CHAPTER (2)

STRATEGIC HUMAN RESOURCE MANAGEMENT

THE OBJECTIVES OF THIS CHAPTER ARE TO:

1 CLARIFY THE USE OF THE TERMS STRATEGIC HUMAN RESOURCE MANAGEMENT AND HUMAN RESOURCE STRATEGY, AND ARRIVE AT WORKABLE DEFINITIONS OF EACH

2 EXPLAIN THE FEASIBILITY AND NATURE OF THE LINK BETWEEN BUSINESS STRATEGY AND HR STRATEGY

3 EVALUATE THREE THEORETICAL PERSPECTIVES ON THE NATURE OF HR STRATEGY AND SHOW HOW EACH EXPRESSES A DIFFERENT VIEW ON HOW THE CONTRIBUTION OF PEOPLE TO THE ORGANISATION MIGHT BE UNDERSTOOD AND ENHANCED

4 EXPLORE THE EXTENT TO WHICH THE HR FUNCTION OPERATES STRATEGICALLY

There is a strong lobby propounding the view that human resources are *the* source of competitive advantage for the business, rather than, say, access to capital or use of technology. It is therefore logical to suggest that attention needs to be paid to the nature of this resource and its management as this will impact on human resource behaviour and performance and consequently the performance of the organisation. Indeed Boxall and Steeneveld (1999) argue that there is no need to prove the relationship between firm performance and labour management as it is self-evident that the quality of human resource management is a critical influence on the performance of the firm. It is not, therefore, surprising that the rhetoric of strategic human resource management has been readily adopted, especially as a strategic approach is considered to be one of the characteristics of HRM as opposed to personnel management, which is seen as operational. If, as Boxall and Purcell (2003) suggest, HR is strategic to business success, then HR needs to be a strategic player and the role of business strategist will be a key role for HR specialists in the future (Cleland *et al.* 2000).

STRATEGIC HUMAN RESOURCE MANAGEMENT AND HUMAN RESOURCE STRATEGY

Our understanding of HR strategy has changed considerably since strategy first became the subject of great attention. We have moved from viewing strategy as a physical document to seeing it as an incremental process, affected by political influences and generating learning. Tyson's (1995) definition of human resource strategy is a useful starting point, although somewhat limited, as will be seen from our later discussion:

> the intentions of the corporation both explicit and covert, toward the management of its employees, expressed through philosophies, policies and practices. (Tyson 1995)

This definition is helpful because research on human resource strategy in the early 1980s tended to focus on seeking an HR strategy document in order to determine whether there was a strategic approach to HR and what that approach was. This was rather like searching for the Holy Grail. Not surprisingly few complete HR strategies were found and HR specialists berated themselves for having failed in this critical area. Gradually the thinking changed to encompass a view that HR strategy need not be written on a piece of paper or need not, indeed, be explicit, as the Tyson quotation illustrates. Further developments in thinking began to accept the idea that strategies are neither finished, nor complete, but rather incremental and piecemeal. There is compelling evidence to suggest that strategic HR tends to be issue based rather than the formulation of a complete and integrated strategy (for example, Grundy 1998; Hall and Torrington 1998). Strategic thinking, strategic decision making and a strategic orientation (for example, Hunt and Boxall 1998) were gradually understood as much more realistic expectations.

In parallel with this thinking there were developments in the general strategy literature which viewed strategy as a process which was not necessarily rational and top down, but a political and evolutionary process (*see*, for example, Mintzberg 1994). Mintzberg argues that strategy is 'formed' rather than 'formulated' and that

any intended strategy is changed by events, opportunities, the actions of employees and so on – so that the realised strategy is different from the initial vision. Strategy, Mintzberg argues, can only be identified in retrospect and, as Boxall and Purcell suggest, is best seen in the ultimate behaviour of the organisation. Wrapped up in this view is also the idea that strategy is not necessarily determined by top management alone but can be influenced 'bottom up', as ideas are tried and tested in one part of the organisation and gradually adopted in a wholesale manner if they are seen to be applicable and successful. This is not to say that producing a strategy is an unhelpful act, and indeed research carried out by PriceWaterhouseCoopers indicated that those organisations with a written HR strategy generated 35 per cent greater revenues per employee than those without (Higginbottom 2002).

This leads on to the concept of strategy as learning both in content and in process (*see*, for example, Senge 1990; Pedler *et al*. 1991), which is supported by the notion of strategy as a process of change (*see*, for example, Hendry and Pettigrew 1992). Literature draws out the need to sense changes in the environment, develop a resultant strategy and turn this strategy into action. While the HR function has often found itself excluded from the strategy formation process, HR strategy has more often been seen in terms of the implementation of organisational strategies. However, implementation of HR strategy has been weak, at best. Among the qualities of the most successful organisations is the ability to turn strategy into action quickly (Ulrich 1998), in other words to implement the chosen strategy (Grensing-Pophel 1999), and Guest (1987) maintained that the capability to implement strategic plans is an important feature of successful HRM. However, a lack of attention to the implementation of HR strategy has been identified (Beaumont 1992; Lundy and Cowling 1996; Skinner and Mabey 1997), and the information that does exist suggests that this is a problematic area. Legge (1995) maintained that the evidence of implementation of HR strategies was patchy and sometimes contradictory, and Skinner and Mabey (1997) found that responsibility for implementation was unclear, with only 54 per cent of respondents, in organisations with an HR director, perceiving that the HR function played a major part in implementation. In their research Kane and Palmer (1995) found that the existence of an HR strategy was only a minor influence on the HR policies and procedures that were used. Frameworks such as the HR scorecard (Becker *et al*. 2001) are aimed, at least in part, at facilitating the management and implementation of HR architecture ('the sum of the HR function, the broader HR system, and the resulting employee behaviors' p. 1) as a strategic asset.

