FOUR MAJOR HRM POLICY AREAS

We propose that many diverse personnel and labor relations activities may be subsumed under four human resource policy areas. Each of the following policy areas defines a major HRM task that general managers must attend to whether or not the firm is unionized, whether blue-collar or managerial employees are involved, and whether the firm is growing or declining.

Employee Influence

A corporation has a variety of stakeholders, among them shareholders, unions, various groups of employees, government, and the community. This policy area has to do with a key question that all managers must ask: How much responsibility, authority, and power should the organization voluntarily delegate and to whom? If required by government legislation to bargain with unions or consult with worker councils, how should management enter into these institutional relationships? Will they seek to minimize the power and influence of these legislated mechanisms? Or will they share influence and work to create greater congruence of interests between management and the employee groups represented through these mechanisms? The managerial task here is to develop the organization's policy regarding the amount of influence employee stakeholders have with respect to such diverse matters as business goals, pay, working conditions, career progression, employment security, or the task itself; and to attempt to implement these policies. Inevitably, decisions about employee influence affect traditional management prerogatives and can reshape the very purpose of the firm. Employee influence decisions are therefore critical general management decisions whether they are made explicitly, or as is often the case, implicitly.

In many situations managers are the only ones who can initiate a decision-making process about how much participation and due process employees are to have and what mechanisms to develop for their voice to be heard and their influence to be felt. Unless challenged by employees through unions, turnover, government legislation, or lawsuits, managers possess much of the decision-making power in the organization, so a lack of action in regard to employee influence amounts to a decision not to share and delegate much of that power and influence. Self-management groups in Japan, task forces or group decision making at the management level, membership on quality of work life committees at the working level, open-door policies, and ombudsmen are examples of mechanisms managers can select. It is our assumption that choices about employee influence, in the long run, are inevitable. Democratic societies have tended to legislate influence mechanisms whenever employees have felt aggrieved or underrepresented in decisions governing their welfare.

Human Resource Flow

This policy area has to do with the responsibility shared by all managers in an organization for managing the flow of people (at all levels) into, through, and out of the organization. Traditional personnel practice areas such as recruitment, internal staffing, performance appraisal, and outplacement are all subsumed in this area. But the task goes further. Personnel specialists and general managers must work in concert to ensure that personnel flow meets the corporation's long-term strategic requirement for the "right" number of people and mix of competencies. Selection, promotion, and termination decisions must also meet the needs of employees for job security, career development, advancement, and fair treatment, and they must meet legislated
standards of society. General managers must ask themselves how much employment security employees should be granted and how much the corporation should invest in employee development. Inevitably, decisions in this area will affect and be affected by fundamental business decisions about profit goals, growth rates, and dividend policy, to name only a few. When characterized as a whole the pattern of practices in this area constitutes the organization's flow policies. Such policies affect the very capacity of the organization to achieve its strategic objectives and obligations to employees and society. Human resource flow policy decisions must be made and reviewed by general managers.

**Reward Systems**

Rewards, both financial and otherwise, send a powerful message to employees of an organization as to what kind of organization management seeks to create and maintain, and what kind of behavior and attitudes management seeks from its employees. It is up to all managers of an organization, and not just pay specialists, to attend to certain questions under this HRM managerial task: Do we want an organization that rewards individual or group behavior? How shall we use money: as an incentive to stimulate desired behavior, or as equitable recognition of effective performance? Do we wish to share economic gains (profits or improvements in costs, for example) with various employees or employee groups? The answers to these questions lead to the task of designing and administering equitable and fair reward systems to attract, motivate, and retain (satisfy) employees at all levels. Management may have complete control over the design and administering of the organization's reward system, or they may have to negotiate these policies and systems with a union. There are choices to be made by managers concerning rewards for nonunion workers, as managers consider the extent to which they want to involve those workers in design and administration. Decisions about participation and the mix of rewards offered need to be consistent with business strategy, management philosophy, employee needs, and other HRM policies. The extent to which compensation should be used as an incentive, the mix between extrinsic and intrinsic rewards, and the extent to which rewards should be tied to individual versus organizational performance are some of the questions that only general managers can decide. Such decisions have a fundamental and pervasive effect on the nature of the organization-employee relationship, and the extent to which that relationship is based on an individual calculation of personal gains or on identification with the firm's tasks and goals.

**Work Systems**

At all levels of an organization, managers must face the task of arranging people, information, activities, and technology. In other words, they must define and design work. Management choices about these arrangements affect the quality of the decisions people make, coordination between functions and tasks, the extent to which people's competencies are utilized, the extent to which people are committed to organizational goals, and the extent to which people's needs for development and quality of work life are met. Decisions by managers about manufacturing processes at the plant level (extent of divisions of labor and application of technology, for example), about new information technology in the office (such as computerized information systems), about organization design, and about planning and goal-setting systems at the management level are examples of policy decisions in the work systems area. General managers, not personnel or labor relations specialists, make conscious or unconscious choices about the quality of decisions and commitment of employees when they make decisions in the work system area or when they allow such decisions to be made by others.
The four-policy framework can stimulate managers to plan how to accomplish the four major HRM tasks in a unified, coherent manner rather than in a disjointed approach based on some combination of past practice, accident, and ad hoc response to outside pressures. An HRM policy involves a choice by managers about how employees will be managed; a choice that ultimately influences the nature of the relationship between the organization and its employees. For such a choice to be effective it must be put into operation through the development of HRM policies and practices. Conscious choices about policies then can lead to the development of HRM systems and practices consistent with them.

We emphasize the need for multiple levels of social evaluation in assessing the outcomes of HRM policies and practices. It is not enough to ask how well the management of human resources serves the interests of the enterprise. One should ask how well the enterprise's HRM policies serve the well-being of the individual employee. At a higher level of analysis, one should ask how well the company's HRM policies and practices serve the interests of society. Of course, other stakeholders may be relevant in particular cases. Moreover, the relative weighting that management will give to these three evaluative considerations will vary from management to management and from case to case. Our view is that the weighting should be more explicit in the future than it has been in the past. This perspective serves to raise the following question: Are there HRM policies that increase the likelihood that they will simultaneously serve the interests of the enterprise, the individual, and society?

