

# History of Human Resource Management: It's Importance in Adding Value to Organizational Success in Gaining Competitive Advantage

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## Abstract

Human Resources are the most important factor in attaining highest levels of organizational success by gaining competitive advantage in today's diverse business world. In order to understand the concept of Human Resource Management entirely, researchers enlightened different phases/Origins of HRM. Researchers attempt to find out the importance of human resource management in Organizational culture by discussing the roles of Human Resource Management and its diversity by elaborating the different types of HRM practices implemented in the organizations and their particular impact on the organizational performance. Researchers conclude authentically after discussing deeply about the HRM concept that the proper and effective application of HRM in Organizations results in organizational success by attaining competitive advantage.

**Keywords:** Organizational Success, Competitive Advantage, HRM, Strategic HRM, Human Capital, Physical Capital.

## 1. Introduction

Human Resource Management is now often seen as the major factor which differentiates between successful and unsuccessful organizations, more important than technology or finance in achieving competitive advantage. This is particularly important in the service sector where workers are the primary source of contact with customers, either face-to-face in a service encounter or over the telephone or the Internet. Even in manufacturing firms the way in which human resources are managed is seen as an increasingly serious element in the production process, primarily in terms of quality and reliability. Much of this revolves around the extent to which workers are prepared to use their tact to improve products and services. In this argument a particular style of HRM is envisaged: one that can be broadly termed the 'high commitment' model. Human Resource Management is not a technology; it's an art of managing people on work to enhance their skills and motivation. Drucker (1997) suggest that "it is not technology, but the art of human and humane-management" that is the growing challenge for executives in the 21st century. Similarly, Smith and Kelly (1997) believe that "future economic and strategic advantage will be with the organizations that can most effectively attract, develop and retain a diverse group of the best and the talented people in the market place".

In general, to maintain a competitive advantage in the market place, firms need to manage its available resources to achieve the desired results of profitability and survival. The resources that are available to the firm can be categorized into three categories: physical, organizational, and human. In discussing how to gain a competitive advantage in the global market, Porter (1990) stated that management of the human resources is the most critical of the three. The idea of treating human resources as a means of gaining a competitive advantage in both the domestic and the global marketplace has been criticized by other authors. As Greer (1995) states, in a growing number of organizations human resources are now considered as a source of gaining competitive

advantage. There is greater perception that distinctive competencies can only be obtained through highly developed employee skills, distinctive organizational cultures, management processes, and systems. This is in contrast to the traditional emphasis on transferable resources such as equipment. Moreover, it is being recognized that competitive advantage can be obtained with a high quality work force that enables organizations to compete on the basis of market responsiveness, product and service quality, differentiated products, and technological innovation.

## 2. Literature Review

With the changing trends of industry in the competitive environment of open market, human resource management becomes a significant variable for the efficient growth of any organization. Manpower planning was the very first concept used in ancient eras with the passage of the trends changes and the concept of manpower planning changed and become personal management. Today personal management is known as Human resource management.

Some of the factors or significant variables mentioned by the American writers Terrey and Franklin (1996) 6 “M” of management, viz. Men and women, material, money, market and method. Among these, men and women the only living being do the effective coordination and utilization of these human and non-human resources.

Managing human resource is a complex process. As Harzing and Ruysseveldt said “A better way to understand the philosophy of human resource management demands a thorough understanding about the evolution of the concept itself from the ancestral concept personnel management”.

Becker and Huselid (1998) indicate the most significant value that is generated in the result of Human Recourse function by focusing primarily on delivery of HR practices like staffing, development, compensation, labor relations, etc. which is based on professional and often research-based principles. These practices are important, and research indicates that when they are done well they add tangible value to the organization.

