**Chapter Two**

**Human Resource Management Environments**

**2.1. The External Environment**

When it comes to human resource management there are several factors that affect day-to-day operations. Adapting in this field is important because at a moment’s notice new legislation can be passed with an immediate effective date or corporate policies are changed where human resources feel the brunt. A well-developed strategy for your human resources department takes into considers external factors that might affect your department.

## The four external factors that affect human resource management are:

1. **Government Regulations –** With the introduction of new workplace compliance standards your human resources department is constantly under pressure to stay within the law. These types of regulations influence every process of the HR department, including hiring, training, compensation, termination, and much more. Without adhering to such regulations a company can be fined extensively which if it was bad enough could cause the company to shut down.
2. **Economic Conditions –** One of the biggest external influences is the shape of the current economy. Not only does it affect the talent pool, but it might affect your ability to hire anyone at all. One of the biggest ways to prepare against economic conditions is to not only know what’s happening in the world around you, but also create a plan for when there is an economic downturn. All companies can make due in a bad economy if they have a rainy day fund or plan to combat the harsh environment.
3. **Technological Advancements –** This is considered an external influence because when new technologies are introduced the HR department can start looking at how to downsize and look for ways to save money. A job that used to take 2-4 people could be cut to one done by a single person. Technology is revolutionizing the way we do business and not just from a consumer standpoint, but from an internal cost-savings way.
4. **Workforce Demographics –** As an older generation retires and a new generation enters the workforce the human resources department must look for ways to attract this new set of candidates. They must hire in a different way and offer [different types of compensation packages](http://www.blogging4jobs.com/hr/avoiding-court-by-calculating-regular-rate-of-pay-the-right-way/) that work for this younger generation. At the same time, they must offer a work environment contusive to how this generation works.

Those involved in human resource management does more than hiring and firing, they make sure that every type of external influence is listened to and proper procedures are followed to avoid lawsuits and sanctions. If you’re in HR make sure that you’re paying close attention to external influences because there is a good chance they’re affecting your job and the company you work for. So next time you talk to someone invovled in the human resource management process think twice about the amount of factors that affect their job and how important it is for them to be on top of their game.

**2.2. The Internal Environment**

These are the forces internal to an organization. Internal forces have profound influence on HR functions. The internal environment of HRM consists of unions, organizational culture and conflict, professional bodies, organizational objectives, polices, etc. A brief mention of these follows.

#### Unions: Trade unions are formed to safeguard the interest of its members/workers. HR activities like recruitment, selection, training, compensation, industrial relations and separations are carried out in consultation with trade union leaders.

#### Organizational Culture and Conflict: As individuals have personality, organizations have cultures. Each organization has its own culture that distinguishes one organization from another. Culture may be understood as sharing of some core values or beliefs by the members of the organization “Value for time” are the culture of Reliance Industries Limited. The culture of Tata conglomerate is “get the best people and set them free”.

HR practices need to be implemented that best fit the organization’s culture. There is often conflict between organizational culture and employee’s attitude. Conflict usually surfaces because of dualities such as personal goal vs. organizational goal, discipline vs. autonomy, rights vs. duties, etc. Such conflicts have their bearings on HR activities in an organization.

1. **Professional Bodies:** Like other professional bodies, the HR professional body regulates the functions of HR practitioners. For this the HR practitioners are expected to declare their allegiance to the code. Thus, professional bodies also influence HR functions of an organization.

**Strategic HRM (SHRM)**

The **HR Strategy** is usually high-level. The [HR Strategy](http://www.simplehrguide.com/hr-strategy.html) defines the strategic role of HR in the organization and initiatives to be done within the frame of several years.

The field of strategic HRM is still evolving and there is little agreement among scholars regarding an acceptable definition.

* SHRM is systematically linking people with the organization; more specifically, it is about the integration of HRM strategies into corporate strategies.

HR strategies focus is on alignment of the organization’s HR practices, policies and programmes with corporate and strategic business unit plans (Greer, 1995). Strategic HRM thus links corporate strategy and HRM, and emphasizes the integration of HR with the business and its environment.

