

# The Journal of Contemporary Issues in Business and Government

2005 Volume 11 Number 2

## Publication Details

Two issues per volume

Editing and typesetting by E Callender

Printing and cover artwork by Curtin Print & Design

ISSN 1323-6903

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## Website

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# The Barriers and Enablers to the Transition from Personnel Administration to Strategic Human Resource Management Practices: A Study of Large Indonesian Companies

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## Abstract

*The management of human resources is one of the key enablers of organisational performance. The traditional literature in this field; however, assumes that human resources and organisational practice or behaviour follows a rational, logical plan. This paper challenges this approach to understanding human resource theory. As an added interest, the author presents the outcomes of research into human resource practices in seven large Indonesian companies. The outcomes are designed to challenge traditional conceptualisations of human resource practice.*

## Introduction

*There is little question that the human resource management is undergoing profound change as the 20<sup>th</sup> century draws to a close. What are the forces for change? Where are human resource management and the human resource functions going? What are the obstacles to getting there? (Beer, 1997: 49).*

In achieving and maintaining a competitive edge in a rapidly changing world, organisations must face certain challenges. These include managing growth and change in a global marketplace (Lajara, Lillo & Sabater, 2002; Lawler III & Mohrman, 2003; Gubman, 2004); issues which resonate particularly with the Human Resource Management (HRM) literature of the 1990s (Beer, 1997; Ehrlich, 1997; Mohrman & Lawler, 1997; Ulrich, 1997). Concurrent pressures from competitors, shareholders and customers require companies to create services and processes ahead of the competition (Brockbank, 1999). This paper will focus on people as human resources, particularly in relation to the implementation of Strategic Human Resource Management (SHRM).

Lundy (1994) reflects many writers on HRM, such as Buyens & De Vos (2001), Boxall and Purcell (2000) and Tracey and Nathan (2002), who say that there are increasing pressures on businesses to be competitive and these, in turn, require HRM to take on a strategic significance. Lundy goes on to echo sentiments of other HRM theorists, such as Mohrman and Lawler (1997) and Kamoche (1994), when she comments that the

administrative function represented by personnel management is in decline in favour of SHRM. Boxall and Purcell (2000) expand on this theme, suggesting that SHRM is critical to organisational effectiveness.

In addition, other writers on HRM also convey the supporting arguments of the importance of SHRM in different ways and perspectives. Truss and Gratton (1994) argue that organisations at all levels, in both public and private sectors are increasingly turning to SHRM techniques to pave the way for change, bringing personnel departments to the forefront of organisational transformation and survival as never before. Furthermore, Truss and Gratton (1994) argue that SHRM provides a link between HRM and strategic goals/objectives.

### ***Research Question***

*What are the barriers and enablers influencing the transition from personnel administration (PA) to SHRM in large Indonesian companies?*

### ***Research Objectives***

- *To investigate the activities related to the PA/HRM as reported in the company settings.*
- *To explore barriers and enablers those influence the transition from PA to SHRM in large Indonesian companies.*

### **The Study**

The study was conducted in seven large Indonesian Companies, focussing on the development of theory through a case study approach (Eisenhardt, 1989; Yin, 1994). The study Companies are referred as Company A, B, C, and Sugar Group Companies (which consist of Company D, E, F, and G). Company A is a holding company of 26 branch offices and 16 subsidiaries. The business scope of the Company is highly diverse, including agro-industry, pharmacy and medical equipment, trading, and property. Company B is a telecommunication company. It produces a wide range of telecommunication equipments and provides telecommunication services. It has two subsidiaries and two branch offices. Company C is an electricity company which has SBUs (Strategic Business Unit) and subsidiaries in all over Indonesia. The Sugar Group Companies are comprised of three sugarcane companies and one ethanol company.

### ***Approach***

A constructivist paradigm was adopted.

