

STAKEHOLDER THEORY AND THE ETHICS OF HUMAN RESOURCE MANAGEMENT

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Abstract

The term 'stakeholder' has become ubiquitous in government, commercial and community spheres. There is a myriad of understandings and definitions of whom or what is a stakeholder in a corporation. Employees are almost exclusively seen as having a moral stake or a claim in the organisation in which they work; however, the nature of the stake held by employees and the implications of depicting employees as moral stakeholders have not been extensively considered in the literature. If employees can be seen as stakeholders, then the organisation-employee relationship may be viewed as an organisation-stakeholder relationship and the management of employees may be considered as stakeholder management. This paper will address the question of whether (or how) our understanding of the ethical management of employees as human resources can be informed and developed by stakeholder theory.

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STAKEHOLDER THEORY AND THE ETHICS OF HUMAN RESOURCE MANAGEMENT

Interest in the ethical implications of HRM is fairly recent but appears to be increasing (Winstanley & Woodall, 2000a, 2000b). There are many possible explanations for this growing interest: the rise of the size and power of the corporate form, the decrease in regulation in the workplace and demise of unionisation in industrialised countries, the growing use of employment in third world countries, the increasing interest and power by advocacy groups in curtailing corporate excess and holding corporations accountable for their actions.

Scholars in the field of business ethics have considered employees and the employment relationship a high priority for some time, though little consideration has been given to HRM *per se*. The focus of extant debate tends towards the rights of employees and the procedural justice of employment practices, rather than on the relationship between the organisation¹ and its employees. Stakeholder theory, in contrast, attends to the relationship between the organisation and its constituent groups, of which employees are considered a prime group (Freeman, 1984). Hence, the purpose of this essay is to explore the extent to which stakeholder theory can assist in understanding the ethics of managing the employment relationship.

This chapter is divided into the several sections. The first will review the development of the ethical perspective of HRM and, in doing so, note the absence of any substantial debate of stakeholder theory. The second section will introduce stakeholder theory, by outlining its emergence as an important force in managerial theory and providing an overview of its fundamental principles. Stakeholder theory will be identified as being based on pluralist ideology. Next, the debate about the identification and classification of stakeholders and nature of the stakeholder relationship will be outlined with particular reference to employees as 'claimant' stakeholders. The nature of the 'stake' will be considered. Criticisms of stakeholder theory, particularly the limitations of its pluralist foundations, will be identified.

The third section will focus on the nature of stakeholder relationships, particularly stakeholder engagement. The notion that the relationship with claimant stakeholders (such as employees) places specific moral demands on managers will be posited. Further, it will be argued that managing or engaging with employees is not an inherently moral practice and, as such, should be understood as separate from responsible or moral treatment of employees. Building on this, the possible relationship/s between employee engagement and the moral treatment of employees will be deliberated. Finally, the implications of this for our understanding of ethical HRM will be explored.

THE DEVELOPMENT OF AN ETHICAL PERSPECTIVE OF HRM

The debate on ethical issues in the employment relationship can be linked to two extant debates in employment. First there are 'critical' writers, many of whom draw from theories of labour process. For example, writers have exposed HRM practices as objectifying individuals (Townley, 1993), as suppressing resistance and confrontation (Sennett, 1999), as creating a new reality through its rhetoric (Keenoy & Anthony, 1992), in short, as manipulating employees. These writers tend to eschew adoption of normative stances. Questions such as 'is this right or wrong?' or 'how should organisations behave?' do not seem to be addressed by these researchers. The fact that the way employees are managed may invite ethical scrutiny appears to have been overlooked (Winstanley & Woodall, 2000b). It is interesting to note that, in the field of industrial relations, Provis (2001) suggests a number of reasons for resistance of ethics as a form of enquiry: positivists are likely to see ethical statements as meaningless on the grounds that they are not matters of definition nor

¹ This chapter will use interchangeably the terms of 'organisation' and 'managers' (whereby managers are seen as agents of the organisations). To suggest that there is a relationship between the organisation *per se* and its stakeholders is to assume, to some extent, that the organisation is a moral actor. Some implications of doing so are discussed later in the chapter.

can be empirically verified; postmodernists would be unconvinced about an absolutist stance or the possibility of insight into 'reality'; and Marxists oppose both morality and religion on the grounds that they represent bourgeois interests.

Legge (1995; 1996) is recognised for introducing ethical analysis to debate on the gestalt of HRM. Her writings bring theories of moral philosophy to the traditional industrial relations style debate. She uses both teleological (consequentialist) and deontological (non-consequentialist) ethical theories to evaluate various forms of HRM. Winstanley and Woodall, together with a number of colleagues, have further developed the field in considering ethical implications in areas such as performance management, human resource development, and employee remuneration.

The ethical debate in HRM has followed the mainstream HRM debate in that it tends to two extremes: macro-level and micro-level. Research in the area has focused on the dissection of individual practices or debating the totality of HRM as 'ethical' (Winstanley & Woodall, 2000b). At the micro-end of the scale, the ethical assessment of individual practices mirrors the traditional functional approach (Wright & Boswell, 2002) of single practice research at the individual level. In the HRM arena, policies and practices ranging from recruitment to retrenchment are grist for the equity and justice mill (see, for example, (Miller, 1996; Vallance, 1995). From the perspective of business ethics, individual employee rights and responsibilities are common areas of concern (see for example (Beauchamp & Bowie, 2004). However, we are cautioned that reductionist research may suffer from losing sight of the end goal as the research becomes more and more focused on a narrowly defined phenomenon (Wright & Boswell, 2002). For instance, mere lists of employees' rights can be ambiguous and, as such, open to a variety of interpretations and applications (Rowan, 2000).

