# STRATEGIC MANAGEMENT AND STRATEGIC HRM

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## LEARNING OUTCOMES

At the end of this chapter, you should be able to:

- Define strategic management and its major concepts and terms
- Identify the major HR issues impacting on strategic business planning
- Explain the best practice, best fit and configurational approaches to HR strategy
- Outline Ulrich's competency framework for strategic HRM
- Describe how high-performance work systems and risk management relate to strategic HRM
- Discuss the relationship between HR strategy and HR policy
- Define three types of HR metrics and discuss how they differ
- Discuss how HR can be structured as a strategic function
- Discuss the main strategic issues and challenges for HR in the future.

## CHAPTER OUTLINE





## ILLUSTRATIVE CASE

### BALANCING ORDER AND CREATIVITY: A STRATEGIC CHALLENGE FOR HR

Algorithmic is a software development company that has experienced rapid growth since it was founded three years ago. Originally, the company specialised in developing software for online training programs, but it has now diversified into other areas, including gaming software. The gaming aspect of the business has been particularly successful, with several lucrative contracts from American and European gaming companies coming its way over the past few months.

Algorithmic does not have a formal hierarchical structure. Its work is project based, so people come together to work on different projects, then move on to other projects with other people. The owners prefer to keep things as loose as possible and do not insist on lots of rules and regulations or formal procedures. It is very much a free-flowing kind of environment, similar to many of the more progressive technology companies such as Microsoft and Google. In fact, Algorithmic's owners are keen to create a culture similar to those very successful companies (albeit on a much smaller scale).

The future looks bright, but the business has now grown to a size where it is becoming difficult for the two owners to manage it on their own. Consequently, they have engaged Georgia, a young HR specialist, to take responsibility for workforce management issues. Georgia is very excited to be working in a progressive company in an innovative industry. She realises that HR in this context is going to be different from working in a large organisation with formal structures and processes.

There are 120 employees. Most of them are software developers, but there are also specialist project managers and a small number of administrative staff. The age range of employees is between 20 and 55, with about half the workforce being 30 or younger. About 60 per cent of the

workforce is male, 40 per cent female. About 35 per cent of the staff have families with school-age children.

Everyone is employed under common-law arrangements with basic leave and superannuation entitlements and salaries negotiated at the time they are engaged. Most are employed full-time, but there are a few part-timers as well. From time to time, a project team will receive a bonus if it completes a project on time and within budget. The owners decide on this on an ad hoc basis.

In keeping with the owners' desire to create a free-flowing environment, there are no set hours of work. Some people prefer to start early; others prefer to come in later. Quite a few people come in on weekends when things are busy, or work from home occasionally. These working arrangements have not been formalised in any way and are not really managed. It is basically an honour system, which has worked well up until now. There is no formal system of performance appraisal.

Georgia has had extensive discussions with the owners of the business and, as a result, has identified several strategic issues that she needs to address.

Turnover has increased sharply over the past 12 months. Mostly, people are leaving to take up better paid positions elsewhere. With the software industry experiencing strong growth, there are many opportunities for good software developers and IT project managers.

At the same time, it is becoming more and more difficult to attract suitably skilled people when vacancies arise. In fact, the continued growth of the company is now being jeopardised by skills shortages.

The increased turnover and recruitment difficulties are placing additional stress on existing staff. The once happy-go-lucky atmosphere has become a little more tense in recent times and people are showing signs of stress. Workplace conflict (which was almost non-existent a year ago) is now an issue.

Some employees have recently asked for salary reviews. These have been handled on an ad hoc basis by the two owners. Salary-setting at Algorithmic is more an art than a science in that the owners and the employees usually negotiate and agree on a figure that seems fair. However, salary increases granted as a result of these informal reviews are starting to have a snowball effect, with more people coming forward and effectively saying, 'If so-and-so gets a pay rise, why not me too?'.

Previously, there have been few performance issues, but as the workforce has grown and the complexity of the projects has increased, some cracks have started to appear. In fact, some of the people who have been recruited recently seem to be struggling.

The owners have stressed that, while they want to be able to manage the workforce efficiently and effectively, it should not be at the expense of the flexible, non-hierarchical culture they have created. Georgia thinks that getting an appropriate balance between order and creativity will be her main challenge in the job. She also knows she has to address the issues of attraction, retention, skills development and performance in order to facilitate the firm's ongoing success and growth.

Source: Fazey 2011: 112–14

Extend Your Learning: Visit Oxford Ascend for an additional illustrative case.

# INTRODUCTION

Human resource management (HRM) was once seen as being primarily an organisational housekeeping function, concerned mainly with administration and matters of employee welfare. HR practitioners were typically perceived as being not very knowledgeable about business and not really very interested in hard business matters. Hence, HR was only peripherally relevant to business strategy and not involved in business planning processes. Today, however, as organisations face an increasingly competitive environment, economic challenges, rapid change and tight labour markets, the relevance of HR to business strategy is being seen in a new light. In the business environment of the twenty-first century, workforce planning, as well as acquiring, retaining and developing people, has become central to the achievement of strategic business objectives.

In such an environment, human resource practices are effective only if they are aligned with the strategic direction of the business, make business sense, are focused on business operations and are executed professionally. HRM has to be an integral part of the organisation's strategic planning and implementation.



As HRM takes on a more strategic focus, the roles and activities of HR are changing as well. HRM is becoming more accountable for adding value to the organisation's output. As a **strategic business partner**, the focus is on aligning HR strategies and policies with business strategies and their execution. This demands business knowledge, innovation and creativity on HR's part. HRM must also understand the economic and social contexts as well as the strengths and weaknesses of the organisation and its workforce, and successfully balance business strategy with the organisation's legal, ethical and social responsibilities—a challenging role indeed.

This chapter examines the relationship between strategic management and HRM. It discusses how HR has evolved into a strategic function and how **strategic HRM** differs from HR's traditional role. The chapter also discusses the competencies required by strategic HR practitioners, how the strategic HR function is structured and managed, and some of the issues and challenges faced by the HR profession going forward.

**strategic business partner** A term used to describe HR's strategic role within organisations.

**strategic HRM** An approach to HRM in which workforce management is seen as being integral to overall business strategy.

# STRATEGIC MANAGEMENT CONCEPTS

Define strategic management and its major concepts and terms

What is strategic management? Grant et al. (2011) describe it as 'the process of directing an organisation in its competition with other organisations'. Hanson et al. (2008) point out that a fundamental function of strategy is to gain a **competitive advantage**. These concepts apply to business environments, but strategy is not limited to competitive scenarios. Public-sector and not-for-profit organisations also develop strategies and have strategic objectives that are usually linked to achieving certain goals and fulfilling their roles. Hence, strategic management is primarily about positioning the organisation to do well in the long term.

**competitive advantage** A business strategy that allows an organisation to compete successfully in the marketplace.

Strategic management is often portrayed as a conceptual pyramid, as shown in Figure 2.1. The pyramid shows that strategy is ultimately driven by conceptions of the organisation's identity and purpose.


FIGURE 2.1 STRATEGIC MANAGEMENT CONCEPTUAL PYRAMID

The *vision* represents the ultimate goal or the desired future state of the organisation. A vision describes, in an exciting and engaging way, the direction the company wants to take. Management communicates this vision to employees, behaves in ways that are consistent with the vision and builds commitment to the vision.

An organisation's *mission* describes its purpose: what it contributes to the economy and to society, and what sets it apart from others. The mission can also identify the scope of the organisation's operations and the markets within which it operates.

*Values* are the principles and beliefs that underpin the organisation's activities. They guide employee behaviour in the pursuit of its vision and mission. Values are designed to shape how employees of the organisation think and act on a day-to-day basis, and often espouse the ethical position of the organisation and its commitment to social and environmental responsibility.

*Objectives* are the business outcomes that indicate success. Strategic objectives are long-term objectives, and may relate to such things as market share, company value, growth and sustainability.

