

## **Paradigm Shift from Personnel to Human Resource Management: Significances and Limitations**

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**Abstract:** A paradigm shift occurred in ‘human management’, from personnel management, or PM, to human resource management, or HRM. This paper aims to grasp the significance of this shift in the history of management studies, as well as its problems and limitations, to seek possibilities for a new management study that overcomes these problems. First, an overview of some major HRM theoretical models will be provided, which were proposed in the 1980s, and explicate their common thinking patterns and shared foundational features. They will then be compared to the PM paradigm to observe differences and similarities. Second, the significance of this shift to the HRM paradigm will be revisited, and immanent problems or limitations will be discussed. Particularly, this paper will focus on two points: the ‘spreading of market economy’ and ‘belief in science (especially law formulation)’. The final section will present the author’s view on possible ways in which the HRM paradigm’s limitations could be overcome.

**Keywords:** human resource management (HRM), personnel management (PM), scientific nature of management, market economy, globalization

**JEL Classification Numbers:** M10, M12

### **1. Introduction**

It has been argued that a paradigm shift in organisational ‘human management’ occurred in the 1980s, from ‘personnel management’ (PM) to ‘human resource management’ (HRM).<sup>1</sup> This paper’s objective is to grasp the significance of this paradigm shift to HRM in the context of management history studies, as well as the problems and limitations of this shift. This will pursue a starting point for possible ‘future management studies’ that will overcome these difficulties.

The following will first provide an overview of major HRM theoretical models, which were proposed in the 1980s, and will clarify their shared thought patterns and foundational features to differentiate between HRM and PM paradigms. Second, the significance of this paradigm shift to HRM will be considered, and the problems or limitations this entails. The discussion will particularly focus on two points: the ‘penetration of market economy’, and ‘confidence in science’, and especially law formulation. The final part will discuss the ways in which these HRM paradigm limitations could be overcome, and explore the possibilities of the future ‘human management’, or management studies.

## 2. Theoretical models of HRM

Not everyone accepts this paradigm shift from PM to HRM, and some see no significant differences in the basic structure and fundamental philosophy between the two (e.g. Legge 1995; Blyton and Turnbull 1998). However, the rift between HRM and PM, and the novel, innovative nature of HRM, have been increasingly recognised since the 2000s. Today, many accept that HRM is a new approach to 'human management', which is distinct from PM. The following will collect some major theoretical HRM models and consider their features.<sup>3</sup>

The first is an earlier HRM model proposed by Fombrun, Tichy and Devanna (1984). HRM activities in this model, such as selection, evaluation, training, and reward, produce synergy effects to improve organisational performance. This model's primary feature is its clear recognition of the inter-relatedness and unity between HRM activities, and is valuable in clearly proposing, for the first time, that HRM activities and measures should match corporate strategy as a whole.

The second is an analytical framework of the Harvard model by Beer et al. (1984). This develops an integrated model, in which HRM measures, such as employment, payment, and job design, affect short-term outcomes, such as commitment, competence, and cost effectiveness. These, in turn, have an effect on long-term outcomes, such as organisational efficiency and social welfare; these variables then affect 'the interests of stakeholders' and 'environmental factors', which impact business managers' HRM decisions. There are two features in this model: the first, compared with Fombrun, Tichy and Devanna's (1984) model, it considers various elements. For example, stakeholders are also seen as a constitutive element. Second, this model succeeds in suggesting various possibilities by clearly demonstrating the feedback loop, and is not confined within linear and deterministic structures. Hendry and Pettigrew (1990) further developed this model by elaborating on both external and internal environmental factors.

The third HRM model was presented by Guest (1987), and explains that good performance could be obtained from every individual employee by implementing a series of integrated HRM measures, which leads to good organisational performance. This model consists of six constitutive elements: HRM strategy, HRM measure, HRM outcome (individual), organisational outcome, performance and financial outcome. The study's main hypothesis is that HRM measures should be designed in alignment with firm's strategy, and connected with HRM outcomes at an individual level, such as through an employee's strong commitment, quality, and flexibility. The chief feature of this model is its focus on individuals, and it places an emphasis on individual ability.

The fourth is Storey's (1992) model. This model understands that HRM differs from PM, and the relationship between organisation and individuals should progress beyond a mere legal contract. Furthermore, 'company-customer relations', rather than 'manager-worker relations', are important, as the company refers to both manager and worker, and the line manager is expected to act with innovative leadership, while attending to the company's business plan. Storey's interviewing of managers from

twenty-five British companies revealed that while there are differences between companies, HRM-oriented management was adopted overall.

### **3. The features of the HRM paradigm**

The features of the surveyed HRM theoretical models demonstrate five differences in thought between PM and HRM<sup>4</sup> (Kambayashi 2010, Bratton and Gold 2003).

