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'EMPLOYMENT SYSTEMS FOR COMPARING HRM-PRACTICES'

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As a field of study, human resource management has tended to be a-theoretical. On the one hand, this encourages the idea that HRM practices can be readily transferred between countries and companies. On the other, it leads to international comparisons of HRM that dwell on the institutional differences between countries. This paper offers a framework, grounded in the theory of labour markets and the 'resource-based' theory of the firm, which focuses on the systematic differences in the way organisations manage people. This 'employment systems' perspective is made up of four elements:

- (i) A set of universal HR objectives, based on the acquisition of skills and the need to secure these cost-effectively.
- (ii) A generic set of elements, which define the choices made in the design of all employment systems.
- (iii) A typology of five primary systems, conceptually linked by the different ways they manage the basic HR objectives, plus two emergent systems which have arisen in response to shortcomings in the primary models.
- (iv) A set of system outcomes, in terms of the 'psychological contract' which each system creates with the employees managed through it, and the performance advantages and problems which arise in each case.

Five traditional systems of employment, and two 'emergent' systems associated with recent developments, are described - the career system, the industrial/clerical system, the occupational system, the market system, the family/political system, the commitment system, and the performance management system

It is suggested that these provide the basis for a genuine theory of HRM, which has practical and analytical value for the understanding and design of HRM.

Key words: employment systems; labour market theory; resource-based theory.

Introduction

It is now almost twenty years since the founding texts in HRM proclaimed that a firm's human resource management should be «aligned» with its business strategy (Fombrun, Tichy and Devanna, 1984), and hence managed 'strategically'. Up until the mid-1990s, however, HRM still lacked anything resembling a useful or meaningful theoretical framework. 'Strategic HRM' was a mantra, which could not be measured or described against any objective touchstone. Much of the effort to define a theory of HRM has been based on 'ideal' models of HR practices, which deliver key organisational values such as 'employee commitment' and 'high productivity'. The origins of this lie in the liberal-humanist American academic tradition, which, using a mix of theoretical reasoning and behavioural evidence, defines a 'good' model of HRM and work systems in terms such as 'high commitment' (Walton, 1985), 'high-involvement' (Lawler, 1986, 1992), and 'high performance work systems'. The substance of these prescriptions is quite similar (Pfeffer, 1998).

Since 1995, a new body of work has been developing in HRM, which has been attracting considerable attention. The work of Mark Huselid, Brian Becker and collaborators has attempted to show the ultimate effect of the HRM system on firms' performance (Huselid, 1995). This claims to show that firms with 'high performance work systems' «consistently have economically and statistically significant higher levels of performance» (Becker et al, 1996, p. 3). This work is, indeed, more resolutely empirical than previous work, and appeals to practitioners and professional associations of HRM because it appears to confirm, once and for all, that 'good human resource management pays'.

However, without going into the undoubted methodological weaknesses of this work, which are considerable (Wright and Gardner, 2000), a fundamental criticism is that it is 'a-theoretical'. It gives no inkling of why a 'bundle' of HR practices should fit together to give a concerted impact on organisational performance. It is 'raw empiricism' trying to derive theory blindly from data (as Becker and Gerhart (1996) admit themselves). Brewster (1999) is therefore right to see this work as falling within the 'universalist' paradigm of strategic HRM. Like the tradition it comes out of, which extols the benefits of 'high commitment', 'high-involvement', and 'high performance work systems', it offers 'one best way' solutions to managing employment. As a result, these models do not provide a reliable guide for practitioners, and the expected performance benefits may not materialize because of all kinds of special circumstances.

Actually, this work does begin with a theory – namely, the 'resource-based' theory of the firm. But it is a theory that points in one direction only. By emphasising resources that confer a distinct competitive advantage, and the unique character of the human factor (Wright, McMahan and McWilliams, 1994; Koch and McGrath, 1996), 'resource-based' theory encourages researchers to look at HRM in terms of investments in human capital which

result in the creation of firm-specific, inimitable assets in the form of knowledge, skills and abilities embedded in the human capital of the organization and useful only to that firm (Koch and McGrath, 1996, p. 337).

In other words, treat people as human capital to be developed, and devise ways of working which ensure their knowledge and learning remain embedded in the firm. Like human capital theory, which was set out by Becker (1964) in the 1960s and influenced the Harvard school of HRM (Beer et al, 1984), it means a predisposition towards internal promotion, investments in employee development, and nurturing people as valuable assets. This means a prejudice towards some kind of 'internal labour market'.

There is more, though, to 'resource-based' theory than this. It, in fact, highlights two crucial dimensions for a theory of HRM - the skills people bring to an organization, and the cost of acquiring and developing them (Koch and McGrath, 1996). However, in practice, the market context for skills and the cost to firms of acquiring them tend to get forgotten. On the contrary, the nature and extent of a firm's labour markets, and its own power in these markets, are important factors in the employment strategy it pursues. Likewise, its ability to support expensive and sophisticated forms of HRM, and what it perceives as the return on these for the particular skills it needs, are important considerations. Firm size, for instance, is a key factor on both counts, affecting the ability to recruit, pay, and promote.

Specifications for 'high performance work systems' do not allow for any of these costs of implementation. The full cost of an HRM strategy needs to be described in terms of the direct employment costs of the employees concerned, and the 'indirect' process costs of HRM in 'getting, keeping, motivating, and developing' people. In practice, firms make all sorts of choices to do with costs, and an adequate framework for analysing and prescribing HRM should recognize these, and articulate the choices to be made.

A more discriminating theory is, therefore, needed to make sense of the diversity of organisational approaches to HRM, and to guide the design of employment practices. The purpose of this paper is to describe such a theory, and set out a more inclusive framework for analysing and prescribing employment strategies than the present value-laden concepts of HRM.

The theory of labour markets

Our framework for HRM is based on the theory of labour markets. We will briefly trace this from classical economics through to institutional theory. Within this tradition, the employment relationship is seen as a struggle to control the cost of labour and access to skills, while the development and distribution of skills is seen as a complex social process, shaped to an important degree by firms' own employment policies.

