Holistic Human Resource Management Model towards Sustainable and Sophisticated Business

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ABSTRACT

The aim of the paper is to analyse different human resource management (HRM) models and aspects of corporate social responsibility and creating shared value for building holistic model towards sophistication and sustainable development of the company. Research methods such as analysis and synthesis of the relevant scientific literature, logical and comparative analysis, as well as analytic hierarchy process (AHP) method are applied. Based on both the theoretical research and empirical analysis the authors show the factors, practices and outcomes of different models; developed holistic human resource management model; and draw conclusions regarding importance of HRM practices, the interconnectedness of human resource management and sustainability.

Keywords: Human Resource Management Model, Holistic Approach, Corporate Social Responsibility, Creating Shared Value.

1. INTRODUCTION

Continuous ongoing changes in the external environment and changes in the organization's internal environment create the need for a new approach to the organizational management, also including a different approach to human resource management (HRM). Nowadays, when talking about the progress and results of ongoing processes, it is often stressed that all processes are to be evaluated and analysed as a whole, or holistically.

In a general sense holism refers to any approach that considers the whole more important than its elemental parts. Holism is well established as a concept in science, sociology, medicine, religion, psychology and philosophy. However, the concept of holism in economics or business has only recently emerged.

The future is likely to belong to systemic organizational development solutions and knowledge sharing between different management disciplines. [11] Holistic approach is closely related to the systems approach. System is a set of interrelated elements, which form a single functional entity.

According to the authors, holistic approach to management can be discussed at different levels: Human Recourse Management level, Organizational level, Society and Environment level.

Holistic approach at HRM level appears when HRM is described as a single system. Armstrong notes that HRM can be described as a strategic, integrated and coherent approach to the employment, development and well-being of the people working in organizations [1]. Beer *et al.* believe that today, many pressures are demanding a broader, more comprehensive and more strategic perspective with regard to the organization's human resources [6]. These pressures have created a need for a longer-term perspective in managing people and consideration of people as potential assets rather than merely a variable cost. Fombrum *et al.* hold that human resource (HR) systems and the organization structure should be managed in a way that is congruent with organizational strategy [[31].

Holistic approach at organizational level is closely linked with systems approach. According to systems approach, organizations are systems, which are considered to be a set of inter-related, equally important and interacting elements. Organizations as systems operate and develop through interaction of their elements. Thus, changes that occur in one of the elements of the system affect other elements of the system [11]. Although different authors describe organizational elements in different ways, all the authors note that the organization's activities are based on people whose actions are deliberately managed and coordinated to reach the goals set by the organization.

Explanation of HRM philosophy by Legge states that human resource policies should be integrated with strategic business planning and used to reinforce an appropriate (or change an inappropriate) organizational culture, that human resources are valuable and a source of competitive advantage, that they may be tapped most effectively by mutually consistent policies that promote commitment and which, as a consequence, foster a willingness in employees to act flexibly in the interests of the *adaptive organization's* pursuit of excellence [17].

Holistic approach at the level of society and environment shows that HRM processes take place within the context of the internal and external environments of the organization. In line with contingency theory, these exert considerable influence on the decision over which HR practices are adopted. The external environment consists of social, political, legal and economic developments and competitive pressures. Holistic approach includes economic, ecologic, social, political and cultural aspects.

2. HOLISTIC APPROACH: ASPECTS OF CSR AND CSV

Fundamental, turbulent and revolutionary changes took place in business organizations during 1980s. Attitude towards the people employed within the organization changed, recognizing that employees are an important resource for the organization – human resources – and one of the primary stakeholders. External stakeholders called for greater corporate social responsibility (CSR) among other things. These changes reflect the expectations and influences of stakeholders on issues ranging from organizational governance to operations. Consequently, the management strategy changed: if traditionally management focused on the organization's internal environment, the new approach envisaged respecting interests and managing relationships of all stakeholders – both internal and external. In each case managers focus on relationships with those stakeholders who are of particular importance in achieving the organizational goals. [26]

CSR as an important aspect of company's competitive advantage and sustainability is closely related to the stakeholder's approach in which all interests are observed. Stakeholder's approach also implies opting for a multi-dimensional concept of performance

using multiple measures of performance: outcomes such as labour productivity, innovation, quality, efficiency gains and flexibility and more social aspect of performance emphasising legitimacy and fairness (organisational citizenship behaviour, commitment, trust, perceived security and perceived fairness) [19], [7].

