HUMAN RESOURCE MANAGEMENT, PERFORMANCE AND ORGANISATIONAL SUSTAINABILITY: A NEW PARADIGM

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ABSTRACT

The issues of environmental and social sustainability are firmly on the international political agenda and these two areas of sustainability are also now claimed to be a major concern for business organisations. The desire for long term environmental, social, as well as financial sustainability poses a number of challenges for business organisations. It also poses challenges for managers, for policymakers and for employees. Sustainability challenges management concepts, such as performance, and frameworks, such as human resource frameworks, used by managers.

This paper focuses on a particular area of management, human resource management. The paper explores the concept of organisational performance, sustainability and the relationship between organisational performance, sustainability and human resource management. The analysis reveals that most of the existing research is framed within a world view that is mechanistic and static. Such a view limits an understanding of the dynamic relationship between human resource management, organisational performance and sustainability. An alternative view is proposed and the implications for human resource management, organisational performance and sustainability are explored.

Keywords: Sustainability, human resource management, performance, theory
INTRODUCTION

Sustainability issues are now on the international political agenda and are a serious concern for many business organisations. The broad concept of sustainability, which encompasses financial, environmental and social long term outcomes, requires managers, policy makers and employees to examine and review their definitions of organisational performance and the purpose of management practice. It also requires an evaluation of the way these long-term outcomes are to be achieved. Human resource management practices are important for developing capabilities and organisational culture and they therefore contribute to sustainable outcomes. Human resource practices and the outcomes of these practices, such as creative, risk-taking and innovative capabilities, are also an outcome of sustainable practice and a mediator between sustainability objectives and organisational performance.

This paper will focus on the relationship between sustainability, organisational performance and human resource management. The research question examines whether human resource management can contribute to sustainability and organisational performance. This is a complex question which examines relationships between concepts which are ill-defined and shaped by assumptions about the world and the nature of organisations. Examination of the research question requires not only an examination of the literature about the relationship between organisational performance, human resource management and sustainability, it also requires an evaluation of the dominant world view which informs this literature. When an alternative world view is used to examine this relationship, the concepts of human resource management and organisational performance are defined in broader ways.

The methodology used to examine this question involves an examination of the literature published in journals and books. The literature falls into three main areas: the relationship between human resource management and organisational performance, the contribution of human resource management to sustainability and the relationship between organisational performance and sustainability. The first part of the paper examines the connection between human resource management and organisational performance and the processes by which human resource management contributes to organisational performance. This section also explores the relationship between sustainability and organisational performance and the role of human resource management practices for furthering sustainability outcomes. The second part examines the world view which informs most of the above literature and the concepts of organizational performance and human resource management. The final section explores the
implications of an alternative view of the world and organisations for the concepts and practice of human resource management, organisational performance and sustainability.

**OVERVIEW OF THE RELATIONSHIP BETWEEN HUMAN RESOURCE MANAGEMENT, ORGANISATIONAL PERFORMANCE AND SUSTAINABILITY**

The terms organisational performance, sustainability and human resource management are the subject of considerable debate. The definitions of these terms vary according to particular stakeholder interests, the time frame used and the national and industry contexts being considered. However, irrespective of these factors, organisational performance and sustainability are inextricably linked: organisational performance contributes to the sustainability of the organisation. For the purposes of the first part of this paper, the definition of sustainability and organisational performance are those which are explicitly or implicitly embodied in the operation of businesses in a neo-liberal form of capitalism and the management theories, such as strategic human resource management (SHRM) which have been developed to support the operation of organisations in this economic system. Sustainability is therefore defined as the long term survival of the organisation. Organisational performance refers to both short term and long term measurable outcomes which contribute to the sustainability of the organisation. These outcomes could include financial, human/social and environmental outcomes. However, the emphasis is on the way these outcomes contribute to the long term financial survival and adaptation of the organisation.

Human resource management (HRM) and SHRM refer to the systems of practices used to manage people and teams who do the work of an organisation and to those practices used to build the relationships between organisations and external stakeholders. The ultimate purpose of HRM/SHRM is to further organisational performance and the sustainability of the organisation. The contribution of HRM/SHRM to competitive advantage has been a dominant theme in the literature (Boxall & Purcell, 2003, 71-88; Pfeffer, 1995).

