

Strategic HRM

An important defining characteristic of human resource management is that it is strategic. This characteristic is expressed by the concept of strategic HRM – an integrated approach to the development of HR strategies that enable the organization to achieve its goals. To understand the notion of strategic HRM it is necessary to appreciate the concept of strategy upon which it is based, and this is considered in the first section of the chapter. This leads into a definition of the concept of strategic HRM followed by expositions of its aims and approaches.

THE CONCEPT OF STRATEGY

Strategy has been defined by Johnson and Scholes (1993) as: 'The direction and scope of an organization over the longer term, which ideally matches its resources to its changing environment, and in particular, to its markets, customers and clients to meet stakeholder expectations.'

Strategy determines the direction in which the organization is going in relation to its environment. It is the process of defining intentions (*strategic intent*) and allocating or matching resources to opportunities and needs (*resource-based strategy*). Business strategy is concerned with achieving *competitive advantage*. The effective development and implementation of strategy depends on the *strategic capability* of the

organization's managers. As expressed in the Professional Standards of the CIPD, this means the capacity to create an achievable vision for the future, to foresee longer-term developments, to envisage options (and their probable consequences), to select sound courses of action, to rise above the day-to-day detail, to challenge the *status quo*. Strategy is expressed in *strategic goals* and developed and implemented in *strategic plans* through the process of *strategic management*. Strategy is about implementation, which includes the management of change, as well as planning. An important aspect of strategy is the need to achieve *strategic fit*. This is used in three senses:

1. matching the organization's capabilities and resources to the opportunities available in the external environment;
2. matching one area of strategy, eg human resource management, to the business strategy; and
3. ensuring that different aspects of a strategy area cohere and are mutually supportive.

The concept of strategy is not a straightforward one. There are many different theories about what it is and how it works. Mintzberg *et al* (1988) suggest that strategy can have a number of meanings, namely:

- *A plan*, or something equivalent – a direction, a guide, a course of action.
- *A pattern*, that is, consistency in behaviour over time.
- *A perspective*, an organization's fundamental way of doing things.
- *A ploy*, a specific 'manoeuvre' intended to outwit an opponent or a competitor.

The formulation of corporate strategy can be defined as a process for developing and defining a sense of direction. 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 long-term intentions. Many people still believe that this is the case, but it is a misrepresentation of reality. In practice the formulation of strategy is never as rational and linear a process as some writers describe it or as some managers attempt to make it.

Mintzberg (1987) believes that strategy formulation is not necessarily rational and continuous. 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'. He has emphasized the concept of 'emergent strategies', and a key aspect of this process is the production of something that is new to the organization even if it is not developed as logically as the traditional corporate planners believed to be appropriate.

Tyson (1997) confirms that:

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

STRATEGIC HRM DEFINED

Strategic HRM is an approach to making decisions on the intentions and plans of the organization in the shape of the policies, programmes and practices concerning the employment relationship, resourcing, learning and development, performance management, reward, and employee relations. The concept of strategic HRM is derived from the concepts of HRM and strategy. It takes the HRM model with its focus on strategy, integration and coherence and adds to that the key notions of strategy, namely, strategic intent, resource-based strategy, competitive advantage, strategic capability and strategic fit.

Strategic HRM and HR strategies

Strategic HRM is an approach to the strategic management of human resources in accordance with the intentions of the organization on the future direction it wants to take. What emerges from this process is a stream of decisions over time that form the pattern adopted by the organization for managing its human resources and which define the areas in which specific HR strategies need to be developed. These focus on the decisions of the organization on what needs to be done and what needs to be changed in particular areas of people management.

The meaning of strategic HRM

According to Hendry and Pettigrew (1986), strategic HRM has four meanings:

1. the use of planning;
2. a coherent approach to the design and management of personnel systems based on an employment policy and manpower strategy and often underpinned by a 'philosophy';
3. matching HRM activities and policies to some explicit business strategy;
4. seeing the people of the organization as a 'strategic resource' for the achievement of 'competitive advantage'.

