

Part 2

Human resource management in practice



- Chapter 6 Human resource planning
- Chapter 7 Job and work design
- Chapter 8 Recruitment and selection
- Chapter 9 Performance management
- Chapter 10 Reward management
- Chapter 11 Training, development and learning

Human resources planning

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After reading this chapter, you should be able to:

- Discuss the rise of human resource planning (HRP) as a strategic priority
- Explain the techniques associated with forecasting the supply and demand of human resources
- Outline the role of job analysis in the HRP process
- Describe and analyse the impact of restructuring on HRP responses
- Explain the role of HRP in talent management
- Discuss international HRP considerations

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Introduction
 Approaches to HRP
 The strategic role of HRP
 Conclusion
 For discussion and revision
 Further reading
Case study: The Australian Cladding Company
 References

Introduction

In the Introduction to this book, Syed and Kramar emphasized the increasing globalization of the world of work and the capacity of events in one country to impact on others. International social and economic change and resultant changes in the international labour market pose particular challenges for the human resource management (HRM) function. The global financial crisis of 2008–09 was a good example of a situation in which the HRM function had to provide leadership in managing potential workforce reductions while still attracting and retaining critical talent in order to maintain businesses' viability.

At a time when many organizations internationally were struggling to manage skill shortages (see Rudd et al., 2007), economic uncertainty created a further level of complexity. The Corporate Leadership Council (2008) advised that those companies which avoided reactionary approaches to HRM and managed to maintain morale and retain skilled employees during the period of downsizing would come through the crisis in a stronger competitive position. These circumstances require innovative responses and careful HRM planning. As custodians of the people resource in organizations, it is the role of the HRM function to assist in the development of human resource planning (HRP) initiatives that match changes in the supply and demand for labour, and also manage initiatives to retain and attract talent strategically rather than reactively.

The purpose of this chapter is, first, to broadly review approaches to HRP, and second, to critically analyse some of the strategic responses to issues associated with the supply and demand of labour. The chapter starts with a discussion of the stages that the HRP activity has moved through and of the emerging recognition of the strategic importance of this area. Techniques for HRP are then explored, including quantitative and qualitative approaches. Following on from this, a discussion of job analysis highlights the connections between the analysis of what a job involves and the HRP requirements for it. Having explained HRP techniques, the discussion will then move on to an examination of the more strategic issues associated with HRP, such as HRP as part of restructuring initiatives and the role of HRP in decisions related to talent management and globalization.

Approaches to HRP

The evolution of HRP

Huselid (1993: 36) has explained that HRP essentially matches 'projected human resource demand with its anticipated supply, with explicit consideration of the skill mix that will be necessary throughout the firm'. HRP is a dynamic process affected by both predictable and unpredictable forces. The economic change experienced during the global financial crisis, for example, in 2008–09 impacted on markets and resulted in swings in consumer demand that affected the level of labour required to meet the product output thus needed. These unplanned changes in the demand for labour occurred at a time when there were ongoing forecasted demographic shifts in the profile of the available workforce (Rudd et

al., 2007). These environmental challenges potentially pose major threats to organizational viability, but careful management of the HRP process can make a substantial contribution to the ultimate success or failure of the business.

In Chapter 2, Jamali and Afioni consider the change and evolution that has occurred in the field of HRM and the increasing awareness of the value of strategic HRM for improving organizational outcomes that has become apparent in the past two decades. HRP activity is a good example of how HRM can provide this strategic value. Industry shifts away from manufacturing to a greater focus on service and knowledge work have led to a recognition of the potential for human capital to make a substantial and lasting impact on sustainable competitive advantage (Wright et al., 1994; Barney and Wright, 1998; Zula and Chermack, 2007).

Historically, the manufacturing industry has provided a large source of work, but its contribution to the number of employed people has been in decline. As a result, the primary focus of employment in many developed countries has increasingly become service-oriented. By the late 1980s, for example, more than 60 per cent of employees in the Organisation for Economic Co-operation and Development as a whole were working in the services sector (Blyton, 1989). In Australia in 1990–91, the manufacturing industry was the main source of employment, but in 2004–05 manufacturing was ranked third after retail trade and the property and business services industries (Australian Bureau of Statistics, 2006).

The impact of this shift towards services has implications for the type of employee who is now in demand:

- As most service work requires *face-to-face* or *voice-to-voice* interaction with customers (Macdonald and Sirianni, 1996), the service interaction may involve high levels of emotional labour or ‘the management of feeling to create a publicly observable facial and bodily display’ (Hochschild, 1983: 7).
- Another feature of employment conditions in the service sector is *flexibility in work arrangements* (Smith, 2005). Australian studies suggest evidence of the common pattern also seen in other industrialized countries: employment is moving from the ‘traditional’ forms of full-time, permanent work towards a wider variety of working arrangements, including part-time work, temporary employment and contract employment (Van den Heuvel and Wooden, 1997; Kalleberg, 2000).

The growth in the service sector has therefore changed expectations of the type of worker who is now in demand and the structure of working arrangements. Firms that can effectively adjust their human capital base to meet these economic challenges and maintain a workforce mix that supports strategic priorities are well placed to maintain their competitive advantage.

Despite the current priority given to HRP, it has in fact moved through a number of stages to get to this position. Initially, in the ‘*regulation*’ phase, HRP activity ensured that managerial behaviour and organizational systems were compliant with government regulations. The role of HRP was to ensure alignment with laws in areas such as industrial relations, equal employment opportunity, minimum wages and salaries, and employment conditions. The compliance element at this stage actually meant that HRP at times worked

against strategic planning rather than with it. In the period spanning the 1960s, 70s and 80s, the compliance activity that dominated HRP meant that activities were confined to operational and reactive activities that did not factor in the need to be strategic (Ulrich, 1987).

