the setting of HRM objectives, strategies and plans. In turn, when applied to specific HRM activities such as recruitment and selection, the HR manager can better appreciate which specific action plans are required to support HRM and organisational strategic objectives. Organisations that adopt HRM strategies and high-performance HR policies and practices consistent with the demands of their internal and external environments outperform organisations that adopt less well-matched strategies and practices.²⁷⁸

Assessment of influences

The diagnostic approach to HRM suggests that the HR manager must consider the nature of external and internal environmental influences before electing a particular course of action. Big data analytics allows the HR manager to access and analyse massive amounts of data on unemployment, health issues, wage movements, employee preferences, behaviour and political views. HR managers can use this business intelligence to improve their decision making and enhance their strategic impact; however, they must know how to extract greater value from data by using big data analytics. This permits the HR manager to be proactive, rather than simply reacting to something after it occurs. By taking a proactive approach, the HR manager is in a much better position to appraise the context of a situation and to act accordingly.

An assessment of influences forces the HR manager to seek answers to basic questions. Examples of the questions the HR manager might ask include the following.

- Where are we now?
- Where do we want to be in the future?
- What path is best for us? What action steps do we need to take?
- How and when can we undertake them?

External influences

The HR manager must identify those external influences that will affect the organisation and the management of its human resources. Some of the major influences existing outside of the organisation include the following.

- *Political.* Political ideologies regarding human resources can range from an interventionist approach — where government regulation of HRM is comprehensive — to one of minimal involvement. Specifically, political attitudes towards business, unions, management rights, strikes, secondary boycotts and enterprise bargaining can differ markedly — federally, from state to state and internationally.
- *Legal.* Laws and regulations regarding hours of work, holidays, **equal employment opportunity (EEO)**, affirmative action, sexual harassment, workers' compensation, privacy, health and safety, fringe benefits and terminations clearly affect HRM.
- *Environmental.* Government and community concerns regarding environmental issues — such as energy conservation, workplace beautification and environmental pollution — directly or indirectly affect job design, employee orientation and training, health and safety, industrial relations and the image of an organisation as an employer.
- *Technological.* The level of technological advancement and the rate of technological change affect job design, recruitment, selection, training, motivation, remuneration, health and safety, job security and industrial relations. For example, sales representatives using mobile devices now work from home and spend more time selling instead of wasting time commuting to the office. Similarly, computer networks have eroded traditional workplace hierarchies. Networks mean junior employees can join immediate online discussions with senior executives (where they are judged more on what they say than on where they sit on the corporate ladder). More and more the emphasis is on the application of knowledge and not physical exertion. Many agricultural and industrial jobs, for example, have become knowledge jobs. A report by the Australian Computer Society found 20 per cent of employees (approximately 2.7 million) in Australia will have their job either completely or partially automated by 2034. The report also highlighted that some 4.5 million employees in Australia also benefited from technology such that it enhanced their productivity by 15 per cent. The report identified the following top five industries that can expect the greatest level of technological disruption: (1) transport, postal and warehousing; (2) administrative and support services; (3) agriculture, forestry and fishing; (4) financial and insurance services; and (5) manufacturing.²⁷⁹
- *Knowledge economy.* The new economy is a knowledge economy. In Australia, 39 per cent of all employees are classified as knowledge workers. Knowledge workers require new skills, ways of working and organisational structures. Organisations are shedding employees who are not core to their business success and using online marketplaces to find people prepared to bid for work. Workers, as a result, are becoming more like self-employed entrepreneurs.²⁸⁰ As traditional jobs disappear (or become more insecure) being 'connected' via social networking sites (such as LinkedIn) will be critical to career success.²⁸¹ Social technologies, as a result, are now an essential part of how people work and interact.²⁸² According to Jason Walker, managing director of the New Zealand branch of Hays (international recruitment company), 'We're seeing temporary and contract employees become the "new normal" across New Zealand workplaces ... These skilled professionals work alongside permanent employees as needed, creating a blended workforce that can flex in response to project work or the need for unique expertise.'²⁸³
- *Cultural.* Historical background, ideologies, values, norms and language all influence employee views on the role and importance of HRM, EEO, job titles, HRD and other aspects of HRM such as job design, remuneration, HRD, motivation and employee communication. Research indicates that the primary motivation for Chinese and Indian workers is to make money, for Japanese workers it is a commitment to the organisation, and for Taiwanese it is career progression and development.²⁸⁴ Cross-cultural studies also suggest that performance-based pay is a poor fit for some cultures.²⁸⁵
- *Demographic.* The nature of the human resources available to the organisation in terms of the numbers, geographical distribution, age, sex, literacy, skill and education levels of the population has an effect

on HRM. Ageing populations have spurred organisations to automate and change their remuneration practices; Japan's ageing society, for example, has stimulated Japanese firms to aggressively increase their expenditures on the development of robotics.²⁸⁶

