

Beer and his colleagues believed that 'Today, many pressures are demanding a broader, more comprehensive and more strategic perspective with regard to the organization's human resources'. These pressures have created a need for 'a longer-term perspective in managing people and consideration of people as potential assets rather than merely a variable cost'. They were the first to underline the tenet that HRM belongs to line managers.

They also stated that: 'Human resource management involves all management decisions and action that affect the nature of the relationship between the organization and its employees - its human resources'.

The Harvard school suggested that HRM had two characteristic features:

- 1) Line managers accept more responsibility for ensuring the alignment of competitive strategy and personnel policies; and
- 2) The personnel function has the mission of setting policies that govern how personnel activities are developed and implemented in ways that make them more mutually reinforcing.

The Harvard framework as modeled by Beer et al is shown in Figure 2.2

According to Boxall (1992) the advantages of this model are that it:

- ♦ incorporates recognition of a range of stakeholder interests;
- ♦ recognizes the importance of 'trade-offs', either explicitly or implicitly, between the interests of owners and those of employees, as well as between various interest groups;
- ♦ widens the context of HRM to include 'employee influence', the organization of work and the associated question of supervisory style;
- ♦ acknowledges a broad range of contextual influences on management's choice of strategy, suggesting a meshing of both product-market and socio-cultural logics;
- ♦ emphasizes strategic choice it is not driven by situational or environmental determinism.

processes are designed and delivered efficiently. While this role has been down-played and even disclaimed with the shift to a strategic focus, its successful accomplishment continues to add value to a business.

HR professionals create infrastructure by constantly examining and improving the HR processes.

The deliverable from the infrastructure role is administrative efficiency. HR professionals accomplish administrative efficiency in two ways. First, they ensure efficiency in HR processes. For example, through reengineering HR processes, one firm recently found twenty-four separate registration systems for training; new efficiency and cost savings were achieved by streamlining and automating them into a single system. Another firm, finding that it required an average of six months to staff key positions, improved the process and cut the time needed to one month. A second way in which HR executives can improve overall business efficiency is by hiring, training, and rewarding managers who increase productivity and reduce waste.

By delivering administrative efficiency, HR managers highlight their role as administrative experts, mastering and leading reengineering efforts that foster HR and business processes. At a simplistic level, most HR functions today (like most other business functions) are being asked to do more with less-and accomplishing this feat should be the outcome of undertaking this role.

The metaphor for work on a firm's infrastructure is the "administrative expert." As implied above, HR professionals acting as administrative experts ferret out unnecessary costs, improve efficiency, and constantly find new ways to do things better.

To be effective as administrative experts, HR professionals need to undertake activities leading to continual reengineering of the work processes they administer. In many firms, this reengineering of HR processes has led to a new HR organizational form called shared services, through which HR administrative services are shared across company divisions while

quadrants and lower in the strategic quadrants, a result consistent with traditional HR roles. The largest range of scores is found for employee contribution, with some firms shown to be heavily invested in enhancing employee commitment while others appear to have relegated employee concerns to the back burner. In general, the management transformation and change role receives the lowest scores.

Reviewing the Evolution of the HR Function

The HR role-assessment survey in the appendix provides not only a view of current overall quality of HR services but also an assessment of the evolution of a business's HR services. This can be done either by changing the questions to request perceptions of "past versus present or future" quality for each role or by repeating the survey over time.

Had a business collected this data several times over the past twenty years, for example, the evolution of its HR roles would have been evident, showing, most likely, movement from a focus on operational roles to a focus on strategic roles. Focus on employee contribution has also decreased at most businesses over the past two decades. In recent years most firms have undertaken productivity initiatives, such as reengineering, downsizing, and consolidation, which demand that HR professionals focus on infrastructure and their roles as administrative experts. Over the same period, an emphasis on strategic intent initiatives, such as globalization customer service, and multi-generational product design, has encouraged HR focus on strategy execution and fulfillment of the strategic partner role. Finally, culture change initiatives, such as process improvements, culture change, and empowerment, have meant that the HR professional must increasingly manage such culture change in the capacity of change agent. This shift in emphasis has meant that HR professionals have done less and less in their role as employee champion to manage employee contribution.