THE LINK BETWEEN BUSINESS AND HR STRATEGY

The nature, desirability and feasibility of the link between business strategy and HR strategy is a consistent theme which runs through the strategy literature, although, as we shall discuss later, some theories suggest that implementing 'best practice' in HRM is even more important than this. Figure 2.1 is a simple model that is useful in visualising different ways in which this relationship may be played out and has relevance for the newer conceptions of strategy based on the resource-based view of the firm, as well as earlier conceptions.

In the *separation model* (A) there is no relationship at all, if indeed organisational and human resource strategy *does* exist in an explicit form in the organisation. This
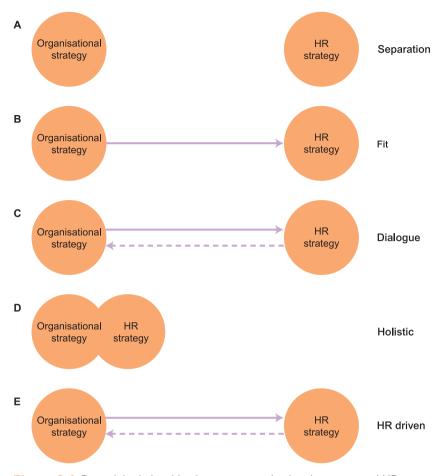
Figure 2.1 Potential relationships between organisational strategy and HR strategy

is a typical picture of twenty years ago, but it still exists today, particularly in smaller organisations.

The *fit model* (B) represents a growing recognition of the importance of people in the achievement of organisational strategy. Employees are seen as key in the implementation of the declared organisational strategy, and human resource strategy is designed to fit with this. Some of the early formal models of human resource strategy, particularly that proposed by Fombrun *et al.* (1984), concentrate on how the human resource strategy can be designed to ensure a close fit, and the same approach is used in the Schuler and Jackson example in Table 2.1.

This whole approach depends on a view of strategy formulation as a logical rational process, which remains a widely held view. The relationship in the fit model is exemplified by organisations which cascade their business objectives down from the senior management team through functions, through departments, through teams and so on. Functions, for example, have to propose a functional strategy which enables the organisational strategy to be achieved. Departments have to propose a strategy which enables the functional strategy to be achieved, and so on. In this way the HR function (as with any other) is required to respond to organisational strategy by defining a strategy which meets organisational demands.

The *dialogue model* (C) takes the relationship one step further, as it recognises the need for two-way communication and some debate. What is demanded in the organisation's strategy may not be viewed as feasible and alternative possibilities need to be reviewed. The debate, however, is often limited, as shown in the example in the Window on practice which follows.

WINDOW ON PRACTICE

In one large multinational organisation an objectives-setting cascade was put in place. This cascade allowed for a dialogue between the planned organisation strategy and the response of each function. In the organisation strategy there was some emphasis on people growth and development and job fulfilment. The HR Department's response included among other things an emphasis on line management involvement in these areas, which would be supported by consultancy help from the HR Department.

The top management team replied to this by asking the HR Department to add a strategic objective about employee welfare and support. The HR Department strongly argued that this was a line management responsibility, along with coaching, development and so on. The HR Function saw its customers as the managers of the organisation, not the employees. The result of the debate was that the HR function added the strategic objective about employee welfare.

Although the approach in this case appeared two-way, the stronger of the parties was the management team, and they were determined that their vision was the one that would be implemented!

The holistic model and the HR-driven model (D and E) show a much closer involvement between organisational and human resource strategy.

The *holistic model* (D) represents the people of the organisation being recognised as the key to competitive advantage rather than just the way of implementing organisational strategy. In other words HR strategy is not just the means for achieving business strategy (the ends), but an end in itself. Human resource strategy therefore becomes critical and, as Baird *et al.* (1983) argued, there can be no strategy without human resource strategy. Boxall (1996) develops this idea in relation to the resource-based firm, and argues convincingly that business strategy can usefully be interpreted as more broad than a competitive strategy (or positioning in the marketplace). In this case business strategy can encompass a variety of other strategies including HRM, and he describes these strategies as the pieces of a jigsaw. This suggests mutual development and some form of integration, rather than a slavish response to a predetermined business strategy.

