

# Human resource management in Australian registered training organisations: Literature review and discussion starter – Support document

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This document was produced by the author(s) based on their research for the report *Human resource management in Australian registered training organisations* and is an added resource for further information. The report is available on NCVER's website: <<http://www.ncver.edu.au>>

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*Supporting vocational education and training providers in building capability for the future*

CONSORTIUM RESEARCH PROGRAM



## **Control or capability? Human resource practices for a changing environment**

**Literature review and discussion starter.**

This literature review was developed by the lead researcher in this research activity, Professor Andy Smith, and forms part of the Consortium Research program ‘Supporting vocational education and training providers in building capability for the future’

This research activity was concerned with examining approaches to human resource management in both public and private VET providers.

## Executive Summary

People are the assets on which competitive advantage is built, whether in the public or private sector, whether in the corporate world or in the world of education. In the words of the latest theory on human resource management, people are an “inimitable” asset. People and their skills are the one thing that competitor organisations cannot imitate. So human resource management and the practices associated with it have become accepted by managers in all forms of organisations as one of the most important strategic levers to ensure continuing success. This is true in vocational education and training as much as in any other sector. In recent years workforce development has become a key feature of the management of registered training organisations (RTOs) in the VET sector.

The traditional emphasis of what used to be called “personnel management” was on the regulation of the management of people in organisations. This regulatory role was reinforced, particularly in Europe and Australia (less so in the USA) by increasing government regulation of employment conditions through legislation concerned with the conduct of industrial relations, discrimination, employment rights, health and safety and other employment conditions. In many organisations today, this older notion of personnel administration still holds sway with its emphasis on rules and regulation. Recent research has suggested that this tends to be the model traditionally adopted in the public VET system.

But in the 1980s and 1990s, a different concept of human resource management began to gain ground. At the heart of the new approach was the belief that the management of people gives an organisation competitive advantage. This leads to a number of distinct differences between human resource management and personnel management. Firstly, human resource management is clearly not simply the province of the human resource manager. Line managers play a critical role in human resource management and, in fact, could be argued to be the main organisational exponents of people management. Secondly, human resource management is firmly embedded in business strategy. Unlike the personnel manager, the human resource manager is part of the top level strategic team in the organisation and human resource management plays a key role in the achievement of business success. Thirdly, the shaping of organisational culture is one of the major levers by which effective human resource management can achieve its objectives of a committed workforce. Thus, human resource management is concerned not only with the formal processes of the management of people but also with all the ways in which the organisational culture is established, re-inforced and transmitted.

Whilst many organisations within and outside the VET sector have yet to move wholly to this new model of human resource management, there is no doubt that most organisations are making the transition very quickly. Again, research suggests that TAFE institutes are moving this way and are in something of a transitional state. Some of the key elements of the new human resource management that may be observed in the VET sector include:

- much more careful selection and recruitment
- high level of training and staff development
- extensive use of teamworking
- better communications between staff and management
- introduction of performance management
- encouragement of employee suggestions and innovation.

In more recent years, attention has switched from what practices constitute human resource management to the broader impact of human resource management and its relationship to the strategy of the organisation. All the research evidence now strongly suggests that human resource management has a very positive impact on organisational performance. A key element in effective human resource management is its alignment with the strategy of the organisation. Researchers now believe that it is not enough to simply implement a series of “best practices” but that human resource management needs to be tailored so that it “fits” with the organisation. In the VET sector this means making sure that human resource management practices fit with one another – don’t introduce an individually based performance management scheme into an organisation that runs on teamwork for instance – and that it fits with the strategic position of the RTO. If an RTO competes on the basis of new and innovative programs and modes of delivery, then its recruitment, performance management and staff development system will need to strongly encourage innovative behaviour in staff.

This project seeks to establish the current state of human resource management practice in RTOs in Australia. The project takes a strategic approach, particularly in the case study phase where the research will attempt to examine the links between human resource management and the strategy of the organisation. The results of the project will enable us to better understand the development of human resource management in RTOs and make sound recommendations about how RTOs can benefit from better management of people.

## **Introduction and context**

It has become something of a cliché in annual reports from organisations to say that “people are our greatest asset”; so much so, that you do not normally see the phrase printed so boldly in annual reports these days. But the underlying truth of the cliché is now widely accepted. People are the assets on which competitive advantage is built, whether in the public or private sector, whether in the corporate world or in the world of education. In the words of the latest theory on human resource management, people are an “inimitable” asset. People and their skills are the one thing that competitor organisations cannot imitate. So human resource management and the practices associated with it have become accepted by managers in all forms of organisations as one of the most important strategic levers to ensure continuing success.

This is true in vocational education and training as much as in any other sector. In recent years workforce development has become a key feature of the management of RTOs in the VET sector. There has been a plethora of initiatives taken to address the looming human resource issues such as the rapid ageing of the workforce, the requirement for greater flexibility in working practices, the changing nature of the work that VET practitioners carry out and so on. Many of these initiatives have involved significant staff development, the introduction of performance management schemes and more dynamic employee relations. But all too often, these human resource initiatives are taken in isolation from one another. The key to success in human resource management is integration, both of the initiatives that are taken, so they complement rather get in the way of each other, and with the overall strategy of the organisation.

This project will examine human resource management in RTOs from this angle of integration. It is particularly concerned with the relationship of human resource management to the overall strategy of the organisation. The aims of the project are to:

- gain a greater understanding of the role of HR practices in improving the competitiveness of RTOs;
- understand the ways in which HR practices can be linked effectively to the business strategies of RTOs and
- understand how HR practices can be put together in complementary bundles to suit differing organisational goals and structures.

There is a relative lack of research in this area. In Australia a few national projects have examined human resource management issues in RTOs in recent years (notable in this respect is the work of Palmieri, 2003 and McNickle and Cameron, 2003 which examined the human resource management implications of flexible delivery) but usually in the context of another issue such as professional development or, in the UK, the marketing of VET. For this reason, the project has two distinct parts to it.

Firstly a survey was administered to 60 TAFE Institutes and selection of 618 private providers. The survey establishes a baseline by examining existing human resource management practices in RTOs such as recruitment practices, performance management, and work organisation and employee relations. The survey also examines the general approach or

philosophy adopted by RTOs in human resource management and its links to the strategy of the organisation.

The issues of integration of human resource management practices both with each other and with the broader organisational strategy are more complicated and require a qualitative approach which can explore the ways in which human resource management relates to other aspects of organisational practice. This stage involves 7 case studies of RTOs. Together, the data from the survey and the case studies should give us a helpful picture of the state of human resource management in Australian RTOs and how much it contributes to improving the performance of organisations. We hope that the project will help to change human resource management practices in the sector and result in better outcomes for staff and for RTOs in general.

To achieve this, the project will provide two products.

1. This literature review, which documents current theories and approaches to human resource development in order to stimulate debate about the nature and role of human resource management in the VET sector.
2. A final report incorporating the results from the whole project including the case studies with recommendations for improving human resource management practice in RTOs.

Both these documents can be found on NCVER's web site at <[ncver.edu.au](http://ncver.edu.au)>.

## **HRM: where did it come from?**

The modern concept of human resource management finds its roots in the early 20<sup>th</sup> century notion of employee welfare. The large factories that evolved in the United States in the late 19<sup>th</sup> and early 20<sup>th</sup> centuries presented managers with major problems of workforce control. The large scale use of immigrant labour combined with the traditional factory organisation of sub-contracting to produce workplaces that had essentially become uncontrolled in any centralised sense of the word. Part of the solution to the problem of re-establishing management control on the factory floor was found in the development of Scientific Management or Taylorism as it came to be known after its founder, Frederick Taylor (Taylor, 1911). Although usually thought of today as a prescription for the standardised method of work organisation epitomised in the factory assembly line, Taylor actually devised his system in order to establish the leading role of managers in the control of organisations. Taylorism is an early form of human resource management. It embodies the controlling role of managers who need to have full access to information held by workers on the best methods of carrying out their tasks and it advocates a major emphasis on the selection of the right person for the job, proper training to enable workers to gain the skills they require and good rates of pay to offset the boredom of working in a fragmented and high performance work environment. One might be forgiven for thinking that these rules had been devised for modern call centres, an example of one of a contemporary workplace which embodies one of the oldest forms of management control.