Our seventh perspective derives from all of the above. It is that HRM is a part of the general management function. If the HRM strategy must fit the competitive strategy, if human resource development involves investment decisions with long-term implications, and if employees are viewed as one of the groups of major stakeholders of the enterprise whose interests must be balanced by top management, then

A Conceptual Overview of HRM

If general managers are to determine what human resource policies and practices their firm should employ, they need some way to assess the appropriateness or effectiveness of those policies. In this chapter, we will offer some ways of diagnosing not only the impact of management decisions on the human resources of the firm, but also whether the policies that guide those decisions continue to make sense and what changes might be considered in them.

The analytical approach depicted in Figure 2-1 is a broad causal mapping of the determinants and consequences of HRM policies. The HRM map shows that HRM policies are influenced by two major considerations: situational factors and stakeholder interests. By situational factors we mean those forces—laws and societal values, labor market conditions, unions, work-force characteristics, business strategies, management philosophy, and task technology—that exist in the environment or inside the firm. These factors can act as constraints on the formation of HRM policies and can also be influenced by HRM policies. HRM policies are and indeed should be influenced by the interests of various stakeholders: shareholders, management employees, unions, community, and government. Unless these policies are influenced by all stakeholders, the enterprise will fail to meet the needs of these stakeholders in the long run and it will fail as an institution.
HRM policies affect certain immediate organizational outcomes and have certain long-term consequences. Policy choices made by managers affect the overall competence of employees, the commitment of employees, the degree of congruence between the goals of employees and those of the organization, and the overall cost effectiveness of HRM practices. These four Cs are not exhaustive of the criteria that HRM policy makers may find useful in evaluating the effectiveness of human resource management, but they are reasonably comprehensive. The reader may find it useful to add to the four Cs other criteria suggested by a particular case or problem.

In the long run, striving to enhance all four Cs will lead to favorable consequences for individual well-being, societal well-being, and organizational effectiveness (i.e., long-term consequences, the last box in Figure 2-1). By organizational effectiveness we mean the capacity of the organization to be responsive and adaptive to its environment. We are suggesting, then, that human resource management has much broader consequences than simply last quarter's profits or last year's return on equity. Indeed, such short-term measures are relatively unaffected by HRM policies. Thus HRM policy formulation must incorporate this long-term perspective.

The HRM map in Figure 2-1 also illustrates the circularity of HRM policy choices. HRM policy choices affect the four Cs and have long-term consequences for individual well-being, organizational effectiveness, and societal well-being. But long-term consequences also affect situational factors and stakeholder interests. For example, protests by mistreated, insecure employees in the society can lead to government legislation regarding fair employment practice or can result in the industrial democracy legislation seen in Europe. Strikes that affect society negatively can influence changes in labor legislation. Poor profitability over an extended period will affect shareholder interest and must inevitably result in changes of HRM policies regarding wages, training, and perhaps employee influence. There are other feedback effects. The central
point is that the long-term consequences of HRM policies for individual well-being, organizational effectiveness, and societal well-being will affect those policies and the context within which they are formulated.

How can the analytical framework just presented be used by the readers of this book, including practicing managers?

We find that it is necessary, as a central matter, to clarify who has a stake in the issue at hand, to identify these stakes, and to determine how much power they may be able to apply. These questions are analytically important whether the decision-maker ultimately wants to accommodate or deny the interests of another stakeholder.

One can use other aspects of the analytical framework in various ways. If managers want to understand why their company is currently pursuing a particular approach to an HRM issue, such as an adversarial stance toward labor relations or a policy of lifetime employment, they must analyze the situational factors, both their current force and their historical influence.

On the other hand, managers may want to compare the relevant merits of two HRM policy alternatives, such as a work system with narrowly defined jobs versus one emphasizing whole tasks and team responsibilities. These managers can then attempt to forecast the differential effects of the two systems on the development of competence, the level of commitment, and the like. They can also attempt to extend the forecast another step by asking how good each policy is for the enterprise, the individual, and society. At either the first or second steps of these forecasts, the policy maker may decide that none of the policy alternatives being considered is satisfactory and return to the task of formulating another alternative.

The evaluation of given alternative policies and the formulation of new alternatives involve more than looking at the long-term consequences shown in Figure 2-1. Managers must also examine the question of fit among HRM policies—specifically the fit of the policy being reviewed with the other HRM policies and systems. For example, would a proposed approach to designing work systems require a change in the way employees are selected, and is such a change feasible? Managers must then return to an examination of situational factors. How does a proposed policy fit with each of the situational factors and stakeholder interests shown in Figure 2-1? We believe it would be a mistake to follow any analytical process mechanically. Thus we urge the reader to consider only the spirit of the foregoing description of analytical steps, and not to regard it as a procedural prescription. Ideally managers could simultaneously consider all of the above factors affecting both the feasibility and desirability of a policy alternative. The actual way a manager considers and reconsiders each of the relevant factors will vary from case to case and from policy maker to policy maker.

We turn now to an exploration of each of the elements in our analytical framework.
EVALUATING HRM POLICIES
IN TERMS OF THEIR CONSEQUENCES

We have proposed that the long-term consequences of HRM policies be evaluated in terms of their benefits and costs at three levels: the individual, the organization, and society. Let us elaborate.

It is almost tautological to argue that an organization's HRM policies should be evaluated in terms of whether they promote the organization's goal achievement and survival. An HRM policy may be important because it serves to increase the organization's efficiency or its adaptability, its service performance or its price performance, its short-term results or its long-term results.

It is insufficient to ask only about the organizational outcomes of HRM policies and practices, even if these include human outcomes such as turnover. The well-being of employees must be a separate and distinct consideration. Working conditions can have both positive and negative effects not only on employees' economic welfare, but on their physical and psychological health. The amount of weight managers will choose to give to such consequences, independent of their direct implications for the organization, will depend upon the managers' values and their own conception of the legitimacy of employee claims on the enterprise.

Evaluation of HRM outcomes can also be made on the societal level. What have management's past HRM practices cost not only the company and employees, but society as a whole? What are the societal costs of a strike or a layoff? Alienated and laid-off workers may develop both psychological and physical health problems that make them burdens to community agencies funded by the local, state, or federal government. Today employers pass on many of the costs of their management practices to society. Whoever bears these costs, they should be recognized as associated with the HRM policy decisions made by management.