At the macro end of the scale, the main subject of ethical scrutiny is HRM as a system. This analysis corresponds to some extent with the strategic HRM focus on multiple practices at an organisational level (Wright & Boswell, 2002). The two prime areas of research in the subfield – the link between HRM practice and performance (Wright, Gardner, & Moynihan, 2003) and the classification of HRM practices (Wright & Boswell, 2002) - open themselves readily to the ethical debate. In the first instance, corporate performance may be interpreted in the broader sense by those interested in the social and environmental outcomes of HRM practice. Similarly, the classification of HRM practices may be conceptualised differently by those concerned with ensuring the rights of an employee to autonomy and the determination of their future. It also has the potential to go beyond the limitations of these methodologies to 'identify' and 'fix' HRM (Keenoy, 1999) by consideration of the totality of HRM, within the context of the corporate form and at the societal level.

Stakeholder theory is conspicuously absent from discussions within the ethical HRM literature (see for example (Winstanley & Woodall, 2000b). The notion that the 'stakeholder' status of employees is of significance to the ethical debate has been raised only recently and briefly (Matten & Crane, 2003; Winstanley & Woodall, 2000a). Some might argue that the absence of stakeholder theory from the ethical HRM literature is a reflection of deficiencies in the theory. Yet, at the very least, the stakeholder framework has become a powerful and pervasive heuristic for the understanding of organisational relationships. Indeed, the view that employees are legitimate stakeholders in the organisation is often taken for granted either explicitly or implicitly in both fields of HRM and business ethics (see for example (Freeman, 1984; Legge, 1998), by practitioners (Efron, Gandossy, & Goldsmith, 2003) and by organisations (Westpac Banking Corporation, 2002). In this chapter, we seek to further the ethical debate of HRM at the macro-level through the introduction of stakeholder theory.

STAKEHOLDER THEORY

The Rise of the Stakeholder Concept

"If the word 'stakeholder' were a person, it would be just coming into its prime. Born in 1963, it has accumulated experience in influential position and ought to be prepared for some serious responsibility" (Slinger, 2000: 31). The term 'stakeholder' was first used in 1963² with the intention of generalising the notion of stockholders as the only group to whom management needs to be responsive (Slinger, 2000: 31). More recently Freeman has admitted that the word stakeholder is "an obvious literary device meant to call into question the emphasis on 'stockholders'" (Freeman, 1999: 234). The concept was defined as "those groups without whose support the organisation would cease to exist" and originally included shareowners, employees, customers, lenders and society (Freeman, 1984: 31-32).

The stakeholder concept has grown in prominence over recent years due to increased coverage in the media, public interest and concern about corporate governance, and its adoption by 'third-way' politics (Metcalf, 1998). The popular use of the term culminated in a speech given by Tony Blair whilst he was leader of the UK opposition Labour party in January 1996³. According to Freeman and Phillips (2002: 332) "the past 15 years has seen the development of the idea of stakeholders into an 'idea of currency'". It is now used as everyday terminology in business (examples include Australian Stock Exchange (Australian Stock Exchange, 2001; Business Council of Australia, 2003; Westpac Banking Corporation, 2002). The elevation of the concept has been somewhat less dramatic in the academic literature. This represents a rare case where philosophical terminology has become part of the popular lexicon (Bowie, 2002: 2). It is suggested that the examination of practices at the level of social transactions and interactions between organisational members (managers, employees and other stakeholders) could help bridge the gap between academic theory and practice (Cornelius & Gagnon, 1999).

The appeal of stakeholder theory for management theorists is both empirical and normative (Cragg, 2002: 115). Empirically, stakeholder theory "rests on an observation or what we might call a fact" (Cragg, 2002: 115). Organisations have stakeholders that have the potential to influence them both positively and negatively. Likewise, the activities of organisations impact on individuals and collectives whose interests may be affected either favourably or adversely. According to Freeman (1999) stakeholder management is fundamentally a pragmatic concept. Regardless of the content of the purpose of a firm, the effective firm will manage the relationships that are important. Freeman intended stakeholder theory to be conceptually rigorous and prescriptive of managerial actions. It is "inherently prescriptive" in the sense that it "prescribes action for organisational managers in a rational sense" (Freeman, 1984: 47-48). Stakeholder theory may also be considered to be normative, if it conveys the notion that fundamental moral principles may influence corporate activities (Cragg, 2002: 115). This holds the universal appeal of the attribution of morality to both actors and subjects in that it requires that we respect others as human beings and account for our actions towards them.

Principles of Stakeholder Theory

Stakeholder theory is based on two principles that balance the rights of the claimants on the corporation with the consequences of the corporate form. The first, the principle of corporate effects, states that "the corporation and its managers are responsible for the effects of their actions on others" (Evan & Freeman, 2004: 79). This principle is consciously drawn from the modern

² According to Slinger (2000), the term was first used in 1963 in a research report produced by the Stanford Research Institute's Long Range Planning Service.

