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Strategic Human Resource Management

Key concepts and terms

- Best fit
- Best practice
- Bundling
- Competency framework
- Competitive advantage
- Configuration
- Contingent determinism
- Human resource advantage

- Life-cycle model
- Resource-based view
- Resource dependence theory
- 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

- The fundamental characteristics of strategy

- How strategy is formulated

- The aims of strategic HRM

- The resource-based view and its implications

- The meaning of strategic fit

- The three HRM 'perspectives' of Delery and Doty

- The significance of the concepts of 'best practice' and 'best fit'

- The significance of bundling

- The significant features of strategic HRM

- The content and formulation of HR strategies

Introduction

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.

(Baird and Meshoulam, 1988)

The aim of this chapter is to explore what this involves. It starts with an analysis of the meaning of strategic human resource management (strategic HRM) as provided by the concepts of HRM and strategic management. It then covers, first, a definition of strategic HRM and its aims; second, an analysis of its underpinning concepts – the resource-based view and strategic fit; and third, 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 continues with a summary of the distinctive features of strategic HRM, and ends with an examination of the types of HR strategies that can be developed when a strategic HRM approach is adopted.

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 process and

associates it with an approach to management which involves taking a broad and long-term view of where the business is going, and managing it in ways which ensure that 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 Rosabeth Moss 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 specified goals in the future. As defined by 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.' The formulation and implementation of corporate strategy can be described as a process for developing a sense of direction, making the best use of resources and ensuring strategic fit.

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 as described later in this chapter.

The third characteristic of strategy is strategic fit – the need when developing functional strategies such as HR to achieve congruence between them and the organization's business strategies within the context of its external and internal environments.

Critical evaluation of the concept of strategy

The formulation of corporate strategy is often assumed to be a logical, step-by-step affair, the outcome of which is a formal written statement which 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. There are limitations to the totally logical model of management which underpins the concept of strategic HRM. In the words of Mabey *et al* (1998), this is 'a model of management which is more rational than is achievable in practice'.

The difficulty is that strategies are often based on the questionable assumption that the future will resemble the past. Some years ago, Robert 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 believed 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 strategic planners often manage a process in which strategies and visions can emerge as well as be deliberately conceived. They proceed by finding out what works well in practice for them. 'Sometimes strategies must be left as broad visions, not precisely articulated, to adapt to a changing environment.' This concept of 'emergent strategy' conveys the essence of how organizations develop their business and HR strategies.

Research conducted by Tyson (1997) confirmed 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-orientated action which is always directed towards change;
- is conditioned by the management process itself.

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 mindset 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. Strategic HRM involves the exercise of strategic choice (which is always

there) and the establishment of strategic priorities. It is essentially about the integration of business and HR strategies so that the latter contribute to the achievement of the former.

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 put into practice.

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 three 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. The third objective is to contribute to the formulation of business strategy by drawing attention to ways in which the business can capitalize on the advantages provided by the strengths of its human resources.

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 (1998) 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 which take into account the changing context in which the firm operates and its longer-term requirements.

Strategic HRM is based on two key concepts: 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. It is based originally 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 coined the phrase and 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. Distinctive resources have four attributes: they must be valuable, rare, imperfectly imitable and non-substitutable. These resources include all the experience, knowledge, judgement, risk-taking propensity and wisdom of individuals associated with a firm.

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 managers who can think and plan strategically in the sense that they understand the key strategic issues and ensure that what they do enables the strategic goals of the business to be achieved. In line with human capital theory, the resource-based view emphasizes that investment in people increases their value to the firm. It proposes that sustainable competitive advantage is attained when the firm has a human resource pool that cannot be imitated or substituted by its rivals.

Boxall (1996, 1999) noted that human resource advantage is achieved by a combination of 'human capital advantage', which results from employing people with competitively valuable knowledge and skills, and 'human process advantage', which follows from the establishment of 'difficult to imitate, highly evolved processes within the firm, such as cross-departmental cooperation and executive development'. Accordingly, 'human resource advantage', the superiority of one firm's labour management over another's, can be thought of as the product of its human capital and human process advantages.

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.' Resource dependence theory (Pfeffer and Davis-Blake, 1992) suggests that some HR strategies

in organizations such as those concerned with reward are strongly influenced by the need to attract, retain and energize high-quality people.

