2

Strategic Human Resource Management

Key concepts and terms

- Best fit
- Best practice
- Bundling
- Competitive advantage
- Configuration
- Human resource advantage
- Lifecycle model

- Resource-based view
- Strategic configuration
- Strategic fit
- Strategic HRM
- Strategic management
- Strategy

Learning outcomes

On completing this chapter you should be able to define these key concepts. You should also understand:

- The conceptual basis of strategic HRM
- How strategy is formulated
- The resource-based view and its implications
- The significance of the concepts of 'best practice' and 'best fit'
- The practical implications of strategic HRM theory

- The fundamental characteristics of strategy
- The aims of strategic HRM
- The three HRM 'perspectives' of Delery and Doty
- The significance of bundling

Introduction

As Baird and Meshoulam (1988) remarked: 'Business objectives are accomplished when human resource practices, procedures and systems are developed and implemented based on organizational needs, that is, when a strategic perspective to human resource management is adopted.' The aim of this chapter is to explore what this involves. It starts with an introduction to the basis of strategic human resource management (strategic HRM) provided by the concepts of human resource management and strategic management. It then covers a definition of strategic human resource management (strategic HRM) and its aims; an analysis of its underpinning concepts – the resource-based view and strategic fit; and a description of how strategic HRM works, namely the universalistic, contingency and configurational perspectives defined by Delery and Doty (1996) and the three approaches associated with those perspectives – best practice, best fit and bundling. The chapter ends with discussions on the reality of strategic HRM and the practical implications of the theories reviewed earlier.

The conceptual basis of strategic HRM

Boxall (1996) explained that strategic HRM 'is the interface between HRM and strategic management'. It takes the notion of HRM as a strategic, integrated and coherent approach and develops that in line with the concept of strategic management. This is an approach to management that involves taking a broad and long-term view of where the business or part of the business is going and managing activities in ways that ensure this strategic thrust is maintained.

As defined by Pearce and Robinson (1988): 'Strategic management is the set of decisions and actions resulting in the formulation and implementation of strategies designed to achieve the objectives of an organization.' According to Kanter (1984) its purpose is to: 'elicit the present actions for the future' and become 'an action vehicle – integrating and institutionalizing mechanisms for change'. The concept of strategic management is built on the concept of strategy, as considered below.

The concept of strategy

Strategy is the approach selected to achieve defined goals in the future. According to Chandler (1962) it is: 'The determination of the long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out those goals.'

Strategy has three fundamental characteristics. First, it is forward looking. It is about deciding where you want to go and how you mean to get there. It is concerned with both ends and

means. In this sense a strategy is a declaration of intent: 'This is what we want to do and this is how we intend to do it.' Strategies define longer-term goals but they also cover how those goals will be attained. They guide purposeful action to deliver the required result. A good strategy is one that works, one that in Abell's (1993) phrase enables organizations to adapt by 'mastering the present and pre-empting the future'. As Boxall (1996) explained: 'Strategy should be understood as a framework of critical ends and means.'

The second characteristic of strategy is that the organizational capability of a firm (its capacity to function effectively) depends on its resource capability (the quality and quantity of its resources and their potential to deliver results). This is the resource-based view, based on the ideas of Penrose (1959) who wrote that: the firm is 'an administrative organization and a collection of productive resources'. It was expanded by Wernerfelt (1984) who explained that strategy 'is a balance between the exploitation of existing resources and the development of new ones'. Resource-based strategy theorists such as Barney (1991, 1995) argued that sustained competitive advantage stemmed from the acquisition and effective use of bundles of distinctive resources that competitors cannot imitate. The resource-based view is a major element in strategic HRM, as discussed later in this chapter.

The third characteristic of strategy is strategic fit – the need when developing HR strategies to achieve congruence between them and the organization's business strategies within the context of its external and internal environment. The focus is upon the organization and the world around it. To maximize competitive advantage a firm must match its capabilities and resources to the opportunities available in its environment. The concept of fit or integration is also a major feature of strategic HRM.

The formulation of strategy

The formulation of corporate strategy is best described as a process for developing a sense of direction, making the best use of resources and ensuring strategic fit. It has often been described as a logical, step-by-step affair, the outcome of which is a formal written statement that provides a definitive guide to the organization's intentions. Many people still believe and act as if this were the case, but it is a misrepresentation of reality. In practice the formulation of strategy can never be as rational and linear a process as some writers describe it or as some managers attempt to make it.

The difficulty is that strategies are often based on the questionable assumption that the future will resemble the past. Some years ago, Heller (1972) had a go at the cult of long-range planning: 'What goes wrong' he wrote, 'is that sensible anticipation gets converted into foolish numbers: and their validity always hinges on large loose assumptions.'

