

6 HUMAN RESOURCE STRATEGY AND ORGANIZATIONAL PERFORMANCE

INTRODUCTION

This chapter locates the HR function as a central feature of business strategy. Human resource management (HRM) exists in order to achieve organizational goals through people resources. People management is perceived by most organizations as a key determinant of success. The changing role of HRM has reflected the growing awareness by senior managers of the importance attached to how people are managed. This is the 'coming of age' of HRM: the recognition that organizational effectiveness and performance outcomes are very dependent on the HR function of management, as discharged by line managers and specialists alike.

This chapter concentrates on three topics. First, we consider the evidence that HRM has an impact on organizational performance. Second, we look at the relationship between HR strategy and business strategy and, finally, we describe the practical processes for creating an HR strategy.

In the previous chapter we described how some of the different traditions of personnel management developed. The variability of organization cultures and the changing environment in which people are managed would lead us to believe that there is no common trend in the development of people management that applies to all organizations. No single model of HR management can meet all requirements. Nevertheless, research in the field rarely differentiates between different industry sectors, organization sizes and the different histories of organizations. The theoretical advances in HRM have been influential, and there are many forces for convergence, including common education and training systems for those entering HR management. In many countries, academic collaboration in research, the growth of multinationals with common policies and similarities in policy agendas as societies and economic systems converge are reflected in European Community rules and laws, in addition to the arrangements in other trade blocs covering laws and regulations. In what follows, therefore, we are making generalizations that will need to be interpreted into the cultures and societies where the organization operates.

HRM AND ORGANIZATIONAL PERFORMANCE

The strategic credentials of HRM depend on there being a consistent, explicable relationship between HR policies and organizational performance. There have been a number of attempts to describe the links between human resource management and organizational goals. The Harvard model of Beer and others (1985) characterizes human resource management as a system that links corporate objectives into societal needs and back into human resource activities. This framework, therefore, describes the integration between business and society. Perhaps the main weakness of this framework is its failure to show corporate or business strategy as a key determinant of human resource strategies and policies.

Other authors, such as Hendry and Pettigrew (1990), have attempted to show human resource management as a process where there are interconnected decisions deriving from the corporate or business strategy, often, for example, originating in the product life cycle stage or in decisions to move into new markets.

One of the difficulties faced by HR researchers was the absence of a theory that would connect HR activities to the purposes of organizations. At the end of the 1980s and into the 1990s, a resource based theory of the firm originating from Edith Penrose (1959) and Barney (1991) became increasingly popular.

The resource based view (RBV)

The resource based view of the firm is a theory which seeks to explain how the internal resources of the firm can provide the company with a competitive advantage. The main feature of the theory is that internal resources and organizational capabilities are firm characteristics which are a source of competitive advantage. These characteristics include, inter alia, the firm's employees, organizational capabilities such as the knowledge of employees, the systems and ways of learning and of interacting with customers, suppliers and logistics. These are ways of operating which are valuable, rare, inimitable, not or imperfectly substitutable (VRIN), which provide a source of competitive advantage. These capabilities could well be a barrier to entry for would-be competitors and, according to the theory, are the attributes that would make the firm highly competitive in its market.

The popularity of the RBV has grown amongst HR and strategy researchers as it gives an emphasis to the strategic importance of resourcing employees, developing competence, knowledge management, the systems and processes that sustain the culture and all the policies such as talent management, appraisal, development rewards and employment relationships which help to sustain organizational capability. HR systems create the human capital pool of capable people, so that they can sustain what Wright and others (2001) describe as 'strategically relevant behaviours'. The RBV also gives HR managers a language and analytical framework which is appropriate for the development of business strategy, and a focus for HR strategy.

The RBV suggests a skills and capability focus for the strategy, so that firms learn faster than their rivals, and protect and enlarge their intellectual capital. As a consequence, companies can generate a human capital advantage owing to the unique capabilities of their employees, as well as an organizational process advantage from their systems, history and ways of working. Mavrillac and Siesfield (1997) have suggested that 35 per cent of an institutional investor's valuation of a company is attributable to the company's non-financial capabilities, such as management credibility and expertise, innovativeness, ability to attract and retain talent, compensation practices, and the quality and execution of the company's business strategy.

Empirical studies of the effect of HR policies on business performance

There have been many research studies into how HR policies can improve performance at the unit or company level. Even F. W. Taylor's 1913 book *Scientific Management* reported on the beneficial results of piece work systems based on time and motion studies, when applied to manual labour. The socio-technical systems theory advocated in the 1950s in the UK presented possibilities for managers to intervene by working on the social system that operates along with the technical system, through better aligning the social and the technical system, especially at the work group or unit level, ideas which were adopted in companies such as Shell and Esso (Standard Oil).

Chapter 2 briefly mentions the attributes of work teams where there is a notion of high involvement work groups, using the energy of the group and their tacit and explicit knowledge and experience in a participative way to solve work problems, and to improve performance of the work group, as well as the technical system as a whole (for example, Appelbaum and others 2000). As discussed in Chapter 2, companies have long used motivation theory and job design principles where jobs are redesigned to be inherently motivational, and utilized group dynamics to improve problem-solving and output, including quality (Hackman, Brousseau and Weiss 1976). All of these studies gave backing to HR policies that could improve performance. However, line managers rather than HR specialists were usually and necessarily the advocates for introducing these management practices.

Interest in empirical studies on this topic was given a boost by Huselid's (1995) research, in which following four national surveys in the USA, it was claimed that results from over 2000 firms showed that small changes to HR systems could bring an increase in the market value of the firm over time. These and similar studies argued that individual HR practices are not sufficient to improve organizational performance; rather, what are often called 'bundles' of HR policies are required which would all need to be consistent in their support for a particular idea (e.g. improved team work). The practices are often in the recruitment, training, reward and appraisal policy areas. Arguably, there is already evidence of HR practitioners bundling up policies, for example in the cases of talent management and total rewards.

