

What is strategic human resource management?



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# Introduction

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This free course is about the interplay between decision making about people management and the environments within which such decisions are made. The underlying premise is that, normally, better choices are made when they are informed by an understanding of the multiple contexts which are relevant to those choices (Storey, Wright and Ulrich 2009).

The underlying contention is that the management of human resources (HR) is normally (and needs to be) different depending on an organisation's business strategy; that it is rather different in small compared with large businesses; that it varies depending on the national context, which is likely to involve different employment law and different cultures and practices; it varies depending on the nature of the workforce and the employment sector (Storey 1992; 2007). So, fitting HR decisions to business objectives and to other aspects of context represent two core elements. Another is that strategic HRM involves taking a long-term perspective rather than simply making HR decisions in an ad hoc and short-term manner.

All of that said, there is a counter-argument, which asserts that there is, despite these variations, some common base of 'good practice' irrespective of context. This proposition rests on the idea that there are certain fundamentals when managing people. These include fair play, involving the workforce, investing in the workforce so as to increase the value of its contribution and a number of other approaches. This suggests the idea of a basic universal formula based on good professional and ethical practice. It is sometimes labelled the 'one best way'. There has been some research which suggests a link between such a generic best practice approach and a set of performance outcomes.

So that sets the scene for a debate which has persisted in the HR field for some time. Nonetheless, even if the idea of a basic set of good practices were to be accepted, few people would argue with the additional idea that different contexts are also likely to be important and that the basic approach may need to be adapted to cope with, for example, an economic recession, a shift in market conditions, new technology and so on.

Additionally, whatever the 'prescriptive' approach might be, there can be little doubt that in practice there are notable variations in the way human resources are managed and that these variations are often patterned and can be shown to relate to context.

## Turbulence and volatility

Numerous practitioners and analysts increasingly refer to the unusual levels of volatility, uncertainty, complexity and ambiguity in the wider environment. Turbulence is found, for example, in shifts in:

- economic fortunes across the globe
- severe weather events which interfere with air traffic and trade
- uncertainties arising from the threats and opportunities introduced to industry by the internet
- domestic political difficulties
- geopolitics in areas of regional unrest.

These points of turbulence and disruption have been so frequently remarked upon that an acronym (VUCA) has been coined to refer to the levels of volatility, uncertainty, complexity and ambiguity in contemporary environments.



### Uncertain times ahead?

Daunting and exciting as these forces might be, the essence of strategy is to seek a measured understanding of the multiple environments and to work out a way forward while bearing in mind the relevant factors. This applies to all aspects of business strategy. In this free course we attend in particular to HR strategy – in other words the implications of these environmental forces for the way human capital is accumulated, deployed and harnessed.

## Tactical or strategic responses to contexts?

Managers may respond to different contexts in different ways. They may make ad hoc, tactical responses which 'react' to events as they occur. Or they may take a wider reading of contexts and construct a more **strategic approach**. This latter may offer a more coherent set of policies and practices.

So, one step in a strategic approach is to learn to assess the environment (the context) in a systematic manner.

The wider environment is normally analysed in terms of economic, political, legal, technological and social dimensions. To understand HR strategy in context requires attending to the different meanings of strategy, the ways in which HR can be strategic and the ways in which it can stem from, and contribute to, corporate and organisational strategy. It also means understanding how environmental forces impact on strategic decision making and how, in turn, strategies help shape environments (for example, government policy as one such contextual factor is itself subject to lobbying and shaping by business interests and in some instances by labour interests).

This OpenLearn course is an adapted extract from the Open University course [B864 \*Human resource management in context\*](#).

# Learning Outcomes

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After studying this course, you should be able to:

- explain the scope of HRM
- understand the meaning and nature of strategic HRM
- appreciate how HR strategies are related to business strategies
- describe how HR strategies can be informed by a knowledge of labour markets and product markets locally, nationally and internationally
- describe the dynamic nature of global competition and of social and technological trends and their significance for HRM practice.



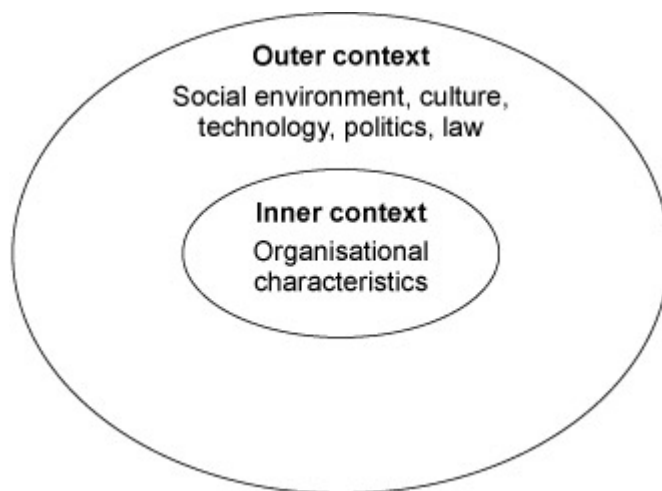
# 1 Inner and outer contexts

It has become an accepted convention to distinguish between 'internal' and 'external' contexts. The internal context essentially refers to the inner context, that is, the organisational environment within which HR management takes place. The external, or outer context refers to the environment outside the organisational boundaries. This latter includes societal characteristics, the prevailing culture (this could itself be multi-layered – for example local, regional and national culture), the technological environment and the political and the legal environment. These features are summarised in Figure 1.

## Activity 1: Your organisational contexts

Allow around 20 minutes for this activity.