The *HR-driven model* (E) offers a more extreme form, which places human resource strategy in prime position. The argument here is that if people are the key to competitive advantage, then we need to build on our people strengths. Logically, then, as the potential of our employees will undoubtedly affect the achievement of any planned strategy, it would be sensible to take account of this in developing our strategic direction. Butler (1988/89) identifies this model as a shift from human

resources as the implementors of strategy to human resources as a driving force in the formulation of the strategy. Again this model is a reflection of a resource-based strategic HRM perspective, and sits well with the increasing attention being given to the notion of 'human capital' where it is the collective nature and quality of the people in the organisation which provide the potential for future competitive advantage (*see*, for example, Lengnick-Hall and Lengnick-Hall 2003).

ACTIVITY 2.1

- Which of these approaches to human resource strategy most closely fits your organisation? (If you are a full-time student read one or two relevant cases in *People Management* and interpret these as 'your organisation'.)
- Why did you come to this conclusion?
- What are the advantages and disadvantages of the approach used?

THEORETICAL PERSPECTIVES OF STRATEGIC HUMAN RESOURCE MANAGEMENT

Three theoretical approaches to strategic HRM can be identified. The first is founded on the concept that there is 'one best way' of managing human resources in order to improve business performance. The second focuses on the need to align employment policies and practice with the requirements of business strategy in order that the latter will be achieved and the business will be successful. This second approach is based on the assumption that different types of HR strategies will be suitable for different types of business strategies. Thirdly, a more recent approach to strategic HRM is derived from the resource-based view of the firm, and the perceived value of human capital. This view focuses on the quality of the human resources available to the organisation and their ability to learn and adapt more quickly than their competitors. Supporters of this perspective challenge the need to secure a mechanistic fit with business strategy and focus instead on long-term sustainability and survival of the organisation via the pool of human capital.

Universalist approach

The perspective of the universalist approach is derived from the conception of human resource management as 'best practice', as we discussed in Chapter 1. In other words it is based on the premise that one model of labour management – a high-commitment model – is related to high organisational performance in all contexts, irrespective of the particular competitive strategy of the organisation. An expression of this approach can be seen in Guest's theory of HRM, which is a prescriptive model based on four HR policy goals: strategic integration, commitment, flexibility and quality. These policy goals are related to HRM policies which are expected to produce desirable organisational outcomes.

Guest (1989) describes the four policy goals as follows:

- **Strategic integration** – ensuring that HRM is fully integrated into strategic planning, that HRM policies are coherent, that line managers use HRM practices as part of their everyday work.
- **Commitment** – ensuring that employees feel bound to the organisation and are committed to high performance via their behaviour.
- **Flexibility** – ensuring an adaptable organisation structure, and functional flexibility based on multiskilling.
- **Quality** – ensuring a high quality of goods and services through high-quality, flexible employees.

Guest sees these goals as a package – all need to be achieved to create the desired organisational outcomes which are high job performance, problem solving, change, innovation and cost effectiveness; and low employee turnover, absence and grievances.

Clarity of goals gives a certain attractiveness to this model – but this is where the problems also lie. Whipp (1992) questions the extent to which such a shift is possible, and Purcell (1991) sees the goals as unattainable. The goals are also an expression of human resource management, as opposed to personnel management, and as such bring us back to the debate about what human resource management really is and the inherent contradictions in the approach (Legge 1991, 1995). Ogbonna and Whipp (1999) argue that internal consistency within such a model is extremely difficult to achieve because of such contradictions (for example the tension between flexibility and commitment). Because the prescriptive approach brings with it a set of values, it suggests that there is only one best way and this is it. Although Guest (1987) has argued that there is no best practice, he also encourages the use of the above approach as the route to survival of UK businesses.

Pfeffer (1994) and Becker and Gerhart (1996) are well-known exponents of this view. While there is some support for this perspective, there remains some debate as to which particular human resource practices will stimulate high commitment. We consider this perspective in more depth in Chapter 10 on Strategic aspects of performance. The following Window on practice gives an example of one interpretation of a high-commitment, high-performance approach to human resource management strategy.

WINDOW ON PRACTICE

High performance teams at Digital, Ayr

In an extremely competitive market the Ayr plant had to demonstrate that they could manufacture specified computer systems at a 'landed cost' competitive with other Digital plants, especially those in the Far East. To do this management had to rapidly introduce a package of changes. They had a strategic focus and a clear vision of the changes (both technical and organisational) required to promote success and they 'sold' this to the employees and corporate management. The high-performance team concept they sold had two great advantages – inbuilt quality and flexibility.

Supportive policies were put in place – such as a new skills-based pay system.

Employment policies in terms of career planning, training and development and other reward policies were also designed to be consistent with and reinforce the initiative. Management introduced unsupervised autonomous groups called 'high performance teams' with around a dozen members with full 'back to front' responsibility for product assembly, testing, fault finding, and problem solving, as well as some equipment maintenance. They used flexitime without time clocks and organised their own team discipline. Individuals were encouraged to develop a range of skills and help others in developing their capability. The ten key characteristics of the teams were as follows:

- self-managing, self-organising, self-regulating;
- front-to-back responsibility for core process;
- negotiated production targets;
- multiskilling – no job titles;
- share skills, knowledge, experience and problems;
- skills-based payment system;
- peer selection, peer review;
- open layout, open communications;
- support staff on the spot;
- commitment to high standards and performance.