### 2.1 The Gilded Age

Historian Page Smith examines the industrial revolution “The War between Capital and Labor.” the two sides were indeed at war, with armies of armed men fighting on both sides. The level of human violence and destruction of property did in fact often create warlike conditions, a situation exacerbated by the fact that many workers were Civil War veterans. They declared themselves just as prepared to shoot a corporate hireling as they had been ready to kill a Yankee or a rebel. America’s captains of industry, who themselves often rose from very modest circumstances, saw workers as commodities to be dealt with like any raw material. Cold, ruthless, calculating and impervious to the negative effects of what they were doing, they hired their own armies to deal with recalcitrant laborers.

### 2.2 Posts–World War II (1945–1960)

During the war the mobilization and utilization of labor had a great impact on the enlargement of the personnel function. Managers recognize the importance of employee productivity and inspiration had a considerable impact on the effectiveness of the firm. After the war the human relations associations put emphasis on that employee were also motivated by social and psychological factors, such as receiving gratitude for work accomplished or for the achievement of work standard, not just by money. During the war, due to the categorization of large numbers of individuals in military service organized efforts began to classify workers around occupational groups in order to get better recruitment and selection measures. The innermost part of these classification systems was the job description, which scheduled the tasks, duties, and responsibilities of any individual who seized the job in question. These job description classification systems could also be used to plan suitable compensation programs, appraise individual employee performance, and provide a basis for execution.

### 2.3 Social Issues Era (1963–1980)

This period witnessed an extraordinary increase in the amount of labor legislation in the United States, legislation that preside over various parts of the employment association, such as the exclusion of prejudiced practices, provision of retirement settlement, the encouragement of work-related health and safety, and tax regulation. As an end result, the human resources department was loaded with the extra accountability of legislative fulfillment that required collection, analysis, and reporting of huge data to legislative authorities. For example, to make obvious that there was no favoritism in employment practices, a human resources department had to attentively collect, evaluate, and store data containing to all employment functions, such as recruitment, compensation, training, and benefits. It was about this time that personnel departments were beginning to be called human resources departments and the field of human resource management was born. The increasing need to be in agreement with several employee protection laws or experience major economic consequence that made senior managers responsive to the meaning of the HRM function.

Another factor was the economic boom in nearly all industrialized countries. As a result, employee trade unions were successfully negotiated for superior employment conditions, such as health care and departure settlement. As a result, labor costs greater than before, which force human resources managers to validate cost increases against productivity development. With the increased importance of employee involvement and empowerment, the human resources function changed into a protector relatively than a caretaker function, changing the focal point away from maintenance to advance of employees. As a result, the width and deepness of HRM functions extended and bring the need for planned thinking and superior delivery of HR services.

#### 2.4 Cost-Effectiveness Era (1980 to the Early 1990s)

U.S. and other international firms has increased their focus on cost reduction through automation and other efficiency enhancement procedures, as competition increased from rising European and Asian economies. As consider HRM, the improved managerial burden strengthens the need to execute the legislative necessities, generally the entire functional focus transfer from employee supervision to employee progress and participation. To progress the effectiveness and efficiency through cost reduction and value-added services in service deliverance, the HR area came under stress to connect technology that was becoming more powerful and cheaper. Moreover, there was an increasing insight within administration because their costs were a very important part of a company's budget. Some companies have estimated that their human resources costs were as high as 80% of their operating costs. As an effect, there was an increasing command on the HRM function to cost defend their employee agenda and services.

#### 2.5 Technological Advancement Era and the Emergence of Strategic HRM (1990 to Present)

Throughout the 1990s, economic background undergoes various drastic changes like increase globalization, technological advance especially Internet, Web services, and hectic rivalry. Business reengineering has workout and become more general and regular, follow-on in several ideas, such as the rightsizing of employee numbers, creating independent work teams, reducing the layers of management, reducing the rigidity and outsourcing. Firms today have realized that pioneering and resourceful employees offer a sustainable viable benefit because, like other assets, intellectual capital is complex for competitors to reproduce. For that reason, the human resource management function has turned into strategic in its importance and viewpoint emphasized on to attract, preserve, and hold talented employees. "These developments have direct to the formation of the HR balanced scorecard (Becker, Huselid, & Ulrich, 2001; Huselid, Becker, & Beatty, 2005), in additional to stress on the return on investment of the HR function and its plan" (Cascio, 2000; Fitzenz, 2000, 2002). The greater utilization of technology has altered the focus of the HRM meaning, and shift to add the value to the organization's product or service, that led to the appearance of the HR department as a strategic partner. As growing the magnitude and gratitude of people and human resource management in modern organizations has become significantly important in management thoughts and practices. "Strategic HRM originate its theoretical impact from the resources-based analysis of the firm that delights human resources as a strategic asset and a competitive advantage in improving organizational performance"(Becker & Huselid, 2006).