Populate the figure below with details of your own organisation's inner and outer contexts, or use a case organisation with which you are familiar. Use the contexts already identified in the figure as a starting point for your ideas.



Interactive content is not available in this format.

Figure 1: The internal and external contexts of HRM

Click 'View' below the figure to access the note-making version of the figure.

### Discussion

In this kind of introductory exercise, many people struggle to go beyond the abstract concepts for the outer context and they struggle to identify relevant inner context elements. The practical skill we are working towards is to identify factors most relevant to specific work organisations. This will also mean identifying and interpreting trends and other dynamic elements of contexts.

So, HR strategic choices take place in multiple contexts. The broad theory is that there is an interplay between economics, policy and institutions. For example, the impact of

recession on societies of all kinds has been dramatic. Especially notable has been the increase in unemployment, particularly youth unemployment.

But the nature and extent of the impact is affected by the *institutional arrangements* and the *policies* followed – as well as the extent of debt. For example, Germany has maintained an apprenticeship system based on an investment in human capital approach. This has been underpinned by state policy and by regulation. Thus, the requirement to have a ‘license to practice’ in so many occupational areas means that employers need to invest in education and training in order to have access to such labour resources. The system becomes self-supporting because, as a consequence of the commitment to substantial training by employers, vocational and educational training is taken seriously by parents and young people – and so the quality is sustained. Without such a constellation of supporting structures of regulation, institutions and cultural esteem, numerous vocational educational and training initiatives in other countries, including the UK, have struggled to make a sufficient impact.

This example points, in a powerful way, to the critical importance of context. And yet it does not mean that context of one sort (here national differences) is entirely deterministic. There are, for example, exceptions even in the UK to the generally poor apprenticeship system – the case of Rolls Royce aerospace is one such exception. But that company’s effort in building and sustaining an effective apprenticeship system is unusual and exceptional; it is enabled by a powerful international brand.

## Inner contexts

Organisational characteristics that constitute the inner context include features that can be crucial to the practice of HR. Examples of such factors include:

- the occupational profile of the organisation (for example, whether constituted by scarce and highly paid skilled staff or a more lowly paid, low-skilled workforce)
- the ownership (e.g. whether an owner-managed, family firm or a large, shareholder-owned PLC)
- the history and culture of the organisation (e.g. whether there is a history of mistrust and conflict or conversely a context of high trust and goodwill).

Another example of an inner context which can impact significantly on HR practice is those organisations which have become part of the ‘third sector’ – that is, co-owned enterprises, social enterprises and mutual organisations. These bodies typically seek to work on a values-based approach and the notion of bosses and workers is complicated with notions of members and co-owners.

If you were a newly appointed HR specialist to an organisation you would need to learn about all of the aforementioned and, in addition, you would also need to know about the key units and departments – which groups are considered core to the operation and what are the contours of power and influence in the organisation.

## The John Lewis Partnership: a video case study

### Activity 2: Inside John Lewis

Allow around 20 minutes for this activity.

A very good example of the need for an HR specialist to take account of an organisation's 'inner context' can be found in the case of the John Lewis Department Stores. These stores are part of the wider John Lewis Partnership – a co-owned retail business with multiple divisions, including food retailing as well as the department stores. Any attempt by a new HR manager to make strategic choices about HR would need to first take close account of the features of the inner context. The video clip below should make this point abundantly clear.

Watch the video clip and answer the following question:

Video content is not available in this format.

[Bonus day](#)



If you joined this retail organisation as an HR manager, what key features of the inner context do you think you would need to bear in mind?

Make your notes in the box provided below and then click 'Save and reveal feedback' to see our thoughts on the question.

*Provide your answer...*

### Discussion

There are many characteristic features of this organisation that you would need to take account of if you were to have any chance of making a difference or even surviving in the organisation. The retailer seeks to work within a very distinctive 'model', key features of which were designed decades ago by its founder. These include elements of a democratic character whereby employees (partners) expect

to have a voice, to have democratic structures and to be treated as a co-owners of the business. The annual bonus is an expression of their share in rewards but they also expect – and other senior managers expect – that this is but one part of a wider sense of co-ownership which carries rights and responsibilities.

The existence of this model does not prevent change but it does influence the way changes can be introduced, and the nature and justification of any proposed changes.

## Outer contexts

Various frameworks with associated acronyms have been created to help put some analytic order on the complexity of the environment. A well-known one is PESTLE:

- **P**olitical
- **E**conomic
- **S**ocial
- **T**echnological
- **L**egal
- **E**nvironmental.

Another acronym much used in the study of the external environment for HR is 'STEEPLE'. This refers to the factors shown in Table 1:

**Table 1: The external contexts of organisations: some key drivers**

Field	Examples of key drivers of strategy
Socio-cultural	Demography by size, age, other social characteristics and geographical distribution, working population, gender, ethnicity, education and training, religion, social values and beliefs
Technological	Information and communication technologies, biotechnology, medical advances, nanotechnology, robotics, technological change, research and development
Economic	Macro-economic policy, markets and prices, price levels, global trends, market structures, size of firms, profits, public spending, taxation, consumption and investment spending, wages and salaries, public services, imports and exports, exchange rates, balance of payments, employment and unemployment, labour and capital markets
Environmental	Global warming, conserving natural resources, sustainable development, pollution, carbon footprints, protecting the eco-environment
Political	Party politics, government, opposition, public administration, public policy, devolved assemblies, local government, pressure groups, public opinion, EU institutions, international organisations
Legal	Contract law, employment law, health and safety, consumer protection law, company law, codes of practice, regulatory bodies, the legal system and the courts, the European Court of Justice