As global competition increased, however, proactive strategic initiatives were given greater priority, and HRP entered the second, 'control' phase. During this period, HRP was used as a control mechanism to align individual behaviour with organizational strategy. Performance management and reward systems, for example, were designed to develop human behaviour in line with strategic priorities. Although HRP was now connected to strategic planning, it was still largely an implementation tool.

It was not until phase three, the 'shape' phase, that HRP effectively became a potential source of strategic competitive advantage. Ulrich (1987) explains that it was during this stage that key stakeholders such as employees, customers and unions agreed on HRM configurations that would create strategic unity.

Before moving on to a discussion of some of these strategic issues, it is useful to consider how the HRP process actually works. The next section will therefore review how an organization can approach matching human resource demand to supply, before moving into a broader discussion of the strategic impact of HRP activity.

Techniques of HRP

Demand forecasting in HRM determines the quantity and quality of employees required to meet the organization's goals. These forecasts are usually associated with particular job categories and skill areas that support the organization's current and future goals. There are a variety of approaches that provide useful data, differing in their approach and level of sophistication. Demand forecasting may be undertaken either *quantitatively* or *qualitatively*.

Quantitative demand forecasting

Quantitative approaches rely on statistical techniques and mathematical modelling, whereas qualitative approaches gather expert opinions to determine possible changes in demand. Two forms of quantitative analysis include trend projections and multiple regression.

Trend projection is time series analysis that processes past and present information on the number of people hired in various departments, job categories or skills areas and, based on any observed increases or decreases, forms predictions into the future. Although such information is quite easy to understand, the underlying assumption is that previous trends will determine future trends, which does not take into account unexpected environmental developments.

The aim of the *multiple regression* approach is to broaden the determinants of future demand to determine reliable indicators of future demand. Specific independent variables, or predictors, may include variables such as sales in a retail store, student numbers in a school or hospital bed capacity in a hospital. In the situation facing Holden, outlined in Box 6.1, labour demand was affected by adjustments to internal operating decisions as well as changes in consumer

taste. The greater the number of independent variables that can be used to predict the labour demand, the more accurate will be the prediction. The restrictions on using multiple regression are, however, the availability of the data and also the size of the sample, with larger datasets providing more accurate information. There is also an expectation that those working in the HRM area are comfortable dealing with both datasets and the computer programs that accompany the technique.

Qualitative demand forecasting

An alternative to the quantitative approach is provided by qualitative techniques that draw in information from key stakeholders. Data collection can be quite informal or can be structured in a formal manner using approaches such as the Delphi technique.

Using a Delphi survey, HRM planners contact a group of expert informants and ask them to respond anonymously to some questions on HRP. Responses are collected and fed back to respondents together with another set of questions. The process continues until a consensus has been obtained (Rothwell, 1995). The benefits of this approach are that expert information is gathered without face-to-face pressure within the group to conform to a particular line of thinking. The approach is also useful when conditions are changing and there are few existing precedents on how to proceed.



Exercise

Under what conditions would a qualitative approach to demand forecasting be more feasible or appropriate than a quantitative approach?

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Box 6.1 Factors impacting on labour demand at Holden

During March 2007, car maker Holden made a decision to cut 600 jobs at its assembly operations in Adelaide, Australia. The fall in labour demand was associated with a range of demand determinants including adjustments to internal operating decisions as well as changes in broader consumer demand.

With respect to the internal operating changes, Director of Manufacturing Rod Keane said that the decision to reduce the workforce at the Elizabeth plant followed a major investment at the plant that had increased efficiencies and allowed the car maker to maintain production levels with fewer staff. It also came as the company moved to end the production of its older VZ range of vehicles and concentrate on the new VE models.

Broader reasons for the decline in labour demand were related to a slide in sales of the locally built Commodore range in 2006, with sales down 15.4 per cent. Holden had also cut 1,400 jobs in August 2005, when it axed its third shift at Elizabeth due to a falling local and global demand for large cars.

Ian Jones, federal secretary of the Australian Manufacturing Workers Union vehicle division, commented on environmental pressures that had contributed to this decline in sales. 'Petrol pricing, currency costs, unabated entry of imported products, declining assistance and increased cost of finance are all factors that by themselves would cause major problems for industry,' Mr Jones said.

Federal Industry Minister Ian Macfarlane confirmed that the global automotive industry was going through challenging times and that Australian car producers were not immune from this.

Source: Adapted from <http://theage.drive.com.au/motor-news/holden-axes-600-jobs-in-adelaide-20070305-140fo.html> [accessed 15 August 2011].

Supply forecasting

Supply forecasting draws from both internal and external sources of HRM information related to supply of employees. Internal labour supply information considers the range of people within the organization who can be promoted, transferred or developed to meet supply needs. When undertaking such a review, a skills inventory – a system for keeping track of employee skill development – is a useful source of information. These data can be kept manually, especially in smaller organizations, but in larger organizations well-developed human resources information systems and detailed performance management information may assist in identifying employees with high potential and the appropriate skills. Along with internal sources of supply, organizations scan labour supply sources external to the organization. This sort of analysis takes into account environmental analysis relating to demographic trends in order to assess the qualitative and quantitative impacts.