- *Social*. Changing values and attitudes towards issues such as dress, education, work, minorities, unions, management, social mobility, status, rewards, health and safety, job security, quality of life, employee privacy, gender roles, LGBTQIA rights and widening wealth inequalities affect every aspect of HRM. Changing values and attitudes typically create new challenges for the HR manager — for example, how to handle dual career couples in an interstate or international transfer, how to protect LGBTQIA+ employees from workplace discrimination, how to combat unconscious bias in the recruitment process, how to satisfy gen Y's strong desire for work flexibility, how to give employees a better work–life balance, and how to deal with 'downshifters' (people who have decided on a lifestyle change involving less work, income and consumption).²⁸⁷ Big data analytics provide a valuable tool for the HR manager to analyse trends in community and employee attitudes and behaviour.²⁸⁸
- *Business*. In response to globalisation, technological advances and increasing competition, organisations are merging, downsizing, restructuring, outsourcing and eliminating costs, all of which directly or indirectly affect HRM. Increased import competition, new technology and high labour costs, for example, have caused Australian manufacturers to reduce their employee numbers. Old industries are dying and new ones are emerging. Some struggling Australian mining companies, for example, are switching to growing medical marijuana.²⁸⁹ Ageing populations, increased leisure time, changes in technology and food shortages all mean growth in industries related to sports, entertainment, healthcare, information technology, travel, and farming (e.g. insect farming).
- *Economic*. Factors such as the level of economic activity, the unemployment rate, public versus private ownership, the level of investment, the availability of credit, the degree of centralised economic planning, the amount of debt, and the level and type of taxes directly or indirectly influence recruitment, selection, compensation and benefits, industrial relations, retrenchments and labour turnover. China's economic slowdown,²⁹⁰ the end of the minerals boom and the collapse of oil prices all affect the Australian economy and labour market.²⁹¹ Most of Australia's top export markets are now in Asia, generating demand for training in Asian languages, business cultures and cross-cultural negotiation, and the employment of expatriates. In the USA, organisations have been buying technology instead of hiring people. This has produced dramatic increases in productivity but led to the 'vaporising' of jobs.²⁹²
- *Industrial relations (or employee or employment relations)*. Factors relating to industrial relations — such as the organisational climate, government policies, the degree of unionisation, the role of industrial tribunals, employee attitudes, employee commitment, employee input and the quality of work life — affect things such as job design, absenteeism, labour turnover, industrial disputes, employee communication and pay rates. Unions, for example, often influence HR practices, particularly in the areas of remuneration, job security arrangements and working conditions. WorkChoices (with its promotion of the individualisation of the employment relationship and the marginalisation of trade unions) posed major challenges to trade unions and business organisations.²⁹³ Fair Work Commission (FWC), on the other hand, with its promotion of regulation and trade union power, has seen an increase in collective work arrangements.

Internal influences

Internal environmental influences — such as the organisational mission or purpose, objectives and strategies, culture, structure and systems — involve factors that are found within the organisation.

Organisational strategies

Strategies translate the organisation's strategic business objectives into action plans. They set the direction for the organisation and define how it plans to establish a sustainable competitive advantage. Strategies impact every part of the organisation. For example, if an organisation has an objective to become the fastest growing, most profitable company in its industry, this influences the type of people it requires (highly competent, achievement-oriented), the HR system (high-performance), the culture (egalitarian, performance-oriented) and the structure (flat, non-hierarchical). A survey shows that more than 90 per cent of investment analysts listed corporate culture as an important factor when making investment decisions. Companies that do not have a culture that supports the company's strategy, thus, risk being shunned by professional investors.²⁹⁴

Organisational culture

An organisation's psychological and social climate forms its culture. The culture represents the values, beliefs, assumptions and symbols that define how the organisation conducts its business. Katie Burke, chief people officer at HubSpot, summarises culture as 'the promise you make to your candidates and employees about the environment they can expect to work in and the values upon which your business operates'.²⁹⁵ **Organisational culture** tells employees how things are done, what is important and what kind of behaviour is rewarded. The link between organisational culture and HRM is important. Culture is critical because it distinguishes the organisation from other organisations. Although there is no one 'best' culture, there is a clear link between an organisation's culture and its effectiveness. For example, Johnson & Johnson²⁹⁶ and Amazon's²⁹⁷ decentralised cultures have been lauded as key determinants of their success. Organisations with strong positive cultures have a much better chance of success than those with weak or negative cultures.²⁹⁸ Thus, it is important for management to foster a culture that promotes the achievement of the organisation's strategic business objectives.²⁹⁹

HRM activities contribute to the development of an organisation's culture and provide it with a competitive edge by stimulating and reinforcing the specific behaviours needed to achieve the organisation's strategic objectives. Research shows that cultural characteristics that promote job satisfaction (such as fairness, opportunities for personal growth and good company reputation) make employees more willing to remain and build their careers within the organisation.³⁰⁰ A study by Aon Hewitt found that organisations with cultures involving high targets and reward-driven performance experience more positive business outcomes.³⁰¹ A separate study found organisations with performance-enhancing cultures had up to four times the amount of revenue growth compared to organisations without such cultures.³⁰²

Organisations can adopt a variety of strategies aimed at establishing, communicating, enhancing and reinventing their cultures. For example, Macquarie Bank has focused on recruiting the best talent, rewarding people well and allowing them free reign in seeking out business opportunities.³⁰³ Campbell's Soup's strategic intent is to 'beat the competition ... winning is what we are all about'.³⁰⁴ This is articulated by a former Campbell's CEO: 'If you don't want to compete, if you don't like stretching, if you won't confront change and competition, I really don't think you are right for the company.'³⁰⁵ By employing like-minded people, Campbell's is attempting to build its culture by strategic selection. Companies such as IBM, Microsoft, Procter & Gamble and Westfield also assess job applicants more on how they fit the culture than on their job-related skills. Leading firms also spend a great deal of effort on selecting new employees (typically including both workers and managers in the screening process) and utilise well-established performance management systems to quickly identify selection errors.³⁰⁶ Similarly, an increasing number of firms are shaping their organisation's culture through employee orientation and training programs. McDonald's, for example, trains all its new employees in the dominant values of 'quality, service, cleanliness and value'. Finally, organisations can use reward systems to shape their cultures. Employees who better fit the organisation's values can be rewarded more than others. A danger in such approaches, however, is that the inculcation of culture may become indoctrination, producing a lack of flexibility, a loss of individuality and unquestioning acquiescence.³⁰⁷