Ethical	Balancing stakeholders interests, ethics in the workplace, ethical business relations, ethical production, ethical consumption, ethical purchasing, promoting employee welfare, human rights, corporate social responsibility
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Aspects of each of these acronyms are indicated in Figure 2:

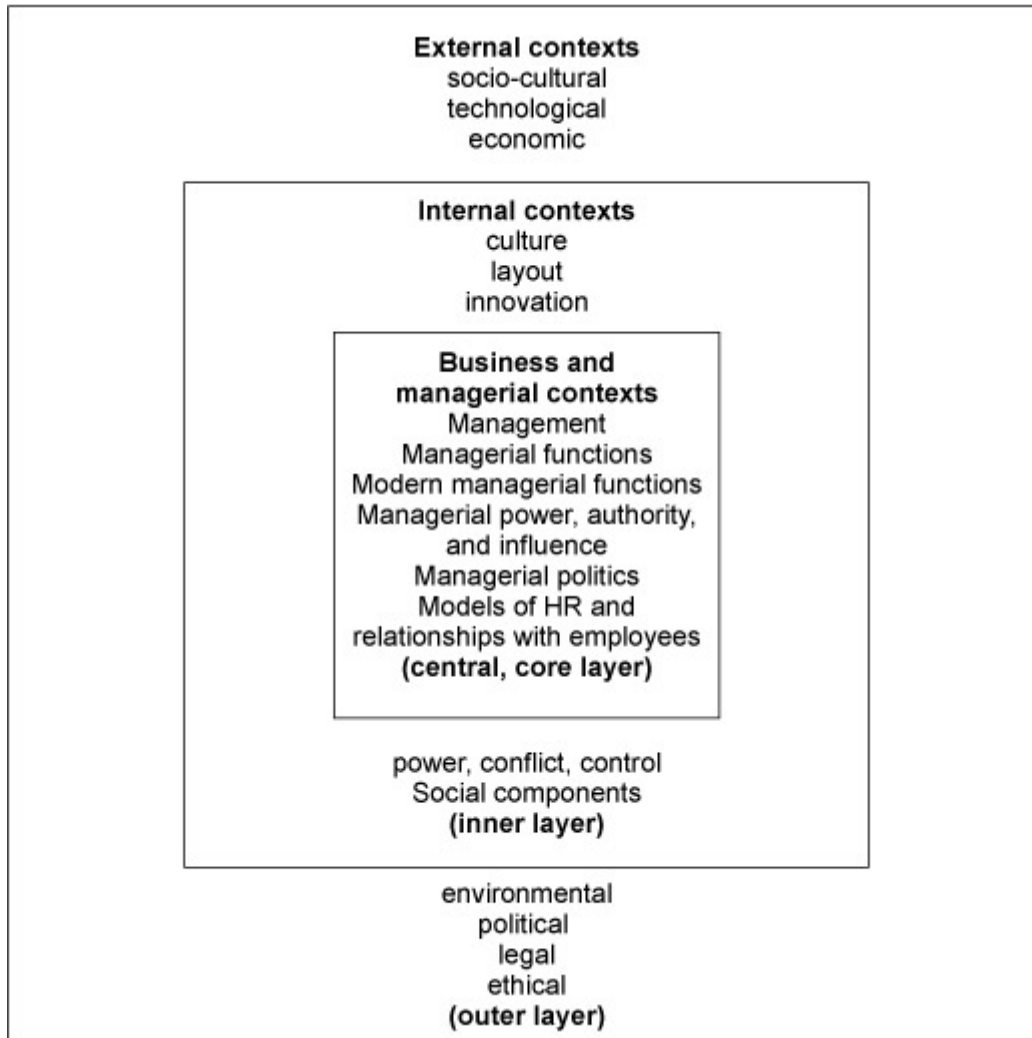


Figure 2: The external, internal and business and management contexts of organisations: a framework for analysis and learning

(Farnham, 2010, p. xvi)

### Activity 3: Steeple analysis

Allow around 60 minutes for this activity.

#### Part 1

You would find it helpful if you now tried a short STEEPLE analysis of your own.

EITHER: Use the space below to perform a STEEPLE analysis on an organisation you know well:

*Provide your answer...*

## Part 2

OR: If you do not have an organisation to use, compare the following two case organisations and answer the question that follows in the space provided.

### A high-end hotel leisure resort

#### The Grand Hyatt, Goa



The company website states:

Grand Hyatt Goa is set to take its place as Goa's largest and most sophisticated luxury conference and wedding resort.

Grand Hyatt Goa brings the ultimate event experience to the dynamic meeting and weddings scene, with an overall banquet facility of over 3000 sq m.

The Grand Hyatt brand has long enjoyed a well-earned reputation for excellence in the field of banqueting and catering. A professional and attentive team oversees many successful events and ensures that catering and conference needs are met to the client's satisfaction. To further enhance its position as a leading conference venue, a dedicated events team has been established and will provide and maintain the highest standards of excellence and personalised service for our delegates and organisers.

The versatile function rooms are located across two floors, and include the elegant Grand Ballroom. Six functions rooms are on the ground level with a pre-function area ideally equipped to hold receptions. The lobby level also houses two meeting rooms and two board rooms.

Grand Hyatt makes available a full complement of meeting aids and technical assistance, which includes an impressive inventory of state-of-the-art equipment for high-speed Internet access and video conferencing. Experienced professional technicians can assist with the set-up and operation of each audiovisual programme.