The *strategy* is essentially a blueprint for achieving the objectives and fulfilling the organisation's mission and vision. Strategies are usually longer term (two to ten years) and are used to evaluate and seize opportunities, as well as to allocate resources. Strategies can include plans to create new products, to purchase other organisations, to sell unprofitable sections of the business, to make shares available and to enter new markets. The strategy exploits the organisation's strengths and opportunities to create competitive advantage.

*Business plans* are shorter term plans that move the organisation towards its strategic objectives. These plans usually cover a period of a year and give management the opportunity to measure progress towards the longer term goals and make adjustments as required. Business plans are often said to be *tactical* rather than strategic.

An important aspect of strategic management involves recognising and managing the expectations of stakeholders: those groups that have an interest in the organisation's activities and performance. Table 2.1 summarises the main stakeholder groups and their particular interests. Significantly for our purposes, employees and unions are both key stakeholders. This is not to suggest that employees and unions should drive organisational strategy, but it does indicate a connection between organisational strategy and the management of employees.

Strategic planning is done at the organisation's highest levels. The planning process can be very complex and involves analysis of large amounts of data about the organisation, its stakeholders, its competitors and the context.

## Strategy drivers

Organisations are constrained to some degree by the resources they have at their disposal; their competitors; the legal, economic and social contexts; and potentially a whole range of other factors. In short, organisations cannot simply do anything they want to do: they are obliged to observe certain laws, standards and expectations. There are also powerful driving forces that may push the organisation in a particular direction. Porter (2008) has called these 'competitive forces'.



TABLE 2.1 STAKEHOLDERS AND THEIR INTERESTS

| STAKEHOLDER | INTERESTS |
|---|---|
| Owners/shareholders | Return on investment<br>Earnings growth |
| Employees | Remuneration and rewards<br>Job security<br>Satisfaction with culture and conditions |
| Customers | Satisfaction with price, quality and service |
| Suppliers | Satisfaction with payments<br>Future sales potential |
| Creditors | Ability to pay debts |
| Unions | Employee safety and wellbeing<br>Fair and equitable pay and conditions |
| Local community | Contribution to the community<br>Corporate citizenship behaviour<br>Impact on people and the environment |
| Government | Compliance with laws and regulations<br>Financial responsibility and accountability |

Source: Grant et al. 2011: 21


FIGURE 2.2 PORTER'S FIVE COMPETITIVE FORCES

Business strategies necessarily take account of these competitive forces as well as the constraints of the business environment and the interests of stakeholders. Storey and Sisson (1990), drawing on earlier work by Porter (1985), identified three major strategy drivers for business: cost reduction, innovation and quality improvement. These three fundamental things are effective responses to **Porter's five competitive forces**, outlined in Figure 2.2, and achieving them helps to ensure continuing competitiveness.

**Porter's five competitive forces** Business factors that shape the competitive marketplace.

REFLECTIVE NOTE

**What is strategic planning?**

Strategic planning is about anticipating and responding to needs emerging within and outside the organisation, determining priorities and allocating resources where they will do the most good. It is also about anticipating future business demands and positioning the organisation to meet those demands. Increasingly, Australian organisations are recognising the importance of planning for workforce changes as part of this process. This means that HR has a central role to play, and that contemporary HR professionals need to understand strategic planning processes and how HR policies and practices contribute to the achievement of organisational goals.

Reflect on HR's changing role.

## Strategic business planning and HRM

Identify the major HR issues impacting on strategic business planning

Strategic business planning is a process that involves:

- Identifying and responding to needs and opportunities in the marketplace
- Evaluating the organisation's strengths and weaknesses
- Determining priorities
- Setting goals and key performance indicators (KPIs)
- Allocating resources to those priorities
- Aligning organisational design with priorities.

Traditionally, HR managers have been absent from the strategic planning process, despite the fact that workforce management issues play a central role in strategy implementation. HR's role has largely been reactive—that is, to enact the strategies determined by senior management without having had any input to their development. This is one of the things that the HR profession has been trying to remedy since it adopted its new strategic identity. It has been a somewhat difficult transition for many HR practitioners, whose training and experience have largely focused on the behavioural aspects of people management, employee welfare and the administration of HR processes. As Price (2007) has pointed out, there is often a 'gulf in personality' between business strategists and HR practitioners. Consequently, HR people are sometimes viewed as not having a sufficiently strategic mindset to participate in high-level planning. However, this appears to be changing, albeit slowly (Sheehan et al. 2006).

One of the things helping HR to establish a role as a participant in strategic planning is the competitive nature of the labour market. In Australia, a 'war for talent' has emerged in recent years, driven by demographic changes and greater demand for highly skilled workers. One of the effects of this 'war' has been to highlight the strategic importance of HR issues.



Research by Mithen and Edwards (2003) among Australian CEOs suggests that the top seven business success factors are:

- Recruiting and retaining skilled employees
- Increasing customer satisfaction
- Employing and developing leaders
- Sustaining a competitive advantage
- Managing risk
- Managing change and corporate culture
- Becoming more innovative.

In addition, the research has also found that according to Australian HR managers, the major HR challenges facing Australian organisations are (in order of importance):

- Labour supply
- Productivity
- Profitability and sustainability
- Leadership and management
- Globalisation
- Recruitment, retention and talent management.

These two sets of responses indicate a strong connection between HR issues and strategically significant business issues.

The global economic downturn of 2008–09 also presented an opportunity for HR to establish its credentials as a genuine strategic player and highlighted for many organisations the connection between HR management and strategic planning (Sardo and Begley 2009).

REFLECTIVE NOTE

**Strategic HRM matters!**

Reflect on this quote by Jack Welch:

'Three years ago ... a significant minority insulted HR as being irrelevant to the 'real work' of business. Given the state of things, we wonder how those same HR-minimalists feel now. If their company is in crisis—or their own career—perhaps at last they've seen the light. HR matters enormously in good times. It defines you in the bad.'

Source: Jack Welch 2009

# STRATEGIC HRM CONCEPTS AND PRACTICES

As mentioned in the previous section, HR has not historically been part of the strategic management process. Indeed, prior to the mid 1990s, this would have been virtually unthinkable because HR's role was largely administrative. However, as business became more globalised, more competitive and more complex, the value of human resources and the centrality of human performance to the achievement of strategic goals began to be realised. Notably, Ulrich (1996) conceived of HR as a more strategic function, coining the phrase 'strategic business partner', which is widely used to describe HR's role in organisations today. Ulrich developed a competency framework to describe the role of HR in contemporary business and the skills required by HR practitioners. That framework has now seen several iterations and is considered to be the definitive description of strategic HR practice. We will explore it further in the section 'Ulrich's competency framework for strategic HRM' later in the chapter.

### REFLECTIVE NOTE

#### Strategic HRM as a way of life

Strategic HRM is not just about workforce planning. It is about the way that HR is practised within the organisation every day, the relationships HR has with senior management and other important stakeholders, and how HR adds value and contributes to organisational success. It is not a process; it is a mindset and a way of doing business. But does this mean that HR has to abandon its focus on employee support and wellbeing?

In Australia, strategic HRM has very much been a twenty-first-century phenomenon, and there is general agreement that progress has been made in transforming HR, although there is still some way to go (Coffey and Nankervis 2006; Bryson 2006). One of the responses to this redefinition of the role has been to devolve transactional people-management functions to line managers in order to free up HR to focus on more strategic work. However, this move has had a mixed reception from line managers (Kulik and Bainbridge 2006). Becoming a business partner has also meant that HR practitioners have had to develop the ability to influence rather than simply impose administrative requirements (Wright 2008). There remains, however, a distinct tendency among HR practitioners who have assumed the mantle of strategic business partners to continue to involve themselves with issues concerning employee wellbeing. Indeed, this has been rationalised as being part of a legitimate strategic function because it enhances employee engagement and helps to maintain productivity and reduce turnover (Brown et al. 2009). This is consistent with Ulrich and Brockbank's (2009) view that focusing on the business side of the equation at the expense of the people side will negatively affect HR's ability to influence organisational performance. It also illustrates that becoming strategic is not simply a matter of realigning one's focus from employees to management. Rather, it is about recognising the connection between employee issues and organisational performance, and creating a work environment that is conducive to high performance. This might well mean enacting strategies and policies that are good for employees, but employee wellbeing is not an end in itself. Rather, it is the means to an end, the ultimate objective being the achievement of the organisation's strategic goals.