First, HRM displays a strong inclination toward strategy. Every HRM model surveyed in the previous section references company strategy, and this is recognised as an important component of these models. A comparison of PM and HRM textbooks in the United States revealed that PM textbooks did not use the word ‘strategy’ at all, while all textbooks in HRM mention this (Wright 1994). As the interest in corporate strategy increased, HRM has naturally been more conscious than PM of the relationships among performance, performance indicators, and HRM measures.

This strategy-oriented nature leads to a second HRM feature, which is its orientation toward more active, subjective human management. This contrasts with PM, in which the main activities are routine procedures, such as payroll calculations and insurance/benefits matters, and post-hoc responses to workplace conflicts and labour-management disputes.

The third feature is that the HRM paradigm places an emphasis on the importance of ‘psychological contract’, rather than economic and legal contracts, based on the idea of material exchange. This observes that employees are not simply working for wages set by a legal job contract. The HRM paradigm understands that to obtain as much effort as they can beyond the contract, it is important to foster mutual commitment and affinity between the contracting parties.

Fourth, the HRM paradigm maintains the importance of workplace learning. The PM paradigm notes that each employee is seen as a labour cost factor, as the company pays a certain amount of wages to those employees who complete their assigned work. On the other hand, HRM understands that while the labour cost still exists, personnel could be a great source of competitive advantage if management invests in education and training, and workers learn and grow. HRM, in other words, sees workers as not only a mere cost for management, but also as an asset with future potential.

Fifth, the HRM paradigm does not consider the members of an organisation as a group, and seeks to achieve organisational goals by focusing on each individual, and by considering the individuals’ motivation. They do not emphasize labour-management relations, or the conflicts between the company, trade union and workers as a whole. Rather, the key to management is harmony between the organisation and its individual workers. The trade union movement’s weakening corresponds to the HRM paradigm’s coming into fashion (Blyton and Turnbull 1998).

The following may be noted, in summary: people are seen as a cost in the PM paradigm, based on an understanding that people resist management, and management has difficulties in controlling them. On the other hand, the HRM paradigm considers people as a resource, expected to devote ‘the whole mind

and body' to management. People are regarded as an important asset, which potentially produce substantial wealth if appropriate education, training or learning opportunities are provided.

#### **4. The significance of the HRM paradigm**

##### **4.1 Improving the scientific nature of management**

The HRM paradigm is significant for management because it improves management processes' 'reliability', and regards people as positive for management. If the essential requisite for science is the clarification of entire constitutive elements, and the firm establishment of causal relations between these constitutive elements, then the shift from the PM paradigm to the HRM paradigm should be appraised as a certain advancement of science in management.

For example, in the causal law ' $A \rightarrow B$ ', let us suppose A is 'workers' and B is 'performance or profit'. Under the PM paradigm, there is not necessarily a high reliability in the causal relation indicated by the arrow ' $\rightarrow$ '. It is understood that people have feelings and will resist management, and management must accept this (Morishima 2010).

However, the HRM paradigm particularly emphasizes workers' psychological characteristics, strives to ensure unity in the whole organisation and to achieve performance beyond a legal contract wherever possible, as indicated in the theoretical models analysed in the previous section. The HRM paradigm, in other words, seeks to increase reliability of causality ' $\rightarrow$ ' by transforming workers' mental attitudes from the resistant to the obedient. The HRM paradigm, in this sense, deserves a positive appraisal in terms of its contribution to the improvement of reliability in management processes.

##### **4.2 Acceleration of globalisation**

Although not often debated in the context of the paradigm shift from PM to HRM, this shift was motivated by globalisation and particularly the success of Japanese management in the 1980s. The exportation of Japanese management overseas in the 1980s drew attention not only to the so-called 'three sacred treasures' of Japanese management, but also to the organisational characteristics of Japanese companies (e.g. teamwork and ambiguity of job duties). These unique characteristics and personnel affairs customs, which cannot be found in traditional western companies' management, led Japanese companies to attain high competitive power. Western companies learned and absorbed these; thus, the basic principles of the HRM paradigm were formed. Employees' strong commitment, cooperative worker-management relations, long-term and multi-dimensional development and utilisation of human resources, and personnel affairs measures, such as small group activities that voluntarily tackle problems in the workplace, demonstrated a model to be followed by the companies in the United States, which were struggling with declining competitive power. It has been argued that when United States companies' top management became interested in the HRM paradigm, the dramatic growth of Japanese companies was a factor that triggered this interest (Iwade 2002; Miles and Snow

1984). The basic principles of the HRM paradigm, which United States companies learned from Japanese companies, were then further developed in the 1990s as SHRM, with stronger strategic orientation, and gained wider global recognition as an advanced human management model (Kambayashi 2009). This overview may be rather crude, and locating this within the history of the discipline requires further verification; yet, expanding globalisation behind the formation of the HRM paradigm influenced the success of Japanese companies in the world market, a fact that deserves special attention.

