In search for terminological clarity within the field of human resource management

The field of human resource management (HRM) has undergone significant changes due to ongoing globalization processes, IT technology developments, economic environment changes, organizational shifts, evolving perceptions of employees in the work environment, etc. As a result, new organizational landscape has required a new approach towards managing people, who became the most valued assets of a strategic potential. The aim of this article is to search for terminological clarity, and systematize the concepts within the HRM field, which is abundant with numerous terms referring to individuals in organizations. A random use of the HRM terms and regarding them as synonyms cause ambiguities. The author attempts to juxtapose these terms and suggest relevant terminological solutions that suit contemporary developments within the HRM field. To achieve the aim of the article, current scientific references regarding the field of people management were used, with special emphasis being placed on personnel management, human resource management, and human capital management.

Keywords: people management function, personnel management (PM), human resource management (HRM), human capital management (HCM), human potential management (HPM), talent management

Klasyfikacja JEL: M12
Introduction

Within decades, there emerged numerous concepts referring to people in the work environment and their management. There exists a variety of terms used with reference to individuals in organizations, who may be referred to as labor, people, employees/workers, personnel, human resource(s), human capital, human potential, and talents. Even though these terms denote the same concept, they cannot be used interchangeably. The above-mentioned terms have their roots in the history of the people management function and the development of conceptual frameworks of the human resource management (HRM) field\(^1\). When choosing a given term, we emphasize a specific perception of individuals and their role in organizations which manage them to achieve the objectives established\(^2\).

The aim of this article is to search for terminological clarity by systematizing the HRM concepts referring to individuals in organizations and suggesting relevant terms that suit contemporary changes within this field. To achieve the aim of the article current scientific references regarding the field of people management were used, with special emphasis being placed on personnel management, human resource management, and human capital management. First, the concepts of personnel management (PM), human resource management (HRM), and human capital management (HCM) are presented in order to capture the evolution of perceiving and handling people in the work environment. Then, the author analyzes the terms referring to individuals in organizations and shows their contextual underpinnings as well as their place in the HRM field.

1. PM and its roots as the key to understanding the HRM field

In the period from the 1960s to 1980s, PM was used as a widely accepted term with reference to managing people in organizations. Then, in the 1980s, the concept of HRM marked the change in the perception of employees and their organizational role. While PM emphasizes an administrative dimension of this field,
HRM highlights the importance of people regarded as assets of a strategic value [Shaun, 2006, p. 63].

The history of PM dates back to the end of the nineteenth century and the activities of such employers as Cadbury and Rowntree, which laid the foundations of the earliest welfare policies and initiated the campaign referred to as ‘industrial betterment’ [Gilmore, Williams, 2009, p. 7]. PM was heavily influenced by the scientific management, represented by Frederick Taylor (1856-1915) and Henry Fayol (1841-1925), who initiated a rational (scientific) approach towards managing employees, that is organizing, planning, measuring work, training and using financial incentives [Benfield, Kay, 2008, p. 35]. The two world wars, commonplace negotiations between trade unions and employers as well as an increasing number of strikes gave rise to new developments in PM, comprising both welfare work and employment management. The years of the 1960s and 1970s were marked by an increase in employment legislation. At the end of this period, PM consisted in its five basic roles:

– the collective bargaining role (activities of trade unions and development of industrial relations),
– the implementer of legislation role (implementation of new employment legislation),
– the bureaucratic role (implementation of rules related to the behavior at work),
– the social conscience of the business role (remainder of the welfare period),

The emergence of HRM in the late 1980s resulted from a new economic, political, and social environment as well as reflected changing conditions of the work setting. First and foremost, the perception of people in organizations significantly changed. They were regarded as individuals ‘endowed with a range of abilities, talents and attitudes [who] influence productivity, quality and profitability’ [Bratton, Gold, 1999, p. 11]. The term human resources became accepted as a new way of perceiving employees, with their creativity, inner complexity, and a strategic organizational role. People were no longer recognized as costs, yet as assets bringing value to an organization, and their management occupied the centre of business processes. In this way, HRM replaced PM and became a widely adopted approach reflecting new ideology in handling people in the work environment.