In terms of the usefulness of efforts to match the demand and supply of labour, evidence suggests that firms adopting clear HRM planning objectives and a formal planning process obtain useful information for strategic planning (Huselid, 1995; Lam and Schaubroeck, 1998). Despite the logic of external and internal labour scanning, there is evidence that people planning is not always formally developed and implemented. The impact of unplanned environmental events, for example, means that it is frequently difficult to estimate internal labour demand. Indeed, Huselid (1993) established that environmental volatility had an important impact on the adoption of HRP approaches. The most common use of HRP occurred in firms that were experiencing moderate levels of workforce volatility. Firms characterized by high or low levels of workforce volatility, however, tended to have a lower use of HRP. Huselid (1993) observed that higher levels of volatility may render HRP ineffective, whereas low levels of volatility make it unnecessary.

Rothwell (1995) also commented on the lack of HRP within the development of human resource strategy. Consistent with Huselid (1993), the argument is made that the rate of environmental change renders HRP so problematic that it becomes infeasible. Plans are developed but fail to be implemented as further internal or external changes negate the relevance of any proposed initiatives. Policy priorities may also shift as competing interest groups vie for primacy and existing plans are sidelined in the process.

Rothwell (1995) also suggests that the abilities and skills of those who are expected to take on these planning tasks may impact on the quality of HRP. Line managers, for example, who are given the task of making planning projections may not have the background skills or the time to dedicate to developing labour models. Kulik and Bainbridge (2006), in a survey of both HRM professionals and line managers covering a range of HRM responsibilities, established that, with respect to HRP, the collective view confirmed that HRP is best managed centrally by HRM rather than by the line. Although this assigns responsibility to those who may have the skills, line managers often still need to be involved as the decisions ultimately impact on the capacity of line management to complete the organization's output requirements.

Job analysis

Within the HRP process, matching the demand and supply of labour informs decision-makers about potential trends and changes in labour requirements, and also provides information about the best labour mix. Job analysis refines and complements this information to determine exactly what each job involves and who is required before specific staffing decisions can be made (Schneider and Konz, 1989).

Broadly speaking, job analysis refers to the process of getting detailed information about jobs (Brannick et al., 2007). Organizational conditions often change in response to new technology and machinery, as well as legislative and market requirements. Job analysis therefore becomes important in interpreting what the job currently involves. Having identified the objective of the job analysis, the HRM analyst must determine the type of information that needs to be collected, the source of the information, the method of data collection and how the data will be analysed.

The type of information that is collected is usually associated with the development of a job description, or the list of tasks, duties and responsibilities of the job. Additionally, a job specification, or person specification, is derived that lists the knowledge, skills, abilities and other characteristics that an individual must have to successfully perform the job. The most common source of information is the person already in the job. There are limits to the usefulness of this source, however, when the views of the present incumbents differ from those of their supervisors (O'Reilly, 1973). Employees may, for example, exaggerate their duties, especially if the process is associated with a review of remuneration, and it may become necessary to seek out additional information. When the job is a new position or when the incumbent has actually left the organization, further input is usually sought. Under these conditions, for example, it becomes necessary to bring in the views of supervisors or co-workers.

Common methods of data collection include observation, interviews, questionnaires, diaries and critical incident approaches. The choice of the method depends largely on the purpose of the analysis and the nature of the job, and a number of methods are often used together:

- *Observation* is useful when the job involves standardized repetitive jobs and manual work: when jobs have actions, observation is a good way to track what needs to be done. More complex positions involving internal thought processing, such as the work of an accountant, are, however, difficult to measure through observation. Similarly, when a job involves irregular work, as, for example, with the role of a manager, observation becomes less useful.
- *Interviews* are more appropriate in these situations and overall are one of the most commonly used job analysis data collection methods.
- *Diaries* are also helpful when the responsibilities of a job do not form a regular pattern. If diaries are reliably maintained over an extended period, they are especially useful in tracking irregular and infrequent duties.
- Finally, critical incident approaches are employed to provide specific explanations for effective and ineffective job performance. This approach is

usually used to track what is required and what is to be avoided for the success or failure of the job. The process can be onerous as it requires fairly detailed descriptions of what the employee did during a particular incident and explanations of why the performance was effective or ineffective; for this reason, it is not commonly used across routine tasks.



Exercise

When would quantitative approaches to job analysis be more suitable than qualitative approaches?

In addition to these qualitative approaches, quantitative questionnaires such as the position analysis questionnaire provide useful data that can be used to compare information across a range of jobs (Jeanneret and Strong, 2003). These quantitative surveys usually break jobs down into standardized dimensions that are rated; the information obtained can then be used to differentiate jobs with respect to levels of complexity, processing and responsibility.

Despite the usefulness and importance of job analysis, a number of writers have explained that the rational approach described above – which breaks each job down and produces specific job descriptions and specifications – may no longer be viable. As the rate of technology changes and work becomes more knowledge-based, task boundaries created by traditional job classifications are dissipating. Jobs have become more flexible, and their boundaries are vague and dynamic (Brannick et al., 2007).

Stewart and Carson (1997) have argued that, along with the move away from traditional hierarchical structure and control towards flexible, team-based designs, employees have become more than simple components that fit a series of static job descriptions. A key idea is the development of emerging relationships that may create new networks between employees. These emerging networks do not, however, always have a comfortable fit with traditional structures. The more fluid connections mean that what needs to be done and who does it becomes a product of what each person brings into the organization and how they connect with existing staff. Therefore, rather than work roles being planned and fixed, they become indefinite. It is more likely that jobs will develop around individuals rather than the reverse. Therefore, as well as impacting on job content, environmental pressures have led to re-evaluations of who is employed and how the employer–employee relationship is managed.

The following section shifts our discussion away from a review of how HRP is approached, to a broader discussion of managing the strategic issues associated with an over- or undersupply of labour and with attempts to maintain the employer–employee relationship during these periods.