The classical economists from Adam Smith onwards were interested in the labour market as part of competitive markets in general. They began from the assumption of free and competitive markets, in which workers entered into exchanges with employers (as buyers of their labour) on a free and equal basis. They focused therefore on wages, as the 'currency' of this exchange, and the factors that caused wages to vary from what a fully free and open competitive market would predict. Foremost among their concerns was the existence of non-competitive forces in the labour market, with differences among employees in skill and job attributes becoming the focus of the neo-classical approach later. Thus, Smith (1776) explained the existence of wage differentials between occupations as resulting in part from the normal workings of a competitive economy, and in part from institutional factors. The labour market was not totally competitive because of restrictions on entry. In a carry-over from the medieval guild system, urban tradesmen acted collectively to restrict entry – by, for example, limiting their employment of apprentices, withholding the secrets of their trade, forming voluntary associations and making restrictive agreements among themselves.

John Stuart Mill also described barriers to mobility, which arose from differences in social rank. However, anticipating the concern with skill formation and human capital, he emphasised, in addition to the artificial barriers arising from guild restrictions on entry, the 'natural' barriers that arise because the lower social ranks could not afford the costs of training and education to enter higher paying occupations.

The neo-classical economists focused on job and employee attributes, especially skills, as the reason why some employees were more productive and enjoyed higher wages. While there are differences in natural ability between employees, investment in human capital can enhance their productive potential. Later human capitalist theorists, such as Becker (1964), stressed the link between investment in human capital and innate ability, by arguing that individuals with greater abilities can benefit more from such investments, and therefore will also be inclined to invest more. Thus, education, training and experience (including on-the-job training) add to an employee's human capital endowment, and account for systematic differences in earnings. However, this rather comfortable set of assumptions was exposed by, among others, Kreckel (1980) who pointed out that increased investments in education and training do not always increase the productivity of labour and the wages paid by employers. It also does not explain differences in earnings and occupational status between workers of equivalent qualifications, including gender inequalities.

Thus, it became clear that education, experience and innate ability were not sufficient to explain differences in earnings, employment stability and working conditions. Labour market theory therefore returned to the concern of Smith and Mills with institutional and structural factors, and focused on historical, institutional, economic and technological factors, which create labour market structure, to account for differences.

The institutional approach attempts to provide a systematic account of structural inequalities in the labour market and in work-life opportunities. Dominating labour economics in the USA immediately after the Second World War, the institutional approach saw wages and working conditions being determined by a combination of market forces and social, political and institutional factors. The principal exponent of this model, Kerr (1954), classified labour markets into structured and unstructured markets, and contrasted the structured 'internal labour markets' that had developed in large corporations in the post-war period, with the classical economist's model of a competitive labour market where all workers are assumed to be competing for all jobs all of the time.

In structured, or 'internal' markets, wages and promotions are determined by formal and informal rules set by employers' associations, company personnel policies, collective bargaining agreements, or government legislation. Competition among employees is limited to specific 'ports of entry' on recruitment to firms, after which they move within a relatively protected 'internal market' and tend to stay for long periods with the same employer. In contrast, structure-less markets are not governed by trade unions or rules imposed by other bodies; the relation between employee and employer is transitory, and impersonal; employees are unskilled; and payment is often by unit of output. There are no barriers to mobility, and labour turnover is typically high.

The effect of organizing workers and work in these two ways is to produce a segmentation of the labour market, into favoured and less favoured workers. Labour market segmentation theory thus fills out human capital theory, by accounting for differences in earnings, employment stability and working conditions in terms of the way work is organised in modern society.

Building directly on Kerr, Doeringer and Piore (1971) proposed a model of dual labour markets comprising an 'internal labour market' (ILM) and an 'external labour market'. The internal labour market emerges initially in firms as a result of economic and technological considerations, but over time becomes entrenched through custom and practice. Precedent and repeated practices in stable work groups become norms, and these take on a quasi-ethical status. These may become explicit rules, incorporated in collective

bargaining agreements on job content, wage structure and patterns of promotion; or internalised by the members of stable work groups, in the form of informal modes of behaviour.

While Doeringer and Piore also stress the important role of work habits, segmentation in the dual labour market model is primarily a function of the employing firm, rather than the product of individual characteristics. However, while Doeringer and Piore (1971) explained the dual structure by reference to firm size and differences in technology between sectors, other theorists took a more radical approach by relating labour market segmentation to the class nature of society, capitalist control of the production process, and the monopoly phase of capitalism in the late 20th Century (Edwards, Reich and Gordon, 1975).

From labour markets to employment systems

During the 1980s, this tradition of labour market analysis tended to fade. The main development, building on Kerr, was in the work of Osterman (1982, 1984, 1987) and Lawrence (1985), who fleshed out the typology of labour markets and related them to changes in the American industrial landscape over the past century. Thus, Lawrence described five basic employment systems in American industry, which he called the craft, market, technical, career, and commitment systems, each emerging as part of an historical process of change in the economy and society. As Lawrence (1985, p. 16) put it:

Each system grew from specific technical, social and economic preconditions, and each had certain human and economic consequences.

However, systems do not disappear, just because new conditions arise. Companies and industries trying to do new things respond to economic opportunities and pressures, technological advances, demographic factors and social innovations. Each type of employment system has been brought about and is sustained by a particular combination of factors, and, from time to time, a new confluence of factors may lead to a distinctive model of employment that is adopted on a wide scale. However, no innovation or single system is likely to supplant an existing form of employment:

Each new system has historically emerged without totally displacing the earlier ones. There are still large numbers of people working under the market and technical systems. History indicates that newer systems, even if they come to dominate the employment scene, do not by any means totally displace earlier systems. It seems true, however, that firms that led the way into each new system, such as Ford and IBM, did experience a significant competitive advantage (Lawrence, 1985, p. 34).

This means we should expect to find employment managed in different ways, and that this will be justified by the fact that firms face different conditions in different sectors, and within their particular market.

At any one time, therefore, there will be a range of influences that shape a company's approach to employment. Following Curtin (1987) and Peck (1989)), these include the following factors outside the firm:

- The external competitive environment, industrial structure, and stability of product-markets, with the resulting requirements for operating successfully in the sector.
- The semi-autonomous nature of external labour markets, comprising various sources of labour from local and national sources, influences on levels of labour market participation, and the expectations and work motivations that employees import.
- The role of trade unions and professional associations in controlling the supply of labour.
- The infrastructure developed by the industry in which the firm operates, to service and regulate the external labour market - that is, sector-specific systems of training, and local and national pay rates.
- Government intervention in the labour market, through education and training policies, employment legislation and pay policies, with the influence of public opinion in helping to frame these.