Strategy formulation is not necessarily a deterministic, rational and continuous process, as was pointed out by Mintzberg (1987). He believe that, rather than being consciously and systematically developed, strategy reorientation happens in what he calls brief 'quantum loops'. A

strategy, according to Mintzberg, can be deliberate – it can realize the intentions of senior management, for example to attack and conquer a new market. But this is not always the case. In theory, he says, strategy is a systematic process: first we think, then we act; we formulate, then we implement. But we also 'act in order to think'. In practice, 'a realized strategy can emerge in response to an evolving situation' and the strategic planner is often 'a pattern organizer, a learner if you like, who manages a process in which strategies and visions can emerge as well as be deliberately conceived'. This concept of 'emergent strategy' conveys the essence of how in practice organizations develop their business and HR strategies.

Mintzberg was even more scathing about the weaknesses of strategic planning in his 1994 article in the *Harvard Business Review* on 'The rise and fall of strategic planning'. He contends that 'the failure of systematic planning is the failure of systems to do better than, or nearly as well as, human beings'. He went on to say that:

> *Far from providing strategies, planning could not proceed without their prior existence… real strategists get their hands dirty digging for ideas, and real strategies are built from the nuggets they discover… sometimes strategies must be left as broad visions, not precisely articulated, to adapt to a changing environment.*

He emphasized that strategic management is a learning process as managers of firms find out what works well in practice for them.

<div style="background:#bfe3f0;padding:1em;">

SOURCE REVIEW

A realistic view of strategy

Tyson (1997) pointed out that, realistically, strategy:

- has always been emergent and flexible – it is always 'about to be', it never exists at the present time;
- is not only realized by formal statements but also comes about by actions and reactions;
- is a description of a future-oriented action that is always directed towards change;
- is conditioned by the management process itself.

</div>

The process of strategic HRM as defined below has to take account of these features of strategy.

Strategic HRM defined

Strategic HRM is an approach that defines how the organization's goals will be achieved through people by means of HR strategies and integrated HR policies and practices.

Strategic HRM can be regarded as a mind set underpinned by certain concepts rather than a set of techniques. It provides the foundation for strategic reviews in which analyses of the organizational context and existing HR practices lead to choices on strategic plans for the development of overall or specific HR strategies (see Chapter 3). Strategic HRM involves the exercise of strategic choice (which is always there) and the establishment of strategic priorities

But strategic HRM is not just about strategic planning. It is also concerned with the implementation of strategy and the strategic behaviour of HR specialists working with their line management colleagues on an everyday basis to ensure that the business goals of the organization are achieved and its values are put into practice. The strategic role of HR practitioners is examined in Chapter 5.

Aims of strategic HRM

The fundamental aim of strategic HRM is to generate organizational capability by ensuring that the organization has the skilled, engaged, committed and well-motivated employees it needs to achieve sustained competitive advantage. It has two main objectives: first to achieve integration – the vertical alignment of HR strategies with business strategies and the horizontal integration of HR strategies. The second objective is to provide a sense of direction in an often turbulent environment so that the business needs of the organization and the individual and collective needs of its employees can be met by the development and implementation of coherent and practical HR policies and programmes. In accordance with the resource-based view, the strategic goal will be to 'create firms which are more intelligent and flexible than their competitors' (Boxall, 1996) by hiring and developing more talented staff and by extending their skills base.

Schuler (1992) stated that:

> *Strategic human resource management is largely about integration and adaptation. Its concern is to ensure that: 1) human resources (HR) management is fully integrated with the strategy and strategic needs of the firm; 2) HR policies cohere both across policy areas and across hierarchies; and 3) HR practices are adjusted, accepted and used by line managers and employees as part of their everyday work.*

As Dyer and Holder (1988) remarked, strategic HRM provides 'unifying frameworks which are at once broad, contingency based and integrative'. The rationale for strategic HRM is the

perceived advantage of having an agreed and understood basis for developing and implementing approaches to people management that take into account the changing context in which the firm operates and its longer-term requirements.

Strategic HRM is based on two key concepts, namely, the resource-based view and strategic fit.

The resource-based view of strategic HRM

To a very large extent, the philosophy and approaches to strategic HRM are underpinned by the resource-based view. This states that it is the range of resources in an organization, including its human resources, that produces its unique character and creates competitive advantage.

Barney (1991, 1995) stated that competitive advantage arises first when firms within an industry are heterogeneous with respect to the strategic resources they control and second, when these resources are not perfectly mobile across firms and thus heterogeneity can be long lasting. Creating sustained competitive advantage therefore depends on the unique resources and capabilities that a firm brings to competition in its environment. These resources include all the experience, knowledge, judgement, risk-taking propensity and wisdom of individuals associated with a firm. For a firm resource to have the potential for creating sustained competitive advantage it should have four attributes: it must be valuable, rare, imperfectly imitable and non-substitutable. To discover these resources and capabilities, managers must look inside their firm for valuable, rare and costly-to-imitate resources, and then exploit these resources through their organization.

The significant link between the resources and capabilities of a firm and its strategies was summarized by Grant (1991) as follows.

