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After economic collapse:

What happened to human resources in Iceland?

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HÁSKÓLI ÍSLANDS

After economic collapse: What happened to human resources in Iceland?

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The role of human resources (HR) is ‘vulnerable to outside conditions’, with the ‘profession being engaged in an on-going search for new bases of power’ (Legge, 1995). This article investigates how the work and roles of HR directors have been affected by the Icelandic economic collapse and the resulting recession, aiming to increase understanding of the HR role and the changes faced by HR directors. The two decades leading up to the 2008 economic collapse provided a somewhat stable economic climate. Nevertheless, the HR profession struggled with a continuous ‘credibility, value and power crisis’ (Legge, 1995), manifesting itself through:

1. Lack of power – no presence at the decision-making level of organizations nor in strategic decision-making.
2. The profession’s inability to demonstrate its contribution through measurable criteria.
3. Lack of clear-cut boundaries of HR’s realm.
4. Role ambiguity and conflict in HR roles.

(Caldwell, 2003)

The HR profession responded by attempting to become a ‘business partner’ or provider of strategic input and influence within the organization (Ulrich, 1997). Examining the HR role during the 2008 economic collapse and recession provides an opportunity to consider what happens to HR – a profession already marked by insecurity – in the context of vast and sudden economic change. As the most serious recession since the great depression of the 1930’s, the 2008 crisis had dramatic effect on organizations and the labour-market. HR’s role became primarily focused on downsizing, cost-cutting and getting more for less.

The long-term effects of economic collapse on the HR role are yet to be determined. The aim of this study is to contribute to such knowledge by asking a number of key questions. Will the recession be utilized as a platform to showcase HR’s capabilities, drawing HR expertise to the forefront by providing strategic input? Will the recession enable the final steps to be taken to embed the sought-after ‘business partner’ role within the organization? This would lend support to Legge’s (1995) argument that HR professionals continue ‘utilizing every opportunity to exploit new basis of power’ and therefore using the volatile economic climate in innovative ways to elevate their role within the organization. Or will we see organizations responding to the recession by reducing or sidelining the HR function by removing it from the decision-making process and leaving HR directors as executors of, rather than contributors to, organizational strategy?

The paper reviews the literature on the role of the HR function, its strategic struggle and how it has been affected by previous recessions. In the second section, an outline of the methodology is followed by a discussion of the results and conclusions.

Literature review

HR is referred to as a ‘chameleon profession’ (Hope-Hailey, Gratton, McGovern, & Truss, 1997) suggesting a constant ‘reinvention of the role to gain legitimacy and power’ (Legge, 1995). A sense of an existential crisis is apparent within the sector: numerous publications outline how HR professionals need to adopt a more strategic role; they focus on the status of the HR function within organizations, or lack thereof. Topics such as HR’s location in the hierarchy and board-level presence have been a point of interest (Caldwell, 2011; Channon, 1997; Guzman, Neelanakavil, & Sengupta, 2011; Lawler & Boudreau, 2009). Indeed, it is evident that a lack of status and power, i.e. not operating at the strategic decision-making level and yet being expected to execute strategic decisions taken by others, has left the HR profession in an on-going search for credibility, legitimacy and power (Guzman et al., 2011). This, along with being vulnerable to outside factors like economic conditions, has shaped the role of the HR professional and made them ‘masters at reinventing themselves’ (Legge, 1995). Evidence indicates that, with the increasing complexity of organizations and more volatile environment, the pressure to do so increases (Caldwell, 2003). Recent events around the economic recession and its temporary and long-term effects on society, the labour-market, organizations and, therefore, on the HR role, are the platform for this investigation.

The role of the HR function and the strategic struggle

Human Resource Management (HRM) is an encompassing term concerned with recruitment, development and management of employees. The foundation of the field is built on individual differences, HR practices being designed based on such differences (Huselid, 2011). In recent years, with the emergence of other methods with similar objectives, like high performance work systems we have seen less consensus about what should be called HRM (Edgar & Geare, 2009). Sceptics question the field’s very underpinnings (Mayrhofer, Brewster, & Morley, 2000), such as HRM’s claim that employees should be treated as an asset as opposed to a cost, since they provide organizations with competitive advantage, and criticize the profession’s inability to prove this in a financially-dominated culture (Caldwell, 2004). Indeed, employees are treated as cost, they are let go even when organizations make huge profits and companies are downsized and relocated for organizations to make more profit (Sikula, 2001; Cushen & Thompson, 2012).