There will also be a range of factors internal to the firm, which affect its response to external conditions. These include:

- The business strategy.
- The firm's technology, and how technical requirements are translated into systems of work organization.
- The impact on employment strategies and HRM of management philosophy and capability, firm size, the growth stage of the organization, and ownership.
- The role and power of trade unions, professional associations, and other collectives of employees over the internal supply and deployment of labour, through both formal constitutional means and informal processes.
- The existing system of employment, which can condition and influence how far a firm is willing or able to change its approach in the future.

The HR function can therefore be seen as a boundary-management activity, balancing these various external and internal factors in the design of the human resource system.

Thus, history and a firm's environment exert a powerful influence over what it attempts and what it can successfully do. The way a firm manages groups of employees – its 'employment strategy', or 'human resources strategy' - is therefore partly determined by

factors that it can control, and is partly an accommodation to those it cannot. While firms shape employment markets and opportunities for people, they do not do so under circumstances that are entirely, or at all, of their own making. This is an important antidote to the assumptions about HRM that come from the USA.

To summarize, then, labour market theorists view employment as an arena of struggle, with the different parties trying to gain an advantage or protecting their own economic interests. Firms and employees are on opposite sides in this struggle, and have a variety of ways of advancing or protecting their interests. Although firms have much the greater power, and play the greater role in shaping labour markets, they do not do so entirely on their own terms. Secondly, while neo-classical economists and human capital theory put particular stress on the role of skills and the process of skill formation in enhancing individual employment opportunities, institutional theorists stress the sources of disadvantage that arise from other sources. Thus, the one sees skill as the core concept, and the other sees the way employment is structured as the key issue. Thirdly, the characterization of labour markets provides a solid basis for fuller development of a more comprehensive typology of employment systems. Fourthly, there is a stress on institutional, social, economic and technological factors combining together to shape the employment opportunities of individuals and the employment systems of organizations. Therefore, since different circumstances create different systems, it should be no surprise to find different employment systems co-existing across a complex modern economy. A 'one best way' model of HRM is not tenable, and suggests, moreover, that HR performance itself needs to be viewed contextually.

Employment systems: Basic components for a theory of HRM

Our model of employment systems has four components:

- (v) A set of universal HR objectives.
- (vi) A generic set of elements, which define the choices made in the design of all employment systems.
- (vii) A typology of five primary systems, conceptually linked by the different ways they manage the basic HR objectives, plus two emergent systems which have arisen in response to shortcomings in the primary models.
- (viii) A set of system outcomes, in terms of the 'psychological contract' which each system creates with the employees managed through it, and the performance advantages and problems which arise in each case.

Taken together, we suggest these provide the basis for a genuine theory of HRM, which has practical and analytical value. The existence of a small number of basic models of employment is, first of all, a matter of empirical observation. It allows us to describe how organisations all over the world manage employment according to a few basic models, and to describe how organizations manage groups of employees differently. But it is also theoretically grounded. This allows us to identify discrepancies within a system against performance yardsticks, and in relation to business and environmental factors.

The objectives of an HR system

Drawing upon 'resource-based' theory, we define an HRM strategy as the balancing of two considerations, involving skills and costs:

'The objective of an HRM strategy is to secure skills cost-effectively'

HRM has to 'secure skills', in order to carry out the work of the organization 'in fulfilment of its short-, medium-, and long-term objectives', and it has to do so 'cost-effectively'. Others have defined the objectives of an employment system differently, but not fundamentally so (see, for example, Osterman (1987), Beer et al (1984), and Guest (1987)).

The phrase, 'secure skills', is loaded with meaning. First, we mean both 'secure' and 'skills' in the broadest sense of each term. 'Secure' covers the whole gamut of personnel and HR management which is traditionally referred to as 'to get, keep, motivate and develop' people; and 'skills' is short-hand for all the endowments a person uses in their work – skills, knowledge, physical strength, etc. 'Secure skills' therefore means getting people with the necessary skills and knowledge, for as long as the organization needs them, and ensuring their knowledge and skills are applied effectively and fully, and developed further as necessary. All this is standard HRM textbook stuff.

Secondly, however, 'secure skills' carries the implication that an organization seeks to control these skills in different ways and to different degrees, depending on how important they are to the organization. As 'resource-based' theory suggests, organizations will aim to control key skills more tightly – that is, keep control of them - through an internal system of promotion and development. Other means it may use involve rewards (progressive pay, and long-term benefits such as share options and pensions), socialisation processes, and participation in decision-making. Less important skills may be left more to market forces, by buying in skills as and when they are needed.

However, an important form of control is still exercised in relation to lower-level skills, by using the market to press down upon the price of this labour. For these skills, keeping down the cost of employing people is likely to be more important than the quality of skills. In the past, when firms employed large numbers of relatively low, or similarly skilled people, keeping costs down was a prime objective. This is still the case in many, labour-intensive industries (such as hotel and catering). For higher skills, organizations make a judgement that they can control the costs of employment more effectively by binding people into the organization. How

firms control skills thus involves questions of cost-efficiency – i.e. minimizing costs - and cost-effectiveness – i.e. ensuring the primary goal of getting the necessary skills is not jeopardized by cost considerations alone, and that broader long-term goals are also met.

The idea of ‘securing skills’ thus has two aspects – the level of skill involved (high or low), and how the organization controls these (within the organization or through the market). Each of these carries costs - the price of the skills themselves, or what an organization pays a person, and the transaction costs of controlling skills, either through the organization or through the market.

This theoretical framework produces the model shown in Figure 1, with four empirically observable employment systems fitting into the four quadrants defined by organisational and market control. However, there is also a fifth system, which depends neither on organizational control nor on the market, but is governed by ‘personal’ methods of control. In some respects, this is ‘pre-modern’, although it actually describes large areas of the modern economy and employment – both in developing and developed economies. That is to say, the employment practices of small firms everywhere tend to be governed in some measure, and at some stage, by ‘personal’ criteria and methods of control, which do not fit easily within the ‘rational’ model of market-and-organizational control that reflect the way large organizations do things.

