STRATEGIC HUMAN RESOURCE MANAGEMENT

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1 Strategic Human Resource Management: An Introduction

OBJECTIVES

After studying this chapter, you will be able to:

- explain the meaning of strategic human resource management (SHRM) and differentiate it from traditional human resource management (HRM)
- discuss the significance of viewing human resources as 'investment' and a source of sustainable competitive advantage for organizations
- acquire an overview of the conceptual framework of SHRM
- explain the linkage between HR strategy and business strategy
- understand different theoretical approaches to SHRM
- appreciate the Indian approach to the concept of HRM and its linkage with organizational goals

INTRODUCTION

Since the 1990s, there has been an increased focus on the strategic role of human resource management (HRM). The strategic approach to HRM refers to the relationship between human resource (HR) practices and the strategic objectives, that is, the long-term goals of the organization. With the increasing recognition of the potential of human resources in providing competitive advantage, organizations have begun to consider employees as valuable 'assets' or 'investments'. This view has become more significant in today's knowledge economy that depends on the skill and knowledge of the workforce. From being a routine, administrative, and reactive function, the HR function today has evolved to being proactive and strategic.

The past decade has seen HR researchers and practitioners directing their attention to important questions. For instance, what is HR strategy? What factors determine whether an organization adopts a strategic approach to HRM? Is there a relationship between the characteristics of the organization and the adoption of a particular strategic human resource management (SHRM) approach? Does an organization achieve competitive advantage by linking HR strategy with business strategy?

The present chapter explores SHRM, as an approach to the management of human resources that views people as assets. The criteria for understanding the contribution of human resources to the competitive advantage of the organization are reviewed. The factors that affect the degree to which an organization is 'investment oriented' in its management of human resources are also discussed. The chapter also presents the conceptual framework explaining the 'strategic fit' between business strategy and HR strategy and highlights the theoretical perspectives on SHRM. Finally, the chapter addresses the Indian applications to understanding the management of human resources.

HUMAN RESOURCE STRATEGY

Human resources refer to the people who work in an organization. The term seeks to communicate the belief that the employees of an organization are not just people, but valuable resources that help an organization to achieve its objectives. People are central to organizations. The financial capital, technology, or processes of the organization, by themselves, cannot accomplish organizational goals. These resources depend on human resources for their effective and efficient utilization. At the same time, human resources also need to be managed. Figure 1.1 depicts the centrality of human resources for the achievement of organizational goals.

Human resource management (HRM) is concerned with a holistic approach towards the management of people working in an organization, who contribute to the achievement of organizational objectives. Human resource management ensures the most effective and efficient use of human talent for accomplishing the goals of an organization. In order to successfully utilize and manage the human resource of an organization to achieve organizational objectives, each organization needs to develop a well-defined HR strategy. Chandler (1962) defined 'strategy' as the 'determination of the long term goals and objectives of an organization, and the allocation of resources necessary for carrying out these goals'.

Like strategy, HR strategy is concerned with two key elements (Richardson and Thompson, 1999):

1. Determining the strategic objectives (What goals is the strategy supposed to achieve? For example, the goals may be high productivity, reduced accidents, etc.).

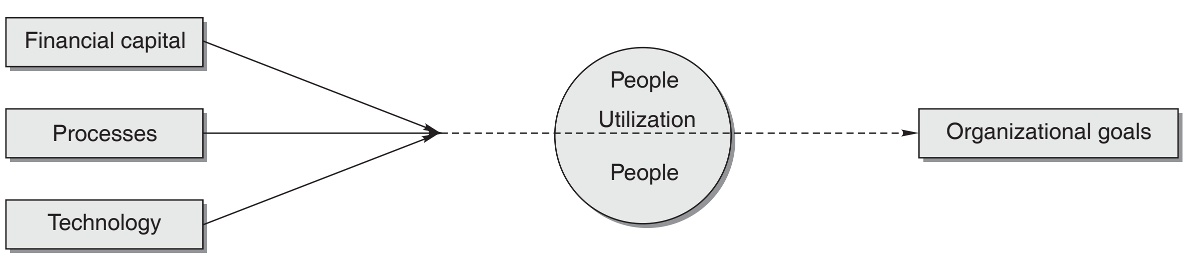

Figure 1.1: Centrality of Human Resources for Organizational Goal Achievement

2. Developing a plan of action (How will the human resources be organized and allocated to accomplish the objectives of the organization?).