Paauwe's Framework

The study of what HR practices 'ought' to be applied to improve organizational performance has been fraught with methodological difficulties, since there are contextual affects, such as organization size, industry sector, type of occupation, trade union relationships, etc., as well as the national context, with its laws, traditions, customs and geographical features. All of these variations make generalization difficult.

Jaap Paauwe (2009) summarizes these problems, following Purcell and others (2003), as the 'black box problem'. The 'black box' is only an analogy, a way of describing the unknown context and the many variables and the interactive effects of them, which are intervening variables between HR policies and practices and the actual outcomes of a firm's performance.

Paauwe (1998) sets out a framework that seeks to identify the various interactions according to the state of knowledge on this topic. The significance of the model is that, instead of seeking a direct relationship between the HR strategies/policies and practices, and organizational performance HR outcomes such as labour turnover, recruitment quality and the like are seen as the intervening level, which are measurable, and can be shown in turn to relate to organizational outcomes. One of the potential weaknesses of the model, as acknowledged by Paauwe, is that the model suggests a linear movement, implying causality, whereas there might be a form of reverse causality. In short, financially successful businesses may not be successful because of HR policies and practices but, because they are financially successful, they can afford extensive HR policies and larger HR functions.

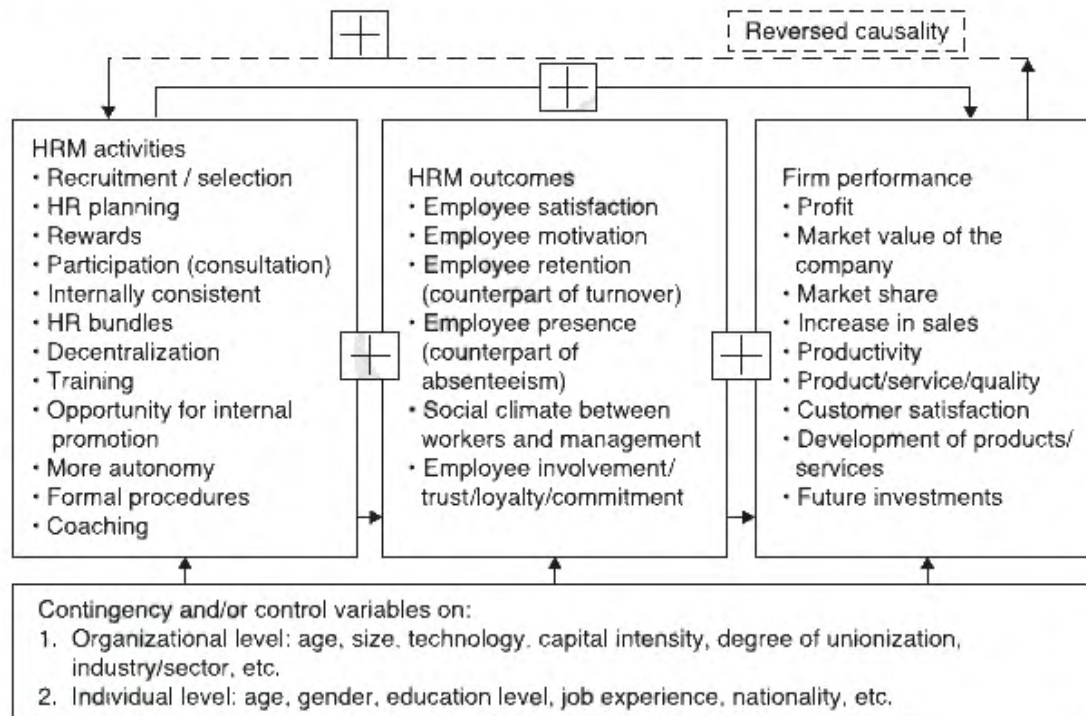


Figure 6.1 Framework of HRM outcomes

BUSINESS STRATEGY AND HR STRATEGY RELATIONSHIPS

Business strategy can be defined as: 'The attempt by those who control an organization to find ways to position their business/organization objectives so they can exploit the planning environment and maximize the future use of the capital and human assets' (after Johnson, Scholes and Whittington 2008).

This definition emphasizes the choices available in the search for competitive advantage, where to position the business, how to exploit the planning environment (that is, the opportunities for the company) and how to maximize the use of capital and human assets in the future. The assumption that employees are assets could be challenged, since clearly some employees might be liabilities.

Business strategy may be created in a variety of ways. Strategy may be imposed, from top down, usually from the main board of directors or the management board, who have accountability for the direction taken by the company, and for the performance of the business to shareholders and to other stakeholders. Public sector boards have a similar responsibility, being accountable as they are for the quality, efficiency, availability and costs of services to local councillors or to Parliament. Strategy may be 'emergent', deriving from actions and choices over time, and sometimes by immediate needs. This may be a form of 'logical incrementalism', where strategy is created step by step. These are two typical approaches, therefore: the more analytical and longer term, driven from the top, or the slower, more emergent approach, where the reconstruction of strategy is continuous, and where input may be from a variety of sources. We should also differentiate between intended and realized strategy. There are many companies where business strategy exists only in PowerPoint presentations, and where much is said about plans, but the ideas are not realized. In this latter case, the benefit to the company may come from the process of consultation, discussion and general agreement on the direction of the business going forward, rather than any specific plan with timelines and measurable objectives.