Taylorism was, of course, most famously implemented by Henry Ford in his North American automotive plants. Ford is probably best remembered by students of work organisation as the inventor or populariser of the moving assembly line for the production of cars. Because of Ford's innovative combination of Taylorism as a form of management control and the process technology of the assembly line his name became permanently associated with the dominant 20<sup>th</sup> century form of work organisation, Fordism (Mathews, 1990). However, Ford is slightly less well remembered for his invention of the modern personnel department. In Ford's larger plants he established "sociology" departments, precursors of the modern "employee welfare" departments. The officers employed in the sociology departments pried into the private lives of Ford's employees to ensure that no aspects of employees' personal lives affected their performance at work. In many cases, this involved Ford in the active welfare of employees and helping them in personal and family matters. In this respect, modern human resource management emerged from the concerns of larger employers with the welfare and performance of their workers.

From its employee welfare roots, "personnel management" spread within the USA and later into Europe and an increasing number of issues concerned with the management of people in organisations came to find a home in the personnel departments of the mid-20<sup>th</sup> century. By the 1960s, the notion of personnel management had become well-established with a number of clear areas of responsibility attached to it including:

- selection and recruitment
- training and development
- pay and conditions
- industrial relations
- employee welfare
- occupational health and safety.

The emphasis in personnel management in the mid-20<sup>th</sup> century was on the regulation of the management of people in organisations. This regulatory role was reinforced, particularly in Europe and Australia (less so in the USA) by increasing government regulation of employment conditions through legislation concerned with the conduct of industrial relations, discrimination, employment rights, health and safety and other employment conditions. Personnel departments and personnel managers were tasked in larger organisations with producing policies and procedures that ensured that managers kept within the law in their dealings with employees. The procedural and regulatory emphasis in personnel management ensured that personnel departments were viewed as organisational policemen with a brief to control how managers related to their workers. In some cases, personnel specialists were viewed as being on the side of the workers against management, not part of the management at all. This ambivalence in the role of personnel in organisations led to the common complaint amongst personnel professionals that they were not taken seriously by other members of management and were often not included in discussions about the high level strategy of their organisations (Ulrich, 1997).

### **Modern HRM**

In the 1980s, the concept of human resource management began to gain ground at the expense of personnel management (Storey, 2001). At the root of the new thinking about the management of people in organisations was the perception of the increasing competitiveness of the global economy (Best, 1990). The success of the large Japanese corporations in export markets for traditional western products such as cars and electronic goods in the 1970s and 80s took many western corporations by surprise. Studies of Japanese corporations emphasised the importance of effective people management in the competitive strategies of these organisations (Ouchi, 1982). The studies showed that Japanese employers performed far better than their western competitors in terms of labour productivity and in process innovation. The key to this success lay in the human resource management practices adopted by Japanese corporations such as Toyota and Matsushita. These practices became evident in western countries as Japanese corporations established manufacturing plants through Europe and North America. The human resource management practices which had been so successful in Japan were transplanted with great success to these overseas transplants (Wickens, 1987). The practices included:

- strict and rigorous selection and recruitment
- high level of training, especially induction training and on the job training
- teamworking
- multiskilling
- better management-worker communications
- use of quality circles and an emphasis on right first time quality
- encouragement of employee suggestions and innovation
- single status symbols such as common canteens and corporate uniforms.

The integration of these human resource management practices was to create an organisational culture that allowed workers to identify their own success with that of the corporation. Thus, organisational or corporate culture became an important element in understanding the competitive success of firms and was a major theme of management thinking in the early 1980s (Peters and Waterman, 1982). These new human resource management practices and the emphasis on the creation and maintenance of corporate culture

stood in sharp contrast to the regulatory view of personnel management that had emerged in the mid-20<sup>th</sup> century. In fact, many of these practices were not seen as the exclusive province of the human resource manager but were viewed as the responsibility of line managers in organisations. The human resource management department might play a role in facilitating these practices but human resource managers were not in charge of these processes (Guest, 2002). Thus, the modern notion of human resource management was born.

Although the roots of human resource management might be relatively clear historically, the term itself and the meaning of human resource management has been the subject of fierce debate amongst practitioners, academics and commentators since its emergence in the early 1990s (Legge, 2001). Some have simply substituted the term human resource management for personnel management and claimed that everything has remained the same. In some cases, this can be seen in the migration of job titles that had taken place in the last decade as the title of human resource manager has replaced that of personnel manager. The professional institute for human resource management in Australia, the Australian Human Resource Institute, emerged from the old Institute of Personnel Management Australia in the early 1990s signalling a clear shift in terminology.

Others have argued that human resource management represents a fundamentally new way of managing people at work that goes well beyond the old functional notion of personnel management and emphasises the creation of a culture in the workplace that harnesses the commitment of individuals to the organisation (Guest, 1987). Yet others, exasperated with the endless definitional debate that seems to surround human resource management, have argued that it is simply an illusion, a “hologram” behind which we may see many techniques and practices in operation but which is essentially determined by the observer (Keenoy, 1999). However, the notion of employee commitment is one which appears to be integral to many of the models and theories of human resource management that have appeared. This notion of harnessing the commitment of employees in organisations was first articulated strongly by Walton (1985) who described how modern organisations were moving their management styles from one based on control, to one based on commitment. Walton elaborated his control to commitment model in a table that juxtaposed the two models with transitional state in between (see Figure 1).

<b>Management practice</b>	<b>Control</b>	<b>Commitment</b>
Job design	Focused on the individual	Focused on the team
Performance management	Measured standards for minimum performance	Higher “stretch” objectives
Management structure	Top down and hierarchical. Emphasis on management symbols	Flat organisation structure. Minimum status differentials
Compensation	Individual pay linked to job evaluation	Pay linked to skills and mastery
Employment	Employees viewed as variable cost	Assurances that participation will not result in job losses
Employee voice	Employee input allowed on a narrow agenda.	Employee participation enacted on a wide range of issues
Labour management relations	Adversarial labour relations	Mutuality with joint planning and problem solving

**Figure 1**  
*Walton's Control to Commitment Model*  
 (Source: adapted from Walton (1985))

In Walton's commitment model we can see many of the elements that have become familiar in the modern practice of human resource management including teamworking, flat organisation structures, pay linked to skills and employee involvement. David Guest, a noted British scholar in the human resource management debate, devised his normative model of human resource management a few years after Walton's foray into commitment strategies. Guest (1987) defined four outcomes for human resource management – strategic integration, commitment, flexibility and quality. In Guest's view these human resource management outcomes would lead to higher levels of job performance, higher levels of innovation and change whilst lowering turnover, absence and employee grievance rates. This veritable nirvana of human resource management has remained one of the most influential models in discussions about human resource management to this day (see Figure 2).

