“The new functions of the HR-departments of the future”

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SECTION 3. General issues in management
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The new functions of the HR departments of the future

Abstract
Problem: in general, HR departments fail to adapt to reflect societal change. Problem approach: which competences will be manifested in the HRM philosophy of the future? Research questions: 1. How has HRM philosophy developed in the period 1980-2016? 2. What knowledge forms the basis of current HRM philosophy? Objective: this article aims to highlight some areas of competence that will be relevant in the future to HRM philosophy. Methods: trend research and conceptual generalization. Findings: the new areas of competence that will be significant for HRM are innovation management, knowledge management, change management, performance management, and organizational design.

Keywords: HRM philosophy, innovation, knowledge management, leadership, performance management, organizational change.
JEL Classification: O15.

Introduction
Definitions. In this article, the term “HRM philosophy” means the way in which the management of an organization thinks, communicates and acts when using human capital (Ulrich, 2013; 2013a). An organization’s “human capital” is the competence (knowledge, skills and attitudes) that promotes the organization's ongoing competitive position (Bohlander et al., 2001). An organization’s human capital, rather than its machinery or assets, is its most important resource in the knowledge society (Burton-Jones, 1999). Today, the majority of theorists and practitioners are of the opinion that the people within an organization are its most important resource (Boxall et al., 2007, pp. 1-16). Accordingly, the way in which these people are managed is the basis for the organization’s success (Pattanayak, 2005, p. 3).

The importance of HRM philosophy is linked to the organization’s fundamental values, communications and involvement, including a new psychological contract with the employees focusing on their well-being. The intention was that this should have consequences for the conduct of individual employees (Guest, 2007, pp. 128-146). An explicit HRM philosophy makes it easier for employees to identify and understand the organization’s fundamental values, and thereby to create an identity and meaning through their work (Pattanayak, 2005, p. 113).

HRM philosophy: background and development.
The starting point for this modern approach to HRM may be found in the work of several authors, but perhaps Fombrun et al. (1984) of Michigan University were among the first to elevate HRM from a purely administrative function to a more strategic role. According to Fombrun et al., HRM should be central to the organization and not simply an administrative function. Fombrun et al. based their HRM cycle on what they identified as the four most important functions of the HR department: recruitment, performance appraisal, rewards, and competence development. At the same time as Fombrun et al. were developing the Michigan model, researchers at Harvard were developing an alternative. The Harvard model encompassed an organization’s senior management and a strategic vision for HRM. According to this model, the HR department’s autonomous or “stand-alone” activities needed to be integrated to become part of a functioning whole. Thus, since 1984 HRM has had a theoretical foundation.

However, a long time may pass (relatively speaking) from the moment one sees lightning until one hears thunder. In other words, HR is a field that evolves very slowly, as evidenced by the fact that many HR departments continue to operate to this day as if their most important task were personnel administration (Brockbank & Ulrich, 2006, pp. 489-504).

Walton (1985) developed the Harvard model further and introduced the concept of reciprocity. The idea was that reciprocity would encourage commitment by employees, which in turn would foster organizational efficiency. Guest (1987; 1989a; 1989b; 1991) also further developed the Harvard model with his four policy goals: strategic integration, a high level of commitment, high quality, and a high degree of flexibility. As mentioned, Story (1989) introduced the concepts of “hard” and “soft” HRM. “Hard” HRM consisted of the quantifiable aspects of HRM, while “soft” HRM related to, for example, motivation, leadership and communication. Legge (1989) introduced the idea that organizational culture was an important aspect of HRM theory and practice.

The classic work on HRM was published for the first time in 1987. Between 1987 and the publication of the ninth edition in 2014, one can see how the
field of HRM has evolved (Torrington et al., 2014). There are four areas that recur in all nine editions: competence resources, performance, social relations, and remuneration. In general, this is representative of the HRM function viewed from an industrial-society perspective. In the most recent editions (published in the period 2008-2014), however, the authors have addressed the strategic role of the HR department. In any event, the model on which the most widely used book on HRM is based takes as its starting point the HRM philosophy prevalent in industrial societies, where HR departments were seen as units for personnel administration.

