The Evolving Strategic Role of HRM

• The Role of human resource management in organization has been evolving dramatically

• No more a personnel department

• HR is being seen as a strategic HR partner

• SHRM involves making the function of managing people the most important priority in the organization and integrating all HR programs and policies within the framework of a company’s strategy.
The Evolving Strategic Role of HRM

• Strategic HRM realizes that people make or break an organization because all decisions made regarding finance, marketing, operations or technology are made by an organization’s people.

• Strategic HRM involves the development of a consistent, aligned collection of practices, programs and policies to facilitate the achievement of the organization’s strategic objectives.
The Evolving Strategic Role of HRM

- Strategic Human Resource Management is the process of linking the human resource function with the strategic objectives of the organization in order to improve performance.

- Establishing a strong HR strategy that is clearly linked to the organization’s strategy is not enough.

- HR strategy needs to be communicated, practiced-spelled out and written down.
Ulrich's Model of Human Resource Management

- **Strategic Focus**
  - Strategic partner

- **Change Agent**
  - Employee Champion

- **Systems**
  - Administrative Expert

- **People**
  - Operational

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Ulrich's Model of Human Resource Management

- HR can be defined by what it does, or by what it delivers
- HR can perform 4 different Roles
  - **Strategic Partner**: HR is responsible for the organizational architecture / structure; work with executive team to add value and achieve company objectives.
  - **Administrative Expert**: HR makes sure that the work gets done effectively and efficiently; streamline and automate most operations.
Ulrich's Model of Human Resource Management

• **Change Agent**: HR helps the organization adopt and profit from change; helps plan for and overcome resistance to change.

• **Employee Champion**: Change Agent: HR responsible for motivating, advocating for, and representing the employees; work with and train line managers to achieve these goals.
Strategic Human Resource Management

- Strategic human resource management and traditional HR functions differ in several ways (adapted from Mellow 2003)

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**Strategic Human Resource Management**

- **Difference between SHRM and HR Strategies (adapted from Armstrong 2000)**

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Strategic Human Resource Management

Evolution of SHRM

- PM 1930-1940
- HRM Early 1970’s
- SHRM 1980 onwards
Strategic Human Resource Management

- Myths about HR Professionals

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<th>Old Myth</th>
<th>New Realities</th>
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<tr>
<td>People go in for HR because they like people</td>
<td>HR departments are not designed to provide corporate therapy. HR professionals must create the practice that employees are more competitive, not more comfortable</td>
</tr>
<tr>
<td>Anyone can do HR</td>
<td>Hr activities are based on theory and research. HR professionals must muster both theory and practice</td>
</tr>
<tr>
<td>HR deals with soft side of business and therefore not accountable</td>
<td>The impact of HR practices on business results can and must be measured. HR professionals must learn how to translate their work into financial performance</td>
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### Myths about HR Professionals

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<td>HR’s job is to be the policy police</td>
<td>The HR function does not own compliance-managers do. HR practices do not exist to make employees happy but to help them become committed. HR professionals must help managers committed towards employees and administer policy.</td>
</tr>
<tr>
<td>HR is full of fads</td>
<td>HR practices has evolved over time. HR professionals must see their current work as part of an evolutionary chain and explain their work with less jargon and more authority.</td>
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## Strategic Human Resource Management

### Myths about HR Professionals

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<td>At times HR should force vigorous debates. HR professionals should be and challenging as well as supportive.</td>
</tr>
<tr>
<td>HR is HR’s job</td>
<td>HR work is important to line managers as are finance, strategy and other business domains. HR professionals should join with managers in championing HR issues.</td>
</tr>
<tr>
<td>HR focuses on costs which must be controlled</td>
<td>HR practices must create value by increasing the intellectual capital within the firm. HR professionals must add value not reduce costs.</td>
</tr>
</tbody>
</table>
Challenges for HR managers

• Globalization (1)

• Effective global competition requires more than creating a product in a home market and shipping it as it is to the new market.