Management had to learn to stand back and let the groups reach their own decisions – an approach that eventually released considerable management time. A great deal of attention was given to how the transition was managed and this was seen as critical to the success of the approach. Time was taken to ensure maximum formal and informal communication and consultation, and there was a critical mass of key individuals prepared to devote themselves to ensure success. Employees were involved to the fullest extent so they eventually felt they owned the concepts and techniques that they used. Training covered job skills, problem-solving techniques and 'attitude training' in the concepts of high-performance organisational design.

Source: Adapted from D.A. Buchanan (1992) 'High performance: new boundaries of acceptability in worker control', in G. Salaman *et al.* (eds), *Human Resource Strategies*. California: Sage.

Falling somewhere between the universalist approach and the fit approach is the Harvard model of HRM. This model, produced by Beer *et al.* (1984), is analytical rather than prescriptive. The model, shown in Figure 2.2, recognises the different stakeholder interests that impact on employee behaviour and performance, and also gives greater emphasis to factors in the environment that will help to shape human resource strategic choices – identified in the **Situational factors** box. Poole (1990) also notes that the model has potential for international or other comparative analysis, as it takes into account different sets of philosophies and assumptions which may be operating.
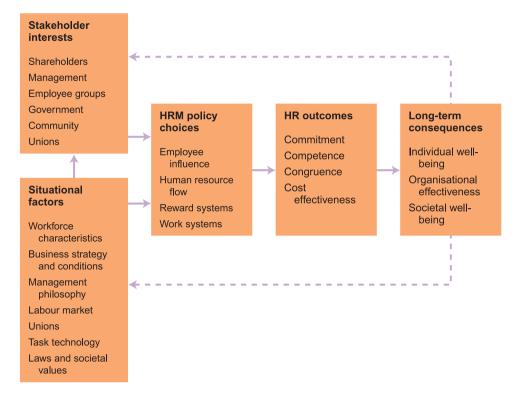
Figure 2.2 The Harvard framework for human resource management (Source: Adapted with permission of The Free Press, a Division of Simon & Schuster, Inc., from *Managing Human Assets* by Michael Beer, Bert Spector, Paul R. Lawrence, D. Quinn Mills, Richard E. Walton. New York: The Free Press. Copyright © 1984 by The Free Press.)

Although Beer *et al.*'s model is primarily analytical, there are prescriptive elements leading to some potential confusion. The prescription in Beer *et al.*'s model is found in the **HR outcomes** box, where specific outcomes are identified as universally desirable.

Fit or contingency approach

The fit or contingency approach is based on two critical forms of fit. The first is external fit (sometimes referred to as vertical integration) – that HR strategy fits with the demands of business strategy; the second is internal fit (sometimes referred to as horizontal integration) – that all HR policies and activities fit together so that they make a coherent whole, are mutually reinforcing and are applied consistently. One of the foundations of this approach is found in Fombrun *et al.* (1984), who proposed a basic framework for strategic human resource management, shown in Figures 2.3 and 2.4. Figure 2.3 represents the location of human resource management in relation to organisational strategy, and you should be able to note how the Fit model (B) is used (*see* Figure 2.1). Figure 2.4 shows how activities within human resource management can be unified and designed in order to support the organisation's strategy.

The strength of this model is that it provides a simple framework to show how selection, appraisal, development and reward can be mutually geared to produce the required type of employee performance. For example, if an organisation required
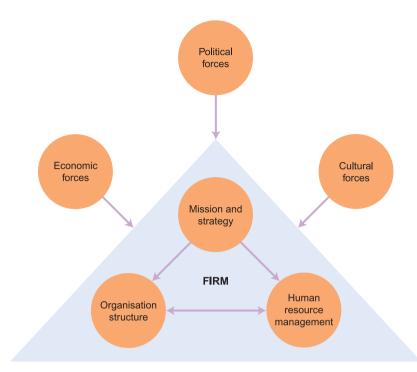
Figure 2.3 Strategic management and environmental pressures (Source: C. Fombrun, N.M. Tichy and M.A. Devanna (1984) *Strategic Human Resource Management*, p. 35. New York: John Wiley and Sons, Inc. © John Wiley and Sons Inc., 1984. Reprinted by permission of John Wiley and Sons, Inc.)

Figure 2.4 The human resource cycle (Source: C. Fombrun, N.M. Tichy and M.A. Devanna (1984) *Strategic Human Resource Management*, p. 41. New York: John Wiley and Sons, Inc. © John Wiley and Sons Inc., 1984. Reprinted by permission of John Wiley and Sons, Inc.)
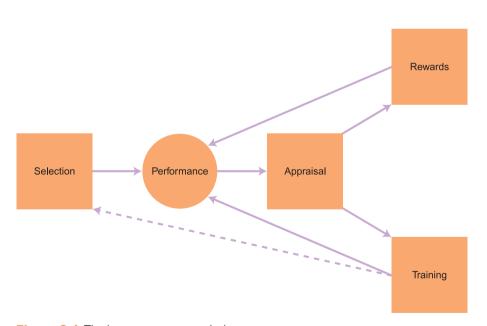
cooperative team behaviour with mutual sharing of information and support, the broad implications would be:

- **Selection**: successful experience of teamwork and sociable, cooperative personality; rather than an independent thinker who likes working alone.
- **Appraisal**: based on contribution to the team, and support of others; rather than individual outstanding performance.
- **Reward**: based on team performance and contribution; rather than individual performance and individual effort.

