STRATEGIC HRM

MODULE -1

UNDERSTANDING STRATEGIC HRM:

INTRODUCTION:

Globalization has put pressure on governments and businesses to carry out structural alterations or adjustments, diversify businesses, specialize processes, optimize ‘efficiency,’ sustain and augment productivity, maintain competitive edge all in the face of increasing cost constraints. There is need for economical utilization of human capital through right capacity building strategy for desired organizational performance. To cut costs, unplanned retrenchment of human resource has become a frequent though by no means a desirable organizational practice. Strategy should be evolved to maximize the utility of the HR function. HRM management per se may not be targeted or specific enough to achieve desired accuracy of policy.

For example how targeted are employee benefit policies? What is the impact on productivity? What modifications are needed? Correlations based on empirical analyses would need to be drawn.

Therefore, combining human capital regulation with overall business strategy; economizing operations to maximize ‘efficiency,’ is what is understood in common parlance as strategic human resource management. Strategic human resource management is relevant to all organizations- public or private, irrespective of form, hierarchic or networked fluid or command-control etc.

SHRM has both policy and operative aspects. Understanding of SHRM ranges from a 'reactive' management field where human resource management is a tool with which to implement strategy, to a more proactive function in which HR activities can actually create and shape organizational strategy. Human resource management being an architectonic activity may not be targeted or specific enough to achieve desired levels of accuracy and economy in policy making and implementation. There is therefore need for strategic human resource management for cost effectiveness of HR programmes.

Hence, SHRM is predicated on two fundamental assertions. First, an idea that an organization’s human resources are of critical strategic importance; that the skills, behaviors and interactions of employees have the potential to provide both the foundation for strategy formulation and the means of strategy implementation. Second, the belief that firms’ HRM practices are instrumental in developing the strategic capability of its pool of human resources.

Definition: (Colbert, 2004). New perspectives continue to emerge on Strategic Human Resource Management (SHRM).

ASPECTS OF SHRM

Strategic human resource management (SHRM) includes;

1. All those activities affecting the behavior of individuals in their efforts to formulate and implement the strategic needs of business.

2. The pattern of planned human resource deployment and activities intended to enable the organization to achieve its goals.

3. That part of the management process that specializes in the management of human capital. It emphasizes that employees are the primary resource for gaining sustainable competitive advantage, that human resource activities need to be integrated with corporate strategy, and that human resource specialists help management meet both efficiency and equity objectives.

DIFFERENCE BETWEEN TRADITIONAL Vs. STRATEGIC HR:

Point of distinction	Traditional HR	Strategic HR
Focus	Employee relation	Partnerships with internal and external customers
Roles of HR	Transactional change follower and respondent	Transformational change leader and initiator
Initiatives	Slow, reactive, fragmented	Fast, proactive, integrated
Time horizon	Short term	Short, medium, long (as required)
Control	Bureaucratic role	Flexible
Job design	Division of labor on the basis of specialization	Flexible and cross-training
Responsibility HR	Staff specialist	Line manager

Typology of HR:

Typology means: a classification according to general type, especially in archaeology, psychology, or the social sciences.

Using the given **typology** of practices, **HR** managers can follow costs of individual practices and policies in connection with the level and stage of their development and implementation. Especially in cases where the costs of operation and monitoring are minimal, the implementation of such policies is extremely useful.

FEATURES OF SHRM:

Features of strategic human resource management could be inferred as mentioned below:

• Organisational level - Because strategies involve decisions about key goals, major policies and the allocation of resources, they tend to be formulated at the top;

• Focus - Strategies are business-driven and focus on 'organisational effectiveness'; people are seen primarily as resources to be managed towards the achievement of strategic business goals; and

• Framework - Strategies by their very nature provide a unifying framework that is broad, contingency-based and integrative. They incorporate a full complement of the HR goals and activities designed specifically to fit extant environments and be mutually reinforcing and synergistic.

THE BEST PRACTICE APPROACH:

This approach is based on the belief that there exists a set of best HRM practices which potentially lead to superior organizational performance.

List of the seven Best HR practices in successful organizations.

1. **Employment Security**: This implies employee security in the face of exigencies like economic downturns or the strategic errors of senior management on which they have little or no control. It is fundamental to the implementation of such high-performance management practices as selective hiring, extensive training, information sharing and delegation. Companies are unlikely to invest in the screening and training of employees who are not expected to stay long enough for the firm to recoup its investment
2. **Selective Hiring**: Selective recruitment is needed to minimize training costs. Organizations should look for people with the right attitude, values and cultural attributes that may be hard to inculcate by training. Management should also be able to predict the employee's performance and the likelihood of the employee remaining with the company for a long time.
3. **Self-Managed Teams:** These are a critical component of high performance management systems. They: (i) Substitute peer-based control for hierarchical control of work; (ii) Lessen tiers in hierarchy; and (iii) Permit employees to pool their ideas in order to produce better and more creative solutions to work problems.
4. **High Compensation Contingent on Performance:** Compensation offered to employees is made contingent on organizational performance, for example, gain sharing or profit-sharing can be related to individual or team performance or even unique or particular individual skills.
5. **Training:** Virtually, all descriptions of high-performance work practices emphasize the role of training in providing needed skills and creating a motivated workforce that has the knowledge and the capability to perform required tasks.

