The organisational structure in major shaping factors

Organizations within today's labour markets cannot be pretermission on increasing importance of managing human resources. It is realized that the ways in which human resources are managed in employing organizations is vital for the employer. Human resource (HR) system embraces all the policies and practices that will ensure that right personnel recruited, trained and maintained so as to make contribution on the achievement of business goals (Kroon, 1995). Heery and Noon (2001) depict that employees are a resource which must be harnessed and managed effectively alongside the other resources within an organization. Therefore, analyzing the shaping factors of HR system is fundamental to understand what is appropriate in terms of future action.

This assignment will have two arguments: (1) Organizational structure is not the single major shaping factor for HR system as the other major shaping factors would also be highly influential to the approach of HR system; (2) Organizational structure is not a major determinant for any company's HR system as in certain companies HR system would be a determinant for organizational structure instead.

This paper is divided into four parts. The first part will briefly define what human resource (HR) system is and its objective within an organization. The second section of this assignment will examine the major shaping factors (1) Organizational structure; (2) Culture; (3) Strategy; (4) Management Philosophy, and highlight how these factors impact on the different aspects of HR system by using related literature and practical examples respectively. This part of the paper will focus on the particular key HR functions on each major factor as examples to illustrate the argument. There are four key

components of HR system: (1) Recruitment and Selection; (2) Training and Development; (3) Compensation and Rewards; (4) Performance Management. The third part of this assignment will highlight what is meant by ‘ Strategic Human Resource Management’ (SHRM) and ‘ Resource-based view’ (RBV), and demonstrate HR system would be a determinant for organizational structure under RBV approach. Finally, the assignment will conclude by illustrating to the reader that it is important for HR practitioner to analyzing the shaping factors of HR system so as to understand what is appropriate in terms of future development and change.

The Oxford English Dictionary definition of human resources defines it as ’employees, or the workforce of an organization’ (Soanes and Stevenson, 2006: 645). The term ‘ system’ can be described as a set of correlated activities that work together to achieve specific ‘ behavioural objectives’ (Ferris et al., 1995: 447). It seems that the term HR system is used very widely, yet there is a considerable lack of clarity surrounding its component parts. Guest (1997) views that such system consists of HR policies and practices, but these terms are often used interchangeably, and so it is difficult to know whether it is policies or practices that are ‘ bundled’ together to form a coherent system and whether, in the ‘ bundles’ of practices, there are combinations that are effective. Martocchio (2006: 221) illustrates that HR system ‘ operates at an even higher level of analysis’ and ‘ reflects a program of multiple HR policies that are espoused to be internally consistent and reinforcing to achieve some overarching results’. HR system embraces various employee-related policies and practices such as recruitment, training & development, staff retention and so forth in order to

enhance the competitive advantage (Kroon, 1995). In addition, Heery and Noon (2001: 165) view that employees are an important resource which should be ‘ harnessed’ and ‘ managed effectively’ as well as the other resources within organizations. According to the aforementioned views on HR system, it is stressed the crucial importance of managing human resources to an organization’s success.

From the preceding paragraphs the clear definitions of HR system have been stated. It has been suggested that with organizations there are four major factors that shape the HR system. These factors include (1) organizational structure; (2) culture; (3) strategy; (4) management philosophy.

Organizational structure is the way individuals are grouped and their tasks coordinated and managed, the individuals would be guided towards the goals of the organization (Hendry, 1995). Griffin and Moorhead (2010: 427) relate that organizational structure is ‘ the formal system of tasks’, ‘ reporting’, and ‘ authority relationships’ so as to coordinate employees’ works and ensure effective communication within the organization. It also defines how the units, teams, sections and departments of an organization fit together, which can be reflected clearly from an organization chart (Hitt et al., 2006). Organizational structure can be analyzed in several key elements which are complexity, centralization, and formalization (cited in Robbins, 1987; Miles, 1980). Complexity refers to the ‘ different number of components’ that presents in a specific organization (Bowditch et al., 2008: 284). Centralization stresses on ‘ the locus of decision-making authority’ within the organization (Bowditch et al., 2008: 286). Formalization refers to ‘ how much work is governed by rules and standardized procedures’ which are