In contrast to the view that managers are responsible only for profit within the economic and legal framework, an opinion appeared that organizations should be socially responsible and voluntarily seek ways to meet the interests and needs of their key stakeholders. As Boxall points out, "While HRM does need to support commercial outcomes (often called "the business case"), it also exists to serve organizational needs for social legitimacy" [8]. This means exercising social responsibility or in other words being concerned for the interests (well-being) of employees and acting ethically with regard to the needs of people in the organization and the community. Thus CSR of the 21st century is based on social, environmental and economic responsibility.

Just recently a new approach to socially responsible business practices has been introduced – the concept of *creating shared value* (CSV), which implies creating economic value while simultaneously creating value for the society. It is a new, challenging view on the social and business issues and the connection between the two.

According to Porter and Kramer, Creating Shared Value is an approach to CSR based on the interdependence of corporate success and social welfare [22]. Shared value creation is a way of re-connecting a company with the society it is embedded in, through identifying and expanding the connections between societal and economic progress. A "CSV company" no longer thinks of profitability only, but rather focuses on achieving sustainable competitiveness through simultaneously delivering positive impact on society and environment. [31], [21]

This means recognizing societal needs not exclusively as a burden on the business that only brings higher costs, but as a way to improve business performance while creating added value for the society as well. Thus CSV is a way of doing business that considers the society and environment not just as external settings that a company is operating in, but as an integral part of the business. Thinking of how to improve society's wellbeing becomes a step in thinking of how to achieve better business results. [16]

Introduction of socially responsible business principles depends on management desires. However, the CSR program implementers are employees - staff, human resources. Therefore, the HRM as a constituent part of company management plays an important role in the implementation of sustainable policy.

3. ANALYSIS OF HRM MODELS

Over time, both the attitude towards the people engaged in the organization and the concepts, which are used to describe these people, have changed. Originally, organizations considered the people employed a labour resource, with a focus on the human ability to perform certain functions and tasks. With regard to the implementation of the scientific advances and new technologies, the nature of labour has changed: workers needed a higher level of education, different skills and abilities. Willingness of employees to participate in decision-making increased. In the eighties of the 20th century, a new concept – Human Resources Management was introduced in the USA by adopting the total quality management principles from Japan, recognizing that the organization's employees, namely, human resources, are a significant resource, and by combining the scientific management

approach, the human relations school and the principles of strategic management.

According to Price from an organizational perspective HR encompass the people in an organization – its employees, and the human potential available to a business. The overall purpose of HRM is to ensure that the organization is able to achieve success through people. HRM is a philosophy of people management based on the belief that human resources are uniquely important to sustained business success. HRM is aimed at recruiting capable, flexible and committed people, managing and rewarding their performance and developing key competencies [23].

In literature, various perceptions of HRM are found, leading to a wide variety of HRM definitions. Some authors support the unitary approach to HRM, when employers and employees are viewed as having common interests and the key function of HRM is how people can best be managed in the interests of the organization.

According to unitary approach HRM is defined as a strategic and coherent approach to the management of an organization's most valuable assets – the people (or human talent) working there who individually and collectively contribute to the achievement of its objectives [1], [18], [30].

Other authors use the more pluralist view, which says that all organizations contain a number of interest groups and the interests of employers and employees do not necessarily coincide. Cascio says that HRM is the attraction, selection, retention, development and use of human resources in order to achieve both individual and organizational objectives [24].

Paauwe believes that the yardstick of human resource outcomes is not just economic rationality – a stakeholder perspective is required, is develop and maintain sustainable relationships with all the relevant stakeholders, not just customers and shareholders [19].

Investigating the issue of the impact of HRM on organizational performance, HRM has developed a number of models that show the relationship between HRM practices, the factors influencing the choice, and the organization outcomes. Within this research, the following models have been selected for analysis:

1) The Harvard framework of HRM – one of the first HRM models, developed by the Harvard School representatives Beer, Spector, Lawrence , Mills , Walton in 1984 [6].
2) The Guest model of HRM [13].
3) Model for the HR-shareholder value relationship created by Becker, Huselid, Pickus, Spratt [5].
4) Contextual and Dynamic Framework for Strategic HRM created by Jackson, Schuler [14].
5) Armstrong model – impact of HRM on organizational performance [3].