Human resource strategy, therefore, involves the planned and effective use of human resources by an organization to help it to gain or maintain an edge over its competitors. This definition indicates the central role that the people of the organization play in the organizational pursuit of a competitive advantage. An organization is said to achieve *competitive advantage* when it is able to gain and maintain an edge over its competitors by differentiating its products or services from those of its competitors, thereby increasing its market share. The centrality of people is most evident in knowledge-based organizations, such as software and information services, where the difference between success and failure depends on the skills and knowledge of its workforce rather than on the level of technology.

Strategic Human Resource Management: Definition and Components

Given the increasingly significant role of human resources in an organization, HRM has become strategic in nature. Strategic human resource management (SHRM) is concerned with the relationship between HRM and strategic management in an organization. Strategic human resource management is an approach which relates to decisions about the nature of employment relationship, recruitment, training, development, performance management, reward, and employee relations. Wright and McMahan (1992) defined SHRM as 'the pattern of planned human resource deployment and activities intended to enable the firm to achieve its goals'. This definition implies the following four components of SHRM (Figure 1.2):

1. It focuses on an organization's *human resources* (people) as the primary source of competitive advantage of the organization.
2. The *activities* highlight the HR programmes, policies, and practices as the means through which the people of the organization can be deployed to gain competitive advantage.
3. The *pattern* and *plan* imply that there is a fit between HR strategy and the organization's business strategy (*vertical fit*) and between all of the HR activities (*horizontal fit*).
4. The people, practices, and planned pattern are all purposeful, that is, directed towards the achievement of the goals of the organization.

On the whole, SHRM is concerned with people issues and practices that affect or are affected by the strategic plan of the organization. The critical issues facing an organization in the contemporary environment are mainly human issues, such as ensuring the availability of people, retaining, motivating, and developing these resources. To stay ahead of its competitors, an organization will continuously look for ways to gain an edge over others. Today, an organization competes less on products or markets, and more on people.

In the 21st century, there is increasing recognition among management thinkers and practitioners of the potential of human capital resources in providing competitive advantage. Two organizations using the same technology may show different levels of performance. What leads to this difference? The quality of human resources and their contribution to the organization determine the performance, and therefore, the success of the organization.

An organization uses a combination of several resources—tangible and intangible—in the pursuit of its objectives. These resources can be grouped into three basic types:

(a) physical capital resources—the plant, equipment, and finances
(b) organizational capital resources—the organization's structure planning, HR systems, history, and organizational culture