<b>Human resource management policies</b>	<b>Human resource management outcomes</b>	<b>Organisational outcomes</b>
Organisation and job design. Management of change	Strategic integration	High job performance
Recruitment, selection and socialisation	Commitment	High problem solving, change and innovation
Appraisal, training and development	Flexibility/adaptability	High cost-effectiveness
Reward systems Communication	Quality	Low turnover, absence and grievances

**Figure 2**  
*Guest's normative model of human resource management*  
 (Source: adapted from Guest (1987))

Guest's model of human resource management is very useful in that it defines the modern lexicon of human resource management. Gone are the references to the functional areas of personnel management described earlier. Human resource management clearly encompasses these older regulatory hangovers, but goes much further in embracing the management of change, job design, socialisation and appraisal as the key levers to achieve organisational success. Guest's model also sets the agenda for what human resource management is trying to achieve – integration with the business strategy of the organisation, employee commitment, flexibility and quality. These are still very much the aims of human resource management. Taking commitment as a major element of human resource management Storey (1995:5) came up with one of the best original definitions of human resource management:

*Human resource management is a distinctive approach to employment management which seeks to achieve competitive advantage through the strategic deployment of a highly committed and capable workforce using an array of cultural, structural and personnel techniques.*

In later work, Storey (2001:7) further detailed the terrain of human resource management as follows:

### **1. Beliefs and assumptions**

- It is the human resource that gives competitive advantage
- The aim should not be mere compliance with rules but employee commitment
- Therefore employees should, for example, be very carefully selected and developed

### **2. Strategic qualities**

- Because of the above factors, HR decisions are of strategic importance
- Top management involvement is necessary
- HR policies should be integrated into the business strategy – stemming from it and even contributing to it

### **3. Critical role of managers**

- Because HR practice is critical to the core activities of the business, it is too important to be left to personnel specialists alone
- Line managers are (or need to be) closely involved as both deliverers and drivers of the HR policies
- Much greater attention is paid to the management of managers themselves

### **4. Key levers**

- Managing culture is more important than managing procedures and systems
- Integrated action on selection, communication, training, rewards and development
- Restructuring and job re-design to allow devolved responsibility and empowerment.

This listing of the main assumptions underlying the modern concept of human resource management shows how much the concept has progressed from the old notion of personnel management. There are a number of things to notice in Storey's listing. Firstly, human resource management is clearly not simply the province of the human resource manager. Line managers play a critical role in human resource management and, in fact, could be argued to be the main organisational exponents of people management. Secondly, human resource management is firmly embedded in business strategy. Unlike the personnel manager, the HR manager is part of the top level strategic team in the organisation and human resource management plays a key role in the achievement of business success. Thirdly, the shaping of organisational culture is one of the major levers by which effective human resource management can achieve its objectives of a committed workforce. Thus, human resource management is concerned not only with the formal processes of the management of people but also with all the ways in which the organisational culture is established, re-inforced and transmitted.

However, the rise of human resource management has not been without its critics. A particularly important criticism of human resource management has come from industrial relations scholars who have attacked the philosophical basis of human resource management. These scholars maintain that the previous paradigm of personnel management was not only

about the administration of people in organisations but also based on a system of employee relations that emphasised the role of unions in the workplace and the role of managers in negotiating changes in the workplace through union representation (Guest, 2001). Human resource management is seen by these commentators as arising from the often non-unionised environment of large US corporations, where managers employ a range of methods to keep unions out of the workplace. These methods include better pay and conditions and the more sophisticated aspects of human resource management described above. Industrial relations specialists have referred to this as the “unitarist” view of employee relations. In the unitarist view, the ultimate aims of management and workers are assumed to be the same – the success of the firm leading to the prosperity of the workers. Workers and managers may disagree from time to time about how best to run the firm but there is an underlying unity of interests. Many industrial relations scholars take a different view asserting that managers and workers may have fundamentally quite different interests. This leads to a “pluralist” view of employee relations in which there may be many conflicting sets of interests in the workplace and the work of managers is to find compromise solutions to the problems of competing interest groups (Fox, 1974). Thus, managers may aim to reduce the labour cost base of the organisation, but this is fundamentally at odds with workers’ desire to preserve their jobs and increase their pay.

Research, however, shows that the picture is more complicated than the “either/or” dichotomy of unitarist versus pluralism might suggest. Empirical work in the UK has shown that firms adopt a number of strategies at the same time. In fact, human resource management initiatives seem to prosper in firms that have also retained the traditional industrial relations bargaining structures and where union representation is strong (Sisson, 1993). Storey (2001) has interpreted this to mean that organisations will implement a range of measures to improve their competitive position and that the unitarist assumptions underlying human resource management do not have to conflict with a simultaneous pluralist position which recognises the competing interests of different groups in the workforce.

### ***Take home messages***

The rise of modern human resource management is more than just a change in terminology from personnel management to human resource management

A central feature of modern human resource management is the idea of engaging the commitment of employees with the goals of the organisation. This means that human resource management is not just about administering people but also about shaping the culture of the organisation. To examine the issue of culture in RTOs, look at the outcomes of Research Activity 4, *Assessing the impact of cultures and structures on team and organisational capability* (Clayton et al. forthcoming, *A study in difference: Structures and cultures in Australian training organisations*).

This means that human resource management is literally too important to be left only to human resource managers. Engaging the commitment of employees and shaping culture require the active participation and leadership of line managers. The issue of leadership is crucial to effective human resource management. For more on leadership in RTOs look at the outcomes of Research Activity 7, *Investigating approaches for sustaining and building educational leadership*. See: <http://www.ncver.edu.au/publications/1802.html>

It also means that human resource management has to relate very closely to the strategy of the organisation. This means looking at human resource management issues in a strategic light. The notion of workforce capability, the issue of the ageing of the workforce and the issue of enhancing the vocational competence of the workforce are key strategic human resource management issues for all RTOs. These issues call for a high level strategic response by RTOs, which is what human resource management is focused on.

### **An RTO example.**

Sparked by a research report showing the potential impact of the ageing of the workforce on the operations of RTOs, an RTO director decides to investigate the issue in her own organisation and develop strategies to ensure the future skills base of the organisation. She asks the human resource manager to take responsibility for investigating the effects of ageing on the workforce of the RTO and to make recommendations to the senior management team on strategy. The human resource manager commissions a consultant to carry out an investigation of the current state of the RTO workforce. On the basis of the consultant's report, the human resource manager draws up a series of recommendations including the development of effective knowledge transfer procedures so that the expertise of retiring staff is not lost, the improvement of recruitment and selection processes so that the workforce can be shaped to meet the future needs of the organisation and a communications strategy to engage staff with the issue. The human resource manager presents the recommendations to the Director who then discusses them with her senior management team. The recommendations are approved and the Director establishes a task force under a senior line manager to implement the new strategies.

Notice how this human resource management initiative is driven by the Director, not the human resource manager and how the implementation is given to line managers. The human resource manager plays a key role in developing the human resource management strategy of the RTO but is not in sole charge of it.

### **How widespread is HRM?**

In general the measurement of the extent of the use of human resource management relies on small-scale, qualitative evidence often proffered by human resource management professionals (Storey, 2001). There are few large-scale surveys of the use of human resource management in Australia or overseas. One major exception to this is the British Workplace Employee Relations Survey (WERS) of 1998 (Cully *et al*, 1999). The WERS 98 survey was the fourth in a series of workplace industrial surveys undertaken by the British government since the early 1980s. Despite its origins in industrial relations, WERS 98 also investigated other aspects of employee relations at the workplace including the use of human resource management practices. This survey included interviews with managers in over 2,000 UK workplaces ranging from very large to very small and a survey of over 28,000 employees.

WERS 98 found evidence of the widespread adoption of a number of key human resource management practices amongst British organisations. In terms of recruitment and selection, over 86 per cent of workplaces recruited on the basis of skills, experience and/or motivation. Formal qualifications were used in only 68 per cent of workplaces and recommendations by only 34 per cent. Thirty-six per cent of workplaces reported providing formal off-the-job training for most employees although this was much more likely to occur in workplaces with

predominantly professional employees (73 per cent). About one third of workplaces reported that they were accredited under the UK's Investor in People (IiP) standard with a further 16 per cent having applied for accreditation. Systematic communication between managers and employees was also common with 61 per cent of workplaces reporting the use of team briefings and 50 per cent distributing a newsletter to all employees. Teamworking was also gaining ground in UK workplaces with 38 per cent of workplaces reporting that they had groups discussing performance and/or quality issues. Seventy-nine per cent of workplaces reported the use of performance appraisal systems with two-thirds of this group applying the appraisal system to all employees. Single status workplaces were less common in the private than in the public sector, with 41 per cent of all workplaces meeting the survey definition of a single status workplace. WERS 98 also produced some evidence of the integration of human resource management practices and their strategic orientation. Fifty-seven per cent of workplaces reported that the workplace had a strategic plan encompassing employee development, and 64 per cent had a human resource management representative on the Board of Directors. Taken these two measurements together with the 39 per cent of workplaces reporting IiP accreditation, only 21 per cent of workplaces reported having all three integrated together. Thus, the WERS 98 data suggest that whilst individual human resource management practices may be widespread in British organisations, the level of strategic integration of these practices is still quite low. Cully *et al* (1999) conclude that only 14 per cent of workplaces had a majority of the human resource management practices in place.