The authors compared the models (see Table 1) in accordance with HRM practices and factors and outcomes influencing them. Some author show business strategy as a factor influencing HRM, others analyse these factors in detail, indicating both the organization's external environmental factors and internal environmental factors. The most complete set of influencing factors is shown in Jackson and Schuler's model.

In the part of HRM practices the focus is on the following activities: recruitment, selection, performance appraisal, training and development, compensation and rewarding, workplace safety and security.

We can divide HRM in two approaches: "hard" and "soft" approach. Under the "hard" approach, employees are considered one of the organization's resources and should thus be managed in the same ways as any other resources in the organization. This approach measures the HRM effectiveness by monetary criteria: cost accounting employed utility analysis, economic value added, and return of investment of HR activities [28].

Table 1. Comparison of HRM models [created by authors]

Models	Factors	HRM practices	Outcomes
Harvard model	Stakeholder interests *Situational factors* (Workforce characteristics, business strategy, management philosophy, labour market, unions, task technology, laws and societal values)	*Employee influence* – delegated levels of authority, responsibility, power *HR flows* – recruitment, selection, placement, promotion, appraisal and assessment, termination etc. *Reward systems* – pay systems, motivation etc. *Work systems* – definition/design of work and alignment of people	**HR outcomes**: commitment, competence, congruence, cost-effectiveness. **Long term consequences**: individual wellbeing, organisational effectiveness, social wellbeing
Guest model	HRM strategy	Selection Training Appraisal Rewards Job design Involvement Status and security	**HRM outcomes**: commitment, quality, flexibility **Behaviour outcomes**: effort/motivation, cooperation, involvement, organizational citizenship **Performance outcomes**: High: productivity, quality, innovation Low: absence, labour turnover, conflict, customer complaints **Financial outcomes**: profits, return on investments (ROI)
Becker et al. model	Business and strategic initiatives	*Design of HRM system:* Recruitment, Selection, Compensation systems, Development and training	**HR outcomes**: employee skills, employee motivation, job design and work structures **Performance outcomes**: productivity, creativity, discretionary effort, improved operating performance **Financial outcomes**: profits, growth, market value
Jackson, Schuler model	*Global environment*: local conditions, national conditions, multinational conditions *Organizational environment*: leadership, strategy, organization structure, organizational culture	*HRM activities – formal policies, daily practices*: HR planning, Job analysis, Recruitment and retention, Selection, Training and developing, Measuring performance, Compensating employees, Rewards, Workplace safety and health, Employee relations	**Stakeholder satisfaction** *Owners and investors*: Financial returns, corporate reputation, long-term survival *Customers*: Quality, speed, responsiveness, low cost, innovation, convenience *Society:* Legal compliance, social responsibility, ethical practices *Other organizations*: Reliability, trustworthiness, collaborative problem-solving *Organization Members*: Fairness, quality of work life, long-term employability
Armstrong model	Contingency variables: - *External context* (competition, economic, social, legal) - *Internal context* (size, sector, technology, employees, culture) Business strategy	Resourcing Performance management Learning & development Reward management Employee relations	**HRM outcomes** Engagement, Commitment, Motivation, Skill **Business outcomes** Productivity, Quality, Customer satisfaction **Financial performance** Profit, Sales, Market share, Market value

Some companies develop sophisticated models, of how HR practices affect satisfaction of customers, or identify investors as the most important stakeholders, without whose capital it would be impossible to continue business and reach satisfaction [28].

The "soft" approach acknowledges the importance of taking into consideration multiple stakeholder interests. In this approach, employees as an important group of stakeholders and a distinct resource that cannot be managed as any other resource and whose interests and needs have to be taken into account [24]. A more complete evaluation of the effectiveness of HRM involves the satisfaction of the concerns of multiple stakeholder groups. Therefore, soft indicators are also used, such as commitment, satisfaction, engagement, knowledge development, etc. [28]. Soft approach is in tune with the concept of CSR, which provides satisfaction of all stakeholders of the organization, not just the owner/investor interests.

Traditionally, all mentioned HRM models are based on Dyer and Reeves [12] categorization of outcomes, which provides:
1) Proximal outcomes – HR outcomes;
2) More distal outcomes – organizational, financial and market based.