There is little doubt that this type of internal fit is valuable. However, questions have been raised over the model's simplistic response to organisation strategy. The question 'what if it is not possible to produce a human resource response that enables the required employee behaviour and performance?' is never addressed. So, for example, the distance between now and future performance requirements, the strengths, weaknesses and potential of the workforce, the motivation of the workforce and employee relations issues are not considered.

This model has been criticised because of its dependence on a rational strategy formulation rather than on an emergent strategy formation approach; and because of the nature of the one-way relationship with organisational strategy. It has also been criticised owing to its unitarist assumptions, as no recognition is made for employee interests and their choice of whether or not to change their behaviour.

Taking this model and the notion of fit one step further, human resource strategy has been conceived in terms of generating specific employee behaviours. In the ideal form of this there would be analysis of the types of employee behaviour required to fulfil a predetermined business strategy, and then an identification of human resource policies and practices which would bring about and reinforce this behaviour. A very good example of this is found in Schuler and Jackson (1987). They used the three generic business strategies defined by Porter (1980) and for each identified employee role behaviour and HRM policies required. Their conclusions are shown in Table 2.1.

Similar analyses can be found for other approaches to business strategy, for example in relation to the **Boston matrix** (Purcell 1992) and the developmental stage of the organisation (Kochan and Barocci 1985). Some human resource strategies describe the behaviour of all employees, but others have concentrated on the behaviour of Chief Executives and senior managers; Miles and Snow (1984), for example, align appropriate managerial characteristics to three generic strategies of prospector, defender and analyser. The rationale behind this matching process is that if managerial attributes and skills are aligned to the organisational strategy, then a higher level of organisational performance will result. There is little empirical evidence to validate this link, but work by Thomas and Ramaswamy (1996) does provide some support. They used statistical analysis to investigate if there was a match between manager attributes and skills in organisations with either a defender or a prospector strategy in 269 of the Fortune 500 companies in the United States. They found an overall statistical relationship between manager attributes and strategy. Taking the analysis a step further they then compared 30 organisations which were misaligned with 30 which were aligned and found that performance in the aligned companies (whether prospector or defender) was statistically superior. While this work can be criticised, it does provide an indication of further research which can be developed to aid our understanding of the issues. Sanz-Valle *et al.* (1999) found some partial

Strategy	Employee role behaviour	HRM policies
1 Innovation	A high degree of creative behaviour	Jobs that require close interaction and coordination among groups of individuals
	Longer-term focus	Performance appraisals that are more likely to reflect longer-term and group-based achievements
	A relatively high level of co-operative, interdependent behaviour	Jobs that allow employees to develop skills that can be used in other positions in the firm
		Compensation systems that emphasise internal equity rather than external or market-based equity
	A moderate degree of concern for quality	Pay rates that tend to be low, but that allow employees to be stockholders and have more freedom to choose the mix of components that make up their pay package
	A moderate concern for quantity; an equal degree of concern for process and results	Broad career paths to reinforce the development of a broad range of skills
	A greater degree of risk taking; a higher tolerance of ambiguity and unpredictability	
2 Quality enhancement	Relatively repetitive and predictable behaviours	Relatively fixed and explicit job descriptions
	A more long-term or intermediate focus	High levels of employee participation in decisions relevant to immediate work conditions and the job itself
	A moderate amount of co-operative, interdependent behaviour	A mix of individual and group criteria for performance appraisal that is mostly short term and results orientated
	A high concern for quality	A relatively egalitarian treatment of employees and some guarantees of employment security
	A modest concern for quantity of output	Extensive and continuous training and development of employees
	High concern for process: low risk-taking activity; commitment to the goals of the organisation	
3 Cost reduction	Relatively repetitive and predictable behaviour	Relatively fixed and explicit job descriptions that allow little room for ambiguity
	A rather short-term focus	Narrowly designed jobs and narrowly defined career paths that encourage specialisation, expertise and efficiency
	Primarily autonomous or individual activity	Short-term results-orientated performance appraisals
	Moderate concern for quality	Close monitoring of market pay levels for use in making compensation decisions
	High concern for quantity of output	Minimal levels of employee training and development
	Primary concern for results; low risk-taking activity; relatively high degree of comfort with stability	

Table 2.1

Business strategies, and associated employee role behaviour and HRM policies

Source: R.S. Schuler and S.E. Jackson (1987) 'Linking competitive strategies with human resource management practices', *Academy of Management Executive*, No. 3, August. Reproduced with permission of the Academy of Management.

support for the Schuler and Jackson model in terms of the link between business strategy and HR practices, but they did not investigate the implications of this link for organisational performance. The types of strategies described above are generic, and there is more concentration in some organisations on tailoring the approach to the particular needs of the specific organisation.