Ulrich’s (1997) model of the HR role is popular with HR professionals and accepted by the academic world, despite the lack of supportive empirical evidence (Lemmergaard, 2009; Caldwell, 2003). The model comprises four HR roles:

1. Administrative expert - ensures that traditional HR activities like recruitment and training are carried out efficiently and timely.
2. Change agent - Makes sure that the organization has the capabilities and resources necessary to handle change.
3. Strategic partner - executes the organization’s strategies in cooperation with managers, focuses on the overall needs of the organization.
4. Employee champion - focuses on employee needs and well-being in order to generate commitment and competence.

These four roles enable the HR function to become what Ulrich (1997) refers to as a ‘business partner’, or more recently the ‘HR-Player’ (Ulrich & Beatty, 2001). Although criticized for its simplistic view of organizations, this model sheds light on the diversity of the HR role and the many hats HR has to wear in order to fulfil its

potential. Ulrich builds on the work of Storey (1992), who in his more function-focused approach to HR identifies four contrasting roles for personnel managers: the advisor (internal consultant); handmaiden (supporting the needs of line managers); regulator (rule-based); change-maker (proactive relations to meet company needs). Here the HR role can potentially focus on both hard business matters and softer people-matters, demonstrating the intrinsic conflict between HR roles. (Caldwell, 2003).

According to Ulrich (1997) the role of HRM is simply to add value and deliver results. To invest fully in this approach, the link between strategic HR activities and organizational performance needs to be established. Some claim that organizations that strategically utilize HR strategies to manage and develop their employees are more successful (Cheese, 2008; Creelman & Ulrich, 2007; Lawler & Boudreau, 2009), while others argue that 20 years of research on HRM and performance have failed to deliver tangible results (Guest, 2011), and there indeed exists a 'black box' between HR practices and organizations' performance (Becker & Huselid, 2006). Such contradictions lie at the heart of HR's credibility and legitimacy struggle (Caldwell, 2003). The divergence in viewpoints leads HR professionals to be vary of completely accepting HRM's ideology (Mayrhofer et al., 2000).

HR has focused on the 'business partner' role with little elaboration on what 'strategic' actually entails. In its basic form, strategic HR involves long-term planning, i.e. where do we go and how do we get there? Buyens & De Vos (2001) claim it entails early involvement in the decision-making process. Others argue that strategic involvement can be 'implementational' (Purcell, 2001) and administrative (Welch & Welch, 2012). The search for a more strategic role has led HR to devolve some day-to-day administrative activities to line managers (Cunningham & Hyman, 1999), with mixed results.

Another pathway to strategic influence is representation on the board or an equivalent decision-making forum. lack of such representation being justified by views of HR's 'non-core function' (Caldwell & Storey, 2007). Caldwell's (2011) study of 1188 UK HR managers reveals that presence on the board does not equate to more power and strategic influence but, rather, provides 'symbolic capital', a confirmation of the profession's contribution to organizational performance. According to the 2009 CRANET survey, 62% of organizations in Iceland have a defined HR function, whilst 70% of HR directors are board-members or executive committee members, compared to 50% in 2003 (Arney Einarsdóttir, Ásta Bjarnadóttir & Finnur Oddsson, 2009). While there is nothing to suggest that the economic collapse has reversed this development, these surveys are reliant on HR managers self-reporting and there might be a temptation to overstate the amount of strategic input provided, especially in the absence of a precise definition of what strategic input is.

