Module 2

Strategic Human Resource Management

Overview

Strategic HRM discusses what strategic HRM is and consequently why SHRM is needed to provide direction to organisations. You will also discover why managers want to integrate the three areas of strategic management, human resource management and organisational outcomes.

Upon completion of this unit you will be able to:

Outcomes

- *name* common human resource strategies.
- *discuss* how HRM links with strategies adopted in institutions.
- *state* in what ways the emergent role of the future HR manager is already in evidence.

Terminology

Terminology

Competitive advantage:	Any factor that allows a company to differentiate its product or services from its competitors to increase their presence or profits.
Strategic HRM:	Strategic HRM means formulating and executing human resource policies and practices that produce the employee competence the company needs to achieve its strategic aims.
Strategic management:	The process of identifying and executing the organisation's mission by matching its capabilities with the demands of its environment.
Strategic plan:	A strategic plan is the company's plan to match its internal strengths and weaknesses with external opportunities and threats to maintain a competitive advantage.

Strategic HRM

What is strategic human resource management (SHRM)?

The fact that employees today are central to achieving competitive advantage has led to the emergence of the field known as strategic human resource management. Module 1 briefly discussed one definition of SHRM but there are others. Truss and Gratton (1994) define it as:

> *the linking of HRM with strategic goals and objectives in order to improve business performance and develop organisational cultures that foster innovation and flexibility.*

Another way of looking at it is:

> *the pattern of planned human resource deployments and activities intended to enable an organization to achieve its goals.* (Wright & McMahan, 1992)

According to Dessler (2001),

> *strategic HR means accepting the HR function as a strategic partner in the formulation of the company's strategies as well as in the implementation of those strategies through HR activities such as recruiting, selecting, training and rewarding personnel.*

Strategic HR is an approach to making decisions on the intentions of the organisation concerning people – essential components of the organisation's business strategy. It is about the relationship between HRM and strategic management in the organisation. SHRM refers to the overall direction the organisation wishes to pursue in achieving its objectives through people. It is people who implement the strategic plan. Hence, top management must take this key factor – the people – fully into account in developing its corporate strategies.

SHRM can be considered an approach to dealing with longer-term people issues as part of the strategic management thrust of the business. It covers macro-organisational concerns relating to structure and culture, organisational effectiveness and performance, matching resources to future business requirements and the management of change.

Overall, it will address any major people issues which affect or are affected by the strategic plans of the organisation and it will provide agendas for change which set out intentions on how these issues will be handled.

Wright and Snell (1991) have suggested that SHRM deals with "those HR activities used to support the firm's competitive strategy" in a business. Another business-oriented definition was provided by Miller (1989):

> *Strategic human resource management encompasses those decisions and actions which concern the management of*

employees at all levels in the business and which are directed towards creating and sustaining competitive advantage.

The idea of HRM is based around the notion that people management can be a key source of sustained competitive advantage. This in turn is based on four main precepts:

1. People can make the difference because it is human capability and commitment which distinguish successful organisations from the rest in the final analysis. Accordingly, people need to be treated as assets and not as costs.

2. As such, managing human resources is indeed truly a matter of strategic importance.

3. Managing human resources is hence too important to be left entirely to personnel specialists; it has to be an activity which is owned by all managers.

4. The key levers must be internally integrated with each other and externally integrated with business strategies.

In this sense, the term HRM can be regarded as synonymous with strategic human resource management (SHRM).

What are human resource strategies (HRS)? What comes to your mind when you hear this term? In the literature, it is not any single thing but a variety of differently conceptualised approaches. According to Sisson (1990), there are four features associated with HRM:

1. Integration of personnel policies both with one another and with business planning more generally.

2. Change in the locus of responsibility for personnel management from specialist managers to senior line management.

3. A shift in focus from management-trade union relations to management-employee relations and from collectivism to individualism.

4. Emphasis on commitment and the exercise of initiative, with managers now donning the roles of enabler, empowerer and facilitator.

Hendry and Pettigrew (1986) argue that the strategic aspect of HRM consists of four elements:

1. The use of planning.

2. A coherent approach to the design and management of personnel systems based on an employment policy and manpower strategy and often underpinned by a philosophy.