Many human resource strategies aim not just to target behaviour, but through behaviour change to effect a movement in the culture of the organisation. The target is, therefore, to change the common view of 'the way we do things around here' and to attempt to manipulate the beliefs and values of employees. There is much debate as to whether this is achievable.

We have previously recounted some of the concerns expressed about Fombrun *et al.*'s specific model; however, there is further criticism of the fit or matching perspective as a whole. Grundy (1998) claims that the idea of fit seems naive and simplistic. Ogbonna and Whipp (1999) argue that much literature assumes that fit can be targeted, observed and measured and there is an underlying assumption of stability. Given that most companies may have to change radically in response to the environment, any degree of fit previously achieved will be disturbed. Thus, they contend that fit is a theoretical ideal which can rarely be achieved in practice. Boxall (1996) criticises: the typologies of competitive advantage that are used, arguing that there is evidence that high-performing firms are good 'all rounders'; the fact that strategy is a given and no account is made of how it is formed or by whom; the assumption that employees will behave as requested; and the aim for consistency, as it has been shown that firms use different strategies for different sections of their workforce.

However, in spite of the criticisms of this perspective, it is still employed in both the academic and practitioner literature – see, for example, Holbeche's (1999) book entitled *Aligning Human Resources and Business Strategy*.

Resource-based approach

The resource-based view of the firm (Barney 1991) has stimulated attempts to create a resource-based model of strategic HRM (Boxall 1996). The resource-based view of the firm is concerned with the relationships between internal resources (of which human resources are one), strategy and firm performance. It focuses on the promotion of sustained competitive advantage through the development of human capital rather than merely aligning human resources to current strategic goals. Human resources can provide competitive advantage for the business, as long as they are unique and cannot be copied or substituted for by competing organisations. The focus is not just on the behaviour of the human resources (as with the fit approach), but on the skills, knowledge, attitudes and competencies which underpin this, and which have a more sustained impact on long-term survival than current behaviour (although this is still regarded as important). Briggs and Keogh (1999) maintain that business excellence is not just about 'best practice' or 'leapfrogging the competition', but about the intellectual capital and business intelligence to anticipate the future, today.

Barney states that in order for a resource to result in sustained competitive advantage it must meet four criteria, and Wright *et al.* (1994) demonstrate how human resources meet these. First, the resource must be *valuable*. Wright and his colleagues argue that this is the case where demand for labour is heterogeneous, and where the

supply of labour is also heterogeneous – in other words where different firms require different competencies from each other and for different roles in the organisation, and where the supply of potential labour comprises individuals with different competencies. On this basis value is created by matching an individual's competencies with the requirements of the firm and/or the job, as individuals will make a variable contribution, and one cannot be substituted easily for another.

The second criterion, *rarity*, is related to the first. An assumption is made that the most important competence for employees is cognitive ability due to future needs for adaptability and flexibility. On the basis that cognitive ability is normally distributed in the population, those with high levels of this ability will be rare. The talent pool is not unlimited and many employers are currently experiencing difficulties in finding the talent that they require.

Third, resources need to be *inimitable*. Wright *et al.* argue that this quality applies to the human resource as competitors will find it difficult to identify the exact source of competitive advantage from within the firm's human resource pool. Also competitors will not be able to duplicate exactly the resource in question, as they will be unable to copy the unique historical conditions of the first firm. This history is important as it will affect the behaviour of the human resource pool via the development of unique norms and cultures. Thus even if a competing firm recruited a group of individuals from a competitor they would still not be able to produce the same outcomes in the new firm as the context would be different. Two factors make this unique history difficult to copy. The first is causal ambiguity – in other words it is impossible to separate out the exact causes of performance, as the sum is always more than the parts; and, second, social complexity – that the complex of relationships and networks developed over time which have an impact on performance is difficult to dissect.

Finally resources need to be *non-substitutable*. Wright and his co-authors argue that although in the short term it may be possible to substitute human resources with others, for example technological ones, in the long term the human resource is different as it does not become obsolete (like technology) and can be transferred across other products, markets and technologies.

Wright *et al.* noted that attention has often been devoted to leaders and top management in the context of a resource-based approach, and indeed Boxall (1996) contends that this approach provides the theoretical base on which to concentrate in the renewal and development of the critical resource of leaders in the organisation. However, Wright and his co-authors view all human resources in the organisation as the pool of capital. This sits well with the view of strategy as evolutionary and strategy being influenced from the bottom up as well as from the top down. Also it is likely that top managers are more easily identified for their contribution to the organisation and hence are more likely to be mobile, therefore, than other employees who may not be so easily identified. However, different segments of the human resource are viewed differently by organisations in terms of their contribution to competitive advantage, so for some organisations the relevant pool of human capital may not be the total pool of employees.