In some areas there is a close coincidence of interests between corporations, individuals, and society. For example, the physical and psychological well-being of employees is gaining importance as a corporate concern. Employees' physical fitness and life-style (at work and away from work), as well as personal health habits with respect to tobacco, drugs, and alcohol are now recognized as contributing to the health care costs of the firm and to its productivity. Johnson & Johnson and Control Data, for example, have launched extensive programs to help employees diagnose their health and develop personal programs for improvements.

In considering whether an HRM policy enhances the performance of the organization, the well-being of employees, or the well-being of society, the four Cs can be considered in the analysis of these inherently complex questions:

1. **Commitment.** To what extent do HRM policies enhance the commitment of people to their work and their organization? Increased commitment can result not only in more loyalty and better performance for the organization, but also in self-worth, dignity, psychological involvement, and identity for the individual.

2. **Competence.** To what extent do HRM policies attract, keep, and/or develop people with skills and knowledge needed by the organization and society, now and in the future? When needed
skills and knowledge are available at the right time, the organization benefits and its employees experience an increased sense of self-worth and economic well-being.

3. **Cost effectiveness.** What is the cost effectiveness of a given policy in terms of wages, benefits, turnover, absenteeism, strikes, and so on? Such costs can be considered for organizations, individuals, and society as a whole.

4. **Congruence.** What levels of congruence do HRM policies and practices generate or sustain between management and employees, different employee groups, the organization and community, employees and their families, and within the individual. The lack of such congruence can be costly to management in terms of time, money, and energy, in terms of the resulting low levels of trust and common purpose, and in terms of stress and other psychological problems it can create.

**The Problems of Measurement and Assessment**

The four Cs do not provide managers with actual measurement methods and data for assessing the effects of their firm's HRM policies. These methods are numerous, and they differ depending on the level of analysis chosen (individual, corporation, or society). Corporations gather data on the competence of employees through performance evaluation by managers and through third-party assessment of competence by personnel specialists, psychologists, other managers, or assessment centers. When such data are looked at in the aggregate, particularly when a company tries to determine the talent it has available for succession planning, a picture emerges of the depth in technical or managerial competence in the organization.

Data about employee commitment can be obtained by managers in any area of the organization by means of attitude surveys. These surveys can be conducted through interviews and questionnaires administered either by personnel specialists or by outside consultants. Open-door policies and observations of group meetings with employees can also keep managers in touch with their employees' attitudes. The key for any manager is to create conditions for expression of attitudes and open dialogue among various employee groups within the firm. Another source of data—personnel records about voluntary turnover, absenteeism, and grievances—can provide indirect evidence about employee commitment. Taken together, such data might fall short of providing managers with an absolute measure of commitment and congruence, but they can provide a useful overall picture.

Cost effectiveness may appear to be easier to measure, but that appearance can be deceiving. Wages are the easiest to assess, while the long-term costs of certain profit-sharing plans, pension plans, and cost-of-living adjustments are more difficult to assess because of future uncertainties. The cost effectiveness of recruitment and employee development is even more difficult to measure, yet both are an important part of the total employment cost.

Congruence of goals can be more easily identified, particularly when its absence results in an open conflict like a strike. Although the total costs of a strike are difficult to pin down, such an assessment can be part of a total assessment of HRM policies. The existence of more subtle forms of conflict, such as those between managers and subordinates or among various groups of employees, are more difficult to identify. Their costs are even harder to evaluate. Where employees are under union contract, the number of grievances is an indicator of conflict and the
administrative costs of those grievances are measurable. But the impact of accumulated grievances on organizational performance is far more difficult to assess.

These difficulties in measurement are exceeded by the difficulties in making judgments about consequences of HRM policies on employee and societal well-being. Various governance mechanisms such as union-management task forces or employee committees (for nonunion employees) can provide important vehicles not only for gathering data about human resource outcomes, but for assessing the meaning of these outcomes for various stakeholders. Workers councils and collective bargaining are examples of legislated governance mechanisms that serve the same purpose. Only through participation of stakeholders in assessing HRM outcomes can managers obtain relevant data for an evaluation of the impact of HRM policies and practices on employee and societal well-being.

The problem of assessing HRM outcomes will not be solved easily. The desire to account for human resources as if they were in the same metric as financial resources (dollars) has led to experimentation with human resource accounting systems. These systems have tried to value a person by estimating his or her replacement costs and the investment the firm has made in that person's recruitment, training, and development. Such accounting efforts, while potentially very useful, have fallen short of their promise, at least judging by the fact that they are not widely used. An even more difficult task has been assigning a value to the commitment of employees or the climate and culture of the firm which encourage motivation and growth by its employees. These difficulties are not likely to be overcome soon. In the final analysis, assessment of HRM outcomes is a matter of judgment informed by data from a variety of sources and in a variety of forms (qualitative and quantitative) and evaluated by various stakeholders. A process of outcome assessment must, therefore, bring together a variety of stakeholders (employee groups, management, and union, for example) to discuss the data and to reach a consensus on its meaning.

THE STAKEHOLDER INTEREST PERSPECTIVE

One way of viewing a company is as a minisociety made up of large numbers of occasionally harmonious, occasionally conflicting constituencies, each claiming an important stake in the way the company is managed and its resources are deployed. Central to the HRM approach of this book is the assumption that general managers must recognize the existence of the many stakeholders and be able to comprehend the particular interests of each stakeholder. In thinking about various HRM policies and practices, then, the general manager plays an important role in balancing and rebalancing the multiple interests served by the company.

Stakeholders in a given enterprise may include owners, government, host communities, workers, labor unions, and the managers themselves. The cases presented throughout the book, and not just in Chapter 3, provide ample illustration of the need for management to understand and deal with the concerns of all of these stakeholders. We will pay particular attention to workers as stakeholders. By "workers" we include blue-collar, professional, and other white-collar employees. Different employee groups can have different stakes in a particular policy matter. Younger and older workers might find their interests affected in very different ways by company policies relating to benefits and pensions. Black and white workers might feel differently about a company's promotion policies. So might male and female employees. In general employees and management will surely differ with some frequency over such matters as
the amount and kind of pay, benefits, and conditions of work. While these are rewards to employees, they are costs to the employer—costs that reduce profits and investment funds.