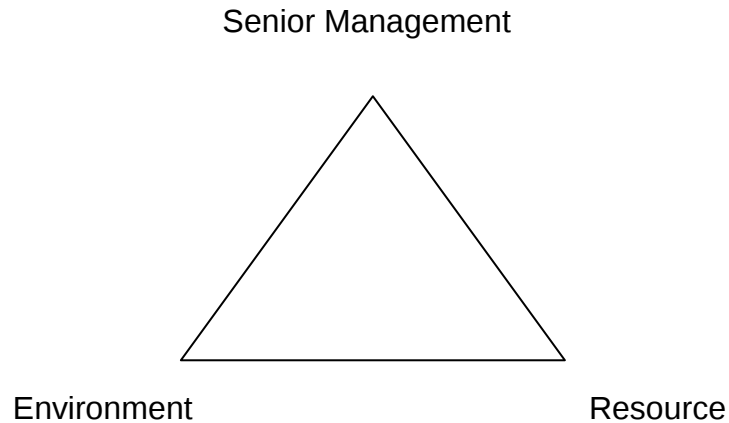
By using the HR role-assessment survey, businesses can identify areas in which the HR function is growing stronger or weaker in each role.

2.3 Strategic Management

Over the past decade, HR researchers and practitioners have focused their attention on other important questions. First, what determines whether an organization adopts a strategic approach to HRM, and how is HR strategy formulated? Of interest is which organizations are most likely to adopt a strategic approach to HRM. Is there, for example, a positive association with a given set of external and internal characteristics or contingencies and the adoption of SHRM? Another area of interest concerns the policies and practices making up different HR strategies. Is it possible to identify a cluster or 'bundle' of HR practices with different strategic competitive models? Finally, much research productivity in recent years has been devoted to examining the relationship between different clusters of HR practices and organizational performance. Does HR strategy really matter? For organizational practitioners who are looking for ways to gain a competitive advantage, the implication of HR strategic choices for company performance is certainly the key factor.

The word 'strategy', deriving from the Greek *strategos*, meaning 'commander in chief', was first used in the English language in 1656. The development and usage of the word suggests that it is composed of *stratos* (army) and *agen* (to lead). In a management context, the word 'strategy' has now replaced the more traditional term - 'long-term planning' - to denote a specific pattern of decisions and actions undertaken by the upper echelon of the organization in order to accomplish performance goals. Wheelen and Hunger (1995, p. 3)¹⁶ define strategic management as 'that set of managerial decisions and actions that determines the long-run performance of a corporation'. Hill and Jones (2001, p. 4)¹⁷ take a similar view when they define strategy as 'an action a company takes to attain superior performance'. Strategic management is considered to be a continuous activity that requires a constant adjustment of three major interdependent poles: the values of senior management, the environment, and the resources available (Figure 2.5)

Figure 2.5: The three traditional poles of a strategic plan



Source: Adapted from Aktouf (1996) Traditional manager and beyond Paris: Morin publication page 91.

Mode of Strategic Management

In the descriptive and prescriptive management texts, strategic management appears as a cycle in which several activities follow and feed upon one another. The strategic management process is typically broken down into five steps:

1. Mission and goals
2. Environmental analysis
3. Strategy formulation
4. Strategy implementation
5. Strategy evaluation.

between organizational design and employer-employee relations. As Purcell (1989, 1995) points out, an organization pursuing a strategy of acquisition and downsizing might 'logically' adopt an HR strategy that includes the compulsory layoff of non-core employees and, for the identifiable core of employees with rare attributes, a compensation system based on performance results. In practice, the resource-based approach predicts a sharp differentiation within organizations 'between those with key competencies, knowledge and valued organizational memory, and those more easily replaced or disposed of (Purcell, 1999, p. 36). In such a case, the business strategy and HR strategy might 'fit', but, as point out, these HR policies and practices 'although consistent with such a business strategy, are unlikely to generate employee commitment'. Thus, achieving the goal of 'close fit' of business and HR strategy can contradict the goal of employee commitment and cooperation.

It is important to emphasize that however committed a group of managers might be to a particular HR strategy (for example the commitment HR strategy), there are external conditions and internal 'structural contradictions' at work that will constrain management action. The kind of analysis explored here is nicely summed up by Hyman's pessimistic pronouncement that 'there is no "one best way" of managing these contradictions, only different routes to partial failure' (1987, quoted in Thompson & McHugh, 2002, p. 108).