It is believed that integration between HRM and business strategy contributes to effective management of human resources, improvement in organizational performance and finally the success of a particular business (see Holbeche, 1999; Schuler and Jackson, 1999). It can also help organizations achieve competitive advantage by creating unique HRM systems that cannot be imitated by others (Barney, 1991; Huselid et al., 1997). In order for this to happen, HR departments should be forward-thinking (future-oriented) and the HR strategies should operate consistently as an integral part of the overall business plan (Stroh and Caligiuri, 1998). The HR-related future-orientation approach of organizations forces them to regularly conduct analysis regarding the kind of HR competencies needed in the future, and accordingly core HR functions (of procurement, development and compensation) are activated to meet such needs (see Holbeche, 1999).

Lengnick-Hall and Lengnick-Hall (1999: 29–30) summarize the variety of topics that have been the focus of strategic HRM writers over the past couple of decades. These include:

* HR accounting: which attempts to assign value to human resources in an effort to quantify organizational capacity
* HR planning
* Responses of HRM to strategic changes in the business environment;
* Matching human resources to strategic or organizational conditions; and
* The broader scope of HR strategies.

Two core aspects of SHRM are:

* The *integration* of HRM into the business and corporate strategy
  + ‘The degree to which the HRM issues are considered as part of the formulation of the business strategy’
* The *devolvement* of HRM to line managers instead of personnel specialists.
  + ‘The degree to which HRM practices involve and give responsibility to line managers rather than personnel specialists’.

**Stages of the Evolution of Strategy and HRM Integration**

Greer (1995) talks about four possible types of linkages between business strategy and the HRM function / department of an organization:

* ‘*Administrative linkage’* represents the scenario where there is no HR department and some other figurehead (such as the Finance or Accounts executive) looks after the HR function of the firm. The HR unit is relegated here to a paper-processing role. In such conditions there is no real linkage between business strategy and HRM.
* Next is the ‘*one-way linkage*’ where HRM comes into play only at the implementation stage of the strategy.
* ‘T*wo-way linkage*’ is more of a reciprocal situation where HRM is not only involved at the implementation stage but also at the corporate strategy formation stage.
* The last kind of association is that of ‘*integrative linkage*’, where HRM has equal involvement with other organizational functional areas for business development.

Purcell (1989) presents a two-level integration of HRM into the business strategy – ‘*upstream* or *first-order decisions’* and ‘*downstream* or *second-order decisions’*:

* *First-order decisions*, as the name suggests, mainly address issues at the organizational mission level and vision statement; these emphasize where the business is going, what sort of actions are needed to guide a future course, and broad HR-oriented issues that will have an impact in the long term.
* *Second-order decisions* deal with scenario planning at both strategic and divisional levels for the next 3–5 years. These are also related to hardcore HR policies linked to each core HR function (such as recruitment, selection, development, communication).

Guest (1987) proposes integration at three levels:

* First he emphasizes a ‘*fit*’ between HR policies and business strategy.
* Second, he talks about the principle of ‘*complementary*’ (mutuality) of employment practices aimed at generating employee commitment, flexibility, improved quality and internal coherence between HR functions.
* Third, he propagates ‘internalization’ of the importance of integration of HRM and business strategies by the line managers (also see Legge, 1995).

**Linking organizational strategy and HRM strategy**

Many scholars developed many theoretical models that highlight the nature of linkage between HRM strategies and organizational strategies.

Fombrun et al.’s (1984) ‘matching model’ highlights the ‘resource’ aspect of HRM and emphasises the efficient utilisation of human resources to meet organisational objectives. This means that, like other resources of organisation, human resources have to be obtained cheaply, used sparingly and developed and exploited as fully as possible. The matching model is mainly based on Chandler’s (1962) argument that an organisation’s structure is an outcome of its strategy.

Fombrun et al. (1984) expanded this premise in their model of strategic HRM, which emphasises a ‘tight fit’ between organisational strategy, organisational structure and HRM system. The organisational strategy is pre-eminent; both organisation structure and HRM are dependent on the organisation strategy. The main aim of the matching model is therefore to develop an appropriate ‘human resource system’ that will characterise those HRM strategies that contribute to the most efficient implementation of business strategies.