Whereas fit models focus on the means of competitive advantage (HR practices) the resource-based view focuses on the source (the human capital). Wright *et al.* argue that while the practices are important they are not the source of competitive advantage as they can be replicated elsewhere, and they will produce different results in different places because of the differential human capital in different places. The
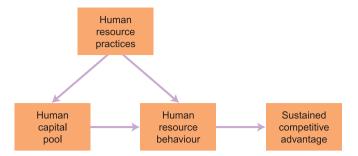
Figure 2.5 A model of human resources as a source of sustained competitive advantage
Source: P. Wright, G. McMahon and A. McWilliams (1994) 'Human resources and sustained competitive advantage: a resource-based perspective', *International Journal of Human Resource Management*, Vol. 5, No. 2, p. 318. Reproduced with the permission of Taylor and Francis Ltd. *See* www.tandf.co.uk/journals.

relationship between human capital, human resource practices and competitive advantage is shown in Figure 2.5.

Boxall (1996) argues that this theoretical perspective provides a conceptual base for asserting that human resources are a source of competitive advantage, and as such valued as generating strategic capability. Thus there is a case for viewing HR strategy as something more than a reactive matching process. Indeed Wright *et al.* argue that it provides the case for HR to be involved in the formulation of strategy rather than just its implementation. They suggest that it provides a grounding for asserting that not every strategy is universally implementable, and that alternatives may have to be sought or the human capital pool developed further, via human resource practices, where this is possible.

The importance of this perspective is underlined by the current emphasis on a firm's intangible assets. Numerous studies have shown that a firm's market value (the sum of the value of the shares) is not fully explained by its current financial results (*see*, for example, Ulrich and Smallwood 2002) or its tangible assets and the focus has moved to a firm's intangible assets such as intellectual capital and customer relationships – all of which are derived from human capital (*see*, for example, Schmidt and Lines 2002). This emphasis has resulted in a great deal of attention being paid to the evaluation of human capital through measuring, reporting and managing it. Human capital can be reported both internally and externally (as in the annual financial report, or similar), and Angela Baron from the CIPD has been reported as commenting that 'investors are demanding information on human capital' (Roberts 2002).

But human capital is loaned: 'human capital is not owned by the organization, but secured through the employment relationship' (Scarborough 2003a, p. 2) and because this is so, the strategy for the management of people is also critical. The government's White Paper, *Modernising Company Law*, suggests that the largest 1,000 companies should publish an annual operating review. Experts believe this will need to include a review about the ways that employees are managed (*People Management* 2002). In addition the Accounting Standards Board recommend that people management measures should be included in annual reports (Brown 2002).

The perceived importance of people as an intangible asset is demonstrated in the action of Barclays Group who on their Investor's Day were keen to demonstrate not only their financial results but people strategies and improvements in staff satisfaction which they believe have contributed to the results (Arkin and Allen 2002).

The Barclays approach is covered in more detail in a case study on the website **www.booksites.net/torrington**.

This approach has great advantages from an HR point of view. People in the organisation become the focus, their contribution is monitored and made more explicit, the way people are managed can be seen to add value and money spent on people can be seen as an investment rather than a cost. Some firms are using the balanced scorecard to demonstrate the contribution that human capital makes to firm performance, such as Norwich Union, and Scarborough (2003b) argues that this builds a bridge between the role of the HR function and the strategy of the firm. However, there are in-built barriers in the language of the resource-based view. One is the reference to people as 'human capital' which some consider to be unnecessarily instrumental. Another is the focus on 'firms' and 'competitive advantage' which makes it harder to see the relevance of this perspective for organisations in the public sector. There is also the issue of what is being measured and who decides this. The risk is that too much time is spent measuring and that not everything that is measured is of critical value to the organisation. So far, such measures appear very varied, although different firms will, of course, need to measure different things. Measures often appear to be taken without a coherent framework, as appears to be the case in the results documented by Scarborough and Elias (2002) for their 10 case study organisations. The balanced scorecard and the HR scorecard, however, appear to be a useful mechanism in this respect. The evaluation of human capital is considered in greater depth in Chapter 33.

Why does the theory matter?

It is tempting to think of these theories of strategic HRM as competing with each other. In other words one is right and the others are wrong. If this were the case HR managers/directors and board members would need only to work out which is the 'right' theory and apply that. This is, of course, a gross oversimplification, as each theory can be interpreted and applied in different ways, and each has advantages and disadvantages. It could be argued that different theories apply in different sectors or competitive contexts. For example Guest (2001) suggests that there is the possibility that a 'high performance/high commitment' approach might always be most appropriate in manufacturing, whereas strategic choice (which could be interpreted as choice to fit with business strategy) might be more realistic in the services sector. This could be taken one step further to suggest that different theories apply to different groups in the workforce.

Consequently, these three theories do not necessarily represent simple alternatives. It is also likely that some board directors and even HR managers are not familiar with any of these theories (*see*, for example, Guest and King 2001). In spite of that, organisations, through their culture, and individuals within organisations operate on the basis of a set of assumptions, and these assumptions are often implicit. Assumptions about the nature and role of human resource strategy, whether explicit or implicit, will have an influence on what organisations actually do. Assumptions will limit what are seen as legitimate choices.

Understanding these theories enables HR managers, board members, consultants and the like to interpret the current position of HR strategy in the organisation, confront current assumptions and challenge current thinking and potentially open up a new range of possibilities.