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3 The period of industrial betterment was marked by setting good working conditions, delegating women to light machine work, opposing child mistreatment at work, shortening working hours, etc. People at work were frequently referred to as welfare workers. See: [Shaun, 2006, p. 66].
2. HRM as a breakthrough in perceiving and managing people

HRM is understood as ‘a strategic and coherent approach to the management of an organization’s most valued assets – the people working there who individually and collectively contribute to the achievements of its objectives’ [Armstrong, 2006, p. 3]. The definition highlights a few significant aspects about the role of people in organizations:

- people employed in an organization constitute the core of HRM,
- people employed are viewed as values,
- people employed are both individuals and represent an organization as a whole,
- common efforts of people employed translate into achieving organizational objectives.

Figure 1 demonstrates the place of people as the core aspect of HRM.

As has been highlighted, people are placed in the centre of HRM. They are regarded as valued assets who, on the one hand, retain their individual traits; on the other, belong to a group whose work helps to achieve the aims set by an organization.

The essence of HRM consists in creating management systems ensuring an effective and efficient use of human talent and helping to achieve organizational aims [Mathis, Jackson, 2008, p. 4]. Human resources should be treated as creative individuals working in a flexible setting, performing rewarding tasks, and having an excellent reputation. These individuals are human assets with their talents, expertise, skills, experience, and relationships, who affect organizational performance so that they unite physical, financial, and intangible assets in an organization [Ibidem, p. 5].

HRM underpins all management activity which aims to make people work productively so that they can develop and the business can grow [Torrington, Hall, Taylor, 2008, p. 4]. The term can be defined in two ways. On the one hand, HRM applies to management activities and is a modern equivalent of PM; on the other, HRM denotes an approach to managing people which is not tantamount with PM [Ibidem, p. 6]. Organizations are supposed to determine what they need in terms of human resources, which requires specific decisions before recruitment.
and selection. They create their structures, determine which people are suitable for their business profile, and specify the employment contracts. In order to maintain highly-skilled and desired employees, organizations offer satisfactory compensation packages or development opportunities. Performance objectives are achieved when people are well motivated and maximize their efforts into work. The aim is to create the environment and stimulate employees so that they reflect their proactive attitude, demonstrate more initiative, creativity, or devotion.

HRM may be also viewed in terms of different models, that is the Michigan school, referred to as the matching model, and the Harvard framework [Armstrong, 2006, pp. 4-8]. The Michigan school based its matching model on the presumption that HR systems and structures within an organization should match its strategy. The model accounts for the human resource cycle encompassing four processes/functions taking place in organizations: selection, appraisal, rewards, and development. According to the Harvard framework, HRM requires a strategic and long-term approach towards people viewed as organizational assets rather than costs. This model assumes that in HRM line managers take more responsibility and supervise the relationship between strategy and human resource activities.

The essence of HRM is also presented in comparison with personnel and industrial relations by means of a twenty-five item checklist of differences [Storey, 1995, p. 10]. While the former is predominantly based on the rules, procedures, and norms, the latter accounts for more flexibility, commitment, and values. HRM stresses the importance of mission and is strongly business-oriented. Moreover, it recognizes a more individualized contract between employers and employees.

No matter which definition of HRM we adopt, the emergence of this concept has marked a new era in approaching people management. Human beings as valued assets were no longer associated with costs incurred by an organization. They were recognized as complex and creative individuals who contribute to the achievement of organizational objectives. Organizations were supposed to create the environment characterized by the systems that would effectively stimulate the development of their workers.

3. HCM as a contemporary approach to perceiving and managing people

Recently, there has been a growing tendency to juxtapose the term human resources with human capital with reference to people at work. Human capital as a driving force of organizational performance faces new challenges due to ongoing globalization processes, current economic trends, technological developments, etc. It is through human capital that organizations are likely to achieve success
when referring to it as a source of their competitive advantage. Human capital indicates ‘the skills, knowledge, and capabilities of the workforce of a firm, or of the population of a country, as well as the organizational arrangements and networks of relationships those people have formed that enable them to be more innovative and productive’ [Blair, 2011, p. 49]. Human capital embodies people whose capabilities are treated as inputs into production and accounts for the possibility of investing in people as compared to the investment in physical capital.