*The constructivist paradigm assumes a relativist ontology (there are multiple realities), a subjectivist epistemology (knower and subject create understandings), and a naturalistic (in the natural world) set of methodological procedure. Findings are usually presented in term of the criteria of grounded theory (Denzin & Lincoln 1994: 14-15).*

Grounded Theory as described by Whiteley (2000a) was adopted.

*Grounded Theory (Glaser & Strauss 1967) is a field of research method that seeks to discover respondents' versions of social phenomena through the act of emergence. It can use quantitative or qualitative data but concepts and theories that emerge are not arrived at by statistical methods. Basically data analysis in grounded theory is qualitative. For example, an examination of timesheets could show a severe level of lateness in a department. This quantitative data need to be interpreted by the people involved. They need to give the researcher their 'theories' about what is happening. These theories are qualitative in nature and they need to be analysed qualitatively. The antithesis of grounded theory is any approach that forces data to meet predetermined concepts or theoretical models (Whiteley, 2000a: 9).*

This study is using the generative aspects of grounded theory (Glaser & Strauss 1967) both purposive theoretical sampling and content analysis.

### ***Research Design***

*The purpose of the research design is the logical sequence that connects field data to a study's initial research questions and ultimately to its conclusions (Whiteley, 2002: 9, lecture note).*

The research design had three tiers. The first tier was literature study followed by the formation of research questions. The preliminary fieldwork was then conducted and the results were analysed to confirm the research question. The second tier was data collection; both primary data (interviews) and secondary data (HR documents) were collected. The interview data were transcribed and analysed, using content analysis (Holsti 1969). Analysis was also conducted for the HR documents following Altheide (1996). These lead to the third tier, which were findings followed by discussion using theoretical sensitivity.

### ***Data Collection Method***

Data were collected by using semi-structured interviews. The semi-structured interviews (King, 1994) were chosen since these enabled the researcher to ask open-ended specified questions, which allow the researcher more freedom to explore and probe the issue (May, 1997). This format gives respondents the opportunity to tell their stories based on their own experiences, since this study follows the tradition of 'giving voice' to the respondents (Charmaz, 2000). Eighty-eight interviews were conducted and recorded. The interviewees comprised of HR Directors, HR Division Heads, HR Managers, Line Managers, HR Supervisors and HR staff.

### ***Data Analysis***

"Content analysis is the process of identifying, coding, and categorising the primary patterns in the data. This means analysing the content of interviews and observations" (Patton 1990: 381). Content analysis following Grounded Theory protocols was used. The process is described in Table 1.

**Table 1: Analysis Process**

Utterance to codes to categories Categories to concepts Constant comparison Constant questioning
---

Source: Model adopted from Whiteley (2004: 38).

The data were coded using an open-coding process consistent with a grounded theory approach (Strauss & Corbin, 1990). The coding was conducted with no predetermined codes and this allowed the preliminary codes to emerge from the data (Glaser, 1992). The codes were then reconsidered so that the categories were compared and integrated in a way that reflects theoretical sensitivity in developing the concepts. Thus, the coding process goes through four steps: code, categorise, apply constant comparison and constant questioning, and conceptualise the idea. Following these processes three clear super categories are identified: PA, HRM and SHRM practices. The definitions of these terms are presented in Table 2.

**Table 2: Definition of PA, HRM, SHRM, and Transition Period**

<b>PA</b>	<b>HRM</b>	<b>SHRM</b>	<b>TRANSITION PERIOD</b>
In this study, Personnel Administration is defined as the administered basic activities such as recruitment, record keeping (attendance, leave, and sickness records), training in company rules and salary computation (Whiteley, Cheung & Zhang 2000). It reflects short-term view and task oriented.	In this study, Human Resource Management is defined as an integration of human resources into strategic management and the emphasis is on a full and positive utilisation of these resources (Guest 1987). It reflects medium-term view, job related and functional focus.	For the purpose of this study, Strategic Human Resources Management means human resources that are fully integrated with the strategy and the strategic needs of the firm, coheres both across policy areas and across hierarchies (Guest 1989). It reflects long-term view, integrative and developmental focus.	A transitional period that leads from Personnel Administration to Human Resource Management, and from Human Resource Management to Strategic Human Resource Management (Whiteley, Cheung & Zhang 2000).