Although corporate culture can be an asset, in other instances it can be a hurdle. For example, the Australian Public Service has five key values — committed to service, ethical, respectful, accountable and impartial.³⁰⁸ Public servants, however, have described their organisation as one that has a risk-averse culture characterised by ineffective management of poor performers, a failure to encourage creativity and an inability to reward the best performers.³⁰⁹ The Australian Taxation Office (ATO), for example, has been described as being hamstrung by bureaucracy, risk aversion, characterised by internal empire building, lacking in trust and respect, and having no accountability for performance.³¹⁰ Culture thus impacts on employee expectations, behaviour and productivity. Organisational culture, for example, is one of the most critical determinants of ethical and safety performance.³¹¹

Organisational structure

The effective implementation of an organisation's strategy requires management to ensure that the organisation's design helps to achieve its strategic objectives. HRM is particularly concerned with **organisational structure** because it can directly affect employee productivity and behaviour.³¹² Organisations with narrow spans of control that are hierarchical in structure, for example, tend to be authoritarian, rigid, formal, intolerant of dissent, highly specialised and bureaucratic. In contrast, organisations with wide spans of control that are flat in structure tend to be more flexible, adaptable, informal, less specialised and more entrepreneurial. Thus, the structure of an organisation has a powerful influence over how jobs are designed, how decisions are made, how things get done and what type of employees are required for the organisation's success.

Organisational systems

The systems the organisation employs to achieve its objectives must be compatible. An efficient HR system that does not mesh with its functional counterparts will be ineffective. It is the HR manager's job to ensure that all HR systems are efficient and in harmony with accounting and financial, information technology, purchasing, marketing, sales and distribution, and operations and service management systems. For example, if HR's reward system does not promote marketing's goal of improving the sales performance of its sales representatives, then the overall performance of the organisation suffers. HR systems are influenced by (and will influence) the organisation's strategy, culture, structure and people. For example, an organisation seeking a risk-averse culture is unlikely to use a reward system emphasising at-risk remuneration or to hire aggressive risk-takers.

Evaluating HRM objectives, policies and practices

HRM policies and practice should be evaluated in terms of their contribution to achieving the organisation's strategic business objectives and satisfying employee needs. Research has shown positive associations between HRM practices and perceptions of organisational performance and operational performance when matched with quality manufacturing strategies.³¹³ Similarly, there is evidence to indicate that an HR reputation for being employee-centred has a positive effect on labour turnover, sales, profitability and a company's share price.³¹⁴ Finally, an increasing number of studies highlight that it is people who limit or enhance the strengths and weaknesses of an organisation and that, when done well, HRM can improve organisational competitiveness, growth, adaptability and profitability.³¹⁵

1.11 HRM outcomes and performance

LEARNING OBJECTIVE 1.11 Understand human resource management outcomes and performance, and appreciate the strategic challenges facing human resource management.

Strategic HRM is concerned with both organisational performance and employee wellbeing. This means that any evaluation of HR's contribution must incorporate both perspectives of the organisation and its employees'. HRM's contribution to organisational performance involves aligning HR strategies with organisational strategies, managing the corporate culture to win employee commitment and being efficient in managing HR activities. HRM's contribution to individual wellbeing is demonstrated by employee attitudes and behaviour.

High-performance HRM, which places the employee centre stage, has benefits for the organisation because the way employees respond to HRM initiatives is linked to their on-the-job performance — and ultimately to organisational performance.³¹⁶ The outcomes that follow should be considered when evaluating HRM performance (also see figures 1.10 and 1.13).

If HR managers are to be involved in strategic planning and decision making, they need to be strategic contributors. They need to tie dollar-and-cents implications to HR issues; they need to show management how to increase profitability through improved employee productivity by means of increased employee commitment, trust and perceptions of fairness; they need to be the employees' voice at the management table; and they need to demonstrate professional competence in HR activities such as remuneration and managing change.

Management is developing high expectations of HRM. Productivity improvement, restructuring and downsizing, IR issues, the identification and development of talent, performance appraisal and reward systems, and change management increasingly occupy the attention of top management. Recognition of the important role that HRM plays in all aspects of a business requires HR professionals to lift their game. Organisations in today's competitive environment cannot risk giving HR managers unchallenged responsibility for HRM. It is up to HR managers to prove their worth by demonstrating the connection between what they do and organisational performance and employee wellbeing. They can achieve this goal by considering both the organisational and individual perspectives as they relate to key HRM outcomes.

The organisational perspective

Competence

To what extent do HRM strategies and policies attract, retain, motivate and develop employees with the KSAOs required to achieve the organisation's business objectives?

Cost-effectiveness

To what extent do HRM strategies and policies reduce personnel-related costs, help to correctly size the organisation, eliminate unnecessary work, optimise remuneration expenditure, reduce labour turnover and absenteeism, improve employee health and safety, improve employee productivity and avoid costs from litigation and negative public relations?

Congruence

To what extent do HRM strategies and policies generate (or sustain) congruence between management and employees, different employee groups, the organisation and the community, employees and their families, and within the individual? In other words, do HRM strategies promote the achievement of employee goals and, at the same time, satisfy the organisation's strategic business objectives? A lack of congruence can be costly to the organisation in terms of: time, money and energy; the resulting low levels of trust and lack of common purpose; and the stress and other psychological problems it can create.³¹⁷ Research, for example, indicates that managers and employees may differ in their perceptions of an HR practice, causing substandard outcomes. HR managers need to assess the congruence of HR practice to ensure that manager and employee perceptions are aligned and that the practice is producing a strategically beneficial outcome.³¹⁸

Adaptability

To what extent do HRM strategies and policies foster organisational and employee flexibility? What is the readiness for change? Does the organisation exploit change or does it react to change? Are innovation and creativity encouraged or stifled? Is knowledge recognised as a critical asset? Does the organisation utilise people with different backgrounds and value systems? Research shows a positive relationship between organisational learning, innovation, strategic HRM and sustainable competitive advantage.³¹⁹