Dimensions of strategic human resource management

In addition to focusing on the validity of the matching SHRM model and typologies of HR strategy, researchers have identified a number of important themes associated with the notion of SHRM.

Human Resource Management Practices and performance

Although most HRM models provide no clear focus for any test of the HRM performance link, the models tend to assume that an alignment between business strategy and HR strategy will improve organizational performance and competitiveness. During the past decade, demonstrating that there is indeed positive link between particular sets or 'bundles' of HR practices and

business performance has become 'the dominant research issue' (Guest, 1997, p. 264)⁵². The dominant empirical questions on this topic ask 'What types of performance data are available to measure the HRM-performance link?' and 'Do "high-commitment-type" HRM systems produce above-average results compared with "control-type" systems?' A number of studies have found that, in spite of the methodological challenges, bundles of HRM practices are positively associated with superior organization performance.

Re-engineering and Strategic human resource management

All normative models of HRM emphasize the importance of organizational design. As previously discussed, the 'soft' HRM model is concerned with job designs that encourage the vertical and horizontal compression of tasks and greater worker autonomy. The redesign of work organizations has been variously labeled 'high performing work systems' (HPWS), 'business process re-engineering' and 'high commitment management'. The literature emphasizes core features of this approach to organizational design and management, including a 'flattened hierarchy, decentralized decision-making to line managers or work teams, 'enabling' information technology, 'strong' leadership and a set of HR practices that make workers' behaviour more congruent with the organization's culture and goals.

Leadership and strategic human resource management

The concept of managerial leadership permeates and structures the theory and practice of work organizations and hence how we understand SHRM. Most definitions of managerial leadership reflect the assumption that it involves a *process* whereby an individual exerts influence upon others in an organizational context. Within the literature, there is a continuing debate over the alleged differences between a manager and a leader: managers develop *plans* whereas leaders create a *vision* (Kotter, 1996). Much of the leadership research and literature tends to be androcentric in nature and rarely acknowledges the limited representation of ethnic groups and women in senior leadership positions (Townley, 1994)⁵³. The current interest in alternative leadership paradigms variously labelled 'transformational

as they arise during the course of formulating and implementing the corporate strategy.

A distinction is made by Purcell (1989) and Purcell and Ahlstrand (1994) between:

- ◆ 'upstream' first-order decisions which are concerned with the long-term direction of the enterprise or the scope of its activities;
- ◆ 'downstream' second-order decisions which are concerned with internal operating procedures and how the firm is organized to achieve its goals;
- ◆ 'downstream' third-order decisions which are concerned with choices on human resource structures and approaches and are strategic in the sense that they establish the basic parameters of employee relations management in the firm.

It can indeed be argued that HR strategies, like other functional strategies such as product development, manufacturing and the introduction of new technology, will be developed within the context of the overall business strategy, but this need not imply that HR strategies come third in the pecking order. Observations made by Armstrong and Long (1994) during research into the strategy formulation processes of 10 large UK organizations suggested that there were only two levels of strategy formulation. First, there is the corporate strategy relating to the vision and mission of the organization but often expressed in terms of marketing and financial objectives. Second, there are specific strategies within the corporate strategy concerning product-market development, acquisitions and divestments, human resources, finance, new technology, organization, and such overall aspects of management as quality, flexibility, productivity, innovation and cost reduction.

people continue to seek the 'holy grail' of a range of ideal approaches to HRM. But views will always differ on what constitutes best practice, as is illustrated in Table 2.2

Table 2.2 Views on HR best practices

Best practice	Storey (1992a)	Pfeffer (1994)	Wood (1995)	Huselid (1995)
Sophisticated selection	*	*	*	*
Flexibility / team working	*	*	*	
Internal promotion		*	*	
Employment security		*	*	
Employee involvement	*	*	*	
Employee voice				*
Commitment to learning	*	*	*	*
Performance-related reward	*	*	*	*
Harmonization	*	*	*	
Employee ownership				

Source: Armstrong, M. (2003), A hand book of strategic human resource Management New Delhi, Crest publishing house pp.80

MODELS FOR DEVELOPING HR STRATEGIES

Essentially, the formulation of HR strategy requires answers to just three questions:

1. Where are we now?
2. Where do we want to be in one, two or three years' time?
3. How are we going to get there?

But it is more complicated than that and the process could be modeled as shown in Figure 2.12.

people in the organization share the same perspective 'through their intentions and/ or by their actions'. This is what Mintzberg calls the 'collective mind', and reading that mind is essential if we are 'to understand how intentions... become shared and how action comes to be exercised on a collective yet consistent basis'.