Source: Original table.

## Findings and Discussion

Table 3 presents the summary of the characteristics of elements in Company A, B, C, and Sugar Group Companies. It shows that PA has two characteristics. The first includes Foundational Administration Activities. These activities are static, no expectation of transition, and mainly deal with basic administration functions. They are performed in the Companies as supporting functions (see mark X in Table 3), such as: Compensation System Administration, Training Administration, Basic Use of IT & Data, and Other Personnel Procedures and Roles. These activities have a short-term view, are task oriented and reactive.

The second characteristic includes PA elements that in Companies and the literature have progressed toward HRM. In other words, these elements are in a transition period and they are moving from PA towards HRM (see mark XT in Table 3). Examples of these



elements are Grading System Administration and HR Division History (in Company B) – meaning the development of the HR Division's functions in Company B.

Table 3 shows that HRM also has two characteristics. The first includes Foundational HRM Activities. These activities are static and there is no expectation of transition (see mark X in Table 3), such as: Recruitment Methods and Selection Process, Orientation and Probation Design, Compensation System, and Industrial Relations. These activities have a medium-term view, are job related and have a functional focus.

**Table 3: Summary of the Characteristics of Elements in Company A, B, C, and Sugar Group Companies**

<i>Elements</i>	<i>COMPANY</i>			
	<i>A</i>	<i>B</i>	<i>C</i>	<i>SG</i>
<b><i>PA</i></b>				
1. Grading System Administration	XT	XT	XT	XT
2. Compensation System Administration:	X	X	X	X
- Payment Procedure	X	X	X	X
- Retirement Payment	X	X	X	X
- Overtime Payment	X	0	0	X
- Payment Deductions	X	X	X	X
- Payment of Bonus, Benefits, and Incentives	X	X	X	X
- Payment of Insurance, Pension, Tax	X	X	X	X
- Financial Report	0	0	X	X
3. Training Administration	X	X	X	X
- In house Training	X	X	X	X
4. Basic Use of IT and Data	X	X	X	X
5. Other Personnel Procedures and Roles	X	X	X	X
- Medical Administration	X	X	X	X
- Attendance & Discipline	X	X	X	X
- Accident & Insurance	0	0	0	X
- Leave administration	0	X	X	X
6. HR Division History	0	XT	0	0
7. Human Resource Planning	0	0	0	X
8. Part Time Employee Administration	0	0	0	X
- Daily Workers Administration	0	0	0	X
- Seasonal Workers Administration	0	0	0	X
<b><i>HRM</i></b>				
1. Organisation Design	XT	0	0	0
2. Competency Development	0	XT	0	0
3. Job Analysis and Job Description Development	0	0	XT	0
4. Personnel Roles and Strategy in the Companies' Strategy	0	0	0	X
5. Admin Consistency	0	0	0	X
6. Human Resource Planning	XT	XT	XT	0
7. Recruitment Method and Selection process	X	X	X	X
8. Orientation and Probation Design	X	0	0	X
9. On the Job Training	X	0	X	X
10. Compensation System:				
- Salary Determination, Increase Review and Comparison	X	X	X	X
- WPS design: Benefit and Bonus	X	X	X	X
11. Performance Management	XT	XT	XT	XT
13. Training Provision	XT	X	XT	X
14. Career Progression	XT	X	XT	X
15. Procedural Communication	X	X	X	X
16. Motivation	X	X	X	X
17. Developing IT	X	X	0	0
18. HR Information System	0	0	X	0
19. Industrial Relations	X	X	X	X
<b><i>SHRM</i></b>				