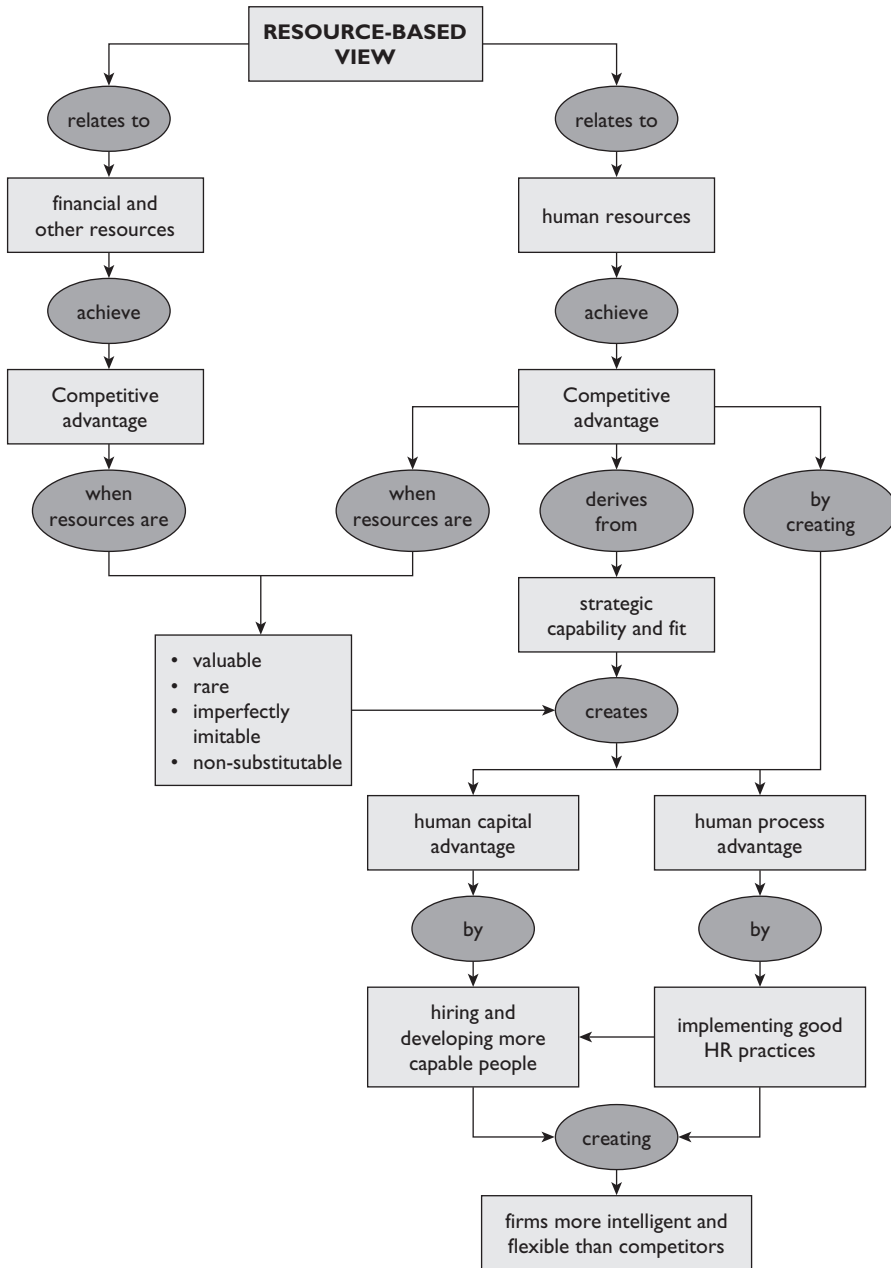A concept map of the resource-based view is shown in Figure 2.1.

Figure 2.1 Concept map: resource-based view

Critical evaluation of the resource-based view concept

The resource-based view has had considerable influence on thinking about HRM. It provides a justification for attaching importance to resourcing activities, especially those concerned with talent management. It can also be used to enhance the value of the HR contribution in achieving competitive advantage. But it has the following limitations:

- It may be difficult to find resources which satisfy all the criteria.

