



Munich Personal RePEc Archive

## **Human Resource Management: Some Vital Considerations**

SK Mishra

North-Eastern Hill University, Shillong (India)

4. August 2007

Online at <http://mpra.ub.uni-muenchen.de/4400/>  
MPRA Paper No. 4400, posted 8. August 2007

# Human Resource Management: Some Vital Considerations

SK Mishra  
Department of Economics  
North-Eastern Hill University  
Shillong (India) – 793022

**I. Introduction:** Are human beings ‘resources’? On this question there is a sharp division in opinions. There are scholars, not much ethically inclined, who adore the practice of considering human beings as resources. They visualize a continuum – from the inert objects to the most refined intellectual endeavours – from the one end to the other, as resources to productive activities. On the other hand, there are a plenty of scholars who abhor considering human beings just a complement to other means (e.g. animals, plants and inanimate objects) of production. To those scholars it appears debasing to consider labour - menial or mental, vulgar or artistic, raw or polished - as a commodity and by the same logic, human beings a source of the flow of labour and its power as resources. They view workers in the holistic perspective of their psychology and their fitness to their work environment and work assignment, rather than as interchangeable parts. They place emphasis on how leadership, cohesion, and loyalty play important roles in organizational success. They also consider the instinct of workmanship as an important source of value added to the output they produce.

**II. The Basis of Human Resource Management:** Think of the neoclassical schema. In this schema there are many producers (of a particular commodity or service). Each producer is an employer (of workers in his establishment). He has the means to employ workers and thereby buy their performance. He is interested in the work performance and wants to maximize his benefit. On the other hand, there are people who want job (and possess the required labour power or skill). They too want the best of the deal, possibly the largest sum in reward of their work effort. Additionally, as the neoclassical economics assumes, the producers as well as the workers possess all the information required for reaching a decision. Also assume that the demanders (the producers) and the suppliers (workers) of labour are in sufficiently large numbers. The neoclassical schema suggests that they will reach an agreement on an equilibrium wage. This wage rate would

be equal to the marginal revenue product (performance) of the worker on the producer's side, and to the marginal rate of substitution between income and leisure time on the worker's side. In this manner, the interaction between the two forces – the demand and the supply – determines wages as well as performance. There is hardly anything in this schema to bring in the need of human resource management (Nienhüser, 2004).

The standard neo-classical schema is extremely idealized, so much so that it has no resemblance to reality. Although the motives of employers and the (prospective) employees may not be very far away from the reality, other assumptions of the model are extremely unrealistic. To assume that the employers have every bit of information necessary to decision-making is questionable. The same is true with the assumption of omniscience of the (prospective) employees. Nor is it true that the employers or the prospective employees have unlimited choice with regard to one another. Furthermore, once the employer and the employee have reached the agreement, it might not always be true that each other's expectations are realized. There are issues related with the moral hazard, asymmetry (of information, power and institutional support) and a host of other factors that mediate between expectation, capability and their realization. These issues call for human resource management.

Let us take up these issues one by one; first, regarding the employer. Who is an employer? If an establishment is owned as well as managed by a person, who is the sole decision maker and all profits and losses are due only to him or her, we obtain the one type of scenario. On the other hand, when an establishment is owned by many persons, some real and some others as 'legal persons' possibly representing the interests of some organization; some having larger stakes and some others having smaller stakes and so on, we are faced with an entirely different kind of scenario. This kind of scenario is well manifest in the joint stock companies. Owners are not the managers. Management is partly parallel and partly hierarchical. Moreover, the managers are themselves the employees. A larger part of information available to the one department is not so to the other departments. In this sort of scenario it is difficult to define the employer. Of course, for legal purposes the impersonal firm is the employer, but for analytical purposes the

concept of an employer is only blurred. The concept is blurred furthermore when the employer is a body politic, like the government.