Research has shown the complexity of the relationships between corporate and human resource strategies. The term 'corporate strategy' is taken to mean the strategy pursued by a corporate board, which includes the portfolio of interests it wishes to acquire or retain, together with the financial ratios (such as return on capital employed, ROCE) the company uses to measure the corporate performance of its various businesses. Human resource strategies should not be confused with human resource or personnel policies. HR strategies are typically a series of policies and practices, overall programmes of action designed to meet business objectives (Tyson 1995). These policies may, for example, be a mixture of recruitment and reward policies, and job satisfaction/job design work, together with succession planning and career management, which are intended to ensure the company manages talent successfully.

Different types of 'fit' between HR and business strategy

By business strategy here we mean the strategy of a particular business or business unit, which has a strategy to achieve its objectives, in which there are people management aspects. There are three distinct types of fit:

- 1 The fit between the HR strategy and the business strategy. The purpose of the HR strategy is to give effect to the business strategy, and to ensure the strategic objectives of the business are achieved. This is the fundamental rationale for the HR function. If the function is not helping the business to operate its business model effectively, the very existence of the function would be questioned. This type of fit, therefore, is a priority.
- 2 The fit between the different policies and practices (the bundles of policies) in the HR strategy, so that there is an overall coherence in the HR objectives and the HR policies and practices. This enables a clear vision and a more easily understood direction to the strategy, helping to communicate and to embed the strategy with line managers and employees alike.
- 3 The fit of the HR strategy to the organizational context. We know that the economic, the social and technological context change rapidly. HR has to play a boundary spanning role at the boundary between the organization and its legal, economic, social and technological context. New employment laws, changes to labour markets and to rewards and benefits, social changes such as demographic shifts, attitudes towards marriage and to child care and care of the elderly exemplify strategic input to the HR strategy.

These three types of 'fit' are not mutually exclusive, but it seems likely that organizations will focus on different types of fit according to the situations they face. For example, the fit to the business strategy may not be so important when the organization is in the process of changing the strategy if, for example, it does not seem to be working. 'Fit' to ensure cohesion is less likely to be top priority when there is an intention to devolve policy creation to local business units in a conglomerate organization, or may be seen to be inappropriate because management does not want to retain the same approaches to reward in a company where to do so would encourage trade unions to bargain for a wider group of employees. Similarly, when the context is changing in significant ways, HR will wish to respond with new approaches, and the context becomes of superordinate significance.

Dynamic capabilities

It follows from the ideas in the RBV theory that companies are always striving to remain competitive by adopting management practices (including HRM practices), which maintain their competitive advantage, through their VRIN capabilities. Competitor organizations are also seeking to do so, and therefore firms must constantly seek to maintain their advantage, especially when the context changes. Just such a contextual change was initiated by the 2008/09 financial collapse, and the ensuing recession. The recession spread like wildfire from the USA and the UK to Europe and beyond. This became a time for economic and financial reform, and institutions were under the spotlight, leading to institutional reviews and changes. At the same time, societal, technological and organizational changes were also continuing, creating a 'perfect storm' for managers who were expected to adapt their organizations to change (Moyo 2011; Parry and Tyson 2014). This raises questions about the processes that can help organizations to change.

The idea had already been proposed that firms needed adaptive processes in order to remain competitive and the concept of 'dynamic capabilities' was attracting the interest of researchers. Dynamic capabilities were defined by Teece and others (1997: 516) as: 'The firm's ability to integrate, build and to reconfigure internal and external competences to address rapidly changing environments'.

Because of uncertainty in the economic, political and social environment the strategic planning horizon for most organizations was already shifting from five years down to three or even two years. Capital intensive businesses (such as manufacturing, power generation) will typically plan over a much longer period than labour intensive businesses (such as retail, financial services). Very often, there is a long-term statement of strategic intent, with a short-term plan for the next one or two years.

There are enormous international pressures for change owing to increased competition, and from rising customer expectations, globalization and customer demands for improved quality, technology innovations, demographic and social change. Organizations are changing as part of a dynamic aimed at making both private sector companies and the public sector more responsive, with a strong capability to change. Acquisitions, joint ventures, mergers and demergers are producing a great variety of organization structures, including network and federal structures. This organic approach means organizations are more fragmented, and less inclined to favour stability, rigidity and rationalistic formal relationships, as we described in Chapter 3.

The capabilities that are thought to be necessary for firms in the dynamic environment we experience are described by Bowman and Ambrosini (2003) as those which aid in the tasks of reconfiguring organizations (for example reorganizing organization structures to be more responsive to customer needs), leveraging (for example ensuring best practice from one unit is adopted at other similar business units), improving learning systems (for example by ensuring learning is a continuous process and is adopted in all parts of the business), creative integration (for example looking for synergies across the business, and investing in new ideas or products based on the new insights this brings). Dynamic capabilities could be summarized as organizational attributes:

- change capability
- learning capability
- innovative capability.

Firm processes which derive from the capabilities and impact on firm performance are:

- integration
- review
- reconfiguring
- renewal.

In their summary of the literature on dynamic capabilities, Ambrosini and Bowman (2009) point out that the literature differentiates between the dynamic capabilities themselves and how they are enabled in the firm, i.e. how these capabilities are brought into existence and sustained in the firm, which is seen as a managerial task.

Human resource strategies which seek to put in place processes are 'ways of working' akin to the old ideas of 'stratagems' or ploys to achieve particular ends, rather than the ends themselves. For example, we can conceive of organizational cultural strategies that aim to set up a style of working in support of certain values. These processes themselves are typical of the kinds of process advantages that are referred to in the RBV. There is often an *ethos* in a company or partnership that competitors find difficulty imitating, for example in John Lewis retail stores in the UK, in McDonalds restaurants around the world, in Rolls Royce aero engine manufacture and in Mercedes Benz car manufacturing.