1. Organisation Development: Future Planning	X	0	X	0
2. Competency Assessment	X	X	X	0
3. Business Strategy Link with HR strategy	X	0	0	0
4. System Development	0	X	X	0
5. Preparation for SHRM Application	X	X	X	0
6. Organisation Culture and HR Policy Analysis	0	X	X	0
7. Recruitment Strategy	X	X	X	X
8. Strategic Training and Development	X	0	X	0
- Formal Education	0	X	X	0
9. Strategic Performance Management	X	X	X	X
10. Strategic Compensation Decision:	X	X	X	X
- Performance Merit	X	0	0	0
- Performance Based Benefit	0	X	0	0
- Reward, Bonus, Performance Benefit, Award	0	0	X	0
- Bonus, Facilities, Benefits, Allowances	0	0	0	X
11. Preparing Future Leaders:	X	0	X	0
- Career for GM	X	0	0	0
- Branch Manager	0	0	X	0
12. Personnel Information System	0	X	0	0
- HR and Library Websites	0	X	0	0
13. Strategic Communication	X	X	0	0
14. Motivation	X	0	0	X

Source: Original table. Notes: 0= No Activity; X = Activity; XT= Transition.

The second includes HRM activities that in Companies and the literature have progressed toward SHRM. In other words, these activities are in a transition period and they are moving from HRM toward SHRM (see mark XT in Table 3). Examples of these activities are Organisation Design, Competency Development, Job Analysis and Job Description Development, Human Resource Planning, Performance Management, Training Provision, and Career Progression.

Table 3 shows that SHRM only has one characteristic: Foundational SHRM Activities. Examples of these activities are Organisation Development: Future Planning, Competency Assessment, System Development, Preparation for SHRM Application, Recruitment Strategy, Strategic Training and Development, Strategic Performance Management, Strategic Compensation Decision, Preparing Future Leaders, Strategic Communication, and Motivation. These activities have long-term view, integrated and developmental focus.

There is a sense of movement on the elements marked with XT. This came as activities were moving across boundaries, for instance PA activities began to transform into HRM, and HRM activities began to transform into SHRM. These are called as the concept of 'transition'. Furthermore, the data show a combination of Linear and Non-Linear relationships but the sense is one of adaptation. The linear relationship is found in the PA domain while the non-linear relationship, which is characterised by complex adaptive system (CAS), is found in the HRM and SHRM domains. The following is the detailed of the elements movement toward transition, the linear model, and the modified version of complex adaptive system.

### *The Elements Movement Towards Transition*

The elements that are in a transition period, from PA toward HRM, and from HRM toward SHRM are identified as shown in Table 4.

#### **1. The Element in Transition from PA toward HRM**

## Grading System Administration

The Grading System Administration element is categorised as PA practice since it classifies the employees into a hierarchical system. But it is not straightforward PA since the application is more complex than that. The grading reflects a status symbol which is embedded in each level, and it is used to determine the salary, bonus, facilities, benefits, allowances, training and development, and career of the employees. For example, lower level employees get different bonus percentage (of the salary) from higher-level employees. They can not get the same facilities, benefits and allowances as what the higher level of employees get. Moreover, lower level employees can not participate in training and development which are only available for higher level employees, and they also can not be promoted to certain level of jobs. The reason is that the qualifications of higher level and lower levels employees are different. Therefore, the Grading System Administration is categorised as an element which is in transition from PA toward HRM.

### *2. The Elements in Transition from HRM toward SHRM*

The elements in Transition from HRM toward SHRM can be seen in Table 4. This paper only describes the transition of Organisation Design and Human Resource Planning elements in Company A.

**Table 4. Elements Movement Towards Transitions in Company A, B, C, and Sugar Group Companies**

<i>Super Category</i>	<i>COMPANY</i>			
	<i>A</i>	<i>B</i>	<i>C</i>	<i>SG</i>
<b><i>PA in transition toward HRM</i></b>	Grading System Administration	Grading System Administration	Grading System Administration	Grading System Administration
		HR Division History		
<b><i>HRM in transition toward SHRM</i></b>	Organisation Design	Competency Development	Job Analysis and Job Description Development	
	Human Resource Planning	Human Resource Planning	Human Resource Planning	
	Performance Management	Performance Management	Performance Management	Performance Management
	Training Provision		Training Provision	
	Career Progression		Career Progression	

Source: Original table.