Performance

To what extent do HRM strategies and policies contribute to employee on-the-job performance and productivity and the organisation's overall profitability, growth and success? Research shows that organisations which adopt a high-involvement strategy tend to have better performance.³²⁰

The employee engagement perspective

Employee engagement perspective specifically implies an emotional and intellectual involvement with an organisation. As such, it represents a variety of factors such as motivation, job satisfaction, commitment, justice and trust.³²¹ Thus, employee engagement may be viewed as an umbrella measure that gives an indication of the employee's connection to the organisation and their passion for the job. According to Gallup 'State of the Global Workplace 22 Report', only 21 per cent of employees are engaged at work in Australia and New Zealand. In fact, the report found that 60 per cent of employees were emotionally detached from their work.³²²

High employee engagement scores suggest employee willingness to help others, to try and do something extra to improve performance and to speak positively about the organisation.³²³ Interestingly, research indicates that emotional commitment (feeling that the job is important, valuable and of benefit to others) is more significant than rational commitment (feeling that the job benefits the employee's own career and financial interests) in improving performance.³²⁴ Employees with high commitment scores are likely to be very loyal to the organisation. Recognising that companies with engaged employees outperform others, when evaluating potential stock purchases, major asset managers (such as BlackRock — the world's largest) look for key positive and negative words across a variety of social media to gauge the level of employee engagement before making an investment.³²⁵

Motivation

To what extent do HRM strategies and policies stimulate employees to achieve a designated goal? Positive acts performed by employees for the company (e.g. creating customer satisfaction through personalised service) should be reinforced. Likewise, employees will be more motivated when they have clear goals to achieve.³²⁶ Highly motivated employees work hard, come to work early and contribute more to the organisation's strategic objectives. A US study suggests that only 30 per cent of employees are truly loyal, committed and motivated; the rest are unhappy, prone to quit and less likely to provide satisfactory customer service.³²⁷ Research also suggests that employees with low levels of intrinsic motivation

who lack the drive and engagement to work independently show decreased work performance when empowered.³²⁸ From a HRM perspective, motivation is often the key factor in whether HR policies, practices and systems work.

Increasing cost pressures, workforce diversity, downsizing, and the advent of contingent workers and the lean organisation have focused management attention on the strategic importance of employee motivation. Strategic business objectives seeking competitive advantage through higher productivity and improved customer service can be achieved only if employees are strongly motivated to perform. Virtually every HR policy, practice and system shape, either directly or indirectly, employee motivation. Job design, performance appraisal and management, training and development activities, career planning, compensation systems, health and safety, as well as change and diversity management all contribute to employee motivation. Consequently, management places the achievement of its strategic business objectives at risk if it neglects employee motivation in favour of financial and other strategic objectives. Organisations that thrive and perform best are those that see employee motivation and the achievement of their strategic objectives as synergistic, as opposed to oppositional.³²⁹ Put simply, organisations can have highly motivated employees through well-developed HR policies, practices and systems while also achieving their strategic goals (just like having their cake and eating it too). Finally, management decisions based on valid models of employee motivation are much more likely to achieve success than those based on wrong or inappropriate assumptions.

Employee motivation is one of the most challenging aspects of HRM. Indeed, it remains a subject ‘that pervades all of management; however, it is also something that simply cannot be ignored. This is because motivation manifests itself through employee morale, output, absenteeism, effort, labour turnover, loyalty and achievement. It answers questions like: what makes our top performers perform? Why is it that some employees demonstrate a burning desire to achieve and seek increased responsibility, while others remain passive or disengaged? These and similar questions are frequently asked by managers and HR specialists alike.

Motivation is generally defined as an internal state that induces an employee to engage behaviours, or as a set of factors that cause employees to behave in certain ways. It can be summarised as the direction, intensity and persistence (DIP) associated with behaviour. For example, during the pandemic employees working from home had increased discretion over how, when and whether they completed their work-related tasks (i.e. ‘to work or Netflix — that is the question’). In this instance, direction would refer to the selection of a goal, such as working on an important client project. Intensity is the motivational force behind the behaviour directed at the goal. Will the work on the client project be completed with gusto, or apathy? Finally, persistence reflects the duration of the effort being put into pursuing the selected goal. Will hours be spent working on the project or will distraction creep in?

Despite being a relatively common concept, the reality is that motivation is extremely complex.³³⁰ This is because employee motivation is the product of many interacting factors that exist within individuals (e.g. personality, age, gender and ethnic culture), their work contexts (e.g. HR policies and practices, leadership and job design), as well as the broader environmental context (e.g. national culture, economic conditions and the COVID-19 pandemic). Thus, organisations must recognise the complexity of work motivation and the interaction between the various factors. For example, research suggests that high-performance human resource practices and policies may be most effective for employees who are also highly motivated as opposed to those lacking motivation. Research also suggests cultural differences need to be recognised. Asian and Latin American employees, for example, may feel uncomfortable with a manager who delegates authority and asks them to express their opinions. North Americans and Scandinavians, in contrast, expect their managers to employ a participative approach and involve them in decision making.³³¹ Managers therefore need to exercise flexibility and adapt their management style to recognise individual differences and understand the context in which employees work.