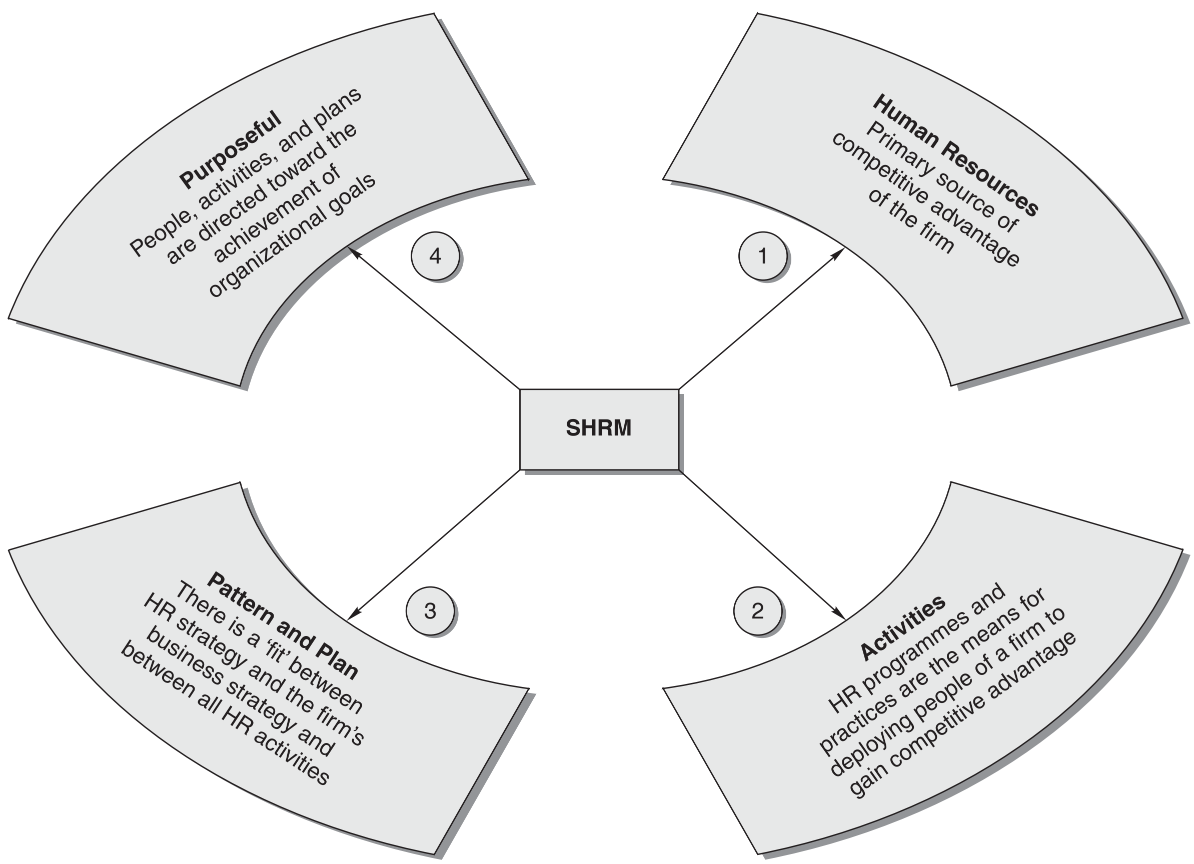

Figure 1.2: Four Components of SHRM

(c) human capital resources—the skills, knowledge, judgement, and intelligence of the organization's employees

An organization may have huge capital and the most advanced machinery, but if it does not have capable, motivated, and high performing employees, the organization is not likely to demonstrate sustained levels of high performance. Since all physical and capital resources depend on people for their efficient use, maintenance, and management, the quality of the *people* of an organization is important in attaining competitive advantage.

HUMAN RESOURCES AS ASSETS

Of all the resources available to an organization, human resources are considered the most important for attaining the objectives of the organization. Hence, employees are now variously referred to as human capital, human assets, or human resources.

Human Capital

The term *capital* refers to wealth, money, or property. Capital is used to generate more wealth for an organization. When employees are referred to as human capital, it is implied that they are the resources that generate more 'wealth'. *Human capital* refers to the collective skills and knowledge of the total workforce of an organization that hold economic value for the organization. It enhances the productivity and profitability of the organization. In order to ensure that human capital generates more wealth as well as leads to value creation, it is important that human capital is utilized and managed efficiently and effectively. When the value of people is enhanced, it enhances the value of the organization. For example, when an organization provides opportunities for development and an environment conducive to performance, it will result in higher levels of retention. This aspect is explored in more detail in a later chapter of the book.

Today, it is possible for any organization to buy machinery and equipment comparable to that available in leading global organizations. Therefore, machinery or finance, and access to these resources, are no longer the factors that differentiate between organizational success or failure. Rather, it is the ability to use these tangible resources (money, machinery, etc.) that serves as the distinguishing factor. An organization that holds on to and builds on the skills, competencies, and knowledge of its workforce can bounce back into business rather quickly, even if it loses all of its equipment. However, an organization that loses its workforce but holds on to its tangible assets has little hope of recovering.

The emphasis on human resources has become all the more important as there is a marked movement towards a knowledge-based economy and organizations. The *knowledge economy* refers to those jobs, organizations, and industries in which the skills, knowledge, and capabilities of people, rather than the capabilities of machines, technology, etc., determine the competitive advantage. (Lengnick-Hall and Lengnick-Hall, 2003)

Along with physical and capital resources, the human capital constitutes the decisive capability of an organization since it prepares the organization to adapt in future. The use of new and improved technology and lowering of overhead costs are the obvious methods of attaining competitive advantage that can be used by an organization. The quality of human capital of an organization and its efficient management can also contribute to higher levels of productivity and lower costs. In fact, human capital helps the organization attain sustained competitive advantage in a manner that is neither too obvious, nor accessible, to all organizations.

This truism has come to be recognized by many organizations over the last two decades. Human resources are viewed as the most important asset of an organization—an asset that creates value for the organization.