Why are workers not as concerned as management about corporate profits? Why shouldn't they be more self-regulating in their expectations and demands for monetary and nonmonetary rewards? And why are managers not more understanding about worker needs and more concerned about worker well-being in their decisions? The answers lie, in part, in the different interests of the two groups. Those groups often have different views about the necessary but sometimes difficult trade-offs made within an organization—trade-offs between business goals of efficiency, growth, and investment on the one hand and employee needs for security, equity, job satisfaction, and economic well-being on the other.

Organizations constantly make trade-offs, either implicitly or explicitly, between the interests of owners and those of employees, as well as between various employee groups. Managers are not always aware, however, that such trade-offs are taking place, or even that different stakeholder groups may hold differing views of how those trade-offs should be made. Some managers may be lulled into believing that all stakeholders have the same interests and points of view because the organizational hierarchy has blocked stakeholders from expressing those interests or views. Other managers may be aware of the differences, but may deny the "legitimacy" of any viewpoint other than that of owners and managers.

The task of general managers is to recognize the potential for differing—even conflicting—points of view among the various stakeholders over how trade-offs should be made. They must develop a role and perspective that allows them to manage the trade-off process in such a way as to minimize differences between stakeholders and to contain conflict when it arises. For American managers (as contrasted with managers in Europe, for example) such a role represents quite a departure from the traditionally espoused shareholder perspective. While in actuality managers already manage in a way that recognizes shareholders as only one among many groups of stakeholders, conscious acceptance of the stakeholder perspective would put them in an even more neutral position with respect to shareholders to whom they traditionally have felt accountable. Given the make-up of boards of directors and the power of financial institutions, adopting a stakeholder perspective as opposed to shareholder perspective could be very difficult. Our HRM model suggests that changes in contextual factors such as society and legislation would be needed to support movement toward a stakeholder perspective.

SITUATIONAL FACTORS

The HRM model suggests that HRM policies and practices must be designed and implemented to fit a variety of important situational factors. We do not want to imply that HRM policies should be contingent on situational factors, or that they become the dependent variable. To the contrary, we believe that in the long run, all situational factors are subject to some influence by creative HRM policies and practices. Some situational factors are subject to influence by HRM policies in the short to medium term. The use of the term "situational factors" should not imply that these factors are all "outside" the firm. Clearly, unions, laws, societal values, and labor markets are external to the firm in the sense that they are part of the organization's environment; yet they emerge, in part at least, from the human resource policies of the past. Management philosophy, work-force characteristics, task technology, and business strategy are "inside" the firm in the sense that they appear to be subject to more managerial control, yet they are also
affected by external business and societal forces. The key point is that at any given point in time—for example, when a general manager is examining current human resource policies and contemplating making changes—all the factors are part of the situation, even the manager’s own values and philosophy. More important, all the situational factors must be understood by the general manager as potential constraints created by the past unless specific steps are taken to modify them in the future.

The situational factors are discussed below, beginning with the most important and central of these: work-force characteristics.

**Work-Force Characteristics**

What is the nature of people at work? Managers at every level and in every function of the organization convey their answer to this question through their managerial actions: corporations convey their answer through their HRM policies and practices. These policies and practices reflect the assumptions of management about employee motivation, capacities, values, potential, and desire for personal development. If the assumptions are not consistent with reality or potential of the work force, HRM policies and practices will not fully utilize or develop employees, resulting in potential loss for both employers and employees. In addition, such policies may create conflict between employees and the organization. Thus, asking what is the nature of people at work may be the most important question managers can address when formulating and monitoring their actions and the impact of those actions on their human resources. But like other important questions, this one has many, sometimes contradictory, answers which depend on the individuals under consideration and their development as human beings.

To simplify the problem of fitting policies to work-force characteristics, corporations typically develop different HRM policies and practices for different groups of employees. Administratively, the work force in most U.S. corporations is typically broken down into four identifiable aggregates: (1) hourly and blue-collar, (2) nonexempt salaried white-collar, (3) exempt salaried professionals, and (4) managers. Within these groupings, of course, there are many meaningful subgroupings such as engineers, clerical personnel, skilled tradespeople, younger and older workers, and so on.

Policy differences should be shaped by valid assumptions about the differences in background, needs, expectations, and educational qualifications that employees bring to their jobs. However, managers must be careful not to differentiate between groups on the basis of invalid assumptions. Distortions are most likely to occur with respect to people at lower levels of the organization. In part at least, policy differences between groups have arisen because managers make assumptions that lower-level people—who are different from them in terms of background, social skills, and values—lack the will and skill to contribute and the potential to develop. This distortion can happen easily because today’s managers are often isolated from nonmanagerial employees by organizational practices, hierarchy, and bureaucracy. Managers are no longer promoted from hourly ranks as they once were. Rather, they are educated in business schools where their main contacts are with other prospective managers. The elimination of universal military training has also precluded an enforced opportunity for shared experience with dissimilar groups.
Because it is natural to assume the existence of differences, particularly when hierarchical levels and socioeconomic background make contact and communication difficult, it is especially important for managers to recognize the potential similarities between employees as well as the actual differences.

Firms that are effective in human resource management—such as IBM, McCormick Spice, Hewlett-Packard, Donnelley Mirror, and Lincoln Electric—explicitly or implicitly adhered to some fundamental assumptions about people when they developed their human resource policies, while also fitting them to more complex realities. For example, Charles P. McCormick, the architect of McCormick Spice's culture, assumed that all his employees had needs for equity, pay, participation, and security. This assumption guided the human resource policies of his firm in its early years. The assumptions that people want autonomy, want a sense of accomplishment, want to identify with something, want meaning, and want to grow could be added to this list. The power in developing human resource policies in accordance with a few optimistic assumptions about people lies in the capacity of such policies to encourage the selection and development of employees who conform to them.

We do not propose that the list of assumptions above is right or complete. We do propose that effective human resource management involves a tension between some universal truths about what people want or might live up to if given an opportunity (the optimistic view or normative perspective) and the more complex realities of what people are capable of wanting and doing at any given point in time (the realistic view or situational perspective). The former perspective would lead to the view that employee groups are similar and that there are some human resource universals. The latter perspective would reflect the assumption that employee groups differ from one another and that human resource policies must be different for different groups and situations. Without the tension of both perspectives, human resource policies will fail to inspire the commitment and competence for which all employees have the potential and they will fail to be practical and workable.