[Figure 1 here]

An important feature of ‘control’ is that labour markets have their own dynamics, which are independent in varying degrees from employer control (as Adam Smith and early economists noted). This is evident with the professional labour market, where people are relatively footloose. An employer does not use the market to control professionals, so much as they use the market to further their careers and incomes. On the other hand, the existence of a market for such people, especially when backed by recognised qualifications (‘credentials’), helps organizations to source these skills. Where they have a particular problem is controlling high-level skills that are inadequately defined by formal professional qualifications. The value of a model based around the idea of control is, therefore, that it highlights the boundaries of control, the tensions and shifts that operate around these, and the groups of people who present key challenges for HRM.

Generic elements in a system of HRM

All organizations ‘secure skills’ through the processes of ‘getting, keeping, motivating and developing’ people. In doing so, organizations make a series of choices, which are typically discussed under the headings of recruitment and selection, job design, training and development, rewards, and employee relations. From an employment systems perspective, there are a handful of such choices, or decision points, which result in the systematic differentiation of employment systems as a result of people being managed differently:

- **Point of entry** – Are new recruits taken on at one point in their career, and when (for example, on leaving school or college, or when they have had a certain number of years experience)? Practices around careers, promotion, training, and job security will tend to vary systematically according to the strategy for recruitment.
- **Nature of the job** – Are jobs defined as skilled or unskilled? And are they narrowly specialized, or involve a broad range of tasks? If an organization defines a job as skilled, it will use more elaborate search (recruitment) and selection procedures. A narrowly specialized, unskilled job will also be more precisely specified, more tightly supervised, and more closely controlled by procedural means and machinery.
- **Career ladders** – Does the organization offer careers? And if so, is there one, open system, ostensibly available for all to progress through? Or are there a series of cut-offs and ceilings, and closed systems? Or, are there parallel career structures for different kinds of jobs?
- **Promotion rules** – What do you have to do to get promoted? And is this transparent, with formal criteria and promotion procedures? Or does promotion involve less explicit social criteria, which effectively exclude certain people?
- **Training opportunities** – The extent to which a firm trains and develops its own employees is a fundamental differentiator in the ‘resource-based’ view, and the philosophy and practice of training is closely allied to careers. For example, who gets the training, and how much? What kind of training? When? Who decides? The systems of public education, vocational training, and professional accreditation in different countries have an enormous impact in structuring the labour markets and career opportunities, which employing organizations feed off. In the UK, these have all undergone significant change in recent years, with a massive expansion of higher education and graduates, and a system of vocational training through NVQs (national vocational qualifications), which could be expected to facilitate labour mobility. Changing career practices among firms in the long-term can be seen as a response in part to these developments.
- **Job security** – Is there little job security, or a lot? Does the organization, for example, deliberately limit employment to periods of time or part-time working to avoid statutory obligations? Are there grievance and redundancy procedures to provide protection to employees against arbitrary dismissal? The weakening of employment rights in these areas during the 1980s had a significant impact on employers’ use of ‘flexible’ working conditions, and encouraged the growth of market-based employment strategies.

- **Way pay is determined** – Pay has been a classic differentiator between groups of employees. While the pay and motivation of many manual factory workers was typically tightly controlled through ‘payment by results’, white-collar staff in both clerical and managerial grades enjoyed fixed salaries and annual incremental pay increases. One of the major changes in recent years has been the spread of ‘variable pay’ and systems of ‘performance management’ to white-collar work.
- **Employee involvement** – Employee involvement is a central issue in HRM and in the management of people. It defines and shapes the balance of control between an organization and its employees through systems of formal consultation and their absence. But it is also rather diffuse. Just as the ‘psychological contract’, which we discuss below, is defined by a range of HR activities, so the way the issues above are managed may mean differing degrees of employee involvement. Thus, careers, promotion, and training may be unilaterally determined, or matters for discussion; job security and grievances may be managed procedurally, or dictated by management; and jobs may give the employee wide discretionary power, or none at all.

A typology of employment systems

The choices firms make over careers, promotion, training, and job security tend to vary systematically, according to the initial strategy of recruitment, and are therefore often closely related. This fits with the principle of internal ‘coherence’ or ‘alignment’, which Fombrun et al (1984) argued is a feature of strategic HRM, and with the notion of ‘bundles’, which emerges from studies of HRM and organizational performance (Huselid, 1995).

However, while our theoretical model accounts for these patterns of alignment, our starting point is a matter of empirical observation, just as it was for Adam Smith, J.S. Mill, Clark Kerr and Paul Osterman. Thus, over time, the management of employment in many organizations, in relation to particular groups of employees, tends to settle into distinctive patterns. When these patterns are first formed, they are likely to be functionally adapted to organizational objectives and business strategies, and support business performance. They can be said, therefore, to be ‘theoretically’ justified.

But situations change. The employment system may decay from within; external labour markets may change and make it difficult to sustain the existing model of employment; and business environments are likely to change, sometimes very rapidly. A performance gap opens up, and the system of employment needs an overhaul. The emergence of HRM in the early 1980s can be traced to the radical shift in the terms of competition for American and British firms at that time, and the perceived failure of their approaches to managing people. The notion of ‘strategic alignment’ needed to be made explicit, precisely so that firms could reshape what had become implicit in their management of employment.

The shifts in employment practice that resulted have been of three principal kinds – (i) a range of initiatives to reduce the alienation of lower-level employees; (ii) an increase in external resourcing strategies, from the open market; and (iii) a greater emphasis on performance and the application of performance management principles to middle- and higher-level employees. The development of HRM in the early 1980s in the USA was particularly concerned with the first of these, in emulation of what was perceived to be (rightly or wrongly) the strength of the Japanese system in manufacturing. The second was driven by a complex of factors, including organizational restructuring to decentralise and reduce fixed central costs in the mid-to late-1980s; tentative expansion of employment following the recessions of 1980-82 and 1990-93; the shift to service employment; and changes in labour markets, including changing employee preferences (Hendry, 1985). The third development has tended to dominate the 1990s.

Looked at historically, we can therefore identify five traditional systems of employment, and two ‘emergent’ systems associated with recent developments:

- The career system
- The industrial/clerical system
- The occupational system
- The market system
- The family/political system
- The commitment system
- The performance management system

Performance outcomes and the ‘psychological contract’

The success and failure of firms’ HRM is not an arbitrary matter, but results from the way they try to solve the challenges of resourcing people and managing them. In the same way, each employment system has performance advantages and problems, in terms of the over-riding HR objectives all systems seek to fulfil. Thus, each employment system has a distinctive way of dealing with the issues of skills, control, and costs, which affect people’s productivity and effectiveness (that is, ‘securing the effective use of their skills’).