No one else has made this point so well as Mintzberg and what the research conducted by Armstrong and Long (1994) revealed is that strategic HRM is being practiced in the Mintzbergian sense in the organizations they visited. In other words intentions are shared amongst the top team and this leads to actions being exercised on a collective yet consistent basis. In each case the shared intentions emerged as a result of strong leadership from the chief executive, with the other members of the top team acting jointly in pursuit of well-defined goals. These goals indicated quite clearly the critical success factors of competence, commitment, performance, contribution and quality that drive the HR strategy.

Against this background the specific issues that have to be addressed comprise:

- 1) The business issues facing the organization,
- 2) Achieving integration/vertical fit,
- 3) Approaches to achieving horizontal integration or fit - ie coherence through 'bundling', and
- 4) Achieving flexibility.

KEY BUSINESS ISSUES

The Key business issues that may impact on HR strategies include:

- ◆ intentions concerning growth or retrenchment, acquisitions, mergers, divestments, diversification, product/market development;
- ◆ proposals on increasing competitive advantage through innovation leading to product / service differentiation, productivity gains, improved quality / customer service, cost reduction (downsizing);
- ◆ the felt need to develop a more positive, performance-oriented culture;

- ◆ any other culture management imperatives associated with changes in the philosophies of the organization in such areas as gaining commitment, mutuality, communications, involvement, devolution and team working.

Business strategies in these areas may be influenced by HR factors although not excessively so HR strategies are, after all, about making business strategies work. But the business strategy must take into account key HR opportunities constraints.

Business strategy sets the agenda for HR strategy in the following areas:

- ◆ HR mission;
- ◆ values, culture and style;
- ◆ organizational philosophy and approach to the management of people; top management as a corporate resource;
- ◆ resourcing;
- ◆ skills acquisition and development;
- ◆ high-commitment management;
- ◆ high-performance management.

Achieving vertical integration and fit

Vertical integration comes in two forms: 1) integration with the culture of the organization, and 2) fit with the business strategy.

Culture integration

HR strategies need to be congruent with the existing culture of the organization or designed to produce cultural change in specified directions. This will be a necessary factor in the formulation stage but could be a vital factor when it comes to implementation. In effect, if what is proposed is in line with 'the way we do things around here' then it will be more readily accepted. However, in the more likely event that it changes 'the way we do things around here', then careful attention has to be given to the real problems that may occur in the process of trying to embed the new initiative in the organization.

attitude surveys. The evaluation should point the way to action in the form of amendments to the original proposals, the provision of supporting processes, additional support to line managers, intensified communication and training, or getting more resources. .

Setting out the strategy

The following are the headings under which a strategy and the plans for implementing it could be set out:

1. Basis
 - ◆ business needs in terms of the key elements of the business strategy;
 - ◆ environmental factors and analysis (SWOT/PESTLE);
 - ◆ cultural factors - possible helps or hindrances to implementation.
2. Content - details of the proposed HR strategy.
3. Rationale - the business case for the strategy against the background of business needs and environmental/cultural factors.
4. Implementation plan
 - ◆ action programme;
 - ◆ responsibility for each stage;
 - ◆ resources required;
 - ◆ proposed arrangements for communication, consultation, involvement and training;
 - ◆ project-management arrangements.
5. Costs and benefits analysis - an assessment of the resource implications of the plan (costs, people and facilities) and the benefits that will accrue, for the organization as a whole, for line managers and for individual employees. (So far as possible these benefits should be quantified in terms of value added.)

do, and provide a set of signposts that the (HR or other) functional managers can use to decide the precise form the department's specific policies and activities should take. The company's HR (or other functional) strategies should thus derive directly from its company wide and competitive strategies.

Here, the basic rule is this: The HR department's strategies, policies, and activities must make sense in terms of the company's corporate and competitive strategies, and they must support those strategies. Dell's human resource strategies-the Web-based help desk, its centralized intranet HR service bureau-help the firm better execute Dell's low-cost strategy. FedEx's HR strategies-supporting communication and employee development, for instance--help FedEx differentiate itself from its competitors by offering superior customer service.