³ Blair gave "a pledge to create a 'stakeholder economy' in which 'each citizen gets a stake' in the creation of wealth" Preston, R. 1996. The stakeholder speech, *The Financial Times (London)*: 19. He linked the stakeholder economy to a "need to build a relationship of trust not just within a firm but within a society" Preston, R. 1996. The stakeholder speech, *The Financial Times (London)*: 19. It was seen as the foundation of his attempt to forge a distinctive philosophy and image for New Labour.

moral theory of utilitarianism. Utilitarianism is based on the writings of Jeremy Bentham (1748-1832) and John Stuart Mill (1806-1873). Utilitarian theories hold that moral worth of actions or practices is determined solely by their consequences. Utilitarianism is committed to the maximisation of the good and the minimisation of harm and evil (Beauchamp & Bowie, 2004). Therefore, a corporation is seen as responsible for its impact in all areas that would necessarily include its social impact.

The second principle, namely the principle of corporate rights, states that “the corporation and its managers may not violate the legitimate rights of others to determine their own future” (Evan & Freeman, 2004: 79). This principle is drawn from the deontological ethical theory of Immanuel Kant (1724-1804) based on the respect-for-persons principle that persons should be treated as ends and never only as means. Respect for human beings is demanded because human beings possess a moral dignity and therefore cannot be treated as if they merely have conditional value. ‘Respect for persons’ has sometimes been expressed in corporate contexts as ‘respect for the individual’ (Beauchamp & Bowie, 2004). The implication is that the corporation must treat its stakeholders as rational beings with a right to pursue their own interests without undue interference.

Significantly, stakeholder theory is underpinned by an assumption of diversity in the interests of the stakeholder groups. Interests refer to “the purposes of particular individuals or parties” (Provis, 1996: 473). Interests can be distinguished from values, in that values “conceptualise needs and desires... as valid claims” (Provis, 1996: 474). According to Rokeach (1979, cited in (Provis, 1996: 479):

Interest is obviously a narrower concept than value. It (an interest) cannot be classified as an idealised mode of behaviour or an end-state of existence. It would be difficult to argue that an interest is a standard or that it has an ‘ought’ character.

In order for employees and management to work together, it is necessary for them to have at least some significant interest in common. It is necessary for individuals to have shared values to construct a group identity, but it is not necessary for them do so in order for them to interact in the process of production.

Stakeholder theory assumes that stakeholders are distinct groups with their own valid needs and interests with respect to the organisation. Hence, stakeholder theory is fundamentally based on pluralist ideology. Traditionally, the field of industrial relations distinguishes between unitarist, pluralist and radical ideologies. The principles of stakeholder theory are in keeping with the pluralist assumptions that labour is more than a commodity or factor of production, that there exists inequality of bargaining power between employers and employees in imperfect labour markets, that employers and employees are likely to have differing goal and as such there is likely to be conflict between the parties, and that employee voice is important in a democratic society (Budd, 2004).

What is a Stake and Who is a Stakeholder?

The issue of which groups or individuals are identified as organisational stakeholders is of much greater significance than may be apparent. This question is vital because of its implied assumptions about the moral relationship, or lack thereof, between an organisation and its stakeholders. From a theoretical point of view, stakeholder identification is fundamental to any debate about the nature of the relationships between organisations and stakeholders. From a practical point of view, it is an immediate and observable way of ascertaining the broader posture of an organisation towards its stakeholder relationships (see Miles & Friedman, 2003).

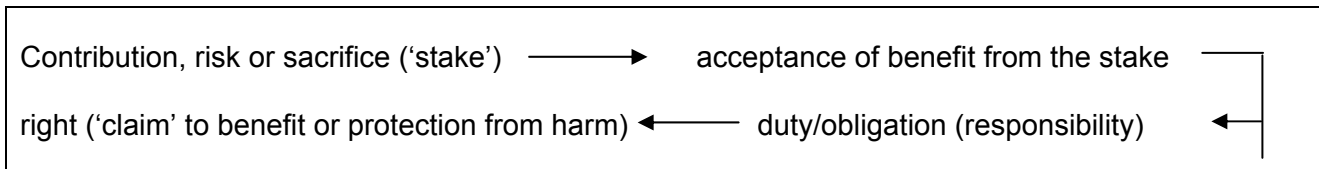
Stakeholder theory offers a ‘maddening list of signals’ on how the questions of stakeholder identification can be answered (Mitchell, Agle, & Wood, 1997). These include stakeholders identified as primary or secondary; as owners and non owners of the firm; as owners of capital or owners of less tangible assets; as actors or those acted upon; as those existing in a voluntary or

an involuntary relationship with the firm; as right holders, contractors or moral claimants; as resource providers to or dependents of the firm; as risk-takers or influencers; and as legal principles to whom agent-managers bear a fiduciary duty (Mitchell et al., 1997). The methods by which stakeholders are defined reflect particular views of the stakeholder conception. For example, a classic definition of a stakeholder as “having something at risk on the firm” is both derived from, and forms the basis of, Phillips’ risk-based stakeholder model (Phillips, 1999: 33).