Problem. According to Boudreau & Lawler (2009), many HR departments experience problems because they are unable to keep up with the rate of change of the systems they are supposed to support. If this is correct, the consequence is that the HR departments may end up being out of step with the rest of the organization. This is something that often happens, according to Ulrich (2013a, p. 255). However, businesses, organizations and institutions that manage to accommodate change successfully also have HR departments that manage to be at the forefront of these changes (Ulrich, 2013a, p. 255).

Problem approach. The principle question this article asks is: Which competences will manifest themselves in future HRM philosophy?

The research questions are as follows:
1. How has HRM philosophy evolved between 1980 and 2016?
2. What is the knowledge base of the new HRM philosophy?

Organization of the article. The article is organized as follows. Firstly, the methodology is described, secondly the historical development of HRM philosophy between 1980 and 2016 will be examined. Thirdly, the knowledge base of the new HRM philosophy will be examined. Finally, the areas of competence covered by HRM philosophy towards 2030 will be investigated.

1. Methodology: conceptual generalization

In order to come to grips with the possible future developments in HRM philosophy, we have used results and syntheses from trend research (White & Younger, 2013, pp. 27-52; Ulrich, 2013; Ulrich & Ulrich, 2010, p. 5; Ulrich et al., 2012, p. 27). Conceptual generalization (Adriaenssen & Johannessen, 2015) is used to create a synthesis and abstraction of HRM philosophy towards 2030.

We will here very shortly present the methodology used. For further investigation into the methodology named conceptual generalization we recommend the paper by Adriaenssen & Johannessen (2015), and Bunge (1998; 1999; 2001).

Research falls into two main categories: conceptual generalization and empirical generalization (Bunge, 1998, pp. 3-50, 51-107, 403-411). Conceptual generalization is an investigation whereby the researcher uses other researchers’ empirical findings in conjunction with his or her own process of conceptualization in order to generalize and identify a pattern. This contrasts with empirical generalization, where the researcher investigates a phenomenon or problem that is apparent in the empirical data, and only thereafter generalizes in the light of his or her own findings (Bunge, 1998, pp. 403-411). The starting point for the researcher in the case of both empirical and conceptual generalization will be a phenomenon or problem in the social world.

Conceptual generalization and empirical generalization are strategies that are available for answering scientific questions. Which of these strategies one chooses to use will be determined largely by the nature of the problem and “the subject matter, and on the state of our knowledge regarding that subject matter” (Bunge, 1998, p. 16).

Conceptual generalization, which is the subject of our investigation here, is “a procedure applying to the whole cycle of investigation into every problem of knowledge” (Bunge, 1998, p. 9).

2. How has HRM philosophy evolved between 1980 and 2016?

HRM research may be divided into three subgroups, which we can term micro-, meso- and macro-HRM research.

Micro-HRM researches at the level of the individual and the team. It is concerned with recruitment, selection, induction/onboarding, on the job training, development of competence, improving performance and reward systems (Mahoney & Deckop, 1986).

Meso-HRM mainly focuses on the strategic function of HR is an organization. From 1980s onwards, HR departments usually aimed at becoming part of the strategic team in organizations (Walker, 1980). In practice, this meant that HR activities should be linked to strategic thinking (Fombrun et al., 1984). However, it wasn’t until the 1990s that this aim became a reality (Ulrich, 1996). Although strategic thinking became part of HR practices, organizations are largely arranged as “silos” filled with their respective functional areas, and have relatively little integration across the organization. In other words, the strategic thinking in HR is to a lesser extent part of the strategic thinking in the other functional “silos” (Wright et al., 2011, pp. 2-3).
In the 1980s and 1990s, the importance and prominence of HR’s role in organizations increased. The scandals of the early 2000’s in several well known companies led to demands for more balanced control mechanisms as an organization principle (Maciariello, 2014, pp. 95-103). The financial crisis from autumn 2007 onwards also led to new requirements for HR functions. The reputations of large companies and the financial system itself was now in question, and thus the HR function acquired a new role in, amongst other things, reputation management and corporate social responsibility (Maciariello, 2014, p. 95). Consequently, it may be said that scandals and the financial crisis resulted in giving chief human resources officers (CHROs) strategically important positions as communication partners with board members (Wright et al., 2011, p. 4).