(Hyatt Corporation, 2014)



## Club 18–30 mass-market travel

[Club 18–30 recruitment site](#)



Described as ‘cheap clubbing holidays’, the advertisement to recruit holiday reps for this company states:

**Do you got [sic] what it takes?**

Being one of our Club 18–30 holiday reps is a job like no other! It's definitely not for the faint hearted, you'll need to have a great personality, awesome communication skills and enough stamina to keep you going from morning to night!

(Thomas Cook, nd)

Compare the strategies of these two companies in so far as they can be inferred from their marketing. Using a STEEPLE analysis as a framework, what implications would you think that these contrasting strategies would carry for the practice of human resource management?

Write your notes in the space provided below.

*Provide your answer...*

### Discussion

The two contrasting cases of the Grand Hyatt and Club 18–30 would seem to carry a range of implications for HR, and the STEEPLE framework can help to order your thinking about these differences. So, for instance, the social/cultural contexts of the

two organisations are likely to be dramatically different as they attract diverse clientele with divergent cultural expectations and interests. The leisure pursuits on offer would be different and the kind of staffing arrangements needed to facilitate these different cultural interests would be distinct.

The brief person specification of the ideal Club 18–30 reps indicate the expected behaviours and interests of the staff appointed to these roles. The technology offered by these two companies will vary between a high-investment in facilities in the Grand Hyatt and thus a need for specially trained staff to offer the services built around these technologies (fine dining, cocktail bars, spas and so on) in contrast to the low-tech, low investment in buildings associated with Club 18–30 where the emphasis is upon trips with considerable alcohol consumption.

The political, economic and legal contexts will vary depending on which country these international companies operate within. Host country contexts will present widely divergent challenges. Luxury hotels may sit uneasily in local contexts where there is extreme poverty. Local politics may require a certain proportion of labour to be locally sourced. The more mass-market end of the tourist industry, as exemplified by Club 18–30, will face its own challenges in that expectations and behaviours of clients may conflict with local values and norms. And again there will be dilemmas about the relative use of local versus imported labour.



## 2 Different types and levels of context

Differences between the following contexts cause variation in HR practice:

- clusters of countries
- countries
- industry sectors
- organisations within the same sector
- parts of organisations.

### Differences between clusters of countries

Analysts have noted patterns which show similarities of employment policies and practices among Mediterranean countries, which differ from Scandinavian countries, which in turn differ from Rhineland countries (Germany and related northern European countries) which are different again from Anglo-Saxon countries.

A striking example of differences in employment practices across countries is found in the vibrancy of the small- and medium-sized German companies known as Mittelstand. These companies, many of them family owned, invest for the long term, are export-oriented and invest in their workers and their machinery. They are often contrasted with Anglo-Saxon practices which seem more short term in their outlook and which rely on City finance.

#### Activity 4: The strength of the Mittelstand companies

Allow around 30 minutes for this activity.

##### Part 1

Watch the short video 'Mittelstand' and then listen to the radio clip 'Lessons from Germany's Mittelstand'. From both sources make notes on your own thoughts about what lessons managers from other countries might draw from these cases.

Video content is not available in this format.

[Mittelstand](#)



Audio content is not available in this format.

[Lessons from Germany's Mittelstand](#)

What do you think drives the differences between German and UK approaches?

*Provide your answer...*

## Part 2

Now listen to the interview which takes place in the studio and compare your answers to the points made by the expert guest.

Audio content is not available in this format.

[The differences in approach between German and UK mid-sized companies](#)

## Discussion

The answer is indicative of the complexity of content explored in this course. The drivers include a mix of industrial policy, culture, the way companies find the finance, employment laws, the apprenticeship system and other factors. There is also some uncertainty about the extent to which it is possible to cherry-pick selective elements without adopting the full package. This reflects the point discussed earlier about the interplay between contextual variables.

## Differences between countries

Within the clusters there are also differences between countries. For example, within the Anglo-Saxon cluster, there are differences between American HR practices and those in the UK. Both in turn differ from the practices in Australia.

Labour laws and the ways in which they are enforced or ignored are one important example of differences between countries. These laws are not static, they are also subject

to change with industrial policy and in response to changes such as membership of trade areas like the European Union. A shift to a more open, free labour market in the UK, along with complex and prevalent outsourcing and sub-contracting arrangements, led to tensions such as those described in the video below, which discusses the use of contract workers at Total Oil refinery.

Video content is not available in this format.

[Total Oil refinery](#)



The lack of training and the reliance on an opportunistic use of highly mobile, temporary, contracted labour forces illustrated by this video shows a marked contrast with the long-term employment system characteristic of the Mittelstand companies described above.

## Differences between industry sectors

Employment and HR policies and practices are usually very different in professional service firms when compared with manufacturing firms or public sector employment. For example, levels of unionisation tend to be much higher in the public sector compared with private sector organisations.

## Differences between organisations in the same sector

Even in the same industry sectors, although there are often some similar patterns, different firms may pursue different HR policies. Often this reflects different HR strategies matching different business strategies. So, a company in engineering or in customer services, which seeks to position itself at the high-value added end of the market, will often invest in its staff and take care in their recruitment, training and development, engagement and reward. Conversely, a company in the same industry competing on low cost is likely to adopt very different HR policies and practices and may adopt a low-pay

and low-employment security approach to its labour management and offer little, if any, training.