## Conceptual frameworks for strategic HRM

Explain the best practice, best fit and configurational approaches to HR strategy

As the HRM era gave way to the strategic HRM era, theorists began conceiving different ways of thinking about HR strategies. Broadly speaking, three schools of thought emerged: the best practice, best fit and configurational approaches. The **best practice approach**, perhaps best



| HRM era: 1970s–1990s | Strategic HRM era: 2000s |
| --- | --- |
| • Employees as resources<br>• Employee relationship highly regulated<br>• HR focus on processes and functions<br>• HR as compliance monitor<br>• HR as employee advocate | • Employees as capital assets<br>• Employee relationship less regulated<br>• HR focus on strategy and policy<br>• HR as strategic business partner |

FIGURE 2.3 EVOLUTION OF HRM IN AUSTRALIA

**best practice approach** An approach to HR strategy that maintains there are specific people-management strategies that are universally positive.

exemplified by Pfeffer (1998), holds that there are certain HR practices that are universally positive and that will facilitate organisational success. These are:

- Employment security
- Selective recruitment
- High performance-based pay
- Team-based structures
- An egalitarian culture with minimal status differences between management and employees
- Information sharing
- Extensive training and development of employees.

Critics of the best practice approach point out that it is essentially a 'one-size-fits-all' philosophy that does not take into account the contextual factors or differences between industries and individual organisations. An alternative to the best practice school of thought is the so-called **best fit approach**, which advocates alignment between HR strategies and organisational objectives. In other words, HR practices should be specifically directed towards helping the organisation to achieve its stated objectives, and they should be specific to the organisation rather than generic in nature. This is known as 'internal fit'. The best fit school also recognises the importance of context, including factors such as local labour market conditions, different cultures and societal characteristics, and the nature of the industry (Boxall and Purcell 2011). This is called 'external fit'. Both types of fit are necessary for HR strategies to succeed. This is also called the **contingency approach** to HR strategy, because the strategies are shaped by (and are, therefore, contingent upon) these internal and external factors.

**best fit (or contingency) approach** An approach to HR strategy that attaches primary importance to alignment with the organisation's strategic goals.

A variation of the best fit philosophy is the **configurational approach** to HR strategy, which advocates different patterns (or bundles) of HR policies and practices tailored to different workforce management objectives. Lepak and Snell (2002) have proposed four different types of configurations (see Figure 2.4) based on different workforce management objectives.

**configurational approach** An approach to HR strategy in which HR policies and practices are bundled together in different ways to achieve different workforce management goals.

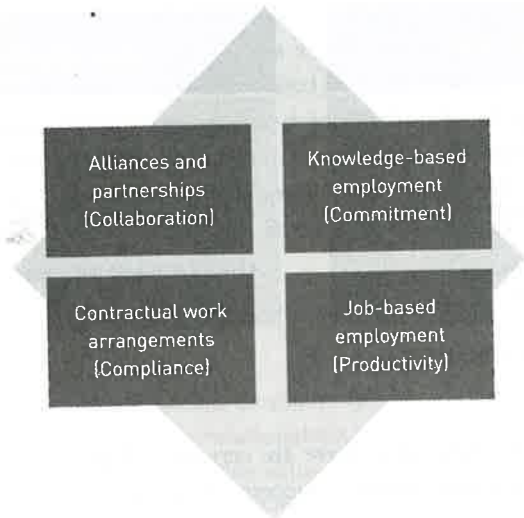


FIGURE 2.4 WORKFORCE AND STRATEGY CONFIGURATIONS

The nature of HR strategies will, therefore, vary according to whether the organisation is seeking to encourage collaboration, commitment, compliance or productivity in its workforce.

Debate continues about how best to approach HR strategy, including attempts to blend the best practice and best fit approaches in integrated HR strategy models. In practice, most organisations today seem to accept that context is important and that HR strategy should be aligned with the business objectives of the organisation. In other words, the best fit approach seems to be the predominant one. Indeed, the idea of HR being a strategic business partner is based on this kind of alignment.

## HR strategy and business strategy

As we have discussed, aligning HR strategy with business strategy is fundamental to strategic HRM. But how does this actually work? Two common business strategies are cost leadership and differentiation. Businesses adopting a cost-leadership strategy compete on the basis of offering goods and services at a lower price than their competitors. This requires high productivity with minimal costs. Workforce efficiency is essential to achieve this. As De Nisi and Griffin (2015) have outlined, HR strategies in these types of businesses would focus on areas such as job design and remuneration. Job design, for example, would emphasise efficiency, so jobs would be strictly defined and narrow in scope, such as in a production line. Encouraging maximum employee output would also be important, so remuneration systems would reward high output. Recruitment would also play a part in supporting a cost-leadership strategy. Employee turnover is costly and affects productivity negatively, especially if new employees constantly have to be trained. Targeting recruits who are likely to be more stable is, therefore, important.

Businesses that adopt a strategy of differentiation compete by offering something unique in the marketplace. Creativity and innovation are important for businesses such as these, so the HR strategies they adopt will be geared towards encouraging this. This is the exact opposite of



what cost-leadership businesses are trying to achieve. HR practices that support creativity and innovation include flexibility, autonomy, job security and a focus on employee development (Fazey 2013). So job design will be less prescriptive than in a cost-leadership business, performance management systems will emphasise future development rather than focusing on past performance and remuneration systems will reward quality rather than quantity. Recruitment and selection processes will target people with potential rather than people who are likely to be steady plodders.

Gomez-Meija, Balkin and Cardy (2012) have also pointed out that HR strategy needs to be consistent with the characteristics of the organisation, such as its overall management philosophy, its structure and its culture. These kinds of characteristics vary from one organisation to the next, and can change over time as new leaders take over and the organisation responds to changing market conditions or other contextual factors. When changes happen, HR strategies may need to change with them.

## Transactional, tactical and strategic HRM

Prior to the strategic HRM era, much of HR's work was transactional in nature. That is, it was about coordinating and managing administrative processes that related to the workforce, notably staffing, training, and remuneration and entitlements. As such, HR was very much seen as a back-room function. The evolution of strategic HRM has not meant that those administrative functions have suddenly disappeared, however. They are still necessary functions, so **transactional HRM** and strategic HRM must coexist. This has cast HR in dual roles, both as administrators and strategic business partners. We will discuss some of the challenges of this dual role later in the chapter.

**transactional HRM** Basic administrative HR functions.

As Table 2.2 demonstrates, the nature of transactional and strategic HRM work is very different.

Not surprisingly, the outlook of transactional HR practitioners tends to be somewhat narrow, and their day-to-day work is fairly distant from the organisation's higher strategic objectives. This is one of the reasons why the transition from transactional to strategic HRM has been difficult and has taken a considerable amount of time. One of the other difficulties in making this transition revolves around drawing the distinction between transactional and strategic functions. This distinction is not always clear, so much so that Robinson and Robinson (2005) have defined a third category: **tactical HRM**. Tactical HRM occupies the space between what is clearly transactional and what is clearly strategic, and is chiefly concerned with implementing programs and initiatives that support strategic goals (for instance, a training program or a recruitment campaign). A strategy will usually generate multiple tactics. Tactical HRM can incorporate transactional elements, but it is generally more complex than typical transactional HR activities such as those outlined in Table 2.2.

**tactical HRM** HR functions that fall between the strategic and the transactional.

It is evident from the comparison of transactional and strategic HR practices that the competencies required to carry out the strategic functions are significantly different from those required to carry out the transactional ones. Those competencies are also more intellectually demanding and require a more highly developed knowledge of business.