HRM in periods of economic recession

Considering how the profession was affected by previous recessions, Legge, (1988) explored the impact of the 1980's UK recession on the HR role. Based on an assessment of a wide range of survey data, Legge concluded that there was a temporary increase in input and power through retrenchment activities, but that the recession had little effect on the profession. Contrastingly, Tyson and Witcher (1994) found that the recession was a major factor influencing the thinking of HR professionals. Even though in many cases the role became more reactive than proactive, the HR functions gained more value and power with an increased emphasis on restructuring and re-sizing. These appear to be contradicting views, but both found an increase in the importance of HR, due to the need for fast cost-cutting activities. Similarly, a study in Ireland after the 2008 recession found that there were no dramatic role changes but that HR managers gained power when it came to decision-making, in the form of

retrenchment strategies and implementing acute cost-cutting measures to 'save' the organization (Roche & Teague, 2012). Contradicting arguments have been put forward with regards to HR's outcome during the 2008 recession, some predict the 'rise' of HR with an increase in importance, power and recognized value of HR's capabilities. Cooper (2009 cited in Brockett, 2010) claims that the recession provides the opportunity for HR directors to step up and lead culture changes in motivating employees in insecure times. Furthermore, Ulrich sees it as a chance for the sector to cement the 'strategic business partner' role (in Brockett, 2010). Others, on a highly speculative note, contemplate HR's decline with the sector being viewed as an obstacle to change and, therefore, in danger of being downsized (Lawler III, Boudreau, & Jamrog, 2010). Empirical studies indicate that economic hardship brings HR's expertise to the forefront in formulating and executing cost-cutting activities. This leads to more emphasis on HR activities and in some sense more focus on the HR profession itself. However, the increased power is potentially mitigated by the acute nature of the retrenchment activities.

Methodology

Being an investigation into the changing role of HR from a prosperous economic time through economic collapse and recession, the purpose of this research lies in understanding the experience of the HR directors who lived through the changes, seeing it through their eyes to gain insight into their understanding. It is based upon an interpretivist paradigm where social interaction is the basis for knowledge, with knowledge being constructed through negotiations and specific to the investigated situation (O'Donoghue, 2007). The interpretivist approach attempts to address the complex and dynamic quality of the social world and allows the researcher to view a social research problem as a whole, by getting close to research subjects, entering into their world and interpreting their perceptions (Leitch, Hill, & Harrison, 2010). The research approach selected is qualitative; a flexible, open-ended research method where the process can steer the researcher into unexpected areas thus provide new insights (Bryman, 2006).

Seven HR directors in Icelandic organizations participated in the study the criteria being their responsibility for HR matters for the time period surrounding the economic collapse. According to Marshall (1996 cited in O'Reilly & Parker, 2012), a satisfactory sample size is one that sufficiently answers the research question, whilst Kunzel (1992) argues that sampling in qualitative research should emphasize the richness of the data and depend on the research topic and available resources. Qualitative research generally builds on non-representative sampling (O'Reilly & Parker, 2012).

The research interviews comprised 14 open-ended questions designed to explore changes in the HR role and responsibilities before and after the economic collapse. Schutt, (1996) states that the use of retrospective interviews are appropriate when the researcher believes participants, can give reliable information. The interview questions were designed to provide structure to the conversation and were asked in a logical order to preserve the flow of the conversation. Some questions were added during the interview to clarify responses and when it was felt there was something more to be said. The data was analysed using the coding systems and techniques detailed by Bryman (2008), consisting of transcription, thoroughly reading the transcribed text, looking for major themes, unusual single event or issue. The next step was naming the codes and systematically going through the text again and coding data. This resulted in the identification of three key themes and several sentiments, covered in the next section.

Results and discussion

Coding and analyzing the interview data identified three key themes and several sentiments, illuminating the roles of HR directors during the economic collapse and recession: status and power; retrenchment methods; and role changes. We now discuss these in more depth.

Status and Power

As noted, one of the persistent focuses in the field of HRM is the HR manager's status within the organization; namely, their value and power or lack thereof. Location within the hierarchy and HR's presence in the board-room has been seen as the ultimate confirmation of strategic input (Caldwell, 2011). Whilst this sentiment is echoed in other professions such as marketing (Malhorta, Peterson, & Uslay, 2006), it is clear that a seat on the board is a persistent desire for HR. Two core views emerged with regards to the importance of HR's presence in the board-room, both with HR directors who had representation there and those who didn't. First, was the strategic input of the HR director on business decisions, HR directors that were members of the board discussed the strategic importance:

No decision, which involves employees – which most of them do – should be taken without the HR person present.