CSR approach extends the range of HRM outcomes including the social outcomes – individual and social well-being.

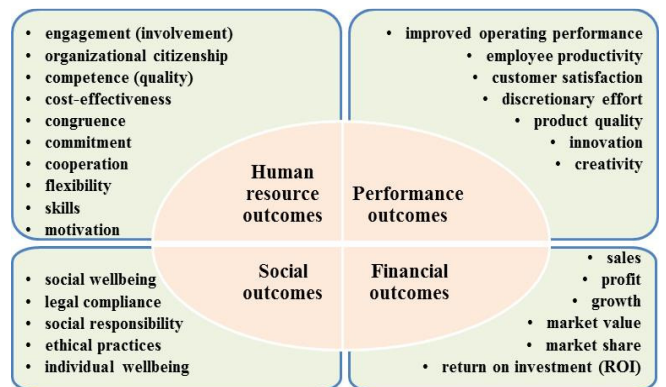The summary of HRM model outcomes analysed in this article is shown in Figure 1.

Figure 1. HRM outcomes [created by authors]

Comparison of the HRM models made by authors (see Table 1), shows that some models represent the traditional approach, but Harvard, Jackson and Schuler models represent the CSR approach, i.e., the satisfaction of the interests of different stakeholders. Therefore, we can conclude that closest to Holistic Approach are Jackson and Schuler's [14] Contextual and Dynamic Framework for Strategic HRM.

4. HOLISTIC HRM MODEL AND IMPORTANCE OF HRM PRACTICES

An open systems view of HRM has been developed by Wright and Snell [32]. An open system is dependent on the environment for inputs, which are transformed during throughput to produce outputs that are exchanged in the environment. Wright and Snell defined an open HRM system as a competence model of organizations. Skills and abilities are treated as inputs from the environment; employee behaviours are treated as throughput; and employee satisfaction and performance are treated as outputs.

An HRM system brings together [1]:
1) HR philosophies which describe the overarching values and guiding principles adopted in managing people;
2) HR strategies which define the direction in which HRM intends to go;
3) HR policies which provide guidelines defining how these values, principles and strategies should be applied and implemented unspecific areas of HRM;
4) HR processes which comprise the formal procedures and methods used to put HR strategic plans and policies into effect;
5) HR practices which consist of the approaches used in managing people;
6) HR programmes which enable HR strategies, policies and practices to be implemented according to plan.

In order to assess the significance of various HR practices in the company's socially responsible strategy implementation, the authors used Analytic Hierarchy Process (AHP) method developed by Thomas L. Saaty [25]. The AHP methodology helps reach a desired goal eliciting both qualitative as well as quantitative data. [4]

In AHP, preferences between alternatives are determined by making pair-wise comparisons. In the results the relative importance of the various criteria, which is rated by the nine-point scale developed by Saaty, is found. This scale indicates the level of relative importance from equal (1), moderate (3), strong (5), very strong (7) up to extreme level (9). The intermediate values between two adjacent comparisons are evaluated by 2, 4, 6, and 8. Comparing alternatives with AHP there is an assumption that criteria A is absolutely more important than criteria B and is rated at 9, then B must be absolutely less important than A and is graded as 1/9 [4], [10].

The next step is the calculation of a list of the relative weights, importance, or value, of the factors, which are relevant to the problem in question (eigenvector) [10]. First of all decision matrix of judgments of the main aspects with respect to the objective is calculated. Then decision matrixes of judgments of the criteria with respect to each aspect/criteria are calculated. "In order to obtain the numerical values of ratings, a comparison matrix between the rating intensity levels was built. Through this matrix, the relative importance among levels of intensity was found, calculating the self-vector that represents the "performance" for each intensity level". [29]

The Consistency Ratio is calculated as follows:

$$CR = \frac{CI}{RI} \qquad (1)$$

where CI is the consistency index; RI is the Random [Consistency] index, which is taken from Saaty's table "The Reference Values of RI for Different Values of n" [4], [25].

The Consistency Index is calculated as follows:

$$CI = \frac{(\lambda_{max}x - n)}{(n - 1)} \qquad (2)$$

where n is the number of alternatives; $\lambda_{max}x$ is result of the Selected Criteria Pair-wise Comparison Matrix (λ_{max}) and Eigenvector (row averages, x) multiplication [4], [25].