**TABLE 2.2** TRANSACTIONAL AND STRATEGIC HRM

| FUNCTION | TRANSACTIONAL | STRATEGIC |
|---|---|---|
| Staffing | Job advertising<br>Arranging tests and interviews<br>Documenting selection processes<br>Facilitating appointments and promotions | Analysing the labour market<br>Forecasting future staffing needs<br>Developing attraction and employer-branding strategies<br>Developing retention and talent-management strategies |
| Training and development | Organising training events<br>Coordinating nomination and approval processes<br>Maintaining employee training records | Analysing future skills needs<br>Conducting skills audits<br>Designing skill- and knowledge-development strategies for the future |
| Remuneration and entitlements | Payroll administration<br>Leave processing<br>Managing employee records<br>Monitoring compliance with legislation and industrial instruments | Researching market trends and competition<br>Developing innovative remuneration strategies and policies<br>Designing rewards systems |

## Ulrich's competency framework for strategic HRM

Outline Ulrich's competency framework for strategic HRM

**Ulrich's HR competency framework** A framework that defines the skills and actions of the contemporary strategic HR practitioner.

As mentioned earlier in this chapter, Ulrich and various colleagues have over the past 18 years or so developed a set of competencies that has become widely accepted as the best conceptual framework for the practice of strategic HRM: **Ulrich's HR competency framework.**

Ulrich et al. (2012) identify six 'fundamental competency domains' that enable HR practitioners to positively affect business performance. These are outlined in Table 2.3.

**TABLE 2.3** ULRICH'S STRATEGIC HR COMPETENCIES

| | |
|---|---|
| Strategic positioner | Understands business conditions and customer expectations. |
| Credible activist | Influences through effective communication and building relationships of trust. |
| Capability builder | Identifies and builds organisational culture, processes and identity. |
| Change champion | Initiates change by communicating the need for change, engaging stakeholders and overcoming resistance. Sustains change through organisational structures, communication and learning. |
| Human resources innovator and integrator | Applies HR policies, processes and practices that solve business problems. |
| Technology proponent | Uses technology to effectively administer HR systems and to enhance communication and social relationships. |



### REFLECTIVE NOTE

**Why HR needs to become a business partner**

In the past, some people have seen HR as a hindrance to business because of its focus on legal compliance and policies designed to impose a rigid order. This approach to HRM runs contrary to a strategic mindset and results in reactions such as the one below.

> 'The human resources trade long ago proved itself, at best, a necessary evil—and at worst, a dark, bureaucratic force that blindly enforces nonsensical rules, resists creativity and impedes constructive change.'
>
> Source: Hammonds 2007

What are your thoughts on this quote?

The most significant aspect of Ulrich's conception of strategic HRM is that everything is driven by the organisation's strategic goals. In the past, HR has been driven by factors outside the organisation, such as legislation, casting it in the role of compliance monitor. The adoption of this type of role increases the likelihood of HR becoming regarded as a blocker with an ivory tower mentality. HR has also been accused of being too fad-driven, wanting to implement the latest trendy ideas in people management and often imposing them without making a business case for them (Hammonds 2007). Ulrich's main message is that HR needs to work in a collaborative way with management at all levels in order to contribute to the achievement of the organisation's goals. The emphasis should be on finding ways to do things rather than on finding reasons not to.

## STRATEGIC HRM, ORGANISATIONAL PERFORMANCE AND RISK

Describe how high-performance work systems and risk management relate to strategic HRM

Although there is general agreement among theorists that there is a connection between HR strategies and organisational performance, there are different ideas about exactly how this works and which HR practices produce high performance. These practices have come to be

**high-performance work systems (HPWS)** HR practices, work structures and processes that optimise employee knowledge, skills, commitment and flexibility and, in turn, facilitate high levels of performance.

known collectively as **high-performance work systems (HPWS)**, and they encompass not only HR practices, but also work structures and processes. These components act together to optimise employee knowledge, skill, commitment and flexibility and, in turn, facilitate high levels of performance that enable the organisation to achieve its goals. As Truss et al. (2012) have noted, approaches to HPWS usually involve focusing on teamwork, knowledge sharing, training and motivation. The motivational aspects can include such things as job security, career progression, and performance-based or skills-based pay and rewards systems. The underlying logic of HPWS is that high employee performance will lead to high organisational performance. Of course, organisational performance is affected by other things too, many of them external to the organisation (for example, economic conditions). This is why it is so difficult to pinpoint and measure the contribution of HR policies and practices to organisational outcomes. Nonetheless, most organisations accept that there is a connection and that part of a strategic approach to HRM involves optimising employee and team performance by managing them in ways that give them the ability, motivation and opportunity to perform well.

**risk management** The process of identifying, assessing and addressing business risks.

Cascio and Boudreau (2012) see **risk management** as another important aspect of strategic HRM. In the past, risk management has been seen as being primarily about risk mitigation (that is, as a mostly defensive function), although more recently it has begun to be conceived of as a strategic function that is geared more towards positioning the organisation for the future (KPMG 2001).

Within the sphere of HR, risk management has traditionally been associated with occupational safety and health, but today it is conceived of much more broadly. Ernst and Young (2008) have identified four categories of risk related to the management of the workforce (see Table 2.4):

- Compliance risks are those risks posed by non-compliance with legislation, regulations or standards.
- Financial risks are about workforce costs, budgets and value for money.
- Operational risks are those which affect the productivity and efficiency of the organisation.
- Strategic risks are those that affect an organisation's sustainability and/or competitive position into the future.

TABLE 2.4 MAJOR HR RISKS

| RISK CATEGORY | NATURE OF RISK |
|---|---|
| Compliance | Employee misconduct<br>Employee litigation<br>Prosecution |
| Financial | Unsustainable employment costs<br>Increased workers' compensation costs<br>Excessive expenditure on recruitment<br>Insufficient return on investment in training and development |
| Operational | High turnover<br>Absenteeism<br>Injury<br>Industrial action |
| Strategic | Recruitment difficulties<br>Retention problems<br>Skills shortages<br>Succession management difficulties |



Their research has also revealed that the focus has shifted from managing compliance and financial risks to managing strategic risks, which is consistent with the evolution of HR as a strategic function.

It could be argued that the appropriate use of high-performance work systems will help to manage the financial, operational and strategic risks outlined in Table 2.4. Getting the balance right between managing compliance risks and other types of risk is a challenge for HR. Compliance measures that are too heavy handed may actually hinder organisational performance and undermine HR's desire to be a strategic positioner (to use Ulrich's terms).

# STRATEGY AND POLICY

Discuss the relationship between HR strategy and HR policy

In this section, we will explore the relationship between **HR policy** and organisational strategy. It is important to have a clear conceptual understanding of the two in order to understand how they interact with one another. The words 'strategy' and 'policy' are sometimes used interchangeably. Indeed, dictionary definitions of the two are very similar, but in a business context, they are not the same. Policy comes after strategy. As Fazey (2013) has suggested, HR policy can be seen as the bridge between HR strategy and HR practice (see Figure 2.5).

**HR policy** Processes and procedures that underpin HR strategies, ensure compliance with legal and regulatory requirements, and promote consistent decision making.

Gratton and Truss (2003) have pointed out that not only do HR strategies need to be consistent with business goals (vertical alignment) and with each other (horizontal alignment), but there also needs to be action (people need to actually perform the strategies). This might seem self-evident, but anyone who has worked in an organisation will know that simply having a strategy does not necessarily mean that it is enacted. Desirable strategic outcomes can only be achieved through action, and it is this action that policies describe and regulate.

Jorgensen (2005) has argued for a 'workforce policy architecture' that embraces six themes: quality and balance, procedures, compensation, people, work, and opportunity. These are designed to work together to create a high-performance environment in which productivity and commitment are enhanced. This kind of approach implies that, regardless of specific business strategies, there are certain fundamentally desirable cultural characteristics that can be activated through HR strategies and policies.