An *asset* is something that is owned and has an exchange value. Today, human resources are considered as assets of an organization. In the traditional sense, however, human resources can 'walk' and are not owned by the organization, unlike physical assets. Human assets may walk over to other organizations, taking with them their accumulated knowledge, skills, and experience.

The value of people as human assets is the sum of an individual's knowledge, experience, skills, and competencies that are matched with the individual's job. The value of people is dynamic, not static. It grows with time as the individual gains experience, and as organizations invest in the training and development of people. However, under certain conditions, the value of human assets can also depreciate. Some of these conditions are as follows:

- placing an individual in a job that does not fit with the individual's skills, competencies, etc.
- an individual performing below his/her potential owing to reduced motivation and satisfaction

Thus, the manner in which human resources are managed determines their value as assets. Human assets, unlike physical and capital assets, cannot be duplicated, and therefore, become the competitive advantage of an organization. This quality of 'non-duplication' of human assets has gained greater significance in the knowledge economy, where organizations rely more on conceptual and knowledge-based skills rather than manual skills. The information technology (IT) revolution has brought about a situation in which knowledge workers are replacing blue-collar workers. In such a scenario, an organization needs to invest more in human assets in order to gain a competitive

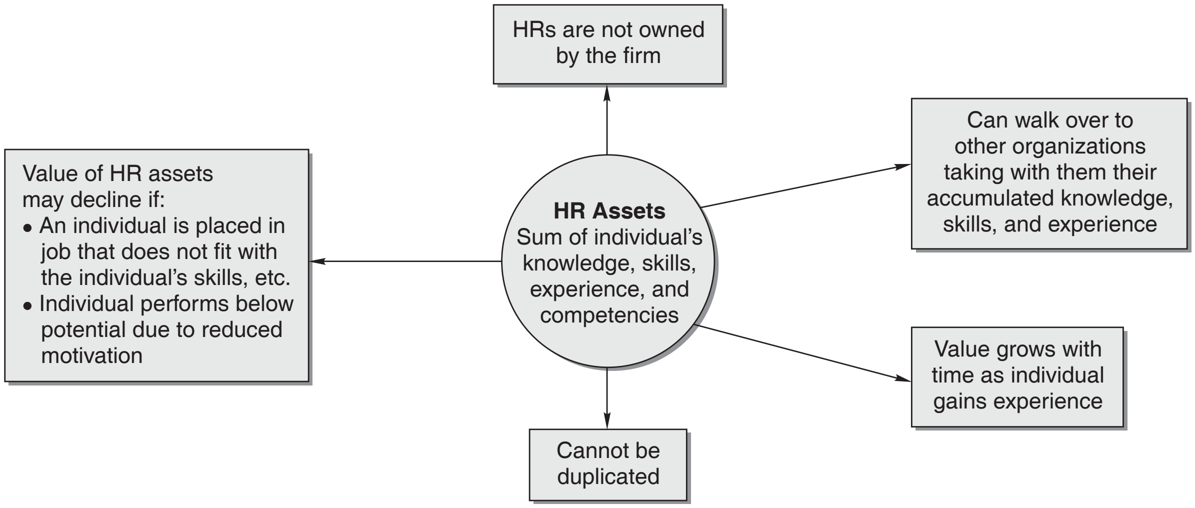

Figure 1.3: Main Features of Human Resource Assets

advantage over other organizations. Figure 1.3 provides an overview of the main features of human resource assets.

The VRIO Framework

The recognition of the potential of the human assets of organizations in providing competitive advantage has prompted scholars to apply the resource-based view (RBV) proposed by Barney (1991) to understand the role of human resources in organizations. According to the RBV, human resources contribute to a sustained competitive advantage for an organization when they are valuable, non-tradable, non-imitable, and non-sustainable.

Popularly referred to as the VRIO framework, the resource-based view of an organization determines the value of human resources for the organization on the basis of four criteria—*value*, *rareness*, *imitability*, and *organization* (VRIO). People can become a source of sustained competitive advantage for an organization if these four criteria are met. The VRIO framework is presented in Figure 1.4.