Job satisfaction

To what extent do HRM strategies and policies produce employees with positive attitudes and feelings about their work? Common job satisfaction components include pay, promotion opportunities, fringe benefits, supervision, colleagues, job conditions, the nature of the work, communication and job security.³³² Research shows that enriched jobs are positively associated with employee job satisfaction and contentment.³³³ Positive job satisfaction likewise promotes desirable employee behaviours and helps organisations develop core competencies (and gain a source of competitive advantage).³³⁴ Employees who are frustrated and bored with repetitive and standardised work have low commitment.³³⁵ A satisfied employee tends to be absent less often, make positive contributions, stay with the organisation longer and radiate positive feelings towards customers.³³⁶

Commitment

To what extent do HRM strategies, policies and practices enhance or decrease employee identification with and attachment to their job and the organisation? A high level of commitment can result in more loyalty, increased teamwork and reduced labour turnover, along with a greater sense of employee self-worth, dignity, psychological involvement and feeling of being integral to the organisation. Research clearly shows that HRM practices such as an employee-friendly work environment, career development, development-oriented appraisal systems and comprehensive training are positively linked to increased commitment.³³⁷ In contrast, things such as age discrimination have a negative effect on organisational commitment.³³⁸ Some organisations are leveraging profit-sharing incentives to enhance employee commitment. For example, Burgertory — a Victorian burger chain — has allocated approximately 10 per cent of its profits to employees who meet the strategic business goals of food presentation and customer service.³³⁹ Burgertory reported \$30 million in sales across its 17 stores in 2021.

Justice

An organisation (and its management) may be trusted by its employees, but may not necessarily be seen as fair or just. This is because fairness is not an objective thing, but rather, like beauty, depends on the eye of the beholder. As a result, what is perceived as fair or just may vary from person to person. For example, employees may interpret what is fair in terms of equality (all people with the same qualifications performing the same work should receive the same rate of pay and the same pay increase — across-the-board pay increases, for example, are typically favoured by trade unions, but not by management) or need (low-income workers should receive more pay because they need the extra income to maintain a decent standard of living). Managers, on the other hand, may regard competitive equity (those that contribute the most are paid the most) and pay inequalities as being fair.

HR strategies, policies and practices are powerful communicators regarding management's trustworthiness, fairness and commitment to employees. Employee perceptions of fairness are important to all HRM decisions, but particularly so to remuneration decisions such as those dealing with pay, pay raises and benefits.³⁴⁰ If management is perceived favourably, employees reciprocate with increased commitment to the organisation.³⁴¹ However, downsizing, restructuring, job insecurity and increased work pressures have made many employees cynical. As a result, HR managers increasingly must face issues of trust and fairness, particularly in the areas of recruitment and selection, performance appraisals, remuneration, promotions, demotions and terminations.

Three major perceptions of unfairness can be identified: distributive injustice, procedural injustice and interactional injustice.

- Distributive justice refers to whether scarce resources (such as the merit budget, superior performance ratings, promotional opportunities and expatriate assignments) are perceived as being allocated fairly.
- Procedural justice refers to how the HR process is administered. For example, is the company's selection process seen as fair or biased?
- Interactional justice refers to how managers interact with employees. Are they warm and friendly, open and respectful, or are they cold, arrogant, aloof and abusive?³⁴²

Given the diversity of fairness perceptions, it is unlikely that every employee (or manager) will be happy with every HR policy, practice or decision. HR managers must constantly ask: Is it fair? Why? Why not? Will it be seen as fair? Why? Why not? By ensuring that HR policies and practices are perceived by employees as fair and equitable, HR managers can promote trust and a sense of fairness within the organisation. In particular, HR managers need to ensure that:

- communication exchanges are open, frequent and meaningful
- employees feel they are valued by the organisation (in other words, the organisation cares about their wellbeing)
- managers behave with integrity
- managers are competent
- employees are encouraged to express their feelings.

All these factors clearly promote trust and perceptions of fairness and are within HR's ambit.³⁴³

Trust

To what extent do HR strategies, policies and practices promote trust between employees, management and the organisation? How willing are employees to share information, genuinely cooperate with one another and not take advantage of others? Is the corporate culture supportive of trusting behaviour and cooperative relations? Is the HR function seen as an independent voice that will offer an independent

view on HR policies and practices? A trusting working environment has an economic pay-off via reduced transaction costs (e.g. less time spent playing politics and checking up on others) and a more friendly, more predictable, more satisfying and less stressful work environment.³⁴⁴ Research also suggests that high-trust organisations are better able to attract and retain employees possessing scarce and valuable skills and to get their employees to make additional contributions beyond the narrow confines of individual job descriptions.³⁴⁵ Managerial trustworthiness has also been shown to be positively related to job performance, employee turnover intentions,³⁴⁶ organisational commitment and perceived fair treatment and organisational effectiveness.³⁴⁷ Finally, a study similarly indicates that by enhancing trust, management can increase both employee motivation and performance.³⁴⁸ When trust is absent or broken, employees exhibit low job satisfaction, poor performance and high labour turnover.³⁴⁹

One survey indicates that most Australian workers have lost faith in their employer and almost half believe their company does not have their best interests at heart.³⁵⁰ Another survey also found that 80 per cent of Australian employees do not trust information given by their CEOs.³⁵¹ Other research in the United States similarly shows that less than half of all employees believe that management has a genuine interest in their wellbeing and barely half trust the information they receive from management.³⁵²

WORKFORCE READINESS

How do you measure employee engagement? Although many metrics are employed in both practice and research, there are some solid starting points. HR managers can ask 'How connected are our employees to the organisation and each other?', 'Do employees understand where they are going?', 'Do employees have the resources they need to grow and perform to their full potential?' Alternatively, Gallup captures employee engagement with a single question: This last year, I have had opportunities at work to learn and grow.³⁵³

SUMMARY

The present climate of economic turbulence, rapid technological change, savage competition and pressure for increased productivity has led to a need for HR managers to adopt a strategic approach, be part of the top management team, be involved in corporate planning, develop business know-how, become bottom-line oriented and develop a vision for HRM. HRM activities such as job analysis, recruitment and selection, and human resource development must be part of a coordinated effort to improve the productive contribution of people in meeting the organisation's strategic business objectives.

The shift from an industrial society to an information society also presents HRM with the major challenge of creating a fair and just workplace. Organisations today must manage people differently if they are to survive the erosion of trust caused by relentless restructuring, downsizing and work pressures.

In a world where human resources are the competitive advantage, a revolution in management and HRM thinking is needed if these challenges are to be met.