In a bid to make sense of this assortment of ideas regarding stakeholder identification, the various definitions have been categorised. Freeman (1984) suggested that definitions of stakeholders could be described as ‘narrow’ or ‘broad’. The narrow definitions included groups who are vital to the survival and success of the organisation (Freeman, 1984). The broad definition included any group or individual that can affect or is affected by the corporation (Freeman, 1984). It is tempting to see the broad definition of stakeholders as the more moral or responsible definition. The inclusion of the category of stakeholders who are affected (as opposed to those who merely affect) the organisation suggests a moral relationship absent in the narrow definition. However, Phillips (1999: 32) holds that that “stakeholder theory is meaningless unless it is usefully delineated”. Demarcation of stakeholders is necessary to allow for a moral relationship between the organisation and its stakeholders by excluding those stakeholders without a moral stake.

According to Phillips (1997), the acceptance of the benefit of another party’s sacrifice or contribution generates an obligation to that party that in turn generates a right of that party to the fulfilment of the obligation (see Figure 1). It follows that if a contribution is made or risk taken, and this contribution or risk is accepted by the other party, then this party is obliged to return a benefit (or protection from harm) to the risk-taker. Thus the act of contributing a stake (if accepted) confers rights to the stakeholder. Correspondingly, the act of accepting the contribution from the stakeholder imparts responsibilities on the organisation.

Figure 1: The Relationship between Stake, Rights and Responsibility



Rather than conceive of stakeholders in either a narrow or broad sense, it may be more useful to consider definitions as depicting the stakeholder as either moral or strategic. Kaler (2003) argues that, by dividing definitions of stakeholders into ‘claimant’ definitions and ‘influencer’ definitions, the moral duties of the organisation can be greatly clarified. Definitions of stakeholders as claimants imply that the business owes perfect or imperfect duties to these stakeholders and, as such, are seen as ‘moral’ definitions. In contrast, definitions of stakeholders as having an influence on the organisation, as being influenced by the organisation, or as mutually influential, hold only strategic considerations and thus are seen as morally neutral⁴. It should be noted that according to this classification, Freeman’s original definition of stakeholders as being “any group or individual who can affect or is affected by the achievement of organisation objectives” (Freeman, 1984: 46) is

⁴ Claimants can of course be influencers/influenced. Indeed, it can be argued that claimants must affect or be affected. Kaler (2003) notes that there is there seems no point in having a claim against anyone or anything which cannot affect you in any way. Importantly, the opposite, however, does not hold true. To be influenced does not mean that you have a claim. If it were true then we would be subject to claims up to the limit of our capacity to affect other people. In addition, everything we could do by way of affording benefit and protection to others we would be required to do. The same would follow for businesses. In practice, however, what we are required to do falls short of what we could do. Thus, all claimants are influencers but not all influencers are claimants. As such any definition that includes a combination of influencer and claimants concepts is a “very confusing equivocation” (Kaler, 2003)

clearly an 'influencer' definition. (Slinger, 2000: 68) asserts that this definition is "does not say all he (Freeman) would like to say" and is "simply not strong enough".

Employees as Stakeholders

Employees are identified as stakeholders in the organisation from almost all stakeholder perspectives. Employees are closely integrated with the firm and this gives them a "peculiar role among stakeholders" (Matten & Crane, 2003: 224). They contribute to the firm in the most fundamental ways. The employees actually 'constitute' the firm: they are many cases the most important factor or 'resource of the corporation, they represent the company towards other stakeholders, and they act in the name of the corporation (Matten & Crane, 2003). In addition, they are greatly affected by the success or failure of the firm. Employees often make a considerable commitment of investment in taking a job that may include a geographical move, a change in relationships or investment in training. Employees may become financial dependent on organisations overtime. The company is likely to form the basis of their economic livelihood through their income or share ownership. Given the investment in time and effort individuals often place in their jobs and careers, they may also depend on their work for social relationships, self-identity and self-actualisation (Matten & Crane, 2003). Hence, even according to the narrowest of definitions, employees can be identified as moral 'claimant' stakeholders (Kaler, 2002).

From the organisation's perspective, employees have significant influence on the firm and are considered highly salient. It is noted that individuals and groups often belong to more than one stakeholder category (Greenwood, 2001). An employee also may be an owner (this is institutionally determined where there are employee share ownership schemes), a member of the local community, a manager in the organisation, active in a union or a combination of these. In addition, stakeholder groups are rarely homogenous (Greenwood, 2001) Given the diversity of the workforce, in an organisation there are likely to be individuals from different racial and cultural backgrounds, with family circumstances, with different physical abilities and limitations or employed under different work arrangements. Such individuals may have markedly different interests in the workplace. They must, however, share a number of elemental interests in order be considered a stakeholder group.

Criticisms of Stakeholder Theory

The stakeholder concept has attracted attention in recent years. At a minimum the stakeholder concept has provided a new depiction of the firm, a powerful heuristic by which to reconstruct our understanding of the corporate form. According to some, however, the stakeholder theory of the firm "has been advanced and justified in the management literature on the basis of its descriptive accuracy, instrumental power, and normative validity" (Donaldson & Preston, 1995: 67). Stakeholder theory has acquired opponents from various sides of the ideological divide, critiques from the right and the left (Stoney & Winstanley, 2001), from friend and foe (Phillips, 2003).

The loudest critiques of stakeholder theory have come from the right, those associated with neo-classical economics, unitarist industrial relations, and managerialism. Derived from classical Friedman principles writers such as Sternberg (1997) have argued that the principles of stakeholder theory undermine the property rights of the owners of the company, compromise the mechanisms of the free market, destabilise the operations of government, thus, in short, subvert the very nature of capitalism. These arguments have been well documented elsewhere (Phillips, 2003). They also have been resoundingly refuted on a number of fronts (Freeman & Phillips, 2002).