The problem of emphasizing differences rather than similarities is most acute with respect to ethnic minorities and women in the work force. By 1985, women will outnumber men in the work force, and minority groups will be an even larger and more powerful constituency than they are now. Successful HRM approaches in the 1980s and 1990s will depend to a large extent on the ability of all managers in a firm to make valid assumptions about both differences and similarities of these various employee groups.

**Business Strategy and Conditions**

An organization's HRM policies and practices must fit with its strategy in its competitive environment and with the immediate business conditions that it faces. If a manufacturing firm operates in a highly competitive environment in which cost effectiveness and efficiency in manufacturing are key, that firm needs to develop HRM policies and practices that encourage cost savings efforts by all its employees. If quality is a key success factor, then HRM policies and practices must encourage concern and involvement of employees with the quality problem. If a professional service firm depends on attracting, motivating, and keeping the best professionals in their field, then that firm must develop HRM policies that bring in the best people, develop their competencies, and offer rewards and other inducements that encourage the
right people to join and stay with the firm. Such degrees of competency may be the main factor
that differentiates one firm from another.

Unfortunately, the match between HRM policies and business strategy is often poor. One
reason for this is that managers often develop business plans and make capital investments
without adequate regard to the human resources needed to support those plans. For example,
growth plans involving the building of plants or opening of branch offices may take inadequate
account of a shortage of managers to run these facilities. The result can be lower returns on
investment or even complete business failures. Managers, at least those outside the HR
functional area, have typically assumed that human resources are not a constraint and will be
available in sufficient quality and quality. With increasing managerial and technical complexity
and a scarcity of talent, that assumption is often erroneous.

A second reason for the poor fit between business strategy and HRM policies lies in the
human resource function itself. That function often develops activities and programs that are not
relevant to line management's needs. This problem arises in part from the differences in
perspective between short-term, profit-oriented line managers and long-term, people-oriented
human resource managers. But the problem also stems from the fact that many HR activities are
not developed in close coordination with business planning. HR executives are often left out of
the business planning process, frequently because they do not occupy a high level in the
organization. Just as regularly, these executives develop policies and practices based on general
assumptions about the kinds of behavior and performance required rather than on a careful
analysis of the strategy, the tasks that the strategy presents to the organization, and the
competencies and involvement required from employees.

Business strategies can also shape the human resources of the firm, the types of people,
attitudes, and commitment the firm is likely to obtain. If a company's success rests on promoting
a relatively undifferentiated consumer product through advertising and promotion, for example,
it needs to attract people whose skills are quite different from those of people in a firm where
technology-driven products are clearly differentiated. The latter firm is likely to have
longer-range goals, and needs to attract and keep people interested in contributing to these
goals. The former is likely to set much shorter-term goals and rely on people attracted to quick
results and personal gains. The competencies and commitments of the two employee groups are
likely to be quite different. This does not suggest that one business is more desirable than
another. It does point out that product/market strategies might constrain the kind of HRM
policies and outcomes possible. Since these HRM policies must also fit with management's
values, those values must be understood when managers make business strategy decisions.
Ideally, then, business strategy should influence HRM policies and practices. At the same time,
available human resources as well as managerial and societal values should inform decisions
about business strategy.
Management Philosophy

The HRM policies of an organization are shaped by the management philosophy of its key managers, just as the philosophy of these leaders is shaped by the historical pattern of HRM policies. The relationship between HRM policies and management philosophy is stronger in some organizations than in others, depending on the pattern of development of the organization. If, in the early stages of development, an organization has a powerful founder and leader with a clearly articulated philosophy and set of values, HRM policies are more likely to be internally consistent. This consistency will create a stronger and more pervasive culture with respect to HRM matters. That culture, if sustained over time, will mold new leaders who reflect its underlying values and style.

By "management philosophy" we mean the explicit or implicit beliefs of key managers about the nature of the business, its role in society, and how it should be run—particularly how it will treat and utilize employees. A manager's philosophy is shaped by his or her values or assumptions about the role of business in society and the role of people in the business.

In an earlier section on business strategy, we stated that a definition of the business itself may be related to the types of HRM policies and practices the firm can develop. That link is again evident if we inspect the relationship between business philosophy, which shapes strategy, and HRM philosophy and policies. The Lincoln Electric Company's philosophy that profits are a means to an end rather than an end in itself has surely shaped the longer-term strategy of the firm that has placed more emphasis on providing value to the customer than on a growth in sales and profits. This approach led naturally to HRM policies such as employment security, employee stock ownership, and a profit-sharing plan that doubles employee income and distributes to employees approximately half the profits of the firm.

There are numerous examples of corporations whose HRM policies have been shaped in accordance with their founders' business philosophies, among them IBM, Matsushita, Hewlett-Packard, and McCormick Spice. That these are successful companies with unique capacities to attract, keep, and involve their employees is not generally in dispute, though the direct link between their success and their HRM policies is more difficult to prove.

It is also not clear how long a philosophy of management and the corporate culture which it shapes can be sustained once the key leaders have departed the scene. For example, Konosuke Matsushita, Bill Hewlett, and Bob Packard are still alive if not very active in their firms. It is also not known how large or how quickly a corporation can grow before its philosophy is diluted and its human resource policies lose their internal consistency. Rapidly growing companies like Hewlett-Packard are facing these problems now.

These questions, while challenging the imagination of managers in diffusing and sustaining a philosophy, in no way weaken the known link between management philosophy and HRM policies. In fact, the importance of that link has been acknowledged in recent efforts to create innovative work systems at the plant level aimed at developing high commitment among employees. These efforts typically involve the definition, in advance of plant start-up, of a philosophy of management, that will guide the design of human resource policies and practices. This process not only helps lead to a consensus among the management team about what the philosophy should be, thereby socializing them into a common view, but it also provides a
guideline for future action as new events and realities unfold. Without a stated belief system, short-term pragmatic consideration would dominate HRM policy decisions rather than simply influence them. The result would be inconsistent new policies and an erosion of the philosophy. Thus, a general philosophy allows lower-level managers and future managers to shape new HRM policies and practices that are consistent with the philosophy but pragmatic and relevant to the immediate situation.