3. Matching HRM activities and policies to some explicit strategy.

4. Seeing the people of the organisation as a strategic resource for achieving competitive advantage.

These authors hold that at minimum, HRM brings a degree of dual integration: coherence of HR practices with each other and that of all HR practices with the organisation's strategy.

Two classic approaches

It is common to distinguish two influential American schools of HRS: the Michigan group and the Harvard group. The first focuses on strategic management and the other on human relations.

The Michigan group developed the notion of strategic HRM which entailed the interconnection of business strategies, organisational structures and HRM (key personnel systems: selection, appraisal, rewards and development). HRM systems were best designed to support the implementation of corporate strategy. The critical management task is to align the formal structure and the HR systems so that they drive the strategic objective of the organisation.

At the heart of the Harvard approach was the responsibility and capacity of managers to make decisions about the relationship between the organisation and its employees so as to maximise the organisational outcomes for key stakeholders. This approach focuses on managers' responsibility to manage four key HRM policy areas: employee influence (participation), human resource flow, reward systems and work systems (work organisation).

Under SHRM, a proactive role has been identified for HRM. Some authors have identified six key elements of SHRM:

1. Explicit recognition of the influence of the external environment.
2. Recognition of labour market features.
3. Long-range focus.
4. Focus on choice and decision making.
5. Consideration of all personnel.
6. Integration with overall corporate strategy and functional strategies.

Why SHRM?

SHRM aims to provide a sense of direction in an often turbulent environment so that organisational and business needs can be translated into coherent and practical policies and programmes. SHRM should provide guidelines for successful action and the ultimate test of the reality of SHRM is the extent to which it has stimulated such action.

The rationale of SHRM rests on the perceived advantage of having an agreed and understood basis for developing approaches to managing people in the longer term. It also contains the belief that declarations of intent in human resource management should be integrated with the needs of both the organisation and the people in it.

A review of studies shows that the HR field is on the verge of moving beyond its recently acquired responsibilities for performance consulting and business partnering to assume strategic leadership (Rothwell et al., 1998).

Rothwell et al. further state that the 1995–1996 Human Resource Planning Society (HRPS) study was commissioned by the society's board to look into the future needs of the profession. The study team headed by Robert Eichinger of Lominger Limited, Inc. and David Ulrich of the University of Michigan focused on state-of-the-art future trends for the HR profession. The aim of the study was to identify the business challenges facing organisations today, what general managers must do to prepare for these challenges, and the HR implications for the future. The study results also reveal that HR practitioners must move away from an activity-oriented focus to one that delivers value through an alignment of HR services with organisational needs.

According to the study, the seven most essential skills for HR executives in the future are:

1. Global operating skills
2. Business and financial savvy
3. Strategic, visioning, critical thinking and problem-solving skills
4. Using information technology
5. Deep HR technology savvy
6. Change management skills
7. Organisational effectiveness

Source: (Eichinger & Ulrich, 1995)

According to Rothwell et al. (1998), compelling evidence that HR practitioners of the future must demonstrate exemplary leadership skills if they are to be successful is to be found in the Penn State Executive Program Management Skills Assessment-Human Resources study and in a study commissioned by the Society for Human Resource Management and CCH, Inc. entitled "A 21st-Century Vision of Strategic Human Resource Management" along with the previously-mentioned HRPS study. Rothwell et al. further state that it is no longer enough for HR practitioners to be compliance-oriented practitioners, supporters or performance consultants.

Hence, you would see clearly that exemplary HR practitioners of the future will be leaders who are capable of demonstrating a new value-added component to their organisations by managing and developing knowledge capital.

By comparing the studies just mentioned, Rothwell et al. state that six key roles for HR leaders have emerged:

1. Change agent
2. HR strategist

3. Business strategist

4. HR functional aligner

5. Partner to general managers

6. Problem solver and consultant

Strategy, HRM and organisational outcomes

It is only recently that research and practice have begun to pull together three related disciplines of practice and study into more integrated approaches:

DISCIPLINE:	Strategic management	Human resource management	Organisational outcomes
COMPONENTS:	Strategy types	Employee selection	Company performance
	Planning	Employee appraisal	Operational effectiveness
	Implementation	Employee training	
	Evaluation		

Table 2.1

As you are well aware, these are different disciplines in practice. Research that tries to investigate relationships among these elements does not fit neatly into a single discipline. As such, it may not have brought about the desired outcomes.