Second is what can be described as the awareness of the potential effects of decisions taken in the board-room on employees and, therefore, employees' ability to deliver. Interestingly, it wasn't necessarily felt that the management held the same awareness, as such, the HR director is present in order to raise that awareness:

One would have thought that they (the management) might understand the effects of their decisions on the employees and how they perform.

The general view was that problem identification and solutions were often established in the board-room, but that the HR director was informed of these *after* decisions had been made, disregarding that they might have input that could mediate the potential effects on employees and therefore the organization. Indeed, HR's presence in the board-room was an important consultation venue for the HR director; gaining knowledge of where the organization was heading was seen to improve the quality of HR's decision-making. The lack of a consultation platform was thus a common concern among those not members on the board. One interviewee who had experience of both being and not being a board member felt the company was losing out on the expertise they could bring:

Basically, I feel the lack of consultation platform' [...] 'It took me longer to understand the business and I honestly, I feel that the organization isn't getting its money's worth with me.

One interviewee reported having an on-paper-only position within the hierarchy; the HR director did not attend board meetings and was not a member of the management team:

In 2007 I was moved up a level within the organizational chart [...] then nothing happened, I think this was just for show, not any intention to combine it with any real changes. They (the management) must have looked at how this was setup in other organizations, seeing this was fashionable ...

The phenomenon of having a position in name only could indeed fall under the aforementioned 70% of Icelandic organizations with HR representation on the board (Arney Einarsson et al., 2009). Being on the same level in the organizational chart as other members of the board does not automatically equate to more power and influence, though it may provide the ‘symbolic capital’ (Caldwell, 2011) from which to engage in, rather than direct, what happens. Indeed, for some there was a sense of intolerance to the discussion of HR and board-room representation. As one interviewee put it:

I agree that the sector should have presence in the boardroom, but a whole sector attending meeting after meeting discussing that, does not interest me. If one decides to work in a support sector, HR isn't core-business; we are not generating revenue. [...] Really we are cost. We can't go walking around like some org-chart victims.

Here we can see the perception of HR as ‘handmaiden’ (Storey, 1992): a service function and therefore not automatically represented on the board (Caldwell & Storey, 2007). It might suggest that the profession has been too focused on boardroom presence, being dismissive of the possibility of HR’s input without this. At the same time, whilst the numbers are too small to say with certainty, the individual HR director’s own perception of HR – following the models of Storey (1992) and Ulrich (1997) – may also shape how they see the role and what they personally strive for.

Retrenchment methods

The theme of retrenchment methods emerged within the topic of strategic input and at what stage HR directors entered the cost-cutting process. Various methods were in place, such as early retirement, not replacing those who leave, recruitment and salary freeze. All of the interviewees had to downsize and lay-off employees. For two organizations it was on a smaller scale, but others had to resort to acute downsizing of up to 60% of the workforce: a swift and drastic measure. In most instances the layoffs were accompanied by other methods of lowering cost; all respondents mentioned lowering salaries, but six of the seven respondents utilised that retrenchment method. This is in accordance with the findings of Arney Einarsson (2010) who identifies that lowering salaries is a relatively new cost-cutting method in Iceland and historically organizations have been reluctant to alter salaries. It was the general sentiment that manipulating salaries had deeper and longer-lasting negative effect on the employees than anticipated.

It is like a sense of betrayal, the employer who has always stood by his side of the deal, all of a sudden doesn't.

The general assumption was that the combination of layoffs and salary cuts would create a sense of relief among employees, as opposed to losing their jobs. They noted this was the initial reaction: by agreeing immediately to salary cuts, employees expressed their understanding of the situation. Although lowering salaries was a challenge, the fact that it occurred in conjunction with downsizing made it acceptable at first. Later, however, it was found that it ‘sticks and it’s really difficult to recover from it’. Later attempts by organizations to correct for pay cuts were not appreciated against the months of reduced pay. Indeed, it can be interpreted as a breach of the psychological contract when employees perceive that the organization does not fulfill its obligations and decisions were unfair in some way (Zhao, Wayne, Glibkowski, & Bravo, 2007). Perhaps not surprisingly then, if faced with the same decision again, the general consensus was that the HR directors would choose to lay-off more people rather than resort to salary cuts, also a pressurised situation for them:

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This is always on your back – the question is, in hindsight – maybe it would have been better to lay more people off and keep the same salary budget.