Fit between business and human resource strategies can be achieved not only through policies designed to drive the business strategy forward, but also by adopting a style of working, or an organization culture.

In a knowledge based society, organizations need to be able to take forward the ideas and new products from the people who work within the organization, and to adapt quickly and take in ideas from the whole society. For example, whilst the research of Watson and Crick on DNA resulted in the genome project, it is the adoption of these ideas within the pharmaceutical and related industries that eventually produces advances for society. Cell phones, tablet computers and all the latest electronic and telecommunications technology derive from inventiveness and the conversion processes into products and services.

THE AGILE ORGANIZATION APPROACH

One capability all organizations wish to develop is the capacity to manage change well and naturally and to be adaptable to the fast moving markets where they operate. As the chief protagonists (Dyer and Shafer 2003: 7) of this approach argue: 'Dynamic organisations compete through marketplace agility. Marketplace agility requires that employees at all levels engage in proactive, adaptive and generative behaviours, bolstered by a supportive mindset.'

The challenge is to find ways of changing organizations in a responsive way, so that instead of seeing change management as a specific campaign to move an organization from one position to another, the objective is to create an internal dynamism whereby organizations adjust at all levels to new circumstances and conditions as required. Agile organizations are 'self-organising systems', which have 'the capability to be infinitely adaptable without having to change' (Dyer and Shafer 1999).

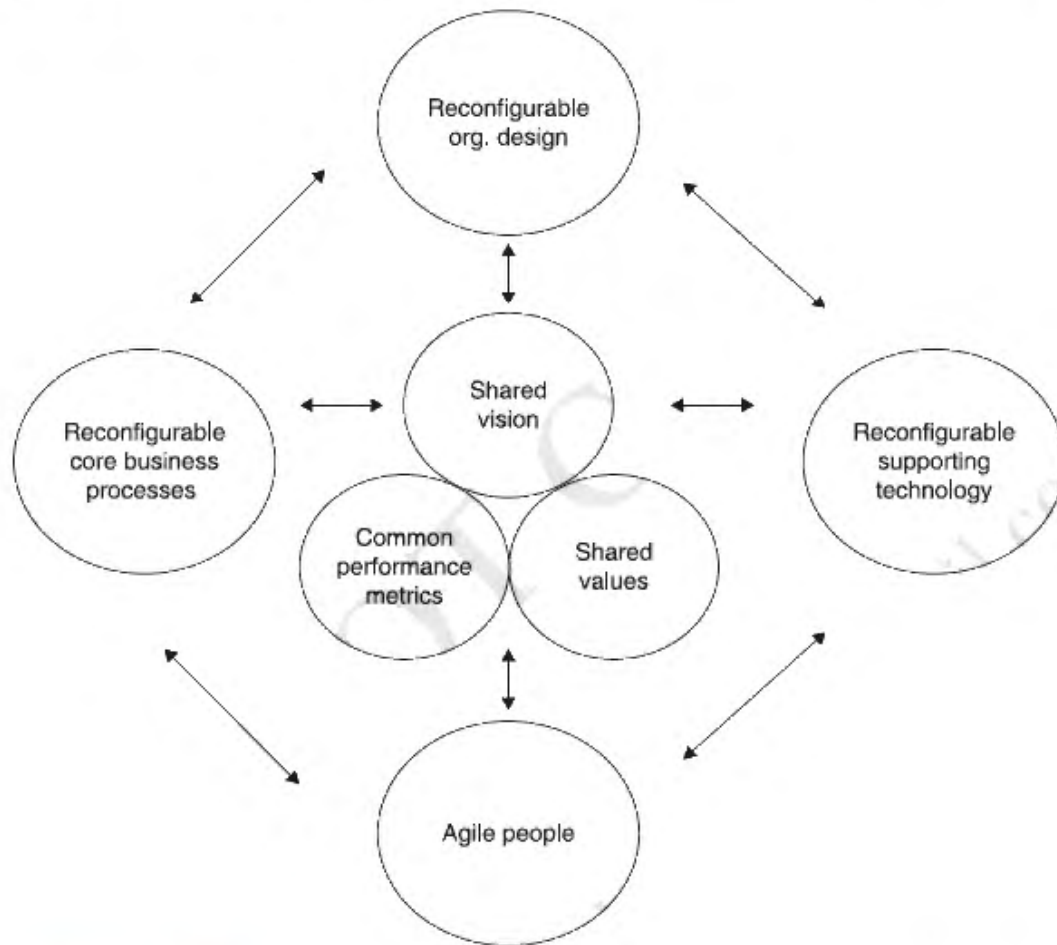


Figure 6.2 Agile organizational capability

Source: Dyer L. and Shafer R. A. (1999). Creating organisational agility: Implications for strategic human resource management in eds P. Wright, L. Dyer, J. Boudreau and G. Milkovich, *Research in Personnel and Human Resource Management, Supplement 4, Strategic Human Resource Management in the Twenty-first Century*. Stamford, CT: JAI Press, 145-74.

The paradox is that, in order to change, some aspects of organizational existence must remain the same. Hence, at the heart of the agile organization are a shared vision and shared values, together with a general understanding of performance metrics. Where organizational agility exists, this enables organization redesign, and the reconfiguration of technology and business processes to occur, and to support agility in employees who can rely upon a core of high quality staff. There are advantages in the organization renewal context for this approach, which promises a duality in strategy so that it is possible to optimize adaptability and efficiency simultaneously, as demonstrated by the strategic approach taken by companies such as GlaxoSmithKline. The central feature of all these examples is the organization culture, which expects change to be a norm and to be constant. This type of culture has been described as a 'gazelle' culture. The characteristic features of such a culture are informality and networking, with only the budget as a powerful constant which is immutable, strong values associated with flexibility and a market orientation, combined with a 'can do' philosophy and strong loyalty to the products and to the company. This is a very focused culture; there is a challenging atmosphere, where intellect and flair are valued.