More significant to this debate, however, are the critiques of stakeholder theory from the left, those associated with radical or Marxist philosophies. These criticisms focus on the potential for stakeholders, primarily employees, to be co-opted and controlled by stakeholder management. These arguments are not new, and echo similar criticisms of previous employee engagement practices such as total quality management (TQM), employee participation, and team building.

Stoney and Winstanley (2001) note that established Marxist criticisms of pluralism are applicable to stakeholder theory: That stakeholder theory is limited in its explanation of how the different interests of stakeholder groups arise and are generated in society; that stakeholder theory provides an overly-simplistic conceptualisation of power as a commodity that can be negotiated between the organisation and stakeholder groups; and that stakeholder theory assumes the separation of economic and political processes. Particular emphasis is given to the “utopian and naïve” treatment of power as a “positive sum commodity over which management can arbitrate in order to manufacture a win-win compromise between competing stakeholders” (Stoney & Winstanley, 2001: 611).

Indeed, stakeholder theory tends to sidestep the issue of power, making few overt references to the concept of power, as is the case for many theories of collaboration, (Everett & Jamal, 2004). An exception to this is the work by Mitchell et al. (1997) who conceive of power in a very narrow sense as an attribute held (or not held) by particular stakeholder groups. Power is an important concept for the understanding of organisations and organisational leadership (Pfeffer, 1992) and organisational collaboration (Everett & Jamal, 2004). Pfeffer (1992) warns that, despite the ambivalence and disdain exhibited towards the debate of power in organisations, power exists and will be used and abused. The importance of power within a stakeholder depiction of a ‘moral’ employment relationship will be addressed in the following section.

STAKEHOLDER RELATIONSHIPS AND MORAL RESPONSIBILITY

If it is accepted that ‘claimant’ stakeholders have a moral relationship with the organisation then the nature of this relationship must be explicated. The principles of stakeholder theory, when applied to the activities of investor-owned companies, require that “managers acknowledge that all corporate stakeholders have equal moral status and acknowledge their status in all their activities” (Cragg, 2002: 115). Stakeholder theory does not give primacy to one stakeholder over another, though it is acknowledged that at times one group may benefit at the expense of another. The role of management is to balance multiple claims of conflicting stakeholders. Thus, a guiding principle for stakeholder management is that, as the corporation is managed for the benefits of its stakeholders, the “rights of stakeholders must be ensured through their participation in decisions that substantially affect their welfare” (Evan & Freeman, 2004: 82). A second principle is that, as the managers bear a fiduciary duty to the stakeholders as well as the corporation, “management must act in the interests of the stakeholders as their agents” (Evan & Freeman, 2004: 82). In short, managers must act in the interests of stakeholders and management must engage stakeholders in decision making.

Employee Engagement

Employee engagement practices are a significant feature of many organisational approaches to HRM (Efron et al., 2003). For example, Luthans and Peterson (2002) report the example of the Gallup Organization’s research in over 2,500 units, using the Gallup Workplace Audit (GWA) to measure employee engagement. It is often implied that these practices are of benefit, indeed in the best interests of, employees (Efron et al., 2003; c.f. Rothschild, 2000). Employee engagement is taken to mean the intention and actions on behalf the organisation to include employees in various aspects of the workplace whereby the employees respond by becoming involved. Hence, employee engagement as seen as a reciprocal activity, albeit one that is, to a large extent, initiated and controlled to the organisation. This definition follows that of stakeholder engagement (Beckett & Jonker, 2002) and is somewhat different to the employee centred definition derived from HRM, whereby employee engagement is seen as the extent to which employees are cognitively and psychologically connected with others and how this affects their involvement in task performances in the organisation (Kahn, 1990).

Employee engagement practices can include a range of activities which vary as to the amount of employee control (Blyton & Turnbull, 1998), from employee participation (low control) to employee

empowerment (high control). Generally, these practices imply an increased employee input into decision making, increased employee control over resources, increased employee self-regulation and authority— in short, increased employee discretionary power (Claydon & Doyle, 1996). There is, however, scepticism as to the amount of true ‘power’ afforded employees, even at the ‘empowerment’ end of the spectrum (Wilkinson, 1998).

There is an apparent soundness of logic to the supposition that the more an organisation engages with its employees, the more responsible and accountable that organisation is likely to be towards these employees. Indeed, there is a “moralistic theme” in the employee empowerment literature (Claydon & Doyle, 1996: 13). The suggestion, however, that engaging with employees is an inherently responsible action on the part of the firm is fallacious. Just because an organisation attends to employees does not mean it is responsible towards them. Likewise, just because an organisation does not engage with employees does not mean that the organisation is not responsible towards them. Such assumptions do not account for the propensity of the organisation to act in self-interest, particularly where there is a large power imbalance in the favour of the organisation. Claydon and Doyle (1996: 16) note that: “The language of empowerment, like the HRM discourse more widely, slides between deontology and ethical egoism”. Hence, it is posited that employee engagement does not equate with moral responsibility.