- External factors such as product market pressures are ignored.

- It provides only generalized guidance on what resources are suitable.

- Different resource configurations can provide the same value for firms.

- As Priem and Butler (2001) point out, the theory is tautological because valuable resources and competitive advantage are defined in the same terms.

Strategic fit

Walker (1992) defines strategic HRM as 'the means of aligning the management of human resources with the strategic content of the business'. This is based on the concept of strategic fit, which means developing HR strategies that are integrated with the business strategy and support its achievement (vertical integration or fit), and also with the use of an integrated approach to the development of HR practices such as resourcing, employee development, reward and employee relations so that they complement and support one another (horizontal integration or fit).

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 three HRM perspectives:

- **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.

- **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'.

- **The configurational perspective** – this is a holistic approach which emphasises 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.

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 which 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 (1998):

- employment security;
- selective hiring;
- self-managed teams;
- high compensation contingent on performance;
- training to provide a skilled and motivated workforce;
- reduction of status differentials;
- sharing information.

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: life-cycle, competitive strategy, and strategic configuration.

The life-cycle model

The life-cycle 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 life-cycle theory. The basic premise of this model was expressed by Baird and Meshoulam (1988):

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 were identified by Porter (1985):

- innovation – being the unique producer;

- quality – delivering high-quality goods and services to customers;

- 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.

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. They identified the following four types of organizations, classifying the first three types as 'ideal' organizations.

- 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.

- 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.

- 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.

- 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.

Critical evaluation of the best practice and best fit models

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, which 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. It is best to think of 'good practice' rather than 'best practice'.

Best fit

The best fit model seems to be more realistic than the best practice model. As Dyer and Holder (1998) pointed out, 'The inescapable conclusion is that what is best depends.' 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 polices 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) asserted, '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. It is often said that best fit is better than best practice but this statement can only be accepted with reservations.

Bundling

As Richardson and Thompson (1999) commented, 'A strategy's success turns on combining vertical or external fit and horizontal or internal fit.' They concluded that a firm with bundles of associated HR practices should have a higher level of performance, providing 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 interrelated 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) explained the concept of bundling as '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 which 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.

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 (a set of definitions of the competencies that describe the types of behaviour required for the successful performance of a role) can be devised which are used in assessment and development centres, to specify recruitment standards, to provide a framework for competency-based interviews, to identify learning and development needs, to indicate the standards of behaviour or performance required and to serve as the basis for human resource planning. They can 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. Job evaluation can also be used to clarify levels in an organization. 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. Total reward approaches 'bundle' financial and non-financial rewards together. High-performance systems are in effect based on the principle of bundling because they group a number of HR practices to produce synergy and thus increase their impact.

Critical evaluation of bundling

Bundling sounds like a good idea. The research by MacDuffie (1995) and others has shown that bundling can improve performance. But there are a number of inhibiting factors:

- deciding which bundles are likely to be best: there is no evidence that one bundle is generally better than another;

- actually linking practices together – it is always easier to deal with one practice at a time;

- managing the interdependencies between different parts of a bundle;

- convincing top management and line managers that bundling will benefit the organization and them.

These can be overcome by dedicated HR professionals but it is hard work. What can be done, with difficulty, is to look for ways in which different HR practices can support one another as in the examples given above.

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 (Paauwe, 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 life cycle 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), such as the typology of organizations as prospectors, defenders and analysers defined by Miles and Snow (1978).

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

HR strategies

Strategic HRM involves the formulation and implantation of HR strategies which set out what the organization intends to do about its human resource management policies and practices, and how they should be integrated with the business strategy and each other. They aim to meet both the business and the human needs in the organization. HR strategies are described by

Dyer and Reeves (1995) as 'internally consistent bundles of human resource practices'. Richardson and Thompson (1999) suggest that 'A strategy, whether it is an HR strategy or any other kind of management strategy must have two key elements: there must be strategic objectives (ie things the strategy is supposed to achieve), and there must be a plan of action (ie the means by which it is proposed that the objectives will be met).' As Lynda Gratton (2000) commented, 'There is no great strategy, only great execution.' Strategies are forward-looking but as Fombrun *et al* (1984) remarked, businesses and managers should perform well in the present to succeed in the future.