If we were to examine the *Fortune 500* companies, we would undoubtedly find many companies that do not have an articulated philosophy of management, though clearly their HRM policies are an implicit statement of philosophy. Lacking founders who articulated a philosophy, they probably tended to develop HRM policies on an ad hoc basis, with pragmatic considerations or values of the managers at the time dominating policy formulation. For this reason, their human resource policies may not be consistent and may be seen as inconsistent by employees. This lack of consistency probably makes it harder for employees to attach a meaning to their relationship with the firm other than one dominated by their own self-interest. Nor can these employees develop trust in the firm, since trust is based on consistent treatment. Instead, their basis of involvement with the firm will be utilitarian, based on an exchange of work or a service for certain rewards, as opposed to moral, based on their identity with a stated purpose or philosophy. Finally, lacking a clear philosophy or strong culture, the future development of HRM policies is likely to be equally inconsistent and uncertain because key leaders with different philosophies will rise to the top.

Management's philosophy, whether stated or unstated, is not the only way managers shape HRM policies and practices. Their style of management—the way they behave, communicate, and interact with others—sends a powerful signal up and down the organization about what they care about. It also helps to shape the organization's HRM manager policies and practices. If managers state their philosophy that employees should be given the opportunity to grow and develop through participation in management, and then make unilateral decisions revising decisions made at a lower level, the credibility of policies that encourage worker participation may be undermined. Similarly, policies that encourage employee development through open and candid discussions of performance with subordinates are not likely to be implemented if upper level managers do not model this process through their own practices.

The lack of consistency between philosophy and policies can also undermine sustained implementation of HRM policies. Managers who have formulated a policy that conflicts with their own philosophy are not likely to sustain follow-up efforts to implement that policy. Only managers with convictions—those whose philosophy and style are both consistent with the policy—are likely to continue to implement and reinforce such a policy.

*Labor Market Conditions*

One measure of a firm's effectiveness is the ability of its managers to compete successfully with other firms for financial and human resources. With respect to human resources, that ability is determined by the attractiveness of the company to prospective recruits and current employees, as well as the condition of the labor markets from which the firm draws its supply of people. The boundaries that define the labor markets in which a firm competes may vary dramatically from one group of employees to another. For unskilled production employees, the
labor market may be the surrounding community. For professionals and managers, the labor market may encompass all professionals in that category in the nation.

New hires will be motivated to come to work for a company and current employees will stay if they perceive the company's wages, location, organizational climate, advancement opportunities, job security, and working conditions as more attractive than those of other companies. Over a period of time, these factors combine to form a firm's reputation in the several labor markets in which it competes. That reputation becomes an asset or a liability in attracting and keeping employees. For example, a firm that has a reputation for periodic force reductions may have difficulty competing for employees, particularly for employees in scarce supply.

But the ability of managers to attract and keep the people they need also depends on the conditions of labor markets in which they compete, as well as on their firm's HRM policies. Shortages of people with given skills make it more difficult for a corporation to attract and keep people. In cases where it is extremely difficult to find people with the right skills (the current shortage of engineers and skilled blue-collar workers, for example), business plans and goals are affected. In tight labor markets, firms have to offer more inducements than they would otherwise in order to attract and keep people. Of course, the more a company is able to develop and keep its own professionals, managers, and other skilled employees, the less hiring of experienced personnel it has to do. The desire to reduce, as much as possible, the necessity of competing in a tight labor market has led some firms to consider an employment security policy. It has also led firms to intensify their efforts in training and developing their own employees. The shortage of skilled blue-collar workers in the machine tools industry recently caused one firm to reconsider its cyclical pattern of hiring and firing. It attempted, instead, to adopt an employment security policy accompanied by an investment in an apprentice training program.

Managers are well advised to track long-term trends in labor markets, since these trends indicate how difficult and/or expensive it will be to acquire people with the skills their business may require in the future. Information of this kind can help managers assess the viability of their long-term strategic plans. Perhaps more important, it can point to changes that will be needed in educational programming at colleges, trade schools, and professional schools [which will be needed] to assure employers themselves of an adequate supply of people with the right skills. When shortages are indicated, firms can attempt to influence educational institutions to modify their programs and recruit more students in an effort to influence the labor market. Or, business organizations can set up their own internal educational programs. Firms in high-technology fields have been doing both as they have come to realize that there will be a shortage of electrical engineers in the 1980s. Those that recognized the trends sooner and anticipated their needs more adequately will be able to compete more effectively in the labor market and the business.

Trends in the labor market include changes in the participation of women and minorities as well as changing values of the work force that make employees more resistant to arbitrary authority. And the movement of the post-World War II "baby boom" has created a gradual aging of the work force that will place changing demands on HRM policies, particularly in the areas of flow and rewards. These trends, if not anticipated, can present real problems to managers who have not adjusted their HRM policies and practices to fit them. On the other hand, organizations that effect changes in HRM policies and practices in anticipation of demographic trends can gain a competitive advantage by being better able to attract, utilize, and keep a new breed of employee.
In summary, a firm's ability to compete in its labor markets is dependent on its ability to anticipate trends in the labor markets and to prepare to take advantage of these trends through imaginative human resource management policies and practices.

Unions

Historically, unions have served as a mechanism to provide a collective voice for nonsupervisory workers over such HRM matters as due process, the distribution of rewards, transfers and promotions, and working conditions. Even where employees are not unionized, unions can influence HRM policies. The perceived threat of unionization can lead employers to adopt HRM policies and practices that they might otherwise avoid. Within a company, wage increases negotiated by the union create pressures to increase wages for nonunion employees by a similar or slightly greater amount in order to avoid dissatisfaction that might lead to further union organizing. Firms without any union may feel forced to pay close attention to pay, fringe benefits, employment security, working conditions, promotion practices, and termination practices. If a corporation operates in a heavily unionized community, it must establish some degree of parity between its policies and those of unionized firms, or risk unionization. Nonunion firms like IBM have human resource policies and practices (including grievance procedures, open-door policy, and employment security) that are more generous and costly than those of many unionized firms. Undoubtedly, the desire to stay nonunion was a major factor in designing these policies.