## Organisation Design and Human Resource Planning

Organisation Design is categorised as HRM practice because the Company tries to manage the organisation more comprehensively by conducting position analyses to adjust the organisation structure, formulating human resource needs and developing job descriptions. Since it begins with the structure rather than the Company's strategy directions, it is categorised as HRM.

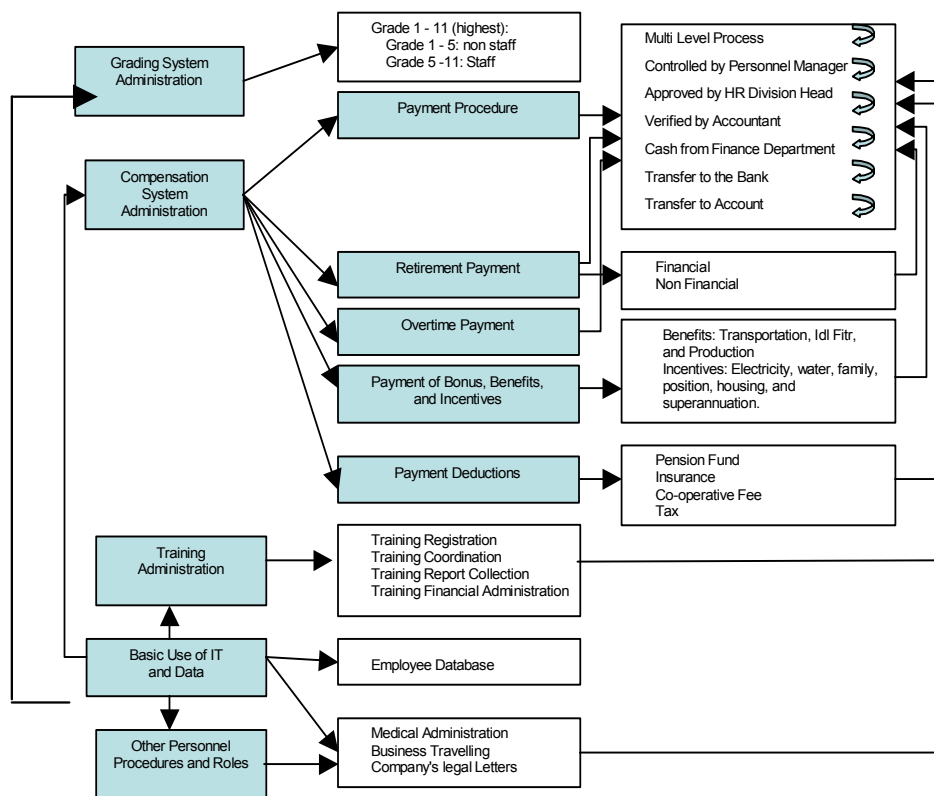
The Human Resource Planning element is also categorised as HRM practice since it is based on job analysis and focused on the quantity and quality of the human resources which are needed by the Company. However, the Organisation Design and Human

Resource Planning activities are conducted to prepare the implementation of competency based human resources management and to support the Organisation Development: Future Planning. The Organisation Development: Future Planning itself is categorised as SHRM practice as it will change the role of the holding company from operational to investment holding. Therefore, Organisation Design and Human Resource Planning elements are categorised as the elements which are in the transition from HRM toward SHRM (see Figures 2 and 3).

### ***A Linear Model in the PA Domain***

Lewin and Regine (2003) discuss the kinds of relationships in the core of management practice, which are linear and non-linear. They explain that in a linear world, things may exist independently of each other, and when they interact, they do so in simple, predictable ways. The data of the PA functional activities in all Companies follow linear relationships. Figure 1 presents a linear model in the PA domain in Company A.