**Macro-HRM** focuses on global developments. In an increasingly competitive and global workplace, “the war for talent” became important: how organizations can recruit, cultivate and develop talented employees (Michaels et al., 2001, p. 2). HR departments were given the important strategic task of developing future competence in the company (Ulrich, 2013; 2013a). In essence, this concerned the recruitment and development of knowledge workers whose workplace was the global economy; their task involved operating in close contact with customers and suppliers, which we term here the front line (Michaels et al., 2001, p. 33).

### 2.1. Functional differentiation and the necessary areas of competence.

In 1992, Schuler formulated his simple five P model for HRM. The five Ps stand for: “HR philosophy, HR policies, HR programs, HR practices and HR processes” (Schuler, 1992). The model is used often, and is easy to relate to other models. However, it is so general that it resembles perhaps more a framework than a model, and it is difficult to see that it has a theoretical foundation.

Ulrich et al. (2012, p. 19) describe HRM trends over a longer period of time, starting around 1980 when HRM had essentially an administrative role in organizations. The book then reviews and describes the expansion of HRM functions, when HR departments began to go beyond purely administrative functions. The book then shows how HR was incorporated strategically in organizations. Finally, they use the term “HR from the outside in”. This, briefly, refers to the fact that HRM philosophy has changed so that developments are brought from the outside world into the company’s HR practices. This implies that the HR department takes on an extended responsibility. It may be said that Ulrich et al. (2012) indicate a type of functional differentiation. That is, HRM philosophy has evolved from its administrative and bureaucratic origins to include all the features that companies participate in so as to compete, survive and grow. However, this does not mean that HR departments have to include all the functional areas in an organization; it just means that HR departments should have sufficient variety – the law of requisite variety (Ashby, 1970; 1981) – in order to tackle complexities externally and internally.

HR departments became even more important in the 2000’s, because fusions, mergers, bankruptcies, acquisitions and extreme competition in the global economy increasingly brought about a situation whereby organizations needed to have the capability to cope with these processes of change. It was also during this period that there was a growing need for the development of ideas, innovation and management of change processes (Wright et al., 2011, p. 5). Innovation in small and midsize companies (with no R&D departments) is not the responsibility of any specific department; it is in this context that HR departments may have a new role to play.

In addition to innovation and change processes, the ethical perspective became more prominent in HRM after the turn of the millennium due to the factors mentioned above and developing globalization. This is emphasized by several HRM researchers including Schneider (1987, p. 450), Beer et al. (1984, p. 13), Ulrich (1997, p. 5), Boxall (2007, p. 5), Winstanley and Woodall (2000, p. 6), as well as Grant and Shields (2002).

Before 2000, HR strategy was not geared to monitoring and responding to trends and changes in the outside world; the exception was if these changes directly affected HR. One general example is the production of a company’s products in low cost countries, where the HR department would deal with outsourcing and employment processes.

The new HR philosophy that emerged around 2000 (White & Younger, 2013, pp. 27-52) dictated that HR departments were given greater responsibility for what may be described using the acronym PESC, which stands for political, economic, social and cultural trends.

Around 2000, organizations and other social systems came to be viewed as being systemically connected: i.e., interconnected and mutually interdependent. This is a view evident in, amongst others, the “Human Resource Competence Study” (White & Younger, 2013, pp. 27-52). This global study also shows a change in HR practices – a transition from an administrative focus to a strategic focus, although daily HR administrative processes are maintained. It

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1 Enron, MCI-WorldCom, Qwest, Adelphia Communications et al.
also shows that HR increasingly needs to access a system that monitors trends in the outside world. HR makes these trends apparent, and shows possible measures that a company’s senior management may adopt in order to facilitate the development of sufficient variation in relation to trends in the outside world.