Among the many reasons researchers and managers should want to integrate the three areas in the table above, the foremost is to increase our understanding of the way organisations should (and perhaps do) operate and to do this by examining a more comprehensive set of issues. Secondly, top managers are often required to think outside of a single discipline. Therefore, research should help them decide what types of HR practices fit their firms' chosen strategies. Finally, managers continually seek guidance and creative thinking on how to integrate strategy, human resource issues and organisational outcomes. The number of business bestsellers in recent years and the interest in innovative training and development bear testimony to this fact.

Integrating strategy, HRM and organisational outcomes should help to guide and contribute to more effective use of decisions about human resources. A model linking these elements is useful for understanding how each element affects the others.
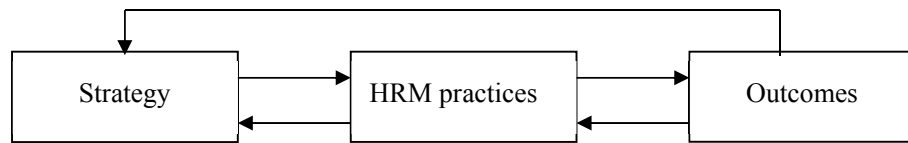
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Strategy  →  HRM practices  →  Outcomes
        ←               ←
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Figure 2.1

Source: (Ferris & Buckley, 1996)

The model shows how managers and researchers can study pairs of elements (strategy- HRM; HRM-outcomes) or all three together. You should realise that human resource practices can be either influenced (by strategy) or be influencers (of organisational outcomes). If you are a manager of a company pursuing a growth strategy, you may design a compensation system to reward managers who bring in new business as against those who simply maintain existing accounts. Do you see that here the human resource practices are influenced by strategy? The compensation practice you adopt could in turn be an influencer if it in some way affects the performance of the company.

Sometimes, selection of strategy and subsequent planning can be affected by human resource practices in the company. To quote an example, the types of an organisation's employees (their skills and abilities) may influence the choice of strategies the company wants to adopt. For instance, it may decide to grow by developing internally or by acquiring other companies. Similarly, the outcomes may affect the human resource practice – an organisation that performs well is more likely to place more emphasis on HRM activities or to provide more funds for them.

More about the links

The quantum of research on the links among the three components is not substantial and is in a stage of early development. Nonetheless, some information about the links among business strategy, human resource management practices and outcomes is available.

Strategy-HRM links

This link is the one better known to many of us because the strategy of the firm seems to have an effect on human resource activities. Yet, whatever the available information about the link between strategy and human resource practices is that it is both theoretical and based on data. The available writing about it has been based on what should occur rather than on what actually occurs. Available literature shows that people such as senior managers who are outside the personnel and human resource functions are of the firm view that HRM issues are important and contribute to effective implementation of an organisation's strategy (Beer et al., 1985). If others believe this, the human resources manager is then in a better position to convince all other managers of the importance of people and issues that contribute to their productivity. Researchers, rather than just saying that strategy should relate to human resources practices,

are gathering facts about the actual relationships as well as ideas on how to study those links in greater depth.

HRM practices will vary according to the strategy the firm pursues. Examples are:

- A firm that grows by acquiring new firms may evaluate a manager's performance on the ease with which a new firm is integrated into the existing one.

- Firms that pursue different diversification strategies or those that grow by venturing into new product areas tend to reward managers with bonuses. The greater the diversification (the more unrelated the products); the higher the bonus tends to be.

These show that firms pursuing different strategies are likely to structure human resource practices, such as pay or performance evaluation, to support their strategies.

Finally, there is one difficulty with what we know about strategy-HRM issues. We tend to believe that integrating strategy and HRM will lead to good outcomes (for example, financial performance). Unfortunately, there is very little empirical data supporting such links. Even books such as *In Search of Excellence* (Peters & Waterman, 1982) present only anecdotal evidence.