The culture thus described is found in companies with a strong marketing orientation such as the French/international cosmetics, hair care and skin care company, L'Oréal. The brands and the brand values dominate the thinking, there is extensive innovation and new ideas frequently come from the staff. People move around the company and undertake a variety of roles in their careers. The organization as a whole seeks to learn constantly about the work and to improve the company's routines through feedback. HR staff in such a culture are expected to spend much of their time on development and career management, and to work closely with general managers as business partners.

Agility could be said to be driven by the RBV. There are three specific competencies that need to be fostered: reading the market, mobilizing a rapid response and embedding organizational learning. Learning is developed to the point where all are involved in generative double loop learning, learning about the processes as well as the content. This helps to eliminate defensive routines.

We can see that the idea of organizational agility as a self-adjusting system is consistent with the work on dynamic capabilities.

In this model, HR should be building the dynamic capabilities into the firm strategy, which will enable the firm processes of integration, review, reconfiguring and renewal, which is the platform for organizational performance and for creating and maintaining a competitive advantage.

THE PROCESSES FOR CREATING AN HR STRATEGY

Where is HR strategy created?

The answer to the question of where HR strategy should be defined and produced depends upon both the organization structure and on the involvement of stakeholders in the process. Organizational structure variables, such as whether or not there is a transnational structure, influence the degree of complexity required in the process, as would divisional structures. Industry sector, as mentioned earlier, affects the planning time horizon. Differences in control and budget systems between public sector and private sector organizations also influence the planning process. Often, the strategy needs to be designed to meet mixed requirements from seeking to fit the needs of a number of managers in different parts of the organization (see Chapter 3) and, consequently, only the overall strategy captures the totality of all the HR activities in the years ahead. The strategy could deal with the following allocation of responsibilities:

Head office: HR planning, organization structure, organization development, due diligence, senior level recruitment, promotion development and rewards.

Division: manager recruitment, development, rewards/pay structures, HR policy, the broad terms and minimum standards, communication in the division.

Business unit: employee relations, policy implementation, recruitment and selection, training.

The fit to the business plan

Irrespective of the level at which the HR function is located or the unit for which the function has responsibility, the starting point for the HR strategy is the business plan, again irrespective of its format. The HR director or the specialist HR strategy unit needs to tease out the key issues, for example looking at the priorities and the people management implications of the business model. The business model is the structure of the product or service flows of work and information, covering issues such as how the business operates to deliver its service or to manufacture its product and to generate sales/revenue. Here, the issue to explore is how those involved expect the existing model to change over the coming planning period? The business strategy may have already articulated important potential contributions from HR to the achievement of the business objectives.

As we described earlier, there are different types of fit, including a fit to the business plan, which might be both a business unit plan and a divisional plan, and a broader corporate plan, containing items such as proposed mergers or acquisitions and potential divestments.

HR interventions

However, the HR function legitimately has its own agenda. There may be issues related to employee motivation and involvement, levels of job satisfaction, communications and employee perceptions held of the organization, organization culture, employment relationships, reward structures and the external labour market changes, new contractual forms and labour costs, the types of benefits including pensions and services to staff, which have significant cost implications for the business. New employment laws sometimes require organization-wide responses, for example changes to laws about discrimination, such as age discrimination legislation, which affect not only recruitment, but also development, rewards and benefits such as pension plans. In addition, the HR function is likely to be involved with senior line management in programmes to improve efficiency and to undertake development and training initiatives.

One of the competency areas that HR specialists need to develop is how to make effective interventions, such as those which are concerned with change management, using for example organization development techniques and organizational surveys to determine what is happening in the organization and why?

The improvements in computing which allow businesses to use large scale data sets such as attitude data from an organization-wide survey in conjunction with other data sources such as absence statistics and data on stress or other occupational health information, for example, using a 'private' cloud, provides HR with powerful tools to ensure that people management issues are on the strategic agenda of the organization. This raises important questions about the extent to which employees are to be consulted and involved in HR strategy creation.

Involving employees is not a new approach. A good example of this method was when a European institution, employing nationals of all Member States, found itself in difficulty with its own staff, who had set up an in-house trade union, encompassing all levels of staff. The terms and conditions of employment were extremely generous, and there were considerable difficulties experienced when trying to put new appraisal and career management policies in place. The solution adopted was to arrange an organization-wide survey in which the in-house union had an involvement, and where the results were all fed back to the staff by the president of the organization. By tackling the dissatisfactions alongside the need to change as a whole, new policies were implemented with the full agreement of the staff and their representatives.

HR strategies can only be created and agreed where the often tacit issues about the power of the different organization leaders have been sufficiently addressed for action to proceed. Whether or not there is HR recognition at main board level, there is likely to be a dominant coalition or a powerful network of senior managers who 'call the shots'. Much will be down to the personal credibility and the track record of the HR director. Successful HR directors will have established a good working relationship with the dominant coalition as a natural part of their working relationships.

The HR strategic plan

The following documentation is commonly found in organizations with an HR strategy:

- HR plan, separate – showing all the HR initiatives, with targets and milestones
- a business plan, with consequential HR initiatives and strategies integrated
- an operational plan, perhaps designed using an existing framework, such as the EFQM
- a balanced scorecard type of plan.

The more fully integrated plans imply a joint approach with line management ownership of the plan, alongside HR.

