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 of 'strategic' to the term of 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.
Fombrun Model Of HRM

Selection → HRD

Appraisal → HRD

Rewards → HRD

Organisational effectiveness
The Harvard Model of Human Resource Management


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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>Training</td>
<td>Commitment</td>
<td>Effort/motivation</td>
<td>High: Productivity</td>
</tr>
<tr>
<td>Focus (quality)</td>
<td>Appraisal</td>
<td>Rewards</td>
<td>Quality</td>
<td>Cooperation</td>
<td>Low: Absence</td>
</tr>
<tr>
<td>Cost (cost-reduction)</td>
<td>Job design</td>
<td>Involvement</td>
<td>Flexibility</td>
<td>Involvement</td>
<td>Labour turnover</td>
</tr>
<tr>
<td>Status and security</td>
<td>Status and security</td>
<td></td>
<td></td>
<td>Organizational citizenship</td>
<td>Conflict</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>Traditional HRM</th>
<th>SHRM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responsibility for HR programmes</td>
<td>Staff personnel in the HR department</td>
<td>Line managers, all managers responsible for people are HR managers</td>
</tr>
<tr>
<td>Focus of activities</td>
<td>Employees relations, motivation, productivity, compliance with laws</td>
<td>Partnerships with internal and external customers</td>
</tr>
<tr>
<td>Role of HR</td>
<td>Reactive and transactional</td>
<td>Proactive and transformational, change leader</td>
</tr>
<tr>
<td>Initiative for change</td>
<td>Slow, piecemeal, fragmented, not integrated with larger issues</td>
<td>Fast, flexible, systematic, change initiatives implemented in concert with other HR systems</td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th></th>
<th>Traditional HRM</th>
<th>SHRM</th>
</tr>
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<tbody>
<tr>
<td>Time horizon</td>
<td>Short term</td>
<td>Consider various time frames as necessary (short, medium, or long)</td>
</tr>
<tr>
<td>Control</td>
<td>Bureaucratic control through rules, procedures and policies</td>
<td>Organic control through flexibility as few restrictions on employee behaviour as possible</td>
</tr>
<tr>
<td>Job design</td>
<td>Focus on scientific management principles—division of labour, independence and specialization</td>
<td>Broad job design, flexibility, teams and groups and cross-training</td>
</tr>
<tr>
<td>Importance investments</td>
<td>Capital, products, technology and finance</td>
<td>People and their knowledge, skills and abilities</td>
</tr>
<tr>
<td>Accountability</td>
<td>Cost centre</td>
<td>Investment centre</td>
</tr>
</tbody>
</table>
### STRATEGIC HUMAN RESOURCE MANAGEMENT

<table>
<thead>
<tr>
<th>SHRM</th>
<th>HR Strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>A general approach to strategic management of human resources</td>
<td>Outcome of the general SHRM approach</td>
</tr>
<tr>
<td>Aligned with the organizational intention about its future direction</td>
<td>Focus on specific organizational intentions about what needs to be done</td>
</tr>
<tr>
<td>Focus on long term people issue</td>
<td>Focus on specific issues that facilitate the achievement of corporate strategy</td>
</tr>
<tr>
<td>Defines the areas in which specific HR strategies need to be developed</td>
<td>Human resource strategy decisions are derived from SHRM</td>
</tr>
<tr>
<td>Focus on macro concerns such as structure culture</td>
<td></td>
</tr>
<tr>
<td>Strategic HRM decisions are built into the strategic business plan</td>
<td></td>
</tr>
</tbody>
</table>
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 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).
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
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

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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.
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.
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 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 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:
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 strategic interaction best fit approach
- Fit as contingency by Prof. Mary Bodra, Xavier Institute of Social Service
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

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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
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

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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
The Best Fit Approach contd

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 encourages sufficient turnover to minimize layoffs and facilitate reorganization

✓ Decline stage-plans and implements workforce reductions and reallocation

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<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 |
<table>
<thead>
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<th>Life Cycle Stages</th>
<th>HR Practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maturity</td>
<td>Attention to the control of labour costs</td>
</tr>
<tr>
<td></td>
<td>Focus on increasing productivity</td>
</tr>
<tr>
<td></td>
<td>Strained employee relations</td>
</tr>
<tr>
<td></td>
<td>Control compensation</td>
</tr>
<tr>
<td>Decline</td>
<td>Emphasis on rationalization of workforce and downsizing</td>
</tr>
<tr>
<td></td>
<td>Abandoning some longstanding practices to cut costs</td>
</tr>
<tr>
<td></td>
<td>Trade unions have a marginalized role</td>
</tr>
<tr>
<td></td>
<td>Retaining and career consulting services</td>
</tr>
</tbody>
</table>
The Best Fit Approach contd

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

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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

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

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

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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.
The best Practice Approach
Superior management practices are readily identifiable and are transferable across organizations
An organization should therefore identify any organization with 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