As another HR director notes, the reduction was simply not in proportion to the long-term impact:

But overall it wasn't that big of a cut, but this has had a huge effect on our employees and now 4 year later this still comes up.

Interviewees' articulation of the cost-cutting decision-making process provides insight into the intrinsic role conflict (Caldwell, 2003). On the one hand, HR directors face pressure to cut-cost and unwind the swelling of boom year salaries and bonuses, while on the other, they continue to value being the voice of the employee (Ulrich, 1997). This leads to attempts at milder cost-cutting mechanisms such as lowering salaries and early retirement. Nevertheless, the contradicting HR roles did not seem to trouble the HR directors as Caldwell (2003) suggested, it was found that they were pragmatic in their approach to their work, in line with the findings of Roche and Teague's (2012) Irish study. While salary reductions were successful at the time of the economic collapse, when the organizations began to recover, and organizational leaders wanted to acknowledge the turn-around, correcting salary cuts was raised. This was seen as an inconvenient question for management and therefore possibly triggers the view detected here that, in hindsight, it might have been less painful long-term to select the broader layoff approach rather than manipulate salaries.

An ever-changing role

According to Legge (1995), HR managers' core struggle has been to 'achieve acknowledgement, credibility and status' leading to a 'willingness to adopt different roles and rhetoric's to suit the contingencies of the times, possibly to exploit new bases of power'. The HR directors' discourse concerning the economic collapse highlighted that role changes were to some extent linked to increased strategic influence and power. However, it was primarily in formulating various retrenchments. As noted, demonstrating the paradox of the HR role, was the theme of an employee-centered, care-taker role, one which appeared to be highly valued by interviewees. The interviewees discussed everything from how they facilitated financial consultations for employees, walking around the company with hot cocoa drinks, to unlimited financial support when it came to employees seeking assistance from psychologists or psychiatrists to deal with the situation.

When front line employees feel like they are someone's 'unwanted child' you need to make sure that they feel like they are taken care of.

As one interviewee put it:

We offered employees financial consultation and in few cases lent employees some money, we (the company) really didn't have any but we felt we had to take care of our people.

Another HR director reflected:

We tried to take care of each other, make sure that we were as comfortable as possible in a dire situation.

The general picture that emerges through the interviews is of a rich sense of responsibility to the staff and the well-being of those left within the organisation. This

expands the ‘employee champion’ (Ulrich, 1997) role to incorporate a ‘welfare officer’ Welch & Welch (2012) element, with a broader duty of care role.

A concerning development with regards to HR role changes was an increase in the miscellaneous tasks and responsibilities being moved to the HR function, making it a conglomeration of managerial and operational projects. Five of seven interviewees had taken on tasks or responsibilities that are not traditionally within the realm of HR. These could be described as general administrative work and normally come under the purview of general managers, operational managers, having an overall purview of secretarial staff, the canteen and tracking company assets. Worryingly, this became a considerable part of the HR director’s responsibilities, taking up a large portion of their workday and leaving much less time for HR tasks. Tellingly, interviewees saw this as a combination of the declining importance of HR activities and a dilution of the HR role:

This began to land on my desk, during the collapse. Reception-staff, facilities and housing, managing our cars ... we have a huge car fleet. So HR matters basically got left behind.

Another interviewee commented:

I basically went from building HRM from the scratch within the organization to tearing it down again – and not just HRM, I was also in all sorts of other projects and tasks like terminating leases for both houses and cars, selling houses and even paintings – that became my role,

One HR director, after being restructured from the board-room and reporting to the Finance manager said:

... taking on the other responsibilities ... I knew I could do it, so I just did, now I’m starting to feel it. Even though it’s not hard work, small marketing projects here and there, managing the office staff and it takes time and I’m ... scattered ... the HR issues have been on the backburner totally.