• It requires complex network of global centres of excellence that draw on technologies invented in one locale and shared worldwide—rapid ideas around the world to meet local needs—It needs local commitment (thinking globally but acting locally)
Strategic Human Resource Management

Challenges for HR managers

Value chain for business competitiveness and HR services(2)

• HR professionals and theorists have emphasized building HR practices within a form

• Refocusing HR practices more on the value chain (Suppliers and customers) and less on activities within the firm has profound implications

• The shift to a customer focus redirects attention from the firm to the value chain in which it is embedded

• This help the firm to be more customer responsive

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Challenges for HR managers

Profitability through cost and growth (3)

- Cutting costs has been one of the means to become more profitable. It is however increasingly being realized that revenue growth is other means for increasing profits.

- The point is not to replace cost with growth but to find ways to experience profitable growth by leveraging customers, leveraging core organizational competencies and inorganic route to Mergers and acquisitions/joint ventures are the other means for profitable growth.
Challenges for HR managers

Capability(4)

1. Building capabilities of confidence
2. Becoming boundary less, allowing flow of information and ideas across hierarchical, horizontal and external boundaries
3. Achieving capacity for change, the flexibility and agility that allow constant innovation
4. Learning, attaining change that builds on and maintain itself

HR managers have to constantly seek the capabilities necessary for success
Strategic Human Resource Management

Challenges for HR managers

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4. Learning, attaining change that builds on and maintain itself

HR managers have to constantly seek the capabilities necessary for success
Challenges for HR managers

Change(5)

• Managers, employees, and Organizations must learn to change faster and more comfortably.

• HR professionals need to help their organization change.
  1. How to unlearn what we have learnt.
  2. How to honour the past and adapt for the future.
  3. How to encourage risk-taking necessary for change without putting the firm in jeopardy.
  4. How to determine which HR practices to change for transformation and which to leave for continuity.
Strategic Human Resource Management

Challenges for HR managers
• Technology (6)
  Technology has made our world smaller, closer and faster—ideas and images spread quickly worldwide

• Technology will dramatically affect how and where work is done through teleconferencing, telecommunicating and shared data sources
• Proximity was critical when a firm’s boundaries were geographical

HR Professionals will have to figure out how to make technology a viable and productive part of the setting
Strategic Human Resource Management

Challenges for HR managers

Attracting, Retaining and measuring competence and intellectual capital

• Sourcing and retaining talent has become the competitive battleground
• Sourcing intellectual capital means upgrading the leadership bench
• Leadership in the future will be team-focused and shared rather than driven by single person
• The task of seeking intellectual capital will change a firm's measurement process (vs profitability or financial performance etc)
• HR managers will have to seek, identify and use such measures
Strategic Human Resource Management

Challenges for HR managers

Turnaround(8)

• Turnaround is not transformation
• Turnaround so often seen in the corporate world is not transformation
• Transformation changes the fundamental image of the business as seen by customers and employees
• Transformation focuses on creating mind-share more than market-share

HR professionals who focus on transformation create fundamental change
Strategic Human Resource Management

Challenges for HR managers

• Organizations have difficulty achieving their strategic objectives because employees do not really understand these or how their jobs contribute to overall organizational effectiveness.

• Fewer than 50% employees understand their organization strategy.

• Effective strategy management require not only that the organization’s strategic objective be communicated to employees but that there is a link between employees productivity-relative to these objectives-and the organization’s reward system.
Strategic Human Resource Management

• The SHRM is rooted in ‘manpower’ planning

• It was the work of influential management gurus (for example Ouchi, 1981; Peters & Waterman, 1982), affirming the importance of the effective management of people as a source of competitive advantage

• This encouraged academics to develop frameworks emphasizing the strategic role of the HR function (for example Beer et al., 1985; Fombrun et al., 1984) - attaching the prefix ‘strategic’ to the term ‘human resource management

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Strategic Human Resource Management

• Fombrun, Tichy and devana were the first to formulate the concept of strategic HRM in 1984
• These researchers emphasize a strategic fit between HRM and corporate strategy.
The Harvard Model of Human Resource Management

Stakeholder interests
- Shareholders
- Management
- Employee groups
- Government
- Community
- Unions

Situational factors
- Workforce characteristics
- Business strategy and conditions
- Management philosophy
- Labour market
- Unions
- Task technology
- Laws and societal values

HRM policy choices
- Employee influence
- Human resource flow
- Reward systems
- Work systems