HR management supports strategic implementation in other ways. For example, HR guides the execution of most firms' downsizing and restructuring strategies, throughout placing employees, instituting pay-for-performance plans, reducing health care costs, and retraining employees. When Wells Fargo acquired First Interstate Bancorp a few years ago, HR played a strategic role in implementing the merger-in merging two "wildly divergent" cultures and in dealing with the uncertainty and initial shock that rippled through the organizations when the merger was announced.

HR's Strategy Formulation Role

While execution is important, HR increasingly plays an expanded strategic planning role today. In recent years, HR's traditional role in executing strategy has expanded to include working with top management to formulate the company's strategic plans. (HR has "a seat at the strategy planning table" is how some HR writers put this.) This expanded strategy formulation role reflects the reality most firms face today', Globalization means more competition, more competition means more performance, and most firms are gaining that improved performance in whole or part by boosting the competence and commitment levels of their employees. That makes HR's input crucial.

HR helps top management formulate strategy in a variety of ways. For example, formulating a company's strategic plan requires identifying, analyzing, and balancing the company's external opportunities and threats, on the one hand, and its internal strengths and weaknesses, on the other. Hopefully, the resulting strategic plans capitalize on the firm's strengths and opportunities, and minimize or neutralize its threats and weaknesses. Externally, HR management is in a unique position to supply competitive intelligence that may be useful in the strategic planning process. Details regarding competitors' incentive plans, opinion survey data from employees that elicit information about customer complaints and information about pending legislation such as labor laws and mandatory health insurance are some examples.

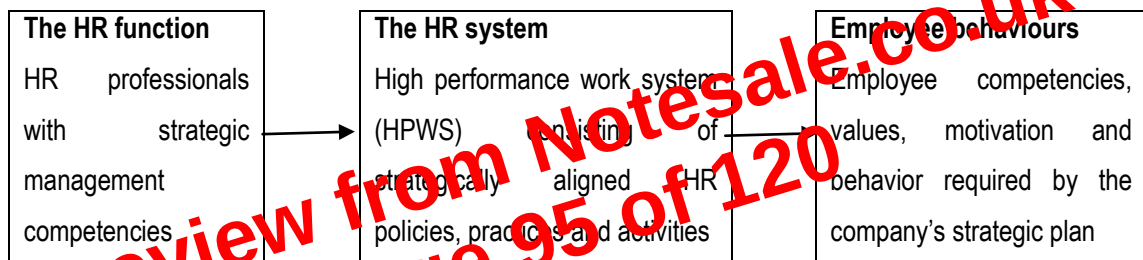
As another example, HR participates in the strategy formulation process by supplying information regarding the company's internal human strengths and weaknesses. For example, IBM's decision in the 1990s to buy Lotus Software was prompted in part by the conclusion that its own human resources were insufficient to enable the firm to reposition itself as an industry leader in networking systems, or at least to do so fast enough. Some firms, thanks to HR's input, build new strategies around human resource strengths. For example, in the process of automating its factories, farm equipment manufacturer John Deere developed a workforce that was exceptionally talented and expert in factory automation. This in turn prompted the firms establish a new-technology division to offer automation services to other companies.

But, for a growing number of employers, HR is even more extensively involved in the strategy formulation process. By working closely with top management, HR is able to build a persuasive case that shows how-in specific and measurable terms-the firm's HR activities can and do contribute to creating value for the company, for instance in terms of higher profits and market value. A big part building that case is to create a strategy - oriented HR system.