HRM also needs to include the global perspective in their local analyses to a much greater extent. In such a situation, HR departments need to relate the development of individual skills with organizational capabilities (White & Younger, 2013, p. 30).

Many companies have gone through a process from national to international to multinational and now to global. The new feature of global businesses is that “…they share knowledge, talent, capital, customers, and practices around the world. Global firms seek collaborations with networks that take advantage of synergies across borders” (Ulrich, 2013a, p. 256). Interestingly, in this context we find the distinction between multinational and global businesses. Global businesses are strong not because of their size, but rather because of their impact which is due to the fact that they are knowingly connected to other businesses. One of the consequences of such a development is that competition and cooperation are, of necessity, like Siamese twins. In the case of international and multinational businesses, one speaks of lasting competitive advantages whereas in the case of global businesses, lasting cooperative benefits and temporary competitive advantages are more crucial. If this assumption is correct, this will have significant consequences for the development of talented employees and a company’s capabilities.

Given the results of Ulrich’s research (2013a), HR departments should develop early warning systems that are able to uncover global signals and trends at the earliest possible stage.

Figure 1 shows the study variables in a PESC window. This chart has been developed by us based on a conceptual generalization of the 25-year empirical research conducted by Ulrich et al. (2013). The PESC window may be used as the basis for the design of an early warning system, monitoring trends and for analysis of an organization’s capabilities in relation to developments in the global economy.

If a distinction is made between tangible and intangible variables then it is clear that most of the variables in the PESC window are intangible, such as leadership, talent and vision (meaning, engagement, commitment). In knowledge organizations, it is estimated that approximately 50% of an organization’s market value can be explained by intangible factors (Ulrich & Ulrich, 2010, p. 5). This should provide direction for HRM philosophy, practices and competencies towards 2030.

3. What is the knowledge base of the new HRM philosophy?

The HR department’s main task, say Ulrich et al., is to “create specific and substantial value for customers and shareholders” (Ulrich et al., 2012, p. 27). This is not a statement based on hope, faith or desire but "...it is a conclusion backed by 25 years of empirical research" (Ulrich et al., 2012, p. 27). Arguably, HRM philosophy should also give employees an answer to the question: why work for this company? Most people work for more than just money. They work because their job gives them some purpose and is related to specific values. This may be as simple as the importance of relationships with colleagues. It may also concern the identity one creates through work. If the job is meaningful the probability is greater that one develops skills, becomes more committed and dedicated to the job, and contributes more. Correspondingly, this also increases the customers’ commitment to the company (Ulrich & Ulrich, 2010, p. 5). Research also shows that when the employee is committed, customers also become committed through this engagement and this
ultimately affects the bottom line positively. Ulrich & Ulrich express this as follows: “Making meaning is an important cause and a lead indicator of long-term organizational success” (Ulrich & Ulrich, 2010, p. 5).

In recent years, the HR manager has become one of the most important people in the management teams of several companies (Wright et al., 2011, p. 1). When Jack Welch wrote the book “Winning” he expressed this quite explicitly: “…the head of HR should be the second most important person in any organization” (Welch, 2005, pp. 99-100).

From the shadows, from a function that primarily had an administrative and supervisory role (Walton, 1985, p. 77), HR departments have become more visible and play a completely different role today than twenty or thirty years ago (Wright et al., 2011, p. 1). HRM philosophy has evolved from management and control of the staff to “…commitment; i.e. the strength of an individual’s identification with, and involvement in, a particular organization” (Armstrong, 2014a, p. 6). This also agrees with the view of Ulrich & Ulrich (2010, p. 12).