SOURCE REVIEW

The significance of the resource-base view, Grant (1991)

The resources and capabilities of a firm are the central considerations in formulating its strategy: they are the primary constants upon which a firm can establish its identity and frame its strategy, and they are the primary sources of the firm's profitability. The key to a resource-based approach to strategy formulation is understanding the relationships between resources, capabilities, competitive advantage, and profitability – in particular, an understanding of the mechanisms through which competitive advantage can be sustained over time. This requires the design of strategies which exploit to maximum effect each firm's unique characteristics.

Wright *et al* (2001) noted that there are three important components of HRM that constitute a resource for the firm and are influenced by HR practices or the HR system:

1. The human capital pool comprised of the stock of employee knowledge, skills, motivation and behaviours.

2. The flow of human capital through the firm – the movement of people and of knowledge.

3. The dynamic processes through which organizations change and/or renew themselves.

They suggested that HR practices are the primary levers through which the firm can change the pool of human capital as well as attempt to change the employee behaviours that lead to organizational success.

Resource-based strategic HRM can produce what Boxall and Purcell (2003) referred to as human resource advantage. The aim is to develop strategic capability. This means strategic fit between resources and opportunities, obtaining added value from the effective deployment of resources, and developing people who can think and plan strategically in the sense that they understand the key strategic issues and ensure that what they do supports the achievement of the business's strategic goals. In line with human capital theory, the resource-based view emphasizes that investment in people increases their value to the firm.

The strategic goal emerging from the resource-based view will be to 'create firms which are more intelligent and flexible than their competitors' (Boxall, 1996) by hiring and developing more talented staff and by extending their skills base. Resource-based strategy is therefore concerned with the enhancement of the human or intellectual capital of the firm. As Ulrich (1998) commented: 'Knowledge has become a direct competitive advantage for companies selling ideas and relationships. The challenge to organizations is to ensure that they have the capability to find, assimilate, compensate and retain the talented individuals they need.'

The significance of the resource-based view of the firm is that it highlights the importance of a human capital management approach to HRM and provides the justification for investing in people through resourcing, talent management and learning and development programmes as a means of enhancing organizational capability.

However, it should be remembered that the original resource-based view as expressed by Barney (1991, 1995) referred to all the strategic resources associated with a firm, not just human resources. This is pointed out by Mueller (1996) in a challenging comment, as follows.

The resources covered by the resource-based view, Mueller (1996)

Empirical analyses conducted within a resource-based view framework have shown that in fact most companies value their company and product reputation – even though obviously sustained by employees – as their most important asset, followed in third place by employee know-how. It is difficult to see, for example, what could be more important for Glaxo than its patents, or for British Airways its landing spots at London Heathrow Airport.

Often people alone cannot sustain the success of the 'super star' of corporate performance… It is more fruitful to look at how different strategic assets sustain each other, rather than engage in a sterile debate about which are analytically prior or more important. Human resources have to be seen within the context of the firm's broad array of resources: employees are central for a firm to retain its valued product reputation, but also vice versa; a highly reputable company will find it easier to attract highly qualified employees.

Strategic fit

As explained by Wright and McMahan (1992) strategic fit refers to the two dimensions that distinguish strategic HRM:

First, vertically, it entails the linking of human resource management practices with the strategic management processes of the organization. Second, horizontally, it emphasizes the coordination or congruence among the various human resource management practices.

Perspectives on strategic HRM

Taking into account the concepts of the resource-based view and strategic fit, Delery and Doty (1996) contended that 'organizations adopting a particular strategy require HR practices that are different from those required by organizations adopting different strategies' and that organizations with 'greater congruence between their HR strategies and their (business) strategies should enjoy superior performance'. They identified the three HRM perspectives set out below.

Perspectives on HRM, Delery and Doty (1996)

1. The universalistic perspective – some HR practices are better than others and all organizations should adopt these best practices. There is a universal relationship between individual 'best' practices and firm performance.

2. The contingency perspective – in order to be effective, an organization's HR policies must be consistent with other aspects of the organization. The primary contingency factor is the organization's strategy. This can be described as 'vertical fit'.

3. The configurational perspective – this is an holistic approach that emphasizes the importance of the pattern of HR practices and is concerned with how this pattern of independent variables is related to the dependent variable of organizational performance. In its general sense, configuration has been defined by Huczynski and Buchanan (2007) as: 'The structures, processes, relationships and boundaries through which an organization operates.'

This typology provided the basis for what has become the most commonly used classification of approaches as advocated by Richardson and Thompson (1999), which was to adopt the terms 'best practice' and 'best fit' for the universalistic and contingency perspectives, and 'bundling' as the third approach. This followed the classification made by Guest (1997) of fit as an ideal set of practices, fit as contingency and fit as bundles.

The best practice approach

This approach is based on the assumption that there is a set of best HRM practices that are universal in the sense that they are best in any situation, and that adopting them will lead to superior organizational performance.