Because all organizations are different, all HR strategies are different. There is no such thing as a standard strategy, and research into HR strategy conducted by Armstrong and Long (1994) and Armstrong and Baron (2002) revealed many variations. Some strategies are simply very general declarations of intent. Others go into much more detail. But two basic types of HR strategies can be identified: first, general strategies such as high-performance working, and second, specific strategies relating to the different aspects of human resource management such as learning and development and reward.

General HR strategies

General strategies describe the overall system or bundle of complementary HR practices that the organization proposes to adopt or puts into effect in order to improve organizational performance. The three main approaches are summarized below.

High-performance management

High-performance management or high-performance working aims to make an impact on the performance of the organization in such areas as productivity, quality, levels of customer service, growth and profits. High-performance management practices include rigorous recruitment and selection procedures, extensive and relevant training and management development activities, incentive pay systems and performance management processes.

High-commitment management

One of the defining characteristics of HRM is its emphasis on the importance of enhancing mutual commitment (Walton, 1985). 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.'

High-involvement management

As defined by Benson *et al* (2006), 'High-involvement work practices are a specific set of human resource practices that focus on employee decision making, power, access to information,

training and incentives.' Camps and Luna-Arocas (2009) observe that 'High-involvement work practices aim to provide employees with the opportunity, skills and motivation to contribute to organizational success in environments demanding greater levels of commitment and involvement.' The term 'high-involvement' was used by Lawler (1986) to describe management systems based on commitment and involvement, as opposed to the old bureaucratic model based on control.

Specific HR strategies

Specific HR strategies set out what the organization intends to do in areas such as:

- Human capital management: obtaining, analysing and reporting on data that informs the direction of value-adding people management strategic, investment and operational decisions.

- Knowledge management: creating, acquiring, capturing, sharing and using knowledge to enhance learning and performance.

- Corporate social responsibility: a commitment to managing the business ethically in order to make a positive impact on society and the environment.

- Engagement: the development and implementation of policies designed to increase the level of employees' engagement with their work and the organization.

- Organization development: the planning and implementation of programmes designed to enhance the effectiveness with which an organization functions and responds to change.

- Resourcing: attracting and retaining high-quality people.

- Talent management: how the organization ensures that it has the talented people it needs to achieve success.

- Learning and development: providing an environment in which employees are encouraged to learn and develop.

- Reward: defining what the organization wants to do in the longer term to develop and implement reward policies, practices and processes which will further the achievement of its business goals and meet the needs of its stakeholders.

- Employee relations: defining the intentions of the organization about what needs to be done and what needs to be changed in the ways in which the organization manages its relationships with employees and their trade unions.

- Employee well-being: meeting the needs of employees for a healthy, safe and supportive work environment.

Criteria for an effective HR strategy

An effective HR strategy is one that works in the sense that it achieves what it sets out to achieve. Its criteria are:

- It will satisfy business needs.

- It is founded on detailed analysis and study, not just wishful thinking.

- It can be turned into actionable programmes which anticipate implementation requirements and problems.

- It is coherent and integrated, being composed of components which fit with and support each other.

- It takes account of the needs of line managers and employees generally as well as those of the organization and its other stakeholders. As Boxall and Purcell (2003) emphasized, 'HR planning should aim to meet the needs of the key stakeholder groups involved in people management in the firm.'

Formulating HR strategy

Research conducted by Wright *et al* (2004) identified two approaches that can be adopted by HR to strategy formulation. The *inside-out approach* begins with the status quo HR function (in terms of skills, processes, technologies and so on), then attempts (with varying degrees of success) to identify linkages to the business (usually through focusing on 'people issues'), making minor adjustments to HR activities along the way. In the *outside-in approach*, the starting point is the business and the customer, competitor and business issues it faces. The HR strategy then derives directly from these challenges to add real value.

Wright *et al* commented that HR strategies are more likely to flow from business strategies which will be dominated by product/market and financial considerations. But there is still room for HR to make an essential contribution at the stage when business strategies are conceived, for example, by focusing on resource issues. This contribution may be more significant if strategy formulation is an emergent or evolutionary process – HR strategic issues will then be dealt with as they arise during the course of formulating and implementing the corporate strategy. 'Remember that strategy is a process, not a document, intervention or event. Any strategy is a pattern in a stream of decisions, and as business and people issues change or obstacles appear, the patterns (strategy) will also have to change' (Wright *et al*, 2004).