HRM-outcomes links

This part of the overall framework –the HRM-outcomes link – is more familiar to us than the other. With what we know, we are able to answer at least two questions:

1. How effective are the human resource functions and the department?

2. What is the overall contribution of HRM activities to the organisation?

Research has thrown some light on the effectiveness, costs and benefits of specific human resource management activities. The focus has been on three general areas:

1. Ways to assess the costs of specific human resource activities such as selection, training and benefits.

2. Methods to evaluate the effectiveness of human resource activities such as the pre/post evaluation of training programmes.

3. General approaches to the audit of the strengths and weaknesses of the overall human resource activities.

Each of the three categories is relatively well-developed. For instance, the cost of selecting a bank teller will have to be assessed against the costs of advertising, time spent shortlisting and interviewing candidates, time spent training the new recruit and possible loss of productivity while the new employee is learning the job. The methods used to assess the effectiveness of programmes (such as training) usually involve evaluating

employee attitudes about the programmes. Finally, personnel department audits are often used to justify departmental activities and determine areas for future focus. Again, our knowledge in this area is limited.

Putting it all together: Strategy-HRM outcomes

Our knowledge about how to integrate strategy, HRM and organisational outcomes is still limited. The reason is that few organisations have actually successfully linked the three elements to demonstrate integration techniques and outcomes. However, it is encouraging that researchers show increasing interest in examining these relationships (Butler et al., 1991) and managers can only reach for excellence by keeping alert to the linkages and potential for integration.

Some studies have been carried out – for instance, by Misa and Stein (1983) – to examine whether and how HRM concerns were included in strategic decisions in high-performing and low-performing firms. They found that there was more human resources department participation in business decisions and strategic planning in high-performing firms than in poorer performers. Also, Horovitz and Thiebault (1982) found that high-performing firms pursuing the same strategy had similar management systems. Others like Tichy, Fombrun and Devanna (1982) have argued that a better match between strategy and HRM issues is associated with better firm performance or effectiveness. They have discussed how firms that appear to match strategic business unit level strategy, type of manager and human resource practices seem to have better performance.

A framework

Managers must consider the three elements (strategy, HRM and outcomes) and how each may affect the others. A fourth dimension is critical too; the type or level of employee is affected by the other three factors. For instance, approaches to selection or pay vary – depending upon whether the employee is a line worker, or a middle manager.

Overall strategy classification: Several strategy classification schemes are proposed in the literature (Galbraith & Nathanson 1978; Miles & Snow 1978; Pitts 1974; Porter 1981; Rumelt 1974). Any given firm might employ a single strategy within one classification. For instance, the Miles and Snow typology refers to four general stances a firm may take in its industry:

1. **Defender** – seeks to protect its current market share and concentrates on maintaining the status quo.

2. **Prospector** – aggressively pursues new markets, new product ideas and the like.

3. **Reactor** – responds to what happens in the market and takes advantage of such occurrences whenever possible.

4. **Analyser** – combines strategies and acts as a prospector in some markets and a defender in others.

Rumelt's (1974) strategy classification is based on the extent of product diversity in a firm. Product diversity refers to the range of products a firm

offers and the degree to which those products are related to one another (for example, through use of similar technology or market channels). Rumelt's classification is:

1. **Single-business firms** – firms that produce only one product and generate all revenues from a single product.

2. **Dominant-product firms** – firms that rely on a few similar products; these receive 70 per cent of revenue from those products.

3. **Unrelated firms** – firms producing many widely diverse products.

Porter (1981) classifies firms into three groups:

1. **Cost leadership firms** – firms that pursue a strategy of having relatively lower costs than competitors.

2. **Differentiators** – firms providing products or services that distinguish them from competitors in some way; through more luxury or better service, for instance.

3. **Focus firms** – firms concentrating on selling to specific market groups.

Human resource management: This component emphasises the set of personnel activities related to managing employees:

1. **Acquiring** –human resource planning, recruitment and selection

2. **Allocating** – placement, orientation and socialisation

3. Developing – training, development and career management

4. **Managing performance** – performance appraisal, compensation and discipline

5. **Maintaining** – benefits and health/safety

For various types of organisations, there will be different activities applicable to each kind of employee. In regard to selection, the focus for firms with a policy of promotion from within would be more on past employee performance within the firm rather than on education or other types of experience. Firms which require new ideas may seek people from outside for certain types of jobs such as marketing, research and development.