KEY TERMS

bottom line Refers to a final result, such as net profit after taxes.

change agent A person who acts as a catalyst for change.

conscript mindset Employees are externally motivated (that is, they are coerced by management) to perform.

corruption Involves illegal practices to further personal and/or organisation interests. Includes fraud, bribery, graft and the payment of secret commissions and kickbacks.

discretionary effort Effort that employees voluntarily make in excess of the minimum amount required to satisfy the job requirements.

E-HRM Emphasises usage by employees, managers and HR personnel. Focus is on strategic and value-added activities. It incorporates HRIS.

employee advocate Requires the HR manager to be the employee's voice in management decisions.

employee engagement perspective Employee engagement measures the emotional and intellectual connection employees have with the organisation and their job.

employee relations Deals primarily with employee attitudes and behaviour and the relationships between an organisation and its employees. Sometimes regarded as being the same as industrial relations (IR). However, ER focuses more on workplace relations than traditional IR.

environmental influences Existing (and potential) opportunities and threats present in the organisation's external and internal environments.

equal employment opportunity (EEO) Giving people a fair chance to succeed by avoiding discrimination based on unrelated job factors such as age, race, sex or nationality.

ethnocentric orientation Considers one's culture (or strategy) superior to others. Produces uniform strategies across all business units.

functional experts Refers to the efficiency of HR managers and their effective management of HR activities (such as selection) so that they create value.

geocentric view Produces global (or overarching) strategies on major corporate issues but permits business units to develop local strategies on other issues.

high-performance work systems (HPWS) Human resource practices designed to enhance organisational performance by increasing the ability, motivation and opportunity of employees to contribute to strategic business objective attainment.

human capital The knowledge, skills and abilities present in an organisation's human resources. It is the product of learning, education and training.

human resource information system (HRIS) A computerised system used to gather, store, analyse and retrieve data in order to provide timely and accurate reports on the management of people in organisations.

human resource management (HRM) Involves the productive use of people in achieving the organisation's strategic objectives and the satisfaction of individual employee needs.

humanistic HRM Recognises the need for the integration of HR policies and practices with the organisation's strategic objectives, but places emphasis on employee development, collaboration, participation, trust and informed choice.

industrial relations (IR) Traditionally takes a broader perspective, involving industrial tribunals, trade unions, employer associations and governments and their roles in the making of rules governing the employer–employee relationship.

instrumental HRM Stresses the rational, quantitative and strategic aspects of managing human resources. Performance improvement and improved competitive advantage are highlighted.

management The art of getting things done through people.

management by objectives (MBO) Involves setting specific measurable goals with each employee and then periodically reviewing the progress made.

mission statements The operational, ethical and financial reasons for an organisation's existence.

motivation That which energises, directs and sustains human behaviour.

objectives Measurable targets to be achieved within a certain time frame.

organisational culture The values, beliefs, assumptions and symbols that define the way in which the organisation conducts its business.

organisational structure Refers to the organisation's framework or design.

policies General statements that serve to guide decision making.

polycentric orientation Produces a diverse mix of strategies because strategies are adapted to meet the needs of each business unit.

proactive When managers anticipate problems and take corrective measures to minimise their effect.

procedures Specific statements that define the action to be taken in a particular situation.

productivity An organisation's total output of goods and services divided by its total inputs (that is, the relationship of inputs to outputs).

reactive When managers wait until a problem occurs before taking action.

risk Involves making a decision and taking action without definite knowledge of the probable outcome.

single factor productivity Measures the ratio of total outputs to a single category of inputs (such as labour).

stakeholder Any individual, group or organisation that is affected by or has a vested interest in an organisation's policies and decisions.

strategic choice Refers to managers being proactive (as opposed to reactive) in facilitating the organisation's successful adaptation to changes in its environment.

strategic HRM Focuses on the linking of all HR activities with the organisation's strategic objectives.

strategic intent Sustained obsession to achieve a challenging long-term objective.

strategic partner Refers to HR managers being an essential part of the management team running an organisation and contributing to the achievement of the organisation's objectives by translating business strategy into action.

strategy Defines the direction in which an organisation intends to move and establishes the framework for action by which it intends to get there.

strategy formulation Involves selecting an organisation's mission, key objectives and business strategies.

strategy implementation Involves designing an organisation's structure and control systems and evaluating the selected strategies in achieving the organisation's key objectives.

SWOT analysis Review of an organisation's strengths and weaknesses and the opportunities and threats in its environment.

total (or multi) factor productivity The ratio of total outputs to the total inputs from labour, capital, materials, technology and energy.

value-added Activity that increases worth or utility.

values Broad preferences defining appropriate or desired courses of action or outcomes.

volunteer mindset Employees are internally motivated (that is, they are self-motivated) to perform.

whistleblower An employee who makes known an organisation's illegal, unethical or improper practices to a third party (e.g. a newspaper or a community group).

work intensification The increase in effort that employees must make (that is, they must work harder).

ACTIVITIES

REVIEW QUESTIONS

- 1 'One of the aims of HRM is to give an organisation a competitive edge.' Do you agree or disagree? Explain your reasoning.
- 2 'All managers are HR managers.' Do you agree or disagree with this statement? Why?
- 3 'This decade, most organisations will be differentiated by talent, not technology.' Do you agree or disagree? Explain your reasoning.
- 4 What is a whistleblower? What role does HR have to play in protecting whistleblowers?
- 5 What is HRM? What is its importance to an organisation? To employees? To trade unions?
- 6 What do you see as the most important role of the HR manager? Why?
- 7 What is big data? What is its significance for HRM?
- 8 What is organisational culture? What is its relationship to corporate strategy? What is its significance for HRM?
- 9 How would HR strategy differ if an organisation changed from (a) a global strategy to a transnational strategy and (b) a growth strategy to a retrenchment strategy?
- 10 What do you think will be the two most significant challenges facing HR managers in the next five years? Explain your answer.