A number of lists of 'best practices' have been produced, the best known of which was produced by Pfeffer (1998a), namely:

1. employment security;

2. selective hiring;

3. self-managed teams;

4. high compensation contingent on performance;

5. training to provide a skilled and motivated workforce;

6. reduction of status differentials;

7. sharing information.

The following list was drawn up by Guest (1999):

1. Selection and the careful use of selection tests to identify those with potential to make a contribution.

2. Training, and in particular a recognition that training is an ongoing activity.

3. Job design to ensure flexibility, commitment and motivation, including steps to ensure that employees have the responsibility and autonomy fully to use their knowledge and skills.

4. Communication to ensure that a two-way process keeps everyone fully informed.

5. Employee share ownership programmes to increase employees' awareness of the implications of their actions on the financial performance of the firm.

Delery and Doty (1996) identified seven strategic HR practices, ie ones that are related to overall organizational performance: the use of internal career ladders, formal training systems, results-oriented appraisal, performance-based compensation, employment security, employee voice and broadly defined jobs.

High-performance work systems as described in Chapter 12 can incorporate best practice characteristics, eg the US Department of Labor (1993), Appelbaum *et al* (2000), Sung and Ashton (2005) and Thompson and Heron (2005). Another list for high commitment practices was produced by Wood and Albanese (1995).

Problems with the best practice model

The 'best practice' rubric has been attacked by a number of commentators. Cappelli and Crocker-Hefter (1996) comment that the notion of a single set of best practices has been overstated: 'There are examples in virtually every industry of firms that have very distinctive management practices... Distinctive human resource practices shape the core competencies that determine how firms compete.'

Purcell (1999) has also criticized the best practice or universalist view by pointing out the inconsistency between a belief in best practice and the resource-based view that focuses on the intangible assets, including HR, that allow the firm to do better than its competitors. He asks how can 'the universalism of best practice be squared with the view that only some resources and routines are important and valuable by being rare and imperfectly imitable?'

In accordance with contingency theory, which emphasizes the importance of interactions between organizations and their environments so that what organizations do is dependent on

the context in which they operate, it is difficult to accept that there is any such thing as universal best practice. What works well in one organization will not necessarily work well in another because it may not fit its strategy, culture, management style, technology or working practices.

However, a knowledge of what is assumed to be best practice can be used to inform decisions on what practices are most likely to fit the needs of the organization, as long as it is understood why a particular practice should be regarded as a best practice and what needs to be done to ensure that it will work in the context of the organization. Becker and Gerhart (1996) argue that the idea of best practice might be more appropriate for identifying the principles underlying the choice of practices, as opposed to the practices themselves. Perhaps it is best to think of 'good practice' rather than 'best practice'.

The best fit approach

The best fit approach is in line with contingency theory. It emphasizes that HR strategies should be congruent with the context and circumstances of the organization. 'Best fit' can be perceived in terms of vertical integration or alignment between the organization's business and HR strategies. There are three models, namely: lifecycle, competitive strategy, and strategic configuration.

The lifecycle best fit model

The lifecycle model is based on the theory that the development of a firm takes place in four stages: start-up, growth, maturity and decline. This is in line with product lifecycle theory. The basic premise of this model was expressed by Baird and Meshoulam (1988) as follows:

> *Human resource management's effectiveness depends on its fit with the organization's stage of development. As the organization grows and develops, human resource management programmes, practices and procedures must change to meet its needs. Consistent with growth and development models it can be suggested that human resource management develops through a series of stages as the organization becomes more complex.*

Best fit and competitive strategies

Three strategies aimed at achieving competitive advantage have been identified by Porter (1985):

1. Innovation – being the unique producer.
2. Quality – delivering high quality goods and services to customers.
3. Cost leadership – the planned result of policies aimed at 'managing away expense'.

It was contended by Schuler and Jackson (1987) that to achieve the maximum effect it is necessary to match the role characteristics of people in an organization with the preferred strategy. Accordingly, they produced the descriptions of appropriate role behaviours set out in Table 2.1.

Table 2.1   Role behaviours appropriate for different strategies, Schuler and Jackson (1987)

Innovative	Quality	Cost-leadership strategy
• High degree of creative behaviour • A longer-term focus • A relatively high level of cooperation and inter-dependent behaviour • A moderate degree of concern for quantity • An equal degree of concern for process and results • A greater degree of risk taking • A high tolerance of ambiguity and unpredictability	• Relatively repetitive and predictable behaviours • A more long-term or intermediate focus • A modest amount of cooperative, interdependent behaviour • A high concern for quality • A modest concern for quantity of output • High concern for process (how the goods or services are made or delivered) • Low risk-taking activity • Commitment to the goals of the organization	• Relatively repetitive and predictable behaviours • A rather short-term focus • Primarily autonomous or individual activity • Modest concern for quality • High concern for quantity of output • Primary concern for results • Low risk-taking activity • A relatively high degree of comfort with stability

Strategic configuration

Another approach to best fit is the proposition that organizations will be more effective if they adopt a policy of strategic configuration (Delery and Doty, 1996) by matching their strategy to one of the ideal types defined by theories such as those produced by Miles and Snow (1978). This increased effectiveness is attributed to the internal consistency or fit between the patterns of relevant contextual, structural and strategic factors.