Most writers and practitioners put concepts such as employee motivation, commitment and satisfaction at the centre of their analysis of employee productivity. Such concepts are not entirely adequate, however, as they tend to focus on the individual, rather than on the relationships individuals engage in and how they view these relationships. A more useful concept is the 'psychological contract' (Rousseau, 1990). The 'psychological contract' focuses on the relationship that exists between an individual and the employing organization. It describes the set of expectations that each party in the employment relationship has of one another – what the organization gives the employee, and what it wants in return, and what the employee gives and wants. These go beyond the formal contract, although the formal contract may help structure these expectations. It can help to highlight situations where what each party wants and gives may not correspond, and how, in times of strain and change, established expectations may be disrupted (Herriot and Pemberton, 1995).

The 'psychological contract' is a relatively diffuse and broad-brush concept, but this is actually its strength and value, since it captures the general tendency of an employment system to affect the motivations, commitment and satisfaction of large numbers of people. It also focuses attention on such things as the employment opportunities and career aspirations of people, who are employed in different ways.

Each employment system, then, has particular performance advantages and problems associated with it, and a set of system outcomes in terms of the 'psychological contract' that each creates with the employees managed through it.

Seven employment systems

We will now briefly outline the seven employment systems identified, along with their particular advantages and problems. A fuller description, along with extensive case examples, will be published in a forthcoming new book (Hendry, 2001). Five of these are 'paradigmatic' systems, which reflect level of skills and forms of control. Two - the 'commitment system' and 'performance management system' – are recent hybrids which have emerged in response to shortcomings, in the 'industrial' and 'career system' respectively. Figure 1 indicates how these archetypal systems are conceptually related.

'Career system'

The 'career system', which elsewhere is called an 'internal labour market' (Kerr, 1954; Doeringer and Piore, 1971), refers to the structure of jobs in an organization in which there are few points (or 'ports') of entry, other than at the bottom, usually direct from school or college, and where promotion is up a well-defined career ladder. Such movements are linked to seniority, as consequently is pay, through a system of annual increments. Employees enjoy high job security, tend to stay with the organization a long time, and in due course are rewarded with a pension. In return, the organization gains the loyalty of staff, labour turnover is kept to a minimum, and recruitment costs are minimised. It is therefore often referred to as a system of 'lifetime employment'.

The 'career system' leads to the development of firm-specific skills. This may involve on-the-job training by more experienced workers, or simply the long association of employees with one another, through which tacit knowledge is passed on. This has the effect of making employees more valuable to the organization, because an important part of the organization's capital lies in their special knowledge and expertise, and this cannot be readily acquired on the open market without further in-company training. Equally, however, firm-specific skills can restrict the individual's marketability outside, because a large part of their 'skill' lies in knowing the systems and working methods of a particular organization.

The result is a workforce that is supposedly more reliable and effective. Employees know one another and know the organization's philosophy, and they develop behaviour and work characteristics that ensure dependability. This ensures an environment or 'culture' that reduces the need for direct supervision. Basic payment is in the form of salaries, which leaves the terms of the effort-reward bargain vague. It is therefore a 'high trust' environment, which does not rely on extrinsic rewards and incentives to stimulate performance. In return, the organization manages work relationships through bureaucratic rules and procedures, which ensure fairness. Thus, there are likely to be clear, written grievance and redundancy procedures to provide the protection of 'due process' for individuals, and grading based on job evaluation to ensure parity and equity between all employees.

In terms of our model, the career system is one where employment is regulated within the organization, rather than leaving it to external market forces. It is a way of insulating the organization and its more valuable employees from market forces, and hence is applied especially to higher-level skills. The performance benefits of the career system are that it generates organization-specific skills, long-term commitment, and identification with the core values of the organization. Identification with core values may be a significant matter, and functionally important, where such issues as honesty (banking) and personal safety (fire service and the armed forces) are concerned. The drawbacks lie in the high investment costs incurred over time; the risk of obsolescence in skills, which the organization cannot readily discard because of tacit commitments to security of employment; and the lack of a performance culture and a general inertia, that comes with an assured basic salary, guaranteed pay increments, and seniority-based promotion. At its worst, it is associated with the 'organization man' in large company bureaucracies (Whyte, 1956).

The career system has therefore flourished in a variety of situations, including:

- slow-changing business environments (such as retail banking, public services and public utilities, before the mid-1980s);
- businesses with long investment horizons, which can, and need to, make long-term commitments to skills and special knowledge (pharmaceutical and oil companies);
- government bureaucracies, which need to maintain continuity to offset the volatility of the executive (other justifications in this situation are that the career system reduces corruption, by providing security of employment and income in the face of possible political pressure, but there are many instances where this is patently not the case);
- national cultures, such as the Japanese, where values to do with seniority and hierarchy, continuing investments in skills, and mutual obligations, are socially embedded, to the extent that the career system is a nationwide model of employment.

'Performance management system'

The 'performance management system' is an emergent system that has developed over the last ten years in response to the deficiencies of the 'career system', although some American companies (such as Exxon) have operated extreme forms of this for many years. In the UK, it is associated with the breakdown of the 'career system' in retail banking and in the privatised utilities (BT, water, gas, and electricity) during the 1990s (Hendry and Jenkins, 1997). In crude terms, it has meant reducing job security, cutting middle management jobs ('downsizing'), and introducing performance-related pay. This has been driven by the desire to reduce costs; to shake up attitudes to get a stronger focus on performance; and to create organizations that are more flexible to respond to continuing change.

While performance-related pay is the principal distinguishing characteristic, coupled with performance targets and formal appraisal, it may also involve broad-banding, which reduces many job and salary grades to a relatively few. This provides more flexibility in managing careers and determining pay, and helps to reduce the 'comfort zone' associated with the career system. A further feature is to move away from systems of training and development where people expect this to accompany career progression as a matter of course. Companies put the onus on individuals to seek out appropriate training and development opportunities, and talk about employees being responsible for ensuring their own 'employability'.

Much of this inevitably involved a severe shock to the expectations of people who had been brought up within career systems in these organizations – as it was intended to – and reactions were perceived as being extremely negative (Herriot and Pemberton, 1998). Indeed, the idea of the 'psychological contract' gained particular currency from these developments. Many organizations also revised their career systems for graduate entrants, to lower expectations about guaranteed careers.

