



Human Resources in a Historical Context

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inspiring organization and leadership excellence



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A career executive in the organization management field, Louise provides management of and training to professional societies, trade associations, and foundations as well as various sized Chambers of Commerce. She coaches and mentors organization executives and staffs as well as leaders in business, government and academia.

As a PhD scholar in Capella University's School of Public Service Leadership, Louise is working on her Doctorate in Organizational Leadership with an emphasis in nonprofit leadership. Her dissertation topic is:

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Louise has three decades of experience as an organization executive – as a staff professional and as the head of one of the west coast's top association management firms. For the past twenty years, she has led The Leadership Center and its predecessor, the MacWalters Company (a California-based corporation).

Louise is an experienced CEO and troubleshooter. On behalf of her clients, she provides management reviews, strategic visioning, board of directors training and staff training.

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Bill is Vice President and minority owner of The Leadership Center. For the past decade, Bill has worked in higher education as a manager and instructor -- he teaches courses in business, management, law, math and science. He has been executive director of a national trade association, and has served on boards of directors of nonprofit organizations. Currently he divides his time between The Leadership Center and teaching at four universities.

Bill's education includes a Juris Doctor, MS in Management, MS in Environmental Engineering, and BS in Civil Engineering. He has strong analytical and writing skills, and he has a reputation as a producer and a communicator. On behalf of small businesses, he has provided business plans, market analyses, valuation analyses, regulatory analyses, and other services. He conducted a survey to determine the economic impact of higher education in western South Dakota.

He has extensive experience in sales and marketing for professional services firms, especially proposal writing. He worked in industry and government for three decades. As an environmental engineer and regulatory lawyer with many years in the energy industry, he has strong skills in sustainability.

Bill's experience includes:

- Leader of the regulatory compliance effort on the nation's largest construction project
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- VP, General Counsel and Corporate Secretary of a successful startup firm
- Experience with governance and corporate boards
- Business consultant to small companies
- Leader of graduate and undergraduate programs in business and management
- Executive Director and organizer of a new, national trade association
- Founder of the Center for Business and Economics, a regional "think tank"

ABSTRACT

This paper examines the historical evolution of the terms 'human relations' and 'human resources,' (HR) as well as the evolution of the role of the HR function in organizations. It describes how the term 'human resources' came into use. It describes the role of the 'personnel department' which prevailed during most of the 20th Century, a maintenance function performed mostly by staff people. It describes the expanding profile of HR, which in many organizations has become a strategic, high profile function that is led by a member top management.

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Introduction

The *Business Dictionary* defines ‘human resources’ as “...The division of a company that is focused on activities relating to employees. These activities normally include recruiting and hiring of new employees, orientation and training of current employees, employee benefits, and retention” (Business Dictionary, 2011).

The terms ‘human resources’ and ‘human relations’ are frequently used interchangeably, although they have different meanings. Part of the reason for the confusion is that, until the middle of the 20th Century, the terms did not even exist. Another reason for confusion is that over the years, the actions of human relations professionals generated human resources (or, human capital, people).

This paper examines the historical evolution of the terms ‘human relations’ and ‘human resources,’ (HR) as well as the evolution of the role of the HR function in organizations. It describes how the term ‘human resources’ came into use. It describes the role of the ‘personnel department,’ which prevailed during most of the 20th Century. This function was performed mostly by staff people, and it was not regarded as strategically important. The paper describes the expanding profile of HR, which in many organizations has become a strategic, high profile function that is led by a member top management.

Over the course of my career as an organization executive of non-profit associations, most of the associations with which I have been involved have employed only a few staff members. Those associations have been small enough that a staff person (usually the director of administration) also functioned in a type of HR management capacity.

Terminology

It is interesting to note that the term ‘human resources’ is a fairly recent addition to our vocabulary. It appears the term was first used by university professor Raymond Miles in his paper “Human Resources or Human Relations?” which appeared in the July-August, 1965 issue of the *Harvard Business Review*. According to Miles, the term was coined, “to differentiate the human relations school which focused on managerial leadership from the creation of ‘an environment in which the total resources of [the organization] can be utilized’” (Miles, 1965).