To suggest, however, that employee engagement is amoral is somewhat simplistic. There are some moral elements to employee engagement, predominately the attribution of some free will and respect to the workers and existence of some element of procedural justice of the process (Rothschild, 2000). Clearly, unless employees are to some extent voluntary and active in the process, and the process is seen as fair and just by them, then engagement cannot be said to occur (the process would be more akin to manipulation or indoctrination). However, there are other ‘moral’ elements that may be assumed or implied as part of engagement process (employee involvement as being necessarily ‘good’ for employees) that are not necessarily present. The intent of the actors may be taken for granted erroneously. Just because someone communicates or consults with another does not mean that they have any interest in fulfilling the other’s desires or wants. In the organisational setting, employee participation in decision making is rarely undertaken to achieve the goals of the employees, but rather done to further the objectives of the organisation. Likewise the virtue of the actors may be incorrectly assumed. Just because a manager acts in a fair and respectful manner in an engagement process does not mean that these are virtues that they value or nurture. Finally, it is often incorrectly assumed that the outcome sought is that which will provide the best utility for all parties involved. A conflation between the justness of the process (procedural justice) and the justness of the outcome (distributive justice) may occur. Once more, the power differential between the parties, and the potential for abuse of power under such circumstances, has not been taken into account. Thus it is claimed that the engagement process per se should be considered as independent of the intentions of the actors, the virtue of the actors and the fairness of the outcomes and, as such (with the qualification identified earlier), can be depicted as largely morally neutral or unaligned (as opposed to amoral or value-free).

If employee engagement is considered as independent of the moral treatment of employees then the questions arises: how are the engagement of employees and the moral treatment of employees related, and what is the influence of power on the relationship? The issue of what constitutes moral treatment of employees is of course central to ‘ethical’ HRM and will be addressed at some length in the following section.

Employee Engagement and ‘Ethical’ HRM

By separating engagement from moral treatment we allow for a number of diverse relationships between the organisation and its employees. There is the possibility that an organisation has no concern in either engaging with its employees or acting in the interests of its employees. Next, there is the possibility that an organisation may act in what it believes to be the interests of the employees without consulting its employees. Also, there is the possibility that an organisation may engage with its employees with the intent of acting in these employees’ interests, and the counter

possibility that the organisation may engage with its employees without the intention of acting in the employees' interests.

Employment at Will

First, there is the scenario of neither engagement nor moral treatment. This is in keeping with the narrow conceptualisation of the firm as a nexus of economic exchanges and is consistent with unitarist ideology. It is the view of Duska (2004) that the company should not be seen as an object of loyalty or having any moral status. Given that the goal of profit is the reason that the company is brought into existence, loyalty to a corporation is not only not required, but likely to be misguided. The company's only concern is to manage its assets to obtain the goals of its owners and the workers' only concern is to get the best working conditions they can. An employer will release an employee and an employee will walk away from an employer when it is profitable for either one to do so (Duska, 2004). Under these conditions 'hard'⁵ HRM would seem ideal. This would involve a clear and voluntary contract involving exchange of labour for payment and minimal work conditions. The implications of such a 'contract' are that the organisation would have no moral obligation distinct from its legal obligations to the employee. Likewise the employee would have no moral obligation to the employer, for example, in a case of breaking confidentiality or whistleblowing. Clearly, in this situation, HRM practice and policy would be entirely strategic in nature. The possibility of an entirely voluntary exchange, however, makes a number of assumptions about the employee's free will. It has previously been noted that employees tend to have significant investments in their employment relationship. Freedom to enter and exit from an employment contract would be dependent upon a number of personal and environmental contingencies, such as the marketability of the employee's skills, the rate of unemployment, and the employee's financial circumstances. Employees who take care of themselves by having a diverse set of skills that are tradable in the open market are the atypical elite (Jacoby, 1998). Likewise, the company may face encumbrances that would limit its freedom in such an 'economic' exchange. Given the resource differential between the parties, however, it is far less likely for employees to be acting in a truly voluntary manner.

Paternalism

Next, we allow for the possibility for a company to act in the interests of employees without necessarily engaging with them. This traditional version of social responsibility may take the form of paternalistic management practices towards employees or philanthropic donations to the community. Paternalism in the employment relationship is hardly a new or radical concept. Its roots lie deep in the past when employers provided for the welfare of their employees (Jacoby, 1998). Whilst HRM may be seen in part as a replacement of traditional paternalism, we are cautioned that employer paternalism is not dead; it is just changing in nature (Jacoby, 1998). Sennett (1999) encourages us to see virtue in the dependency of the employee on the employer, and suggests that moves away from social inclusion in the workplace are detrimental to employees. Reliance on a paternalistic style of employee management has significant risks. According to Purcell (1987), such paternalism restricts the freedom of individuals by imposing well-intended regulation and is midway between treating an employee as a commodity and treating an employee as a resource. Whether the company can know or will respond to the interests of employees without the employees' involvement is highly questionable. If the employer can choose to be benevolent, they may also choose not to be, as has been suggested to be often the case in times of economic downturn (Jacoby, 1998). There are, of course, scores of temporary and casual workers whose work is typically beyond the reach of paternalist management. Thus, it is contended that ethical management practices must go beyond acts of benevolence.