In the longer term, the 'performance management system' represents a shift towards more market-based forms of resourcing, with a greater readiness to see people move in and out of organizations during their work career. In the USA, it is entrenched. In Japan, pay-for-performance has been widely adopted as companies try to reduce their top-heavy salary structures as the 'baby-boom' generation swells the management ranks, and the long recession there takes its toll of company finances. However, the system is still evolving, and in Japan, for instance, it is not clear how far the national attachment to the 'career system' has been eroded. It therefore remains a hybrid form, modifying the basic 'career system'.

'Industrial/clerical system'

A second 'paradigmatic' system, which also relies on internal regulation and control, we call the 'industrial/clerical system'. For convenience, we sometimes refer to this as the 'industrial system', as the same basic principles are involved, whether applied to factory or office workers.

This is the system of narrowly-defined, overly specialised jobs, where work is governed by clear rules and procedures, and where machines often dictate the pace of work. Work is subject to automation, bureaucracy, and, for good measure, often close supervision. The workforce is deskilled through the minute division of labour, in systems that owe their origin to Adam Smith, Frederick Taylor, Henry Ford, and 'scientific management'. The basic wage varies precisely according to job grade, and considerable effort goes into devising incentive payment structures to ensure a close relationship between effort and reward, based on measurable output, or a steady level of effort in machine-paced systems. This is all part of the over-riding preoccupation with 'efficiency', with close control over both inputs and outputs. Management, following F.W. Taylor, seeks extensive, if not complete, control over the work process through job specification and grades, payment structures, who gets trained and when, and job deployment, including the power to hire and fire.

As a result, however, management's claims to exercise prerogative over all these things frequently leads to collective action by employees, through trade unions, to resist the arbitrary or one-sided power of management, and to protect members' living standards and job security. The 'industrial system' is often, therefore, highly unionised, and management-union relationships become closely focused on the minutiae of day-to-day decisions concerning grades, work measurement, job deployment, discipline, and procedures for dismissal and redundancy. In practice, many aspects of work are contested and, in the mature workplace, end up

being jointly controlled. So, while management may retain the right to lay-off workers, the rules governing this will often stipulate 'last-in-first-out'.

The justification of the 'industrial system' is that deskilling the workforce and putting the skill into machines ensures predictable high volume output of standardised goods, at minimal cost. Workers are readily interchangeable, can be quickly trained, and are therefore in plentiful supply. The negative social and behavioural consequences, however, are well known from critiques of 'Taylorism' and scientific management over the last thirty years (Braverman, 1974; Rose, 1975). The 'industrial system' has severe motivational penalties in the form of low commitment from boring work, and the 'them and us' attitudes that separate management and the worker through oppressive discipline and tight control. It breeds conflict, and a considerable amount of management time becomes absorbed in resolving shop-floor disputes. As a result, in the past, there was often a tendency in good times for management to buy off disputes with higher pay, rather than lose production. This raised wage costs, which stored up trouble when competition got tougher. Ultimately, despite its supposed flexibility as a system, in making employees interchangeable, the 'industrial system' leads to rigidities in deployment and job classifications that make it difficult to adapt. This becomes an issue when demand shifts from mass production, towards higher-quality and customized products, and where technology has to change to upgrade the production process, which requires employees to learn new skills, work habits and attitudes to such things as quality.

'Commitment system'

The disadvantages of the 'industrial system' became increasingly apparent in the changing competitive climate of the late 1970s and early 1980s, when changing patterns of demand and new technological possibilities exposed its inflexibility and the inferior quality of production. As a result, the 'industrial system' has been at the centre of efforts to create a new kind of employment system within manufacturing. In the 1960s and '70s, this centred on experiments in job enrichment and the 'Quality of Working Life', and, in the 1980s, evolved into HRM (Beer, Eisenstat and Spector, 1990; Lawrence, 1985).

To a large extent, HRM, as a distinctive approach to organizing and managing employees, began as an attempt to reform the 'industrial system' of employment. The 'commitment system', however, is the preferred term, to distinguish it from the more generic 'HRM'.

The 'commitment system' seeks to overcome the demotivating features of the 'industrial system' and the antagonistic relationships that breeds. It involves broader ('enriched' and 'enlarged') jobs, instead of narrowly specialised jobs, and may involve job rotation to develop a person's range of skills and increase workforce (and work system) flexibility. Employees are 'empowered' to make decisions in their work, instead of relying on supervisors and managers to tell them what to do – for example, in dealing with problems such as machine breakdowns. This includes responsibility for quality and improving work processes, and the use of quality circles to create collective responsibility for this. All of this reflects a move away from the 'atomistic' work relationships of the 'industrial system, where people were just cogs in a wheel (or assembly line), to a system of cooperation and collective responsibility.

Broader jobs require new skills, and hence training. Skill-based pay, for example, emphasizes the acquisition of new skills, and provides an incentive to train by giving pay increments, as an employee learns new skills and becomes proficient in them. A stronger sense of collective responsibility and ownership is created by better communication, about the plans and performance of the organization in general, and about the work unit of the employee in particular, and by consultation on a range of other matters. Financial participation, through profit sharing and employee share-ownership, creates a tangible sense of ownership. Reduction of traditional 'status barriers', between 'blue-collar' factory workers and 'white-collar' grades, takes away many of the tangible and symbolic differences that contributed to a sense of 'them and us'.

This ideal set of 'high commitment' practices is not necessarily found altogether. For example, progress towards a fully-fledged 'single status', harmonised workplace has been slow within British manufacturing, compared with the Japanese 'transplants' in the UK. Overall, however, the general effect and purpose is to establish new forms of work organization which put greater responsibility for work performance on the work group itself, creates new forms of employee representation, and gives workers a greater stake in the success of the enterprise. It seeks to rewrite the 'psychological contract' in traditional manufacturing, by replacing the 'low trust' relations of the 'industrial system', with a system of 'high trust' relations, based on principles of 'mutuality' (Walton, 1985).

The result should be better quality, higher productivity, and continuous improvement. Instead of managing costs by limiting the investment in workers, a skilled workforce is 'functionally' flexible, and the efficiency of the work system as a whole can be optimized by reducing the indirect costs of supervision, quality control (inspection), and maintenance.

It is worth noting that a version of the 'commitment system' used to exist in the old world of retail banking, public sector services, and the public utilities, where there was often a relatively homogeneous control system and work culture covering clerical and

managerial grades (Lawrence, 1985; Osterman, 1987). This has been eroded in recent years by pressures for a more performance-oriented culture.