However, an important problem is implicit in this shift from PM to the HRM paradigm: today's HRM paradigm has value as a human management method, yet also contains limitations. This will be discussed more closely in the next section.

## **5. The limitations of the HRM paradigm**

### **5.1 Response to the spread of market economy**

The HRM paradigm, concisely, is a new paradigm in 'human management', which appeared as a necessary consequence of companies' efforts for 'strategic market response'. From F. W. Taylor's establishment of scientific management, at least initially, the measures for human management had relied heavily on intra-organisational logic and a production-oriented approach. The HRM paradigm transformed the fundamental principles of human management to a market-oriented approach to respond to the environments outside the organisation, and especially the market demand, as quickly and appropriately as possible.

The system of human management theory under the traditional PM paradigm was often explained in accordance with areas of human management, such as employment, education and training, work, evaluation, promotion, wage and benefits and industrial relation. It is highlighted, on the other hand, that HRM textbooks' explanations regarding worker-management relations decreased by half, while new sections on market response and strategy were added and their space was greatly expanded (Wright 1994). Furthermore, HRM textbooks often describe how management measures and systems in each area of human management have been transformed, from intra-organisational and production-oriented, to extra-organisational and market-oriented. Japanese HRM textbooks also usually discuss changes, such as life-time or long-term employment being replaced by short-term (irregular) employment, spreading of Off-the-job Training and career development to nurture general skills, in addition to the traditional On-the-job Training, and increasing use of performance evaluation and performance-based wage. That is, the method and system of organisational human management under the HRM paradigm have been transformed to be more conscious of the market outside the organisation. The HRM paradigm is a market-oriented approach that considers not only existing intra-organisational logic, but also the extra-organisational.

When it is 'market-oriented', what does 'market' essentially mean? It is evident that the basic role of

the market is to decide the price of goods based on the quantitative balance between demand and supply, and to enable buying and selling, so that society can most appropriately distribute its resources. What is important here is that the market is a mechanism based on a quantitative balance between supply and demand (outside the organisation), and the adjustment is made without considering human psychology and feelings within the organisation. A personnel system determines the methods of work and behaviours of people who work in an organisation; if it is designed only in accordance with market-based, extra-organisational logic, then difficulties would exist. A system tends to be designed, in other words, simply based on market principles to adjust to the market, without carefully considering what kind of system would be truly useful for a particular organisation. It is recognised that an adjustment by market is not almighty – it often fails, and for it to work, certain conditions are required. It is also natural in organisational human management that social inefficiency will occur if an adjustment is made based only on market principles. This point is so basic that it is not often argued explicitly in discussions regarding the shift to the HRM paradigm, and especially among the HRM proponents.

Moreover, the idea of a market economy is logically compatible with ‘globalisation’. The essence of globalisation is, in summary, to ignore local features and set a rule for single-ground competition, based on a single standard that is applicable to the entire world. Market economy promotes the further development of globalisation, and globalisation strengthens the idea of a market economy. This idea, not confined within companies, has penetrated various global social institutions, such as medicine, education, research and public administration. This company attitude, which aims to expand the market and maximise profit in a global view based upon the idea of a market economy, could be called a ‘global market economy’ (Kambayashi ed. 2013). A company’s human management system should play a role in defending people against this strong tide of market economy, which has rapidly penetrated the world. However, current HRM theories and their various measures do not necessarily function in this manner, merely importing external market logic into organisations without much scrutiny. This is the HRM paradigm’s first limitation.

## **5.2 The pitfall of law formulation**

One of the aforementioned significances of the HRM paradigm is found in its contribution to the dramatic improvement in management processes’ reliability by noting all aspects of human behaviour as datum and making them elements. In the causal law ‘ $A \rightarrow B$ ’, ‘A’ represents human behaviour. HRM has expanded the objects of ‘A’, sought possibilities of various causal relations, and formulated laws to elaborate them, attempting to improve the reliability of ‘B’, management outcomes (performance and revenues). The HRM paradigm has attempted to improve the predictability of management outcomes by expanding the area of causal laws and making them more sophisticated. This denotes a significant step, or ‘advance’, of science in management.

Although this law formulation is an important scientific aspect, the idea itself has its own pitfall. First, it is necessary to index each management process element, and quantify and measure them by a certain

standard of measurement, to formulate causal laws of structure. It is difficult to judge what kind of indexing, quantifying and measurements are appropriate, especially as management increases and becomes more complicated. There is no guarantee that an attempt to visualise and measure the indexes will be successful.