Organisational outcomes: This component tells us how well a firm is doing in terms of meeting goals (effectiveness) or achieving financial, marketing or other types of performance standards.

In addition to the above three elements of strategy, HRM, and outcomes, the level of employee is important because HRM functions differ significantly by level (top, middle and first-line levels of management as well as non-management employees). In most organisations, non-management and lower-level employees have much more specific job descriptions or responsibility lists whereas top managers have rather vague job responsibilities. Also, recruitment techniques may vary

depending on the level. At the top level, the use of executive search firms, headhunting and/or close acquaintances is more common. At lower levels, media advertisements and other methods such as walk-in interviews are more common.

The three elements help managers consider the types of human resource activities related to different strategy classifications. The following discussion relates various growth strategies to different ways of designing the HR selection function in the case of top management.

Firms pursuing a growth strategy by internal expansion

These firms tend to use mainly subjective performance criteria which are non-quantifiable. There are not many objective and quantifiable ways to assess performance in these firms. Also, these firms most probably use more subjective selection criteria when they choose top managers. This is because the candidates are well known to the top managers and personal traits are therefore also given more emphasis in addition to specific objective criteria. Top managers may look for the promoted manager's fit with top management.

Firms pursuing a growth strategy by acquisition of other firms

Candidates in the new firm that has been acquired will be less known to the top managers of the firm that is acquiring. Here, there is a tendency for the top management to use more objective criteria for manager selection. By contrast to the former example where managers may be transferred, more emphasis will be on new blood in this case. The candidates for promotion will come from newly acquired units.

Implementation of SHRM

Three approaches have been identified for implementing SHRM (Butler et al., 1988). They vary in the extent of involvement in the overall strategic management of the firm.

1. **At the lowest level of involvement** – HRM merely responds to and accommodates the organisation's strategic goals.

2. **At a higher level of involvement** – There is a more interactive role in that HRM has input in the formulation of strategies, particularly with respect to implementation issues.

3. **At the highest level of involvement** – There is full integration in that HRM is linked to the strategic planning group and the various HR activities are linked as well.

Dyer (1986) identifies specific contributions that HRM can make in strategy formulation. According to Dyer, there can be involvement in the assessment of various strategic alternatives in terms of feasibility and desirability. The HR function can provide input concerning the availability of the required human resources (quantity, quality and skill mix) and the costs of acquiring, retaining, developing and motivating such resources. Dyer also identified the various ways in which HRM can

be linked to formal strategic planning in the organisation: parallel or sequential linkage, inclusion, participation and review.

Buller (1989) empirically investigated the linkage of HRM and strategic planning in eight high-performing firms in the U.S. and concluded that the level of integration depends on the fit of HRM with its environment. Lower levels of linkage may be sufficient where the environment is stable and predictable. The Buller study also reported other factors that shape the type of linkage:

- Organisational history and culture
- Strategy
- Structure
- Incumbent executives' values and skills
- Workforce values and skills
- Management systems

In implementing SHRM, the new role of HRM implies not only improvement in the quality of the traditional personnel or HR activities but also an expanded scope of activities. Tsui (1987) reported on the expectations of 805 managers and other employees as to HR department activities. A factor analysis of 73 activities on the strategy implementation or operating level yielded eight dimensions:

1. Staffing/HR planning
2. Organisation/employee development
3. Compensation/employee relations
4. Employee support
5. Legal compliance
6. Labour/union relations
7. Policy adherence
8. Administrative services

Together with traditional spheres of activity, newer responsibilities of strategic planning, management consulting and organisation development have also been included in the job of the HR manager. One additional activity that HRM must undertake to implement SHRM entails environmental scanning to identify appropriate strategies and plans.