The transition from an HRM philosophy primarily concerned with administrative tasks to one which is more participatory and involved in the organization may be explained in several ways. Recent theories and approaches have provided guidelines for different ways of managing people, for example resource-based theory (Barney & Clark, 2007), institutional theory (Scott, 2013), dynamic capabilities (Helfat et al., 2007) recent theories of knowledge (Polanyi, 1962; 2009; Nonaka & Takeuchi, 1995) recent motivation theories (Asplund, 1970; 2010), new action theories (North, 1990; 1993; 1994; 1996; 1997), prospect theory (Kahneman & Tversky, 2000) and psychological capital (Luthans et al., 2015).

The emergence of globalization and the knowledge society also provides another explanation of this transition in HRM philosophy (Gavin, 2011, pp. 29-30). What is new in the knowledge society that indicates a different and more prominent role for the HR departments? The answer to this question falls into at least two main categories.

One major category is related to the new type of employee in the knowledge society: the knowledge worker. Within this category there are at least five types of answers to the question above. Firstly, there is much to suggest that the knowledge worker is motivated by other factors than the industrial worker in the industrial society (Drucker, 1988; 1993; 1999; 1999a). Secondly, we have no clear and explicit answer of how to increase the productivity of knowledge workers, while much knowledge exists concerning the productivity of agriculture and industry workers (Drucker, 1999; 1999a). To increase the productivity of knowledge workers, organizational design, learning systems and reward systems need to be rethought. Thirdly, the infrastructure rather than the infrastructure needs to be emphasized, which could have implications for the international workforce. Fourthly, the new information and communication technologies affect where and how people work. Fifthly, the necessity of integrating innovation in all organizations has implications for how one hires, develops, motivates and manages people (Legnick-Hall & Legnick-Hall, 2003).

The other main category is related to the globalization of production, distribution and consumption in the knowledge society. Within this category there are at least two answers. Firstly, at the end of the 20th century and beginning of the 21st century there was an emphasis on the outsourcing of many HR activities. Among others, this concerned employment-related processes and skills development. The assumption was that external experts could perform various tasks better than the individual HR departments. Secondly, to an increasing extent, the competence that was sought after on the local level could be found in the global competence network. For instance, IT skills that are used on IT projects locally may be accessed in Bangalore, India. When the so-called local competence exists in global competence clusters this entails new requirements for HR departments. One such requirement is cultural understanding, while another is competence regarding interaction and communication in the global space.

A significant innovation in the last 25 years is the development of what we term the information infrastructure, as contrasted to the infrastructure. The infrastructure is connected to the development of high-speed networks and the consequences that the rapid spread of information has for businesses. Brockbank (2013, pp. 8-9) says that the rapid spread of information in the global economy also has consequences for HR departments. HR departments can create value for organizations in the global knowledge economy along the following four axes (Brockbank, 2013, p. 9; Ulrich & Smallwood, 2007):

1. **Global trend analyses**: Design that will be in demand in the future regarding individual talent needs and capabilities of the organization.
2. **Be involved in senior management**: Have a focus on what the organization is designed to do and relate this to the organization’s competitive position.
3. **Develop knowledge**: Develop the knowledge that is valued by customers, capital markets, suppliers, partners and public authorities.
4. **Responsibility for innovation and change processes**: When Ulrich et al. (2012, pp. 16-17) suggest new roles for HR departments, this
focuses on “driving innovation (and) managing organizational change”, amongst others. The HR department’s role in innovation processes is also underlined by Zhou et al. (2013), and Pattanayak (2005, pp. 8-11).

**Conclusion**

It is also possible that new requirements generated by the main categories of challenges facing HR departments will lead to HR departments being designed and organized differently. In other words, human capital will become more prominent in the knowledge society. Consequently, there is also much evidence that those responsible for managing this capital will need to possess a sufficient variety of skills to cope with variety among the people they manage. This is analogous to Ashby’s law of requisite variety (Ashby, 1970; 1981). One consequence of this law is that the HR-practices that emerged in the industrial society are no longer adequate in the knowledge society. The rationale is that both the social responses, their level of activity increases.