The final step is each normalized alternative score multiplication by the corresponding normalized criteria weight. Afterwards the results for all of the alternative criteria are summed up. The highest total score is the preferred alternative.

According to the AHP methodology, the authors offer three criteria for comparison: development of environment, development of relationships with stakeholders and business ethics.

Data analysis shows that the most important is such a criteria as Development of Environment (0.6753), the second important criteria is developing relationships with stakeholders (0.2372) and the least important criteria in this case is Business Ethics (0.0874).

Table 2. Priorities of HRM functions in CSR company

Rang	Normalised priorities	Alternatives (HRM practices)
1	0.1310	Work environment, safety and health
2	0.1166	Compensating employees
3	0.1030	Rewards
4	0.0867	Performance management
5	0.0862	Employee relations
6	0.0858	Training and developing
7	0.0839	Performance appraisal
8	0.0712	Induction
9	0.0621	Recruitment and retention
10	0.0611	Selection
11	0.0569	Job design and analysis
12	0.0555	HR planning

As a result it is clear that the first most important HRM practices are those from the "soft" HRM approach (managing the "Work environment, safety and health", "Rewards" and "Compensating employees" with weight more than 0.1). The least important HRM practices in this case are activities such as "HR planning", "Job design and analysis", "Selection", "Recruitment and retention" (with weight less than 0.07).

In its traditional form, HRM, as pointed out by Boselie *et al.*, can be viewed as "a collection of multiple discrete practices with no explicit or discernible link between them" [7]. In contrast "the more strategically minded systems approach views HRM as an integrated and coherent bundle of mutually reinforcing practices". Kepes and Delery note that a defining characteristic of HRM is that HRM systems and not individual HRM practices are the source of competitive advantage: "Coherent and internally aligned systems form powerful connections that create positive synergistic effects on organizational outcomes" [15].

Strategic human resource management is a holistic approach by its nature because it envisages unity of HRM and business interests. [1]. The fundamental aim of strategic HRM is to generate organizational capability by ensuring that the organization has the skilled, engaged, committed and well-motivated employees it needs to achieve sustained competitive advantage. It has three main objectives: first, to achieve

integration – the vertical alignment of HR strategies with business strategies and the horizontal integration of HR strategies. The second objective is to provide a sense of direction in an often turbulent environment so that the business needs of the organization and the individual and collective needs of its employees can be met by the development and implementation of coherent and practical HR policies and programmes. The third objective is to contribute to the formulation of business strategy by drawing attention to ways in which the business can capitalize on the advantages provided by the strengths of its human resources.

Schuler stated that: "Strategic human resource management is largely about integration and adaptation. Its concern is to ensure that: (1) human resources (HR) management is fully integrated with the strategy and strategic needs of the firm; (2) HR policies cohere both across policy areas and across hierarchies; and (3) HR practices are adjusted, accepted and used by line managers and employees as part of their everyday work" [27].

A real contribution to performance (in its multidimensional meaning) will happen only once we approach HRM from a more holistic and balanced perspective, including part of the organizational climate and culture, aimed at bringing about the alignment between individual values, corporate values and societal values [20].