Purcell (2001) draws attention to the implications for strategic HRM of the concept of strategy as an emerging rather than a deliberate process:

Big strategies in HRM are most unlikely to come, *ex cathedra*, from the board as a fully formed, written strategy or planning paper. Strategy is much more intuitive and often only 'visible' after the event, seen as 'emerging patterns of action'. This is especially the case when most of the strategy, as in HRM, is to do with internal implementation and performance strategies, not exclusively to do with external market ploys.

Strategic HRM as an integrated process

Strategic HRM is essentially an integrated process that aims to achieve 'strategic fit'. A strategic HRM approach produces HR strategies that are integrated vertically with the business strategy and are ideally an integral part of that strategy, contributing to the business planning process as it happens. Walker (1992) defines strategic HRM as 'the means of aligning the management of human resources with the strategic content of the business'. Vertical integration is necessary to provide congruence between business and human resource strategy so that the latter supports the accomplishment of the former and, indeed, helps to define it. Strategic HRM is also about horizontal integration, which aims to ensure that the different elements of the HR strategy fit together and are mutually supportive.

AIMS OF STRATEGIC HRM

The fundamental aim of strategic HRM is to generate a perspective on the way in which critical issues relating to people can be addressed. It enables strategic decisions to be made that have a major and long-term impact on the behaviour and success of the organization by ensuring that the organization has the skilled, committed and well-motivated employees it needs to achieve sustained competitive advantage. Its rationale is the advantage of having an agreed and understood basis for developing approaches to people management in the longer term by providing a sense of

direction in an often turbulent environment. As Dyer and Holder (1998) remark, strategic HRM should provide 'unifying frameworks which are at once broad, contingency based and integrative'.

When examining the aims of strategic HRM it is necessary to consider the need for HR strategy to take into account the interests of all the stakeholders in the organization, employees in general as well as owners and management. In Storey's (1989) terms, 'soft strategic HRM' will place greater emphasis on the human relations aspect of people management, stressing continuous development, communication, involvement, security of employment, the quality of working life and work-life balance. Ethical considerations will be important. 'Hard strategic HRM' on the other hand will emphasize the yield to be obtained by investing in human resources in the interests of the business. This is also the philosophy of human capital management.

Strategic HRM should attempt to achieve a proper balance between the hard and soft elements. All organizations exist to achieve a purpose and they must ensure that they have the resources required to do so, and that they use them effectively. But they should also take into account the human considerations contained in the concept of soft strategic HRM. In the words of Quinn Mills (1983) they should plan with people in mind, taking into account the needs and aspirations of all the members of the organization. The problem is that hard considerations in many businesses will come first, leaving soft ones some way behind.

APPROACHES TO STRATEGIC HRM

Strategic HRM adopts an overall resource-based philosophy, as described below. Within this framework there are three possible approaches, namely, high-performance management (high-performance working), high-commitment management and high-involvement management.

Resource-based strategic HRM

A resource-based approach to strategic HRM focuses on satisfying the human capital requirements of the organization. The notion of resource-based strategic HRM is based on the ideas of Penrose (1959), who wrote that the firm is 'an administrative organization and a collection of productive resources'. It was developed by Hamel and Prahalad (1989), who declared that competitive advantage is obtained if a firm can obtain and develop human resources that enable it to learn faster and apply its learning more effectively than its rivals. Barney (1991) states that sustained competitive advantage stems from the acquisition and effective use of bundles of distinctive resources that competitors cannot imitate. As Purcell *et al* (2003) suggest, the values

and HR policies of an organization constitute an important non-imitable resource. This is achieved by ensuring that:

- the firm has higher quality people than its competitors;
- the unique intellectual capital possessed by the business is developed and nurtured;
- organizational learning is encouraged;
- organization-specific values and a culture exist which 'bind the organization together (and) gives it focus'.

The aim of a resource-based approach is to improve resource capability – achieving strategic fit between resources and opportunities and obtaining added value from the effective deployment of resources. In line with human capital theory, resource-based theory emphasizes that investment in people adds to their value to the firm. Resource-based strategy, as Barney (1991) indicates, can develop strategic capability and produce what Boxall and Purcell (2003) refer to as 'human resource advantage'.