The strategic role of HRP

Restructuring and downsizing

Over the last two decades, technological and market changes have prompted major reviews of organizational processes and structure. During periods of economic uncertainty, firms struggle to find ways to cut costs and become more efficient and effective. Payroll expenses and employee downsizing are often

targeted during periods of recession, for example, as a way to boost company profits (Cascio and Wynn, 2004). Indeed, the Corporate Leadership Council (2008) reported that, by the end of 2008, 20 per cent of Australian and New Zealand firms were preparing for the inevitable downturn in 2009 and had indicated that they might either freeze or downsize their staffing levels in the 6-month period following the financial crisis alert in the October.

The promise of workforce reduction is an immediate reduction of costs, coupled with increased levels of efficiency, productivity and competitiveness (Farrell and Mavondo, 2004; Iverson and Zatzick, 2007). Unfortunately, the expectations of economic benefits following employee reductions are often not realized (Gandolfy, 2008). In an analysis of the financial impact of downsizing, Cascio and Wynn (2004) compared employers adopting a stable position with those who chose to downsize and found no consistent evidence to support the notion that employment downsizing led to an improvement in financial indicators such as return on assets.

The economic premise that profit is driven by either a reduction in costs or an increase in revenues is complicated by the human reactions associated with a reduction in the workforce. Organizations face problems with diminished productivity and loyalty, and loss of critical organizational knowledge. The negative consequences of an organizational downsizing response can include heightened levels of stress, conflict, role ambiguity and job dissatisfaction among employees (Appelbaum et al., 1999).

Downsizing survivors – those employees who remain in the organization – generally find themselves with increased workloads and responsibilities without the necessary training and support. These stresses result in a range of mental and physical illness that impact on the quality of their work. Indeed, Gandolfy (2008), in a review of the research in the area, has shown that the ‘victims’, or those who are involuntarily downsized out of the job, report more positive outcomes than employees who stay. Victims commonly received transition packages and outplacement services and support, felt lower levels of stress in the job and experienced fewer negative effects than survivors. Such conditions may also encourage talented employees who are already comfortable with mobility to leave organizations that do not offer the appropriate opportunities for development and advancement.

A primary reason given for the negative consequences associated with downsizing is the poor execution and management of these reduction initiatives (Appelbaum et al., 1999). It is possible, however, to strategically manage workforce reductions and tensions during periods of economic stress through effective HRM approaches. Cascio and Wynn (2004) similarly argue that downsizing remains a viable and sometimes necessary response to environmental pressure, but reinforce that how the process is executed is critical (Box 6.2). Specifically, employees’ involvement and input are key in creating a sense of psychological control over events that have such major personal consequences. Avoiding rumours by honest, consistent and regular communication from the executive group can also assist in reducing stress levels.

Box 6.2 Clever HRP responses to tough economic conditions

Cascio and Wynn (2004) have argued that pressures to downsize can be managed effectively. Staged responses to economic pressure involving pay cuts, reduced working hours and using up outstanding leave can stave off immediate action to downsize.

In response to the global financial crisis, a number of Australian companies avoided immediate wide-scale lay-offs and employed less invasive tactics. Alcoa, the world's largest integrated bauxite mine, froze the wages of its Australian workforce of 6,400 and capped the salary of its managing director for 2 years.

In the banking sector, Ralph Norris, the Commonwealth Bank chief executive, took a 10 per cent pay cut in his base salary, and middle management roles, which were paid more than \$100,000 per year, were subject to a 12-month freeze on both base salaries and short-term incentives. The bank also gave a commitment to avoid moving any jobs offshore for the following 3 years and to retain its call centres and operations processing centres in Australia for the next 3 years (*The Australian*, April 21, 2009).

GM Holden also responded to the global downturn by trimming shifts to avoid lay-offs. In May 2009, it moved its Adelaide factory to single-shift operation to avoid job cuts among its production workers (*The Australian*, April 3, 2009).

These companies made it clear that these actions were deliberate attempts to save jobs and maintain viability.

Ethical factors in downsizing

Wilcox and Lowry, in Chapter 5, point out that most, if not all, areas of HRM practice involve ethical considerations, and the following discussion highlights how the area of downsizing, as an HRP initiative, is not a morally neutral event.

The argument can be made that resource munificence, or abundance, may be grounds for judging whether a particular instance of downsizing is morally or socially responsible (Van Buren, 2000). In other words, an organization's resource base can be used to evaluate the extent of its obligations to 'downsized' employees. Based on assumptions made about relationships within the psychological and social contracts between employers and their employees, the expectation is that employment should be stable and secure if firms are doing well. When organizations engage in downsizing merely to increase an already adequate rate of profit, however, they are likely to be held more culpable for such actions than when environmental forces such as technological change or competitive conditions constrain them. Consistent with this, when organizations are characterized by declining resource munificence, downsizing is more ethically justifiable.

Zyglidopoulos (2003) empirically investigated the impact of downsizing on a firm's reputation for corporate social performance (RCSP) and found not only that downsizing had a negative impact on the firm's reputation, but also that firms that experienced higher financial performance prior to downsizing suffered a greater negative impact on their RCSP. The research therefore indicated that, despite the apparent validity of downsizing as a structural response to economic stress, managers have implicit psychological and social contracts with and ethical responsibilities towards their employees, and these are care-

fully monitored by stakeholders. When these contracts are broken, the impact on the company's reputation can be such that companies that want to re-hire qualified employees after a downsizing cycle may find it more difficult to do so because of the damage done to their RCSP.