Comparable recent data for Australia is not available. Some indicators, however, do exist. ABS statistics on training in Australian firms shows that in 2001-02 about 80 per cent report providing training for their employees and about 40 per cent provide "structured" training (ABS, 2003). This is an increase on the figures for 1996 (ABS, 1997). Australian employers spend on average 1.3 per cent of their payroll costs on training. This compares quite favourably with countries in the European Union and puts Australian employers in the middle of the range. Sheehan *et al* (2005) examined the changing role of the human resource management practitioner in Australia from 1995 to 2005. They found evidence that human resource managers considered that they had an active role in all strategic decisions in the organisation but that the increasing tendency for human resource managers to come directly into the profession without experiencing other aspects of the business may harm the potential credibility of human resource management in the future.

### **High performance work systems**

In the 1990s another phrase entered the human resource management vocabulary, the high performance work organisation or work system. The origins of the notion of high performance work systems can be traced back to the USA and the famous MIT sponsored study of the world automotive industry undertaken in the late 1980s, the International Motor Vehicle Project (Womack, Jones and Roos, 1990). The study was highly influential in describing the success of Japanese car manufacturers against their North American and European rivals. The MIT study coined the phrase "lean production" to describe the methods used in Japanese car plants in Japan and overseas to raise productivity to hitherto unrealised levels. For the MIT team, lean production was epitomised in the Toyota Production System. In this system Toyota reduced its costs and its risks to the minimum through a number of techniques. These techniques involved a very close, strategic relationship between Toyota and its major component suppliers so that the suppliers delivered parts to the Toyota assembly plants just in time for them to be used in production.

Stock levels, traditionally very high in the automotive industry, were kept to less than one hour's production supply. Across the Toyota plants, buffers such as stock and work in progress were reduced to the barest minimum in order to take out the large costs associated with high inventories, the so-called "kanban" system. Work in the plants was organised around teams. However, these Japanese style teams were not the semi-autonomous teams that had been the subject of experimentation in the Swedish motor industry in the 1970s and 80s but were designed to enable workers to multiskill and cover effectively for absent colleagues so that absenteeism, a perennial curse of labour management in the automotive industry, would not be so disruptive as it was in other non-lean car plants (Banker *et al*, 1996). Work tasks were highly specified with very clear process descriptions displayed prominently around the factory floors of Toyota plants to ensure that all the jobs were "done right first time". The right first time philosophy was radically extended into the abolition of quality inspection and rectification. Production teams were expected to build cars to the highest level of quality so that there was no need to for post-working inspection, the norm in car plants around the world. Workers were also extensively trained not only in the technical aspects of the job but also in problem solving and communication skills and they were expected to use these skills in off-line problem-solving teams. These teams formed the backbone of the system of continuous improvement (kaizen) under which the tacit knowledge of workers was effectively tapped by the organisation through the kaizen system and led to a continual increase in performance by the company.

The MIT team concluded that lean production was the superior means of organising work for the highest level of performance and that car manufacturers that did not adopt these systems would simply go out of business. This warning was taken seriously not only by car makers in North America and Europe but also by the manufacturing industry world-wide. By the late 1990s, many western manufacturers had adopted lean production methods very successfully, to the point that many of the Japanese car manufacturers had been taken over by their western rivals. The adaptation of lean production by western manufacturing and other organisations in the 1990s led to the emergence of the new concept of high performance work systems. In the mid-1990s, a number of US researchers made intensive studies of the newly emerging high performance work systems paradigm (Cappelli and Rogovsky, 1994; Osterman, 1995; McDuffie and Kochan, 1995). They found that the major people management elements of the high performance work systems taking root in American business comprised:

- extensive use of teamwork
- use of quality circles (although the era of quality circles was in decline by this time)
- adoption of total quality management methods
- job rotation
- extensive training of all workers
- recruitment for personal rather than technical skills
- performance related pay
- reduction of barriers between managers and workers.

These people management initiatives were accompanied by the use of flexible production methods (lean production) and by extensive investment in new technologies. The concept of the high performance work system has been the subject of extensive research in recent years and a number of terms are often used interchangeably to describe it – high performance work organisation (Ashton and Sung, 2004), high involvement work systems (Felstead and Gallie, 2002), high performance employment systems (Brown and Reich, 1997) and high commitment management (Wood, 1999; Baird, 2002). The notion of the high commitment

work system underlines the strong connection of these concepts to human resource management. Although much broader than human resource management, in that high performance work systems also encompass the development of new forms of work processes and the use of technology, nevertheless the human resource management practices adopted under high performance work systems are critical to the success of these systems. The human resource management practices associated with high performance work systems are clearly designed to elicit the fullest commitment of workers to the objectives of the organisation. In this respect, the concepts of human resource management and high performance work systems might be said to be largely analogous.

More recently, Belanger *et al* (2002) have sought to clarify some of the conceptual confusion surrounding high performance work systems and have distinguished three dimensions of the concept:

**Production management:** this involves the greater use of flexible production systems with an emphasis on quality management

**Work organisation:** this involves the use of production processes based on knowledge and cognition, especially the use of teamwork

**Employee relations:** this involves the harnessing of employee commitment in the service of the organisation. Usually in high performance work systems the human resource manager will be tasked with implementing a performance-based pay system and ways of deploying the tacit skills of the workers.

Butler *et al* (2004:5) have summarised the role of the human resource manager in high performance work systems as “the inculcation of a unitary organisational culture or in Guest’s (2002) terms, the creation of a social system in support of the technical system”.

The typology developed by Belanger *et al* also underline another important aspect of high performance work systems which is that high performance work systems practices need to be implemented together as “bundles” of practices in order to gain maximum effect. Many organisations may implement one or two high performance practices but it is the synergies that result from bundles of practices that really lead to performance improvements for organisations (Appelbaum, 2000; Pil and McDuffie, 1996). Thus, the implementation of teamwork will rely on effective training for teamwork and a pay system that rewards the collective performance of the team rather than individual performance. Without supporting practices that are congruent, the implementation of a single high performance practice may achieve little or indeed be counterproductive.

### ***Take home messages***

The concept of high performance work systems is much broader than that of human resource management.

The focus of high performance work systems is on performance, which is also a key concept in modern thinking about human resource management and human resource development.

A high performance work system will usually involve a series of human resource management-type initiatives such as team working, performance pay and careful recruitment and selection. It will almost always involve a significant commitment to training and the development of the skills of the workforce.

The key concept in high performance work systems is that of “bundling”. A series of integrated measures will have much more effect than single, isolated initiatives on their own. The important thing is to ensure that whatever initiatives are implemented, they complement each other and improve the overall performance of the organisation.

The issue of work organisation and improving the capability of RTOs is investigated more fully in Research Activity 5 of the consortium’s program, *Investigating learning through work* (Chappel & Hawke forthcoming, *Investigating learning through work: The development of the Provider Learning Environment Scale*).