## Differences between parts of organisations

Even within the same organisation, the context for the HR practitioner to consider may vary considerably. For example, the employment policies such as recruitment criteria, reward systems and performance management regimes vary dramatically between the investment banking divisions of the major banks and their retail divisions.

## Implication for HR practitioners

For each of the above types of context, the HR practitioner – and indeed any operational, general or line manager seeking to get involved in employment management – will need to thoroughly understand these different contextual conditions and variations if they are to avoid costly mistakes.

*HR strategy is about choices.* This is a crucial starting point. The skill of the HR practitioner is in making appropriate choices. It is worth pausing at this point to consider what might be meant by an ‘appropriate choice’.

### Activity 5: Effective choices

Allow around 40 minutes for this activity.

HR specialists (especially those dealing with strategic issues) are employed to make effective rather than ineffective choices. In basic terms, taking into account what we have studied so far, what would this mean in practice?

Write your notes in the space provided below.

*Provide your answer...*

### Discussion

Effective HR choices in the light of what we have studied so far refer to choices that take into account business objectives and business strategy (e.g. high value-added versus low value-added) while also weighing the significance of various contexts. These different contexts include wide national and regional norms, the regulatory environment, different cultures, and prevailing sector practices. These might be considered as the ‘outer context’. In addition, appropriate HR strategic choices need to take into account inner contextual factors such as organisational culture, expectations of different occupational and professional groups and the expectations of staff – including other managers. This last point leads on to the further consideration that, in addition to the skill of any rational reading of the environment, accomplished HR practitioners also need micro-political and interpersonal skills in order to convince fellow managers.

It is important to note also that as environments are subject to change, a crucial requirement is likely to be a capability to ‘read’ environmental changes and to interpret their implications for changing HR practices. In other words, merely replicating conventional responses (even if done in an efficient manner) is not likely to be

sufficient. We are referring to skills of anticipation and adaptability. In the wider literature this has been linked to 'dynamic capability'. This concept was defined by Teece et al. (1997) as a 'firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments' (Teece, et al., 1997, p. 516).

So far in this course we have emphasised that choices are at the heart of HR strategy and that such choices need to be made based on an informed and intelligent reading of the environment.

We have also noted that the environment (context) is multifaceted, multilayered and complex. Additionally, large parts of it are likely to be turbulent and fast moving. So, these are characteristic features of the context within which the practice of HR has to operate. Before examining more closely the different types of environment (that is, types and levels of context) you will find it useful to note that there are a number of theories about the main underlying forces in the contemporary environment. Some of these theories focus on technology, others on markets and regulation, and others on social trends.

## 3 Key trends and key theories

The sheer scale and complexity of contextual factors in 'the environment' can make it hard to comprehend. However, a number of analysts have sought to clarify patterns and trends. Here we will have the opportunity to evaluate some of the more compelling interpretations of emerging trends in the HR environment and as a consequence, the implications for HR policy and practice.

The theories and interpretations we want to assess most especially are those which capture the intertwining variables. Although we will be subjecting each to critical evaluation, it helps to state the themes and trends as *propositions*.

In this section we gather together and introduce the main theories and interpretations which currently prevail concerning how to make sense of the business and HR context. Aspects of these theories can be found in many diverse sources. They can be seen described in the general business press as well as in a very wide range of more specialised publications even though they are not normally brought together in the way we do here.

### The link between 'trends' and theories

Five trends – and their associated theories – are summarised below. We suggest that each of these should be treated as *propositions requiring testing and qualification* rather than as absolute truths.

1. **Globalisation feeds hyper competition.** This theory suggests that global transportation systems, such as air-freight and massive seaborne container carriers, facilitate extensive and complicated supply chains which allow products such as clothing and electronic goods to be produced and shipped for very low unit costs. Added to this, business support services such as accountancy and IT, and even functions such as R&D, sales and marketing can be dispersed and configured globally.
2. **Deregulation** and the lowering of trade barriers. This theory suggests that where governments and other regulatory authorities liberalise their rules, the globalised capabilities mentioned above may be accelerated.
3. **A retreat from bureaucracy and a shift to networked forms.** This is the theory that there is a change in the way work is organised – drawing on collaboration rather than hierarchy and formal rules. One major manifestation of this is the growth in forms of work which differ from the archetypal model of full-time employment (Cappelli and Keller 2013). These include part-time work, temporary work, contract work, agency work and many other types of 'non-standard' employment. Agility and responsiveness become prized over standardisation and economies of scale.
4. Another theory is that **rapid advances in technology** also support and accelerate the above trends. Information and communications technology supports global supply chains and international networked organisations. In addition, **automation** has already reduced the number of routine manufacturing jobs and so has transformed the nature of workplaces and reduced the need for armies of supervisors and production managers. Routine white collar office jobs are now also being subject to automation and to inroads from artificial intelligence. Many high

street retail jobs have been lost to online shopping. Amazon.com provides a classic example. This revolution means that work is polarising into, on the one hand, knowledge work where creativity and intellectual capital is critical, and on the other, personal service work such as hairdressing and social care. The implications for HR are the drastic reductions in traditional industrial and traditional white collar occupations and a severe questioning of the continued relevance of much conventional personnel administration.

5. **The death of deference** is a theory in the social sphere. Shifts in identity and social structures such as mobility and the breakdown of traditional communities lead to social patterns built on consumption rather than production. The social world is also characterised by the VUCA elements noted in the introduction to this free course. Social norms and values become less certain.

We will be concerned to understand what implications such wider contextual trends carry for the practice of human resource management.