used to control and manage the employees' behaviour (Graubner, 2006: 36). Refer to Jones (2007), the principal objective of organizational structure is to control the way people coordinate their actions to enhance the productivity and effectiveness within an organization. To a certain extent, it seems that the main purpose of organizational structure is one of control which would influence the organizational performance significantly. For example, if an organization does not define communication channels for staff clearly, the decisions may be late and inappropriate since the timely information cannot be reached to the right person. All the aforementioned aspects highlight that organizational structure is an important issue which is related to organizational performance. Thus, organization and human resource practitioners should not be overlooked.

Having given a brief description and established what organizational structure is, it will now proceed by presenting the relationship between organizational structure and HR system with relevant literature.

Notwithstanding the organizational structure will not directly make choices about human resources, it is likely to have a significant impact on managing human resources in the organization (Purcell and Ahlstrand, 1994). For example, Klimoski and Jones (2007) advocate that the way of managing human resource such as recruitment, job analysis, performance assessment, training and so forth, for team-based structure should be different from individuals. Newell and Scarbrough (2002) depict that in the multi-divisional structure each division would manage its resources independently and in this highly diversified business the organization would more emphasize on the achievement of targets rather than the process. In other words, such

organization becomes more likely to have the decentralized HR system rather than integrated one. On the other hand, Jackson et al. (1994) suggest that the involvement of dealing with workforce diversity would be increased if the team structure is more focused.

The above evidences indicate that organizations have various structures which would have a bearing on HR system. It will now proceed by in-depth illustrating why organizational structure is a major shaping factor for HR system. This will be tackled by examining how organizational structure influence on the key HR function – recruitment and selection.

Recruitment is the process of seeking and attracting candidates for a job vacancy, whilst selection is the technique of choosing a suitable one from the available job seekers for filling the job position (Mckenna and Beech, 1995). Robbins (2008) notes that the purpose of recruitment and selection is to achieve the good matching between the requirements of the vacant position and the applicants' characteristics such as competency, qualification, experience and so forth so as to contribute a success of the business. It is realized that recruitment and selection is a key function of HR system within an organization. Different organizational structures are likely to affect the approach of recruitment and selection. For example, an organization with mechanistic structure which is high work specification, high organizational level and centralized authority (Burns and Stalker, 1961), it may have a structured recruitment and selection plan with a clear focus about what type of person they are looking for. Besides, it tends to have several rounds interview because of the high organizational level. In contrast, an organization with organic structure, they may be more flexible

and therefore be able to recruit quicker as it is not required to go through the several rounds interview. For instance, there is one practical example in my past working experience. It was observed that one large corporation with mechanistic structure, has several rounds interview for applicants. The first interview is performed by HR personnel. After that, supervisor and line manager of the responsible department would have the second and final interview respectively.

After the interview is completed, the selection process is started. In the mechanistic structure, the decision making is more likely to be concentrated at the top management in the organization (Gitman and McDaniel, 2008). Moorhead et al. (1998) deem that the junior level employees under such structure merely carry out the top management's instruction without making decisions, thus the emphasis would be focused on staff loyalty, stability, and obedience in order to achieve the sustainability within an organization. In other words, the selection criteria in this structure may tend to stress on the candidates' personality and stability on past working experience rather than their qualification and experience. In organic structure, the decision making is generally decentralized while such organization is necessary to react to the dynamic business environment promptly (Gitman and McDaniel, 2008). Hence, it is important for employees to commit to the organization's tasks. Under this structure, it may more concern on the candidate's ability and competence accordingly. One practical example is derived from my personal working experience in an information technology company (ITC) with an organic structure. In their selection practice, they prefer the candidates with

good academic background and experienced. Most of employees are recruited even their stability on past working experience is low.