Miles and Snow (1978) identified four types of organizations, classifying the first three types as 'ideal' organizations:

1. Prospectors, which operate in an environment characterized by rapid and unpredictable changes. Prospectors have low levels of formalization and specialization and high levels of

decentralization. They have relatively few hierarchical levels.

2. Defenders, which operate in a more stable and predictable environment than prospectors and engage in more long-term planning. They have more mechanistic or bureaucratic structures than prospectors and obtain coordination through formalization, centralization, specialization and vertical differentiation.

3. Analysers, which are a combination of the prospector and defender types. They operate in stable environments like defenders and also in markets where new products are constantly required, like prospectors. They are usually not the initiators of change like prospectors but they follow the changes more rapidly than defenders.

4. Reactors, which are unstable organizations existing in what they believe to be an unpredictable environment. They lack consistent well-articulated strategies and do not undertake long-range planning.

Comments on the concept of best fit

The best fit model seems to be more realistic than the best practice model. As Dyer and Holder (1988) pointed out: 'The inescapable conclusion is that what is best depends'. It can therefore be claimed that best fit is more important than best practice. But there are limitations to the concept. Paawue (2004) emphasized that: 'It is necessary to avoid falling into the trap of "contingent determinism" (ie claiming that the context absolutely determines the strategy). There is, or should be, room for making strategic choices.'

There is a danger of mechanistically matching HR policies and practices with strategy. It is not credible to claim that there are single contextual factors that determine HR strategy, and internal fit cannot therefore be complete. As Boxall *et al* (2007) assert: 'It is clearly impossible to make all HR policies reflective of a chosen competitive or economic mission; they may have to fit with social legitimacy goals'. And Purcell (1999) commented that: 'The search for a contingency or matching model of HRM is also limited by the impossibility of modelling all the contingent variables, the difficulty of showing their interconnection, and the way in which changes in one variable have an impact on others'.

Best fit models tend to be static and don't take account of the processes of change. They neglect the fact that institutional forces shape HRM – it cannot be assumed that employers are free agents able to make independent decisions.

Bundling

As Richardson and Thompson (1999) comment: 'A strategy's success turns on combining vertical or external fit and horizontal or internal fit.' They conclude that a firm with bundles of

associated HR practices should have a higher level of performance, provided it also achieves high levels of fit with its competitive strategy.

'Bundling' is the development and implementation of several HR practices together so that they are inter-related and therefore complement and reinforce each other. This is the process of horizontal integration, which is also referred to as the use of 'complementarities' (MacDuffie, 1995) who explained the concept of bundling as follows:

> *Implicit in the notion of a 'bundle' is the idea that practices within bundles are interrelated and internally consistent, and that 'more is better' with respect to the impact on performance, because of the overlapping and mutually reinforcing effect of multiple practices.*

Dyer and Reeves (1995) note that: 'The logic in favour of bundling is straightforward… Since employee performance is a function of both ability and motivation, it makes sense to have practices aimed at enhancing both.' Thus there are several ways in which employees can acquire needed skills (such as careful selection and training) and multiple incentives to enhance motivation (different forms of financial and non-financial rewards). Their study of various models listing HR practices that create a link between HRM and business performance found that the activities appearing in most of the models were involvement, careful selection, extensive training and contingent compensation.

On the basis of his research in flexible production manufacturing plants in the United States, MacDuffie (1995) noted that employees will exercise discretionary effort only if they 'believe that their individual interests are aligned with those of the company, and that the company will make a reciprocal investment in their well-being'. This means that flexible production techniques have to be supported by bundles of high-commitment human resource practices such as employment security, pay that is partly contingent on performance, a reduction of status barriers between managers and workers, and investment in building worker skills. The research indicated that plants using flexible production systems that bundle human resource practices into a system that is integrated with production/business strategy, outperform plants using more traditional mass production systems in both productivity and quality.

Following research in 43 automobile processing plants in the United States, Pil and MacDuffie (1996) established that when a high-involvement work practice is introduced in the presence of complementary HR practices, not only does the new work practice produce an incremental improvement in performance but so do the complementary practices.

The aim of bundling is to achieve high performance through coherence, which is one of the four 'meanings' of strategic HRM defined by Hendry and Pettigrew (1986). Coherence exists when a mutually reinforcing set of HR policies and practices have been developed that jointly contribute to the attainment of the organization's strategies for matching resources to organizational needs, improving performance and quality and, in commercial enterprises, achieving competitive advantage.