After summarizing and analysing various HRM models (see part 3) authors created model (see Fig.2) and conclude that the holistic HRM model should ensure achieving the multiple organizational goals as well as reaching each individual employee's individual goals, and also take into account the organization's impact on both the external and internal environments.
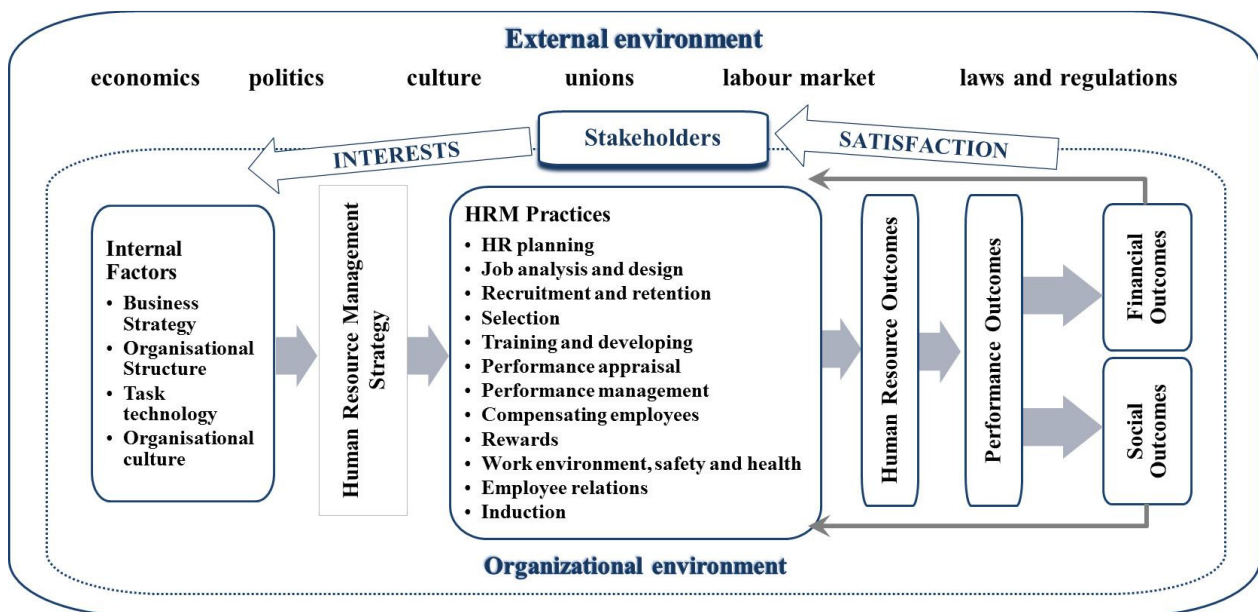

Figure 2. Holistic Human Resource Management model [created by authors]

The model created by the authors also shows reversed causality – HR practices may have resulted in high performance (financial and social) but high performance may have encouraged the use of sophisticated HR practices. According to the holistic approach, HRM is an open system, whose operations are in close conjunction with the organization's internal and external environment. Internal factors of organization (business strategy and technology, organisation structure and culture) influence the choice of HRM strategy and HRM practices – the organisation's strategic objectives either proscribe the HRM input or HRM is developed in response to these objectives. HR practices can make a direct impact on employee characteristics such as engagement, commitment, motivation and skills. When HRM practices are implemented, employee competence and motivation increase, commitment and engagement are formed (i.e. HR outcomes). Interested and skilled workforce contributes to enhancement of organizational effectiveness (productivity, quality of products, speed of service and other performance outcomes), as well as to reaching the most distal outcomes – financial and social.

5. CONCLUSIONS

In conditions of tough global competition of the 21st century, an essential pre-requirement for the development of the organization is acquisition and retention of competitive advantage. Today, the company can gain competitive advantage by implementing the strategy of corporate social responsibility and by creating shared value. Socially responsible strategy has become an integral part of daily operations of many competitive and sustainable organizations.

Implementation of strategy of corporate social responsibility requires the organization to be able to find and maintain the balance between efficient, productive and profitable operations and socially responsible behaviour. So, human resources become one of the most important company assets or elements, which need to be focused on a sustainable future.

Since CSR as an important aspect of the company's competitive advantage and sustainability means respecting all stakeholders' interests, holistic HRM envisages achieving diverse objectives – both financial and social. High labour productivity can raise the organization's profit thus meeting the owners/investors' interests. However, efficient organization may also mean saving resources (raw materials, energy) and caring about environment, which corresponds to the interests of the whole society.

Sophisticated and sustainable business demands socially responsible strategy where observing human resource management and stakeholders interests is one of the most important elements that not only affect the business in general but also help reaching sustainability goals. Therefore, the company

has to form a unique approach to human resources management so that it is changed and adapted to the principles of sustainability. HRM aims to increase organizational effectiveness and capability – the capacity of an organization to achieve its goals by making the best use of the resources available to it. To achieve its objectives, the company should create an adequate business plan, choose a human resource management model and methods, establish criteria system for performance evaluation, define measurable results, and understand which of the HRM functions is the most important in building sustainability.

The company that is able to build a proper human resource management system has more advantages than others. Such a company is not only socially responsible, but also its business activities create value that is useful and mutually beneficial to both the company and its stakeholders, and the environment and society as a whole.

6. ACKNOWLEDGEMENTS

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