Critical evaluation of the concept of strategic HRM

As an aspirational philosophy which emphasizes the importance of integrating business and HR strategies and the need to be forward-looking, the concept of strategic HRM has much to commend it. But there are problems.

First, the assumption behind the philosophy is that the formulation of strategy is a logical step-by-step process. But as explained earlier in this chapter, this is not the case.

Second, it is assumed that it is possible without undue difficulty to integrate business and HR strategy. When considering integration it should be remembered that business and HR issues influence each other, and in turn influence corporate and business unit strategies. It is also necessary to note that in establishing these links, account must be taken of the fact that strategies for change have also to be integrated with changes in the external and internal environments. Fit may exist at a point in time, but circumstances will change and fit no longer exists. An excessive pursuit of 'fit' with the status quo will inhibit the flexibility of approach that is essential in turbulent conditions.

Third, the following issues arise when attempting to achieve integration:

- The business strategy might not be clearly defined – it could be in an emergent or evolutionary state, which would mean that there is little or nothing with which to fit the HR strategy.

- Even if the business strategy is clear, it may be difficult to determine precisely how HR strategies could help in specific ways to support the achievement of particular business objectives. A good business case can only be made if it can be demonstrated that there will be a measurable link between the HR strategy and business performance in the area concerned.

- Even if there is a link, HR specialists do not always have the strategic capability to make the connection – they need to be able to see the big picture, understand the business drivers and appreciate how HR policies and practices can impact on them.

- Barriers exist between top management and HR – the former may not be receptive because they don't believe the strategy is necessary and HR is not capable of persuading them that they should listen, or HR lacks access to top management on strategic issues, or HR lacks credibility with top management as a function that knows anything about the business or should even have anything to do with the business.

Fourth, it is easy to say that you are going to do something; much harder to do it. The factors that contribute to creating this say/do gap between the strategy as designed and the strategy as implemented include:

- failure to understand the strategic needs of the business;

- inadequate assessment of the environmental, cultural, social and political factors which affect the content of the strategies;

- inadequate appreciation of the consequences of the strategy and the likely reaction of people affected by it;

- insufficient attention paid to practical implementation problems;

- failure to manage the change effectively;

- the development of ill-conceived and irrelevant initiatives, possibly because they are current fads or because there has been an poorly digested analysis of best practice which does not fit the organization's requirements;

- ignoring the important role of line managers and therefore neglecting to involve them in strategy formulation and in planning its implementation;

- overlooking the need to have established supporting processes for the initiative (such as performance management to support performance pay).

An implementation programme that overcomes these barriers needs to be based on a rigorous preliminary analysis of the strategic needs of the business and how the HR strategy will help to meet them. This should be followed by a communication programme that spells out what the strategy is, what it is expected to achieve and how it is to be introduced, and an involvement programme which ensures those concerned with the strategy, such as line managers, take part in formulating it, identify implementation problems and consider how they should be dealt with. Finally, action plans which indicate who does what and when need to be prepared as the basis for a project management programme.

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 are:

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

- 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 resource-based view emphasizes the importance of creating firms that are 'more intelligent and flexible than their competitors' (Boxall, 1996) by hiring and developing more talented staff and by extending the skills base.

Implications of the concept of strategic fit

The concept of strategic fit means developing HR strategies that are integrated with the business strategy and support its achievement (vertical integration or fit), and the use of an integrated approach to the development of HR practices.

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

- Universalistic perspective – some HR practices are better than others and all organizations should adopt these best practices.
- Contingency – in order to be effective, an organization's HR policies must be consistent with other aspects of the organization.
- 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.

HR strategies

HR strategies set out what the organization intends to do about its human resource management policies and practices, and how they should be integrated with the business strategy and each other.

Questions

1. A junior colleague has sent you an e-mail saying '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 there are 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 the forthcoming business plan. Formulate your response.

4. How would you distinguish between high-performance, high-commitment and high-involvement management?

5. Critically evaluate the concepts of best practice and best fit.

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