What are the possible motives of an employer? Is it always true that an employer wants to maximize *profits*, as it is almost universally assumed in academic forums? Profits may apparently have a very definite meaning, but that is only an illusion. A tint of fuzziness and uncertainty is immediately introduced as soon as we bring in time in our analysis. A certain decision might be profitable in the short run, but not in the long run or vice versa. It is not very difficult to find instances of enterprises that take a short run view of profits, care little to build up goodwill or an image of their products in the market and are chiefly guided by the predatory instinct. By such a strategy, many enterprises in their short life span have earned huge profits, disappeared forever, but built a fortune, which they invested elsewhere. On the other hand, many enterprises aspired for profits in the long run; some of them failed, some others succeeded.

In many cases, however, earning profits is only one of the objectives of an enterprise. It may have several social objectives. If one takes instances of a few big entrepreneurs in India, one would find that a few of them have had clearly discernible social (national) objectives while a few others chiefly aspired for profits. In many other cases, profits have not been an objective at all. The objective of some enterprises have been chiefly social and altruistic; their earnings have only met their expenses and sustained them to remain functional. Or, in some other cases, the objective of an enterprise may be organic – to survive, grow and wield some power or influence – to which profits might be only a means.

Then of the assumption that an employer has all of the necessary information needed to make a decision with regard to employing persons in the establishment. There are two sides (if not more) of this issue. The first side relates to the requirements in the establishment. Is an employer sure of those requirements and if yes, in what proportions, hierarchies, complementarities, priorities and urgencies are those requirements necessary to meet the objectives of the establishment? Is an employer aware of the possible changes

in the structure and composition of those requirements likely to occur in a foreseeable future? If not, then a correct decision in the current perspective would be utterly out of place in a future perspective. Since it is not possible to hire or fire employees overnight, such a decision may ever continue to be a drag on the performance of the organization.

The other side relates to the (prospective) employees. How can we judge the candidate employees as to their ability, willingness and persistence to fulfill the requirements of the organization (employer)? This problem is less acute when unskilled manual labourers are required, especially for casual jobs. But as the requirement of skill or the span of contract increases, the problem becomes more and more complex. It is a commonplace that the educational (training) institutions rarely train the pupils to fit into the requirements of any particular organization. Education, whether in general or professional institutions, whether in humanities, social sciences, natural or applied sciences, engineering, medicine, management or the like, continues to be, and can at best be, only general, inculcating in the pupils the ability just necessary to appreciate the issues that are relevant to their trades. As Bertrand Russell said once – education is not imparting knowledge, but inculcating the skill to acquire knowledge.

But how can an employer be sure that the candidate employees are sufficiently educated or trained? Several methods are used to judge the candidature of the prospective employees. The foremost is a reliance on the credentials such as the degrees or diplomas conferred on the candidates by a reputed or professionally recognized educational (or training) institution. This is often supplemented by personal interviews, written tests, etc. It is well known that the credentials of a candidate employee, even if issued by the most reputed educational institutions, are a grossly imperfect measure of his/her ability; much less of his/her persistent willingness to contribute to the employer organization. Professionals in particular are very much prone to use the current employer organization as a jumping pad for an entry to more rewarding organizations. Competitor organizations themselves tend to promote such endeavours. Thus, employers face uncertainties not only in recruitment, but also in training and retaining the most promising employees.

Let us now turn to the problem of moral hazards. The employer and the employee reach at an agreement in which each has to give something to the other in exchange of something. For example, an employee has to perform (do some specified work) in exchange of a specified amount of salary (reward). In case there is no sensitive and reliable measure that can assess the performance of the employee or the application of the measure of performance is costly (time-wise or cost-wise), the employee may not perform commensurately with the reward he/she gets, and yet, the employer might not be able to administer his/her performance. This is the instance of the moral hazard. Moral hazards from employees' side cannot be reduced without inculcating in them the sense of loyalty to the organization.