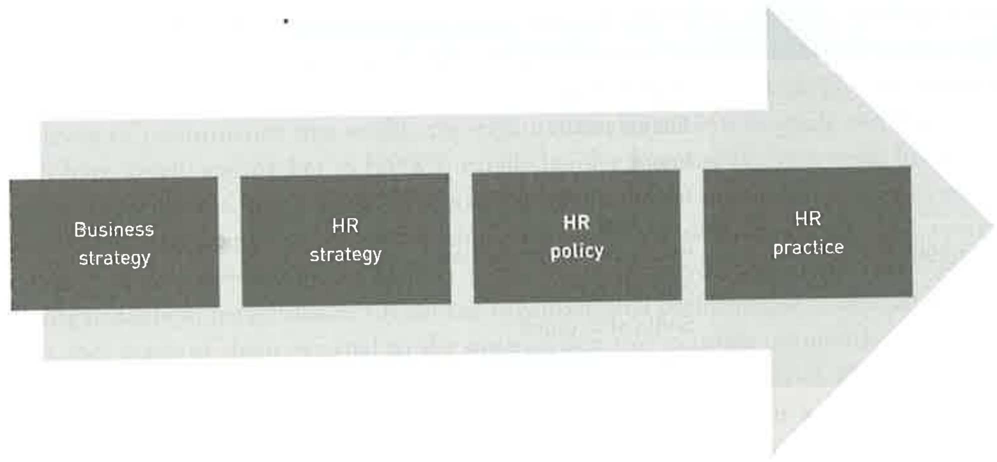


FIGURE 2.5 RELATIONSHIP OF POLICY TO STRATEGY

## Strategic policy

Without policies to back them, strategies are really little more than statements of good intention. It is the policies that describe exactly how those strategies will be translated into action. Perhaps more than anything else, HR policies help to ensure that the organisation's approach to its strategic objectives is coherent and consistent. They promote a shared understanding of HR strategies and a common approach to the way those strategies are enacted.

The relationship between policy and strategy is not simply 'one strategy = one policy'. It is somewhat more complex (Fazey 2013). In fact, there may be several policies that contribute to one strategic objective, as shown in Figure 2.6.

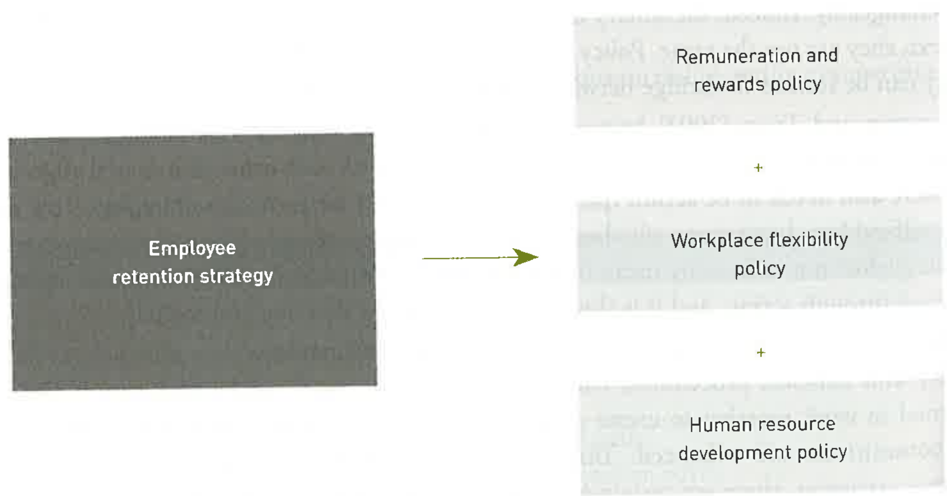


FIGURE 2.6 HOW POLICIES COMBINE TO FACILITATE STRATEGY



In addition, individual policies may contribute to more than one strategic objective. In the example in Figure 2.7, for instance, the remuneration and rewards policy might also accommodate the requirements of a strategy to improve productivity; the workplace flexibility policy might address the organisation's diversity objectives; and the training and development policy might also relate to a strategic objective to develop the next generation of leaders. So, strategic policies are interconnected, combining in different ways to support different strategic objectives. This high degree of interconnectedness adds further complexity to the policy function and places the onus on HR to ensure that coherence and consistency are maintained as the context and business objectives change.

It should also be remembered that HR policy is not solely about supporting strategy. There are also legal, regulatory, social and ethical considerations. This means that policies need to take proper account of those considerations as well as supporting strategic objectives. After all, there is no value in developing a policy that addresses a strategic priority, but that is not legally or ethically defensible.

### CASE IN POINT

### Retaining older workers: a strategic priority for ANZ

The ageing workforce is one of the biggest strategic challenges for Australian organisations. Because our current workforce is dominated by members of the baby-boomer generation, who have reached or are approaching retirement age, there is potential for a mass exodus of older workers, creating skills and labour shortages.

The ANZ bank has recognised this, so it has developed a 'Career Extension Program', a range of policies designed to encourage older workers to remain at work longer. The program is available to employees aged 55 or older who have at least five years of service with the company. The program offers older workers the opportunity to rejuvenate, rebalance and reshape their working lives through a range of work options, as outlined in the table.

| OPTIONS AVAILABLE | WHAT'S ON OFFER |
|---|---|
| **Rejuvenate**<br>Flexible leave arrangements | Lifestyle leave<br>Flexible long-service leave<br>Career breaks |
| **Rebalance**<br>Innovative approaches to work | Job sharing<br>Telecommuting<br>Flexible work arrangements |
| **Reshape**<br>Tools to change pace | Gradually reduced work commitments<br>Switch to a role with less demanding work pressures<br>Knowledge-sharing roles (consultant, coach, troubleshooter) |

Source: ANZ 2004

# MEASUREMENT AND METRICS

Define three types of HR metrics and discuss how they differ

Strategic management is built on a foundation of analysis. If we accept that the workforce is an integral part of the strategic-management equation, then being able to analyse the workforce, its capabilities and its contribution to achieving organisational objectives is very important. As Flamholtz (2005) has observed, 'Without data, all you have is opinions, and without measurement, you cannot really have significant data'. In the pre-strategic era, HR measurement was rarely done, and where it was done, it tended to focus on measuring activities rather than outcomes. For instance, HR would typically cite numbers of job applications processed, number of training programs delivered, number of payroll transactions, and similar statistics to justify its budget and purpose. However, measures such as these tell us nothing about the effectiveness of human resource management within the organisation, nor do they tell us anything about the workforce itself. Indeed, measures of HR activity have no application to the strategic management process at all, so in order to become genuine strategic business partners, it is incumbent on HR to develop measures that are useful for planning purposes (O'Donnell and Royal 2010). Modern technology makes data collection much easier than ever before. Indeed, some HR information systems are capable of extracting detailed workforce data and producing sophisticated reports based on that data.

This has been known for some time, and many organisations now produce a set of measurements (or metrics) that attempt to quantify different aspects of the workforce and provide a reasonable basis for identifying issues of strategic importance that need to be addressed or measuring the effectiveness of strategies that have been implemented. Broadly speaking, **HR metrics** can be divided into three categories:

**HR metrics**
Measurements used by an organisation to evaluate the impact of its HR investments and to ensure that they are in line with the organisation's strategic goals.

- *Diagnostic metrics* paint a picture of the organisation from a people-management perspective and identify existing or emerging issues or problems.
- *Evaluative metrics* measure the effectiveness of a strategy, program or process. They can also provide qualitative feedback about the organisation's culture.
- *Human capital metrics* attempt to show how HRM and the workforce itself contribute to the overall performance and market value of the organisation.

## Diagnostic metrics

Diagnostic metrics are perhaps the most fundamental measurements of the workforce. Diagnostic data is useful from a strategic perspective because it enables organisations to establish patterns and trends and to track them over time. Table 2.5 summarises some of these types of measures.

One of the best uses of diagnostic data is to create regular reports for management. Ideally, measures for each business unit should be calculated and line managers should receive the reports. This is also an effective way of initiating and developing the kind of partnerships that strategic HR practitioners seek to build. Analysis of diagnostic data can highlight seasonal variations and year-to-year trends that make planning more accurate. Comparing data across business units can also highlight trouble spots (for example, parts of the organisation where turnover or absence rates are higher than for the rest of the organisation) and allow for remedial action to be taken.



