

## HAND-OUTS ON STRATEGIC HUMAN RESOURCE MANAGEMENT

October 2011

### 1. Strategic Human Resource Management

#### The conceptual basis of strategic HRM

- The concept of strategy: Strategy is the approach selected to achieve defined goals in the future. The determination of the long term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out those goals. Strategy has three fundamental characteristics.

*First*, it is forward looking. It is about deciding where you want to go and how you mean to get to it. It is concerned with both ends and means. In this sense a strategy is a declaration of intent. Strategies define longer-term goals but they also cover how those goals will be attained. They guide purposeful action to deliver the required result. Strategy should be understood as a framework of critical ends and means.

The *second* characteristics of strategy is that the organizational capability depends on its resource capability (the quality and quantity of its resources and their potential to deliver results). This is the resource-based view of strategy.

The *third* characteristic of strategy is strategic fit – the need when developing HR strategies to achieve congruence between them and the organization’s business strategies within the context of its external and internal environment. The focus is upon the organization and the world around it.
- The formulation of strategy: The formulation of corporate strategy is best described as a process for developing a sense of direction, making the best use of resources and ensuring strategic fit. It has often been described as a logical, step-by-step affair, the outcome of which is a formal written statement that provides a definitive guide to the organization’s intentions.

#### Aims of strategic HRM

The fundamental aim of strategy HRM is to generate organizational capability by ensuring that the organization has the skilled, engaged, committed and well-motivated employees it needs to reach result. It has two main objectives: first to achieve integration between HR strategies with business strategies. The second objective is to provide a sense of direction 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.

### **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 advantages.

#### **The best practice approach:**

This approach is based on the assumption that there is a set of best HRM practices that are universal in the sense that they are best in any situation, and that adopting them will lead to superior organizational performance. A number of lists of “best practices” have been produced, the best known was produced by Pfeffer (1998) namely:

1. Employment security
2. Selective hiring
3. Self-managed teams
4. High compensation contingent on performance
5. Training to provide a skilled and motivated workforce
6. Reduction of status differentials
7. Sharing information

#### **The 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.

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.

#### **The reality of strategic HRM:**

Strategic HRM is not just about planning. It is also concerned with the implementation of strategy and the strategic behavior of HR-specialists working with their line management colleagues on an everyday basis to ensure that the business goals of the organizations are achieved and its values are put into practice.

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

### **Practical implications of strategic HRM theory:**

The theory addresses major people issues which affect or are affected by the strategic plans of the organization. It provides an agreed and understood basis for developing and implementing approaches to people management that take into account the changing context in which the organization operates and its longer-term requirements. It ensures that business and HR strategy and functional HR strategies are aligned with another, and is the rationale for HR practitioners acting as strategic partner.

## **2. HR Strategies**

### **What are 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 organization strategy and each other. The purpose of HR strategies is to articulate what an organization intends to do about its human resource practices now and in the longer term. Because all organizations are different, all HR strategies are different. Some strategies are simply very general declarations of intent. Others go into much more detail. But two basic types of HR strategies can be defined; these are 1) general strategies such as high-performance working and 2) 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. High-commitment management can be described as “a form of management which is aimed at eliciting a commitment so that behavior 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: 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. It is a management system based on commitment and involvement,

as opposed to the old bureaucratic model based on control. The underlying hypothesis is that employees will increase their work involvement if they are given the opportunity to control and understand their work. High-involvement practices work well because they act as a synergy and had a multiplicative effect. This approach involves treating employees as partners in the organization 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 takes place in order to define expectations and share information on the organizations' 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.

### **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 particular requirement is set out below:

1. It will satisfy the organization needs.
2. It is founded on detailed analysis and study, not just wishful thinking.
3. It can be turned into actionable programmes that anticipate implementation requirements and problems.
4. It is coherent and integrated, being composed of components that fit with and support each other.
5. It takes account of the needs of line managers and employees generally as well as those of the organization and its other stakeholders.

### **How should HR strategies be formulated?**

Two approaches can be adopted by HR in strategy formulation;

*"The inside-out" approach and "the outside-in" approach.* Some observations about the HR-strategy linkage: At the extreme, the "inside-out" approach begins with the status quo HR function (in terms of skills, processes, technologies, etc) and the 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. On the other hand, a few organizations have shifted to build their HR strategies from the starting point of the organization.

Within these "outside-in" HR functions, the starting point is the business, including the customer, competitor and business issues they face. The HR strategy then drives directly from these challenges to create real solutions and add real value.