**Human resource management and organisational performance**

Various approaches have been developed to support the important influence of human resource management on organizational performance (Chew & Sharma, 2005; Combs, Liu, Hall, & Ketchen, 2006; Evans & Davis, 2005; Liu, Combs, Ketchen Jr, & Ireland, 2007; Wan
& Huang, 2005). Studies reveal a number of mediating factors that contribute to organizational performance. These include HRM's capacity to influence aspects of organisational outcomes, particularly individual capabilities and organisational capabilities which contribute to organisational performance in the short term and long term. HRM practices have been shown to further organisational performance by developing individual capabilities such as knowledge, skills, abilities (Daniels, 2003; Machin & Vignoles, 2001) as well as behaviours and attitudes (Schuler & Jackson, 1987). Studies also show HR practices contribute to the development of inimitable cultures (Delery & Doty 1996), and organisational capabilities such as innovation (Laursen & Foss, 2003) and knowledge management (Goll, Johnson & Rasheed, 2007).

Although there are semantic difficulties associated with the terms HRM and SHRM, it is possible to identify HRM and SHRM as those practices which positively impact on organisation outcomes and organisational performance (Schuler & Jackson 1997). Central to the notion of SHRM is the assertion that an explicit organisational strategy provides the framework for the development of human resource management practices. A prominent body of research indicates that high performance work practices (HPWPs), such as incentive compensation, training, information sharing, employee participation, selective selection and recruitment, an egalitarian culture and teamwork are practices which contribute to organisational performance (Pfeffer 1998). SHRM theory asserts there should be a ‘strategic fit’ between HPWPs and organisational strategy in order to improve performance (Delery & Doty 1996; Capelli & Crocker-Hefter 1996).

A meta-analysis of research (Combs, Liu, Hall & Ketchen 2006) on the link between HPWPs and organisational performance found that HPWPs did positively impact organisational performance, however the practices of performance appraisal, teams and information sharing were not shown to have a positive impact. The analysis also found systems of practices, rather than individual practices had a stronger impact and that the positive relationship between human resource practices and organisational performance existed irrespective of the performance measure used. Context was found to influence the size of the impact of the HPWPs-organisational performance relationship, with impact being double in manufacturing than it was in services. Although Coombs et al (2006) identified organisational strategy as a moderator between HPWPs and organisational performance, they were unable to test for this link because of the difficulties in coding studies according to the appropriateness of the
“strategic fit” of the organisations in the studies and the lack of information about the correlations between organisational performance and strategy-HPWPs.

Particular HRM practices such as training and development, effective selection, performance feedback and performance pay can often improve employee productivity and performance so people display the necessary capabilities to further organisational objectives. HRM practices are also able to create a positive psychological contract between the employee and the employer. This can result in increased trust, commitment, organisational citizenship, engagement and a sense of fairness (Coyle-Shapiro 2002; Stajkovic & Luthans 1998; Guest & Conway 1997; Patterson et al 1997).

Although the concept of organisational capabilities can be understood in a variety of ways, a commonly accepted definition refers to organised activities which enable the achievement of significant outcomes within a large scale unit of analysis with a recognisable purpose. These activities are developed through conscious intent (Dosi, Nelson & Winter, 2000, 7) and indicate an organisational ability to balance continuity and change in rapidly changing circumstances (Teece et al, 516). Organisational capabilities such as innovation and knowledge management, contribute to organisational performance. As mentioned previously, it has been shown that a variety of human resource management practices contribute to the development of these capabilities and to the organisational change and development resulting from these capabilities.