Furthermore, unions influence HRM practices of nonunionized firms indirectly through their political influence. Legislation that has come about, in large part, because of the political clout of unions has imposed certain human resource standards on employers. Occupational health and safety, workman's compensation, and minimum wage legislation are just three examples. In France and Britain, where unions are more closely allied with political parties than in the United States, their influence is even greater and is felt not only in legislation but in government policy with regard to human resource practices. Even though only 35 percent of the U.S. work force was unionized at the peak of union power in the 1960s, unions have had an important effect on human resource policies and practices of all American businesses, unionized or not.

Task Technology

By "task technology" we mean the way equipment (hardware or software) is arranged to perform a task. Historically, the technology used to produce a product or provide a service has had a powerful and pervasive effect on human resource policies and practices, particularly in manufacturing operations. It has been shaped by the engineer's view of what constitutes a rational and efficient operation. That rational view (heavily influenced by Frederick Taylor and other adherents of Scientific Management, which will be discussed in greater detail in Chapter 6) has traditionally dominated plant layout and the design of jobs. Similarly, the imperatives of technology itself often have determined the nature of work. The machine and the task have tended to constitute the independent variables, while human beings were left to be the dependent variable.

This view of technology has largely shaped the nature of work as we find it in the late twentieth century. It spawned the assembly line, as well as the division of work in which "planning" and "controlling" have been systematically split off from "doing" and assigned to
higher levels or staff groups. Even "doing." has been divided still further with the goal of
time and cost of employee selection and training. This trend has led to problems of
depersonalization, boredom, and alienation. Such human problems may in part be responsible for
the rise of unionization. They are partly responsible for the quality and productivity problems
which have become concerns of most U.S. industries during the past decade.

Technology is now also transforming the office. The work of clerical employees,
professionals, and managers will be affected as new information technology (minicomputers and
word processing, for example) is introduced and becomes an integral part of the work system for
these employees.

In the work systems section of the book, we will consider some of management's recent
attempts to reverse the trends of the industrial revolution which has increasingly used the
principle of division of labor to simplify and routinize factory work. We will also discuss the
effect of this new technology on office work: Can if be developed in a way that enhances rather
than degrades human commitment and organizational competence? A recognition of human
needs has already prompted management to search for more socially sensitive options in job
design and task technology in the plant, but it is still an open question whether these options will
be extended to the new office technology, or whether an attitude of technological determinism
will continue to guide its development.

Laws and Societal Values

HRM policies and practices in various countries differ in accordance with the unique culture
or ideology of each society. By culture, we mean the values or basic assumptions that people in a
society or an organization seem to hold about how one ought to think and behave. These
assumptions are often implicit and can be inferred from the standards of expected behavior that
are informally enforced by the society, organization, or group. These standards of expected
behavior are sometimes called "norms." Ideology is a dynamic framework of interrelated values
and beliefs that emerges within a society and is used by that society to make its values explicit
and give them institutional validity. Thus, ideology is more explicit than culture or norms and
can be found in formal statements of beliefs provided by leaders and other prominent societal
and organizational members. Ideologies are modified in response to changes in the nature of a
society and in the real world in which that society exists. For example, ideology is shaped by
the unique historical and political development of the society, and that development is a function
of realities such as geography, demographics, resource availability, evolution of traditional
institutions, and patterns of behavior and the collective experience of the society as it struggles
to survive and prosper. The process of ideology formulation is, therefore, a dynamic one:
Changes occur as the society is confronted with new realities. The importance of ideology is that
it serves as a bridge between universally held values such as survival, justice, security, self-
fulfillment, economic use of resources, and self-respect and the means by which those values are
put into practice in a particular setting and at a particular time.

It should not be surprising that HRM policies and practices that express the ideology of an
organization—which is itself a minisociety—heavily influenced by the ideology of the larger
society. Its managers and employees have been shaped by that ideology and are likely to
develop and accept HRM practices consistent with it.
Likewise, it should not be surprising that HRM policies differ across societies because of explicit differences in government policies and legislation governing employer-employee relations. With the exception of Japan, where emphasis on informal understandings and relationships reduces reliance on legislation, most countries have developed extensive legal frameworks specifying the HRM policies and practices that firms are to employ. Legislation governing employer-employee relations develops out of negative experience of employees with HRM practices in the society. These result in political pressures on government to legislate or regulate HRM practices.

Legislation affecting HRM policies and practices includes the legal framework in which unionization and union-management relations occur, wage and hour laws which govern payment of overtime, laws governing occupational health and safety, equal employment opportunity legislation, legislation governing employee pension funds, and income maintenance programs like workers compensation. In Europe, more extensive legislation exists to govern employee relations, including strict rules that restrict the freedom of management to terminate employees and legislation which establishes the rights and framework for employee participation in an enterprise. As with other legislation, of course, the intent of this legislation is quite often not translated into practice. Managers who do not accept the right of employees to participate find ways to circumvent legislated process, just as employee representatives who do not have experience in business have some difficulty participating meaningfully, even if they have been encouraged to do so. Thus, a society that seeks to influence HRM must, over time, transform the ideology and skills of both managers and employees if real transformations are to occur.

The extent of government influences over HRM practices often depends on the ideology of the political party in power. President Lyndon Johnson's concern for civil rights resulted in an executive order which prohibited federal contractors and subcontractors from employment discrimination on the basis of race, color, national origin, religion, and sex, and required larger employers to develop affirmative action programs designed to increase the representation of women and minorities in the company's workforce. Under an administration that was less favorable to the ideology underlying such a program, enforcement obviously would be reduced, as would the effects on HRM practice.

It becomes obvious, then, that HRM policies and practices are not and cannot be formed in a vacuum. They must reflect the governmental and societal context in which they are embedded. For this reason, policies and practices that work in the United States will not necessarily work in Europe or Japan. Similarly, Japanese multinational firms have discovered that not all policies that have been effective in their home country are applicable in the United States. Company housing, slow promotion, or promotion based on seniority, for instance, may not have the same effect outside of the Japanese context. Managers both in and out of an organization's human resource function must understand the culture, ideology, legislation, and regulations of the society in which they operate before formulating HRM policies. A U.S. firm operating in Belgium recently learned that lesson when it discovered that its general manager, accustomed to great freedom in hiring and firing in the United States, cost the company a lot of money in severance pay as he tried to rid his subsidiary of managers he could not or would not learn to work with compatibly.