This evidence highlighted that the organizational structure has a greatly influential determinant of the way that human resources are managed. The structure has evolved within an organization, will also prescribe what requirement is needed on the employees in order to make the best contribution on the organization.

Organizational culture is another major shaping factor for HR system. Griffin and Moorhead (2010: 30) describe organizational culture as ‘ the set of values’ that help the employees know which behaviour is ‘ considered acceptable and which unacceptable’. An alternative definition provided by Hofstede (2001: 2) states that culture is the unique ‘ mental programming’ of an organization. Kroon (1995: 99) depicts that organizational culture is ‘ a system of values’ that exists within the company, which is derived from the history of the company. In view of the aforementioned definitions, it implicates that organizational culture is likely to be the unique informal or invisible system evolved in each organization to shape particular behavioural norms. Organizational culture performs several key functions within an organization (Dwivedi, 1995: 11). (1) it generates unique identity of each organization; (2) it keeps the unification of an organization by providing the intangible guidelines to the employees; (3) it treats as a ‘ control mechanism’ that guides the employees’ attitudes. All these aspects highlighted how important organizational culture is, that in turn reinforces that it should not be slurred.

Now this paper has outlined the definition and the key functions of organizational culture, it will now proceed by illustrating the relationship between organizational culture and HR system with related literature.

Legge (1989: 28) observes that HR management underlines ‘ the management of culture as a central management activity’. Armstrong (1987) deems that dealing with culture is a crucial component of HR management. To achieve the HR management objectives, the management of the organizational culture should be done well as various cultures will require particular HR management practices (Fombrun, 1983). Besides, Condrey (2010: 325) represents that ‘ the organizational culture is so pervasive that it must have a strong influence on the performance and general behaviour of the HR system and functions’.

From the foregoing evidence, it is clear that there is a link between organizational culture and HR system. It will now proceed by further illustrating why organizational structure is a major shaping factor for HR system. This will be undertaken by discussing on how organizational culture influences on another key HR function – training and development.

Once the suitable employees are recruited, training and development is next stage of HR’s function. Pepper (1984: 9-11) defines training as a formal process focused on the gaining and maintenance of capability, whereas development as where the purpose is to ‘ acquire a set of capabilities’ which will furnish the individual to perform a task ‘ in the predictable future’. It reflected that the essential objective of training and development is to help the organization make a success of its business by adding value to its staff. ‘

Competent employees don’t remain competent forever; Skills deteriorate and can become obsolete’ (Robbins, 2005: 521). Accordingly, training and development is crucial component of HR system in order to obtain and sustain the competitive advantage. Different organizational culture would determine the training and development approach within organization. For example, if an organization is in performance-oriented cultural contexts, it would stress on performance and quality greatly. Hence, there may be willing to spend a lot of resource on training and development activities. In contrast, the importance of training and development is more likely to be slighted in fatalistic cultures since the management in such organization presumes that employees have limited capacity which cannot be improved.

The impact of organizational culture on training and development is discussed in two areas: content of training and method of training. With regard to the content of training, it would be influenced by organizational culture. For example, in a large organization it is more likely to have a role culture which is known as a ‘ bureaucracy’ as it carry rationality, specialization, procedures and rules following (Handy, 1985: 185). The content of training in the organization under a role culture may be focused on the job-related training rather than personal development training such as interpersonal skills, problem solving skills because the post is more important than the individual who fills it and the decision making is mainly concentrated on a small group of top management. In contrast, organization in the task culture which is the opposite of role culture tends to be designed along product-based lines, with different groups (Handy, 1985). So, it is more

likely to find the group-focused training, where the accent is on team building and enhancement the in-group capability.