**Organisational performance, sustainability and human resource management**

The studies referred to above have focussed on performance in terms of financial and tangible outcomes. These are essential for the longer term survival of an organisation and its sustainability, however, there are indications that social/human and environmental outcomes are also important for organisational sustainability. It has been shown an organisation’s financial performance can be improved in a number of ways. These include addressing human/social outcomes by providing internal benefits such as developing capabilities, providing career opportunities, work-life balance programs and an ethical culture. In addition, addressing environmental outcomes of the business have been shown to positively influence corporate reputation and image (Orlitzy, Schmidt & Rynes, 2003; Brammer et al 2007; Turker 2009; Branco and Rodrigues, 2006; Valentine et al 2008; Beaureguard & Henry 2009; Boudreau & Ramstad, 2005; Gollan, 2005; Jabbour & Santos, 2008).
These practices contribute to organisational performance through improved employee perception of the organisation, improved morale and job satisfaction, an ability to attract and retain employees, a greater sense of organisational justice and employee commitment (Peterson 2004; Brammer et al 2007; Kuvaas & Dysvik 2009). These outcomes contribute to greater cost efficiencies through lower salaries, increased productivity, reduced turnover and lower recruitment and training costs (Albinger and Freeman 2000; Greening & Turban 2000; Bachaus et al 2002; Peterson 2004). Therefore, performing well on social, human and environmental indicators represents a form of strategic investment that has a positive impact on financial outcomes (Brammer, Millington, & Rayton, 2007; Daily & Su, 2001; Jin & Wei, 2009; Koh & Boo, 2004; Loi, Ngo, & Foley, 2006; Neves, 2009; Peterson, 2004; Puig, Martin, Tena, & Llusar, 2007; Turker, 2009).

The term corporate social responsibility (CSR) or corporate social performance (CSP) has been used to refer to an organisation’s performance along a range of performance indicators: financial, human/social and environmental. Although there a range of systems and debates about what constitutes CSR (Dahlsrud 2008), a commonly held view is that organisations are responsible to the society in which they are part (van Marrewijk, 2001). However, it is noteworthy that the ‘economic rationale’ dominates the research on the relationship between CSR initiatives and organisational performance (Walsh et al, 2003, 868). An analysis of research on CSP/CSR found 121 studies empirically examined the relationship between CSR and financial performance. The study found 100 of these studies were concerned with the relationship between CSR and financial outcomes, rather than social performance (Walsh et al, 2003).

It has been shown that environmental and human/social outcomes are interrelated and contribute to organisational sustainability. Relationships between the development and implementation of an environmental management system, human resource policies and the development of capabilities necessary for an organisation’s sustainability have been demonstrated in a number of studies (Dunphy et al, 2000; Daily & Huang 2001; Wilkinson et al 2001; Benn & Dunphy, 2004). The development and implementation of advanced environmental policies and capabilities are dependent on the creation of HRM policies that create trust between employees, management and the communities in which the organisation operates.
The above review suggests that organisational performance and sustainability can be furthered by moving beyond the traditional performance indicators such as financial and marketing targets (Boudreau et al., 2005). An organisation could benefit from the use of social and environmental measures which contribute to the future success of the organisation and to the welfare of future generations (Benn & Baker, 2009; Hall & Vredenburg, 2003).

Although the rational for the adoption of these broader performance measures rely on their contribution to short term and long term financial outcomes, the use of these broader indicators require an acknowledgement that various stakeholders will have different perceptions about sustainability, success and organisational performance. This raises additional challenges about the need to manage a variety of stakeholders and stakeholder relationships.

**VIEWS OF ORGANISATIONS: DOMINANT VIEW AND ALTERNATIVE, EMERGING VIEW**

The research discussed in the previous sections is based on assumptions about the nature of the economy, organisations and management processes. These assumptions frame the way relationships between institutions, outcomes and processes are conceptualised. This research is based on assumptions consistent with a mechanistic view of the world. This view is encapsulated in the neo-classical view of economics, a rational view of organisations, the ‘homo-economicus view’ of individuals and a mechanistic view of management that underpins concepts such as strategic management. However, these assumptions limit our understanding of organisational performance, sustainability and the influence of HRM to outcomes in these areas.

When a different set of assumptions are adopted about the economy, institutions, outcomes and management processes, the nature of organisational performance, sustainability and the HRM processes required to achieve these outcomes emerge. The following section briefly and simplistically outlines the dominant assumptions which inform the majority of the research on the relationship between organisation performance, sustainability and HRM. It also raises a number of implications for these relationships when alternative assumptions are adopted.

**The dominant prevailing view of organisations**

The assumptions informing the dominant view of the economy, organisations and HRM emerge from the industrial and scientific revolutions which promulgated a rational,
mechanistic view of the operation of markets and institutions. The neo-classical view of the economy assumed markets operated as perfectly functioning ‘clearing mechanisms’ by balancing price and cost. This view was based on assumptions about perfect knowledge and equal power of the participants in the market. These market mechanisms were assumed to allocate resources in the most efficient way.