The asymmetry of information, power and institutional support often block the possibilities of optimal decision-making. Asymmetry in information refers to the fact that the employer, the manager and the employee each do not or cannot possess information in equal quantity, quality and variety so as to reach a balance in using those information. The better informed may gain advantage over the less informed. Asymmetry in power blocks the advantages to the less powerful in the same way. Further, employees, managers and the employer do not have equitable support of institutions to protect their interests. These asymmetries ultimately give rise to conflicts of interests.

**III. The Strategy of Dynamic Gradual Optimization:** From what has been discussed above, some vital points emerge. First, although it may not always be possible to identify a (or a few) person(s) as the employer and the crisply stated objectives which the organization aspires for, a vague idea of them can always be formed. Further, due to lack of enough information (or vary high transaction cost of obtaining sufficient information) the employees recruited by the organization are in most likelihood short of fitness to meet the objectives of the organization. Thirdly, on account of asymmetries, lack of appropriate and sensitive measure of performance as well as impracticability of administration of performance there would be a possibility of moral hazards and emergence of conflicts of interests among the organization, the management and the

employees. All these together would reduce the efficiency of the organization to meet its objectives.

The purpose of human resource management is to understand the above problems and gradually work out a series of coherent solutions over time (or identify a path of evolution) so as to make the objectives of the organization clearer on the one hand, and nurture the ability, identify the roles as well as direct the spontaneous yet conscious efforts of employees individually and collectively to best achieve those objectives (of the organization).

This perspective has several highlights. First, unlike the deterministic, static and crisply defined (but unrealistic) scenario presented by the academics, it visualizes a possibilistic, dynamic and vaguely described (fuzzy) scenario, closer to the real world situation. In this perspective, the goals of an establishment are neither countably determinate nor clearly defined. The goals evolve over time and gradually make themselves more vivid. In absence of clearly and arithmomorphically defined goals, the traditional principles or methods of optimization are not applicable. One has to resort to satisficing approach to optimization as Herbert Simon (1957, 1962, 1979) pointed out. Thirdly, identification of a correct solution to the problem is neither necessary nor feasible. There are multiple paths to reach better and still better solutions and only a search and gradual betterment strategy is suggested (Firby, 1989).

This perspective also recognizes that organizations are very complex adaptive systems. A complex adaptive system is a dynamic network of many agents (owners, managers at different levels, employees of different types at different nodes and the outer people with whom they interact) acting in parallel, constantly acting and reacting to what the other agents are doing. The control of such a system tends to be highly dispersed and decentralized. The overall behavior of the system is the result of a huge number of decisions made every moment by many individual agents. These systems have a very high degree of adaptive capacity, giving them resilience to perturbations. They have quite involved framework of communication, cooperation, specialization and spatio-temporal

layout (Waldrop, 1992). Viewed a little differently, their degree of cyclomatic complexity (referring to the number of nodes of decision, transfer of control and repetitive loops) is very high and most often dynamically changing as well as evolving over time. If there is to be any coherent behavior in the system, it has to arise from competition and cooperation among the agents themselves.

#### **IV. Some Major Nodes of Decision Making for Human Resource Management:**

Human resource management in a typical organization comprises the following processes that may be considered as the major nodes of decision making and choosing one of the (many permissible) paths to proceed. These are:

- (i) ***Workforce planning***: It is mainly concerned with the visualization of different activities, processes and their interlinkages in the organization and need for persons, with requisite skill, to perform those activities. The quality as well as the number of persons required for various activities is to be determined.
- (ii) ***Recruitment***: The next step is to recruit the workforce. It has two major processes under it. The first relates to 'attraction' and the second to 'selection'. Attraction needs a planned strategy to draw the attention of qualified persons to the organization. Sometimes this is done by advertisement but at others the organization has to personally contact the prospective employees. To strike at the correct strategy to attract right type of persons is considerably complex. A wrong strategy might be either ineffective or leading to problems in future. Likewise, the selection of right type of workforce is very involved. No foolproof method exists to guarantee that the selection made by any process is best suited to the interests of the organization.
- (iii) ***Induction and Orientation***: As it has been noted earlier, no educational institution can turn out pupils cut and dried to the specific needs of any particular organization. Education is always 'general'. Once a person has been selected to join the workforce of an organization, he/she has to be inducted and oriented to the specific job. He/she has also to be made aware of the major objectives of the organization and the environment in which he/she has to work. It has been observed that at times the managers 'over-manage' and in



showing loyalty to the organization tend to over-describe. At other times, managers fail to induct and orient the new recruits to their job, leaving them to discover their roles by themselves. Over-description as well as under-description tends to give a wrong orientation to the new recruits.