The process of bundling HR strategies is an important aspect of the concept of strategic HRM. In a sense, strategic HRM is holistic; it is concerned with the organization as a total system or entity and addresses what needs to be done across the organization as a whole. It is not interested in isolated programmes and techniques, or in the ad hoc development of HR practices.

Bundling can take place in a number of ways. For example, competency frameworks can be devised that are used in assessment and development centres and to specify recruitment standards, identify learning and development needs, indicate the standards of behaviour or performance required and serve as the basis for human resource planning. They could also be incorporated into performance management processes in which the aims are primarily developmental and competencies are used as criteria for reviewing behaviour and assessing learning and development needs. Job evaluation could be based on levels of competency, and competency-based pay systems could be introduced. Grade structures can define career ladders in terms of competency requirements (career family structures) and thus provide the basis for learning and development programmes. They can serve the dual purpose of defining career paths and pay progression opportunities. The development of high-performance, high-commitment or high-involvement systems (see Chapters 3 and 12) is in effect bundling because it groups a number of HR practices together to produce synergy and thus makes a greater impact.

The problem with the bundling approach is that of deciding what is the best way to relate different practices together. There is no evidence that one bundle is generally better than another.

The reality of strategic HRM

Strategic HRM, as this chapter has shown, has been a happy hunting ground for academics over many years. But what does all this conceptualizing mean in real life? What can practitioners learn from it as they go about their business?

Before answering these questions it is worth recalling the rationale for strategic HRM, which is that it is the basis for developing and implementing approaches to people management that take into account the changing context in which the firm operates and its longer-term requirements. It should also be borne in mind that strategic HRM is a mindset that only becomes real when it produces actions and reactions that can be regarded as strategic, either in the form of overall or specific HR strategies or strategic behaviour on the part of HR professionals working alongside line managers.

As modelled in Figure 2.1, strategic HRM is about both HR strategies and the strategic management role of HR professionals. There is always choice about those strategies and the strategic role of HR.
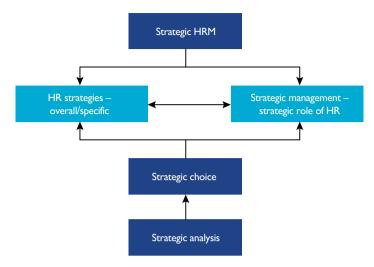
Figure 2.1   Strategic HRM model

Practical implications of strategic HRM theory

It was famously remarked by McGregor (1960) that there is nothing as practical as a good theory, ie one that has been based on rigorous field research and, probably, tested by further research. This is certainly the case with strategic HR theory, which is based on thorough research and testing and, once the jargon has been discarded, has a strong common sense appeal.

The theory 1) addresses major people issues which affect or are affected by the strategic plans of the organization, 2) provides an agreed and understood basis for developing and imple-menting approaches to people management that take into account the changing context in which the firm operates and its longer-term requirements, 3) ensures that business and HR strategy and functional HR strategies are aligned with one another, and 4) is the rationale for HR practitioners acting as strategic partners. The significant features of strategic HRM are set out below.

The significant features of strategic HRM

- Creating sustained competitive advantage depends on the unique resources and capabilities that a firm brings to competition in its environment (Baron, 2001).

- Competitive advantage is achieved by ensuring that the firm has higher quality people than its competitors (Purcell *et al,* 2003).

- The competitive advantage based on the effective management of people is hard to imitate (Barney, 1991, 1995).

- The challenge is to achieve organizational capability, ensuring that businesses are able to find, assimilate, reward and retain the talented individuals they need (Ulrich, 1998).

- It is unwise to pursue so-called 'best practice' (the 'universalistic' perspective of Delery and Doty, 1996) without being certain that what happens elsewhere would work in the context of the organization.

- 'Best fit' (the 'contingency' perspective of Delery and Doty, 1996) is preferable to 'best practice' as long as the organization avoids falling into the trap of 'contingent determinism' by allowing the context to determine the strategy (Paawue, 2004).

- The search for best fit is limited by the impossibility of modelling all the contingent variables, the difficulty of showing their interconnection, and the way in which changes in one variable have an impact on others (Purcell, 1999).

- Best fit can be pursued in a number of ways, namely by fitting the HR strategy to its position in its lifecycle of start-up, growth, maturity or decline (Baird and Meshoulam, 1988), or the competitive strategy of innovation, quality or cost leadership (Porter, 1985), or to the organization's 'strategic configuration' (Delery and Doty, 1996), eg the typology of organizations as prospectors, defenders and analysers defined by Miles and Snow (1978).

- Improved performance can be achieved by 'bundling', ie the development and implementation of several HR practices together so that they are inter-related and therefore complement and reinforce each other (MacDuffie, 1995).

Strategic HRM – key learning points

The conceptual basis of strategic HRM

Strategic HRM is the interface between HRM and strategic management. It takes the notion of HRM as a strategic, integrated and coherent approach and develops that in line with the concept of strategic management (Boxall, 1996).