"Ethical" Human Resource Management

When employee engagement combines with moral treatment of employees, we have a scenario of 'ethical' HRM. It is this combination of stakeholder engagement together with 'moral' treatment of stakeholders that often is implied by 'ethical HRM'. According to stakeholder theory it is incumbent on the organisation to treat its employees as an end in their own right and to bear the

⁵ This follows the classic 'ideal types' of 'hard' and 'soft' HRM as depicted by Storey (1987).

consequences of its behaviour toward employees. This stance is consistent with pluralist assumptions of the employment relationship. The parties have entered into a 'contract' with consent and voluntary action. The organisation has positive obligations by virtue of its acceptance of the benefits of employees' contribution (and vice versa).

Employees have the fundamental rights to liberty and safety within the work place including: freedom of association, the right to organize, collective bargaining, abolition of forced labour, equality of opportunity and treatment, and other standards regulating conditions across the entire spectrum of work related issues (International Labour Organisation, 2004). Bowie (1998) argues beyond this, suggesting that employees also have the right to meaningful work. In addition, Rowan (2000) argues the employee has the right to 'respect', in which he includes the rights to freedom, well-being and equality. This view of ethical HRM implies that the organisation will not only act in the interests of its employees and do so with the intent of furthering those interests, but also involve employees in decisions regarding those interests. In the light of these claims it is clear that demands on the organisation of ethical HRM are very high. The essential questions of why the company would undertake such morally demanding and economically costly practices and, indeed, whether a company should the company undertake such practices remain unanswered⁶.

"Unethical" Human Resource Management

Finally there is the likelihood that organisations will engage employees not with the purpose of furthering the interests of the employee group but rather with the intention of furthering the interests of another group, that of the shareholders. Similar to employment at will scenario of no engagement/ no responsibility, employees would be treated entirely strategically. However, unlike the earlier instance, this would not be necessarily clear and unambiguous. Similar to the 'ethical' scenario of engagement/ moral treatment there may be the suggestion of moral treatment. The employee empowerment literature abounds with apparent moral rightness for both organisation and employees (Claydon & Doyle, 1996). However, unlike the earlier instance, the consent of the employee and voluntary nature of the contract cannot be assumed. (Claydon & Doyle, 1996: 23) found that: "empowerment is voluntary but not optional", meaning that it demands the voluntary exercise of employees' capacities, but there is no option to refuse this demand'. Grave doubts are thrown on the purported nature of such practices with Wilkinson suggesting that "management have defined the redistribution of power in very narrow terms...strictly within an agenda set by management" (Wilkinson, 1998: 49). Thus, there is an apparent conflict between the pluralist overtones of employee engagement practices and the unitarist reality of powerful corporations acting in self interest. This 'double edged sword of 'soft' HRM practices has been noted (Greenwood, 2002). In the words of Claydon and Doyle (1996: 15), "Labour is required more than ever to be both committed as a productive subject and disposable as a commodified object".

The gap between the rhetoric and reality of HRM has been well documented and explored (see Legge 1995). The possibility that this gap is an indication of manipulation misleading deceptive behaviour is raised. Decades ago, Friedman (1970) noted what he saw as potential fraud on behalf of the company:

There is a strong temptation to rationalize actions as an exercise of 'social responsibility'... for a corporation to generate good-will as a by-product of expenditures that are entirely justified in its own self-interest... I can express admiration for those (corporations) who disdain such tactics as approaching fraud.

⁶ Are these correct demands to make of a corporation? This raises the question of whether or not ethical HRM is in fact an appropriate responsibility of business. Comprehensive debate over the purpose of the organisation is beyond the scope of this essay; however, for comprehensive coverage of the 'no' argument, see Sternberg (1997).

In purporting to care for the interests of employees, with the true intent of furthering the interests of the shareholders, the organisation risks acting in a deceitful and manipulative manner. Such action would violate the basic principles on which stakeholder theory has been developed: the right of the stakeholder to pursue their own interests, and the responsibility of the corporation to ensure that the outcomes of corporate action benefit the stakeholders.

There is within the business ethics literature a tendency to attribute unethical behaviour to failure or absence of moral perception or reasoning (Seabright & Schminke, 2002), that is, a passive act of omission. Seabright & Schminke (2002) argue the antithetical view that malevolence can be an active, creative or resourceful act. They posit that unethical behaviour could be based on an 'immoral imagination' reasoning process that includes sensitivity, judgement, intention and implementation and as such be an action of commission. Given the power base of most organisations, and the sophisticated resources available to them, the likelihood that stakeholder engagement practices are actively employed to control and manipulate stakeholders must exist. Hence this form of HRM would not necessarily be amoral but may well be considered immoral or unethical. Thus, there is a concern that employee engagement, rather than reflecting moral treatment of employees, may signify unethical management of employees.

IMPLICATIONS OF STAKEHOLDER THEORY FOR ETHICAL HRM

Stakeholder theory offers the potential to conceptualise the organisation-employee relationship as a moral relationship and the employee as a moral 'claimant' of the organisation. As moral claimants, employees have the right to pursue their own interest, and to be engaged in decisions that affect these interests. It has been established, however, that engaging with, or attending to, the need of employees is not a sufficient condition for the relationship between the organisation and its employees to be considered moral. The organisation, in fact the managers, have too much discretionary power for any such assurance. The reason or reasons why the organisation engages employees, that is, the intent of the managers, may well be a mitigating factor in the existence of a moral relationship. Is the company engaging with the employee to further the interests of the employee or to further its own interests? Alternatively, the relationship may be mediated by trust (Peccei & Guest, 2002) or trustworthiness as a virtue of the organisation or managers. Are they likely to be 'good' or 'bad' people who do 'good' or 'bad' things, who use or abuse the power at their disposal (Pfeffer, 1992)? In order for stakeholder theory to fully explicate the ethicality of the management of 'human resources' it will need to account for the power imbalance in the employment relationship and, therefore, potential immoralities.