Organizational culture also has important implications for the training method within organizations. The training method in an organization with role culture would tend to be formal and one-way lecturing, whereas an organization with task culture would be focused more on informal training and participative discussion. Formal training is described as the training is planned, official and has a structured format whereas informal training is through feedback, helping, sharing and interaction among staff (Robbins, 2005). Whereas an organization with a role culture is controlled by numerous rules and procedures, the employees who overstep the role can be seen as troublemakers. Employees in this culture tend to be passive and unwilling to speak up within the organization. On the other side, organizations with task oriented culture focus on team-working basis. Thus, the specific training method would be encouraged within the firm. Further to my past practical example in one international manufacturing company with a role culture, it has a strict division of labour fragments work and many rules and procedures on the jobs. It was experienced that the staff always kept silence and low responsiveness during the training. The one-way lecturing training method was more effective for them. As a result, the particular training method is shaped by this cultural factor.

Another major shaping factor for HR system is strategy. Quinn (1980: 22) defines that a strategy is ‘ the pattern or plan that integrates an organization’s major goals, policies, and action sequences into a cohesive whole’. Strategy can also be described as the resolution of the business

objectives and particular goals of an organization (Chandler, 1962). Tyson (1995) views that strategy is the intent by the management accomplish organizational goal or business targets in skilful way in order that they optimize the resources in future. Tilles suggests that making explicit statement of strategy it would be more likely to facilitate the development of an organization (cited in Mullins, 2002). The purpose of strategy is to make organization possible for proactive shaping its future instead of reactively making a response to the business environment (Dransfield, 2001). Mullins (2002) also mentions that a strategy for the organization can make staff work together so as to reinforce the mutual interests. In view of the aforementioned literature, there is much evidence that strategy is essential in determining whether a business organization achieve its objectives.

Having briefly described the definition and main purposes of strategy, it will now go forward to illustrate the relationship between strategy and HR system with relevant literature.

Beer et al. (1984) and Fombrun et al. (1984) realize that there is a linkage between the strategy of the organizations and HR system. It was stated that organizations competing with a particular strategy require aligning their HR system with such strategy accordingly (Youndt et al., 1996). Miles and Snow (1984) also deem that a HR system is tailored to the demands of the business strategy. Huang (2001) and Schuler and Jackson (1987) argue that HR practices and policies should be linked with corporate strategies in a systematic way as they can influence the employees' behaviors and attitudes to achieve the organizational goals in light of different strategies. Deckop (2006: 32) emphasizes that ' companies who can achieve such an

alignment will be more successful than companies that cannot achieve it or fail to do so'.

Such literature range from a portrayal of relationship between HR system and strategy as a link that may imply strategy is an influential factor for HR system. It will now proceed by in-depth demonstrating why strategy is a major determinant of the approach taken to HR system. This will be tackled by examining how strategy influences on another key component of HR system – compensation and reward.

Compensation and reward system is aimed at attracting qualified job seekers, retaining the existing employees, and motivating staff to particular behaviours (Gershenfeld, 1998). The impact of strategy on compensation and reward will be discussed in two areas: the criteria of compensation and reward and the type of compensation and reward. For the criteria of compensation and reward, it may be affected by organizational strategy of the organization. For example, innovative and technological organizations that carry out a prospector strategy tend to apportion the reward and compensation based on employees' performance rather than other criteria. Such performance is more likely to be evaluated in light of external equity rather than internal one. Miles and Snow (1978) illustrate that prospector organizations are apt to make great effort to be prepared for uncertainty and dynamic business environment, which are required to develop new products and creative ideas to their field. For that reason, they are more likely to seek for higher level of performance and skills so as to achieve their own competitive advantage in the capricious market. In contrast, organizations that have a defender strategy in which compensation and rewards are

contingent upon seniority instead of other criteria. Besides, performance is more likely to be evaluated based on the internal standards in such organizations. In Miles and Snow's (1978) perspective, defender organizations stress on a limited product range and a specific business market while they would endeavor to maintain the stability and efficiency. Hence, in such organization it would be more likely to emphasize on sustainability in their workforce in order to achieve consistent goals in the predictable market.