THE ROLE OF THE HR FUNCTION IN STRATEGY

The extent to which the HR function is involved in both organisational and human resource strategy development is dependent on a range of factors, the most often quoted being whether the most senior HR person is a member of the board of directors. Sparkes (2001) identifies a key role for the HR director as promoting the connection between organisational strategy, culture and people strategy. He maintains that being an HR director means that 'we can almost guarantee that a human element is built into everything strategic from the start' (p. 45).

There is evidence to suggest that over the past 20 years HR board membership has increased and surveys suggest that around three-fifths of larger organisations have an HR director (*see*, for example, Hall and Torrington 1998), although some surveys indicate lower percentages. However, we found, as did Kelly and Gennard (1996), that board membership, while generally identified as desirable, does not guarantee the involvement of specialists in strategy, and it was not necessarily seen as essential to strategic involvement, and this is perhaps why currently very little attention is given to assessing the percentage of organisations with an HR director:

> Thus whilst board membership is often treated as a proxy for strategic involvement, the reality of the situation is far more complex. Even looking at the most favourable evidence from the research, a picture emerges of limited involvement in strategic matters. The good news is that the IPM's survey found that representation on the top management team was predicted to increase, although there is contradictory evidence. (Tyson 1995)

While a seat on the board is undoubtably an advantage and, as Sparkes suggests, improves HR's understanding of the business context in which HR strategies need to be developed and implemented, this is not essential. Other factors influencing the role of the HR function in strategic concerns include the overall philosophy of the organisation towards the value of its people, the mindset of the Chief Executive, and the working relationship between the Chief Executive and the most senior HR person.

These influences are not particularly easy to manipulate, but what the HR function *can* do is look for opportunities in these areas, and *use* them. Building a good working relationship with the Chief Executive is critical, and doubly so, as Stiles (2001) confirms the power of the Chief Executive in selecting who should be appointed to the board. There is evidence that HR managers have to prove themselves before being given a seat on the board (*see*, for example, Hall and Torrington 1998) so building key competencies is essential. Barney and Wright (1998) suggest that one of the real reasons why HR are not involved in strategic planning is that they are not displaying the required competencies. In 2001 IRS (2001) found that only 72 per cent of HR managers in their survey reported the HR function as having a strategic/business focus. The website case study, 'People issues are central to the success of any organisation', focuses on these issues.

It is suggested that HR managers need to use business and financial language; describe the rationale for HR activities in terms of added value; act as a business manager first and an HR manager second; appoint line managers into the HR

function; concentrate on priorities as defined by the business; understand the business they work in, and offer well-developed change-management skills that can be used immediately. Guest and King (2001) argue that, as senior managers and board members appear to have limited knowledge of research linking people management and performance, there is an opportunity for enthusiastic HR managers/directors to feed new ideas to Chief Executives. Increasingly, HR managers need to become closer to their accounting colleagues. In addition, the function needs to prepare itself by thinking strategically, identifying a functional mission and strategy and involving line management in the development and implementation of human resource strategy.

SUMMARY PROPOSITIONS

2.1 It is more helpful to focus on the concept of strategic HRM than on HRM strategy as the former directs us to consider strategic thinking and a strategic orientation, rather than a 'strategy' which is written down and exists as a physical entity.

2.2 The nature of the link between business strategy and HR strategy is critical and can be played out in a variety of ways.

2.3 Three theoretical perspectives on strategic HR management can be identified: universalist/best practice; contingency/fit; and the resource-based/human capital view.

2.4 The extent to which HR specialists are involved in HR strategy is influenced by the environment of the business, its culture, the perspective of the Chief Executive, HR board membership and the qualities, characteristics and working relationships of the most senior HR specialist.

GENERAL DISCUSSION TOPICS

1 Is it feasible to link business strategy with the management of people in organisations?

2 Does it really matter whether the most senior HR person is on the board of directors, or are personal work relationships, political alliances and personal track records more important?

3 Human resource strategies can be stimulating to produce and satisfying to display, but how can we make sure that they are implemented?

FURTHER READING

Khatri, N. and Budhwar, P. (2001) 'A study of strategic HR issues in an Asian context', *Personnel Review*, Vol. 31, No. 2, pp. 166–87
This article investigates strategic HR issues which are often neglected. Rather than focusing on strategic content issues, the research reported here concentrates on the structure of the HR function and its strategic relationships; HR competencies; the nature of HR strategy (for example formal or informal); and HR outsourcing. Although the study is located in a very specific context – the electronics and components sector and the machinery and equipment sector in Singapore – the literature review and results are both very useful and informative and straightforward reading.

Mayo, A. (2001) *The Human Value of the Enterprise*. London: Nicholas Brealey
Mayo provides one approach to the measurement of human capital – the human capital monitor, which is based on people as assets, people's motivation and commitment and people's contribution to added value. There is advice on maximising human capital, motivation and commitment, innovation and learning and the challenges of mergers, acquisitions and alliances.

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An extensive range of additional materials, including multiple choice questions, answers to questions and links to useful websites can be found on the Human Resource Management Companion Website at **www.pearsoned.co.uk/torrington**.