In ‘An Inquiry into the Nature and Causes of the Wealth of Nations’, Adam Smith formulated the basics of human capital by noting that the division of labor allows people to specialize and develop their capabilities [Smith, 1776, p. 166]. An extensive research on human capital dates back to the 1950s and the early 1960s, and the findings of Theodore W. Schulz, Jacob Mincer, and Gary S. Becker 4. The human capital revolution changed the way of thinking about earnings which heavily depend on investing in skills and knowledge rather than just possessing a given type of job. The more workers invest in education and training, the higher the level of their earnings [Becker, 2011, p. xiii].

In literature, human capital is also discussed with reference to the tripartite concept of intellectual capital, which comprises three pillars, namely human, social, and organizational capital [Baron, Armstrong, 2012, p. 6]. To take a broader perspective, intellectual capital takes the form of knowledge stocks and flows related to an organization. In other words, intellectual capital means intangibles, which together with tangible elements translate into the value of an organization. Human capital is defined in terms of human knowledge, skills, abilities, and capacity, which altogether facilitate development and innovation. Social capital, in turn, comprises the structures, networks, and procedures helpful in cultivating intellectual capital. Finally, organizational capital embodies knowledge possessed by an organization and stored in available databases.

The importance of human capital is also revealed in business practice. Within the framework of the Accounting for People initiative announced by the UK government, a direct correlation between HCM and organizational performance is discussed. According to the Accounting for People Task Force, HCM is referred to as ‘an approach to people management that treats it as a high level strategic issue and seeks systematically to analyse, measure, and evaluate how people policies and practices create value’ [Report of the Task Force on Human Capital Management, 2003, p. 2]. The definition emphasizes a strategic role of employees who create value. This process

should come under scrutiny in order to ensure a high level of the organizational performance.

4. The relationship between PM, HRM, and HCM within the field of people management

An overview of PM, HRM, and HCM helps in understanding the evolution of perceiving and handling individuals in organizations. Even though the terms refer to the same concept, they cannot be used interchangeably since each of them marks a different approach towards the people management function and has a distinct focus. People management is a generic term applying to individuals in organizations encompassing two interrelated concepts of HRM and HCM which have their roots in PM [Armstrong, 2006, p. 1]. People management refers to ‘the policies and practices which govern how people are managed and developed in organizations’, which is further developed in PM ‘concerned with obtaining, organizing and motivating the human resources required by the enterprise’ [Ibidem, p. 2]. While people management is a general term emphasizing the core aspect of handling individuals in organizations according to certain rules and by means of different tools, PM is more specific and denotes that people are first resourced, then their performance is organized and motivated. In turn, HRM and HCM are regarded as the approaches to handling people at work. In HRM, people constitute valued assets who as individuals and parts of a group facilitate achieving organizational objectives. HCM, in turn, is defined as ‘an approach to obtaining, analyzing and reporting on data which informs the direction of value-adding people management strategic investment and operational decisions at corporate level and at the level of front line management’ [Ibidem, p. 3].

5. In search for terminological clarity with reference to individuals in organizations

One of the key aspects underlying the distinction among PM, HRM, and HCM is the perception of individuals and their role in the organizational performance. Within years, there have emerged different concepts of people at work and distinct terms denoting them. Figure 2 presents a selection of terms referring to individuals in organizations.

The term labor is one of the basic microeconomic concepts referring to a factor of production (next to capital and land) which means effort made and time allocated by humans to produce goods or services [Routledge Dictionary of Econom-
ics, 2002, p. 335]. While analyzing the HRM field, the term labor force appears with reference to people in the work setting. Labor force is defined as people of a given country who fulfill one of the following criteria:

- employed for a minimum number of hours per week,
- self-employed,

![Diagram of terms denoting individuals in organizations](image)

Fig. 2. Terms denoting individuals in organizations
Source: Own work, based on literature analysis.

