strategic plan
A company’s plan for how it will match its internal strengths and weaknesses with external opportunities and threats in order to maintain a competitive advantage.

strategy
The company’s long-term plan for how it will balance its internal strengths and weaknesses with its external opportunities and threats to maintain a competitive advantage.

strategic management
The process of identifying and executing the organization’s mission by matching its capabilities with the demands of its environment.

As at Albertsons, superior managers usually shape their departments’ policies and practices so they make sense in terms of (or “align with”) their companies’ strategic aims. The main purpose of this chapter is to show you how to develop a human resource management system that supports, and makes sense in terms of, your company’s strategic aims; we show how to translate a company’s business strategy into actionable human resource policies and practices. We’ll explain the strategic management process, how to develop a strategic plan, the human resource manager’s role in the strategic management process, and (in the appendix) a step-by-step “HR Scorecard approach” to creating human resources policies and practices that make sense in terms of the company’s strategic aims.

THE STRATEGIC MANAGEMENT PROCESS

Ford Motor Company, facing huge losses and hemorrhaging market share to Toyota and Nissan, knew it needed a new strategic plan. Competition was fierce, Ford’s costs were higher than competitors’, and Ford’s unused plant capacity was draining profits. Ford’s managers devised “The Way Forward.” This new strategic plan entailed closing a dozen plants and terminating 20,000 employees. As at Ford, a strategic plan is the company’s plan for how it will match its internal strengths and weaknesses with external opportunities and threats in order to maintain a competitive advantage. The essence of strategic planning is to ask, “Where are we now as a business, where do we want to be, and how should we get there?” The manager then formulates specific (human resources and other) strategies to take the company from where it is now to where he or she wants it to be. A strategy is a course of action. Ford’s strategies included closing plants and terminating employees. We discuss various standard strategies shortly. First, we look more closely at the strategic management process.

Steps in Strategic Management

Strategic planning is part of the strategic management process. Strategic management entails both strategic planning and implementation, and is “the process of identifying and executing the organization’s strategic plan, by matching the company’s capabilities with
CHAPTER 3 • STRATEGIC HUMAN RESOURCE MANAGEMENT AND THE HR SCORECARD

the demands of its environment.” Strategic planning comprises (see Figure 3-1) the first 5 of 7 strategic management tasks: (1) defining the business and developing a mission, (2) evaluating the firm’s internal and external strengths, weaknesses, opportunities, and threats, (3) formulating a new business statement, (4) translating the mission into strategic goals, and (5) formulating strategies or courses of action. In its simplest sense, however, strategic planning is remarkably simple: Decide what business you’re in now and which ones you want to be in, formulate a strategy for getting there, and execute your plan. The entire 7-step strategic management process follows:

**Step 1: Define the Current Business**  Every company must choose the terrain on which it will compete—in particular, what products it will sell, where it will sell them, and how its products or services will differ from its competitors’. Rolex and Seiko are both in the watch business, but Rolex sells a limited product line of high-priced quality watches. Seiko sells a wide variety of relatively inexpensive but innovative specialty watches with features like compasses and altimeters.

Therefore, the most basic strategic decisions managers make involve deciding “what business” their firms should be in: For instance, in terms of the products or services they’ll sell, the geographic locales in which they’ll sell them, and how they’ll distinguish their products or services from competitors’. They ask, “Where are we now in terms of the business we’re in, and what business do we want to be in, given our company’s opportunities and threats, and its strengths and weaknesses?” Managers then choose strategies—courses of action such as buying competitors or expanding overseas—to get the company from where it is today to where it wants to be tomorrow.

Managers sometimes use a *vision statement* as a sort of shorthand to summarize how they see the business down the road. The company’s *vision* is a general statement of its intended direction that shows, in broad terms, “what we want to become.” Rupert Murdoch, chairman of News Corporation (which owns MySpace.com, the Fox network, and many newspapers and satellite TV operations), has a vision of an integrated, global satellite-based news-gathering, entertainment, and multimedia firm. WebMD launched its business based on a vision of a Web site supplying everything one might want to know about medical-related issues. One eye care company says, “our vision is caring for your vision.” Not surprisingly, it helps to be something of a visionary to formulate a vision statement that sums up in just a few words the manager’s
image of where the business is heading. Two management gurus, Warren Bennis and Bert Manus say,

To choose a direction, a leader must first have developed a mental image of a possible and desirable future state for the organization. This image, which we call a vision, may be as vague as a dream or as precise as a goal or mission statement. The critical point is that a vision articulates a view of a realistic, credible, attractive future for the organization, a condition that is better in some important ways than what now exists.4

Visions are usually longer term, broader images; most managers also formulate mission statements to “. . . communicate ‘who we are, what we do, and where we’re headed.’”5 Whereas visions usually lay out in very broad terms what the business should be, the mission lays out in broad terms what our main tasks are now. In the movie several years ago, “Saving Private Ryan,” the team’s mission was, of course, to save private Ryan. Before their more recent turndown, Ford pursued and then strayed from a remarkably successful mission, summed up by the phrase, “Where Quality is Job One.” The mission of the California Energy Commission is to “assess, and act through public/private partnerships to improve energy systems that promote a strong economy and a healthy environment.” (The Commission’s vision, by way of comparison, is “for Californians to have energy choices that are affordable, reliable, diverse, safe, and environmentally acceptable.”)

