STRATEGIC HUMAN RESOURCE MANAGEMENT
Strategic Human Resource Management

Strategic Management is the process of:

- Identifying and executing the organization’s mission
- By matching its ‘capabilities’ with the demands of the environment

HRM provides certain services like – hiring, training, compensating – to ensure the availability of ‘human resource capabilities’ required to execute organization’s mission
Strategic Human Resource Management (SHRM) – defined (I)

Dessler defines SHRM as ‘formulating and executing such HR systems (i.e. HR policies and activities) – that produce the employee competencies and behaviors the company needs to achieve its strategic aims. SHRM is viewed as supporting corporate strategy.

For example if the organization aims to achieve:

• Superior levels of customer service
• And high profitability
• Through highly committed workforce
Strategic Human Resource Management (SHRM) – defined (II)

Aim of HR strategy will be:
- to build a committed workforce

How will it be done
- By building two way communication
- By screening out managers whose values are not people-oriented
- By guaranteeing fair treatment and security for all employees
- By giving ‘within-promotions’ to help employees realize their potential
Linking Corporate and HR Strategies

Company’s Competitive Environment:
Economic, political and demographic, competitive and technological trends

Company’s strategic situation

Company’s internal strengths and weaknesses

Company’s strategic plans, e.g.
Should we expand geographically?
Cut costs?
Diversity?

Company’s HR (and other functional) strategies
HR will pursue to ensure that recruiting, selecting, training, appraising and compensation systems are consistent with the company’s strategic plan
The Strategic Management Process

Define the business, develop vision and mission statement

Establish strategic goals

Generate, evaluate and select strategies

Implement strategies, management, and HR issues

Implement strategies, marketing, finance, accounting, R&D

Measure and evaluate Performance

Perform External Audit

Perform Internal Audit

Strategy Planning

Strategy Implementation

Strategy Evaluation

Feedback
Steps of Strategic Management (I)

**Step I - Define the business and its mission**
- Where are we now as a business and where do we want to be?
- SWOT Analysis
- Strategy or course of action – like buying competitors, expanding overseas, diversifying etc.

**Develop vision statement**
- General statement of intended direction – i.e. what the business should be – long term in nature

**Develop mission statement**
- Who we are, what we do, where we are headed, i.e. what the business is ‘now’ – short term in nature
Steps of Strategic Management (II)

**Step II** - Perform external and internal audits
- External opportunities and threats
- Internal strengths and weaknesses
  i.e. SWOT Analysis

**Step III** Translate mission into strategic goals – specifying in terms of:
- How many
- What
- With whom
- When
Steps of Strategic Management (III)

**Step IV** - Formulate a strategy to achieve the strategic goals – strategy is a ‘course of action’ which tells ‘how do we get from here to there? – given our SWOT status

**Step V** – Implement the strategy
- Translating the strategy into action and results
  For example – building or closing plants
- Adding or eliminating products or product lines

Involves – all management functions

**Step VI** – Evaluate performance –
To evaluate whether the strategy has succeeded in achieving the organizational goal or not

Strategic Control if there is deviation from the strategic goals – strategy revised if need be
Types of Strategic Planning (I)

Corporate Level Strategy – Strategies made by companies having many businesses
- Diversification – adding new production lines
- Vertical integration – firm expands by, perhaps producing its own raw materials or selling its products direct
- Consolidation – reducing the company size
- Geographic expansion – taking business abroad

Competitive Strategy – How to build and strengthen the business’ long term competitive position in the market place
Some Competitive Strategies –
- Cost leadership – low cost
- Differentiation – unique characteristic
- Focusing – producing product or service which no one else provides

Functional Strategies – Basic course of action that each department will pursue to help the organization achieve its competitive goals
HR’s Strategic Roles

Conclusion of University of Michigan Study:
HR professionals should be part of company’s strategic planning executive team.

HR manager’s role:
• To identify the human issues that are vital to business strategy
• To help establish and execute strategy
• To create responsive and market-driven organizations
• To conceptualize and execute organizational change

A study of 447 executives about their involvement in executing mergers for their companies –

Results – mergers in which top management made use of HR expertise consistently outperformed those in which HR was less involved
Acquire New Skills - Mr. HR

A survey of 1310 senior HR professionals done in America –
• Only about half involved in developing companies’ business plans
Lesson – if HR managers want to assume more strategic planning responsibilities, they have to acquire a new perspective of HR skills
They have to integrate HR skills with an in-depth understanding of the value creating proposition of the firm i.e.
• How does the company make money?
• What activities and processes are most critical for wealth creation?
• Who in the firm executes these activities successfully?
• How the firm’s HR system can contribute to the value-creation process?
HR’s Strategy Execution Role

Traditionally, HR policies and activities ‘decided’ for successful execution of company’s corporate and competitive strategies

Example- Dell’s (a) web-based help desk
(b) centralized intranet HR service bureau
– To help the firm execute its low cost strategy