The fundamental characteristics of strategy

- forward looking;

- the organizational capability of a firm depends on its resource capability;

Strategic HRM – key learning points (continued)

- strategic fit – the need when developing HR strategies to achieve congruence between them and the organization's business strategies within the context of its external and internal environment.

How strategy is formulated

An emergent and flexible process of developing a sense of direction, making the best use of resources and ensuring strategic fit.

The aim of strategic HRM

To generate organizational capability by ensuring that the organization has the skilled, engaged, committed and well-motivated employees it needs to achieve sustained competitive advantage.

Implications of the resource-based view

The creation of firms which are 'more intelligent and flexible than their competitors' (Boxall, 1996) by hiring and developing more talented staff and by extending the skills base.

The three HRM 'perspectives' of Delery and Doty (1996)

1. Universalistic perspective – some HR practices are better than others and all organizations should adopt these best practices.

2. Contingency – in order to be effective, an organization's HR policies must be consistent with other aspects of the organization.

3. Configurational – relating HRM to the 'configuration' of the organization in terms of its structures and processes.

The concepts of 'best practice' and 'best fit'

- The concept of best practice is based on the assumption that there is a set of best HRM practices which are universal in the sense that they are best in any situation, and that adopting them will lead to superior organizational performance. This concept of universality is criticized because it takes no account of the local context.

- The concept of best fit emphasizes that HR strategies should be congruent with the context and circumstances of the organization. 'Best fit' can be perceived in terms of vertical integration or alignment between the organization's business and HR strategies.

- It is generally accepted that best fit is more important than best practice.

The significance of bundling

The process of bundling HR strategies is an important aspect of the concept of strategic HRM which is concerned with the organization as a total system or entity and addresses what needs to be done across the organization as a whole.

Strategic HRM – key learning points (continued)

The practical implications of strategic HRM theory

The theory addresses major people issues which affect or are affected by the strategic plans of the organization. It provides the rationale for HR practitioners acting as strategic partners on an everyday basis.

Questions

1. A junior colleague in your HR department has sent you an e-mail to the effect that: 'During the course of my studies I have come across the phrase "best fit is more important than best practice". What does this mean exactly and what is its significance to us?' Produce a reply.

2. Your chief executive has sent you the following e-mail: 'I have just returned from a one-day management conference in which an academic kept on referring to "the resource based view" and its significance. What is it and how relevant is it, if at all, to what we are doing here?' Produce a reply.

3. You are the recently appointed HR director of a medium-sized distribution company based in Dartford with a staff of 350 including 130 drivers. After three months you have decided that the crucial HR issues facing the company are the high rate of turnover of drivers (35 per cent last year), an unacceptable level of road accidents, and an unsatisfactory climate of employee relations (there is a recognized union for drivers which is militant and hostile and no formal procedures for employee communications or consultation). In spite of this the company is doing reasonably well although it is felt by the board that is should do better and there are plans for opening a new distribution centre in Essex. You have received an e-mail from the finance director who is preparing the company's business plan and asks for your proposals on what needs to be done in HR to support it.

References

Abell, D F (1993) *Managing with Dual Strategies: Mastering the present, pre-empting the future*, Free Press, New York

Appelbaum, E, Bailey, T, Berg, P and Kalleberg, A L (2000) *Manufacturing Advantage: Why high performance work systems pay off*, ILR Press, Ithaca, NY

Baird, L and Meshoulam, I (1988) Managing two fits of strategic human resource management, *Academy of Management Review*, **13** (1), pp116–28

Barney, J B (1991) Firm resources and sustained competitive advantage, *Journal of Management Studies*, **17** (1), pp 99–120

Barney, J B (1995) Looking inside for competitive advantage, *Academy of Management Executive*, **9** (4), pp 49–61

Baron, D (2001) Private policies, corporate policies and integrated strategy, *Journal of Economics and Management Strategy*, **10** (7), pp 7–45

Becker, B E and Gerhart, S (1996) The impact of human resource management on organizational performance: progress and prospects, *Academy of Management Journal*, **39** (4), pp 779–801

Boxall, P F (1996) The strategic HRM debate and the resource-based view of the firm, *Human Resource Management Journal*, **6** (3), pp 59–75

Boxall, P F and Purcell, J (2003) *Strategy and Human Resource Management*, Palgrave Macmillan, Basingstoke

Boxall, P F, Purcell J and Wright P (2007) The goals of HRM, in (eds) P Boxall, J Purcell and P Wright, *Oxford Handbook of Human Resource Management*, Oxford University Press, Oxford

Cappelli, P and Crocker-Hefter, A (1996) Distinctive human resources are firms' core competencies, *Organizational Dynamics*, Winter, pp 7–22