Later, Zyglidopoulos (2005) compared downsizing with 'downscoping', in which the structural response is to divest or sell off organizational divisions. Within downscoping, employees swap employers but do not necessarily lose their jobs. A comparison between these approaches revealed that although both restructuring attempts have negative impacts on corporate reputation, downsizing has more damaging ramifications within the market.

A further important ethical consideration within downsizing is how the process is carried out. Issues associated with procedural justice – the fairness and equity of the procedures that are used to make decisions – are critical and have important consequences for employees' behaviours and attitudes. Fair processes encourage organizational citizenship behaviour or discretionary behaviours lying outside the employees' formal roles that support and assist an organization during a period of economic stress rather than work against it. These approaches provide survivors with a reason to stay and, importantly, give future prospective new hires a reason to join (Cascio and Wynn, 2004).

Zatzick and Iverson (2006) reinforce the ongoing impact that careful HRM practices can make during a period of downsizing. They have established that firms that continue to invest in their employees through the use of HRM practices designed to provide employees with skills, information, motivation and latitude can assist in maintaining workforce productivity during periods of reduction in the workforce. The argument is made that investment in these practices lessens perceived contract breaches as employees continue to receive opportunities for skill development as well as reassurance of their value in the workplace.

Meeting HRP challenges through flexibility

The preceding discussion has highlighted the HRP techniques that can be employed to match supply and demand. In reality, however, environmental factors such as economic uncertainty, technological change, demographic changes and shifts in values often pose substantial difficulties that limit the success of the HRP process. HRP approaches that do not build in adaptive labour responses may therefore fail to meet environmental challenges. These realities have led to the emergence of flexible options within HRP as a way of managing fluctuations in the supply and demand of labour.

The concept of the flexible model of the firm was developed by Atkinson (1984) as an alternative to traditional hierarchical structures. The model redefines the organization's workforce into two main segments: the core and the periphery. The core workforce is made up of permanent, highly skilled workers, and the peripheral workforce is made up of a range of temporary employment arrangements. Flexibility options underpin the management of these labour classifications.

- *Functional flexibility* involves opportunities for role and task variety and is normally associated with the core workforce. Higher levels of training and development in these core workers mean that they tend to experience higher levels of job security (Burgess, 1997).
- *Numerical flexibility*, as the name suggests, refers to techniques to vary the quantity of labour on hand, rather than being related to investments in the range and scope of the employee skill base. Internal numerical flexibility refers to the amount and time of labour input required of existing employees; overtime and flex-time are examples of this type of flexibility (Rimmer and Zappala, 1988). Alternatively, external numerical flexibility involves changing the actual number of employees as well as the hours that they work. This latter type of numerical flexibility covers the arrangements made with casual or temporary workers who are called in when needed but do not benefit from a permanent contractual relationship with the employer.

Both functional and numerical flexibility are facilitated by financial and procedural flexibility:

- *Financial flexibility* refers to the compensation system that builds in variations in wages for different types of worker (Atkinson, 1984). These arrangements allow organizations to reward and therefore encourage skill development in the core workforce.
- Finally, *procedural flexibility* is critical in that it provides the consultative mechanisms for introducing the other forms of flexibility through changes in both legal and traditional practices covering employment (Boyer, 1988).

The promise of these forms of flexibility to help organizations respond more easily to environmental fluctuations and match labour resources more closely with variations in supply and demand have led to major shifts in the workforce profile. Spain, France, The Netherlands, Finland and Australia are examples of countries that have shown a large growth in the use of temporary employment conditions (Campbell and Burgess, 2001). In the Australian setting in 2003, for example, over a quarter (28 per cent) of all wage and salary earners were employed on a casual basis, and in the period since 1988 more than half of all new jobs created have gone to casual workers (Kryger, 2004). Despite the benefits in terms of flexibility that are offered by alternative forms of work, the arrangements create numerous challenges for both employees and organizations.

For the employee, casual work is closely associated with poor working conditions, including low hourly rates of pay, low and irregular earnings, reduced employment security, lack of access to notice and severance pay, reduced access to unfair dismissal rights, vulnerability to changes in schedules, loss of skill- and age-related pay increments, and lack of representational rights (Pocock et al., 2004). For the employer, although using this category of worker is associated with flexibility and often reduced costs, the arrangement does have potentially negative ramifications (Buultjens, 2001). For example, casual workers are, owing to the transient nature of their terms of employment, less likely to identify strongly with the organization (Hall, 2006); as a result, they may not absorb and display appropriate organizational values and behaviours.

The limited organizational investment in casual workers also means that these employees may have less opportunity to develop the skills necessary for the job, and therefore the contribution that they make may be limited to generic industry tasks rather than adding real value in terms of the specialized tasks expected by some service providers. Lowry's (2001) investigation of the work arrangements for casual employees within the registered club industry in New South Wales indicated that casual workers are employed on a primarily transactional basis and that their employment conditions are characterized by an underinvestment in employee development (Buultjens, 2001; Lowry, 2001). The impact of an underinvestment in HRM activities such as training and feedback has ramifications for the quality of the service delivery provided by these workers. Lowry's (2001) findings, for example, indicated that some employees were so dissatisfied with the lack of feedback and recognition that they made a conscious decision not to improve the quality of their service. This finding is consistent with the previous research by Schneider et al. (1998), who established a relationship between HRM practices, including training and supportive supervision, and the quality of the service.

There is evidence, however, that the move to a greater reliance on non-standard types of worker – those without set hours or the expectation of continued employment – does have benefits for the organization. Ghosh et al. (2009) have established that the greater use of non-standard workers is positively associated with increased financial performance on the part of the firm. As well as having cost-saving benefits, non-standard arrangements allow firms to give workers a trial of employment before assigning them permanent status.