HR outcomes
- Commitment
- Competence
- Cost-effectiveness

Long-term consequences
- Individual well-being
- Organisational effectiveness
- Societal well-being


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Guest’s Model of HRM

Policies
- Organisational job design
- Policy formulation and implementation/management of change
- Recruitment, selection and socialisation
- Appraisal, training and development
- Manpower flows – through, up and out of the organisation
- Rewards systems
- Communications systems

Human resource outcomes
- Strategic planning/implementation
- Commitment
- Flexibility/adaptability
- Quality

Organisational outcomes
- High job performance
- High problem-solving
- Successful change
- Low turnover
- Low absence
- Low grievance level
- High cost-effectiveness


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Table 1.2 The Guest model of human resource management (HRM)

<table>
<thead>
<tr>
<th>HRM strategy</th>
<th>HRM practices</th>
<th>HRM outcomes</th>
<th>Behaviour outcomes</th>
<th>Performance outcomes</th>
<th>Financial outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Differentiation (innovation)</td>
<td>Selection</td>
<td>Commitment</td>
<td>Effort/motivation</td>
<td>High: Productivity Quality Innovation</td>
<td>Profits</td>
</tr>
<tr>
<td>Focus (quality)</td>
<td>Training</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Cost (cost-reduction)</td>
<td>Appraisal</td>
<td>Quality</td>
<td>Cooperation</td>
<td>Low: Absence Labour turnover Conflict</td>
<td>Return on investment</td>
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Source: Guest (1997)
Figure 1.6 The Warwick model of human resource management
Source: Hendry and Pettigrew (1990)
Strategic Human Resource Management

Hendry and Pettigrew (1986) put forward four meanings of SHRM:

1. The use of planning in human resource management

2. An integrated approach to the design and implementation of HR systems

3. Matching HRM policies and activities with the business strategy of the organization

4. Viewing people as a strategic resource for the achievement of competitive advantage
Strategic Human Resource Management

• Once the business strategy has been determined, an HR strategy is implemented to support the chosen competitive strategy.

• one-way downward from business- to functional-level strategy.

• In this sense, a HR strategy is concerned with the challenge of matching the philosophy, policies, programmes, practices and processes – the ‘five Ps’
Strategic Human Resource Management

The major objectives of SHRM are as follows:

• To ensure the availability of a skilled, committed, and highly motivated workforce in the organization to achieve sustained competitive advantage.

• To provide direction to the organization so that both the business needs of the organization and the individual and collective needs of its workforce are met.

• This is achieved by developing and implementing HR practices that are strategically aligned.
Strategic Human Resource Management

• The extent of application of SHRM within organizations as well as the form and content of SHRM vary from one organization to another.

• HRM is practiced in only those organizations that have a clearly articulated corporate or business strategy.

• Organizations who do not have a corporate plan cannot have SHRM.

• In such organization HR personnel carry out the traditional administrative and service roles-not concerned with strategic business issues.
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Strategic Human Resource Management

• (SHRM) Strategic human resource management deals with macro concerns such as
  • quality
  • Commitment
  • performance
  • culture
  • management development
• It defines the areas in which specific HR strategies need to be developed
Strategic Human Resource Management

• strategic HRM’ is an outcome: ‘as organizational systems designed to achieve sustainable competitive advantage through people’. For others, however, SHRM is viewed as a process, ‘the process of linking HR practices to business strategy’ (Ulrich, 1997,)
Strategic Human Resource Management

Human resource strategies are concerned with ensuring:
• Availability of an efficient workforce
• Training
• Rewards
• Good employee relations

Human resource strategies are more specific and facilitate the successful achievement of the corporate objectives and goals.