### **Issues in developing HR strategies**

Five fundamental questions that need to be asked in developing HR strategies have been posed:

1. What is the organization's strategic objective?
2. How are these translated into unit objectives?
3. What do unit managers consider are the "performance drivers" of those objectives?

4. How do the skills, motivation and structure of the organization's workforce influence these performance drivers?
5. How does the HR system influence the skills, motivation and structure of the workforce?

But many different routes may be followed when formulating HR strategies. There is no one right way. In developing HR strategies, process may be as important as content.

### **Implementing HR strategies**

An implementation programme needs to be based on:

1. A rigorous preliminary analysis of the strategic needs of the business and how the strategy will help to meet them.
2. A communication programme that spells out what the strategy is, what it is expected to achieve and how it is to be introduced.
3. The involvement of those who will be concerned with the strategy, i.e. line managers, in identifying implementation problems and how they should be dealt with.
4. The preparation of action plans that indicate who does what and when.
5. Project managing the implementation in a way that ensures that the action plans are achieved.

## **3. Human Capital Management**

Individuals generate, retain and use knowledge and skill (human capital) and create intellectual capital. Their knowledge is enhanced by the interactions between them (social capital) and generates the institutionalized knowledge possessed by an organization (organizational capital).

### The concept of human capital:

Human capital represents the human factor in the organization; the combined intelligence, skills and expertise that gives the organization its distinctive character. The human elements of the organization are those that are capable of learning, changing, innovating and providing the creative thrust which if properly motivated can ensure the long-term survival of the organization.

People possess innate abilities, behaviours and personal energy and these elements make up the human capital they bring to their work. And it is they, not their employers, who own this capital and decide when, how and where they will contribute it. In other words, they can make choices. Work is a two-way exchange of value, not a one-way exploitation of an asset by its owner.

### The constituents of human capital:

- Intellectual capital:
- Social capital
- Organizational capital
- The significance of human capital theory

## Introducing HCM

At the beginning of the journey an organization may do no more than collect basic HR data on, for instance, employee turnover and absence. But you may go a little bit further, and analyse that data and draw conclusions on trends and causes. This may lead to proposals on action required that are supported by that analysis.

## 4. The Role and Organization of the HR Function

### The Role of the HR function

The role of the HR function is to take initiatives and provide guidance, support and services on all matters relating to the organization's employees. Essentially, the HR function is in the delivery business – providing the advice and services that enable organizations to get things done through people.

- The activities of the HR function: The activities carried out within an HR function can be divided into two broad categories:
  - 1) Strategic (transformational) which is largely concerned with the alignment and implementation of HR and organization strategies
  - 2) Transactional, which covers the main HR service delivery activities of resourcing, learning and development, reward and employee relations.

In a survey of the work of the HR function (Crail, 2006) asked respondents to Irish state departments what were the most time consuming and most important issues facing their HR departments. The replies are summarized below.

Table – Issues facing HR departments

HR Issue	Most time consuming (%)	Most important (%)
Recruitment/resourcing	27.3	16.8
Administration	16.4	1.9
Absence	12.7	7.7
Pay and benefits	12.7	19.4
Employee relations	9.1	10.3
Training and development	4.2	10.3
Strategic activities	0.00	10.3

As might be expected, recruitment was the most time-consuming, although not the most important issue. Training and development was not very time-consuming but quite important. Strategic activities were believed to be important but were not mentioned at all as being time-consuming.

- Guidelines on organizing HR:

There are no rules for organizing the function but the following are commonly assumed guidelines:

- The head of the function should report directly to the chief executive and be a member of the top management team involved in the formulation of strategy.
- In a decentralized organization, operational units should be responsible for their own HR management affairs within the framework of broad strategic and policy guidelines from the centre.
- The professional members of the function should have “strategic capability” in the sense of understanding the strategic imperatives of the organization and having the skills required to contribute to the formulation and achievement of strategic goals and act as catalysts for change, anticipating problems and making things happen.
- Increased responsibility for HR matters should be devolved to line managers where appropriate.