Organisations would not have a place if markets operated perfectly, however, they are necessary for ‘internalizing’ recurring economic exchanges, increasing the efficiency of resource allocation and reducing the cost of individual transactions through standardisation and establishing routines (Coase 1937). Therefore in this economy, organisations are assumed to operate in a rational way, ie by seeking to maximize efficiency and effectiveness by reducing market costs, maximizing market returns and operating in a deliberate and purposeful way (Barnard, 1938, p4). According to this view, organisations represent a common purpose or a unitary frame in which conflict between stakeholders’ interests is an aberration. The owners of organisations and managers therefore, are responsible for maximising the interests of their shareholders by increasing the profits of the company. This is reflected in the notions of organisational performance which are measured solely in terms of profits, rather than social or environmental outcomes. “There is one and only one social responsibility of business – to use its resources and use its resources to engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud” (Friedman, 1970). According to this view, it is appropriate for organisations to only engage in activities that improve social/human outcomes only if they contribute to financial outcomes. As the review of the research on the relationship between organisational performance, human resource management and sustainability demonstrates, the focus of the research has been on ultimately achieving financial outcomes. Social/human and environmental outcomes have been accorded value if they contribute to these outcomes.

HRM practices are therefore, ideally seen as contributing to the more effective operation of the organisation by maximising financial outcomes in the short and long term. These HRM practices also ideally contribute to shaping employee behaviour so it is efficient and effective and the organisation operates optimally (Bourdreau and Ramstad, 2007). This view of organisations and HRM can accommodate assumptions about people being influenced by their feelings, emotions and social needs because these characteristics are an element in their attempts to maximise their personal outcomes. When these aspects of people are
acknowledged, one of the challenges for HRM is to manage them so financial returns are maximised.

This simple view of the purpose and nature of organisations has been challenged in a number of ways over the years, however, it is still the dominant perspective in most organisations (Zappala, 2010, p7) and it underpins the focus of research in this area. Among the challenges have been the development of reporting and accounting standards that measure a range of outcomes eg the Global Reporting Initiative (GRI) and the Accountability AA1000 standards; moves towards responsible investment eg the United Nations Principle for Responsible Investment (PRI) initiative; the development in global corporations of initiatives in the areas of Corporate Citizenship, CSR and Sustainability (Zappala, 2010, 7); and the development of measures such as human capital analysis (O’Donnell, Kramar & Dyball, 2009). Despite, these developments, an understanding and integration of broader sustainability outcomes reflected in the concept of CSR is still limited and fragmented (Zappala, 2010, 7-16). “The current focus is primarily on how to operationalize CSR – how to integrate it into the corporation’s vocabulary, policies, stakeholder communications, and reporting systems” (Pruzan, 2008, 553). This approach limits a deep review of the meaning and nature of organisational outcomes and performance, the practice of corporate responsibility and the facets of sustainability and what they mean for business practice.

**Alternative, emerging view of organisations**

In order to confront these issues and therefore the nature of the relationships between HRM, organisational performance and sustainability, it is necessary to frame these relationships within a different view of organisations, or as Zappala would argue, “a new world view” (Zappala, 2010, p16). This world view can take a variety of forms, but some of its aspects include the notion of organisations and markets consisting of stakeholders with varying interests (Freeman 1984), an explicit acknowledgment of the exercise of power and differential access to knowledge in the market and in organisations (Clegg 1994) and its impact on the development and implementation of HRM practices (Kramar, 1992) and a view that the world and organisations are complex adaptive systems (CAS) which are self-organising, unpredictable and non-linear. Incorporated as part of this world view are the explicit acknowledgement of personal characteristics such as passion, creativity, spirituality and the importance of meaning and connectedness with nature and ecosystems (Wheatley,
2006). Spirituality acknowledges the importance of mindfulness, belonging, connectedness and relational consciousness (Zappala 2010).