CREATING A STRATEGY-ORIENTED HR SYSTEM

We can think of an HR process as consisting of three basic components. There are the HR professionals who have the strategic and other skills required to build a strategy-oriented HR system. There are the HR policies and activities (such as how the company recruits, selects, and trains and rewards employees) that comprise the HR system itself and there are the employee behaviors and competencies that the company's strategy requires, and that hopefully emerge from the actions and policies of the firm's strategy-supporting HR system. Some HR experts refer to these three elements (the HR professionals, the HR system, and the resulting employee behaviors) as a company's basic HR architecture (see Figure 2.17)

Figure 2.17 : The Basic Architecture of HR



Source: Brian Becker et al, (2001), The HR scorecard, Boston: Harvard Business School press pp.12

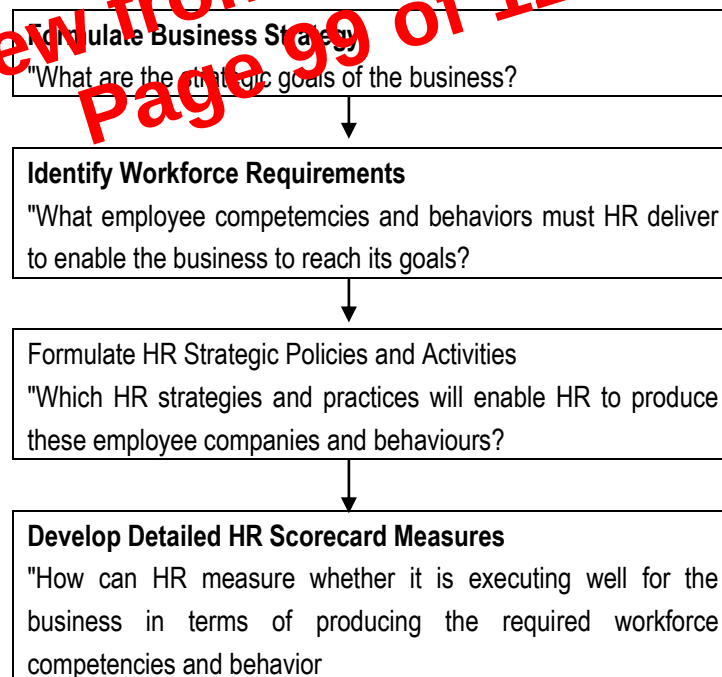
Ideally, the HR professionals should design the HR system in such a way that it helps to produce the employee competencies and behaviors the company needs to achieve its strategic goals. It obviously does little good to design, say, training practices that produce a workforce incapable of using the company's new computerized machines.

Creating a strategy-oriented HR system requires new skills on the part of HR professionals. They must have the competencies required to create HR systems that produce strategically relevant employee behaviors. They need to understand the strategy formulation process. They must be adept at identifying the workforce implications and requirements of the new strategy

Translating Strategy into HR Policy and practice

The HR manager needs a way to translate the firm's new strategy into specific, actionable HR policies and practices. The basic process, as outlined in Figure 2.20, is simple and logical. Management formulates a strategic plan. That strategic plan implies certain workforce requirements, in terms of the employee skills, attributes, and behaviors that HR must deliver to enable the business to achieve its strategic goals. (For example, must our employees dramatically improve the level of customer service? Do we need more computer-literate employees to run our new machines?) Given these workforce requirements, HR management formulates HR strategies, policies, and practices aimed at achieving the desired workforce skills, attributes, and behaviors. (These may take the form of new selection, training, and compensation policies and practices, for instance.) Ideally, HR management then identifies "Scorecard" metrics it can use to measure the extent to which its new HR initiatives are supporting management's strategic goals.

Figure 2.18 Basic Model of how to align HR strategy and actions with business strategies