In executing downsizing and restructuring strategies HR can help in:
• Outplacing employees
• Instituting pay-for-performance plans
• Reducing health-care costs
• Retraining employees etc.
HR’s Strategy Formulation Role

HR sometimes working with top management to formulate company’s strategic plans

Globalization – competition – demand for better performance – need more competent and committed employees – makes HR input more crucial
BREAK
How can HR help in Strategy Formulation

1. By identifying and analyzing company’s ‘external opportunities and threats’ and ‘internal strengths and weaknesses’
2. Through SWOT Analysis, help top management to capitalize on firm’s strengths and opportunities and minimize or neutralize its threats and weaknesses
3. By supplying details regarding competitor’s incentive plans
4. By providing information about customer complaints
5. By furnishing information about pending labour laws and mandatory health insurance etc.

Example – IBM’s decision to buy Lotus software in 1990 – HR feedback regarding insufficient human resources to reposition IBM as industry leader
Creating A Strategy Oriented HR System

Three basic components of HR process or HR architecture:

1. HR professionals – with their strategic management skills
2. HR policies and activities – recruiting, selecting etc.
3. Resulting employee behaviour and competencies
The High Performance Work System (I)

- The HPWS is a set of HR policies and practices that maximize the competencies, commitment and abilities of firm’s employees.
- The evidence – ‘high performance HR practices (particularly) combined with new technology produced:
  a. Better productivity
  b. Better quality
  c. Better sales
  d. Better financial performance
The High Performance Work System (II)

Thrust of HPWS is on building: highly trained, empowered, self-governing and flexible workforce for competitive advantage

Characteristics of HPWS
- Multi-skilled work teams
- Empowered front-line workers
- More training
- Labour management cooperation
- Commitment to quality
- Customer satisfaction
Translating Strategy into HR Policy and Practice

Formulating Business Strategy:
What are the strategic goals of the business

Identify workforce requirements:
‘What employee competencies and behaviours must HR deliver to enable the business to reach its goals

Formulate HR strategic policies and activities which HR strategies and practices will enable HR to produce these employee competencies and behaviours

Develop detailed HR scorecard measures:
How can HR measure whether it is executing well for the business, in terms of producing the required workforce competencies and behaviours?
The HR Scorecard Approach

HR Scorecard is a concise measure of HR functions’ effectiveness and efficiency in producing workforce competencies and behaviors – required for achieving the company’s strategic goals.
Using the HR Scorecard Approach

1. Define the business strategy
2. Outline the company’s value chain
3. Identify the strategically required organizational outcomes
4. Identify the required workforce behaviours
5. Identify the strategically relevant HR system policies and activities such as new training and grievance systems
6. Design the HR scorecard measurement system
7. Periodically re-evaluate the measurement system
HR Scorecard Approach (I)

Step I – Defining business strategy

• Knowing business strategy helps HR manager make better plans

• Knowing HR practices and deliverables helps top management develop superior strategic plans
HR Scorecard Approach (II)

Step II Outline the company’s value chain – the company’s value chain ‘identifies the primary activities’ that ‘create value for customers’ and related ‘support activities’
These activities are essential to achieve the ‘organizational outcomes’ the company absolutely must achieve if it is to achieve its ‘strategic goals’

Understanding value chain activities helps HR manager better understand:

a. What employee behaviours and competencies are required
b. What HR policies and activities would produce those behaviours and competencies
Fig: Simple value Chain for ‘The Hotel Paris’
Step III Identify the strategically required organizational outcomes – organization must produce critical ‘results’ to achieve its strategic goals

e.g. goal – expansion

Aspired results – 10 new offices in 5 metro cities in one year
HR Scorecard Approach (IV)

**Step IV** Identify the required workforce competencies and behaviours-

Some employee competencies and behaviours:

a. Working proactively
b. Motivation
c. Courteous behaviour
d. Commitment
e. Personal accountability

Produce strategically relevant organizational outcomes
HR Scorecard Approach (V)

Step V  identify the strategically relevant HR system policies and activities
Understanding of ‘required’ employee competencies – leads to identification of relevant HR polices and activities that will help develop these competencies and behaviours

These policies and activities can be:-

• Special training programmes
• Changing the compensation plan
• Revised disciplinary process
• Incentive pay etc.

HR manager decides which HR policy aligns best with company’s specific strategic needs
Step VI  Design the HR scorecard measurement system – HR scorecard refers to ‘quantifiable standards’ or ‘metrics’ the firm uses to measure:

• HR activities and policies e.g. improving discipline - metrics used to measure such improvement
• Employee behaviours resulting from these activities e.g. high morale – metrics use to measure high morale
• Organizational outcomes of these employee behaviours – methods used to measure the effectiveness of outcomes
Step VII Periodically evaluate the measurement system –

Techniques to measure ‘improvement in discipline’ or ‘high morale’ can be changed to remove any deficiency in their effectiveness or validity.