Moreover, Ghosh et al.'s research indicates that non-standard forms of work are associated with a greater financial impact when firms are operating in less uncertain but more competitive environments. Once uncertainty rises, reliance on non-traditional workers becomes less effective, and when uncertainty is high, a permanent workforce becomes more valuable. Permanent staff's high level of task flexibility and knowledge and expertise specific to the firm help an organization to sustain itself at a time when conditions are in flux. The argument is that, during periods of greater uncertainty, the core workforce assist the organization in protecting its technical edge, and consolidate activities that are considered important for organizational success (Ghosh et al., 2009). Although flexible forms of work allow companies to shed workers when they are not needed, the attraction and retention of a talented core workforce remains a priority, and it is this issue that is addressed in the following section (see also Mini Case Study 6.1).



Mini Case Study 6.1
Casual workers at the *BankInfo* Call Centre

BankInfo is a new call centre currently being set up by a small regional bank. The purpose of the call centre is to process a broad range of customer queries ranging

from simple account questions to much more complex financial planning matters.

Brad Ellis, the manager of the new centre, is focused on cost minimization and, as people are going to be his major expense, he is considering the use of a primarily





casual workforce as a way of keeping costs down. By using more casual workers, he can take people on and off work as he needs them and avoid having a permanent workforce that he has to employ consistently even when demand drops. When the bank introduces new financial products, for example, he will need more staff, but at other times he simply will not require as many people.

Brad thought he should talk about his staffing idea with the human resources manager at head office, Sylvia Waters. He had heard that she was a difficult character who was always going on about how HRM was not involved enough in strategic decisions. But he nevertheless decided to give her a ring and at least hear what she had to say. When he made the phone call, he was surprised by how enthusiastic Sylvia was to hear from him. Sylvia started by saying 'Well, thanks for ringing Brad. I appreciate the opportunity to have some input here – a lot of the managers think that HRM is really just about hiring and firing. What sort of employee profile are you thinking about using?'

Brad outlined his view, and Sylvia seemed to be listening closely. When he had finished, however, he found himself becoming frustrated as she started to

warn him about the dangers of relying primarily on a casual workforce, especially for more complex customer interactions. Sylvia made the following comment: 'Think about the ongoing training costs, the problems with retention and the continuous recruitment issues that you are going to face. It may not actually be the best way of keeping costs down in the long run.' At this point, Sylvia had to cut the conversation short to go to an appointment, but she urged Brad to contact her again so that they could come up with a solution.

After the call, Brad could not help thinking that the human resources department sometimes simply got in the way and created more problems than solutions. On the other hand, he felt that Sylvia had made some good points, so perhaps he should set up a meeting with her and try to plan this out more carefully.

Question

- 1 How can HRP in the call centre be configured to achieve cost-effectiveness but also ensure that more complex customer enquiries are dealt with appropriately?

Talent management

Vaiman and Vance (2008: 3–4) define talent as including 'all of the employed people within an organization who may differ dramatically in levels of knowledge, skill and ability.' Although there will be a variation in the critical strategic nature of this talent within an organization, these authors argue that all employees represent potential sources of valuable knowledge.

Ulrich (2006) provides a more specific definition and characterizes 'talent' in two ways. The first is as competence, or an individual's knowledge, skills and values that are required for both the present and the future. Second, Ulrich specifies that such employees have commitment, as shown through their capacity to work hard, put the time in to do what they are asked to do and give their discretionary energy to the firm's success. Finally, these employees make a real contribution and find meaning and purpose in their work.

The recognition of the value of talent comes at a time when, as indicated above, companies are adopting more flexible work practices and moving away from traditional commitments involving permanent work status. These shifts have been accompanied by a changing psychological contract within the employment relationship such that employees will increasingly look for employability rather than employment and will often want to change jobs (Losey, 2005). Indeed, as pointed out in Chapter 3, these transitions often occur

across borders as international employment markets offer advanced opportunities for development. Firms may therefore need to refocus their HRM practices on what employees are looking for in order to attract and retain valuable staff.

Although HRM recognizes the value of people as assets, this does not mean that HRM approaches always adopt an employee focus (Guest, 2002). The unitarist underpinnings of HRM assume that what is good for the organization is also good for its employees (Legge, 2005). In times of economic stress, however, when organizations may constrict employees' conditions and benefits, it may become increasingly difficult for employees to see any evidence of alignment between the employer's and employee's goal. The view of people as a compliant organizational resource is further challenged by an increasingly well-educated workforce and generational shifts in the values of the workforce that now emphasize both challenging work and an acceptable work-life balance (Guest et al., 2003). Uncertain economic conditions may therefore heighten the need to become more employee-focused in order to retain existing talented employees.

Guest (2002) has previously provided some guidance on how to test for employee-focused HRM approaches by exploring the impact of various HRM approaches on employees' reports of work satisfaction. Results indicated that key HRM practices related to work satisfaction included those associated with the high-performance work systems approach discussed by Zatzick and Iverson (2006). Notably, these included efforts to design or make work more interesting and challenging, direct participation and the extensive provision of information. Guest (2002) also identified the importance of a further set of more bureaucratic employee-oriented practices including family-friendly, equal opportunity and anti-harassment initiatives. Pocock (2005) similarly makes the business case for a link between work-life balance and the attraction and retention of a firm's workers. The increase in the number of women in the workforce, coupled with an ageing population base that requires carers, increases the need for companies to support valued employees who have family responsibilities.

