

## Learn and Study, Guide to Theories in Human Resource Management!

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Human resource management principles and techniques for people management in competitive organisations are drawn from theories found in different disciplines. Indeed, it is impractical to present all the disciplines and relevant theoretical aspects that have shaped the understanding of human resource management today. Therefore, it is believed that it is only important to give the reader a cursory view of some relevant theories underpinning human resource management and whoever may be interested in knowing more about the genesis and developments of a specific theory may do so by taking extra homework. **Also learned, [MIS](#), Guide to Theories in Human Resource Management!**

Organisation life cycle theory:

Cameron & Whetton (1981) advanced organisation life cycle theory which characterises organisational development from formation, growth, maturity, decline and death. According to the theory, the driving force in all these stages is the nature of workforce. At the maturity stage the organisation cannot continue to grow or survive if there is no organisational structure that supports human resource creativity, innovation, teamwork and high performance, which will withstand pressure from competitors.

Role behaviour theory:

Role behaviour theory aims to explain and predict the behaviour of individuals and teams in organisations, which, in turn, inform managers for the purposes of decision making, and what steps they take on people management as well as the expected consequences. Some of the key ideas focus on the need to improve the working environment including the resources in order to stimulate new behaviour in employees in order for them to cope with new demands (Prachaska *et al.* 1982), it includes the use of rewards to induce and promote positive work behaviour, and punishments to control negative behaviour (Rogers 1983).

Resource dependency theory:

One of the challenges faced by managers during the economic recessions in the 1970s is how organisations can best acquire scarce resources and effectively utilise them in order to remain competitive in the market. The ability to utilise one's own resources including (financial, technological and labour), and acquire more from the external environment was one of the areas of concern in many organisations. The more organisations were able to harness resources, the more competitive they became. Therefore, resources were seen as the essence of organisational power (Emerson 1962). However, overdependence on external

resources appeared to be risky due to the uncertainties that cannot be controlled by the organisation (Pfeffer & Solansick 1978). Concerning useful labour, the emphasis shifted to seeing employees as scarce resources that should be acquired effectively, utilised, developed and retained.

### Institutional theory:

The word 'institution' means different things to different people depending on academic and professional orientation (Peters 2000). However, it is a discipline that combines politics, law, psychology, public administration, and economics amongst other things, in order to explain why certain decisions are made or actions taken and their impact on the organisation. Commons (1931: 648) defines 'institutions' as 'collective action in control, liberation and expansion of individual action'. Collective action covers areas such as custom, law and procedures. The main objective of collective action is less or greater control of the acts of individuals, which result in either gains or losses in the process of executing joint transactions. Control is about prohibitions of certain acts in such a way that the control of one person or organisation leads to liberty of the others and hence better gains. According to Commons (1931) these institutions establish relationships of rights, duties, no rights, and no duties which influence behaviour of individuals. 'The major role of institutions in society is to reduce uncertainty by establishing a stable (not necessarily efficient) structure to human interaction.' Institutions could be formal, and have explicit rules, contracts, laws, and rights (institutional arrangements) or informal in the sense of social conventions that are not designed by anybody. Therefore organisations should set an appropriate institutional framework that will bind and influence the behaviour of employees towards an organisational commitment to excellence. Also put by Brunsson (1999): 'the process of standardization of procedures affect behaviour'. Employment contracts, performance agreements and other employment related instruments should therefore be seen as useful aspects of human resource management.

### Transaction cost theory:

Transaction cost theory is based on the economic view of the costs of conducting business transactions. The thesis is that companies will grow if the costs of exchanging resources in the company are cheaper in comparison to competitors (Commons 1934; Coase 1984; Williamson 1998). Such costs include bureaucratic employment structures, procedures and the enforcement of employment contracts. For that matter employment relationships that may lead to high costs of exchange, should be minimised.

### Comparative advantage theory:

The main architect of comparative advantage theory is the economist David Ricardo who talked of the specialisation and division of labour among nations

and firms. Ricardo postulated that nations should produce goods in which they have a domestic comparative advantage over others (Ricardo 1891). Since then, organisations and nations have focused on strengthening internal capacity in order to have more advantages relative to competitors and hence to reduce production and distribution costs per unit. Improving internal capacities include having the best human resources who are best utilised to produce cheaper and better quality goods and services (Porter 1980; Grant 1991).

### General systems theory:

No organisation can survive without interacting with its environment. Organisations get inputs from the external environment, they are processed and the outputs are released to the external environment, which provides feedback to the organisation. Customers who are part of the environment will give feedback by using different means including value judgment on quality, price, style and fashion. Therefore organisations are seen as systems with components and parts that are related and interconnected in such a manner that failure of a component or part leads to the failure of another (Laszio 1972; Haken 1980; Robbins 1990). The system approach to understanding organisations considers the human resource department as a component of the organisation's system that also has other departments such as accounting, engineering, marketing etc. In order for the organisation to grow and remain competitive, each department, section or unit should support each other. One of the organisation's inputs from the environment is human resources. For example, if an organisation makes an error with its recruitment strategy, it will have a negative effect on the whole organisation. Similarly, if at the input processing stage, human resources are not utilised in the best possible way, the same will be reflected in the quality and price of goods and services through feedback mechanisms. This may include the failure to sell goods or services at the expected prices.

### Human capital theory:

Human capital theory was initially well developed by Becker (1964) and it has grown in importance worldwide because it focuses on education and training as a source of capital. It is now widely acknowledged that one of the key explanations for the rapid development of Asian countries in the 1970s and 80s is high investment in human capital (Robert 1991; Psacharopoulos & Woodhall 1997). Human capital theory changes the equation that training and development are 'costs the organisation should try to minimise' into training and development as 'returnable investments' which should be part of the organisational investment capital. Therefore, human resource training and development decisions and evaluations have to be done based on clearly developed capital investment models.

