Strategic human resource management

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What is strategic human resource management?

Strategic human resource management (strategic HRM, or SHRM) may be regarded as an approach to the management of human resources that provides a strategic framework to support long-term business goals and outcomes. The approach is concerned with longer-term people issues and macro-concerns about structure, quality, culture, values, commitment and matching resources to future need.

This interpretation is drawn out in the CIPD book *Strategic HRM: the key to improved business performance*, which includes comprehensive coverage of the various definitions and approaches to HRM, strategy and strategic HRM.

As illustrated in this work, strategic human resource management is a complex process that is constantly evolving, with theory in this area a subject of ongoing discussion by academics and other commentators. Its definition and relationships with other aspects of business planning and strategy is not absolute and opinion varies between writers.

The issue of strategic HRM initially came to prominence during around the early 1990s, at which time academics developed definitions of strategic HRM as:

- The undertaking of all those activities affecting the behaviour of individuals in their efforts to formulate and implement the strategic needs of business.
- The pattern of planned human resource deployments and activities intended to enable the organisation to achieve its goals.

Strategic HRM can encompass a number of individual HR strategies. For example, there may be strategies:

- to deliver fair and equitable reward
- to improve employee performance
- to streamline organisational structure.

However, in themselves these strategies are not strategic HRM. Rather, strategic HRM is the overall framework that determines the shape and delivery of the individual strategies.

Boxall and Purcell assert that strategic HRM is concerned with explaining how HRM influences organisational performance. They also argue that strategy is not the same as strategic planning because:

- **Strategic planning** is the formal process that takes place, usually in larger organisations, defining how things will be done.
- **Strategy**, by contrast, exists in all organisations - even though it may not be written down and articulated - and defines the organisation’s behaviour and how it attempts to cope with its environment.

‘Broadly speaking, strategic HRM is about systematically linking people with organisations; more specifically it is about the integration of HRM strategies into the corporate strategies’, according to a recent account produced by academics at the Aston Centre for Human Resources in association with CIPD.

Strategic HRM, then, is based on HRM principles incorporating the concept of strategy. So, if HRM is a coherent approach to the management of people, strategic HRM implies that this is done in a planned way that integrates organisational goals with policies and action sequences.

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Go to our tool on HR strategy

Strategic HRM and business strategy

A good business strategy, one that is likely to succeed, is informed by people factors. One of the driving factors behind the evaluation and reporting of human capital data (see below) is the need for better information to feed into the process of formulating business strategy.

In the majority of forward-thinking organisations, people are now recognised as the biggest asset. Their knowledge, skills and abilities must be deployed to the maximum effect if the organisation is to create value. The intangible value of an organisation relating to the people it employs is gaining recognition among accountants and investors, and it is generally now accepted that this has implications for long-term sustained performance.

It is therefore too simplistic to suggest that strategic human resource management stems from the organisation’s business strategy. The two must be mutually informative. The way in which people are managed, motivated and deployed, and the availability of skills and knowledge, will all shape the business strategy. It is now increasingly common to find business strategies that are inextricably linked with - and incorporated into - strategic HRM, defining the management of all resources within the organisation.

Individual HR strategies, however, may be shaped by the business strategy. So if the business strategy is about improving customer service this may be translated into discrete HR strategies involving the use of training plans or performance improvement plans.

Links with workforce planning

Effective workforce planning is an essential element in the management of people to meet the future skills needs of any organisation to support its long-term business goals. There has recently been a renewed interest in this issue, largely driven by the realisation that in a fast-changing economy some degree of planning is vital to ensure the organisation is developing sufficient capacity to adapt to new trends and take advantage of emerging opportunities.

Workforce planning involves operationalising business strategy and hence must be an iterative process - feeding information upwards on the capability and capacity of the workforce to deliver - and acting on forecast need for skills and capabilities to take the organisation forward.

More information can be found in our guide Workforce planning: right people, right time, right skills.

Strategic HRM and human capital management

Human capital may be defined as people at work and their collective knowledge, skills, abilities and capacity to develop and innovate. More information on human capital and human capital management (HCM) may be found in our factsheet on that topic.