Without any specific context, people is a common word used on a daily basis to denote ‘persons in general’ or ‘all the persons who live in a particular place or belong to a particular, country, race, etc.’ [Oxford Advanced Learner’s Dictionary, 2005, p. 1120]. When contextualized and applied to the work-related context, the term denotes ‘men and women who work in a particular type of job or are involved in a particular area of activity’ [Ibidem, p. 1120]. Therefore, people is a generic term which indicates the area of handling people in organizations (people management), without implying any particular approach to it.

While mentioning the term employee or worker, two perspectives may be discussed: the general context in everyday language and the legal context. Ordinary or business people refer to employees or workers on a daily basis and mean individuals who are employed under certain contracts/conditions and work to earn a living. The legal context, in turn, is shaped at the national level and accounts for specific distinctions of these two terms. In the UK, there are five types of the employment status recognized for the tax purposes:

- employee,
- worker,
- self-employed and contractor,
- director,
For the purpose of this article, the definitions of an employee and worker are considered. In order to be classified as an employee, a person must be employed under an employment contract. All employees are workers, yet not every worker is an employee since employees have additional employment rights, e.g. statutory sick pay, maternity/paternity/adoption leave and pay, statutory redundancy pay, etc. Basically, a worker has a contract (other arrangement to do work/provide services possible) for a reward.

Under the framework of the EU law, the term *worker* is used with reference to the free movement of persons as a fundamental freedom of all EU nationals. The European Court of Justice defined the meaning of a worker in the Deborah Lawrie-Blum vs. Land Baden-Württemberg case. The Court held that understanding of the term is common across all EU Member States, and any EU national is a worker when:

- provides services of an economic value to another person or company,
- is under the direction of another person,
- receives remuneration for those services [Lawrie-Blum, C-66/85, 3 July 1986]5.

The term *personnel* is often juxtaposed with *human resources* as two distinctive concepts of people in organizations. Similarly, PM and HRM are regarded as two distinctive approaches to managing people. PM, also referred to as personnel administration (PA), reflects a scientific idea of work and its organization developed by Frederick Taylor6. While the focus of PM is on administering people within the scope of basic people management areas (recruitment, selection, training, etc.), HRM is a more holistic approach of a strategic dimension. Under the HRM approach, people are regarded as assets rather than costs and their interests should be coordinated with the goals of an organization [Armstrong, 2006, p. 19]. The shift from personnel to human resources may have the following grounds:

- *human resources* as a term helping to avoid gender-based language (eliminating such phrases as *manpower administration*),
- *human resources* as a term denoting a different conceptual approach to people management,

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5 In the summary of the judgment, the European Court of Justice explains the term worker in the following way: ‘The term ‘worker’ in Article 48 has a Community meaning. It must be defined in accordance with objective criteria which distinguish the employment relationship by reference to the rights and duties of the persons concerned. The essential feature of an employment relationship is that a person performs services of some economic value for and under the direction of another person in return for which he receives remuneration. The sphere in which they are provided and the nature of the legal relationship between employee and employer are immaterial as regards the application of Article 48’.

6 Frederick Taylor developed the principles of managing people based on scientific management. He was in favour of clear rules as to the selection and training of workers, division of activities between workers and management, a detailed analysis of each job, incentives for workers, techniques and methods of working that facilitate the largest production possible, etc. See: [Kermally, 2004, p. 110].
human resources as a term reflecting fashion and trends (organizations using the job titles of human resource officers or universities changing their curricula/books and advocating the HRM terminology),

human resources as a term attractive to managers (sense of order and legitimacy) [Bratton, Gold, 2009, pp. 13–14].

No matter which of the above-mentioned arguments we adopt, human resources have been established in literature and business practice as a commonly accepted and widely used term. Similarly, HRM comes into focus when discussing the field of people management most frequently. Even though it is criticized for its unethical dimension related to viewing human beings as objects (resources), it is generally adopted by academics and practitioners.