WHAT IS YOUR VIEW?

- 1 Some HR managers claim that they belong to a profession, but fail to speak out about corporate excesses in their companies. Is this ethical?
- 2 Why should employees trust HR when it represents management?
- 3 Hiring people who care passionately about the organisation and its products or services means having a conformist group of employees possessing identical values and attitudes. Is this right?

CLASS DEBATE

Choose *one* of the following topics and debate it in class.

- Given the economic downturn resulting from COVID-19, managerial emphasis must be on profits, not people.
- By calling itself human resources, HRM dehumanises people — turning them into assets.

CAREER SITUATION

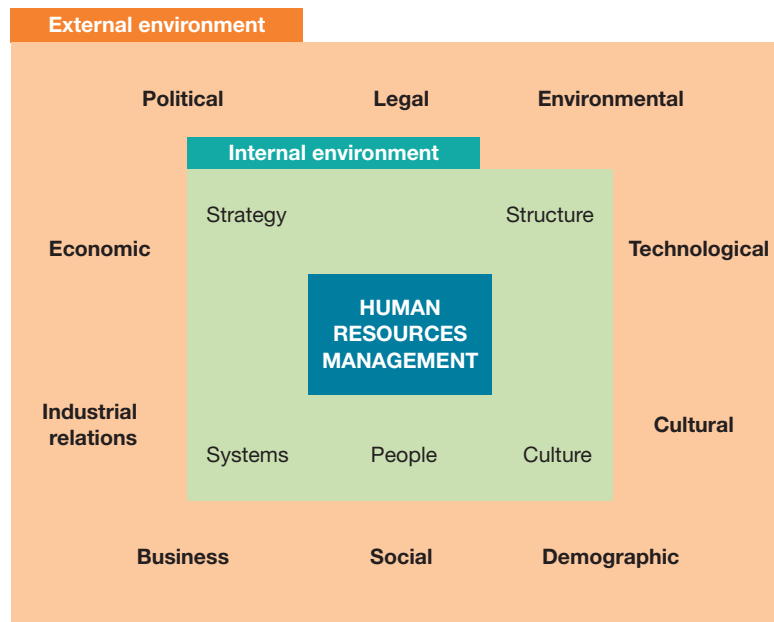
Congratulations! You've landed your first job as a human resource officer at BazingaTron. Following a riveting week of orientation, you get to the finer details of your new role and begin developing an understanding of the department. After a week in your new role, your manager calls you into their office and has you look over their HR key performance indicators. The indicators include cost-saving, efficiency, productivity and staffing vacancies. Looking at the key HR indicators, you feel BazingaTron may be missing some valuable outcomes. What might these outcomes be and how would you go about presenting your ideas to your new boss?

ENVIRONMENTAL INFLUENCES

Identify and discuss the key environmental influences from the model (see figure 1.11) that have significance for HRM.

FIGURE 1.11

Environmental influences on human resource management



ETHICAL DILEMMA

A SWEET DEAL AT CONSOLIDATED INDUSTRIES

Financial analyst Eve Bauer sits alone at a cafe waiting for her friend Jennifer Baker, a financial journalist. The Blue Moon Bar is quiet with the only other customers present seated in a rear corner.

‘Eve, sorry I am late,’ Jennifer smiles, ‘but a few things have been happening at work.’

‘Like what?’ asks Eve as she signals to the waiter for a cup of coffee.

‘You are never going to believe this,’ says Jennifer, ‘but James Redman is going.’

‘Not before time, that man has cost Consolidated Industries’ shareholders billions,’ Eve replies. ‘He should have been fired years ago. As a CEO he is a walking disaster. I have lost a small fortune on my Consolidated shares because of his incompetence.’

‘I know, I know. I’ve just completed a piece on him for tomorrow’s paper,’ answers Jennifer. ‘He was clearly out of his depth. The job was simply too big for him — he couldn’t cope. He had no consistent strategy and believed his own hubris. The culture of Consolidated Industries was one of appalling arrogance. All the talk about maximising shareholder value was just so much hot air.’

‘That’s the understatement of the year,’ says Eve. ‘As a shareholder I say good riddance — the man is a total waste of space. I can’t believe the Consolidated Board took so long to act given that the company has been a serial underperformer since Redman became CEO.’

Jennifer gives a short laugh. ‘The Consolidated Board is full of passengers — directors who don’t understand the business. Their ignorance and arrogance are unbelievable. The board needs a cleanout. Their strategy implementation has been dogged by one disaster after another.’

‘I agree,’ says Eve. ‘Redman’s focus has been short term. He has cut and cut and destroyed Consolidated’s competitive advantage. Their customers are deserting them in droves because of their poor service and high prices.’

‘Yes, but he does have more than 25 years of service with Consolidated and the Board is going to recognise that,’ Jennifer responds.

‘What do you mean?’ asks Eve.

‘He’s not being sacked, but allowed to retire,’ Jennifer replies.

‘Retire? He can’t be anything like 65,’ says Eve.

‘Fifty-four, to be exact,’ Jennifer replies with a wry smile. ‘The Board is allowing him to stay on as CEO until he reaches 55.’

‘When is that?’ asks Eve.

‘In about eight months.’

‘What? You can’t be serious? Why would the Board do that?’ asks Eve.

Jennifer smiles, ‘If he were to leave today he would be eligible for a package worth about \$2 million, but if he stays until he reaches 55, he can then officially take early retirement and walk away with \$10 million plus.’

‘That is ridiculous! It makes a total mockery of Consolidated’s corporate governance,’ Eve says with some shock. ‘That is just rewarding failure. What was the Board thinking? How could HR let it happen?’