- (iv) **Skills management:** It refers to making a matrix of skill or competencies of different levels required in performing different jobs on the one hand and the assessment as well as stocktaking of skills of different employees on the other. Their matching often discloses the gaps between the required and the available skill, which may suggest additional recruitment or need of training and development of the (existing) employees. It may be noted that skills management is an ongoing process in view of the changing internal (within the organization) as well as external environment.
- (v) **Training and development:** Training and development may be needed first to bridge the current gap between the required skill for performing a job and that available with the workforce, and the second in view of the future requirements of the organization. It is a commonplace that of late the rate of changes in technology has been very fast. The span of service life of an employee is always far too larger than the span for which a particular technology is in mode. As a result, the employees must be trained and retrained to fit to the technology. Training may be in-house; it may be given by those organizations that supply new technology or even by a third party. It may be noted, however, that all employees are not equally amenable to appreciate the value of training. Nor all of them are equally responsive to training or interested in learning. The management has to take necessary measures to induce the employees to be more receptive to learning. The management also has to look into the quality of training imparted by the trainers whether individuals or organizations.
- (vi) **Time management:** It refers to identification, listing, sorting and prioritizing the tasks to be done and allocating time on them. The management should train its employees to manage their time when at work or at home (since performance of a person at either place impinges on the performance at the

other place). Although an exercise in time management itself may take some time, but ultimately it increases efficiency. There are many methods of prioritization of tasks, among which the ABC method, the POSEC (prioritize, organize, streamline, economize and contribute) method and Eisenhower method are notable. The Eisenhower method uses importance and urgency as the two coordinates making four categories of tasks. The less urgent and less important tasks are the last in priority while the most urgent and most important tasks are the first to attend. It is advisable to use a 'secondary memory' device (such as written task list or a computer note pad/diary) than the 'primary memory', i.e. keeping the list and the priorities in mind, which is easy to forget or get confused. As computers are easily available now, one may use software that have built-in task hierarchy schedulers and support numerous chores of ordering and listing of tasks with their details. The management should also keep information on how the employees have planned the use of their time in performing the tasks and rationalize them where needed. The culture of time management has to inculcated and promoted among the employees.

- (vii) ***Travel management:*** It refers to rationalization of movement of the employees from their residence to the workplace and their return back home as well as their movement elsewhere for performing certain sort of tasks related to the organization. It may encompass residential planning, including availability of amenities and facilities, for the employees as well. A properly done travel management may increase the efficiency of employees manifold.
- (viii) ***Management of payroll, compensation in wage/salary and benefits administration:*** Various methods may be adopted to pay salary/wages to the employees that save their time on the one hand and the cost/time of the organization in disbursement. For example, instead of paying them in cash on a fixed day every month (which may make long queues and kills the entire day), payments may be made to employees' savings accounts. Charges for certain types of benefits given to the employees may be deducted from their salaries directly. Employees' benefits encompass all non-wage or non-salary

benefits given to them partly to increase their economic security and partly to induce them to be more effective and loyal to the organization. These benefits include perks, housing, conveyance, group insurance, health care, day care, children's tuition fee reimbursement, funding of education, various types of leave, vacation, travel allowances, subsidized lunch during the work hours, voluntary retirement schemes, retirement benefits, etc. All these benefits increase the cost on the part of the organization, but if properly planned and administered, they may also increase the returns from the employees manifold. On the other hand, a faulty planning and execution of these benefits may result into employees' dissatisfaction and a consistent resistance from the employees' unions, often leading to loss of workdays and degeneration of the relationship between the employees and the organization/management.