The matching model of HRM has been criticised for a number of reasons. It is thought to be too prescriptive by nature, mainly because its assumptions are strongly unitarist (Budhwar and Debrah, 2001). As the model emphasises a ‘tight fit’ between organisational strategy and HR strategies, it completely ignores the interest of employees, and hence considers HRM as a passive, reactive and implementations function. However, the opposite trend is also highlighted by research (Storey, 1992). It is asserted that this model fails to perceive the potential for a reciprocal relationship between HR strategy and organisational strategy (Lengnick-Hall and Lengnick-Hall, 1988). Indeed, for some, the very idea of ‘tight fit’ makes the organisation inflexible, incapable of adapting to required changes and hence ‘miss-fitted’ to today’s dynamic business environment. The matching model also misses the ‘human’ aspect of human resources and has been called a ‘hard’ model of HRM (Guest, 1987; Storey, 1992; Legge, 1995). The idea of considering and using human resources like any other resource of an organisation seems un pragmatic in the present world.

Despite the many criticisms, however, the matching model deserves credit for providing an initial framework for subsequent theory development in the field of strategic HRM. Researchers need to adopt a comprehensive methodology in order to study the dynamic concept of human resource strategy. Do elements of the matching model exist in different settings? This can be discovered by examining the presence of some of the core issues of the model. The main propositions emerging from the matching models that can be adopted by managers to evaluate scenario of strategic HRM in their organisations are:

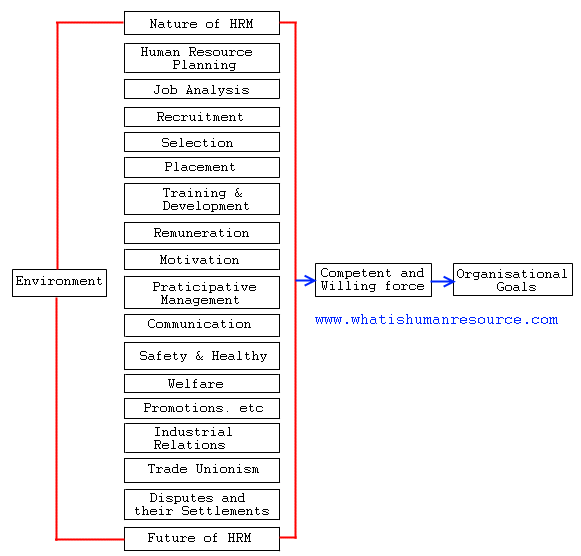
* Do organisations show a ‘tight fit’ between their HRM and organisation strategy where the former is dependent on the latter? Do specialist people managers believe they should develop HRM systems only for the effective implementation of their organisation’s strategies?
* Do organisations consider their human resources as a cost and use them sparingly? Or do they devote resources to the training of their HRs to make the best use of them?
* Do HRM strategies vary across different levels of employees?

**2.3. Human Resource Management Model**

The HR Model is a bridge between the HR Strategy and other key areas of HR Management like HR Processes and the HR Organizational Structure. The definition of the model is a key tool driving the responsibilities of HR Function in the organization.

The **HR Model** is the best decision tool for the ownership of the new HR Processes. Additionally, it helps to identify gaps in the HR Organizational Structure and the skills and competencies of HR employees.

The Human Resource Management model contains all Human Resource activities. When these activities are discharged effectively, they will result in a competent and willing workforce who will help realize organizational goals. There is another variable in the model – environment. It may be stated that the Human Resource function does not operate in vacuum. It is influenced by several internal and external forces like economic, technological, political, legal, organizational, and professional conditions.