Chandler, A D (1962) *Strategy and Structure*, MIT Press, Boston, MA

Delery, J E and Doty, H D (1996) Modes of theorizing in strategic human resource management: tests of universality, contingency and configurational performance predictions, *Academy of Management Journal*, **39** (4), pp 802–35

Dyer, L and Holder, G W (1998) Strategic human resource management and planning, in (ed) L Dyer, *Human Resource Management: Evolving roles and responsibilities*, Bureau of National Affairs, Washington DC

Dyer, L and Reeves, T (1995) Human resource strategies and firm performance: what do we know and where do we need to go? *The International Journal of Human Resource Management*, **6** (3), pp 656–70

Grant, R M (1991) The resource-based theory of competitive advantage: implications for strategy formation, *California Management Review*, **33** (3), pp 14–35

Guest, D E (1997) Human resource management and performance; a review of the research agenda, *The International Journal of Human Resource Management*, **8** (3), 263–76

Guest, D E (1999) The role of the psychological contract, in (eds) S J Perkins and St John Sandringham, *Trust, Motivation and Commitment*, Strategic Remuneration Centre, Faringdon

Heller, R (1972) *The Naked Manager*, Barrie & Jenkins, London

Hendry, C and Pettigrew, A (1986) The practice of strategic human resource management, *Personnel Review*, **15**, pp 2–8

Huczynski, A A and Buchanan, D A (2007) *Organizational Behaviour*, 6th edn, FT Prentice Hall, Harlow

Kanter, R M (1984) *The Change Masters*, Allen & Unwin, London

MacDuffie, J P (1995) Human resource bundles and manufacturing performance, *Industrial Relations Review*, **48** (2), pp 199–221

McGregor, D (1960) *The Human Side of Enterprise*, McGraw-Hill, New York

Miles, R E and Snow, C C (1978) *Organizational Strategy: Structure and process*, McGraw Hill, New York

Mintzberg, H (1987) Crafting strategy, *Harvard Business Review*, July–August, pp 66–74

Mintzberg, H (1994) The rise and fall of strategic planning, *Harvard Business Review*, January–February, pp 107–14

Mueller, F (1996) Human resources as strategic assets: an evolutionary resource-based approach, *Journal of Management Studies*, **33** (6), pp 757–85

Paauwe, J (2004) *HRM and performance: Achieving long term viability*, Oxford University Press, Oxford

Pearce, J A and Robinson, R B (1988) *Strategic Management: Strategy Formulation and Implementation*, Irwin, Georgetown, Ontario

Penrose, E (1959) *The Theory of the Growth of the Firm*, Blackwell, Oxford

Pfeffer, J (1998a) *The Human Equation*, Harvard Business School Press, Boston, MA

Pil, F K and MacDuffie, J P (1996) The adoption of high-involvement work practices, *Industrial Relations*, **35** (3), pp 423–55

Porter, M E (1985) *Competitive Advantage: Creating and sustaining superior performance*, New York, The Free Press

Purcell, J (1999) Best practice or best fit: chimera or cul-de-sac, *Human Resource Management Journal*, **9** (3), pp 26–41

Purcell, J, Kinnie, K, Hutchinson, Rayton, B and Swart, J (2003) *People and Performance: How people management impacts on organisational performance*, CIPD, London

Richardson, R and Thompson, M (1999) *The Impact of People Management Practices on Business Performance: A literature review*, Institute of Personnel and Development, London

Schuler, R S (1992) Strategic human resource management: linking people with the strategic needs of the business, *Organizational Dynamics*, **21** (1), pp 18–32

Schuler, R S and Jackson, S E (1987) Linking competitive strategies with human resource management practices, *Academy of Management Executive,* **9** (3), pp 207–19

Sung, J and Ashton, D (2005) *High Performance Work Practices: Linking strategy and skills to performance outcomes,* DTI in association with CIPD, available at http://www.cipd.co.uk/subjects/corpstrtgy/

Thompson, M and Heron, P (2005) Management capability and high performance work organization, *The International Journal of Human Resource Management*, **16** (6), pp 1029–48

Tyson, S (1997) Human resource strategy: a process for managing the contribution of HRM to organizational performance, *The International Journal of Human Resource Management*, **8** (3), pp 277–90

Ulrich, D (1998) A new mandate for human resources, *Harvard Business Review*, January–February, pp 124–34

US Department of Labor (1993) *High Performance Work Practices and Work Performance*, US Government Printing Office, Washington DC

Wernerfelt, B (1984) A resource-based view of the firm, *Strategic Management Journal*, **5** (2), pp 171–80

Wood, S and Albanese, M (1995) Can we speak of a high commitment management on the shop floor? *Journal of Management Studies*, **32** (2), pp 215–47

Wright, P M and McMahan, G C (1992) Theoretical perspectives for SHRM, *Journal of Management*, **18** (2), pp 295–320

Wright, P M, Dunford, B B and Snell, SA (2001) Human resources and the resource-based view of the firm, *Journal of Management*, **27** (6), pp 701–21