According to Ulrich (1997, ) ‘HR strategy’ is the outcome: ‘the mission, vision and priorities of the HR function’.
Strategic Human Resource Management

Vision for Human Resources

• Business Partner
  • Aligned with line management
  • Integral member of management team
    Both at corporate and regional level
• Drive culture change to fit strategy and vision
• Do the basics (administrative tasks) well
• Organize flexibility around the work to be done
Human Resource Mission

• To provide high quality and cost effective processes, programs, and services to our associates throughout the world that align with company’s overall business strategy
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Strategic Human Resource Management

Link between HR Strategy and Business Strategy

• The concept of SHRM is the idea of strategic fit

• In order to ensure that HR strategies facilitate the achievement of business strategies a strategic integration between the two is necessary

• A key factor that influences the linkage is organizations quest to attain Competitive advantage
Strategic Fit: A Conceptual Framework

• Organizations are often confronted with a dilemma
• Should they adopt business strategies that fit the available competencies and capabilities in the firm
• Should they first decide their business strategy and then stretch and modify their competencies and capabilities to fit the business strategy?
• The strategic fit proposes that if an organization seeks to maximise its competitive advantage
• Must match its internal resources and skills (organizational competencies) with the opportunities in external environment
Strategic Human Resource Management

Strategic Fit: A Conceptual Framework

• When Organization attempts to implement new strategies with outmoded or inappropriate HR strategies it can face problems

• Strategic human resource management is largely about integration

• Guest (1989) emphasized that it is important to ensure that HRM is fully integrated to strategic planning

• In 1997 Guest identified the following five types of fit:
Strategic Human Resource Management

Types of Fit between HR and Business Strategy

- Fit as bundles (configuration approach)
- Fit as gestalt
- Fit as an ideal set of practices
- Fit as interaction best fit approach
- Fit as contingency

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Strategic Human Resource Management

Strategic Fit: A Conceptual Framework

1. Fit as strategic interaction (best fit approach) - HR practices linkage with external context

2. Fit as contingency - HR approaches to ensure that internal practices of the organization respond to external factors such as the nature of the market, skill availability

3. Fit as an ideal set of practices (best practice approach) - there are best practices which all firms can adopt
4. Fit as gestalt-emphasizes the importance of finding an appropriate combination of practices.

5. Fit as bundles (the configuration approach)-suggests a search for distinct configuration or bundles of HR practices that complement each other in order to determine which bundle is likely to be most effective.
Three of the five types of fit provide the following possible approaches to SHRM:

• The best fit approach
• The HR bundles or configuration approach
• The best practice approach
Strategic Human Resource Management

The Best Fit Approach

The focus of the best fit approach is on the linkage of HR strategies with business strategies. Also referred to as external fit or vertical integration. Best fit also means that HR strategies match the stages of development of the firm:

- Start-up
- Maturity
- Decline/degeneration
- Regeneration or transformation

Business strategies and HR strategies will differ between green field firm and one that is in the transformation stage.
### Strategic Human Resource Management

HR practices Corresponding to the stages of an Organizations life cycle (adapted from Armstrong)

<table>
<thead>
<tr>
<th>Life Cycle Stages</th>
<th>HR Practices</th>
</tr>
</thead>
</table>
| **Start up**      | Flexible patterns of work  
                  | Recruitment of highly motivated and committed employees  
                  | Little formality  
                  | No unions |
| **Growth**        | More sophisticated recruitment and selection  
                  | Training and development  
                  | Performance management processes  
                  | Reward systems  
                  | Focus on high commitment  
                  | Developing stable employee relations  
                  | Control compensation |
Strategic Human Resource Management

HR practices Corresponding to the stages of an Organization's life cycle

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<th>HR Practices</th>
</tr>
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</table>
| Maturity          | Attention to the control of labour costs  
                    Focus on increasing productivity  
                    Strained employee relations  
                    Control compensation |
| Decline           | Emphasis on rationalization of workforce and downsizing  
                    Abandoning some longstanding practices to cut costs  
                    Trade unions have a marginalized role  
                    Retaining and career consulting services |
Strategic Human Resource Management

The Best Fit Approach contd

Bases of classification of HR Strategies:
Beaumont (1992) three bases of classification of HR strategies:

1. **Different types of business strategies** - example - organization chooses strategy of low cost producer it adopts different HR approaches to compensation as compared to an organization which adopts a product innovation strategy

Porter (1985) different business strategies will result in variation in HR practices
2. Stages in the business or product cycle

HR practices are related to variations in the life cycle stages of a business-startup-growth-maturity-Decline

- In the growth stage, an organization recruits an adequate number and mix of qualified people.
- In the maturity stage, it encourages sufficient turnover to minimize layoffs and facilitate reorganization.
- In the Decline stage, it plans and implements workforce reductions and reallocation.
3. Types and numbers of products - Fombrun et al. (1984) suggested that the strategy aimed at achieving variations in product focus:

- Single product strategy having a functional structure is likely to be subjective in selection/appraisal/rewards.