### Strategic contingency theory:

There is a growing body of knowledge stipulating that since an organisation operates and thrives in a complex environment, managers must adopt specific strategies which will maximise gains and minimise risks from the environment (Peter & Waterman 1982; Scott 1992; Robbins 1992). In this premise, the theory contends that there is no one best strategy for managing people in organisations. Overall corporate strategy and the feedback from the environment will dictate the optimal strategies, policies, objectives, activities and tasks in human resource management.

### Organisational change theory:

Gareth (2009: 291) defines organisational change as the process by which organisations move from their present state to some desired future state to increase their effectiveness. Organisations change in response to many developments taking place in the internal and external environment such as technology, policies, laws, customer tests, fashions and choices that influence peoples' attitudes and behaviour. These developments influence different aspects of human resource management and in response, organisations have to change the way organisational structure, job design, recruitment, utilisation, development, reward and retention are managed (Hersay & Blanchard 1977; Robbins 1992; Johns 1996). The organisational change theory suggests the improvement of organisational change and performance by using diagnostic tools appropriate for the development of effective change strategy in human resource management.

### Organisational learning theory:

Globalisation has changed knowledge monopoly. Knowledge generated in one part of the world spreads faster than a decade ago. Today, what matters for organisational competitiveness is the ability to learn from emerging knowledge and adapt the learning to suit the organisational environment faster than others. Agyris & Schoen (1978) and Senge (1992) have emphasised the importance of total organisational learning whereby individuals and teams muster knowledge related to their work and the environment and share with common vision, models and strategies for addressing the present and future of the organisation. Therefore, poor organisational learning leads to poor organisational adaptation to the environment, less competitiveness, which leads inevitably to decline and ultimate collapse.

### Comparison:

Schuler (2000) has summarised these theories into a more manageable framework (see Table 1). This framework enables us to compare the human resource theories and their main objectives.

*Table 1: Human resource theories.*

<b>Theories</b>	<b>Human resource lessons/Assumptions/Implications</b>
Resource dependency theory	<ul style="list-style-type: none"> <li>• Scarcities of resources determine policies and procedures to be adopted by organisations.</li> <li>• Employees are scarce resources, which should be carefully managed.</li> </ul>
Competitive advantage theory	<ul style="list-style-type: none"> <li>• Organisations should capitalise on competitive advantage it has over other organisations</li> <li>• An employee is a rare resource, immutable, non-substitutable, and valuable</li> <li>• In order to gain from competitive advantage, there should be creation and support of organisational culture that ensures effective management of training and performance management functions.</li> </ul>
Institutional theory	<ul style="list-style-type: none"> <li>• Organisational norms, values, attitudes and myths are the sources of organisational failure or success</li> <li>• These need be rationalised in order to ensure effectiveness.</li> </ul>
Agency theory	<ul style="list-style-type: none"> <li>• The employer and employee have a principal-agent relationship.</li> <li>• As there may be disagreement between the two, legal implications have to be carefully considered and, if possible, litigation should be avoided.</li> </ul>
General systems theory	<ul style="list-style-type: none"> <li>• Organisations are complex systems.</li> <li>• Human resource management is a sub system</li> <li>• Failure/success of each component will have overreaching impact to the organisation.</li> </ul>
Human capital theory	<ul style="list-style-type: none"> <li>• It is an economic approach – people are valuable assets.</li> <li>• Invest in people as one does in other assets e.g. machinery.</li> </ul>
Organisational life cycle theory	<ul style="list-style-type: none"> <li>• Organisation grows in stages. Start up, growth, maturity, decline and revival.</li> <li>• Manage human resources according to the stage of growth of the organisation.</li> </ul>
Role behaviour theory	<ul style="list-style-type: none"> <li>• The means used by an organisation to send role information determines role response (behaviour).</li> <li>• Human resource management should focus on improving the role information for employees.</li> </ul>
Organisational change theory	<ul style="list-style-type: none"> <li>• Organisations pass through different forms, levels of quality, and states over time</li> <li>• Human resource management should ensure congruence between stated goals, changes, and performance.</li> </ul>
Transaction cost theory	<ul style="list-style-type: none"> <li>• It is an economic point of view of governance structures in business transactions.</li> <li>• It considers costs of establishment, monitoring, evaluation, and enforcement of exchanges (contracts).</li> <li>• Since managers have limited information for decision making (bounded rationality) before transactions, there must be measures to reduce risks.</li> <li>• Managers should seek opportunities to be used by employees.</li> <li>• Human resource management should minimise loopholes in employment relationships like reviewing contracts, monitor, and ensure compliance to set objectives, targets and standards.</li> </ul>
Strategic contingency theory	<ul style="list-style-type: none"> <li>• Organisations have several strategic typologies to adopt.</li> <li>• The choice of typology depends on organisational environment.</li> <li>• Human resource management should depend on a particular typology chosen.</li> </ul>
Organisational learning theory	<ul style="list-style-type: none"> <li>• The success of an organisation depends on ability to learn</li> <li>• Employees prior knowledge facilitates learning and application of new related learning</li> <li>• Human resource management should facilitate continuous learning</li> </ul>

Source: adapted from Schuler (2000).

Theories as stated earlier and summarised in Table 1 are useful in shaping debates and professional practice in the process of the evolution and development of human resource management as a discipline as well as a profession. The usefulness of the conclusions reached from these theories will unfold as we go through the process of the evolution of human resource management over the past one hundred years. #HumanResource, #Management - #ilearnlot.

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