### **Evaluating the HR function**

It is necessary to evaluate the contribution of the HR function in order to ensure that it is effective at both the strategic level and in terms of service delivery and support. The prime criteria for evaluating the work of the function are its ability to operate strategically and its capacity to deliver the levels of services required. Research discovered that the factors that correlated most strongly with line managers’ and employees’ satisfaction with HR were:

- Being well supported in times of change
- HR giving good advice to employees
- Being well supported when dealing with difficult people or situations
- HR getting the basics right

Methods that can be used to evaluate the HR function can be:

- Quantitative criteria
- User reactions
- Service level agreements
- Employee satisfaction measures
- Benchmarking
- THE HR scorecard
- Preferred approach to evaluation

### **Using management consultants**

Management consultants provide expertise and resources to assist in development and change. They may act as service providers in such fields as recruitment, executive search and training. They also provide outside help and guidance to their clients by advising on the introduction of new systems or procedures or by going through processes of analysis and diagnosis to produce recommendations or to assist generally in the improvement of organizational performance.

### **The role of front line managers**

HR can initiate new policies and practices but it is the line that has the main responsibility for implementing them. In other words “HR proposes but the line disposes”. If line managers are not inclined favourably towards what HR wants them to do they won’t do it, or if compelled to, they will

be half-hearted about it. Better HR depend not so much on better procedures but better implementation and ownership of implementation by line managers.

The way line managers implement and enact policies, show leadership in dealing with employees and in exercising control is a major issue. Dealing with people is perhaps the aspect of their work in which line managers can exercise the greatest amount of discretion and they can use that discretion by not putting HR's into practice. ***It is the line managers who bring HR policies to life.***

A further factor affecting the role of the line managers is their ability to do the HR tasks assigned to them. People-centred activities such as defining roles, interviewing, reviewing performance, providing feedback, coaching and identifying learning and development needs, all require special skills. Some managers have them – many don't.

## **5. The role of the HR officer**

The role varies considerably but it is basically about providing advice, guidance and services on all matters affecting people.

### **The “business” partner role**

As “business” partners HR specialists share responsibility with their line management colleagues for the success of the enterprise and get involved in implementing the organizations' strategy .

### **The strategic role**

- a) To formulate and implement forwardlooking HR strategies that are aligned to objectives and integrated with one another
- b) Contribute to the development of strategies
- c) Work alongside their line management colleagues to provide on an everyday basis continuous support to the implementation of the strategy of the organization, function or unit.

### **The change agent role**

HR specialists act as change agents, facilitating change by providing advice and support on its introduction and management

### **The internal consultancy role**

As internal consultants, HR practitioners work alongside their colleagues – their clients – in analyzing problems, diagnosing issues and proposing solutions.

### **The service delivery role**

The basic role of HR specialists is that of providing services to internal customers. The services may be general, covering all aspects of HRM, or services may only be provided in one or two areas.

### The guardian of values role

HR practitioners may act as the guardians of the organization's values and ethical standards concerning people. They point out when behavior conflicts with those values or where proposed actions will be inconsistent with them.

### Model of HR roles:

A number of HR roles exist. One of the best known ones was devised by *Tyson and Fell (1986)*, which listed three roles: the clerk of works (mainly administrative), the contracts manager (more sophisticated with an employee relations focus, and the architect (strategic/ innovative. *Ulrich and Brockbank (2005)* identified four roles: employee advocate, human capital developer, functional expert and strategic partner and leader.

### Gaining support and commitment

- Blockages and barriers within management: managers can block or erect barriers to what the HR function believes to be progress if they are not persuaded that it will benefit both the organization and themselves at an acceptable cost (money, time and trouble)
- Blockages and barriers from employees: employees will block or set up barriers to "progress" or innovations if they feel they conflict with their own interests. They are likely, with reason, to be cynical about proclamations that what is good for the organization will always be good for them.
- Getting support from top management:
  - Demonstrate that the proposal will meet both the needs of the organization and their own personal needs.
  - Base the proposal on a compelling and realistic business case that spells out the benefits and the costs and, as far as possible, is justified either in added value terms, and/or on the basis of a return on investment, say in training, is justified by the financial return (increased productivity)-
  - Prove that the innovation has already worked well within the organization or represents "good practice" (it has worked well elsewhere) which is likely to be transferable to the organization.
  - Specify how the proposal can be implemented without too much trouble, for example not taking up a lot of managers' time, or not meeting with strong opposition from line managers, employees or trade unions (it is well to check the reaction before launching a proposal).
  - Emphasize that the innovation will enhance the "employer brand" of the company by making it a "best place to work".
  - Ensure the proposal is brief, to the point and well argued
- Gaining support and commitment of line management  
This can sometimes be more difficult than gaining the support of the top management. Line managers can be cynical or realistic about innovations – they have seen it all before and/or they believe it won't work (sometimes with good reasons). Innovations pushed down from

the top can easily fail. Managers need to be convinced that the innovation will help them to achieve better results without imposing unacceptable additional burdens on them. New or revised employment practices that take up precious time and involve paperwork will be treated with particular suspicion. Many line managers, often from bitter experience, resent the bureaucracy that can surround and, indeed, engulf the over-engineered system favoured by some HR people, such as traditional performance appraisal schemes.