- Organization that follows strategy of growth – acquisition of unrelated business - criteria of selection will differ.

  - Performance appraisals and rewards are impersonal and based on ROI and profitability.

  - Development is cross functional not cross business.
Three types of business strategy that may be adopted by an organization:

- Cost leadership
- Differentiation
- Focus

According to Porter, an organization may adopt any one of the three business strategies in order to compete successfully in a particular market and gain and sustain superior performance as well as an advantage over its competitors.
Strategic Human Resource Management

HR strategy classification
After discussing the bases of classification of HR strategy the most popular approach is the type of business strategy and adoption of complementary HR strategies Schuler and Jackson focused on Porter ‘s classification of the three generic business strategies
✓ Cost Leadership
✓ Differentiation
✓ Focus
They argued that the HR practices should be designed to reinforce the behavioural implication of these strategies
## Strategic Human Resource Management

### Linking Business Strategy and HR Strategy (O’Riordon)

<table>
<thead>
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<th>Business Strategy</th>
<th>HR Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost Leadership</strong>&lt;br&gt;Suitable for repetitive and predictable behaviour&lt;br&gt;Concerned with short term focus and quantities&lt;br&gt;Result oriented</td>
<td><strong>Utilization HR Strategy</strong>&lt;br&gt;HR Strategy focussed on short term performance measures – results or outcomes&lt;br&gt;Hierarchical pay, few incentives&lt;br&gt;Narrow career path, limited training</td>
</tr>
<tr>
<td><strong>Differentiation</strong>&lt;br&gt;Long term focus&lt;br&gt;Creative job behaviour&lt;br&gt;Moderate concern for quality and quantity</td>
<td><strong>Facilitation HR strategy</strong>&lt;br&gt;Broad career paths&lt;br&gt;Extensive training&lt;br&gt;Equal and fair pay/many incentives for creativity</td>
</tr>
<tr>
<td><strong>Focus</strong>&lt;br&gt;High concern for quality&lt;br&gt;Moderate concern for quality&lt;br&gt;Long/medium term focus</td>
<td><strong>Accumulation HR Strategy</strong>&lt;br&gt;Equal and fair pay with many incentives&lt;br&gt;Hiring employees belonging to the new target market/High employee participation</td>
</tr>
</tbody>
</table>
The HR Bundles Approach

• Bundling refers to the development and implementation of several HR practices together so that they are interrelated and internally consistent.

• Each HR practice complements and reinforces the other.

• Flexible production techniques need to be supported by bundles of high commitment HR practices such as:
  - Performance – contingent pay
  - Employment security etc

- High involvement HR practice that is complementary to other HR practices is introduced in a firm.

- The new practice produces improvement in performance.

- Also has drawbacks.
Strategic Human Resource Management

The best Practice Approach

Superior management practices are readily identifiable and are transferable across organizations. An organization should therefore identify any organization with a reputation for excellence in some function and copy its practices in order to perform well.

Pleffer’s (1994) list of seven practices:

1. Employment security
2. Selective hiring
3. Teamworking
4. High pay contingent on company performance
5. Extensive training
6. Reduction of status differences
7. Information sharing
## Strategic Human Resource Management

### Miles and Snow’s Classification of Business Strategy and HR Strategy

<table>
<thead>
<tr>
<th>Dominant Culture of the organization (Business Strategy)</th>
<th>HR Strategy</th>
</tr>
</thead>
</table>
| **Defenders**  
Find change threatening | Build HR  
Likely to emphasize training programmes and internal promotion |
| **Prospectors**  
Thrive on change  
Favour strategies of product/market development | Creative and flexible management style  
Have high quality HR  
Redeployment  
Acquire HR  
Emphasize recruitment, selection, performance based compensation |
| **Analyzers**  
Seek to match new ventures with the present business set up  
Ventures not new to the market only new to the firm | Low levels of monitoring and coordination  
Buy and make Key HR  
Emphasize HR planning |