### **An RTO example.**

The human resource manager of an RTO wants to introduce a modern performance management system to the organisation. She knows that the future of the organisation will depend on lifting the performance of every individual but currently the traditional, annual appraisal system does not really achieve this goal. She talks to the Director of the RTO about her concerns and he agrees that it is about time that the management team become more focused on lifting individual performance. However, the RTO depends very much on teamwork. Dealing with employers, constructing innovative training programs and initiatives and teaching is based on the operation of teams. People in the RTO are encouraged strongly to operate as part of a team and be team players rather individual stars. This means that any performance management system is going to have to be focused on the activities of teams rather than simply on the individual. The Director and the human resource manager know that if they implement an individually-based performance management scheme, they could destroy the collaborative nature of the teams in the organisation. The Director tasks the human resource manager to devise a team-based performance management system which will also allow managers to focus on the performance of individuals. This is a difficult task for the human resource manager but she eventually develops an innovative performance management system that she thinks will balance the needs of the individual and the team and so increase the overall performance of the organisation. The Director discusses this new scheme at a meeting with his top team and the new scheme is implemented. The human resource manager takes responsibility for the introduction and administration of the scheme, whilst line managers have to implement it with their staff.

Notice how the initiative in this case came from the human resource manager, focused on the needs of the organisation. But the implementation of the new scheme was driven at a strategic level by the director and given to line managers as a major part of their task responsibilities.

### **How widespread are high performance work systems?**

The evidence for the use of high performance work systems is also scant. Work by Osterman (1994, 2000) in the USA in the mid-1990s suggested that 41 per cent of all establishments in

the USA had over half of their workforce participating in self-directed teams and nearly 60 per cent of establishments had more than half of their core workforce in quality improvement teams or quality circles. Fifty per cent of establishments had implemented total quality management (Osterman, 2000). A survey of Canadian workers in 1997 revealed that 44 per cent of respondents claimed that just-in-time systems were operating in their workplaces and 50 per cent reported a quality management program operating. Sixty two per cent of respondents to this survey reported the use of teams in their workplaces and 39 per cent that multiskilling was used (Godard, 2004). The most important empirical study of high performance work systems by Appelbaum *et al* (2000) examined the impact of the high performance work systems practices on firms and individuals in the steel, apparel and medical electronics manufacturing industries. This study found that the take up of high performance work systems practices varied considerably between the sectors but that their effect of firm performance had been positive. In Australia, Smith *et al* (2003) in a study of the impact of a range of high performance work systems practices or “new management practices” on the provision of employer sponsored training found that 66 per cent of responding organisations had implemented some form of teamwork and 44 per cent had a high commitment to Total Quality Management.

However, there have been no systematic surveys of the extent of the adoption of high performance work systems, beyond a few of the practices. The general consensus is that the full implementation of high performance work systems is still quite unusual (Butler *et al*, 2004). A number of commentators have speculated on the reasons for the lack of high performance work systems. In the main, the reasons advanced for the lack of progress in implementing high performance work systems relate to the institutional environment. Thompson (2003) argues that employee commitment will not be forthcoming until employees trust managers to keep their side of the bargain by providing “enhanced career structures, job stability and performance and skills based reward measures” (*ibid*: 363). Belanger *et al* (2002) also repeat Thompson’s theme and argue that it is only through strong unions that employees will be able to compel managers to provide the better employment conditions that will lead them to commit fully to the organisation. Keep and his colleagues at the Centre for Skills, Knowledge and Organisational Performance have developed this line further by arguing that it is the institutional framework of “liberal-market economies” such as the UK which mitigates against organisations implementing high performance work systems (Keep, 2000; Keep and Payne, 2002). Keep cites the low level of labour market regulation, the lack of job security and the short-term profit orientation encouraged by the UK stock market as the main reasons why British employers have been unable or unwilling to implement high performance work systems. Butler *et al* (2004:13), however, takes issue with this rather institutionalist approach and argue that organisations are not simply captives of the regulatory frameworks of the countries in which they operate:

*.... there may well be countervailing pressures pushing organisations down the high performance management route. These may emanate from a paradigm shift in the nature of competition that is focused on the need for customisation and variety, rather than product homogenisation (Appelbaum, 2002: 131). The desire to merely maintain revenue and profit may thus represent an important push factor forcing companies down the HPM route despite a relatively unsupportive institutional environment.*

It is likely that, as the WERS 98 data showed for human resource management practices, single high performance work systems practices may well be quite common in modern

organisations but the bundling together of practices into fully blown high performance work systems is probably rather unusual.

### **The impact of human resource management and high performance work systems**

The impact of human resource management and high performance work systems practices has been studied for a number of years. The studies can be quite confusing as they often treat human resource management and high performance work systems as the same. This is particularly the case in the US studies. In the mid-1990s, studies in the USA by Arthur (1994) and McDuffie (1995), who worked on the International Motor vehicle project, found that high commitment human resource management practices in manufacturing industry led to higher levels of productivity and quality and lower rates of scrap and employee turnover. In what has become the landmark study of the impact of human resource management on firm performance, Huselid and his colleagues at Rutgers University carried out three surveys of a range of US firms to estimate the impact of human resource management on employee turnover, productivity and firm financial performance (Huselid, 1995; Huselid, Jackson and Schuler, 1997; Becker and Huselid, 1998). Huselid's studies tended to confuse human resource management and high performance work systems but the measures used in the survey are clearly related to human resource management. Huselid employed a range of items looking at communications, training, compensation plans, performance appraisal and selection and recruitment. The list of items grew longer with each survey but was summed into an index of human resource management practice. The Huselid studies found that firms that implemented more human resource management practices tended to exhibit:

- lower levels of employee turnover
- higher levels of sales per employee (productivity)
- higher returns to shareholders
- higher levels of profit.

The findings were quite robust and have become the benchmark for studies on the impact of human resource management and high performance work systems. Huselid's work demonstrates very clearly that human resource management pays off for organisations in terms of internal measures of performance such as productivity and impact on the bottom line.

These positive findings about human resource management and high performance work systems have been replicated in other studies since Huselid's work. In the UK a study of company performance carried out at Sheffield University found that, compared with other factors that might be expected to affect firm performance, a focus on people management had the most powerful effect (Patterson *et al*, 1997). The report from the WERS 98 survey also concluded that workplaces with a higher number of human resource management practices were more likely to report growth in productivity (Cully *et al*, 1998). The classic study of high performance work systems by Appelbaum (Appelbaum *et al*, 2000) found that the adoption of high performance work systems practices by firms in her study also resulted in higher levels of organisational performance. Appelbaum also found that workers liked the new high performance work systems practices and that working in a high performance work systems environment had a positive impact on the workers as individuals. The issue of worker reactions to human resource management was also taken up by Guest (1999). In an analysis of a survey of 1,000 workers carried out for the Chartered Institute of Personnel and Development (CIPD) in the UK, Guest found that workers seemed to react positively to human resource management practices. Workers in workplaces reporting a higher number of

human resource management practices were more likely to report that they trusted management, that they were fairly treated (what Guest termed a “positive psychological contract”), that they felt higher levels of job satisfaction and well-being and that they were more motivated at work. Guest showed in his analysis of the data that a positive psychological contract was associated with:

- a high involvement organisational climate
- adoption of a greater number of human resource management practices
- lower expectations of being made redundant in the next couple of years
- working shorter rather than longer hours
- working in smaller organisations.