TABLE 2.5 DIAGNOSTIC METRICS

| HR AREA | MEASUREMENT |
|---|---|
| Staffing | Employee numbers/demographics<br>Employee turnover<br>Average length of service<br>Modes of employment (F/T, P/T, casual, flexible modes)<br>Number of applicants per vacancy<br>Time taken to fill vacancies |
| Remuneration | Salary costs<br>Average salary per employee (or occupational group)<br>Salary differentials<br>Leave liability<br>Overtime costs |
| Learning and development | Types of learning/training activity<br>Percentage of employees participating in learning activities<br>Expenditure per person/division<br>Employee qualifications<br>Employee study<br>360° feedback outcomes |
| Employee health, safety and wellbeing | Accident/incident rates<br>Workers' compensation claims<br>Workers' compensation costs<br>Absence rates<br>Number of grievances<br>Usage of employee assistance program |
| Performance management | Percentage of appraisals completed<br>Distribution of appraisal ratings<br>Performance bonuses awarded<br>Number of people identified for participation in succession management initiatives<br>360° feedback outcomes |

Collecting this kind of data also allows benchmarking of performance against norms in particular industries. Benchmarking programs are usually coordinated by independent service providers, who gather data from member organisations and aggregate that data so that member organisations can compare their performance against the industry average. Benchmarking does not allow direct comparisons with competitors, but it is a useful way for organisations to assess how they are performing within some kind of context. Without context, it is difficult to know whether outcomes are good, bad or indifferent.

## Evaluative metrics

Evaluative metrics are about effectiveness and can be either quantitative or qualitative in nature. The following are examples of quantitative evaluative metrics:

- Changes in job applicant numbers and vacancy filling times to measure the effectiveness of a recruitment strategy
- Changes in turnover rates to measure the effectiveness of a retention strategy
- Changes in accident rates and workers' compensation claims to measure the effectiveness of a safety initiative.

One of the issues with measures such as these is that they can be affected by other factors such as labour market conditions or government policy. Unfavourable data may be interpreted as a failure of HR, even though the outcomes may have been affected by external factors or other management decisions. Even so, these should not be excuses for avoiding measurement.

Qualitative data usually takes the form of questionnaires or surveys of employees or other stakeholders. This kind of data allows organisations to assess the effectiveness of such things as organisational communication, relationships, leadership, the physical environment and the quality of work life in general. This in turn indicates the level of employee engagement or commitment, and can highlight factors that may be affecting productivity and work performance. As Donkin (2005) has pointed out, interpretation of this kind of qualitative data is very important, and the publication of raw data without appropriate analysis can actually be detrimental. It is one of HR's more important strategic roles, therefore, to provide this analysis, highlighting the implications for the organisation's strategic objectives.

## Human capital metrics

The concept of human capital recognises that the workforce is one of the intangible assets that contribute to an organisation's overall value. While the concept is not new, it has proved difficult to arrive at a definitive methodology for measuring human capital. Indeed, Bassi and McMurrer (2007) have contended that because of the tendency to apply accounting models that focus on tangible rather than intangible assets, human capital is often undervalued. O'Donnell and Royal (2010) have observed that there are still no universally accepted principles or standards for measuring human capital, as there are in accounting, so approaches tend to vary. The example in Figure 2.7, developed by the consulting firm Accenture, links HR processes with capabilities, which in turn link with performance drivers and, ultimately, business results.

Systems such as this one rely on the analysis of qualitative data and the identification of strong links between items in each tier of the framework. Its underlying principle, and indeed the underlying principle of all human capital metrics, is that investment in people translates into better business results.

Intangibles such as human capital are increasing as a proportion of companies' total market value, especially in knowledge industries. In fact, in some companies, the value of intangibles makes up more than half its market value. For this reason, Ulrich and Smallwood (2005) have urged HR professionals to 'become investor literate' in order to deliver intangible value. Understanding the kinds of things that investors look for, especially on the intangible side of the equation, helps to focus HR on things that increase company value.



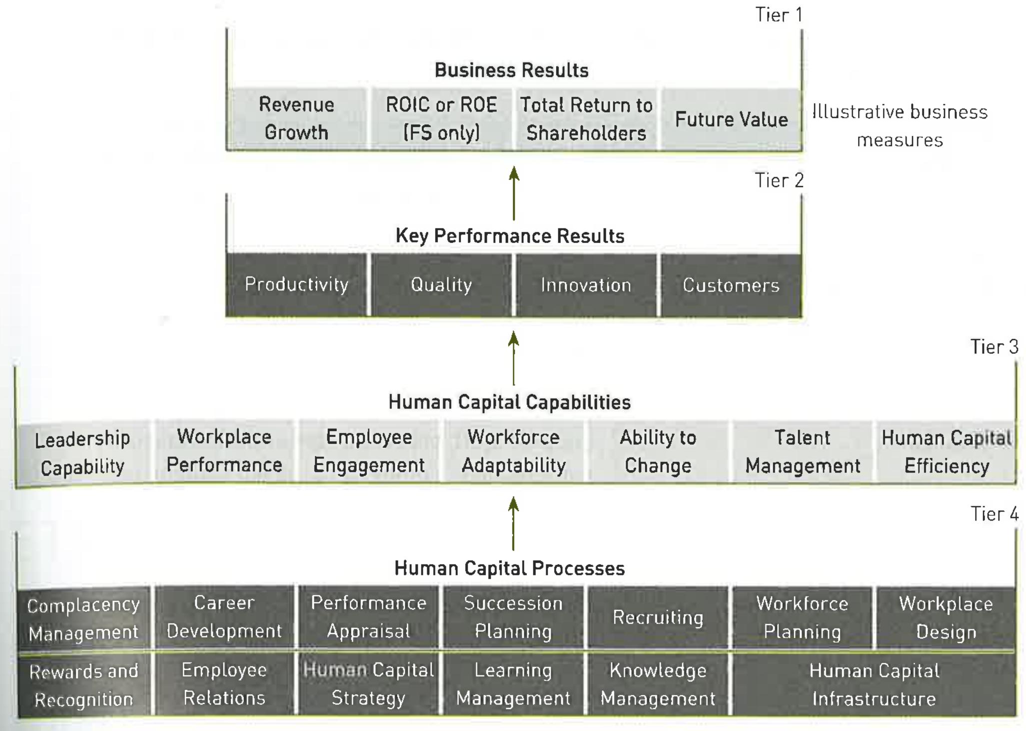


**FIGURE 2.7** HUMAN CAPITAL DEVELOPMENT FRAMEWORK

**CASE IN POINT**

**Hollywood Private Hospital**

Hollywood Private Hospital in Perth, Western Australia, is part of the Ramsay Health Care group. It is a large, acute-care hospital with 70,000 admissions annually and 2000 staff. Ramsay Health Care is driven by a set of values that include teamwork, respect for the individual, the pursuit of excellence and contribution to the community.

The hospital's strategic goals include:

- Improving service delivery, systems and processes
- Meeting service needs more effectively through workforce re-engineering, recruitment and retention
- Increasing the number of specialists with compatible values
- Improving patient activity and optimising the balance between medical and surgical services
- Seeking ways to increase returns from patient and non-patient activity.

The strategic planning process identified a number of HR issues impacting on the hospital's capacity to meet its strategic goals. These included:

- An ageing workforce (one-third of employees are aged 50+)
- Skills shortages in nursing
- Increased labour market competition
- Possible future labour shortages in clinical and non-clinical areas.

This led to the development of a multifaceted HR strategy focused on attraction, retention and skills development.

| PROGRAM | DESCRIPTION |
|---|---|
| Overseas recruitment | Targeting skilled health workers in the UK, Ireland and New Zealand |
| High-school strategy | Developing partnerships with schools to participate in school holiday programs, workplace learning programs and other careers programs |
| Competency-based career structures | Targeted at food service, housekeeping and support staff, providing career paths based on completion of competency-based training leading to recognised qualifications |
| Graduate career development for nurses | Developing partnerships with universities to provide graduate education for registered nurses. Skills-development programs for enrolled nurses, including opportunities to qualify as a registered nurse |
| Older worker attraction and retention program (Note: Since this launched, the components of this program have been made compulsory by law or are incorporated into the employee agreements) | Including workplace flexibility options, wellness programs, leave options, superannuation changes, computer training and alternative career options |
| E-learning programs | Development of a user-friendly intranet and a range of easily accessible online training programs |
| Leadership and management development | Introduction of a range of management programs for current and aspiring managers, and a comprehensive 'Future Leaders' program |

The strategy is coordinated by a group consisting of the HR Manager, Training and Development Manager, Marketing Manager and members of the Executive, and has led to the hospital receiving a number of awards including:

- 2009 Employer of the Year (WA Training Awards)
- 2009 Australian Employer of the Year (Australian Training Awards)
- 2009 Health Industry Award (Australian Training Awards).