- (ix) ***Performance appraisal:*** It refers to the regular assessment and review of the performance of employees in terms of quantity, quality, cost and time. Its objectives are to (i) give feedback to employees as to their performance so as to make them aware of their contribution, (ii) identify employee for training and skill augmentation, (iii) document criteria used to allocate organizational rewards, (iv) form a basis for promotions, disciplinary actions, special raises in personal salaries, etc. (v) provide the opportunity for organizational diagnosis and development, (vi) facilitate communication between employee and management, and (vii) validate selection techniques and human resource policies to meet certain norms. In many cases, the performance appraisal is done through the 'upward feedback system' in which the managers get a feedback through reports or they review the performance of the employees directly. However, the '360-degree feedback system' also is very often used for performance appraisal. This method relies on the feedback received from different internal sources such as subordinates, peers and managers, self-assessment of the employees, as well as external sources such as customers and suppliers or other stakeholders. The 360-degree feedback system often works better than the simple upward feedback system. Drucker (1954) suggested that management by objectives (MBO) is often very successful in

understanding of objectives of the organization and enhancing the performance. Management by objectives is a process in which the management and the employees discuss and reach at a consensus on the objectives of the organization, the degree of success in meeting them, obstacles to meet them and the ways and means to meet them better. We have mentioned before how and why the objectives of an organization become clearer to the employees only gradually. The MBO method is only a process to that end. It introduces the criteria of specificity, measurability, achievability, reality and time-specificity in the objectives and thereby promotes performance of employees (including management). For a healthy functioning of the organization it is required to develop the management information system to help monitor the 'reach ratio' ( a ratio of achievement to target).

**V. Broadening the Concept of Human Resources:** So far, the scope of human resource management has been limited to the in-house persons employed by the organization. It also concentrates mainly on production (and distribution to some extent). However, of late, the scope of human resource management has been widened in view of the generalized definition of human resources. Now, under human resources one includes all those people – employees, agents, dealers, distributors, retailers and customers including consumers in the forward chain and the suppliers of inputs in the backward chain – who are related to an organization and whose behaviour may have some effect on the performance of the organization. This change has brought in the concept of 'crowd-sourcing'. It "can improve productivity and creativity while minimizing labor and research expenses. Using the Internet to solicit feedback from an active and passionate community of customers can reduce the amount of time spent collecting data through formal focus groups or trend research, while also seeding enthusiasm for upcoming products. By involving a cadre of customers in key marketing, branding, and product-development processes, managers can reduce both staffing costs and the risks associated with uncertain marketplace demand." (Alsever, 2007-b).

It is obvious that the broadening of definition of human resources has chiefly been a result of the revolution in the information and communication technology. As Alsever (2007-b) points out, with the rise of user-generated media such as blogs, Wikipedia, MySpace, and YouTube, the traditional distinctions between producers and consumers have been blurred. Although the idea of soliciting customer input is hardly new, the advent of open-source software movement has shown that now it can be done with ever-large number of people. The difference is that today's technology makes it possible to enlist ever-larger numbers of non-technical people to do ever-more complex and creative tasks, at significantly reduced cost.

Proctor & Gamble has used crowd-sourcing for research and development of their Prigles Prints Chips. O'Reilly Media, a publishing company, has done it for sales reporting. Chipotle Mexican Grill, a restaurant chain, has applied crowd-sourcing for advertising and Threadless, a youth-oriented fashion manufacturer, has benefited in product designing and selection by crowd-sourcing. Alsever (2007-c)

It may be noted, nevertheless, that the methods of managing the employees differ significantly from the methods of managing the non-employees, especially the customers/consumers. The organization must not expect to control them, but to allow them to be creative and be themselves. The organization may lay out ground rules about how much control it is willing to cede, how much information it is willing to share, and what will happen to the work that the participants create. Alsever (2007-a) points out that people will do many things (for an organization) just for free, simply because they think it is fun. Products and companies can become hobbies unto themselves, and many consumers will derive satisfaction from feeling like an insider at a company they're passionate about. In return, the concerned organization should give them recognition, exclusive perks, the opportunity to interact with senior company managers, or free products.