A number of writers have argued that HCM and strategic HRM are one and the same thing - and indeed the concept of strategic HRM matches that of the broader definition of HCM quite well, as illustrated by the following definition of the main features of strategic HRM by Dyer and Holder:

- **Organisational level** - because strategies involve decisions about key goals, major policies and the allocation of resources, they tend to be formulated at the top.

- **Focus** - strategies are business-driven and focus on organisational effectiveness - thus in this perspective people are viewed primarily as resources to be managed toward the achievement of strategic business goals.

- **Framework** - strategies by their very nature provide unifying frameworks that are at once broad, contingency-based and integrative. They incorporate a full complement of HR goals and activities designed specifically to fit extant environments and to be mutually reinforcing or synergistic.

Both strategic HRM and HCM, then, rest on the assumption that people are treated as assets rather than costs, and both also focus on the importance of adopting an integrated and strategic approach to managing people - which is the concern of all the stakeholders in an organisation, not just the people management function.

However, the concept of human capital management complements and strengthens the concept of strategic HRM rather than replacing it. It does this by:

- drawing attention to the significance of ‘management through measurement’ - the aim being to establish a clear line of sight between HR interventions and organisational success

- providing guidance on what to measure, how to measure and how to report on the outcomes of measurement

- underlining the importance of using the measurements to prove that superior people management is delivering superior results and to indicate the direction that HR strategy should follow

- reinforcing attention on the need to base HR strategies and processes on the requirement to create
value through people and thus further the achievement of organisational goals

- defining the link between between HRM and business strategy
- strengthening the HRM belief that people are assets rather than costs
- emphasising the role of HR specialists as business partners.

Hence both HCM and strategic HRM can be regarded as vital components in the process of people management, and both form the basis for achieving human capital advantage through a resource-based strategy.

An alternative way of looking at the relationship between strategic HRM and human capital is in terms of the conversion of human capital into organisational value. Human capital evaluation is useful in that it provides information about the current and potential capabilities of human capital to inform the development of strategy. Business success will be achieved if the organisation is successful in managing this human capital to achieve this potential and embed it in products and services that have a market value.

Strategic HRM could then be viewed as the defining framework within which these evaluation, reporting and management processes take place and ensure that they are iterative and mutually reinforcing. Human capital informs and in turn is shaped by strategic HRM but it does not replace it.

**Strategic HRM and business performance**

Since around the mid-1990s, the CIPD and other organisations have been gathering evidence of the impact of people management practices on business performance. Much emphasis has been placed on the importance of ‘fit’ - in other words, it is argued, HR strategies must fit both with each other and with other organisational strategies for maximum impact. The main areas of practice agreed to have an impact on performance are around job design and skills development.

The ‘people and performance model’ generated from CIPD-sponsored work at Bath University emphasised the importance of individual HR strategies that must fit with each other operating within a strategic framework incorporating both people and business issues.

More recently, our report Sustainable organisation performance – what really makes the difference? has stressed the importance of both internal and external alignment with organisational purpose. It also emphasises the need to develop a strategy that is forward-looking and balances the needs of the current operating climate with long-term priorities.

- View the full findings in the report

In addition, our work looking at the evolving HR function argues for an insight-driven approach to HR where the relationship between HR and business strategy is iterative and mutually reinforcing.

- Find out about our Next Generation HR research project

CIPD research has, however, also found that individual HR practices alone do not drive enhanced business performance. They can create ‘human capital’ or a set of individuals who are highly-skilled. However, this will only feed through into higher levels of business performance if these individuals have positive relationships with their managers in a supportive environment with strong values. All these factors will promote ‘discretionary behaviour’, that is, the willingness of the individual to perform above the minimum necessary or give extra effort. It is this discretionary behaviour that makes the difference to organisational performance. Hence strategic HRM should take account of the need to engage individuals within the organisation to effectively drive business performance. Find out more in our factsheet on employee engagement.

- Go to our employee engagement factsheet

**CIPD viewpoint**

It is useful for all organisations to manage individuals within a planned and coherent framework that reflects the business strategy. In this way, they can ensure that the various aspects of people management are mutually reinforcing in developing the performance and behaviours necessary to achieve business success. There is, however, no single HRM strategy that will deliver success in all situations. Organisations need to define a strategy that is unique to their own circumstances in terms of context, goals, and the demands of organisational stakeholders.

**References**

Further reading

Books and reports


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This factsheet was last updated by CIPD staff.