What makes this such a good strategy?

- It is driven by the organisation's values and strategic goals.
- It is coordinated at a high level and involves HR partnering with other parts of the organisation.
- It is focused on the future and is long term.
- It recognises that attraction, retention and skills development are interconnected.

Source: Presentation to AHRI State Conference, Western Australia, September 2010

# STRATEGIC HRM STRUCTURES

Discuss how HR can be structured as a strategic function

As we have already seen, HR has both transactional and strategic roles. This has implications for the way organisations structure the HR department. Traditionally, HR departments have been structured along functional lines, as shown in Figure 2.8.

However, most organisations moving to a more strategic HRM model have found that function-based structures are not conducive to developing the role of strategic business partners. In order to become strategic business partners, HR practitioners needed to become generalists rather than specialists, and internal consultants instead of administrators. Hence, structures have changed to reflect this role change, as illustrated in Figure 2.9.

Some transactional functions (such as payroll administration) have tended to remain centralised, while others have been devolved to line managers to allow HR practitioners to operate more strategically. The internal consultancy approach has certainly helped establish the strategic business partner role for HR, but there remains tension between transactional and strategic roles. In practice, internal HR consultants are often engaged in strategic, tactical and


FIGURE 2.8 TRADITIONAL FUNCTIONAL HR DEPARTMENT STRUCTURE

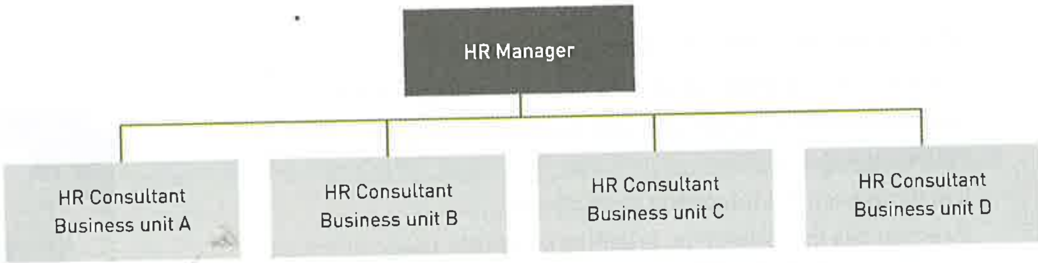


FIGURE 2.9 HR DEPARTMENT STRUCTURE BASED ON INTERNAL CONSULTANCY MODEL

transactional tasks, and sometimes find that transactional and tactical matters consume more of their time than strategic ones. Hence, for some, the transition to being a strategic business partner has really been only a partial transition.

## Outsourcing

One way of dealing with the tension between transactional and strategic HR functions is to outsource some or all of the transactional functions. This has become increasingly prevalent during the strategic HRM era. Along with the other functions summarised in Table 2.6, the most commonly outsourced functions are payroll, training and recruitment for temporary positions, with very few organisations opting to outsource all transactional functions (Jain and Saini 2010).

TABLE 2.6 HR FUNCTIONS COMMONLY OUTSOURCED

| | |
|---|---|
| Payroll management | Recruitment |
| Leave management | Salary packaging services |
| Training design and delivery | Outplacement services |
| Coaching services | HR information management |
| Employee assistance programs | Mediation and dispute resolution |

**outsourcing** The process of contracting out certain functions to external service providers.

As demand for **outsourcing** has increased, so has the range of service providers. While recruitment agencies and training providers have been operating in the market since before the strategic HRM era, the rise of HR outsourcing has seen the development of new players, especially professional employer organisations (PEOs), which provide a range of integrated HR services for their clients.



The main benefit of HR outsourcing is that it allows organisations to maintain a small core of HR professionals in-house who are able to focus on being strategic business partners. Klaas et al. (2005) have also found that there can be benefits gained from the expertise and broad networks of service providers such as PEOs, especially for smaller organisations.

Outsourcing is not always a success, however. As Stroh and Treehuboff (2003) have found, ill-considered outsourcing decisions can have detrimental effects on employee attitudes and performance, especially where outsourcing is perceived by employees as being bad for them and the organisation, or if service quality is below expectations. Issues such as data security can also arise.

While cost saving is often a strong driving force in outsourcing decisions, the consensus, based on experience, is that it should not be the primary driver. Indeed, outsourcing can actually be more costly than performing the function in-house. Jain and Saini (2010) have found that within the Asia–Pacific region, the most significant reason for outsourcing has not been cost, but rather the separation of transactional and strategic elements of HRM to allow HR departments within organisations to become strategically focused.

## Shared services

**shared services** The centralising of certain administrative HR functions within a corporate group.

Within large corporate entities made up of different businesses, **shared services** has emerged as an alternative to outsourcing. This involves centralising transactional HR functions for all businesses in a shared services centre (SSC), thereby freeing up HR within individual businesses to focus on being strategic business partners. Shared services works on customer-service principles, where the businesses within the corporate group are the customers.

Some shared-services arrangements use a purchaser–provider model, where businesses access services on a 'user pays' basis. Service-level agreements are sometimes used to define the quality and standard of HR services required by businesses.

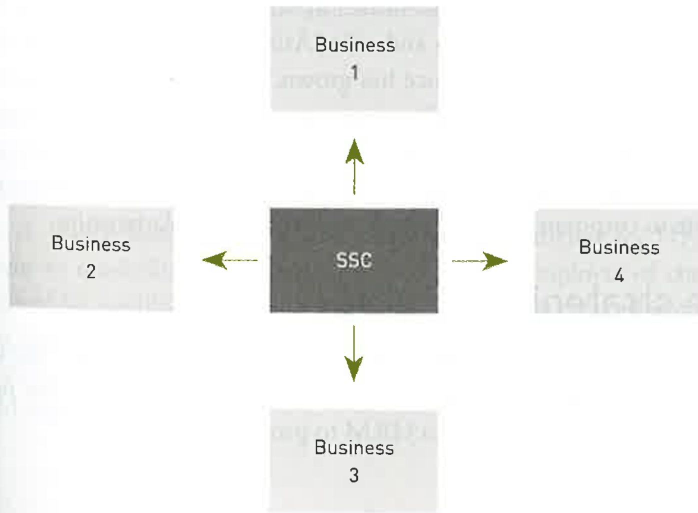


FIGURE 2.10 SHARED SERVICES MODEL

Economies of scale can make shared services attractive from a cost-saving perspective, although initial set-up costs can be high, especially if businesses use different payroll or other business systems that need to be standardised.

# ISSUES AND CHALLENGES

Discuss the main strategic issues and challenges for HR in the future

The next 20 years will see significant workplace change. As we have already discussed, many of the factors presenting the biggest challenges for business leaders are people related (for example, attraction, retention, and skills and labour shortages). These are all issues that will cause businesses to turn to HR for leadership and innovation. Indeed, it could be argued that the years between 2010 and 2030 will be the most challenging ever faced by the HR profession, and consequently, a period of great opportunity.

Peter Wilson (2010) has outlined eight major factors that will shape the workplace and the role of HR in the future:

1 Global economic competition
2 Technological and communication breakthroughs
3 Demand for personal flexibility
4 Skills convergence in a multi-disciplinary environment
5 Macroeconomic and demographic changes
6 Global best practice changes in people management
7 Changing business standards (for example, corporate social responsibility, ethics)
8 Government imposition of regulations to quell public fears.