**FIGURE 1. A Linear Model of PA Practice in Company A**



Source: Original figure.

Figure 1 shows that the Compensation System Administration element, which includes the retirement payment, overtime payment, payment of bonus, benefits, and incentives, and payment deductions, follows a payment procedure that involves a multi level process. The process requires that each payment request must be checked by the Personnel Manager to get approval from the HR Division Head before it goes to the

Finance Department. Verification is also done by the Accountant before it is paid by the Finance Department. The payment is done by transferring the money to the respective account. The payment that occurs in the other elements: training, medical and business travelling follow the same payment process.

Since all elements utilise the IT and Data in conducting their activities, the IT and Data element is connected to other elements such as to grading system administration, compensation system administration, training administration and other personnel procedures and roles elements. Therefore, it can be said that PA practice in Company A follows a linear model since the links among the elements in PA domain show linearity. It follows Lewin and Regine's (2003) concept of a linear relationship where the elements in PA domain work independently of each other, and they interact in simple, predictable ways.

### ***The Modified Version of Complex Adaptive System***

The complex adaptive system is described by Stacey (1996) as:

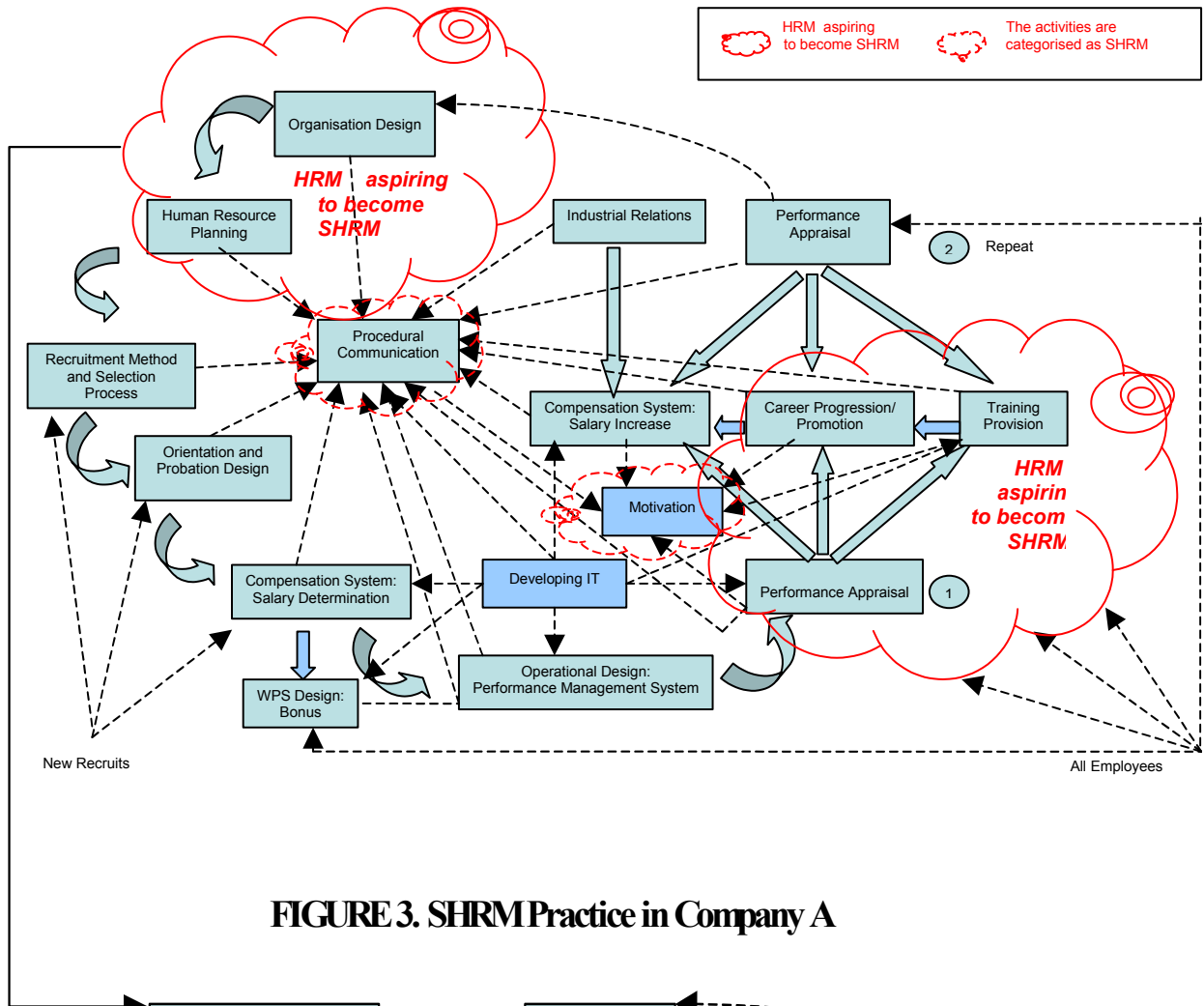
*At its simplest, an adaptive non linear feedback system is a network consisting of a large number of agents, each of those behaviour is determined by a shared schema consisting of a few rules that are fixed overtime and that apply to all agents without exception....even the simplest adaptive system has some purpose, namely, to perform some task. It follows that....agents in all adaptive systems adjust their behaviour in light of its consequences for their purpose (Stacey 1996: 72).*