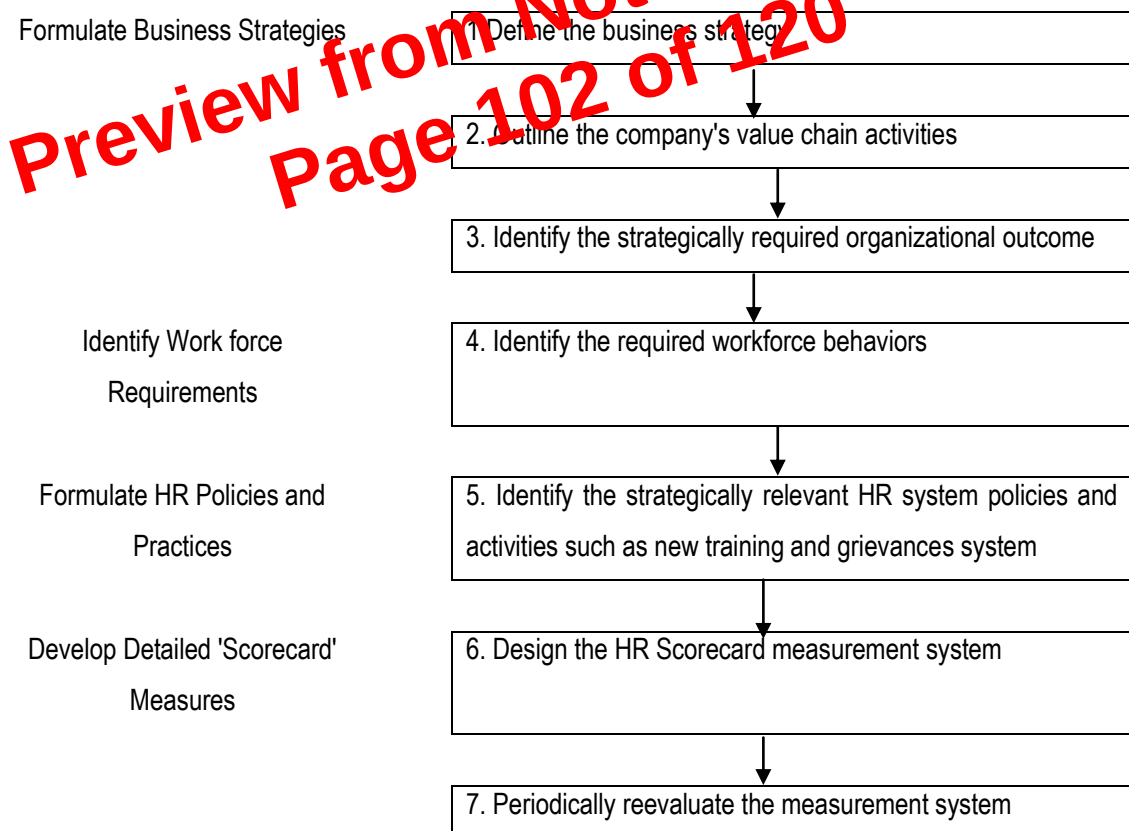
Source: Garrett Walker et.al (2001). Designing and implementing and HR Score card, Human Resources Management Vol. (40)4, pp.370

Using the HR Scorecard Approach

There are seven steps in using HR Scorecard approach to create a strategic results oriented HR system. The seven steps are as follows:

Step 1: Define the Business Strategy: Creating a strategy-oriented HR system starts by defining what the company's strategic plans are (such as, for Einstein Medical, expanding services and becoming a comprehensive health care network). Ideally, senior HR leaders' insights regarding the human resources in their own company and in those of the competition provide valuable planning input. Similarly, their insights regarding how HR practices and deliverable can improve the firm's performance can help top management develop a superior strategic plan. Toward the end of this stage, management translates its broad strategic plans into specific, actionable strategic goals.

Figure 2.20 : The Seven Steps in the HR Scorecard Approach to Formulating HR Policies, Activities and Strategies



Source: ibid pp.88

etc. These various initiatives have often been accompanied by a hunt for new organizational forms - flatter hierarchies, project-based and virtual structures, network teams, 'no boundary' systems and so on. Organizations are continuously in search of an answer, a solution that will magically solve all the problems.

There is no one single 'best way' of doing things as far as organizational success and productivity is concerned. What works well for one organization could lead to spectacular failure for another. The key to maximizing value from HR is aligning HR strategy and programmes to an organization's business strategy.