One immediate implication can be noted. The above five trends lead on to another general phenomenon which can be called '**new modes of managing**'. If traditional personnel administration approaches to people management are ill-fitted to the new work landscape then the new forms appear to depend on more sophisticated modes of managing through common purpose and values. There are associated HR implications including a need to accommodate flexible working of all kinds; to combine and recombine teams from across the globe on a regular basis; and to manage at a distance.

## 4 Volatility, uncertainty, complexity and ambiguity

In our overview of the environment so far we have emphasised a number of features of turbulence and uncertainty. Most notably, we earlier referred to the acronym of VUCA. In their Harvard Business Review article, 'What VUCA really means for you', Bennett and Lemoine (2014) suggest that this level of complexity is often used to excuse the hard work of planning. However, the authors contend that one can prepare for a VUCA world. They reason that the four elements have different attributes and appropriate preparations can be made as follows:

### Volatility

Volatile contexts throw up unexpected happenings and challenges. Crises and disasters can result in broken supply lines and loss of staff. Recommended responses include disaster planning, and building in slack. These mean extra expense, so the strategy has to match potential reward to the level of cost and risk incurred.

### Uncertainty

In these contexts there is a shortage of experience and knowledge. As an example, a disruptive innovator may threaten established markets with a new product which displaces existing products or services (e.g. when desktop computers replaced mainframes, and, more recently, smartphones – which have largely replaced other mobile and fixed-line phones). The recommended approach is to invest in intelligence.

### Complexity

A complex situation has many component elements which are interconnected. Some partial information is available but because of the volume or nature of it, this can be hard to interpret. As an example, a multinational firm has to cope with extensive variations in regulatory environments, cultures and tariffs. The recommended response is to build resources and capabilities to match the level of complexity.

### Ambiguity

In these situations meanings and causal relationships are unclear. As an example, moving into new emergent markets presents unknown challenges. The recommended response is to experiment and pilot.



## Activity 6: Preparing for a VUCA world

Allow around 30 minutes for this activity.

### Part 1

Jot down in the space below your thoughts about how employers might respond to the environmental challenges represented as volatility, uncertainty, complexity and ambiguity.

*Provide your answer...*

### Part 2

Now answer the following question:

How would you use the VUCA model to advise a grocery retailer seeking to grow in its own domestic market while also planning for expansion into international markets? In particular what are the HR implications? We have reproduced the VUCA diagram below from 'What VUCA really means for you' (Bennett and Lemoine, 2014) to help you create a VUCA diagram for the grocery retailer. Click on 'View' below the diagram to access a blank version and add your notes, using the Characteristics, Example and Approach structure that you see here.

Interactive content is not available in this format.

Figure 3: VUCA grid (Bennet and Lemoine, 2014, p. 27)

How did your answers compare with the initial notes you made?

### Discussion

Click on 'View larger image' to read our version of the VUCA model.

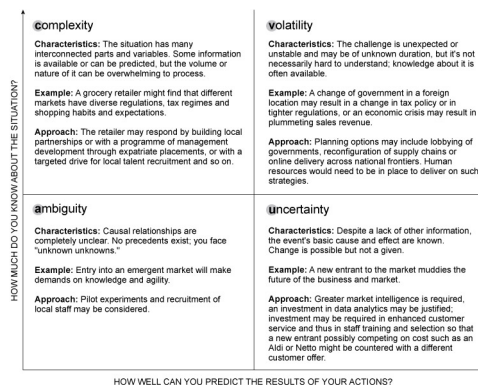


Figure 4: The four VUCA challenges (Based on Bennett and Lemoine, 2014)

## Volatility and regulation

Governments use their legislative and regulatory powers to try to counter volatility and provide businesses with conducive environments. They also try to protect labour from exploitation. In most countries, political pressure sees the balance between labour protection and de-regulation in frequent flux. The video clip below illustrates the uncertainty and volatility even in the state-dominated context of China. Ironically it is a regulative measure – a residence permit needed to work and live in particular areas, which fosters unrest among migrant workers who lack this permit and consequently suffer hardship.

### Activity 7: Regulatory impacts

Allow around 40 minutes for this activity.

Watch the video 'Chinese migrant workers' and answer the question below:

Video content is not available in this format.

Chinese migrant workers



What would be the HR implications for a local or international firm employing workers in these areas?

*Provide your answer...*

### Discussion

The *Hukou* system of resident permits is a regulation designed under Chairman Mao to control the movement of people. It now conflicts with the change in the Chinese economy which has been enabled by massive internal movement of labour. The government's use of a point-based system reflects similar tactics to those of many Western governments but the government in China has taken this much further by applying the technique to internal movements of labour. The video also notes the different outlooks and expectations among the younger generation of Chinese workers. The implication for HR managers is a need to understand the different

regulations governing the movement and the hiring of labour. Paradoxically, these tend to be both stricter, and in other ways, looser than those found in many Western countries. For example, making workers redundant in China can be much easier than in European countries.

## Time as context

Given the evolution of HRM, time itself can be regarded as a form of context. Alongside this, place also matters hugely.

At the corporate level, the place and contribution of human resource management can be contingent upon strategic decisions about organisational structure and form. In some circumstances, HR may have a considerable input to such decisions, in other circumstances it may be the object of such upstream decisions and thus have to work within a given context. A clear example is the different ways in which two global corporations – Unilever and Proctor & Gamble – utilised shared service centres including their use for HR. Proctor & Gamble (P&G) had operated for some time with a highly centralised approach to management, hence it established an internal shared services centre before moving on to outsourcing much of its HR shared services. Conversely, Unilever which traditionally operated with a decentralised approach, turned to outsourcing as a means towards globally standardising its systems and processes (Gospel and Sako, 2010).