For the last few years there has been an interest in the idea of the 'balanced scorecard', originally from Kaplan and Norton's 1996 book of that name. This takes the idea of linking value creation with the notion of stakeholders. The RBV is also drawn upon in this framework, which sees capabilities, learning and growth as the foundation upon which internal business processes are based, and that these processes should serve the customer's needs, which produce financial performance.

Simple frameworks such as lists of business objectives and the HR implications (expressed as programmes of work, with key performance indicators (KPIs) milestones, and outcome performance measures) are sufficient. There are more elaborate models such as the EFQM framework, which is used in a quality competition, with points awarded by peer group assessors, resulting in Europe-wide winners. This recognizes that there are different but interlinked groups of people involved in strategy achievement – including suppliers, customers and shareholders, as well as employees (see Figure 6.3).

Stakeholder models of HR strategy show the KPIs for each stakeholder in regard to each HR objective or programme, as illustrated by the example from a large retail mail-order business.

Stakeholders are looming in organizational thinking for several reasons:

- 1 Shareholder power is more apparent because of the free movement of capital, through their non-executive director representatives on boards and the growing demand for remuneration committees to exercise more control over top pay, and for more transparency and disclosure to produce less generous top pay rewards. Public sector shareholders, the taxpayers, are even more likely to be concerned about strategy.
- 2 There is a demand for more transparency generally, and for more accountability by companies to their customers and to the public.
- 3 The requirement for the employee voice to be heard as a means to improving organizational effectiveness, means explicit stakeholder relationships with clear KPIs are needed.
- 4 The notion is gaining ground that organizations have to be seen to be socially responsible to satisfy 'green' investors, local communities and central government, and to retain their employees' commitment. All these reasons argue for a stakeholder place in the corporate objectives, with KPIs for each stakeholder.

THE PROCESS FOR CREATING HR STRATEGIES: A 10 POINT PLAN

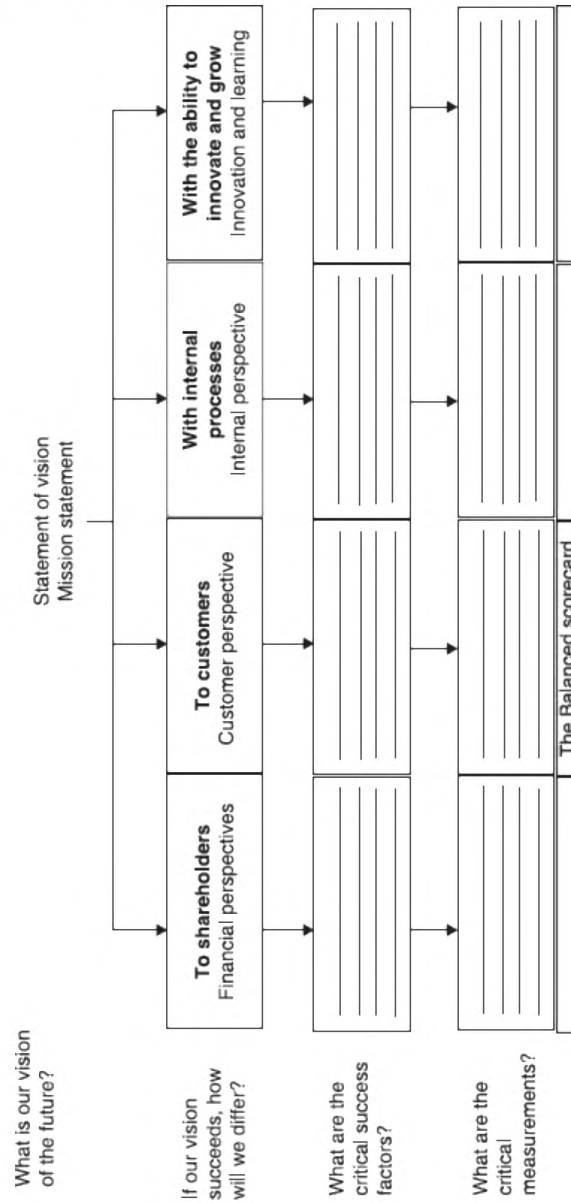


Figure 6.3 Linking measurements to strategy

- 1 Agree corporate vision/mission/values.
- 2 Establish HR vision or philosophy of management.
- 3 Produce business objectives and business strategy (maybe in the form of KPIs).
- 4 Analyse what is happening inside the organization.
- 5 Agree HR objectives which fit the business objectives.
- 6 HR proposes long term HR objectives which support the mission/values.
- 7 Agree HR strategies for achieving 5 and 6 above, including policy changes.
- 8 Set measures of achievement.
- 9 Agree an outline timetable with HR milestones and responsibilities for each element.
- 10 Set out implementation strategies, feedback, monitoring and evaluation.

There is no one way to write HR strategies or business plans. They will usually consist of a number of people management objectives (the achievement of which will be measurable), together with the policies and actions which are thought necessary to achieve them. The statement may also include express reference to any assumptions made (for example about the availability of budget, or if a sales forecast is to be met, etc.). For example, a business objective to which HR might contribute might appear as set out in Figures 6.4 and 6.5.