Required knowledge, skills, abilities, and orientation

Several authors have proposed the new competencies that are or should be required for HR practitioners. You have been exposed to some studies carried out by HRPS. This module outlines the future skill requirements for HR personnel. In a survey of 8,900 HR associates concerning perceived competencies for HR professionals, it was strongly suggested that three main areas of competency be acquired:

1. Functional specialisation

2. Business knowledge

3. Management of change

Another survey among 306 members of the American Society for Personnel Administration (now called the Society for Human Resource Management) (Harper & Stephens, 1982) focused on appropriate education. In terms of academic preparation, an M.B.A. with personnel/labour specialisation seems to be more favoured than a general M.B.A. or an M.A. /M.S. degree. As to curriculum content, there seems to be a preference for broader, more general courses such as management of human resources in contrast to specific technical ones such as psychological testing.

Ferris and Buckley (1996) find various authors generally agreeing that – aside from specialisation in the personnel function – business knowledge is required for the new role of HRM: as a member of management, the HR professional is expected to have a business/profit orientation as much as the rest of the management team. In terms of skills, technical and human relations skills are no longer sufficient; the HR professional must have management and research skills as well. In addition, he/she must develop consultation skills because the new role entails not merely solving problems already identified by other managers but also working together with line managers to identify problems and pinpoint opportunities to optimise the use of human resources towards the achievement of goals. These new competencies suggest a major departure from skills previously believed necessary to performing HRM jobs.

Module Summary

Summary

In this module you learned:

Employees today are central to achieving competitive advantage. This reality has led to the emergence of the field known as strategic human resource management. One definition of SHRM is "the linking of HRM with strategic goals and objectives in order to improve business performance and develop organisational cultures that foster innovation and flexibility". In other words, it is about the relationship between HRM and strategic management in the organisation. In a business, SHRM deals with "those HR activities used to support the firm's competitive strategy".

People need to be treated as assets and not as costs. The key levers of HR management must be internally integrated with each other and externally integrated with the business strategy.

Different authors propose different approaches to HRM; all of them however emphasise the strategic nature of HRM for business success. It is common to distinguish two influential American schools of human resource strategies (HRS). The Michigan group focuses on strategic management while the Harvard group focuses on human relations. The Michigan group developed the notion of strategic HRM while at the heart of the Harvard approach was the responsibility and capacity of managers to make decisions about the relationship between the organisation and its employees so as to maximise the organisational outcomes for key stakeholders.

SHRM aims to provide a sense of direction in an often turbulent environment so that organisational and business needs can be translated into coherent and practical policies and programmes. A review of studies shows that the HR field is on the verge of moving beyond its recently acquired responsibilities for performance consulting and business partnering to assume strategic leadership.

By comparing the studies just mentioned, six key roles for HR leaders have emerged: change agent, HR strategist, business strategist, HR functional aligner, partner to general managers, as well as problem solver and consultant.

We must increase our understanding of the way organisations should (and perhaps do) operate and we must examine a more comprehensive set of issues. Top managers are often required to think outside of a single discipline. Managers continually seek guidance and creative thinking on how to integrate strategy, human resource issues and organisational outcomes.

Human resource practices can be either influenced (by strategy) or be

influencers (of organisational outcomes). Sometimes, selection of strategy and subsequent planning can be affected by human resource practices in the company.

The strategy-HRM link is the one known most to us because strategies of firms seem to have an effect on human resource activities. HRM practices will vary according to the respective strategies firms pursue. However, there is one difficulty with what we know about strategy-HRM issues. We tend to believe that integrating strategy and HRM will lead to good outcomes (for example, financial performance). Unfortunately, there is very little empirical data that support such links. The HRM-outcomes link is more familiar to us than the other.

Assignment

Assignment

1. Interview an HR manager (can be your present organisation or any organisation of your choice) and then write a short report that details the strategic roles of HR manager in assisting the organisation achieve its competitive advantages.

2. Use the resources from your local library, research on any three Fortune 100 organisations' annual reports. Analyse their HR processes in helping the company achieve its strategic goals.

Assessment

Assessment

1. Why do you think that strategic-level managers of a company should consult HR personnel?

2. Identify new skill areas that a future HR manager should acquire. Give reasons.

3. Compare the viewpoints of different authors pertaining to viewing HRM as SHRM. Examine to see whether there are common points of view. List these common views.

4. Briefly discuss three approaches that a company can implement the SHRM

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