Obtaining support requires networking – getting around to talk to managers about their needs and testing new ideas to obtain reactions. The aim is to build up a body of information that will indicate approaches that are likely to be most acceptable, and therefore will most probably work, or at least to suggest areas where particular efforts will need to be made to persuade and educate line management. It is also useful to form “strategic alliances” with influential managers who are enthusiastic about the innovation and will not only lend it vocal support but will also cooperate in pilot-testing it.

Gaining commitment will be easier if managers know that they have been consulted and that their opinions have been listened to and acted upon. It is even better to involve them as members of project teams or task forces in developing the new process or system. This is the way to achieve ownership and therefore commitment.

- Gaining the support and commitment of employees

When it comes to new employment practices, employees often react in the same way as the managers. They will tend to resist change, wanting to know “What’s in it for us?” They also want to know the hidden agenda – “why does the organization really want to introduce a performance management process? Will it simply be used as a means of gaining evidence for disciplinary proceeding? Or is it even going to provide the information required to select people redundancy?” As far as possible this kind of question needs to be answered in advance.

### **Ethical considerations**

HR specialists are concerned with ethical standards in two ways; their conduct and values as professionals, and the ethical standards of their organization.

1. Professional conduct:

- Exercise integrity, honesty, diligence and appropriate behavior in all their business, professional and related personal activities.
- Act within law and must not encourage, assist or act in collusion with employees, employers or others who may be engaged in unlawful conduct

2. Professional ethical standards:

Professional ethics are the moral principles and values governing professional behavior. The ethical principles of the HR profession imply that HR specialists need to take account of the dignity and rights of employees when taking employment decisions. These include having clear, fair terms and conditions of employment, healthy and safe working conditions, fair remuneration, promoting equal

opportunities and employment diversity, encouraging employees to develop their skills, and not discriminating or harassing employees, The ethical frameworks for judging HR practices are basic rights, organizational justice, respecting individuals, and community of purpose. These include HR issues such as flexibility, work intensification, use of some sophisticated HR techniques such as performance-related pay and socialization programmes, and activities promoting closer managerial monitoring of employee performance.

HR specialists may find themselves in a hard-nosed environment. But this does not mean that they can remain unconcerned about developing and helping to uphold the core values of the organization in line with their own values on the ethical principles that govern how people should be managed. These may not always be reconcilable, and if this is strongly the case, the HR professional may have to make a choice on whether he or she can remain with the organization.

### **Professionalism in human resource management**

A professional ethos is characterized by the following ingredients:

- the opportunity to display high levels of autonomy
- the ability to apply some independence of judgement
- self-discipline and adherence to some aspirational performance standards
- the possession of specialized knowledge and skills
- power and status based on expertise
- operating, and being guided by, a code of ethics
- allegiance to a professional body

### **Ambiguities in the role of HR practitioners**

There is an ambiguity in the overlap between personnel management as a set of activities for all managers, and as specialist function. This may arise because the role of HR practitioners is ill-defined (they are unsure of where they stand), their status is not fully recognized, or top management and line managers have equivocal views about their value to the organization. Second, ambiguity occurs because it is often difficult to define success in personnel management, to determine who or what was responsible for the success or failure and to identify the unique contributions of the personnel function. Third, personnel managers sit in an uncomfortable position where they are seen as part of management but also have a special relationship to, and responsibility for the workers. Ambiguity in the role of HR people can result in confusion between ideals and reality.

### **Conflict in the HR contribution**

One of the questions HR practitioners sometimes have to ask themselves is “who is the client – the organization or the employee? HR professionals may have to walk a fine line between serving the organization that pays their salary and looking after the interests of employees. They may be involved in counseling employees over work problems. This can only be carried out successfully if the employee trusts the HR practitioner to maintain confidentiality. But something might be revealed that is of interest to management and this places the counsellor in a dilemma – to betray or not to betray the trust? There is no easy answer to this question, but the existence of a code of professional conduct, a set of values and an organizational ethical code can provide guidance.