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<i>Business Objective</i>	<i>HR Strategy</i>
<p>Improve efficiency in paint spraying department by reducing overall labour costs by 3% p.a, whilst maintaining current levels of output and quality</p>	<p>Reduce labour turnover from 20% p.a, to 8% p.a, (thus reducing overtime, training costs and recruitment costs) by</p> <ol style="list-style-type: none"> 1. Improving selection using specially designed selection test 2. Providing realistic job previews for candidates 3. Improving induction process (new course, involving supervisors)

Figure 6.4 Example of a business objective to which HR might contribute

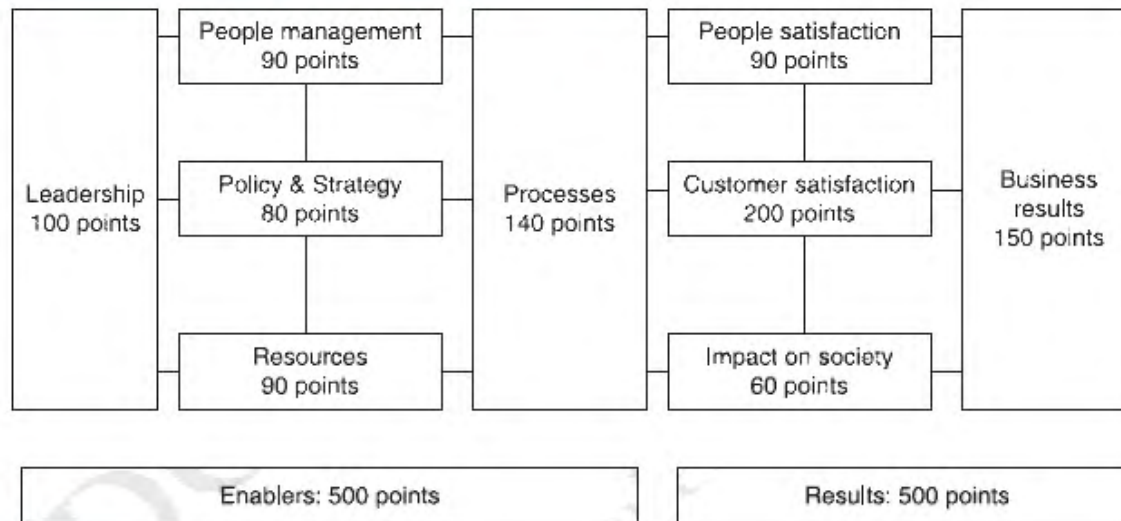


Figure 6.5 EFQM model

There should be timescales and cost/benefits associated with this strategy. Any assumptions made should be stated explicitly. For example, efficiency savings anticipated as a consequence of redundancies.

Even if the HR strategy is fully written up with the business strategy there are advantages in identifying separately the HR policies to see if they are consistent. The grouping of policies together can have a significant impact on performance as we discussed earlier.

Figure 6.6 shows how HR strategy is typically dealt with at different levels in a divisional structured company.

Strategic planning processes require a cascade of objectives, which typically follow a series of iterations, starting with the company vision, or mission, down to an implementation plan, but a review at each stage, shown by the feedback arrows on the left side, as set out in Figure 6.7.

The role of HRM in creating an HR strategy is to work at the heart of the strategic decision-making in the organization. This is an ideal opportunity for HR managers to adopt the business partner role and to exercise the skills of the internal consultant. As discussed in the previous chapter, analytical skills and organizational behaviour knowledge will need to be combined with an understanding of the business, financial acumen, and an awareness of the many different fields such as corporate taxation, operations management, financial reporting, accounting, corporate social responsibility and marketing.

What issues are dealt with at different levels?

Typically

Head Office	<ul style="list-style-type: none"> HR strategy Top people's talent management High potential's development Management development oversight Senior level rewards PR Due diligence/corporate governance Appeals from divisional level Oversight of legal issues
Division	<ul style="list-style-type: none"> Input to HR strategy Management recruitment Manager development/promotion of unit managers Rewards/pay structures Policy – broad terms and minimum standards Divisional oversight of performance management Communications
Business Unit	<ul style="list-style-type: none"> Industrial relations Policy implementation Recruitment/selection Training Unit level performance management Junior promotion/recruitment Unit level health, safety, welfare.

Figure 6.6 Creating HR strategies

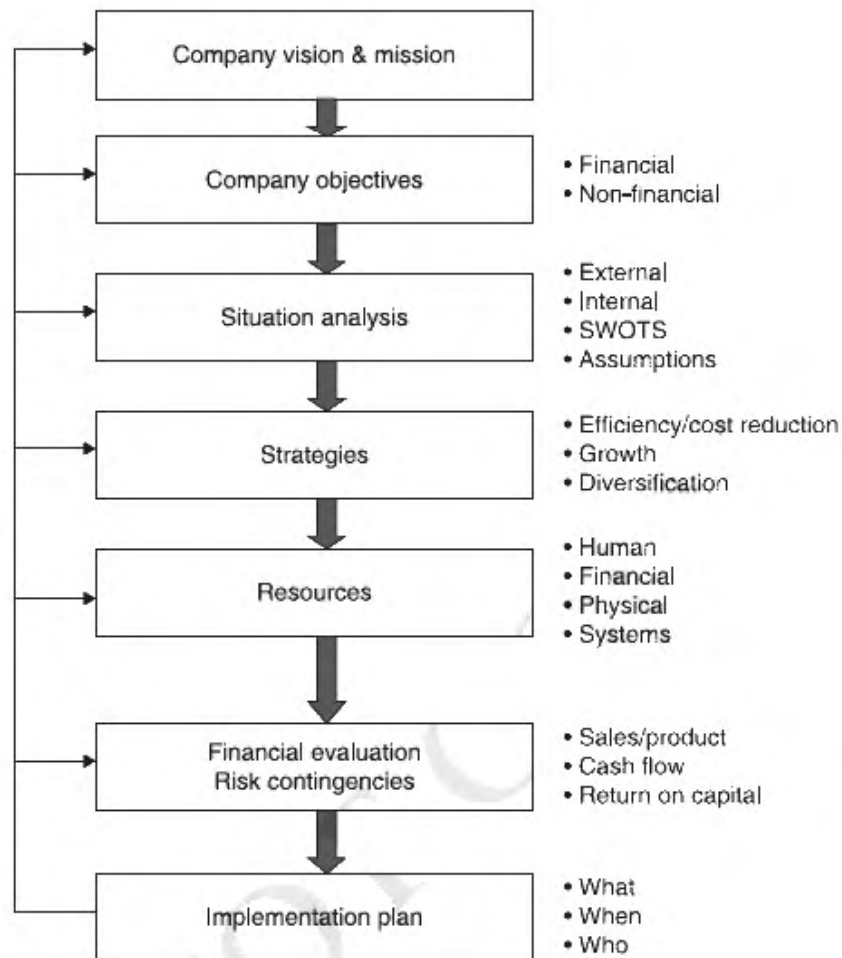


Figure 6.7 Strategic planning processes

In the following chapter a more detailed discussion covers the topic of workforce planning. These activities are essential first steps in the detailed HR plans which flow from the HR strategy.