Evolution of Size, Scope and Stature

Let's move forward from the 1960s to the 21st Century. We find that, in many organizations, the human resources function has grown in size, scope and stature. For example, when the Society for Human Resource Management (SHRM) was founded in 1948, its membership numbered a mere 28 people, and it had no employees. The association was 'managed' by volunteers until 1964, when its first full time staff member was hired. Today, SHRM boasts 250,000 members worldwide and employs a staff totaling 350. This suggests that the number of people who claim HR as their specialty has increased markedly. In turn, the expansion of the population of HR personnel is linked to an expansion of the kinds of things their employers ask them to do (as detailed below).

The SHRM is a good example of changes within the human resources field. Over the past two decades of my business career, I have seen human resources grow in three ways: (1) in number of staff members, (2) in variety of tasks performed, and (3) in stature. For example, a one-person Personnel Department of the 1960s has likely grown to a Human Resources Organization having multiple employees in 2011.

Five of the Trends Driving the Evolution of HR

Among the trends that have been influencing the expansion of HR are: labor costs, globalization, expansion of legal requirements, viewing workers as an important asset, and outsourcing.

First is labor cost. One hundred years ago, most workers were neither highly skilled nor well paid. By contrast, the modern economy is based, in large part, on the services of 'knowledge workers.' These workers are more skilled and more educated than in the past. In turn, they are better paid. In some organizations, payroll receives a higher proportion of the total budget than two generations ago. Simply put, if labor costs are higher, then the organization is inclined to devote more attention to HR matters like compensation and retaining valuable employees.

Globalization is the second driver. More US companies are functioning internationally now. That can expand HR's responsibilities. Here are some examples. If an organization plans to send US citizens to work in a foreign country (the host country), these employees will probably require extra training (e.g., cultural awareness). Meanwhile, US companies with operations abroad hire workers in host countries, so there is a need for US based HR personnel to know the foreign legal requirements. IBM Corporation is based in the US, but they now have

more employees in India than in the US. This sort of development tends to expand the role of HR in a company. The traditional Personnel Department was simply not equipped to handle it.

Expansion of legal requirements is the third driver. New laws and regulations have expanded the type and number of duties for HR organizations. Today, legal requirements have a huge impact on the role of human resources. This is not a recent phenomenon. According to the authors of *Employment Law in Business*, "...the Civil Rights Act regulates the actions of all individuals or entities when entering into a contract to employ someone else" (Bennett-Alexander, Hartman, 2008). At various times throughout the history of our country, laws have been passed and regulations have been instituted which created new responsibilities for HR groups. For example: the Civil Rights Act of 1964, the Age Discrimination in Employment Act of 1967, the Americans With Disabilities Act of 1973, the Fair Labor Standards Act, and the Rehabilitation Act of 1973 all address issues in which HR gets involved. Meanwhile, there are state legal requirements such as minimum wage laws. There is so much complexity in these laws that the people who run companies do not have time to become familiar with them in detail. In turn, they hire HR specialists who are expected to be expert on these legal requirements and be able to get the company into compliance with them.

The fourth driver is the concept of 'human capital.' In business, it is common to see a variety of resources listed on an organization's financial reports. These line items can be as specific as land, facilities, and financial reserves. Recently, however, proponents have argued that assets can also be of a human nature (in other words, the employees). One of the things that underlies this concept is the transition of the US economy from one that was primarily based on manufacturing industries to one that is primarily based on service industries. Whereas manufacturing industries must put much of their money into physical plant (thus the term 'capital intensive'), service industries have less need to do this; consequently they spend a higher proportion of their money on their human capital.