When organisations are viewed as CAS, it enables a dynamic focus which acknowledges that change involving internal and external parties is a constant aspect of organisational life. Organisations in this world view would have broader purposes and take different forms from those shaped by the corporations law. The purpose of organisations could be ‘to harness private interests to serve the public interests’ and to engage a range of stakeholders in decision making and sharing of rewards (Zappala, 2010, 19-20; Hinkley 2002). Alternatively the purpose of organisations could be described as ‘beneficial’ or a B Corporation in which the power of consumers, investors, government procurers and other stakeholders are engaged to broaden corporate purpose and standards of accountability (Zappala, 2010, 21-22).

When the relationship between HRM, organisational performance and sustainability is considered within this ‘world view’, organisational performance and outcomes are much broader than the maximisation of profits and financial outcomes. Social/human outcomes and environmental outcomes represent outcomes in their right, not just a means of contributing to financial results. In addition, organisational performance could be measured in terms of outcomes which arise from the engagement of stakeholders in the organisation, rather than just organisationally mandated outcomes. The concept of sustainability also assumes a broader meaning. A broader meaning would explicitly recognize that values are incorporated in its conceptualization and that it involves the balancing of competing interests, values and priorities of a range of stakeholders, including future generations and ecological systems.

The requirement to manage a range of internal and external stakeholders has significant implications for HRM. Stakeholder relationships represent a ‘complex interplay of shifting, ambiguous and contested relationships’ (Gao and Zhang, 2006, p725) and at a minimum, stakeholder management requires communication between the stakeholders. The process of stakeholder management involves incorporating the views of stakeholders such as employees, customers, regulators, the community and shareholders into decision making (Freeman, 1984; Carroll & Buchholtz, 2002). Effective stakeholder management requires particular capabilities, such as dialogue, long-term thinking, critical reflection, systemic thinking, conflict management and collaborative skills (Gao & Zhang 2006). The research on the links between HRM, organisational performance and sustainability discussed in the previous
section and framed in terms of the traditional world view have not addressed these capabilities.

Consequently, HRM practices and systems explicitly seek to achieve outcomes broader than just measures of financial performance. Their focus could be on facilitating greater understanding of the various interests of the stakeholders and the emergence of organisational outcomes which reflect these interests. Just as the concepts of organisational performance and sustainability became broader, so does the concept and practice of HRM. Essential elements of HRM would include processes of individual and team development of capabilities associated with understanding different mental models/frameworks, knowledge and power bases of stakeholders; increased self knowledge and an understanding of values and influence of emotions on perception and behaviour; critical reflection and systems thinking; and an ability to understand the interconnectedness of individuals, organisations and the environment, including the ecological system (Kramar 2009; Taylor 2007). Other essential capabilities required of stakeholders is the ability to engage in debate, manage conflict constructively and at the same time engage in dialogue and collaboration so new understandings, decisions, practices and even institutions emerge.

The role and nature of leadership emerges as a process in which the purposes of organisations and the way the organisation does business are questioned. Leadership is recognized as a process of symbolic, emotional management involving the exercise of power. It is a process that involves all aspects of an individual, including their spiritual and emotional lives, and their values (Sinclair 2007). Leadership is therefore an essential component of HRM.

The previous discussion has not acknowledged the influence of national contexts on perceptions of organisational performance, sustainability and the relationship and contribution of HRM to these outcomes. The Rhineland model of capitalism which is evident in Germany and Switzerland provides a framework for “a system of long-term cooperative relationships between different parties”, including companies, trade unions, banks, suppliers and clients (Avery, 2005, p17). Social outcomes, including egalitarian welfare distribution, social benefits, community infrastructure and social justice are regarded as important outcomes of the operation of business (Avery, 2005, p14-15). This suggests that governments and regulators can play a role in shaping the ‘world view’ in which organisations operate and HRM is practiced.
CONCLUSION

Sustainability requires a new way of thinking about business success. It requires a rethinking of the notion of business success, organisational performance and a clarification about the meaning of sustainability for the business and for the broader society. HRM could have a significant role in furthering broader organisational outcomes and, in particular sustainability outcomes. However, most recent attempts to further sustainability and organisational performance have been grounded in a view of the world based on a mechanistic, incomplete view of the market, organisations and individuals.

To more completely understand the relationship between HRM, organisational performance and sustainability a more comprehensive, non-linear view of the world and a non-rational view of individuals needs to be adopted. When the relationship is considered in this context, different questions will emerge, research methods will need to be able to deal with dynamic change and the nature of the concepts will be much broader.

REFERENCES