6. **Reduction of Status Differentials:** The fundamental premise of high performance work systems is that organizations should be able to tap ideas, skills and efforts of its employees. For this to be possible, status differentials should not be emphasized to the detriment of team spirit in an organization.
7. **Sharing Information** - This is an essential component of high performance work systems for two chief reasons. First, the sharing of information on the firm's financial performance and business strategies sends a positive message across to employees that they are valued. Second, even motivated and trained people cannot contribute to organizational performance if they do not have information on important aspects of performance and training in interpreting and using that information.

BEST FIT APPROACH:

For the reasons given above, 'best fit' is considered more appropriate than best practice'. This is not to say that 'good practice or 'leading-edge practice', (practice that does well in one successful environment) should be ignored.

Benchmarking has its uses as a means of identifying areas for innovation or development practice applied to good effect elsewhere. But having learnt what works and what does not work in similar situations, the organization has to decide what general policy should be adopted and what lessons can be learnt to make the adopted idea fit its own particular strategic and operational requirements.

The requirement is an analysis of the business needs of the organization within its own particular context, (culture, structure, technology and processes) indicating clearly what has to be done. Thereafter, it may be useful to adopt a mix of various 'best practice ingredients', to develop an approach which applies practices that are appropriate in a way that is conducive to identified business needs.

INVESTMENT PERSPECTIVE OF HUMAN RESOURCE

ADOPTING AN INVESTMENT PERSPECTIVE:

1. Characterizing employees as human assets implies the strategic management of human resources should include considering HR from an investment perspective.
2. Cost/Benefit basis analysis may be used to evaluate HR programs, such as training and development.
3. Investment perspective toward human assets facilitates their becoming a competitive advantage as most other resources/assets can be cloned, copied or imitated by competitors.

4. A strategic approach to HR, however, does not always involve a human relations approach to employee relations, as noted in the Managing Employees at United Parcel Service example
5. Investments in employees must be undertaken in tandem with strategies to retain employees long enough to realize an acceptable return on investments in employees. This requires valuation of the employee as an asset, which can be difficult to do.

INVESTMENT CONSIDERATION:

Human resources is sometimes considered a "soft" industry, because it can't always provide quantifiable financial data about its workload and doesn't typically create revenue either. Investment in HR can make executives nervous, because projects and programs often provide no tangible results -- although the idea of "improved morale" or "greater employee satisfaction" seems like a good thing, whether that translates to a significant increase in revenue or improved productivity remains questionable.

"Return on Investment," or ROI, is the term given to a mathematical calculation used in the finance industry and business in general. The ROI measures the financial return on an investment made, or it can be applied to a business measuring the performance of the firm by assessing the net profit compared with the overall net worth of the company. In more recent years, the ROI concept has been adopted by other industries to evaluate projects and programs on a smaller scale.

Importance of ROI to HR

Using quantifiable metrics improves the credibility of HR as a profession, and allows upper management to identify specific, measurable ways that HR services benefit the organization. It's no longer enough to state that a certain program is believed to be beneficial -- you need to be able to prove the worth of your actions. In difficult economic times, the value of support services -- often seen as tangential to the organization's core mission or product -- comes under increasing scrutiny. Consequently it becomes even more important for HR professionals to show how HR services directly impact the bottom line, while identifying and eliminating programs that are not financially efficient.

INVESTMENT IN TRAINING AND DEVELOPMENT:

Essentially, investing in **employee training increases profits by lowering expenses,** which happens in the form of benefits like reduced turnover or fewer fines due to incompliance. Training also helps to increase revenue, which comes in the form of accelerated sales growth and higher productivity.

Training can demonstrably increase profits through a strategic process that aims to:

- Lower turnover rate

- Increase productivity
- Shorten the sales cycle
- Increase upsells
- Improve client retention

Training must be effective to create a significant ROI. The job of training program managers isn’t just to administer training, but to optimize their program around best practices so that each training event is as effective as possible, along with the training process overall. One of the most effective practices is to get managers involved in their employees’ development. Not only will this practice improve the efficacy of your training program, you’ll also allow leadership and management to see first-hand the potential that training can offer.

INVESTMENT PRACTICES FOR IMPROVED RETENTION:

Managing for employee retention involves strategic actions to keep employees motivated and focused so they elect to remain employed and fully productive for the benefit of the organization. A comprehensive employee retention program can play a vital role in both attracting and retaining key employees, as well as in reducing turnover and its related costs. All of these contribute to an organization's productivity and overall business performance.

Retention of productive employees is a major concern of HR professionals and business executives. It is more efficient to retain a quality employee than to recruit, train and orient a replacement employee of the same quality.

Fairness and transparency are fundamental yet powerful concepts that can make a lasting impression on employees. According to SHRM's employees identified these five factors as the leading contributors to job satisfaction:

1. Respectful treatment of all employees at all levels;
2. Compensation/pay;
3. Trust between employees and senior management;
4. Job security; and
5. Opportunities to use their skills and abilities at work.