The high-performance management approach

High-performance working involves the development of a number of interrelated processes which together make an impact on the performance of the firm through its people in such areas as productivity, quality, levels of customer service, growth, profits and, ultimately, the delivery of increased shareholder value. This is achieved by 'enhancing the skills and engaging the enthusiasm of employees' (Stevens, 1998). According to Stevens, the starting point is leadership, vision and benchmarking to create a sense of momentum and direction. Progress must be measured constantly. He suggests that the main drivers, support systems and culture are:

- decentralized, devolved decision-making made by those closest to the customer – so as constantly to renew and improve the offer to customers;
- development of people capacities through learning at all levels, with particular emphasis on self-management and team capabilities – to enable and support performance improvement and organizational potential;
- performance, operational and people management processes aligned to organizational objectives – to build trust, enthusiasm and commitment to the direction taken by the organization;
- fair treatment for those who leave the organization as it changes, and engagement with the needs of the community outside the organization – this is an important component of trust and commitment-based relationships both within and outside the organization.

High-performance management practices include rigorous recruitment and selection procedures, extensive and relevant learning and development activities, incentive pay systems and performance management processes.

The strategy may be expressed as a drive to develop a performance culture in an organization. In the box below is an example of the high-performance strategy formulated by the Corporation of London.

The fundamental business need the strategy should meet is to develop and maintain a high performance culture. The characteristics of such a culture are:

- a clear line of sight exists between the strategic aims of the authority and those of its departments and its staff at all levels;
- management defines what it requires in the shape of performance improvements, sets goals for success and monitors performance to ensure that the goals are achieved;
- leadership from the top, which engenders a shared belief in the importance of continuing improvement;
- focus on promoting positive attitudes that result in a committed and motivated workforce;
- performance management processes aligned to the authority's objectives to ensure that people are engaged in achieving agreed goals and standards;
- capacities of people developed through learning at all levels to support performance improvement;
- people provided with opportunities to make full use of their skills and abilities;
- people valued and rewarded according to their contribution.

The high-commitment management model

One of the underpinning characteristics of HRM is its emphasis on the importance of enhancing mutual commitment (Walton, 1985b). High-commitment management has been described by Wood (1996) as:

A form of management which is aimed at eliciting a commitment so that behaviour is primarily self-regulated rather than controlled by sanctions and pressures external to the individual, and relations within the organization are based on high levels of trust.

The approaches to creating a high-commitment organization as defined by Beer *et al* (1984) and Walton (1985b) are:

- the development of career ladders and emphasis on trainability and commitment as highly valued characteristics of employees at all levels in the organization;
- a high level of functional flexibility with the abandonment of potentially rigid job descriptions;
- the reduction of hierarchies and the ending of status differentials;
- a heavy reliance on team structure for disseminating information (team briefing), structuring work (team working) and problem solving (quality circles).

Wood and Albanese (1995) added to this list:

- job design as something management consciously does in order to provide jobs that have a considerable level of intrinsic satisfaction;
- a policy of no compulsory lay-offs or redundancies and permanent employment guarantees, with the possible use of temporary workers to cushion fluctuations in the demand for labour;
- new forms of assessment and payment systems and, more specifically, merit pay and profit sharing;
- a high involvement of employees in the management of quality.

Approaches to achieving commitment are described in Chapter 19.

High-involvement management

This approach involves treating employees as partners in the enterprise whose interests are respected and who have a voice on matters that concern them. It is concerned with communication and involvement. The aim is to create a climate in which a continuing dialogue between managers and the members of their teams take place to define expectations and share information on the organization's mission, values and objectives. This establishes mutual understanding of what *is* to be achieved and a framework for managing and developing people to ensure that it *will* be achieved.

The following high-involvement work practices have been identified by Pil and McDuffie (1999):

- 'on-line' work teams;
- 'off-line' employee involvement activities and problem-solving groups;
- job rotation;
- suggestion programmes;
- decentralization of quality efforts.

IMPLEMENTING STRATEGIC HRM

The implementation of strategic HRM is carried out within the framework of the approaches described above. The overarching imperative will be to achieve human resource advantage. A high-performance approach will emphasize the importance of creating and maintaining a performance culture, and both high-commitment and high-involvement management will contribute to the development of a committed and engaged workforce. Strategic HRM involves the formulation and implementation of specific strategies in each area of HRM as described in the next two chapters.