#### Origin of HRM

| Decade   | Business Realities   | HR Name Changes   | Issues   |
|----------|--|---|--|
| Pre-1900 | Small Business & Guilds  | Did not yet even Exist  | Owners Owned the HR issues   |
| 1900     | Industrial Revolution  | Labor Relations   | People as interchangeable parts  |
| 1920     | Civil Service & WW1  | Industrial Relations  | Worker rights and more formalized Processes  |
| 1940     | Scientific Management & WW2  | Personnel Administration  | Efficiency experts and more highly evolved HR processes  |
| 1960     | Civil Rights & Compliance  | Personnel   | Legal Compliance and Reporting; "Policy Police"  |
| 1980     | Human Relations, the Knowledge/Service Economy, and Mergers & Acquisitions | Human Resources People  | Relevance in a fast-changing world; Motivation and "Human Relations" theories abound   |
| 2000     | Modern Organizations   | Organization Effectiveness? Human Capital? Organizational Capability? | No new official names, but lots of "Morphing" as the transactional parts get outsourced and the transformational parts get defined |

Source: (Developing HR as an internal consulting organization, Richard M. Vosburgh, Mirage Resorts, MGM MIRAGE)

### 3. Role of Human Resource Management in the Organization

Human resource management plays a vital role in the organizational development and its progress. It is very important for the organization to get more powerful and develop its self to be the standard and success one. HRM plays an important role in promising employee satisfaction, improving performance and productivity. Moreover an organization's competitive advantage, and directly contribute to the organization's success. When any organization start to vision their business, their first priority is to hire competent work force means right person on the right job after that this man power decide about other tangible and intangible resources, where to get? How to get? How to manage efficiently? What modification required? Essentially, other resources depend on human resource without which they are worthless because if there would be no human then who will plan, organize, or monitor the other resources. The manager is recognized as a holder of organization by his knowledge and art. According to Therith (2009), HRM is important for the organization to make it competitive and helps in to gain competitive advantage. Therith (2009) elaborated the three competitive challenges:

#### 3.1 Challenge of sustainability

There are many different type of companies or organization to operate in the world and also competed each other to gain competitive advantage and also sustainable so they try to implement many strategic for develop their HR. Among them sustainability is the main part that can be influence and encourage to reach organizational goal. There are many ways that helps organizations to reach their goals:

- Learning organization
- Balanced score card
- Total quality management

#### 3.2 Global challenge

For the survival organizations have to cooperate with each other. They have to struggle to defend in the local market and to reach the global goal they have to communicate with each other, and they have to compete with the foreign organizations.

#### 3.3 The technology challenge

This challenge is also very important that organizations/companies should be consider and prepare strategic plan to up-date it on time and saving the cost also. New technology cause change in basic skill requirements and work roles and often results in combining job.

HRM plays vital role in the organization, it includes different activities. Farndale and Truss (2005), listed some of the major role of the HRM in the organization as under:

- Managing employees and their compensation.
- Creates positive environment.
- Helps in generating applicant's pool and recruitment process.
- Helps in measuring employees' performance and preparing employees for future work.
- Helps in creating pay systems and rewards for the employees.