Interviewees who experienced such role changes agreed that the HR role became secondary and this gradually became a major concern. The willingness to take on unrelated projects was possibly a product of fear of job loss. Likewise one can also speculate that this is a product of the credibility and power crisis detailed in the literature: an attempt to enlarge and enrich their role to gain or maintain power (Legge, 1995). Reflecting the issue of HR lacking clear boundaries to the role and expertise (Caldwell, 2003), one of the respondents said:

You have the tendency to measure your value in how wide-ranging your power is, how many employees report to you, etc.

If strategic HR input is crucial for organizations to gain the sought after competitive advantage, why are HR directors willing to marginalize the HR role by taking on projects outside HR’s spectrum? We might argue that this also stems from the profession not fully buying into HRM’s ideology when it comes to its impact on organizational performance (Caldwell, 2004). Perhaps this isn’t surprising if we consider debates on the lack of concrete proof of HR’s contribution in this aspect (Caldwell, 2003; Guest, 2011). Whatever prompted the willingness to take on the non-HR roles there was a sense of temporality to it: it was part of the uncertainty and rapid-reaction that the economic collapse brought with it, perhaps making it an inevitable but lamentable situation.

Conclusion

This article set out to increase understanding of the HR role and changes brought about by volatile economic conditions, based on the premise that the HR role is fundamentally ‘vulnerable to outside conditions’ as well as being in a ceaseless ‘credibility, power and value struggle’ (Legge, 1995). Underlying this was whether economic collapse would provide an opportunity or a threat to the HR role.

By using in-depth interviews, the study produced valuable insight into the role HR managers played in the economic collapse period. Although generalizability may be limited by the sample size and the specific context, the findings presented do provide a useful understanding of how the HR function will survive in economic recession. Two core role changes were noted. The first was a seemingly temporary role change in HR’s daily tasks and projects, with more focus on cost-cutting. This is in accordance with previous studies (Legge, 1988; Roche & Teague, 2012; Tyson & Witcher, 1994). HR professionals gained strategic power with regards to implementing and communicating various retrenchment methods, as well as being involved at the early stages of the decision-making process. Likewise, we saw that putting these measures into place involved taking an enhanced version of the ‘employee champion’ (Ulrich, 1997) role, with more of a care-taker focus: putting the wellbeing of the employees to the forefront. The second change was the tendency towards HR taking on responsibilities outside its traditional boundaries, by effectively merging with operational functions or through the HR director supervising other core functions. This made HR a conglomeration of various managerial and operational tasks and contributed to a tendency towards stopping or postponing HR activities. This, in turn, affected the credibility of the HR department. Whilst potentially providing a sense of stability and symbolic power, it may well have weakened the HR function.

Whilst not possible with this small-scale study, it would be useful to consider the HR professional’s willingness to take on time-consuming non-HR roles or tasks as well as the emergence of the ‘welfare officer’ role from a gender perspective, investigating whether the profession is moving more in line with other traditional care-taker professions primarily occupied by women.

Another useful finding was related to the variety of retrenchment methods that HR directors resorted to when the collapse hit. Lowering salaries became a widespread cost-cutting method. However, the general sentiment was that lowering salaries was the least successful retrenchment method. Indeed, this is a relatively new method in the Icelandic labour-market context (Arney Einarisdóttir, 2010). HR directors who resorted to lowering salaries retrospectively viewed it as having a long-lasting effect on the employees, finding it challenging to defuse and get past.

The findings show that the recession provided a platform for the HR profession to show its capabilities, mostly through acute retrenchment activities. An increase in strategic input was detected, although it was isolated to developing cost-cutting methods. As a result, the economic collapse has not entrenched HR’s ‘business partner role’. Indeed, by shifting roles from various operational functions to the HR unit, it has potentially diluted and marginalized the HR role, underlining the perception of HR as a non-core function. The HR profession clearly continues to be vulnerable to outside conditions and adapting to role change, whether it is to exploit new bases of power or simply a reflection of the lack of clear-cut boundaries for the HR realm and expertise. It appears that the power struggle still remains the HR profession’s Achilles heel, manifesting itself here not merely by being moved from the boardroom, but also in a way that is perhaps not so well recognized by the profession: through marginalization of the HR role by taking on responsibilities from outside the realm of HRM.

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