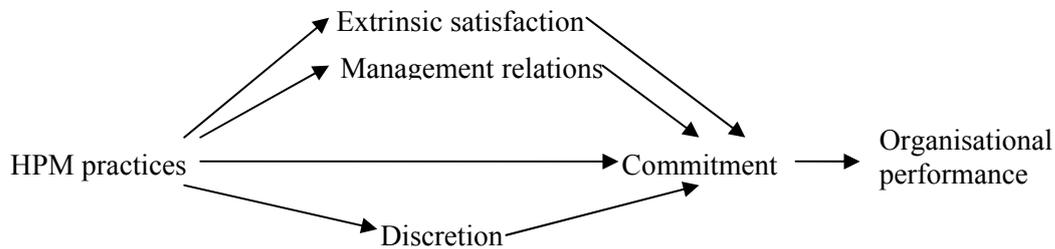
Thus, Guest concluded, the CIPD survey provided clear evidence that human resource management results in a more satisfied and motivated workforce. However, not all share Guest’s and Appelbaum’s enthusiasm for the positive effects of human resource management. A range of case study based work has also uncovered the less savoury aspects of human resource management and high performance work systems. Work by Danford *et al* (2004) and in Australia by Brown (1999) suggests that human resource management leads to considerable worker stress and performance is closely monitored and work is intensified. The analysis by Ramsay *et al* (2000) of the WERS 98 data also showed that, whilst the data showed a positive relationship between high performance work systems and higher commitment, there were also signs that high performance work systems produced greater levels of worker strain. The issue of increased stress was also noted by Guest (2004) who found that higher numbers of human resource management practices were associated with higher reported levels of job stress.

Nevertheless, the evidence strongly suggests that human resource management and high performance work systems have a strong positive impact on organisational performance. Ashton and Sung’s (2002:17) conclusion from their review of the research in this area is hard to dispute:

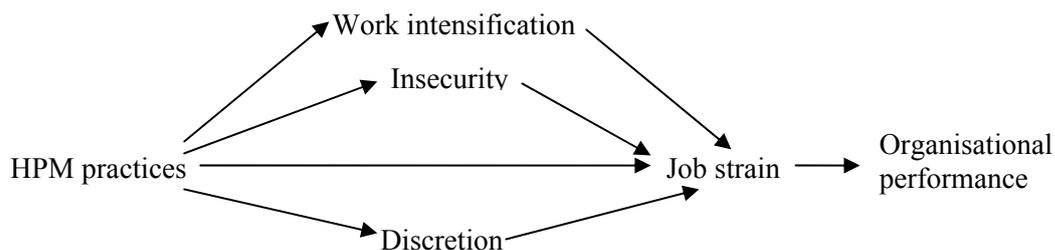
*First and foremost, stringent scientific research has now established a strong link between the use of human resource management and enhanced performance across a range of indicators, but especially in productivity and profitability. Put plainly, investment in these practices and the skills associated with them pays off on the bottom line.*

However, how this improvement in organisational performance is achieved is still open to conjecture. There are two basic models as illustrated in figure 3. Either human resource management and high performance work systems produce higher employee commitment as a result of higher levels of job discretion, job satisfaction and good manager relations or they produce higher job strain through work intensification, higher job insecurity and increased job responsibility.

(a) The Optimistic Model



(b) The Exploitation Model



**Figure 3.**

*Impact of human resource management and high performance work systems on employees.  
(Source: Butler et al, 2004)*

**Best practice or best fit?**

From the earliest studies of human resource management there has been a dichotomy in the research and the literature between the form of human resource management that treats the worker as the focus for attention and human resource management that treats workers as just another resource to be maximised by the organisation. This distinction was originally captured by Storey (1989) who first described the differences between “soft” and “hard” human resource management. Soft theories of human resource management prescribed a set of practices that were designed to elicit the commitment of the worker. Many of these practices were based on the predictions of human relations theory which had developed in the mid-20<sup>th</sup> century to explain worker behaviour in the workplace. These theories emphasised the social nature of the workplace and advocated that managers should enhance the social nature work by fostering teamwork, rotating workers between jobs, enriching jobs with greater levels of employee discretion and generally making the workplace a nicer place to be (e.g. Walton, 1985; Beer and Spector, 1985). Hard theories of human resource management on the other hand emphasised the connection to the strategic management of the business

(e.g. Fombrun, Tichy and Devanna, 1984; Hendry and Pettigrew, 1986). In this world what mattered was managing workers through policies that aligned with the business strategy of the organisation. Only by matching human resource management to business strategy in this way, advocates of hard human resource management argued, could human resource management prove its worth to the business through improved worker performance.

The soft and hard debate has receded into the history of human resource management theory but the basic dichotomy still survives in the guise of “best practice” or “best fit” approaches to human resource management. The best practice approach to human resource management is the direct descendant of Storey’s original description of soft human resource management. A number of writers have argued that there is a set of universal best practices which will enable organisations anywhere to improve their performance by focusing on the needs of the worker. Beer, credited with being one of the first to enunciate a theory of the rather new notion of human resource management, put employee development at the centre of a cluster of policies and practices which he claimed would increase the “the commitment and the competence” of workers and thus the performance of the organisation (Beer *et al*, 1984) Beer’s notion was to align the interests of individual workers with the interests of the organisation. Kochan and Dyer (1993) developed the original Beer map of the human resource management terrain by describing the concept of the mutual gains enterprise. The mutual gains enterprise operated by engaging the commitment of the worker to the enterprise but also the commitment of the enterprise to the worker. Kochan and Dyer described three guiding principles for the mutual gains enterprise:

- staffing based on employment stabilisation to reinforce employment security and promote commitment and flexibility
- invest in training and development so that employees adopt the principles of lifelong learning
- contingent compensation that can attract and retain a committed, co-operative and involved workforce.

The basis of practice approaches to human resource management still involves Kochan and Dyer’s ideas of the organisation investing in people so that people will become committed to the organisation. The most influential modern proponent of best practice human resource management has been Pfeffer. Pfeffer (1994) originally devised 16 measures which he claimed would give any organisation a competitive advantage through people. He has since revised this list down to seven practices (Pfeffer, 1998):

- employment security
- selective hiring
- self-managed teams or teamworking
- high pay contingent on company performance
- extensive training
- reduction of status differences
- sharing information.

Critics of the best practice approach have focused on the universalistic nature of the concept. Best practice of course smacks of the unitarist view described earlier (Marchington and Grugulis, 2000). There is typically little reference to the role of unions in the concept of best practice or any indication that different groups in the workforce may have different needs and

objectives. The best practice notion is a “one size fits all” approach. Others have highlighted the fact that best practice approaches are not culturally sensitive. They tend to reflect the individualist values of the USA and may not transpose well into other, less individualistic cultures (Boxall and Purcell, 2003). In countries with a tradition of collective advance, such as Germany or the Scandinavian countries (and also Australia), the outright individualism of the best practice approach to human resource management will not work so well. The final area of criticism of best practice has come from those who see human resource management as an attempt to manipulate workers by shaping the organisational culture so that workers are compelled to work harder and more productively through peer pressure (Legge, 1995). Despite the critiques, however, the best practice approach is alive and well and continues to attract adherents amongst human resource managers. As Guest’s (2002) work has shown, workers seem to like best practice human resource management and respond well to the incentives it provides.

The best fit notions of human resource management take two different forms. One form emphasises internal fit. Internal fit demands that human resource management practices have to be consistent within organisations so that they work together rather than against each other. The notion of internal fit has also strongly influenced thinking on high performance work systems as we have seen. Here, the notion of fit is equated with bundles of high performance work systems practices that ensure that the organisation gains the synergies associated with the implementation of a number of complementary practices rather than only a single practice (McDuffie, 1995). Baron and Kreps (1999) describe three forms of internal fit for human resource management practices:

**Single employee consistency.** Under this form of fit, organisations need to ensure that human resource management practices are geared towards the needs of each individual. Thus, if an expensive selection process has been used to recruit an employee, then it makes sense to ensure that the organisation invest in the training and development of that person and takes measures to treat them well in the organisation.

**Among employee consistency.** Under this form of fit, human resource management policies are designed to ensure that people are treated the same and are based on notions of equity in the workplace.

**Temporal consistency.** Here, employees should be treated consistently across time so that they can rely on the predictability of human resource management policies.