The fifth driver is outsourcing. It has influenced the HR function in ways that shrink it and ways that expand it. Let's start with the outsourcing of the functions of the company workers by converting individual employees to 'contractors.' Because these people are no longer employees, the company has less HR work to do for them. However, the federal laws are strict on who can be classified as a contractor. If a contract person functions too much like a company employee (e.g., works in a company facility and receives supervision from a company manager), then the company may be forced to classify the person as an employee.

Some companies outsource whole functions such as IT to contractor companies. This tends to reduce the number of company employees, so it reduces the amount of HR work for the company. However, if the IT people become employees of the contractor company, then the contractor company will need to assume responsibility for performing HR functions for those employees.

In the 1990s, I saw an interesting trend begin when some associations gravitated away from using the classic ‘director-of-administration-functioning-as-the-HR-person’ model to the concept of retaining a human resources firm. Apparently, David Brown saw the trend too. In the *Canadian HR Reporter*, Brown states, “Organizations have been outsourcing bits and pieces of HR for decades. But in recent years the practice has attained hot-topic status in much of the debate around HR’s quest to become more strategic.” (2004, Brown) To some extent, this type of outsourcing is based on the theory of ‘core competency,’ which holds that a company should emphasize its core strength (say, designing computer games) and hire employees who have that skill. Meanwhile, the theory indicates that the organization should outsource as many functions as possible that are not part of its core competency (for example, building maintenance, security, payroll, food service, HR). If an organization outsources its HR function, it will have fewer of its employees performing HR tasks. However, there will be a need for an in-house person to learn and exercise contract management skills so they can oversee the HR contractor.

The Old Model: the Personnel Department

In yesteryear, a Personnel Department would assist division managers in the acquisition, maintenance and termination of employees. My mother performed those duties as a Personnel Specialist in the 1970s and 1980s.

When an organization recognized the need to hire someone, a company manager would work with the Personnel Specialist to draft a position description and an advertisement to be published in the classified pages of the local newspaper.

When a new employee would report for their first day of work for a company, they would customarily visit the Personnel Department and fill out paperwork for:

- Federal income tax (a withholding form)
- Medical insurance
- Possibly life insurance

- Possibly pension. If the company had a pension plan, it was usually a ‘defined benefit plan’ in which employees had no rights to determine how the pension fund money was invested.

The new employee usually needed some training on company administrative procedures, and the Personnel Department usually executed this task. The Personnel Department might provide live training, or they might require the new employee to read a policy and procedure manual.

In some companies, the Personnel Department handled payroll on a continuing basis, while in other companies, someone in the Treasury organization handled payroll.

If the organization decided to terminate an employee, a staff person in the Personnel Department would prepare a document package that might include a check for severance pay.

Under the old model, the Manager of the Personnel Department, even for a large organization, was usually a first line supervisor or middle manager. It was rare for companies to use Vice Presidents in HR management roles.

Most US companies were domestic. They did not have operations or people outside the USA.

The New Model: The HR Specialist

Today, the HR role has grown in importance. Let’s start with people who work as HR Specialists. Today, the typical HR Specialist is (to use a baseball analogy) ‘a utility infielder’ who handles a variety of issues. In addition to the traditional Personnel Department tasks of recruiting, hiring, firing, benefits and training, a modern HR Specialist could spend their day working on:

- Managing the portion of the company’s Internet web site that is used for recruiting
- Managing the contractor who conducts background checks on prospective employees
- Enrolling employees in expanded insurance programs (e.g., dental)
- Enrolling employees in forms of employee-paid benefits like medical spending accounts and Aflac disability insurance
- Managing employment contract paperwork whereby the employee assigns rights to all intellectual property to the company