‘Beats me,’ says Jennifer. ‘Their Board and senior management are always going on about how Consolidated believes in performance and how executive remuneration is tied to the achievement of corporate objectives.’

‘That’s just management spin for the peasants, not those at the top,’ Eve replies sarcastically.

‘I’ll drink to that,’ says Jennifer.

‘Yes, but I wonder if the shareholders who have seen their shares drop in price by 40 per cent and the thousands of workers who have lost their jobs will?’ Eve sighs.

DISCUSSION QUESTIONS

- 1 What ethical and HR issues are raised in this case?
- 2 If you were the HR manager for Consolidated Industries, what would you have done? Consider what competing pressures you may have faced in reaching your decision.

CASE STUDY

A CHANGE IN STRATEGY AT MEGAMINES INTERNATIONAL

Jake Andrews, president of mining giant Megamines International stands at the end of the highly polished oak boardroom table. Tall, distinguished looking and blunt, Andrews is recognised as a tough no-nonsense manager. ‘As you are well aware, the prices of our two core products, iron ore and coal are at rock bottom. China, our major customer, is not buying, and the price of our high-grade thermal coal is at an all-time low. The pressure is on. We must cut costs or we will go under. It is that simple. I am open to suggestions.’

Megamines Australia CFO Michelle Vella is the first to speak. ‘The obvious choice is to close the Kookaburra Mine. It is the highest cost mine in our portfolio. It is a constant source of industrial problems and takes up far too much management time.’

‘I agree,’ says Mike Lee, general manager of operations — Australia. ‘The union runs that mine. It is impossible to implement any changes that will increase productivity. We have been stuck in negotiations with the Fair Work Commission for almost two years trying to reduce our headcount and introduce more flexible work arrangements. To become viable in today’s market, we need to cut 500 jobs and reduce our wages bill by at least 25 per cent, but our hands are tied. We can’t manage the mine according to best practice because we are at the mercy of the unions and the FWC.’

‘Mike is right, but there are some potentially serious social and political problems,’ Sasha Mena, CHRO for Megamines Australia adds. ‘If we shut down the mine and put all 2000 employees out of work, the effects on the local township and its people will be horrendous. Green Valley is a mining town, we are the major employer — the economic and social consequences of a mine closure will be disastrous. Local house prices have already dropped by ten per cent based on rumours of cutbacks in the mine workforce.’

‘If the workers and the unions don’t want to face reality, what else can we do?’ asks Mike. ‘Our cost per tonne at the Kookaburra mine is \$75 compared with \$35 at our other operations.’

‘Why don’t we give them an option? Agree to our suggested changes or face a complete shutdown — 500 jobs versus 2000. Surely the union and the FWC would have to give it serious consideration,’ says Sasha.

‘What about the government?’ asks Brad Tyndall, chief mining engineer. ‘Green Valley is in a marginal electorate. The government may come up with some tax breaks or some other form of financial assistance. You know what politicians in marginal electorates are like — they will bend over backwards to protect their seats.’

‘That may be true, Brad,’ says Michelle, ‘but what is going to save this company is not government handouts, but becoming internationally competitive. It’s not just Kookaburra Mine jobs. If we don’t reduce our costs and improve our productivity, there will be massive job cuts across the whole company.’

‘The mining boom is over,’ snaps Jake. ‘Don’t people in this country realise that we have the highest minimum weekly wages in the world — our productivity is declining. We’re dogged by high taxes, government red tape, rigid workplace rules, excessive labour costs, militant unions — why would any international resource company invest here?’



‘I agree,’ says Michelle. ‘Disposable income is falling, standards of living are at risk — we are lagging in rankings of international competitiveness. Yet, what happens? A state government declares a public holiday because of a football game. No wonder resource companies are cutting their capital expenditure. No one wants to face reality.’

Michelle’s outburst is interrupted by Adrian Bertram, vice-president of Megamines International. ‘What about robotics? We have slashed costs at the Mirrabooka and Mandalay mines by introducing driverless trucks and trains. I think technology is the key to our survival. One worker at a computer screen can now monitor as many as 50 driverless trucks. Let’s get rid of the truck drivers at the Kookaburra Mine for starters — no more meal breaks, stop work meetings, no penalty rates — the trucks work 24/7, 365 days a year and have a great work ethic. Each truck can save more than 500 work hours a year. Staying ahead of the technology curve is the only way to go. Mining is going to be radically different — why have people work in an unpleasant and dangerous environment? Robots can cut costs and save lives.’

‘You are correct, Adrian, but what it means is that in mining and other industries, many people are going to be economically valueless — what can our displaced workers do? Many of them will be incapable of earning a living. They simply don’t have the skills,’ says Sasha.

‘Who knows,’ Mike responds, ‘but the amber lights are flashing. I read that robots performing routine tasks cost about US\$5–6 an hour over their lifetime including maintenance and energy costs — even outsourced workers cost twice that.’

‘The question is where does that leave highly paid, unskilled Australian workers?’ asks Jake.

‘Labour no matter how inexpensive will decrease in importance — human replacement by robots is the new game in town,’ says Adrian.

‘Surely this must involve serious economic, political and social risks,’ says a worried Sasha.

‘Only time will tell,’ says Adrian, ‘if robots will make our lives better or create a small group of winners and a vast number of losers.’

DISCUSSION QUESTIONS

- 1 What ethical and HR issues are raised?
- 2 What major environmental influences are at play? (See figure 1.11.) Which are the forces stimulating change and which are the forces resisting change?

ONLINE RESOURCES

- www.abs.gov.au
- www.afrbestplacestowork.com
- www.ahri.com.au
- www.aitd.com.au
- www.bps.org.uk
- www.catalyst.org
- www.cipd.co.uk
- www.conference-board.org
- www.greatplacetowork.com.au
- www.hbr.org
- www.hrps.org
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ACKNOWLEDGEMENTS

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