Just as important, variations in HRM policies and practices across countries offer useful alternatives for U.S. managers to learn from. This comparative perspective allows managers to
examine and question the ideology and assumptions that underlie their own HRM practice. Looking at what managers in other countries do can also suggest alternative models for integrating people and organizations. The interest of American managers in Japanese practices and the stimulus for change provided by the success of Japanese management are the best examples of this phenomenon. However, wholesale application of HRM policies from another country must be avoided if good fit with situational factors is to be obtained. By studying other cultures, U.S. managers may also be able to discern long-term patterns that may engulf them in the future. The alternatives may also suggest strategies for dealing with these long-term changes. For these reasons, some cases and notes in this book deal with HRM in other countries.

ORGANIZATIONAL ADAPTABILITY

Implicit in much of the discussion here and in later chapters of the book is the assumption that effective human resource management policies and practices lead to increased adaptability, a critical ingredient in the long-term survival of business organizations. This point is discussed more explicitly below.

In the long run, organizational effectiveness means that the firm has been flexible and responsive to its market and social environment. When the market demands lower costs, or product innovation, or improved service, the management of the corporation must sense the need for change and be able to mobilize the support of various stakeholders, employee groups, unions, government, educational institutions, suppliers, and the community to make adjustments in their own expectations and behavior. Effective HRM policies and practices are those that are designed and administered through a process of mutual influence between management and employees and that result in high levels of commitment, competence, cost effectiveness, and congruence. Here is how the four Cs can contribute to employee and organizational adaptability.

1. **High commitment** means that employees will be motivated to hear, understand, and respond to management's communications about changes in environmental demands with their implications for wages, work practices, and competency requirements. The mutual trust will be there to enable management's message to be more believable to employees and to enable management to be responsive to employee's legitimate concerns as stakeholders.

2. **High competence** means that employees in the firm will have the versatility in skills and the perspective to take on new roles and jobs as needed. Through a positive attitude toward learning and personal development fostered by policies that encourage and reward learning, employees will be more capable of responding to change.

3. **Cost effectiveness** means that the organization's human resource costs—wages, benefits, and indirect costs such as strikes, turnover, and grievances—have been kept equal to or less than those of competitors, while major adjustments such as the ones facing employees in the steel and auto industries have been avoided. Once again, only a continual process of mutual influence about the realities of the business and the needs of employees can bring about this outcome.

4. **Higher congruence** than competitors means that the firm has shaped work systems, reward systems, and flow policies so that there is a higher coincidence of interest
among management, shareholders, and workers. Furthermore, a process of employee
influence in the affairs of the company will also foster congruence. In such a climate,
changes in policies and practices prompted by the external environment are less likely
to be perceived by employees as not in their interest. Moreover, the inevitable
differences between shareholder interests and employee interests that remain in even
the most effective corporations will probably be easier to manage because an
atmosphere of collaboration and mutual problem solving will have been developed
between stakeholders. Adversarial relations are less likely to exist.

Effective organizations are also adaptive to changes in their social environment. Managers in
adaptive organizations can sense changes in societal values and attend to the spirit as well as the
letter of laws that operationalize these values. These changes begin to be reflected in their
management philosophy and practices, particularly their human resource practices. Managers
who see themselves as responsible for the well-being of the enterprise, its employees, and
society—i.e., for long-term consequences as opposed to the more narrow outcomes such as profit
or growth—are more likely to sense and incorporate changes in societal values into human
resource policies. Their HRM policies are less likely to undermine their relationships with their
employees, government, and community.

We believe that the relationship between employers and employees, and the attitudes and
motivation of management and labor are very important ingredients in the process of
organizational adaptation. Therefore effective human resource management as we plan to discuss
it in this book is an important strategy for achieving an adaptive organization.

SUMMARY

In this chapter we have provided a map of the key factors that have a strong influence on HRM
policies and are in turn influenced by them. For example, we suggested that management's
assumptions about work force characteristics influence human resource policies just as those
policies affect work-force characteristics. Similarly management philosophy, business strategy,
labor markets, laws and society, task technology, and unions affect HR policies and to varying
degrees are affected by them. For many of these factors—business strategy, task technology,
unions, and management philosophy—a two-way process of influence is possible and needs to
be strengthened. That is, policies need to be forged with a clearer understanding of the
constraints, just as those constraints may be seen as amenable to modification by progressive and
well-articulated HRM policies. Other factors, such as laws, society, and labor markets, may be
more immutable constraints in the short run, but even they are subject to influence and change in
the long run. We characterized each of the situational factors interacting with human resource
policies in the belief that a better understanding of their influence will allow managers to design
policies that fit the situation and/or change the situation.

The interests of various stakeholders—shareholders, management, employees, government,
the community, and unions—must also be an important factor in designing HRM policies and
practices. Without attention to the perspectives of all stakeholders, HRM policies and priorities
are unlikely to gain their acceptance. In the long run this is likely to result in the failure of those
policies and in a loss of organizational effectiveness.

The well-being of the enterprise, society, and employees were suggested as long-term criteria
by which general managers ought to evaluate the HRM policies of their organization. The clear
Implication is that general managers should search for policies that enhance the well-being of all three, not the enterprise alone, which has traditionally been the central consideration. Finally, commitment, competence, congruity, and cost effectiveness were suggested as specific outcomes that help define all three long-term criteria and that should be assessed explicitly in evaluating human resource policies. Innovative companies are explicitly shaping policies to enhance commitment, competence, and congruence, outcomes that in many companies are by-products of human resource policies rather than explicit goals. Such policy shaping increases an organization's capacity to adapt to changes in its environment.

The conceptual framework presented in this chapter offers a way of thinking, not a mechanistic tool for analysis. By adopting it, it is hoped managers will be able better to understand the historical roots of HRM policies and outcomes and to develop creative solutions to human resource problems that fit and influence the situation, satisfy the interests of several stakeholders, and reach for improved outcomes for the enterprise, society, and employees.

**NOTES**


3. The discussion which follows is based on George Lodge, *Context Ideology*, Harvard Business School Case Services No. 9-380-071 (1979). In the original, he uses the term community instead of society to indicate that any collection of people with a common need and purpose (factory, corporation, town, or union) develop an ideology.