Asplund’s motivation theory may be briefly described in the following way: People are motivated by social responses (Asplund, 2010, pp. 221-229). The following statement may be said to be a central point made by Asplund’s theory: When people receive social responses, their level of activity increases.

Asplund’s motivation theory is consistent with North’s action theory. North’s action theory (North, 1990; 1993; 1994; 1996; 1997) may be expressed in the following statement: People act on the basis of a system of rewards as expressed in the norms, values, rules and attitudes in the culture (the institutional framework).

If we link Asplund’s motivation theory to North’s action theory, we arrive at the following proposition: People are motivated by the social responses that the institutional framework rewards. It is this proposition, among other things, that makes it seem reasonable to say that knowledge workers in the global knowledge economy are motivated and act differently than industrial workers in the industrial society. The rationale is that both the social responses and the institutional framework are different in the new emerging knowledge economy than in the hierarchical obedience cultures of the industrial society (Santos & Williamson, 2001, pp. 13-55).

On a general level, the background for the new HRM philosophy we see developing may be explained by the great rate of change that globalization and the knowledge society has produced (Ulrich & Ulrich, 2010, preface).

The above description provides a rough sketch of the trends characterizing the transition from an industrial society to a knowledge society. HRM philosophy in the knowledge society is mainly oriented towards managing and developing knowledge workers. One of the key factors concerning understanding knowledge workers is how they are motivated and how their productivity can be increased (Drucker, 1999; 1999a). The HR departments that are oriented towards an industrial way of thinking are more concerned with control, recruitment, promotions, competence development, measuring employees’ performances, terminating employment and the legal aspects of these processes, etc. Of course, these HRM functions do not disappear in the knowledge society. The point is rather that they are given less focus and become administrative HR activities, while others HR activities take precedence and become more important. The good news in this development, say Ulrich et al. (2008), is that the HR department really plays a crucial role in a fast-changing world. The question that may be asked is: can HR departments contribute to future value creation in businesses? Ulrich et al. (2012) answer this question with an unqualified yes.

Success in the knowledge economy often occurs when an idea is associated with a product or service; in this way, knowledge is applied in practice (Burton-Jones, 1999). If this is correct, it can be imagined that HR departments will take on new functions (Lengnick-Hall & Lengnick-Hall, 2003, p. 18), for instance giving support to knowledge workers so productivity increases.

Another new function is related to the fact that knowledge and specialists are scattered around the world. Consequently, HR departments should ensure that the individual knowledge worker is able to connect to, and build relationships with, global experts and talent wherever it can be accessed (Brockbank, 2013, pp. 3-27). This part of the new HR function may be called relationship building aimed at knowledge workers so that they can link up with global competence clusters. Ulrich says the following: “To master HR in today’s technologically connected and rapidly changing environment requires insights into global communities” (Ulrich, 2013, p. v). “Global communities” is here synonymous with our term “global competence clusters”. To achieve this, HR departments need to have sufficient variety in their competence. They should be able to understand the global competence clusters, and have...
insight into social, technological, political and demographic trends. The rationale here is that due to “the war for talent” investors and suppliers are global and no longer local or regional (Ulrich, 2013, p. vi).

The battle for talent in the new global knowledge economy requires that HR departments focus on the following dual process:

1. Develop talent and organizational capability (what the business is good at and well known for).
2. Connect to talent in the global competence clusters.

Twenty-five years of empirical research shows that the HR departments that manage this double process also contribute significantly to the organization’s performance (Brockbank, 2013, p. 8).

The problem approach in this article is: Which competences will be manifested in the HRM philosophy of the future? The specific answer to this question is given along the following two axes. Firstly, there are the necessary areas of competence. Secondly, there are the sufficient areas of competence. The necessary and sufficient areas of competence are shown in Figure 2.

Fig. 2. The necessary and sufficient areas of competence for HRM towards 2030

References


209