Based on Stacey's concept of the complex adaptive system, the HRM and SHRM practices conducted in the case Companies can be considered as a modified version of a complex adaptive system. The "agents" in Stacey's concept can be interpreted as the elements in the HRM and SHRM domains. Stacey's concept of "schema" is interpreted into the HRM strategy and policy. What Stacey refers to as "rules" is interpreted as the HR rules and procedures. Stacey says that "the rules are fixed overtime and that apply to all agents without exception". In the HRM practice some of the HR rules and procedures are revised periodically and those rules and procedures are applied to all elements in the HRM system. The complex adaptive system has some purpose "to perform some tasks", so do the HRM and SHRM practices since they are conducted to achieve its purposes, aims, and objectives.

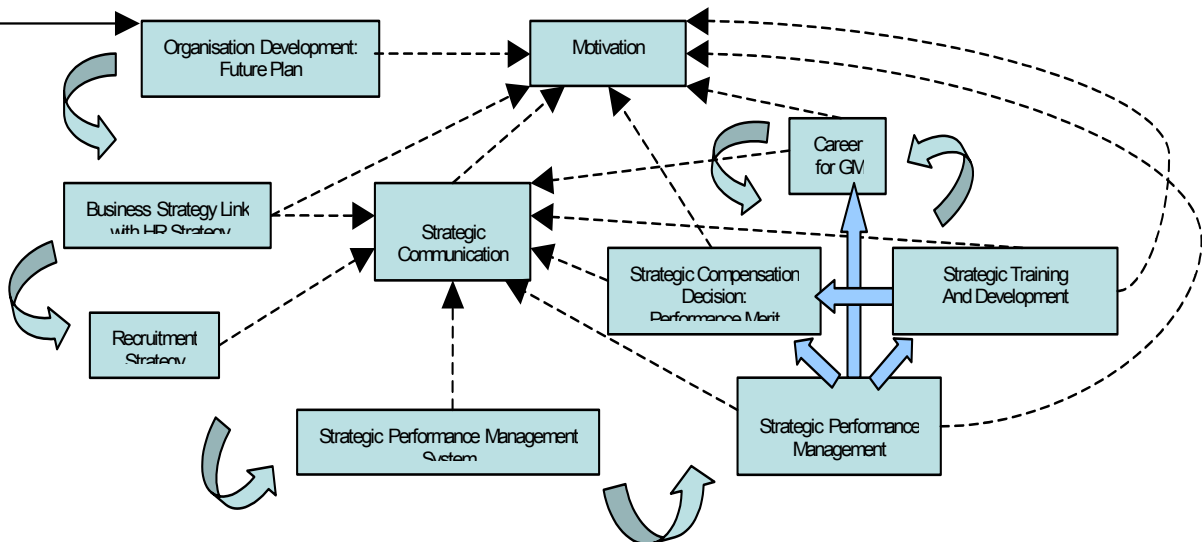
Stacey also mentions about "an adaptive non-linear feedback system". A deep look at Figure 2 shows an interconnectedness that takes linear elements and relates them across a spectrum of activities in an integrative way. The spectrum ranges from HRM to SHRM. Building the integrative connectivity, a sense of adaptation grew.