In fact, different authors of the HRM theoretical models analysed in Section II collected different constitutive elements for their models. The variables, such as HRM strategy, measures, performance and environmental factors, differed between different authors, and there were wide variations in the constitutive elements and suggested methods of indexing or measurement. Although they strove to establish a general theory, no decisive theoretical model has been developed. Furthermore, SHRM theories, which evolved from HRM theory and flourished in the United States after the 1990s, primarily focus on how HRM measures, or a group of these elements, could best be arranged and connected to management performance. Further, the inclination toward clarification and elaboration of the relations between elements, and interest in legislation, seem to have been additionally strengthened.

The HRM paradigm has expanded the scope of human behaviour beyond PM and outside the workplace, and grasped human behaviour comprehensively, though its meaning is simplified and reduced to a 'resource'. The HRM paradigm tried to progress as a science by making them elements and placing the human behaviour in models. However, it must be considered that a pitfall has involved the tendency to absolutise these constitutive elements and causal laws. This problem is, of course, not unique to the HRM paradigm, and may be a limitation of theorisation in modern science, *per se*. Nevertheless, 'human management' deals with human beings, and management researchers and professionals should seriously consider this limitation of theorisation.

## **6. Conclusion: Possibility of overcoming the HRM paradigm**

The previous section, noted problems and limitations that seem to be found in the HRM paradigm. Exposing these problems and limitations is not a difficult task, but it is important to seek how to overcome these limitations, and to pursue a new paradigm of 'human management' that suits a contemporary world. It is also important from an academic perspective to make society and its professionals aware of these issues, develop new leading principles, and propose concrete, effective measures to overcome these difficulties.

Answering these questions is beyond the capacity of this paper, and an argument cannot be further developed. However, in a broad sense, there seem to be two solutions.

The first is to seek an HRM theoretical model that considers the contexts of each country or locality, rather than striving to establish a general theory of 'human management'. Humans are social beings, and spending their working life in a country or local community. 'Human management' theory cannot be established without truly understanding the locality's social and cultural contexts. The formulation of a single general theoretical model with global applications does not fit 'human management' theories.

As the world is under the influence of increasing globalisation, local differences should be clarified, and international and inter-regional comparative studies should be accumulated to formulate an HRM model that reflects these differences. The role of market mechanism and its appropriate utilisations should differ in different countries and locales. In other words, in addition to the woof of historical thread, researchers should pay attention to the warp of topological differences (international and inter-regional comparison), i.e. to show the differences and similarities between different countries and localities, and this would be particularly important in 'human management' theories. The HRM theoretical models discussed in Section II all aspire to be a general theory of 'human management', and scarce attention has been paid to such local characteristics.

The second is to recognise the second difficulty (the limitation of law formulation), and urge professionals to always reflect upon the constitutive elements of causal laws and measurement standards themselves, which are taken for granted in everyday situations of management practice. The blind belief in the causal law 'A→B' ironically leads to the view that if B (performance and revenue) is poor, A (a certain pattern of human behaviour) is insufficient, and more efforts are poured into A to strengthen it. This tends to exclude further possibilities other than A, such as C and A'. It is necessary to recognise, for a company's long-term 'win in market competition', that many invisible parts exist behind current indexes and measurement standards. Therefore, at the management practice level, it would be useful to recognise that law formulation has limitations, and the measures themselves must occasionally be revised.

Overall, for future management studies and 'human management' theories in particular, it would be necessary to build a theoretical model that overcomes the limitations of a global market economy. A theoretical model would be necessary that fits with different lives of people in different parts of the world, and the human feelings of actual people. It would also be necessary to avoid absolutising the causal laws used in such a model. The current HRM model is lacking in these respects, and researchers of management studies can do much to improve it.

## Notes

<sup>1</sup> The term 'paradigm' in this paper follows the ordinary use in social sciences; i.e. views, ideas and values that are unique to a given time. Therefore, the 'HRM paradigm' in this paper means the whole body of the basic view and framework of value, which defines the idea of 'human management' that has spread since the 1980s and has been shared by all HRM theoretical models. Further, the term 'human management' is used as a context-free term, as the 'management of employees by a company', covering such context-dependent conceptions as personnel management and human resource management.

<sup>2</sup> This paper is based on the discussion developed in Kambayashi (2016).

<sup>3</sup> A majority of HRM models are ones that were collected by Bratton and Gold (2007) as major HRM



theories. For the details, see pp. 20-29 of the book.

- <sup>4</sup> As is well known, since the 1990s 'Strategic Human Resource Management (SHRM)' has been introduced in the field of 'human management', by influence from the resource-based view that observes a company's internal factors as a source of competitive advantage. This SHRM in this paper is also included in the HRM paradigm, as broadly defined.

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