Conflict in the HR contribution can arise in the following ways:

- a clash of values – line managers may simply regard their workers as factors of production to be used, exploited and dispensed with in accordance with organizational imperatives
- different priorities – management’s priority may be to add value –make more out of less-and if this involves getting rid of people that’s too bad. HR people may recognize the need to add value not at the expense of employees
- freedom versus control – line managers may want the freedom to get on with things their own way, interpreting organizational policies to meet their needs. But HR specialists will be concerned about the achievement of a consistent and equitable approach to managing people and implement HR policies.

### **The qualities required by HR professionals**

What effective HR practitioners do:

- have the ability to see the big picture and take, and implement, a strategic and coherent view of the whole range of HR policies, processes and practices in relation to the business as a whole; they ensure that their innovations and services are aligned to business needs and priorities while taking account of the needs of employees and other stakeholders.
- Have the capability to facilitate change, initiating it when necessary and acting as a stabilizing force in situations where change would be damaging
- Demonstrate that they can make value-added contributions
- Appreciate organizational and individual needs; against a background of their knowledge of organizational behavior, they understand how organizations function and the factors affecting individual motivation and commitment, they are capable of analyzing and diagnosing the people requirements of the organization and proposing and implementing appropriate action.
- Are persuasive – they present the proposals and recommendations emerging from their interventions persuasively, making out a compelling business case; innovations and ideas are sold to management on the basis of the practical and, wherever possible, measurable benefits that will result from their implementation.

HR competency areas:

Personal credibility, ability to manage change, ability to manage culture, delivery of human resource practices, understanding of the organizations core business

HR professionals as “thinking performers”: All personnel and development specialists must be thinking performers and competent in their various field and to be able to move beyond compliance to provide a critique of organizational policies and procedures and to advise on how organizations should develop in the future.

**Continuous professional development (CPD)**: CPD for individual HR professionals is about lifelong development. For the organization it is concerned with improving organizational capability and is linked with the concepts of knowledge management and learning organization.

## 6. The impact of HRM on Performance

A considerable amount of research has been conducted recently on the impact of HRM. It is necessary to understand how that impact is made in order to justify, develop and implement effective HR policies and practices. Managers and HR professionals need to be able to explain conceptually how and why HR practices lead to their outcome.

The factors that affect the level of individual performance are motivation, ability and opportunity to participate. HR practices can make a direct impact on employee characteristics such as engagement, commitment, motivation and skill. If employees have these characteristics it is probable that organizational performance in terms of productivity, quality and the delivery of high levels of customer service will improve.

**Table – The HR practices that impact on performance**

<b>HR practice area</b>	<b>How it impacts</b>
Attract, develop and retain high quality people	Match people to the strategic and operational needs of the organization. Provide for the acquisition, development and retention of talented employees, who can deliver superior performance, productivity, flexibility, innovation, and high levels of personal customer service and who “fit” the culture and the strategic requirements of the organization
Talent management	Ensure that the talented and well motivated people required for the organization to meet present and future needs are available
Job and work design	Provides individuals with stimulating and interesting work and gives them the autonomy and flexibility to perform their jobs well. Enhance job satisfaction and flexibility which encourages greater performance and productivity
Learning and development	Enlarge the skill base and develop the levels of competence required in the workforce. Encourage discretionary learning which happens when individuals actively seek to acquire the knowledge and skills that promote the organization’s objectives. Develop a climate of learning – a growth medium in which self-managed learning as well as coaching, mentoring and training flourish.
Managing knowledge and intellectual capital	Focus on organizational as well as individual learning and provide learning opportunities and opportunities to share knowledge in a systematic way. Ensure that vital stocks of knowledge are retained and improve the flow of knowledge, information and learning within the organization.
Increasing engagement, commitment and motivation	Encourage productive discretionary effort by ensuring that people are positive and interested in their jobs, that they are proud to work for the organization and want to go on working there and that they take action to achieve organizational and individual goal.
Psychological contract	Develop a positive and balanced psychological contract which provides for a continuing, harmonious relationship between the employee and the organization.

<b>HR practice</b>	<b>How it impacts</b>
High performance management	Develop a performance culture which encourages high performance in such areas as productivity, quality, levels of customer service, growth, profits, and ultimately, the delivery of increased shareholder value. Empower employees to exhibit the discretionary behaviors most closely associated with higher business

	performance such as risk taking, innovation, and knowledge sharing and establishing trust between managers and their team members.
Reward management	Develops motivation and job engagement by valuing people in accordance with their contribution.
Employee relations	Develops involvement practices and an employee relations climate which encourages commitment and cooperation.
Working environment - core values	Develop the "big" idea, ie a clear vision and a set of integrated values. Make the organization "a great place to work"