Employee job satisfaction and engagement factors are key ingredients of employee retention programs. The importance of addressing these factors is obvious, but actually doing so takes time and these tasks are often left for another day. However, the payoff of focusing on employee retention—in terms of increased performance, productivity, employee morale and quality of work, plus a reduction in both turnover and employee-related problems—is well worth the time and financial investment. The bottom line is that by managing for employee retention, organizations will retain talented and motivated employees who truly want to be a part of the company and who are focused on contributing to the organization's overall success.

PLANNING AND IMPLEMENTING STRATEGIC HR POLICIES:

To be successful, firms must closely align their HR strategies and programs (tactics) with environmental opportunities, business strategies, and the organization’s unique characteristics and distinctive competence.

•Strategic human resource planning: It is the process of formulating HR strategies and establishing programs or tactics to implement them.

•The benefits of strategic HR planning:

Encouraging proactive rather than reactive behavior: being proactive means looking ahead and developing a vision of where the company wants to be and how it can use human resources to get there. In contrast, being reactive means responding to problems as they came up.

Explicit communication of company goals: strategic HR planning can help a firm develop a focused set of strategic objectives that capitalizes on its special talents.

Stimulation of critical thinking and ongoing examination of assumptions: Managers often depend on their personal views and experiences to solve problems and make business decisions. That can led to success but serious problem can arise when assumptions no longer held. Strategic HR planning can stimulate critical thinking and the development of new initiatives only if it is a continuing and flexible process rather than rigid procedure.

Identification of gaps between current situation and future vision: Strategic HR planning can help a firm identify the difference between “where we are today?” and “where we want to be tomorrow?”

Encouragement of line managers’ participation: For HR strategy to be effective, line managers at all level must buy into it. If they do not, it is likely to fail.

Identification of HR constraints and opportunities: when overall business strategy planning is done in the combination with HR strategic planning, firms can identify the potential problems and opportunities with respect to people expected to implement the business strategy.

Creation of common bonds: A strategic HR plan that reinforce, adjust, or redirect the organization’s present culture can foster values such as customer focus, innovation, fast growth, and cooperation.

Core competencies are the resources and capabilities that comprise the strategic advantages of a business. A modern management theory argues that a business must define, cultivate, and exploit its core competencies in order to succeed against the competition.

Linking HR to Corporate strategy

- 1) Recruit correctly : Align people to **company** goals.
- 2) Job Definition: Clearly tell people what they need to do.
- 3) Goal setting: Help employees in goal setting.
- 4) Incentives: Inform employees what is important.
- 5) Use the Bench: The bench can be productive.

Linking HR with Business Strategy:

There are various models that attempt to explore the link between business strategy and HR policies and practices.

(i) Life cycle Model

(ii) Competitive Advantage Model

Life cycle Model

This model was developed by Kochan and Borocci. According to this model, the policies and practices of the organization should fit the relevant stage of an organization development or life cycle.

- Introductory stage

  At this startup phase of the business, there is an emphasis on 'flexibility' in HR to enable the growth of business and faster entrepreneurialism.

- Growth stage

  At this stage, when the business grows beyond a certain size, emphasis moves to the development of formal HR policies and procedures.

- Maturity stage

  At this stage, as the market matures, margins decrease the performance of certain products or the organization plateaus, and then the focus of HR strategy is on cost control.

- Decline stage

  At this stage, the emphasis shifts to rationalization, downsizing and redundancy implications for the HR function. (see figure below)

Life Cycle Stages	HR Practices
Start-up	• **Flexible patterns of work** • **Recruitment of highly motivated and committed employees** • **Competitive pay** • **Little formality** • **No unions**
Growth	• **More sophisticated recruitment and selection** • **Training and development** • **Performance management processes** • **Reward systems** • **Focus on high commitment** • **Developing stable employee relations**

Competitive Advantage Model

This model was developed by Porter in 1985. It has three major parameters:

(i) Cost leadership, (ii) Differentiation, and (iii) Focus.

(i) *Cost leadership* focuses on the delivery of efficiency mainly through 'hard' HR techniques

(ii) *Differentiation* is focus on the delivery of added values through 'softer' HR techniques and policies

(iii) *Focus* is on softer HR techniques/policies for the delivery of added value

According to the model, the business performance will improve when HR practices mutually reinforce the organization's choice of competitive strategy. Herein, the mission and values are expressed through their desired competitive strategy.

(Competitive Advantage Model and HR)

The best fit model is the one in which SHRM becomes more effective when it is designed to fit certain critical contingencies in the organization's specific context. A major criticism on both the models is that they tend to ignore the employees' interest in pursuit of enhanced economic performance and they endanger diversity rather than uniformity in SHRM. When SHRM advocates universalism, the organizations are better off identifying and adopting the 'best practices' for managing people.

SHRM has to be aligned with the corporate strategy and various functions of HRM. The process has to be in the context of internal and external factors that influence the organization.

****