The form of fit is external fit. This refers to the fit of human resource management policies with the business strategy of the organisation. External fit is the direct descendant of Storey’s notion of hard human resource management. Debate over external fit of human resource management has led to the development of the modern notion of strategic human resource management (Boxall and Purcell, 2003). There have been many attempts to conceptualise how human resource management can best fit with the business strategy organisations. Most of these attempts rely on categorisations of business strategy. An early attempt to describe how human resource management fits with business strategy can be found in the work of Miles and Snow (1984). Miles and Snow described three basic competitive strategies for businesses. Businesses could be “defenders”, preserving their market from other competitors, “prospectors” aggressively developing new markets for their products or “analysers” which waited until new markets opened up and then followed the prospectors. Each of these

strategies was linked this to the major human resource management practices of staffing, performance appraisal and pay. Their typology is reproduced in Figure 4.

	<b>Defenders</b>	<b>Prospectors</b>	<b>Analysers</b>
<b>Competitive strategy</b>	Limited and stable product line, growth through penetration	Changing product lines. Growth through innovation and market development	Stable and changing product lines. Growth through fast followership
<b>Staffing and development</b>	Emphasis on internal training and development	Emphasis on recruitment	Mixed
<b>Performance appraisal</b>	Process oriented and linked to training needs analysis	Results oriented and linked to rewards	Mostly process oriented
<b>Pay</b>	Focused on internal equity	Focused on external competitiveness	Internal and external

**Figure 4**  
*Human resource management and business strategy*  
(Source: Miles and Snow 1984)

Another typology of business strategy that has also been used to describe strategic human resource management was that developed by Porter. Porter (1985) described three basic strategic choices for organisations:

- Cost leadership.** leading on the basis of the lowest costs in the industry
- Differentiation.** leading on the basis of superior product quality or innovation
- Focus.** finding a niche market and leading through a mix of cost control and differentiation.

Schuler, a major researcher in the area of strategic human resource management, in a series of studies (Schuler and Jackson, 1987; Schuler, 1989, 1996) related human resource management practices to the Porter prescriptions of competitive strategy. Under Schuler's model, organisations need to work out the required employee behaviours for implementing a particular competitive strategy and then devise supportive human resource management policies to enable these behaviours to be encouraged in the workforce.

Attractive though the models of external fit are, they have been the subject of much criticism. Most of the criticism is focused on the simplicity of both the descriptions of business strategy that are afforded in the models and also the lack of complexity in the description of matching human resource management practices and strategies. Business strategies are rarely so straightforward as Miles and Snow or Porter suggest. Strategy is often not very well conceived by organisations and may be only discernible in retrospect as an "emergent" strategy (Mintzberg, 1994). Moreover, many large organisations operate in a variety of markets. They will often have different business strategies for each of these markets and yet need to put in place internally consistent human resource management practices for all employees. Under these circumstances it is difficult to match human resource management with one particular competitive strategy. In terms of human resource management, the

external fit models are open to the same criticisms as the best practice models reviewed above. They are underpinned by an essentially unitarist framework and take little account of the complexities of managing a diverse and differentiated workforce.

Research has shown that the best practice models of human resource management are the most prevalent and also the easiest to measure. As discussed earlier, there is ample evidence for the adoption of a range of human resource management practices in many organisations. However, solid evidence for the integration of these practices into strategic human resource management is so far lacking. As Huselid and Becker (1998) have shown, it is much more difficult to discover whether human resource management and high performance work systems practices are being bundled together into internally consistent patterns or are being devised to integrate with the business strategy of the organisation.

### ***Take home messages***

The ongoing debate in human resource management is whether there is a universal set of practices that can be implemented to ensure the best organisational outcomes or whether human resource management has to be tailored to the circumstances of the organisation – best fit.

The notion of “fit” in human resource management refers to both internal and external fit. Internal fit is about consistency. Human resource management practices should fit with one another so that they work together rather than work against each other.

External fit is about strategy. The idea here is that as organisations change their strategies, so they need to change their approaches to human resource management to make sure that human resource management is aligned with the strategic goals of the organisation and is not working against the strategic direction.

Despite the appeal of the notion of fit, the best practice models of human resource management are still very prevalent and form the basis of much of what HR consultants use for the models that they sell to many organisations including RTOs.

#### **An RTO example.**

The Director of an RTO has just attended a motivational seminar at which a well-known global expert on human resource management presented a series of ideas and models for better human resource management to the audience. The mood of the seminar was very optimistic, almost evangelical in tone, and the Director came back to the RTO the next day fired with enthusiasm for revolutionising her human resource management practices. She calls in the human resource manager and spends an hour telling her what she is doing wrong and how she wants things to change. The human resource manager goes away and decides that she needs to come up with a plan that will satisfy the Director’s new found zeal for human resource management but also serve the organisation well. The human resource manager is conscious that, although the ideas that the Director has brought back with her from the seminar are very useful, they also reflect a particular point of view. The ideas were based on the consultant’s work in the US banking sector in the 1990s. But this is an RTO in Australia in the 21<sup>st</sup> century. Things are different for the RTO. She decides to use a best fit approach rather than best practice. So the human resource manager develops a strategic

human resource management plan that dovetails with the RTO's current strategy, using some of the consultant's ideas, but adapting them heavily for the unique environment and workforce capabilities of the RTO. She presents the plan at the regular senior management meeting and gains the commitment of the Director who sees that her ideas need to fit with the RTO's circumstances if they are to work.

Notice how the human resource manager leads the thinking on human resource management strategy but is informed enough to be able to use the more sophisticated ideas of best fit to counter simplistic notions of forcing so-called best practices onto the RTO.

## Competence and capability

A more promising explanation of how human resource management relates to business strategy in organisations has come from the development of new ways of understanding the firm and the basis for competition. Based on the well established economic notion that firms compete on the basis of the resources which they have at their command (Penrose, 1959), the resource-based view (RBV) of the firm has been popularised in recent years by writers such as Barney (1991), Hamel and Prahalad (1994) and Leonard (1998). The resource-based theorists try to explain not only the basis for competitive advantage at one point in time but the reasons why some firms seem to enjoy sustained competitive advantage over long periods of time. In looking for the roots of sustained competitive advantage, the resource-based view theorists suggest that the answer lies in the specialised resources that successful organisations can build up over time and which allow them to develop a dominant position in certain industries and sectors. These resources might be in the form of special technologies or processes or specialised knowledge and skills. Resource-based view theorists cite the example of firms such as Sony that have dominated the electronics market for decades based on their specialised skills and knowledge in miniturisation or Toyota based on its special expertise in lean production. What is different about this way of looking at the reasons for sustained competitive advantage is that the focus is not on the business environment so much as the internal strengths and weaknesses of organisations.

Barney (1991) makes the point that these resources will often work in clusters or bundles, echoing the notion of the bundling of human resource management or high performance work systems practices for maximum effect. Many resources may, however, be equally accessible to competitors. Technology is a very good example of a resource that may give an organisation a temporary advantage over its competitors but, because technology is so transferable in the modern economy, will be easily acquired by competitors over time. Thus, Barney argues, resources that give an organisation sustained competitive advantage will need to be difficult for competitors to acquire or replicate. Boxall and Purcell (2003:75) explain the basic properties of resources that give organisations sustained competitive advantage:

**valuable and scarce:** something competitive and not easy to obtain

**inimitable:** very hard to imitate or copy

**non-substitutable:** very hard to neutralise with other resources which will meet the same ends

**appropriable:** capable of proving a superior return to the firm's shareholders.

If an organisation can build up a cluster of resources that meets RBV criteria, then it will

have the basis for sustained competitive advantage over its rivals. It is easy to see how the RBV links strongly to human resource management. Whilst physical, financial and technological resources can all be accessed or copied by competitors, human resources cannot and give the organisation the basis on which to build real competitive advantage. The skills and knowledge of groups of key people in an organisation can become the basis for the organisation's competitive success. Similarly, the loss of such people can devastate an organisation's competitive advantage. Boxall and Purcell (2003) quote the example of Shockley semiconductor Laboratory which lost eight key scientists in 1957:

*their mass departure cut the productive heart out of the laboratory, leaving behind a carcass of men working ....., on the four layer diode project plus a bunch of aimless technicians and secretaries. The group left to form Fairchild Semiconductor. The rest, as they say, is history.*

From this notion of the inimitable resources, Hamel and Prahalad (1994) developed the notion of core competence. For Hamel and Prahalad, a cluster of such resources could form a core competence for an organisation. A core competence in Hamel and Prahalad's view had certain characteristics:

- *Is a bundle of skills and technologies that enables a company to provide particular benefits to its customers*
- *Is not product specific*
- *Represents ... the sum of learning across individual skill sets and individual organisational units*
- *Must be ... competitively unique*
- *Is not an asset in the "accounting" sense of the word*
- *Represents a "broad opportunity area" or "gateway to the future".*

Leonard (1998) developed Hamel and Prahalad's notion of core competence into the broader notion of capability. For Leonard a core capability for an organisation has four dimensions:

- employee knowledge and skill
- physical technical systems. The technological competence accumulates not only in the heads of people; it accumulates also in the physical systems they build over time – databases, machinery and software programs
- managerial systems; the accumulation of employee knowledge is guided and monitored by the company's systems of education, rewards and incentives
- values and norms. These determine what kinds of knowledge are sought and nurtured, what kinds of knowledge-building activities are tolerated and encouraged

Thus the notion of the core capability is very clearly based on human resources or what Boxall (1996) called "human capital advantage". The link to human resource management is very clear as Leonard's notion of core capability reflects Guest's definition of human resource management (quoted above) combining the social and the technical systems of the organisation. In more recent years, the resource-based view terminology has been replaced by the notion of the knowledge-based view of the firm (Kamoche and Mueller, 1998; Nonaka and Takeuchi, 1995). The knowledge-based view more explicitly focuses on the human capital advantage of the skills and knowledge possessed by people in the organisation but in other respects is very similar to the resource-based view. In some ways, the rise of the resource-based view/knowledge-based view way of looking at human resource management

has led back to the notion of best practice and universalistic human resource management. The resource-based view/knowledge-based view paradigm of human resource management focuses essentially on the development and retention of the skills and knowledge of workers rather than trying to fit human resource management practices to the multiple and emergent strategies of organisations. In this sense, there should be a set of universal practices which will allow organisations to develop their human capital resources. Nonaka and Takeuchi (1995) describe such a list of universal practices:

- the development of a knowledge strategy in the firm
- multifunctional careers so that individuals can get experience in more than one aspect of the organisation
- cross-functional teams giving workers the opportunity to work with others from different parts of the organisation
- triple career ladders so that managers, technical specialists and project managers can move ahead in their own specialisations
- competing internal development teams creating positive redundancy
- information democracy so that all knowledge is shared for the benefit of the organisation as a whole.

### **Human resource management in Registered Training Organisations**

There has been little systematic investigation of human resource management in registered training organisations (RTOs) in Australia or overseas. What research has been undertaken has tended to focus on developments in the public TAFE system rather than in private providers. Much of the research has examined changes to the composition of the VET workforce and the professional development needs of the changing workforce. This research has shown that the VET system faces a number of critical challenges in the future development of the workforce in RTOs. Harris *et al* (2001) found that the major challenges facing the VET sector in terms of workforce development included operating in a competitive market, keeping up to date with and understanding changes in the sector, flexible delivery, working with training packages and using technology. Many of these challenges have been addressed in the sector through national programs of staff development which have encompassed both public and private providers. These have included Framing the Future and its successor, Reframing the Future, LearnScope and the various staff development projects funded through the Australian Flexible Learning Framework. It is less clear what individual initiatives in staff development and human resource management more generally have been taken at the level of the individual RTO. More recent research into the challenges of workforce development in the TAFE system (Clayton *et al*, 2005) has shown that TAFE managers are acutely aware of the problems associated with the rapid ageing of the workforce and the loss of expertise and knowledge that accompanies this. The research found that TAFE institutes are using a variety of methods including careful recruitment and selection, training and knowledge transfer procedures to address the loss of knowledge that is affecting the sector. However, the research also concluded that TAFE institutes were, by and large, not aware of the human resource management policies used outside the education sector in the business world to address the issue of workforce development. This assessment of the state of human resource management in TAFE institutes was echoed by two earlier studies on the impact of flexible delivery on human resource management in TAFE (McNickle and Cameron, 2003; Palmieri, 2003).

The main findings from these two complementary projects were as follows:

- Employer relations in TAFE institutes are governed by certified agreements. These agreements are made with the relevant unions and are struck at institute, regional or state level.
- There has been a shift towards greater teamworking in TAFE institutes with the adoption of flexible delivery. There has also been a shift in the composition of the workforce as TAFE institutes hire more tutors and workplace trainers to work with clients often off site. These developments are changing the nature of work for TAFE teachers.
- Performance management is practised in most TAFE institutes and it is gradually being brought into alignment with the business plans and strategies of TAFE institutes. There have been moves to measure work performance in a variety of work settings as staff increasingly work outside the institute.
- Professional development has been an area of major change in human resource management in TAFE institutes in recent years. Much of this development has been the result of national programs such as Reframing the Future and LearnScope which have had flexible delivery as their main focus.
- With the increasing flexibility of the workforce through the employment of sessional and new types of teaching staff, recruitment and selection has emphasised adaptability and generic skills and the ability to work in a team rather than the conventional specialist skills in teaching content areas.
- A particular concern with the increase in flexible delivery has been the negotiation of workloads with staff. There has been a move towards more local workload negotiation to increase flexibility.
- Job design has changed with the move to flexible delivery. In general, job specifications have become more open, emphasising generic skills and the need to adapt duties to the needs of clients.
- These changes in human resource management practices in recent years suggest that human resource management in the TAFE system is moving quite quickly from a centralised, bureaucratic “personnel” model to a more locally negotiated and flexible human resource management model. The research suggests that issues of performance management, professional development and recruitment are becoming more important to human resource managers in TAFE institutes which may herald a move to a more capability-driven model of human resource management than has existed hitherto.

These studies suggest that, in the TAFE sector at least, RTOs are in something of a state of transition in human resource management. Centralised structures remain in place in many areas. Centralised human resource management structures have tended to take a personnel administration orientation rather than a modern human resource management orientation. In this situation, the emphasis in human resource management has traditionally been on employee relations and the development of agreed and centralised personnel policies that govern the terms and conditions for staff in the sector. However, McNickle and Cameron

and Palmieri show that TAFE institutes are gradually taking more control of human resource management at the institute level and introducing greater flexibility into the management of people. Thus teamworking, performance management, better recruitment processes and an emphasis on staff development have taken hold in TAFE as a more sophisticated approach to human resource management develops. However, it is not clear whether this more flexible approach to human resource management is resulting in a more strategic orientation and there is no real comparable evidence for the private sector.

There are no studies of human resource management in private RTOs. A recent report on the characteristics of private RTOs in Australia (Harris, Simons and McCarthy, 2006) confirms that the majority of private training providers are small with 84 per cent employing 10 or fewer staff, most of whom are part-time or casual. The private sector is also very diverse with many private RTOs being part of other organisations such as enterprise RTOs or RTOs that are linked to group training organisations. A significant number (14 per cent) are adult and community education providers. This combination of small size and diverse structure suggests that human resource management practices are likely to be quite different in the private as opposed to the public sector.

This project seeks to establish the current state of human resource management practice in RTOs in Australia. The project takes a strategic approach, particularly in the case study phase of the project where the research will attempt to examine the links between human resource management and the strategy of the organisation. The results of the project will enable us to better understand the development of human resource management in RTOs and make sound recommendations about how RTOs can benefit from better management of people.

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