According to Therith (2009), the new role of the HRM in the organization is as under:

- Change Leader: The role associated with facilitating, driving and leading change for organization creativities, productivity and quality to reach the goal and competitive advantages over competitor.
- Human Resources Strategist: The role associated with integrating HR activities and result in achieving the strategic objectives of the organization. Human resources strategist thing of the pattern of planning human resources development and activities intended to enable organization to achieve the goals.
- Business Strategist: The role associated with participating in strategy formulation and developing possible solution to challenges facing the organization to lead business to competitive success. Good business strategy formulation leads the organization success in all aspect of business regarding customers' satisfaction, providing quality products and customer services.
- Human Resources Function Alignment: HR function must be integrally involved in the organization's strategic process. HR managers should have input into the strategic plan, both inter of people-related issues and in term of the ability of the human resource pool to implement particular strategic alternative; have specific of the organization goal; know what type of employee skill, behaviors, and attitudes; and develop programs to ensure that employees have those skills, behaviors and attitudes.
- Partner to General Manager: HR plays an important role for organization to survive, overcome competitor challenge and to pave the way for organization to get success in business. HR also closely related to line manager to set up strategy plan and strategy implement and work design. Line managers help HRM to manage and control employees' performance whether they should be promoted, increments and need of more training, etc.

#### 4. HRM Practices and their Various Types

In order to develop a sound HRM system, the organization should have effective Human Resource Management practices. As Schuler & Jackson, (1987) ; Schuler & MacMillan, (1984) ; Wright & Snell, (1991) advocate that HRM practices refer to organizational activities which generate a pool of human resource and ensuring that the resources are employed towards the fulfillment of organizational goals. Usually HRM practices may vary organization to organization or country to country.

HR practice is an old concept followed by number of years many researches on HRM practices have been conducted from time to time and researchers have identified different practices by different names. As PankajTiwari (2012) cited in "(Kok Jan de et al.,2003), researchers variously refer to certain sets of HRM practices influenced by the HRM profession as "best practice,"or "high-performance" (Huselid, 1995), "formal" (Aldrich and Langton, 1997; de Kok and Uhlaner, 2001; Heneman and Berkley,1999), "sophisticated" (Golhar and Deshpande, 1997; Hornsby and Kuratko, 1990; Goss et al., 1994; Wagner, 1998) or as "professional" (Gnan and Songini, 2003; Matlay, 1999). Pfeffer(1994; 1998), argued the most appropriate term is "Best HRM Practices"".

According to Chandler and McEvoy (2000), there is no single set of practices that represents a 'universally superior approach' to managing people. Some certain HRM practices are universally in practice of different organizations which are used separately or may be in a combination that is associated with improved organizational performance. As Boxall, (1996); Lowe and Oliver, (1991); Pfeffer, (1994) concluded in their researches that those well-paid, well-motivated workers, working in an atmosphere of mutuality and trust, generate higher productivity gains and lower unit costs.

Several attempts have been made from time to time by different researchers to identify the type of HRM practices in different sectors. Initially Pfeffer (1994) identified 16 practices which denote best practice. This was later refined to the following seven practices:

- Employment security
- Selective hiring
- Self-managed teams/team working
- High compensation contingent on organizational performance
- Extensive training
- Reduction in status difference
- Sharing information

Some key practices are identified by Redman and Matthews (1998) an 'HRM bundle' of practices which support service organizations quality strategies, these being:

- Careful recruitment and selection, for example, 'total quality recruitment', 'zero defects recruitment', 'right first time recruitment'.
- Extensive remuneration systems, for example, bonuses available for staff willing to be multi-skilled.
- Team working and flexible job design, for example, encouraging a sense of cohesiveness and designing empowered jobs.
- Training and learning, for example, front line staff having enhanced interpersonal and social skills.
- Employee involvement, for example, keeping employees informed of key changes in the organization.
- Performance appraisals with links to contingent reward systems, for example, gathering customer feedback to recognize the work by employees over and above their expected duties, which in turn is likely to lead to a bonus for staff.