Step 2: Perform External and Internal Audits

Ideally, managers begin their strategic planning by methodically analyzing their external and internal situations. The strategic plan should provide a direction for the firm that makes sense, in terms of the external opportunities and threats the firm faces and the internal strengths and weaknesses it possesses. To facilitate this strategic external/internal audit, many managers use SWOT analysis. This involves using a SWOT chart like that in Figure 3-2 to compile and organize the process of identifying company Strengths, Weaknesses, Opportunities, and Threats.

Step 3: Formulate New Business and Mission Statements

Based on the situation analysis, what should our new business be, in terms of what products it will sell, where it will sell them, and how its products or services will differ from its competitors’? What is our new mission and vision?

Step 4: Translate the Mission into Strategic Goals

Saying the mission is “to make quality job one” is one thing; operationalizing that mission for your managers is another. The firm’s managers need strategic goals. What exactly does that mission mean, for each department, in terms of how we’ll boost quality? As an example, WebMD’s sales director needs goals regarding the number of new

**mission**
Spells out who the company is, what it does, and where it’s headed.

**SWOT analysis**
The use of a SWOT chart to compile and organize the process of identifying company Strengths, Weaknesses, Opportunities, and Threats.

![FIGURE 3-2 A SWOT Chart](image-url)
medical-related content providers—vitamin firms, hospitals, HMOs—it must sign up per year, as well as sales revenue targets. The business development manager needs goals regarding the number of new businesses—such as using WebMD to help manage doctors’ offices online—he or she is to develop and sign. Similarly, Citicorp can’t function solely with a mission like, “provide integrated, comprehensive financial services worldwide.” To guide managerial action, it needs goals in terms of things like building shareholder value, maintaining superior rates of return, building a strong balance sheet, and balancing the business by customer, product, and geography.6

Step 5: Formulate Strategies to Achieve the Strategic Goals Again, a strategy is a course of action. It shows how the enterprise will move from the business it is in now to the business it wants to be in (as laid out by its vision, mission, and strategic goals), given the firm’s opportunities, threats, strengths, and weaknesses. The strategies bridge where the company is now, with where it wants to be tomorrow. The best strategies are concise enough for the manager to express in an easily communicated phrase that resonates with employees. Figure 3-3 illustrates “this principle.” For example, the essence of Dell’s strategy is, “be direct.” Wal-Mart’s strategy boils down to “low prices, every day.” Keeping the strategy clear and concise helps ensure that employees all share that strategy and so make decisions that are consistent with it. For example, the executive team’s shared understanding of Nokia’s strategy reportedly helps explain how the firm can make thousands of decisions each week so coherently.7

Step 6: Implement the Strategies Strategy implementation means translating the strategies into actions and results—by actually hiring (or firing) people, building (or closing) plants, and adding (or eliminating) products and product lines. Strategy implementation involves drawing on and applying all the management functions: planning, organizing, staffing, leading, and controlling.

Step 7: Evaluate Performance Strategies don’t always succeed. For example, Procter & Gamble announced it was selling its remaining food businesses—Jif, Crisco, and Folger’s coffee—because management wants to concentrate on household and cosmetics products.8

Managing strategy is an ongoing process. Competitors introduce new products, technological innovations make production processes obsolete, and social trends reduce demand for some products or services while boosting demand for others. Strategic control keeps the company’s strategy up to date. It is

<table>
<thead>
<tr>
<th>Company</th>
<th>Strategic Principle</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dell</td>
<td>Be direct</td>
</tr>
<tr>
<td>eBay</td>
<td>Focus on trading communities</td>
</tr>
<tr>
<td>General Electric</td>
<td>Be number one or number two in every industry in which we compete, or get out</td>
</tr>
<tr>
<td>Southwest Airlines</td>
<td>Meet customers' short-haul travel needs at fares competitive with the cost of automobile travel</td>
</tr>
<tr>
<td>Vanguard</td>
<td>Unmatchable value for the investor-owner</td>
</tr>
<tr>
<td>Wal-Mart</td>
<td>Low prices, every day</td>
</tr>
</tbody>
</table>

FIGURE 3-3

Strategies in a Nutshell