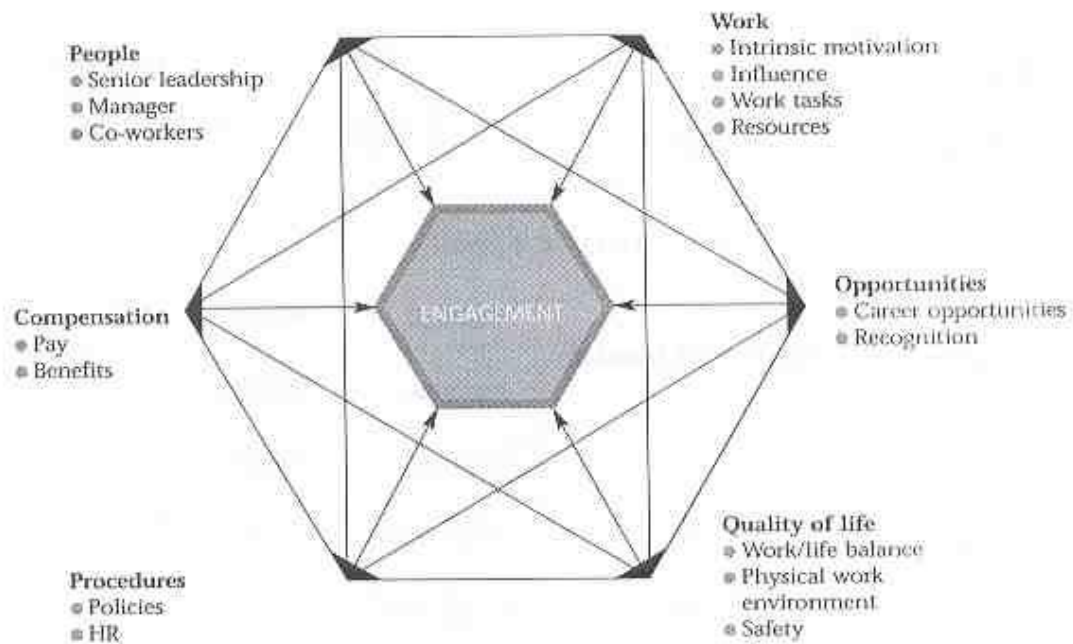
Integrating and aligning HR processes with business strategy

Business strategies and drivers should be analysed for their effect on HR and people practices. Different business drivers will suggest different approaches to HR strategy and organizational design. At the micro level, most companies have a business strategy with elements that are completely unique to their own circumstances. When studying business strategies, however, most observers agree that these thousands of discrete strategies can be classified into three or four categories. In his landmark book 'Competitive strategy', Michael Porter used the term 'generic strategies' to refer to alternative strategic positions in an industry. He suggested that companies could compete in one of three ways:

- ◆ **Cost leadership** - being the low-cost producer;
- ◆ **Differentiation** - having a unique product or service; or
- ◆ **Focus** - concentrating special services or products on a specific market niche.

Porter contends that competitive advantage comes from setting up value-creating activities to deliver on a company's particular kind of strategy. This allows the company to erect barriers to entry.

Figure 2.21 Employee Engagement Model



Source: Halikowa, M. Osgood, p (2003), "Do Human Resource really add value to a business", Management Quarterly ,May 03 pp 24

To address the significance of the value created through employee engagement. US research showed that engaged employees':

- ♦ produce \$3.600 more profit per annum;
- ♦ create \$18.600 more market value; and
- ♦ deliver \$27.000 more sales per annum.

Measuring degrees of employee engagement provides data which enables actions to be taken at the point of business performance. So for example what employee engagement measures might do is help an HR professional to look at all the elements that make up the employment experience and identify which of those elements within the experience motivate employees to stay and which motivate employees to go above and beyond the simple requirements of their job.

Employee engagement measures can also help HR professionals to look at which areas of activity have a greater influence on retention.

Engagement measures can also help explain the difference between top performing units and units which perform less well and thus determine how value can be improved across the business.

Measuring degrees of engagement in staff can help line managers to focus on the areas which will produce the greatest improvement in business performance. If engaged employees and non-engaged employees are compared there are clear differences. Research has shown that engaged sales employees tend to stay longer with organizations, for instance, and tend to be responsible for larger amounts of sales, thus increasing profits per employee and revenues across a business.

Using HR metrics to measure value

A lack of early or sufficient consideration of measures such as employee engagement in business restructuring, denies access to a critical insights which impact on value. A due diligence or risk assessment process for example that only has a financial orientation or where HR questions are asked only about contracts of employment, misses out a whole range of human capital measures.

So, determining the real business drivers for an organization is often the first and crucial link in defining the HR people and practices which have the greatest impact on value. In the last decade, on the back of increased use of IT solutions, more and more HR teams now have their own process controls and performance metrics. A recent research study found that more than 80% of the companies contacted used some kind of HR measurement system. Of those with measures in place, 44% used balanced scorecards as their organizing framework.

In their book 'The balanced scorecard' Robert Kaplan and David Norton contend that customary financial measures are lagging indicators and can lead to short-term thinking designed to "get the numbers up". Instead, they suggest companies use a balanced portfolio of measures to measure their