LIMITATIONS AND CONCLUSION

The discussion has been founded on two organisational constructs: stakeholder engagement and organisational moral treatment of stakeholders. Although these constructs were briefly described in the essay, they are worthy of much greater attention. In particular the construct of moral treatment requires development. In defining organisational moral treatment as acting in the interest of the employees a number of fundamental problems have been overlooked. First, how is the organisation to determine the interests of the employees? Second, why should one employee's interests be the same as another employee's interests or be the same as the employee's interest next year? The assumption of homogeneity of the employee group is a problem facing research in both the HRM (Wright & Boswell, 2002) and stakeholder areas.

Further more, there is the issue of whether the organisation is a moral actor. This chapter has used interchangeably the terms 'managers' and 'organisations' in discussions of responsibilities and moral actions. In doing so it has, to some degree, attributed the characteristics of a moral person to the organisation. It has been variously argued that the moral status of organizations is absolute, secondary, limited or absent (McKenna & Tsahuridu, 2001). At one extreme it is claimed that organizations have moral personhood and as such their moral responsibility is absolute. At

the other extreme organizations may be seen as amoral structures that are incapable of exercising either moral rights or responsibilities. This chapter adopts the limited or restricted position that the organisation has moral status but it is not equivalent to a person. In taking this stance the behaviours and responsibilities of the organisation have not necessarily been differentiated from the behaviours and responsibilities of the managers in their role as agents of the organisation. Yet, managers are stakeholders of the organisation in their own right. Indeed, 'stakes' held by managers in the organisation can be very influential and complex. This is further emphasised by the fact that managers are often constituents of other stakeholder groups such as employees, owners, customers and the community. Thus, by equating 'managers' and 'the organisation', we risk overlooking some vital features in the debate.

Finally, the development of the constructs as 'one-way' is restrictive. This inquiry has focused on the organisational engagement of employees, and the responsibility of the organisation towards its employees, with no mention of the reverse. This is despite the fact that the notion of employee engagement has an inherent two-way connotation. Also, the significant debate on the moral responsibility of employees towards their employers has been neglected. Setting the discussion in this manner may be justified by its descriptive validity. It is the organisation that sets the agenda. It cannot be assumed that engagement involves an equal dialogue between partners. The ground rules for engagement are more likely to be set by the dominant player (in the absence of an independent referee). It is the behaviour of the organisation that is, in general, the focus of the organisation and its stakeholders. The development of the constructs as descriptive, however, has obvious limitations. In addition, we are cautioned against putting the organisation at the centre of analysis as it discourages consideration of the stakeholders in their own right (Miles & Friedman, 2003) and thus can be accused of colluding in the misdeed we are attempting to expose. The need for research that gives weight to stakeholder voice is manifest.

Stakeholder theory is gaining prominence in many aspects of business and organisational studies. To date, little consideration has been given to the depiction of human resource management as stakeholder management, the employment relationship as a stakeholder relationship, and employees as stakeholders. The theoretical debate in HRM is by no means complete. Many calls for theorising with 'multiple lenses' have been made. It appears timely that stakeholder theory should be drawn into the theoretical debate of HRM, particularly in light of the growing interest in the ethical dimensions of HRM.

The stakeholder concept takes a variety of different forms and has been applied in numerous ways. This chapter has argued that a distinction must be made between the moral treatment of stakeholders and the strategic treatment of stakeholders. Such a distinction has significant implications for HRM. Employees can be viewed 'morally' as individuals with their own rights and interests or they can be viewed 'strategically' as a resource to be maximised by the firm. This notion is not dissimilar to existing models in the HRM literature, such as 'soft' and 'hard' HRM (Storey, 1987; also see Guest, 1987, 1999). There are, however, several advantages of depicting employees as moral stakeholders. First it provides both a practical and normative model for ethical HRM. Rather than automatically inferring 'caring' or 'soft' HRM practices as being ethical (or more ethical than the 'hard' counterparts), ethical HRM has been explicated. In doing so, it is apparent that the demands of ethical HRM are very high in that they include both the moral treatment of employees and the engagement of employees in matters affecting their interests. This raises the important question of whether ethical HRM can or should belong as part of the investor-owned corporation.

Second, by depicted the employment relationship as either moral or amoral (strategic), the possibility of 'immoral' arises. It has been argued that where employee engagement exists in the absence of a moral relationship, the possibility of the 'immoral' treatment of employees exists. Whilst criticism of the rhetoric and practice of HRM exists in many forms, the idea of it being potentially 'immoral' or 'irresponsible' has not been developed. One of the central tasks of business ethics is to explain the "darker side of organisational life" (Seabright & Schminke, 2002:

19). Stakeholder theory has the potential to provide a framework to consider the 'dark' side of HRM and, as such, further the theoretical understanding of this area.

In conclusion, we have explored questions of whether (or how) our understanding of the ethical management of employees as human resources can be informed and developed by stakeholder theory. We suggest that stakeholder theory hold potential to contribute to understanding of the ethical nature of the organisation-employee relationship in several ways.

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