Wilson also foresees that during this period the trend to outsource transactional HR functions will continue, separating it even more distinctly from strategic HRM, and that strategic HRM will emphasise workforce planning, workplace restructuring and change management. Another interesting future development identified by senior HR practitioners in Australia is the effect of the growing influence of China and other Asian economies, particularly in the Asia–Pacific region. As their economic influence has grown, there has emerged a view that Eastern philosophical approaches to business and management will also gain more traction, leading to more flexible work structures, a greater emphasis on teams, and increased interest in corporate social responsibility (CSR) and diversity (Wilson 2010). These are all potentially HR issues because they relate to corporate culture, people and workplace relationships.

## The future strategic role of HR

Doubtless, there are many challenges for HR professionals in the future. The issues we have already discussed will create a dynamic environment in which, unlike the previous era of HRM, organisational leaders will look to HRM to provide solutions.



The Australian Human Resources Institute (AHRI) has suggested that there are nine key roles for HR professionals into the future (Wilson 2010). These are summarised in Table 2.7.

Inherent in these nine roles is the need to balance business imperatives with contextual issues such as stakeholder expectations, societal values, and government policy and legislation.

TABLE 2.7 FUTURE STRATEGIC ROLES FOR HR

| | |
|---|---|
| Workplace transformer | Restructuring and redesigning work and the workplace to deliver business improvements |
| Work–life integrator | Creating more flexible workplaces that allow employees to achieve work–life balance |
| Next generation talent manager | Shaping cultures that attract, engage and retain Gen Y |
| Performance rewarder | Redefining performance and how it is measured, and linking performance to rewards clearly but flexibly |
| Builder of new learning places | Designing workplaces in which people learn by interacting with each other and by reflection |
| CSR stakeholder marshal | Ensuring that internal and external stakeholders' expectations are met and that social legitimacy is enhanced |
| Engaging communicator | Using technology and stakeholder relationships to inform and advise |
| Diversity champion | Advocating diversity, integrating diverse views and cultures, stopping inequities |
| Regulatory wizard | Managing compliance with laws and regulations while striving for better business outcomes |

The business side of the equation and the stakeholder/society/government side do not always sit comfortably together. As we have already discussed, HR has suffered in the past because it was perceived as being bureaucratic and driven by non-business concerns. This is still an issue today.

Holland et al. (2015) have suggested that a significant challenge for HR in the future is to manage talent to maximise retention and to become an 'employer of choice'. This needs to be underpinned by credible business knowledge as well as a clear philosophical position. Understanding exactly how HR processes and policies impact on the business is, therefore, an important part of the strategic role. Also see Chapter 16, where more information on the future of HRM is provided.

## SUMMARY

- Strategic HRM is a dimension of strategic management, an approach to organisational management that is based on a shared understanding of the organisation's role and purpose, shared values, effective management of stakeholder interests, analysis of data, and planning. Strategic management is fundamentally about positioning the organisation to succeed in the long term.
- Research among business leaders has shown that many of the important strategic issues facing organisations today are related to the workforce.
- Historically, HR has been a low-status administrative function, but in the twenty-first century the potential for HR to become a strategic business partner has been recognised and acted upon.
- Ulrich's competency framework emphasises business knowledge, relationship-building, and influencing skills as being fundamental to the practice of strategic HRM.
- Strategic HRM practices that are designed to enhance employee ability and motivation are known collectively as high-performance work systems. Such systems recognise the connection between employee performance and organisational performance.
- As risk management has come to be seen in more strategic terms in recent times, managing workforce-related risks has become an important aspect of strategic HRM.
- HR strategies invariably require policies to underpin them. Policies act as a bridge between strategy and practice. They translate strategic objectives into actions and ensure a consistent approach to achieving those objectives.
- Measurement and HR metrics are essential to strategic HRM. Data is useful from a diagnostic perspective and to evaluate the effectiveness of strategies and programs. Data can also be used to link HR strategies and practices to organisational outcomes and to demonstrate how the workforce contributes to an organisation's market value.
- Strategic HRM structures are usually different from traditional transactional HR structures. Transactional HR functions are often devolved to line managers or outsourced, with HR staff focused on being strategic business partners. Structuring HR as an internal consultancy is a common and effective way of achieving this change of emphasis.
- Being a strategic business partner means balancing organisational interests with employee interests, regulatory requirements and societal expectations. This can be very challenging.



## CASE STUDY

### Whose side are you on?

Helen is an HR adviser with Rockwell Resources, a mining and exploration company. Recently the Board commissioned an independent review of the company's structure and staffing. The review recommended (among other things) that the company's finance division be restructured to achieve greater efficiency and effectiveness. The review found that processes within the finance division were excessively bureaucratic and that these inefficient processes had led to staffing levels blowing out to an unsustainable level. The Board accepted the recommendation, and new business processes and a new, leaner structure were designed for the division. The new structure required a 20 per cent cut in staff numbers, from 60 positions to 48.

Helen has been involved from the beginning and has contributed actively to the development of the new structures and processes. She is now responsible for managing the process of allocating people to jobs in the new structure, and facilitating the reduction in staff numbers. She has had numerous meetings with the Chief Financial Officer to discuss the best way to achieve these changes, and together they have developed a plan involving an internal selection process to fill the positions in the new structure. During all of this, Helen thought to herself, 'Wow, this is really what being a strategic business partner is all about!'

One of the initiatives that Helen has put in place is a weekly meeting with finance staff to explain the change process and to update them on developments. Obviously, there's quite a bit of apprehension. There are also a good many people in the division who believe that the review and recommendations were flawed, and that the proposed changes are problematic. Helen knows this, and puts it down to natural defensiveness and resistance to change.

During the first meeting, Helen asks if people have any questions about the process. One person, Ray, puts up his hand immediately. Ray is an accountant who has been with the company for about ten years. The new structure reduces the number of accountants so his position is in jeopardy.

Ray asks, 'Why are you doing this, Helen?'

Helen is a little puzzled. 'What do you mean, Ray?'

Ray replies, 'I thought HR was supposed to look after people. You've just got into bed with management. Shouldn't you be trying to find ways to avoid job losses rather than helping management get rid of people? Whose side are you on?'

Extend Your Learning: Visit Oxford Ascend for an additional case study.

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Extend Your Learning: Visit Oxford Ascend for an additional case study.

### Questions

1. What does Ray's question tell us about the role of HR in the company? Do the employees perceive it the same way that Helen does?
2. Does being a strategic business partner mean 'getting into bed with management'?
3. Is Ray right? Should Helen be doing what she can to prevent job losses?
4. How should Helen respond to Ray's concerns?

## REVISION QUESTIONS

Extend Your Learning: Visit Oxford Ascend for additional revision material.

1. Many organisations have proclaimed that 'our people are our most valuable asset' or something similar. Do contemporary organisations really consider their employees to be 'assets' or is this just rhetoric?
2. Why do you think Price (2007) has said that there is sometimes a 'gulf of personality' between HR practitioners and business strategists? Are the personalities of HR people different from those of others in business? If so, how?
3. Can HR be business focused as well as being concerned with issues such as employee wellbeing and ethics?
4. Do high-performance work systems guarantee high performance? Which other factors might affect employee and organisational performance?
5. Is it always a good idea to separate the transactional and strategic elements of HRM? What are some of the potential problems in doing this?
6. Are the 'best practice' and 'best fit' approaches to HR strategy mutually exclusive, or is it possible to incorporate the principles of both?
7. Many existing HR practitioners do not have any formal business qualifications. Does this limit their ability to become genuine strategic business partners?
8. Is it possible to measure HR's contribution to organisational performance or is this just too complex?
9. How might an emphasis on risk management work against HR being perceived as a strategic function?
10. What might be some of the disadvantages of outsourcing HR functions such as recruiting and payroll management?



## KEY TERMS AND CONCEPTS

best fit approach
best practice approach
competitive advantage
configurational approach
contingency approach
high-performance work systems (HPWS)
HR metrics
HR policy
outsourcing
Porter's five competitive forces
risk management
shared services
strategic business partner
strategic HRM
tactical HRM
transactional HRM
Ulrich's HR competency framework

## FURTHER READING

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## WEBLINKS

HR People and Strategy: www.hrps.org

Strategic Management Society: www.strategicmanagement.net