Currently, there exists a growing tendency to recognize that people at work represent human capital as part of the intangible assets of an organization. People as human capital are capable of contributing the added value by means of their knowledge, skills, and abilities. They may be regarded as a combination of the following factors:

the traits one brings to the job – intelligence, energy, attitude, reliability, commitment,

one’s ability to learn – aptitude, imagination, creativity,

one’s motivation to share information and knowledge – team spirit and goal orientation [Fitz-enz, 2009, p. xviii].

In order for an organization to develop, it must recognize, retain, and motivate highly-skilled people. Therefore, they should be provided with learning opportunities to achieve personal goals. Moreover, human capital should be invested into, so that an organization could generate satisfactory returns [Baron, Armstrong, 2011, p. 10].

Another term that refers to an individual in an organization and emphasizes his/her inner capacities is potential. Human potential management (HPM) highlights the importance of people embodying potential which should be discovered and developed so that both an employee and organization achieve their goals [Kalra, 1997, p. 176]. The concept of HPM emerged as an alternative to perceiving people as resources, and as an alternative to its pejorative connotations. The term human resources may indicate that employees are regarded in an unethical way by depriving them of their creativity and subjecting to passive management, control, administration, exploitation or use. The essence of human potential is, in turn, a clear recognition of human qualities to be developed and benefited from. Therefore, HPM is not merely a semantic shift, yet an approach valuing employees as partners (as opposed to resources) placed in the centre of an organization.

When thinking of people in terms of their inner capacity, the term talent comes into focus. Talent denotes individuals capable of making a difference to the orga-
izational performance by means of their potential, immediately or in a long-term perspective [Chartered Institute of Personnel and Development]. Talent management consists in managing and developing people who either contribute to the success of an organization by unleashing their potential or performing significant roles (business or operation-critical roles). As has been in the case of human capital, human talent is worth investing in order for an organization to generate returns. Nowadays, organizations conduct the ‘war for talent’ in the competitive knowledge-based world. Winning this war requires regarding talent management as an organizational top priority. Another step is to create an employee value proposition and develop it to a full potential [Chambers et. al., 1998]. Calling people talent and referring to their coordination as talent management is not just re-labeling the concept of people management, without indicating any ideological changes. The term talent implies that people are individuals who form a high-performing organization flourishing in a business environment which is currently undergoing a significant structural change [Caplan, 2011, p. 1].

An overview of the terms referring to individuals in organizations proves that the HRM field has considerably evolved and become a multidimensional area. Nowadays, there is a clear tendency to name employees as human capital, potential, and talent. These terms highlight the following characteristics of people in the work environment:

– value which translates into real financial returns generated by an organization (humans as capital),
– uniqueness embodied in a set of qualities that could be developed and benefited from (humans as potential),
– ability in terms of performing well and making significant changes in the work environment (humans as talent).

Conclusion

The development of PM, HRM, and HCM marks the evolution of people management, which has undergone considerable changes. These three approaches have a different focus and emphasize distinct views on individuals in organizations. PM is discussed in terms of its administrative role in handling people. HRM initiated a shift in perceiving employees as valuable assets of a strategic role rather than costs. HCM, in turn, highlighted an innovative and productive aspect of individuals, with their knowledge, skills, abilities, and capacity. PM, HRM, and HCM developed as specific responses to changing perceptions of people in the work setting. PM laid the foundations for HRM and HCM, which are centered on a particular perspective of employees (human resources as most valued assets in HRM,
and human capital as a stock of productive knowledge, skills and abilities in HCM). Due to the above-mentioned changes in the perceptions of individuals in the work environment and evolving approaches to their management, the HRM field is multidimensional. However, the HRM terms cannot be used synonymously and terminological clarity is supposed to be maintained. Currently, there has been a growing tendency to use the terms capital, potential, and talent for denoting individuals at work in order to emphasize uniqueness of employees who should be developed and invested into for their personal benefits and for the benefits of an organization as a whole. Terminological changes viewed as the shift from calling people labor or personnel to human resources or capital are not only semantic, yet ideological. They reflect the developments in approaching employees and recognizing their strategic organizational role.

References


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