Along with these HRM practices, employees' expectations for personal growth, as reported by both Edgar and Geare (2005) and Boxall et al. (2003), are useful in designing employee-focused HRM. Boxall et al. (2003) identified training opportunities as a factor determining employees' decisions to leave their employer. This is consistent with the changing psychological contract that focuses individuals on their own personal development needs (Sheehan et al., 2006). Employees now tend to have a greater appreciation of opportunities to upgrade their knowledge, skills and abilities so that they can remain in demand in the wider employment market (Holland et al., 2007).

Beechler and Woodward (2009) have identified a number of organizations that are implementing new practices to retain valuable employees. Within the accounting profession, where the supply of new talent is well below the anticipated demand and where professional service firms are finding it difficult to retain young associates who are focused on self-development, Deloitte, one of the 'Big Four' global accounting and consulting firms, is engaging in what it calls 'mass career customization'. This programme assists employees to map their careers through a series of interactive exercises and online resources. Other



Exercise

It could be argued that employee retention should not always be a priority – an important aspect of talent management may instead lie in acknowledging the fact that employees may at some point need to leave the organization. Perhaps the focus should be on employees' engagement in their job while they are in the organization rather than on employee retention for its own sake.

- What situational factors are likely to promote this argument?

organizations have increased their emphasis on formal training. Goldman Sachs, for example, has set up the Goldman Sachs University. Australia's Macquarie Group, the international investment house, has similarly displayed a commitment to formal training, creating a partnership with INSEAD in 2006 in order to provide the first corporate-specific Masters degree from a top-tier business school. Despite the changing psychological contract and the current tendency for employees to move more freely between organizations, it is clear that many companies are taking quite specific steps to engage and retain talented employees.

International considerations

One of the developments resulting from new forms of work organization as an HRP response has been an increase in the outsourcing of work and the resultant 'offshoring' of tasks to overseas providers. Offshoring refers to work that is not constrained by a need for actual customer contact or local knowledge, meaning that it can therefore be provided remotely or globally (Farrell et al., 2005). The key benefit from offshoring is the economic return of replacing high-wage labour costs with lower costs. Offshoring is also seen as a way of enabling organizations to focus their resources on their core business (Domberger, 1994).

The HRP decision to source labour from international sites is not without its complications. Often, the complexity or idiosyncratic nature of a particular set of tasks makes the move offshore difficult. A further issue is the lack of maturity in the newly developing offshoring market. Middle management skills, for example, may still be under development in the target countries, and services may not meet the expectations of the companies that are choosing to relocate their operations overseas (Farrell et al., 2005). Connected with this is a generalized concern about the suitability of labour to fit with the quality of service demanded by customers. Key suitability factors include problems with language skills, an educational system that does not emphasize interpersonal skills and attitudes towards teamwork, and cultural fit. Tangible savings could be lost if these issues associated with quality and service are not managed (Nash et al., 2004).

These issues require additional monitoring to ensure that quality and service are being delivered in an appropriate manner. Shiu (2004) concludes that the aforementioned issues of culture, language, service integration and maintenance will require time for clients and customers to adjust, and this may not always be an option for a firm that is trying to make strategic headway in a timely manner.

Conclusion

This chapter has provided an overview of technical approaches to HRP as well as a discussion of some of the strategic challenges that are now being incorporated into HRP thinking. HRP has evolved through a series of stages from legal compli-

ance and application as a control mechanism, to more recently being considered as a valuable strategic tool. As a strategic mechanism, HRP is not simply a matter of ensuring that a firm meets swings in the supply and demand of labour, but rather that the process adds real value when addressing the strategic needs of the company. The strategic imperative has been heightened by environmental changes associated with increasing levels of uncertainty and competition.

These forces have alerted companies to the value of the people resource and have led to a rethink of traditional responses to an over- or undersupply or demand for labour. Downsizing to deal with a drop in labour demand, for example, has in the past been adopted as a necessary cost-cutting measure. Although this response is still used, the process is now more likely to factor in the impact on employees and ensure that workers are informed and have some sense of personal control. Such an approach assists in keeping employees engaged in the strategic goals of the company and also enhances the firm's corporate reputation.

Changes in the flexibility of work organization have also been used to deal with variations in the supply and demand of labour, and have resulted in a shift in the expectations of workers in terms of permanent work arrangements. Although this helps companies to deal with changes in demand patterns, it has also raised issues relating to employee loyalty and commitment. Revised expectations on the part of the workforce's employees have led companies to think more carefully about the relationships that they develop with their workers, especially those who provide critical talent resources. Even during periods of a slow-down in labour demand, as was experienced during the 2008–09 global financial crisis, firms have become more mindful of the importance of attracting and retaining talent. Overall, HRP has evolved considerably, and has moved beyond a mere matching of labour needs with output requirements to incorporate a strategic view of the people resource and the impact that can be ultimately made on sustained competitive advantage.

6

For discussion and revision

- 1 What are the HRP implications associated with an increase in the services sector?
- 2 Under what conditions is a qualitative approach to demand forecasting preferable?
- 3 Do you agree that environmental changes render HRP so problematic that it becomes infeasible? Is there a way to approach HRP under volatile conditions that still adds value?
- 4 Discuss why some commentators argue that job descriptions have become redundant.
- 5 How can an organization's resource munificence (abundance) be used to assess whether downsizing is a morally or socially appropriate response?
- 6 If an organization is committed to retaining talented workers, what sort of HRM initiatives may assist in the retention of valuable workers?

Further reading

Books

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Case study The Australian Cladding Company

The Australian Cladding Company (ACC) was started in 1998 by Jim Hackett. With a background in engineering, Hackett created a new light-weight, low-cost house cladding product that found a ready market in Australia. The company grew dramatically, and although ACC had located its headquarters in Sydney, the company supplied its product into a number of states, as well as attracting international customers. The cladding product was very popular in major building projects, as well as in home building and extension work.