For instance Figure 2 shows that Procedural Communication needed to adapt to the different discourses and protocols required by, for example, Performance Appraisal, Training, Compensation and other elements. The concept of Procedural Communication shapes and in turn was shaped by the procedures and discourses of the various functions. This is resonant with CAS in the sense that elements in modified version of complex adaptive systems adjust their behaviour in light of its consequences for their purpose.

**FIGURE 2. HRM Practice in Company A**



**FIGURE 3. SHRM Practice in Company A**



Source: Original figures.

A deep look at Figure 3 also shows interconnectedness that takes linear elements and relates them across a spectrum of activities in an integrative way. Building the integrative connectivity, a sense of adaptation grew. For instance, Figure 3 shows that Strategic Communication needed to adapt to the different discourses and protocols required by, for example, Organisation Development: Future Plan, Strategic Performance Management, Strategic Training and Development, Strategic Compensation Decision and other elements. The concept of Strategic Communication shapes and in turn was shaped by the procedures and discourses of the various functions. This is resonant with CAS in the sense that elements in modified version of complex adaptive systems adjust their behaviour in light of its consequences for their purpose.

## **Enablers and Barriers to the Transition**

The data show that the Sugar Group Companies apply mostly PA and HRM practices and in the near future they do not have any intention to apply SHRM practices. Meanwhile, Companies A, B, and C are in a transition period to apply SHRM practices.

Company A will change its roles from "operational holding" to "investment holding" in near future. To do that the Company developed a five-year plan and one of them is to apply competency-based HRM. Meanwhile, Company B starts the application of SHRM practices by developing and applying competency-based HRM systems and Personnel Information System, whereas Company C conducted reorganisation in mid 2003 and restructured the HR Division to support the application of SHRM practices.

Besides these, in all companies the enabler of the transition from PA to SHRM practices is high commitment of the Directors, HR Managers, Line Managers, and HR staff to conduct the transition process. But each Company has some barriers too, such as data availability, not on line connection, unqualified employees, readiness for the changes, and unclear Company's direction. Whilst the Companies identified the barriers, in most cases they had also developed a range of solutions or plans to address these concerns from HRM and SHRM perspectives.

## **Conclusion**

The research's findings on HR practices in seven large Indonesian companies in this 'developing' economy, might have expected to find them to be static, simplistic, and linear. But the reality is clearly that there are movements and transitions occurring both within and external to the companies. The linear approach is evident in PA practices but not HRM and SHRM practices. Within the literature traditional HR theory usually proposes a traditional linear approach to company practices. Many theories take the linear approach, which is predictable, stable, and controlled. This is not supported by the findings in this study. Instead the case study companies provide strong evidence of being more like complex adaptive systems (CAS) with multiple transitions. Organisations that exhibit CAS are characterised by being flexible, innovative, creative, adaptable, and able to dismantle the system if necessary. This study shows that such organisations are not confined to the 'more developed' world. The results indicate a need for further exploration using chaos

and dissipative structures theories which will enable us to reflect more deeply on organisational practices within their reality of a turbulent environment.

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