AUDITING THE HR STRATEGY (SEE THE COMPANION WEBSITE)

There is a requirement when creating or updating the strategy to know the questions to ask and the kinds of data to collect, as well as how to write up the strategy. The following 10 point plan is an audit instrument for this purpose.

Readers are recommended to work through the questions, using appropriate chapters in the book for a guide in the process and to consult the companion website.

The main headings of the 10 point plan can be used as a prompt to audit whether you have HR strategy development or review needs, and what HR strategies you should be putting in place.

1. Agree corporate, mission/vision/values

- 1 Do you have a mission/vision/values statement? (Whose values are they?)
- 2 What do your customers think of the statement?
- 3 Is it remembered by employees?
- 4 Do members of the organization care about the mission/vision/values?
- 5 Is it clear, up-to-date and representative of what your organization seeks?
- 6 If you do not have a statement of mission/vision/values do you want one?
- 7 What do your key stakeholders think about your mission/vision/values?
- 8 Are there specific aspects of the mission/vision/values which affect or should affect the HR strategy?

2. Establish an HR vision/mission/values/philosophy of management

- 1 Do you have a vision for the HR function?
- 2 Do you want your employees/potential employees to identify with your employer brand?
- 3 What are the characteristics of your employer brand as seen by employees?
- 4 What should be the employee experience of working for you?

3. Produce business objectives and business strategy

- 1 Where is the business/organization strategy created (group, or division, or company level or at other levels)?
- 2 What is your role in creating the business/organization strategy (are you a member of the board/committee responsible for this)?
- 3 How are the business objectives expressed (e.g. key performance indicators, balanced scorecard, etc.)?
- 4 Is there a written business strategy/plan showing how the objectives are to be achieved.
- 5 What is your role in creating the HR strategy (working with the top team, or producing first draft yourself, or as part of a planning unit, etc.)?
- 6 Are the HR implications of the business plan clearly spelt out?
- 7 Do you have to infer the HR implications, separately from the business plan?
- 8 Are there significant changes to organization structure, and/or location forecast?
- 9 Are there predicted changes to the workforce, e.g. expansion, contraction, changes to skill/knowledge.
- 10 Are there to be improvements to productivity, or changes to working methods, systems/technologies?

4. What is happening inside the organization?

- 1 What are the significant changes to internal labour markets? (i.e. labour supply), e.g. age profiles, labour turnover, absenteeism, productivity, skill levels, qualifications, experience levels, supervisory and management skills, succession plans.
- 2 What are recent attitude survey results?
- 3 Are there any issues revealed in grievances, industrial disputes, discipline cases, appraisal information?
- 4 Are there effects known or likely to become important for existing policies from forthcoming legislation (e.g. age discrimination)?

5. Agree HR objectives which fit business objectives

- 1 What timeframe do the business objectives assume or mean for HR objectives?
- 2 Do these affect strategically significant groups of employees?
- 3 Are the business objectives reasonable, and achievable in HR terms?
- 4 Can measurable HR objectives be decided which will satisfy the various stakeholders?
- 5 What are the effects on costs and the quantifiable benefits to come from the objectives being achieved?
- 6 Do these objectives affect the coherence of the HR vision/corporate values, employer brand etc?

6. HR proposes long term HR objectives

- 1 What HR policy changes are needed to deliver the HR vision?
- 2 What are the cost: benefits of these objectives?
- 3 Auditing of existing HR policies e.g. recruitment, reward, development; are they delivering value for money, are they achieving the desired objectives?
- 4 What can be done to make the vision coherent, clear, communicated?

7. HR strategies agreed for achieving 5 and 6 above

- 1 Bring the data together from 4, 5 and 6.
- 2 What strategies are needed to achieve the business objectives and to deal with existing issues?
- 3 What changes to HR policies and practices will be needed?
- 4 How will these be introduced (e.g. consultation, training, communication, etc.)?

8. Set measures for achievement

- 1 What practical, measurable targets can be set?
- 2 Who is responsible for achieving these – project groups, etc.?
- 3 What procedures will be put in place in order to make this measurement possible?

9. Agree an outline timetable

- 1 What timeframe is to be used for each strategy?
- 2 How do these strategies interact and what pressures on resources (managerial/HR, etc.) will be imposed by the timetable?
- 3 Who are the members of the HR department to be involved?
- 4 What resources are required in HR or elsewhere to achieve policy changes?
- 5 What HR systems/technology changes are required?

10. Implementation strategies, feedback, monitoring

- 1 How will the various projects be monitored and reported to TU, workforce, to senior management.
- 2 What review procedures are in place? (frequency, who is involved, etc.).
- 3 Are there to be evaluation projects to test the assumptions made in the strategies?
- 4 Are there to be major change strategies? If so, is this to be handled as OD?
- 5 How much employee involvement is to be encouraged in strategy implementation?
- 6 Are there to be action/research/collaborative change methods?

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