On an even wider front, the underlying ideas, beliefs and assumptions of human resource management are a product of their historic and geographical contexts. For example, up until about the mid-1980s, conventional wisdom about people management and employment management in the UK was that the approach had to be based on ‘pluralism’ – that is that economic organisations are composed of multiple interests and interests groups which need to collaborate and compromise for their mutual benefit. Thus, trade unions were accepted as essential representatives of worker interests. Valued skills among people managers were based around negotiation.

A disruptive and initially challenging rival to this approach in the mid-1980s was the idea of a ‘new’ type of approach based on US ideas and human resource management practice. This initially was a small group of ‘disruptive’ specialists who sat uneasily alongside mainstream industrial relations and personnel departments. The HR and personnel practitioners tended to rely on procedure and due process. Over time, the tenets, beliefs and methods of the interloper began to take over. As trade union membership declined and industry restructured – especially with a shift from manufacturing employment to services – the previously prevailing approach to people management became replaced by HR notions of winning commitment, and a more unitarist set of assumptions in the face of global competition. In other words, a key part of the HRM context changed fundamentally.

## 5 Meta theories

While the outline in Section 3 focuses on interpretations – that is, theories – of social, technological, economic and political change, there are other meta levels of ‘theory’ which, in a sense, sit above these interpretations of events. One such meta-level theory posits that there is a general trend towards convergence in social and economic patterns across the globe.

### Convergence theory

Convergence theory suggests that traditional differences in the way work is organised and managed, as well as differences in consumption patterns and lifestyles and beliefs, are being reduced or even eliminated. It suggests that there is a drive towards a more homogeneous international mode.

Naturally, this is a contentious interpretation and there are counter-trends and counter-evidence to be considered. The debate has relevance for HR practitioners, not least because it affects the extent to which they may seek to extend common HR solutions across their international operations.

Another meta theory and one which in a sense represents a counter to convergence, is ‘*institutional theory*’.

### Rational actor theory versus institutional theory

Rational actor theory is implicit in much everyday thinking about human behaviour. It is made more explicit and used as the basis for formal modelling by economists. It builds on the premise that individuals make decisions based on a rational calculation of costs and benefits and then make free choices based on utility maximising.

Institutional theory represents an alternative view to the rational actor model. Institutional theorists point to the socially embedded nature of human actors whose views, norms and values are shaped by the society in which they operate. In such settings individual actors seek legitimacy and acceptance. Thus, institutional theory emphasises the normative influences on decision makers both at the individual and the organisational level.

Institutional theory has different components and concerns. For us, the relevance and significance is that if institutions matter, then HR managers need to be alert to the nature and contours of the institutional settings within which they seek to operate. Prior assumptions of rational, calculative action as found in classical economics may not be sufficient. Rather, this theory suggests that there are cognitive and cultural explanations for different organisational phenomenon. Theorists from this school of thought stress that for organisations to survive they must to a large extent conform to the rules and beliefs of the social milieu within which they seek to operate; that is they must *earn legitimacy* (DiMaggio and Powell 1983, Powell and DiMaggio 1991, Scott 1995).

As might be evident, theorists emphasising such institutional differences tend not to lend too much weight to the convergence thesis.

It should be noted however that while institutions matter, they are not unchangeable. Economic pressures can also exert influence on institutions. Note the extract below from a recent article on German labour relations:

In the 1980s and 1990s, industrial relations writers asked why German labour-management partnership was resilient in the face of changing world markets. The answer was that institutions mattered: country-specific rules regulating in-firm worker participation (co-determination) and wages (coordinated collective bargaining) produced mutual gains for workers and employers on a mass scale (Turner 1991). In recent years, however, Germany has gone from being one of the most equal societies in Europe to having an incidence of low-wage work close to that of the UK (Bosch and Weinkopf 2008). Much of this low-wage work is nominally organized, with 34 per cent of workers in the lowest income quintile covered by collective agreements in 2008 (Bispinck et al. 2010). If, as theorists argue, formal institutional change has been gradual and has served to shore up the system's basic logic (Streeck and Thelen 2005), why have these outcomes changed?

(Greer et al., 2013, p. 215)

Such an assessment indicates the contentious and rapidly changing nature of the work and HR environment. Other evidence lends further weight to the convergence proposition. A study of institutional changes in Britain, France and Sweden over the past 25 years points to 'institutional plasticity' in these three countries and a tendency towards convergence (Howell and Givan 2011). Examples from other countries that might also support the convergence thesis include China where the Reform and Open Door Policy starting in 1978 and the 1995 Labour Law, which required all employees to be given contracts of employment, set that country on a path in some ways similar to market economies. And in Japan the tradition of lifetime employment among the larger corporations has begun to break down and Japanese employers have also experimented with individual performance incentives.

The theories and interpretations briefly introduced above relate mainly to the outer context. There are other theories relevant to the inner context – for example, the micro-politics of the relative power and influence of HR managers within organisations *vis-à-vis* other managerial professions and office holders.