- Managing employee agreements not to disclose company secrets and proprietary information
- Managing ‘non-compete agreements’ that prohibit an employee from quitting their job and immediately going to work for a competitor
- Managing the employee handbook (which is often part of the employment contract)
- Working with employees on their 401K retirement plans. These ‘defined contribution plans’ often require employees to make investment choices, thus companies provide training on investment management.
- Performing job audits
- Dealing with absenteeism
- Preparing statistical reports for government agencies (for example, a report on percentage participation in the 401K pension plan by employees at various pay levels)
- Working with a civilian company employee who is also an Army Reservist who will be deployed overseas for a year. When the soldier returns home from the deployment, federal law requires the organization to try to put the person back into the civilian job that they occupied a year earlier.
- Counseling employees who have personal problems and directing them to an employee assistance program
- Handling employee complaints of sexual harassment
- Forecasting staffing needs in response to a company’s accelerated growth
- Supporting attorneys who are defending the company in lawsuits involving HR issues, such as unfair termination cases

If the company is working globally, there will be additional work for HR Specialists. Here are some examples.

- If the company needs to recruit people with special skills for work in the USA, and such people are not available in the US workforce, then the company may request the HR Specialist to prepare a document package that requests US government approval to hire someone from outside the US (e.g., from India).
- The HR Specialist may advise employees on tax and compensation issues before they take foreign assignments.

- The HR Specialist may coordinate home office HR functions with overseas office HR functions.
- The HR Specialist may manage international ‘relocation packages’ for employees. More complicated than domestic relocations, international relocation packages may include contracts to move worker and their family, house them, pay the worker, provide transportation, provide schooling for the worker’s children, and provide benefits in the foreign location.

Today, many HR Specialists are required to have significant analytical skills. To compile statistical reports, some of them collect information and work with spreadsheets like an accountant.

The New Model: The HR Executive

HR’s role has taken on strategic importance. In 2005, the *Canadian HR Reporter* interviewed a number of corporate chief executive officers about the functions of human resources within their organizations. The *Reporter* noted that Rowan Saunders, head of Royal & SunAlliance, said, “HR plays a critical role in the organization. It deserves a seat at the top table” (Mccaulay, A., Grant, J., Vu, U., 2005). No longer thought of as a type of Personnel Department that does specialized staff work, the HR organization (which may be larger than a department) is now a strategic partner and is viewed in a far more significant way – on the same level as the accounting organization and legal organization.

The higher profile of HR means the person who leads the HR function typically has the title of Vice President or Senior Vice President. They are a top manager, not a middle manager. They are a member of the executive team that leads the company. They are likely to get involved in a number of strategic, high-level tasks:

- Developing personnel policies (not just implementing them)
- Developing compensation strategies
- Developing stock ownership plans that allow employees to become owners of the company
- Developing compensation plans that include incentive compensation

- Developing policies that provide incentives to employees who assist with recruiting hard-to-find people (e.g., an accounting firm may pay a cash bonus to an employee who brings in a new accountant)
- Developing policies on training and development
- Others

Like the chef and television personality Emeril Lagasse says when he adds spices and seasonings to the food he prepares, “Let’s kick it up a notch,” so, too, are decision makers kicking their HR efforts up a notch (or two or three). The authors of *The Strategic Business Partner Model* agree. “For any business strategy to be effective, it must address the needs of the market and support the organization’s business model and values while optimizing the human capital of the organization” (Robinson, D., Robinson, J., 2005). What does that really mean? In real world terms, it means that people will continue to move the organization forward profitably, provided they are rendering a needed service, are well trained, believe in the organization, and trust its leaders.

Organizations can do many things to build a competitive advantage. The HR function can be such a tool. The HR executive is responsible to lead the effort to sharpen the tool. The authors of the article *Add More Value* advance the concept that, “As the pressure mounts to do more with less and as people factors become more important, the HR function must be transformed to turn strategy into sustained results” (Ulrich, D., Brockbank, W., 2005).

Conclusions

The personnel function has grown into the HR function. This evolution has many dimensions.

- The variety of tasks performed by specialists has expanded substantially.
- The number of people who perform HR specialist tasks has increased.
- Whereas the manager of the traditional Personnel Department was a middle manager, the manager of the modern HR organization is likely to be a top manager.
- The Vice President of HR is a strategic team player for the company.

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