'Market system'

All four employment systems described so far involve internal organizational regulation, or control, of skills and labour. In contrast, the next two examples – the 'market' and the 'occupational' systems – leave more control with the external labour market.

The archetypal system is the classical economists' model of a competitive labour market. In this model, all workers are assumed to be competing for all jobs all of the time, and firms take immediate action to adjust the numbers employed to the level of business activity. Dock work used to be the classic form of this kind of employment, with a 'spot market' for jobs operating each day at the dockside. Employers can 'buy' labour in this way because there is a large pool of people available close by. In theory, such workers could be highly skilled, and in times of deep recession in the textile industries, for example, skilled textile workers have become vulnerable to this kind of system. The less skill involved, however, the larger the pool of people who inevitably qualify for it.

Nowadays, examples of a 'spot market' for employment are harder to find. Nevertheless, relatively open employment systems, which rely on a ready supply of labour, abound, and, indeed, in the last fifteen years, have proliferated. The driving force for the firm is the minimisation of direct labour costs. Internally, this is achieved by matching the supply and use of labour as precisely as possible to the amount of work in hand. Externally, the existence of a pool of casual labour depresses wage rates. Thus, part-time employment matches supply to demand at different times of the day or week, while short-term contracts do so on a seasonal, or other kind of periodic basis. Firms also minimize labour costs within this system through incentive pay and bonuses, and through 'piecework' and commission where payment is for output achieved. Construction makes extensive use of these. Such forms of payment, however, are not exclusive to the 'market system', but are a feature also of the 'industrial system'.

The essence of the 'market system' is the matching of employee numbers to fluctuating levels of business. It is therefore attractive to employers where work levels are particularly volatile, or concentrated, and cannot be 'smoothed' out. The prevalence of part-time employment and short-term contracts in service industries is partly because work and product cannot be 'banked' in these sectors, but has to be delivered at the point of use. The growth in part-time employment and short-term contracts within the economy generally is because of the growth in service industries and the decline in manufacturing. In contrast, in manufacturing, firms can often produce for stock, and 'smooth' their use of labour over peaks and troughs, by varying the amount of work of the fixed workforce through overtime and short-time working.

In manufacturing, there are many cases where employment is precarious, and employees highly mobile, where it might be difficult to distinguish between the 'industrial' and the 'market system' (for example, food manufacturing). At the same time, the boundaries of the 'market system' can sometimes be difficult to distinguish at higher levels of skill, where part-time and short-term contracts operate because people with scarce skills may prefer to work in this way.

'Occupational system'

It is clear that the 'career system', as an internally focused resourcing strategy, is generally superior to the 'market system' in terms of job security, pay, training, perceived levels of skill, and in the commitment it creates. However, the 'occupational system' also involves employees with valued skills, job security, comparatively high levels of pay, and favourable attitudes to training, but, like the 'market system', it is also externally oriented. It is also, as Kerr (1954) noted, relatively regulated – indeed, often highly regulated – rather than a free-for-all market.

The 'occupational system' describes a situation where a craft or profession influences or controls the development of skills, access to jobs, and levels of pay, whereas the employing organization largely determines these in the 'career system'. Recognized vocational skills are acquired through an intensive period of formal education and training at the start of one's career, usually involving both off-the-job study and on-the-job apprenticeship under an experienced person who qualified in the same way. The curriculum, process and standards of training are specified by a professional or vocational body, and the student's successful completion of training to the required standard is formally certified. Only those who have completed such qualifications are allowed to practise the trade or profession.

Since the content of training is largely controlled by the occupation itself, the real level of skill required to do a job may be exaggerated. An important aspect of the apprenticeship process, from this point of view, is the acquisition of norms and practices, which create a social identity with others in the craft, and exclude outsiders. The exclusive character of the occupation may be significantly reinforced by control over entry to training. By controlling both initial entry and qualification, the occupation can regulate the supply of labour, and protect jobs and incomes. This may even be formalised in fees and scales of payment for work done by qualified persons. In this system, more of the benefits of training accrue to the individual, and their first loyalty is often said to be to the craft, occupation, or profession, rather than to the organization. Workers look for new jobs and self-betterment by

moving between organizations, via the external labour market, rather than through vertical moves within an organization. Skilled manual crafts and white-collar professions, such as law, architecture, and medicine, are the classic examples of this system, and their interests and employment conditions are protected by craft trade unions and professional associations.

All of this could be viewed as rather negative from the organization's point of view. It means the employing organization has relatively less control over such workers and their skills, and is vulnerable to high pay demands. However, it allows organizations to source many of their core technical and professional skills reliably from external sources (specifically the public education system), and for others (trainees and the State) to bear the costs. It also ensures employers get relatively up-to-date knowledge and skills at source, and benefit from the experience specialists acquire from external career moves. There are also many kinds of skills that organizations need only in small numbers. Aside from the classic professions and newer ones like advertising and software consultancies, where specialists will tend to be concentrated, there are an enormous range of craft occupations and 'knowledge workers' dispersed among organizations. The external market is therefore an efficient and practical way of getting these, compared with internal training.

In reality, organizations often try to capture many of these specialist 'occupational' skills within their career systems. This is easiest for larger organizations that are built around specific technical skills in such industries as petrochemicals, electronics, and pharmaceuticals, where the organization contributes substantially to an individual's learning and experience increases with age. Over time, immersion in an organization's particular way of doing things and unique product-market characteristics mean that organizational knowledge and training eventually outweighs 'occupational' knowledge, and the employee becomes relatively unemployable outside at the same job level, although increasingly valuable within.

In other situations, organizations may try to convert 'occupational' into 'industrial systems'. The history of manual crafts has been constant attrition by employers to dilute occupationally controlled skills, and to reduce the demarcation barriers by which crafts protect their privileged control over particular kinds of work. This is the essence of 'Taylorism', to gather craft knowledge into the hands of management, and convert it into algorithmic procedures and machines. In yet other cases, such as in education and the health service, a large dominant employer may actually support the professional structure, through national pay scales and career grades, in order to facilitate job mobility and avoid the market dictating pay.

'Family/political system'

The 'family/political system' is in some respects an oddity. Because the small firm is often regarded as 'not quite a large firm', it is seen as unsophisticated, and treated as a residual system, not in the mainstream of modern management. Nevertheless, in terms of our conceptual model of control, it is distinctive.