An important tension you may have spotted already is between assumptions, approaches and theories – based, on the one hand, around 'choice, strategy and decision-making', and on the other hand, around ideas based on 'institutional theory' and 'contexts' which seem to stress relative limits to choice and rational decision. For many working within strategic HRM, the key anchoring theme, as mentioned already, is the idea of strategic *choices*. This follows the notion of HR as a 'decision science' (Boudreau and Ramstad 2009). This suggests a more formalised and systematic approach to the practice of HR taking it closer to the logic-based approaches found in accountancy and law. While the scope for a more systemic approach (such as HRM as a decision science) is acknowledged, the strong emphasis here is upon an exploration of the nature and importance of different kinds of context *for the exercise of strategic choice*. In other words, in order to exercise strategic choices in HRM, informed analysis of the multiple contexts which may be actually or perceptually constraining those choices require close attention. A related point to bear in mind – and one that makes skilful HR practice especially challenging – is that the discipline is subject to many swings in fads and fashions. In other words, often the most apparently obvious manifestation of 'context' is a widely held and accepted view that the time is right for downsizing, employee engagement, outsourcing, or for human capital development, for total quality management, or a clear focus on shareholder value. And so on. Each of these themes and points of focus have had their

moment. 'Conventional wisdom' is a crucial part of the context. A skill for the HR practitioner is to be able to take an informed stance with regard to whichever conventional wisdom is prevailing during their time of office. A lack of ability to do this will render the practitioner slave to prevailing and often transient fashion. Conversely, a practitioner wedded to a certain way of doing things irrespective of changes to the surrounding environment, risks being out of touch and ill-equipped to take advantage of new opportunities.

## 6 Interacting contexts

Crucially, contextual factors often interlock and interact. A set of economic variables such as the industry structure may well be associated with a commensurate set of social policies (for example, regulating rights to time-off work for maternity or regulating workers' rights and training).

Given such interlocking contextual factors it may not be sensible to think in terms of a pick-and-mix approach to human resource management. Often, approaches sit within constellations of policies which help reinforce each other. In the case study that follows we look at HR in the engineering company Bosch in Germany. This illustrates how aspects of the company's approach to people management represent a coherent fit with the wider German institutional legal and cultural context.

A seminal work by John Dunlop many years ago explained how employment policies and practices normally could be understood as operating within what he termed 'industrial relations systems' – that is the industrial relations rule-making system of a country normally fitted alongside its political, industrial, legal and cultural systems and the main actors operated within a broadly common ideology (Dunlop 1958).

### The growth of alternatives?

One of the major debates triggered by the events of 2008, such as the collapse of Lehman Brothers and the wider economic crisis, was whether economic and corporate policies would revert to business as usual or whether alternative models would be adopted.

From a range of political perspectives, thought leaders are talking about the possibility of alternative and new approaches to economic activity. New interest was shown in social enterprises and co-ownership models. The Occupy Movement, which emerged across a number of countries alongside widespread anxiety about top pay and bonuses and added anxiety about the adequacy of regulatory bodies, reflected a widespread concern about extreme inequalities and the institutions which reproduce them. A counter voice expressed warnings about an 'anti-business' culture which could hamper economic recovery and growth.

Each and all of these can render prescriptions about HR that were suitable for one time and place, ill-suited to a different time and place.

#### Activity 8: The changing social context: the death of deference

Allow around 45 minutes for this activity.

Watch this short and playful clip about the death of deference and its critical contribution to modern leadership, management and organisation design, and answer the questions that follow.

Video content is not available in this format.

Never mind the bosses and the need for S.P.E.E.D.

(Robin Ryde, 2013)





1. What is your assessment of the validity of the claims made about fundamental changes to the social climate regarding authority?
2. What, if any, are the main implications for human resource management specialists?

Write your notes in the space provided below.

*Provide your answer...*

### Discussion

Our view is that this is a clever and persuasive short video heralding the death of deference and the rise of empowered and engaged employees, customers and suppliers. The claimed revolution is more likely to be disparately represented across and within economies. In that sense it over-claims. But it does touch on a recognisable trend in certain quarters.

If the analysis is correct, there are profound implications for the practice of human resource management. These include (to name just a few): a need for even less reliance on formal rules and procedures; a need to focus on staff recruitment and staff development; a new approach to reward. The analysis also implies a trend towards a more individualised form of employment relationship. Currently a more collectivised form of relationship is the norm, with collective bargaining, rules and procedures, job grades, job evaluation and a formal hierarchy of authority dominating in most sectors.



## Conclusion

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In this free course we have emphasised the importance of context for the skilful practice of human resource management. Your study has enabled you to gain an initial understanding of the following:

- the scope of HRM
- the meaning and nature of strategic HRM
- how HR strategies are related to business strategies
- how HR strategies can be informed by a knowledge of labour markets and product markets locally, nationally and internationally
- the dynamic nature of global competition and of social and technological trends and their significance for HRM practice.

These were the learning objectives set out at the beginning of the course.

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## Further reading

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## Acknowledgements

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This free course was written by John Storey

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## Figures

*Figure 2*: Farnham, D. (2010) Human Resource Management in Context, CIPD.

*Figure 3*: Bennett, N. and Lemoine, G.J. (2014) 'What VUCA really means for you', Harvard Business Review Jan/Feb. Harvard Business School Publishing.

## Table

*Table 1*: Farnham, D. (2010) Human Resource Management in Context, CIPD.

Audio/video, including transcripts

*Bonus Day*: Footage of John Lewis © BBC

*Germany's Mittelstand*: BBC news item 'Midlands Today' 22.1.14 © BBC

*Mittelstand location report*: Radio 4 22.1.14 © BBC

*Differences between countries*: Local news report on use of Italian contract workers at Lindsay oil refinery, BBC North 28.1.2009 © BBC

*Chinese migrant workers*: Newsnight © BBC

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