The general health of the Australian economy and initiatives such as the First Home Owner Grant scheme (a one off payment of \$7,000 that was introduced by the government in mid-2000 to offset the effect of the Goods and Services Tax) ensured that the construction industry remained buoyant. ACC had also been involved with the supply and installation of the product in a large number of large building projects in Western Australia, where the mining boom had had a positive flow-on effect to the construction industry.

To staff the venture, Hackett initially used contacts from the building industry, and he hand-picked the members of his management team. This group was very small, and it still consists of just:

- Jim Hackett as Managing Director;
- Ben Harper, Engineering and design;
- Reg Grundy, Marketing and sales;
- Arthur Seymour, Financial controller;
- Ted Clark, Production manager;
- Jill Hackett (Jim's wife), Personnel (wages and salary/personnel administration).

The growth of the company was quite remarkable. At first, it employed about 20 crew, but as demand increased the business went from a small operation to a much larger concern employing nearly 150 production staff and a further 25 staff working in support roles such as logistics, engineering, personnel, sales, and accounting and finance.

Despite healthy sales figures, profits during 2007 and into the first part of 2008 were down. At the time, Arthur Seymour explained to Hackett that profit was falling because costs were increasing. The cost management figures were showing increased scrap and wastage rates, and labour costs were rising. Along with these cost increases, there were further issues that were of a concern to Hackett.

First, there were efficiency problems with the production staff: at times, they were waiting around not doing anything, yet at other times they were stressed and working flat out. Second, despite a history of long staff tenure, the company was now

having problems with employee retention. This was particularly an issue with the skilled staff on the floor, but several key engineering people had also left, along with an IT specialist who had only been with the company for 6 months.

Finally, the number of workplace accidents was on the rise, and Sandra, one of the machine operators, had approached Jill Hackett to suggest that some of the workers were failing to take enough care around the machinery. She also pointed out that the increasing cohort of female workers at times felt uncomfortable with the way in which some of the men spoke to them, and if the issue was not dealt with appropriately, the company could have a number of sexual harassment cases to deal with.

By mid-2008, Jim Hackett had become so worried about declining performance and the staffing problems that he employed a consultant to find out what was going on. In September, Hackett met with the consultant, Terry Wild. Terry explained that most of the problems seem to be connected with the very quick growth of the company, and, as is often the case with companies that expand at an accelerated rate, the human resources approach had not kept up with the expansion. For example, ACC had not really planned its workforce around peak demand periods. In addition, whether or not Hackett realized it, the workforce that he had in place was quite different from the workforce that he had had years before, when most of the workers were male tradesmen. Jill, who was in charge of hiring new staff, had introduced a large number of women, and these new employees were not prepared to put up with the 'boys club' approach. Terry also observed that there was discontent within the skilled workforce, who felt that they were not receiving enough professional development. Furthermore, all of the senior positions were taken up by the existing management group, and other employees could not see a career path for themselves in the organization.

Hackett took offence at the suggestion that Jill was not managing the personnel issues, and responded to Terry that Jill worked really hard and did a great job. Terry submitted his final report in late October 2008. Hackett briefly read through the executive summary; it seemed to him that Terry was basically pushing for 'a more strategic approach to human resources'. The report sat on Hackett's desk for a while. Then, in late October and early November, news of the international credit crisis hijacked discussions at ACC management level, and Hackett did not get back to reading the rest of the report.

As 2009 began, the fall-out from the international economic situation really started to hit ACC. Construction on a number of big projects in Western Australia came to a halt, and orders were cancelled. Furthermore, although the government was dropping interest rates to encourage household spending and the First Home Owners Grant had been increased to \$21,000, the construction industry was feeling the impact of the economic downturn. During this time, Arthur Seymour reminded Hackett that one of the major cost blow-outs in 2008 had been associated with labour, and if the company was going to survive it was going to have to cut its labour force – basically, the company was going to have to downsize until economic conditions improved.

Hackett realized the practicality of this suggestion but was still concerned about the impact of such a message, especially in view of the comments that had been made by Terry Wild in late 2008. So Hackett decided to invite Terry to come along to the next management meeting to discuss the company's response to the economic downturn and provide some insights based on Terry's investigation from the previous year.

Hackett rang Terry to ask him if he would attend the management meeting, and Terry was pleased to be involved. Hackett explained that ACC were considering downsizing the workforce, and Terry agreed that this was a reasonable and necessary response. He also made the observation, however, that in light of the staff problems from the previous year, any

downsizing approaches would have to be handled extremely carefully. Terry made the comment:

Prior to the economic downturn, you already had problems with the workforce. The lack of an effective human resources approach that kept up with your expansion was becoming a major problem. You really needed at that time to look at your work flows and how your jobs were designed. You were also losing important staff. Now, if you inform staff that they are going to lose their jobs, existing problems might be made worse. When I come to see you next week, we need to rethink how you are managing some key human resources issues.

As he rang off, Hackett wondered whether getting Terry Wild involved was actually going to be a good idea – it might just complicate matters. He thought to himself that people either wanted to work for the company or they didn't. If they weren't happy at ACC, they would have to find work elsewhere – at least if they went, it would get rid of some of the labour cost problems.

Questions

- 1 What are the immediate and underlying problems facing ACC?
- 2 What sort of human resources activities need to be put in place reasonably quickly, and what human resources approaches need to be taken in the longer term to ensure ongoing strategic competitive advantage?

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