With regard to the type of compensation and rewards, it can be categorized as intrinsic and extrinsic. Intrinsic compensation is related to the nature of the work whereas extrinsic compensation can be expressed in monetary terms (Ellig, 2007). Defender organizations may tend to value much on intrinsic compensation and rewards such as the feeling of respect and belonging, opportunity for learning and development rather than the extrinsic one. Whereas in such organizations their business environment is stable instead of dynamic, its employee development is liable to be planned with a long term view. Miles & Snow (1978; 1987) argue that defender organizations can identify and forecast the future manpower needs in their specific market; therefore they can train up and develop their workforce internally. In contrast, the prospector organizations' business environment is relatively fickle so that their manpower will be changed in order to adapt the capricious market (Delery & Doty, 1996). Therefore, extrinsic compensation and rewards such as bonus, commission, housing allowance are more valued in such organizations so as to motivate their staff forthwith. For instance, one information technology company (ITC) gets the necessary skills and talent

from the external market as the organization would like to have more new and creative ideas from employees. Consequently, ITC's compensation and rewards system value on offering the extrinsic rewards such as performance bonuses, profit sharing, and other inducements that encourage the right persons to join and stay with the firm. It does point out that organizational strategies would impact the approach of HR system accordingly.

The final shaping factor for the HR system of an organization analyzed in this paper is management philosophy. Management philosophy means the ' explicit or implicit beliefs' of top management about ' its role in society' and ' how it should run' – especially in managing employees, which is formed by his or her own experience or values in relation to the position of business in society and the role of people in the organization (Poole, 1999: 41). Drucker (1946: 46) believes that management philosophy is viewed as ' an outline of a social order' rather than as a ' technique'. An alternative definition of management philosophy is a requirement for ' intelligent operation of enterprise' that maintains effective behavior of people and operational units' (Wiig, 2004: 46). Goodstein et al. (1979) mentioned that the main objective of management philosophy is to achieve a set of valid general assumptions that will provide guidelines for future growth, development and change. In view of the abovementioned definitions, it seems that management philosophy is the top management's directions or beliefs about they way of managing employees and business.

Having briefly described the definition and main purpose of management philosophy, it will now turn to examine the relationship between management philosophy and HR system with relevant literature.

Wilkins (1984) illustrates that management philosophy implies the position on the management of human resources within organizations. Poole (1999: 41) also depicts that the HR policies and practices of an organization are shaped by the management philosophy of its top management, whereas such leaders' philosophy is influenced by ' the historical pattern of HR management policies'. Furthermore, Beer et al. (1985) regard that it is vital for organizations to develop a clearly stated management philosophy which will give the direction from which the HR system will be developed. There are various examples of enterprises whose HR system have been shaped in relation to their leaders' philosophies, such as IBM and Hewlett-Packard (Poole, 1999).

The above literature presents that the management philosophy has a crucial determinant of the approach that human resources are managed. It will now proceed to examine concretely how management philosophy influences on another key component of HR system – performance management.

Performance management is a strategic and comprehensive process that brings sustained success to enterprises by improving theirs employees' performance and by developing the individuals' capabilities through continuous communication (Armstrong, 2000). To review the performance of staff, one of ways is through a performance appraisal system. The impact of management philosophy on performance appraisal process is discussed in two aspects: performance criteria and method of appraisal. One of the important factors in performance evaluation is the determination of performance criteria. The performance evaluation systems of the organizations following an autocratic management philosophy (AMP) are