1. **Human Resource Management:** is a management function that helps the managers to recruit, select, train, and develop members for an organization.
2. **Human Resource Planning:**[Human Resource Planning](http://www.whatishumanresource.com/human-resource-planning) is understood as the process of forecasting an organizations future demand for, and supply of, the right type of people in the right number.
3. **Job Analysis:** [Job analysis](http://www.whatishumanresource.com/job-analysis) is the process of studying and collecting information relating to the operations and responsibilities of a specific job. The immediate products of this analysis are job descriptions and job specification.
4. **Recruitment:** [Recruitment](http://www.whatishumanresource.com/recruitment) is the process of finding and attracting capable applicants for employment. The process begins when new recruits are sought and ends when their applications are submitted. The result is a pool of applicants from which new employees are selected.
5. [**Selection**](http://www.whatishumanresource.com/pre-employment-tests): is the process of differentiating between applicants in order to identify (and hire) those with greater likelihood of success in a job.
6. **Placement:** is understood as the allocation of people to jobs. It is the assignment or reassignment of an employee to a new or different job.
7. **Training and development:** it is an attempt to improve current or future employee performance by increasing an employee’s ability to perform through learning, usually by changing the employee’s attitude or increasing his or her skills and knowledge. The need for training and development is determined by employee’s performance deficiency, computed as follows: Training and development need = Standard performance – Actual performance
8. **Remuneration:** is the [compensation](http://www.whatishumanresource.com/compensation-management) an employee receives in return for his or her contribution to the organization.
9. **Motivation:** is a process that starts with a psychological or physiological deficiency or need that activates behavior or a drive that is aimed at a goal or an incentive.
10. **Participative management:** [Workers participation](http://www.whatishumanresource.com/workers-participation-in-management) may broadly be taken to cover all terms of association of workers and their representatives with the decision making process, ranging from exchange of information, consultations, decisions and negotiations to more institutionalized forms such as the presence of workers members on management or supervisory boards or even management by workers themselves as practiced in Yugoslavia. (ILO)
11. **Communication:** may be understood as the process of exchanging information, and understanding among people.
12. **Safety and health:** [Safety](http://www.whatishumanresource.com/healthy--safety) means freedom from the occurrence or risk of injury or loss. In order to ensure the continuing good health of their employees, the HRM focuses on the need for healthy workers and health services.
13. **Welfare:** as defined by ILO at its Asian Regional Conference, defined [labour welfare](http://www.whatishumanresource.com/employee-welfare) as a term which is understood to include such services, facilities, and amenities as may be established in or in the vicinity of undertakings to enable the person employed in them to perform their [work in healthy](http://www.whatishumanresource.com/healthy--safety), congenial surroundings and to provide them with amenities conducive to good health and high morale.
14. **Promotions:** means an improvement in pay, prestige, position and responsibilities of an employee within his or her organization.
15. **Transfer:** [Transfer](http://www.whatishumanresource.com/employee-transfers) involves a change in the job (accompanied by a change in the place of the job) of an employee without a change in the responsibilities or remuneration. [Separations](http://www.whatishumanresource.com/employee-separations): [Lay-offs](http://www.whatishumanresource.com/lay-off), resignations and dismissals separate employees from the employers.
16. **Industrial relations:** [Industrial relations](http://www.whatishumanresource.com/industrial-relations) is concerned with the systems, rules and procedures used by unions and employers to determine the reward for effort and other conditions of employment, to protect the interests of the employed and their employers, and to regulate the ways in which employers treat their employees.
17. **Trade Unions:** [Trade unions](http://www.whatishumanresource.com/introduction-to-trade-unions) are voluntary organizations of workers or employers formed to promote and protect their interests through collective action.
18. **Disputes and their settlement:** [Industrial disputes](http://www.whatishumanresource.com/industrial-disputes) mean any dispute or difference between employers and employers, or between employers and workmen, or between workmen and workmen, which is connected with the employment or non-employment or terms of employment or with the conditions of labor of any person.

## The Outcomes of the HR Model

The main outcome of the HR Model is the clear principle for the design and setting of the HR Roles and Responsibilities and assignment of the different HR Projects into different units in HR.

The model definition is not easy, but it saves many conflicts in the future. The HR Model helps to build a stronger and more competitive HR Function in the organization.

The model clearly defines the strategic HR Processes and strategic HR Areas, which have to be developed further to build a strong  and competitive position on the market.

Additionally, it helps to identify the full responsibility for the administrative HR processes. The employees are sure about their goals and the main drivers for their success in HR.