Studies of small firms often contrast the 'formalised' approach of 'professional managers' with the 'personalised' style of 'founder/owners' (Schein, 1983; Hendry, Arthur and Jones, 1995). The owner/manager in the small firm is very hands-on, involving him or herself in all the important details; very goal-centred, with a clear purpose and vision when establishing the business; values-driven, in projecting his/her own beliefs and style onto the organization; and personally dominant. As Schein (1983) puts it, the style of 'founder/owners' is personal and political, centralist and autocratic, emotional and impatient. This applies in some degree to other kinds of small firms (although we should beware of the single stereotype of the small firm), but in the owner-managed firm, control, within certain legal bounds, is absolute.

Control is thus personalised, and backed by family involvement in the business. In many countries, such as Greece and Italy, it is reinforced by close community ties. The family firm is influential in the local community as an employer; employees are often themselves related; and the owner treats, or likes to think of, employees as part of his own family. All of this, along with the size of the business, supports a system of control, in terms of skills, discipline and commitment, which depends on face-to-face relations, personal knowledge, and shared understandings located in a wider community. This is a model extensively documented in studies of Italian industrial districts (Pyke, Becattini and Sengenberger, 1990), but is far from confined to situations where such firms are concentrated.

The employment system (effectively the whole firm) is therefore not based on organizational control or control through the market, but is 'family-based'. To emphasize the arbitrary processes that often attend personalised control, we call it 'the family/political system' of employment. In a sense, it is 'pre-modern', but is nevertheless widespread, and it does have particular advantages in 'securing skills cost-effectively'.

Thus, recruitment is through personal networks from the local community, which means more is known about the person, their abilities and work attitudes. Personal ties can create obligations and assure committed work performance. While jobs in one sense are likely to be constrained by the owner/manager exercising close control over the details of the business, employees are also likely to be trusted as part of the firm's 'family'. On the one hand, less formality in the small firm means jobs are not likely to be so

precisely defined, the boundaries of discretion and duties are less prescribed, and people are flexible in their work. On the other, the inclination to control, simplistic models of work organization, and the fact that many such firms operate in traditional manufacturing and services with low levels of skill, may mean work is organized along the lines of the 'industrial system'. Discipline and surveillance are also likely to be tighter insofar as individuals are highly visible to the owner (Rainnie, 1989).

In theory, employee involvement is high, because everyone knows one another and has a good idea of how the firm is doing and what problems are occurring. Everything gets talked about, and word spreads very quickly. On the other hand, formal communication is likely to be arbitrary, and reliant on what it occurs to the owner to communicate. Finally, job security is likely to be high, with the owner thinking of employees as part of the family, and community relationships enforcing long-term relationships. However, formal systems to protect employees are likely to be entirely absent.

This system has some obvious advantages in terms of ensuring reliable skills, performance and behaviour. The owner exercises close personal control over the various processes affecting skills and their application, and family and community relationships reinforce these. At its best, there can be real commitment and identification with the firm and its owner. There is strong downward pressure also on costs. However, personalised control can easily mean arbitrary management in many areas, which destroys commitment. Arbitrary decisions over pay, grades, training, promotion and communication are frequent sources of discontent. Lack of objective criteria and processes in selection and promotion can produce bad decisions, and result in favouritism and nepotism. Personal relationships and the influence of community can mean under-performance is tolerated.

In the long-term, the real problem is the kind of business this type of firm is involved in. It is likely to be in traditional areas of manufacturing, services and distribution, using traditional sources of small firm funding (family, friends, bank borrowing, and retained profits). Higher-tech firms are likely to rely on equity-funding, and be driven towards 'occupational' and 'career' systems of employment very early on. The 'family/political system' is closer to the 'industrial system', and, like the 'industrial system', is vulnerable to changes in its product-market and technological environment. Low investment in skills exacerbates this. The transformation of the 'family/political system' comes about with the infusion of professional managers and specialists (Stevenson and Sahlman, 1989), and the grafting on, therefore, of an 'occupational system' that draws on a wider employment market.

Conclusion: The uses of the employment system approach

The broad features of employment systems we have described will be widely recognized, across all kinds of sectors and in countries all round the world. By drawing these together under one conceptual umbrella, the resulting model can be used in a number of ways.

First, at a basic level, the framework simplifies what would otherwise be an impossible amount of variety. This can help with comparisons (including international comparisons), as well as with basic education in HRM, by providing an easily understood model that is empirically grounded and conceptually sound. For some years, I have used this model as the basis for student assignments on the MBA at City University Business School, and this has allowed students to analyse companies' HRM in a meaningful and insightful way.

Secondly, most organizations have a mix of employees, who are managed and treated in different ways. The model helps understand why this is so; whether it is justified by the organization's requirements for skill and by the state of its labour markets; and what are the consequences of managing people differently. Complex organizations, for example, face a difficult problem in managing different groups appropriately in the light of their needs for skills and the labour markets they rely on, while avoiding the problem of a divided workforce.

Thirdly, the framework has value for the purposes of diagnosis and design. In simple terms, it can highlight discrepancies within a set of employment practices, where these do not obviously cohere, and help determine whether these need bringing into line. It can thus be an aid to sorting out 'internal alignment' (Fombrun et al, 1984). But the framework is not just empirically grounded. It is also theoretically based. It highlights performance advantages and problems with each system. The 'coherence', and incoherence, of a system can therefore also be measured against the requirements of the business strategy for skills and how well the employment system(s) deliver(s) these - in other words, how well it 'aligns' externally with the business strategy.

Fourthly, changes in factors that affect employment and changes in the external business environment can be monitored, to decide whether changes need to be made in particular systems or in the overall pattern of employment. For example, organizations try to control the skills they need through different forms of employment. Employees, on the other hand, also have various ways of controlling the terms on which they sell their labour. This results in boundary tensions between systems, and in the blurring of strategies companies pursue with different employee groups. Understanding this overall environment can help determine whether the approach to employment is necessarily complex, or simply confused.

All in all, therefore, an employment systems approach encourages holistic and 'strategic' thinking about HRM, and provides the basis for a genuine theory of HRM, which has practical and analytical value for the understanding and design of HRM.

High Skill

	career	occupational
family/political	industrial	market

Low skill

Personal

Organization

Market

Control

Figure 1: A conceptual framework for employment systems

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