tended to focus on staff productivity, quality of output oriented and job-specific knowledge. Storey et al. (2008) describe that autocratic management philosophy emphasizes on a high level of constant, direct supervision, resulting in jobs that require limited skills. Further, it views full utilization on employees' potential as a way of achieving the competitive advantage. Hence, the prominence is placed upon the work outcomes and task-related competence rather than interpersonal skills. The performance criteria in such firm are more barely defined and result orientation. On the contrary, a commitment management philosophy (CMP) aims to facilitate a harmony environment and emphasizes on trust among staff and mutual commitment to the organizational goals. Further, it believes in fostering the employee development in order to promote employee empowerment (Storey et al., 2008). Accordingly, organizations following such philosophy are liable to concentrate on interpersonal competence more than productivity. Additionally, apart from task outcomes, social criteria, and work process are valued more greatly in evaluating employees' performance. Performance criteria in such firm are more likely to be defined broadly; such criteria include good personal characteristics, willingness to work, adaptability within organization, harmony in interpersonal relations, honesty and so forth.

With reference to the method of appraisal, organizations under AMP mostly have top-down and unilateral process in performance appraisal. It is a didactic and instructional form of appraisal which is typically conducted by superiors merely who would provide specific opinions regarding the employee's performance (Anderson et al., 2005). In AMP, seeking feedback from subordinates undermines supervisors' authority and management is

not interested in feedback from employees (Frame, 2003). Thus, the appraisal method is usually a one-way form of communication where the values of the organization are clearly voiced in AMP. On the contrary, multi-source feedback of performance appraisal may often be found in the organizations under CMP. Seeing that such organizations seek to achieve employee coordination and control by using the feedback of colleagues, they are open to employees' participation and opinions (Storey et al., 2008). It is obvious that the approaches of performance management under two mentioned management philosophies are very different. In certain extent, philosophy of management will guide the design of HR policies and practices.

The aforementioned factors demonstrated that organizational structure is not the single major shaping factor for HR system. It is suggested that the other factors such as organizational culture, strategy and management philosophy would also appear to be the highly influential determinants of the approach taken to HR system. On the other hand, organizational structure cannot be a determinant for ' any' company's HR system as in certain extent HR system would influence the organizational structure under strategic approach as well. The assignment will now examine this argument in turn.

Prior to illustrating the influence of HR system on organizational structure, the paper will establish what is meant by the term ' Strategic Human Resource Management' (SHRM). This will provide the reader with background knowledge of SHRM, highlighting how strategic HR management can help organization to strive towards increased competitive advantage through organizational structure.

HR management generally refers ‘ either to strategies and practices involved in the process’ of managing employees within an organization, or ‘ to the group of people within the organization who have particular responsibility for this process’ (CLMS, M2 U2: 2-5). Tyson (1995: 89) proposes that strategy is required in HR system to gather ‘ a set of policies and practice’ which management implement to accomplish ‘ a people management goal’. Armstrong (2003) mentions that when organizations adopt HR strategies, it is usually used to define this process as ‘ Strategic HR management’ (SHRM). Snell, Youndt and Wright (1996: 62) viewed SHRM as ‘ organizational systems designed to achieve sustainable competitive advantage through people’. The objective of SHRM is to give ‘ a sense of direction’ in a violent environment, in order that ‘ the development and implementation of coherent and practical HR system’ can meet with ‘ the needs of its employees’ and the organizational goals (Armstrong, 2003: 43).

Given the above definition of SHRM, a comprehensive theoretical framework can now be used to organize knowledge of how HR practices and policies are affected by strategic consideration. The resource-based view (RBV), which is adopted as another model of SHRM, argues that organizations should build and utilize resources which are unique in order to create a competitive advantage proactively (CLMS, M2 U3). Schuler and Jackson (2007: 27) point out that there are three types of resources related to organizations such as ‘ physical’, ‘ human’ and ‘ organizational’. A primary assumption of RBV is that organizations can be successful if they gain and sustain a competitive advantage which is achieved by implementing a value-creating strategy that rivals cannot easily imitate and sustain (Porter, 1985; Barney, 1991). It can

be seen that in RBV approach, organizations should find ways of acquiring a unique combination of its resources such as HR, which offers a competitive advantage.

Having outlined the RBV of the model of SHRM, it will now go forward to see how HR system influences the organizational structure under the