**VI. Concluding Remarks:** The nodes of decision-making for human resource management described above readily suggests us that in real life one cannot make a tight, static and closed optimization model of human resource management. The network of

decision nodes characterizes multiple paths from the one to the other and every path is uncertain, fuzzy and information-wise imperfect. Decision-making at any node requires a prohibitively large cost of information, not feasible to be met in real life. Under this condition, there is no alternative to the strategy of dynamic gradual optimization. Although it is easy to say that the objectives should be crisp, quantifiable and specific, but in real life it is not easy to obtain them. One has to deal with fuzziness. Moreover, for clarity of analysis it is assumed that the objectives or the measures of performance are independent of each other, but again, in reality, they are often interdependent to some extent. This situation is analytically inconvenient, but, being real, has to be dealt with. It may also be noted that while minimization of the degree of asymmetry of information between the employees and the management might help in better understanding and improved performance, it depends much on the institutional framework how symmetry (or asymmetry) in information would be used. Certain institutional systems are conducive to efficiency and performance, while certain others have led to a (possibly misplaced) weight system on equity, justice and performance. The practice of human resource management cannot override the overall institutional framework completely. As a result, the satisficing behaviour, although clearly sub-optimal, may be the only resort. It is also important to go along with the recent development in information technology that has blurred the distinction between the producers and the consumers. Customers, if allowed to interact and managed properly, can be a major but very cheap and effective source of research, development and advertising. Crowd sourcing has a great potential to help meet the objectives of an organization and it should be included in human resource management practice.

## References

- Alsever, J (2007-a): “How to Get Your Customers to Solve Problems for You”. [http://www.bnet.com/2403-13068\\_23-52960.html](http://www.bnet.com/2403-13068_23-52960.html)
- Alsever, J (2007-b): “What is Crowdsourcing?”. [http://www.bnet.com/2403-13068\\_23-52961.html](http://www.bnet.com/2403-13068_23-52961.html)
- Alsever, J (2007-c): “The New Human Resource”. [http://www.bnet.com/2403-13240\\_23-52962.html](http://www.bnet.com/2403-13240_23-52962.html)

- Drucker, PF (1954): *The Practice of Management*. Harper & Row, New York.
- Firby, R (1989): *Adaptive Execution in Complex Dynamic Worlds*. Ph.D. thesis. Department of Computer Science. Yale University. New Haven, Connecticut.
- Nienhüser, W (2004): “Political [Personnel] Economy – A Political Economy Perspective to Explain Different Forms of Human Resource Management Strategies”. *Management Revue*, vol. 15 (2), pp. 228-248.
- Simon, HA (1957): *Models of Man*. Wiley, New York.
- Simon, HA (1962): “The Architecture of Complexity”. *Proceedings of the American Philosophical Society*, vol. 26, pp. 467-482.
- Simon, HA (1979): “Rational Decision Making in Business Organizations”. *American Economic Review*, vol. 69, pp. 493-513.
- Waldrop, MM (1992): *Complexity: The Emerging Science at the Edge of Order and Chaos*. Simon & Schuster, New York.

### **A Bibliographical Note**

The publications of the Human Resource Development Academy at the College of Technology, Bowling Green State University, Bowling Green, OH 43403-0280, USA at its website <http://www.ahrd.org> provide very rich reading and research materials on human resource development. These resources are freely downloadable. (Note that some files are quite large and contain research papers in the volumes exceeding 1000 pages). The Academy of Human Resource Development was formed to encourage systematic study of human resource development theories, processes, and practices; to disseminate information about HRD, to encourage the application of HRD research findings, and to provide opportunities for social interaction among individuals with scholarly and professional interests in HRD from multiple disciplines and from across the globe.