#### 5. Traditional Shortfall of HRM

Most of the business managers are disturbed with the establishment of HR activities if still these activities are implemented in fine and sound manner but managers are not sure how these practices are helpful in order to developing their employees in effective manner . One of the leader said that "I can realize the importance of HR activities that are relates to training, management and development but I am also concerned about that which abilities and capabilities are most essential and rather than tactical actions. Boudreau and Ramstad (2004) stated that HR managers can devote their more time on HR measurements techniques e.g., HR financial reports, HR scorecards and more focus on how can attitudes, skills, abilities and knowledge of employees can be increased and effective through HR programs like training and development. However all these HR actions can influence some important decisions of business e.g. enter and exit into a new market. These actions can give some ways that how organizations can achieve competitive advantage through effective and more skilled labor. So here the question is that Is business investments and decisions are really measure by talent?

Human resource management is very useful figure in all sectors of the organization in order to achieve competitive advantage but many firms established the Humana Resource training programs above the employees. Human resource training is competent and effective if it produces desire result and profit. When the organization

is implemented the Human resource training programmers, there should be a model facility on which the measurement strategy can be increased and improved, the classification of strength of HR training and usage activities.

Marchington and Wilkinson (1997) suggested that many line managers experience that they are already suffered from the overload of the work that are given from the top management of the organization, so that's why they give no proper attention or priority on HR activities. They suggest that if the mission statement of the firm is focus on the training, development and management of their staff, then line managers may choose up different signals from top management about the order of priorities, and thus will focus on the achievement of targets which are more assessable and valued than HRM related activities. The other important issues which are measured in the traditional shortfalls of HRM are the progress of the skills required by line managers.

Boyle stated that, 'if devolution of tasks are to take place and operate effectively, line managers must be prepared to take on the people management part of their job' (1995, p.43). Although many researches indicates that the training, development, management of people and developing them in proper manner is a critical success factor for any organization (McGovern et al, 1997), According to Boyle (1995) he suggests that the development of such skills represents a particular challenge in the public sector, where managers may see themselves as specialists, rather than as managers of people. In addition to that managers also need practical and professional support from the top management and skills if they are to get on responsibility for HRM activities (Merchant and Wilson, 1994).

#### *5.1 New origin*

HRM is a modern source and through human resource activities organizations can achieve competitive advantage and different views or concepts are coming from different people or authors about HRM some says that it is personnel management and some says that it is traditional personnel management.

#### *5.2 Lack of top management support*

Top management must identify the training and development needs of their employees in order to fulfill competent task related to their jobs. HRM must have the support of top level management that can modify the attitude of the top and can bring fine result while implementing Human resource process. Because of inactive attitude at the top management level, this work is handled by personnel management people.

#### *5.3 Improper implementation*

Human resource management process should be implemented by identified the training and development needs of the employees. The needs and aspirations of people should be taken into account while farming human resource policies. Because proper training is required that are related to their job and interest is more important in order to perform and fulfill their job related tasks. Organization cannot achieve desire result without proper implementation of human resource activities and programs.

#### *5.4 Insufficient development programs*

Human resource management requires implementations of programs such as career planning like provide them career guidance that how employees make their career choices, on the job training that how employees perform their current job more efficient, development programs that are useful in their future job tasks, counseling etc. Top management must take into account that which development programs are offered to employees that are helpful in their future assignments.

#### *5.5 Insufficient information*

Some organizations have not proper information about their employees. So because of lack of information the data base system is not properly implemented. Before implementing the process of human resource management essential data about training and development needs of the employees should be collected and stored. Whenever sufficient information about employees training and development is not gathered, top management cannot give competent tasks to employees.

### **6. Conclusion**

In this paper researchers studied about the importance of handling human recourse management of the organizations effectively in order identify its impact on attaining organizational success by getting competitive advantage. Researchers studied different origins of human resource management and its particular role in the organizations. Various type of HRM practices employed in organizations have been discussed by the researchers in order to draw the results. Researchers conclude that effectively handling of human resource management by the organizations results in attaining higher levels of organizational success by having competitive advantage over other organizations.

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