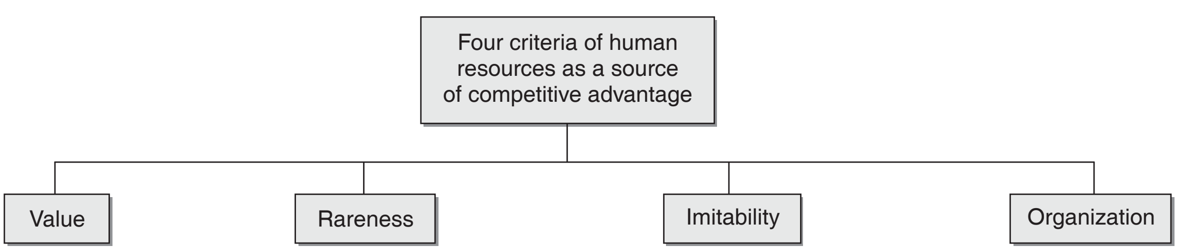

Figure 1.4: The VRIO Framework

Value Value is created either by decreasing the cost of product/service, or by providing a unique product/service to the customer that allows the organization to charge a premium price, or by a combination of the two. Human resources can create value and hence become a source of competitive advantage by either decreasing costs or increasing revenues, or both. Thus, people can contribute to the efficiency of the organization. Human resource practices can be designed to enhance employee commitment, thereby impacting the organization's revenues positively. Empowerment programmes, continuous improvement efforts, total quality initiatives, quality circles, etc., are some of the initiatives that are used by organizations to increase the contribution of the employee on the bottom-line performance.

Rareness Human resources may be of value to an organization, but if the same characteristic of human resources is found in competing organizations also, then it can only provide competitive parity in ensuring that it is not at a competitive disadvantage. To attain competitive advantage through people, it is important to develop and exploit rare characteristics of the human resources of the organization.

Thus, an organization should try to ensure that it has an edge over competing organizations in terms of the skills, knowledge, and abilities of its people. This can be achieved by hiring and training the best available talent.

Imitability People provide competitive advantage to an organization when HR characteristics cannot be easily imitated by competitors. An organization's unique history or culture is difficult to imitate and can be used to get high levels of performance and commitment from the employees.

Organization Finally, for people to provide competitive advantage to an organization, it is important for the organization to have its systems and practices in place that allow HR characteristics to be exploited fully. Teamwork is a way to ensure an organized workforce—one that can be deployed to work on new assignments at short notice. In this context, HR activities need to be viewed as integrated activities rather than viewing them in isolation. This is discussed later in the chapter.

The VRIO framework provides the criteria for determining the types of human resources which can be the sources of sustainable competitive advantage for an organization. Organizations have recognized the significant role played by human resources. This is evident from the corporate philosophies of firms which reiterate that human resources are the most valuable assets of the firm. Eicher Goodearth Limited, Microsoft, Hewlett-Packard, Texas Instruments, Infosys, and Singapore Airlines are but a few firms that state this.

Considering employees as assets has implications for adopting an investment perspective on human resources. It is important to take this perspective on human assets since other physical assets, such as technology, facilities, etc., can be easily imitated by competitors.

The Investment Perspective of Human Resources

Traditionally, human resources have been viewed as a 'cost to the organization'. The other resources, such as capital, technology, material, etc., are treated as investments. Keeping with the 'cost' view of human resources, an organization accounted for all HR-related budget, such as salaries, employee training, etc., as expenses in the balance sheet that resulted in no returns for the organization. Recent times, however, have seen a change in the cost view of human resources.

In order to remain competitive an organization needs to invest in its human resources. Organizations have begun to consider employees as valuable investments. This view is especially significant because of the emergence of the knowledge economy, which needs highly skilled knowledge workers.

In knowledge economy, knowledge, and not goods, services, or technology, is important for all economic activities. Human skills and knowledge are crucial to everything that is produced, including goods and services. From retail sales to computers to biotechnology, jobs are becoming more knowledge intensive in their demands on workers and organizations. Though the service sector is obviously more knowledge intensive in character, the manufacturing sector is also becoming more dependent on knowledge and human capabilities, as computers pervade all facets of work. Agricultural and industrial jobs are increasingly becoming knowledge based. For example, some of the agricultural equipments are now computer controlled and their operation requires specific knowledge. Further, skill requirements change over time in all industries, companies, and jobs. Therefore, investment in human resources is important to attain competitive advantage. In the knowledge economy, the winners will be those organizations that constantly reach out to knowledge that can lead to the development of new products and services, and develop the skills, capabilities, and competencies of its employees to keep pace with the changes in technology, processes, etc.

The physical and capital assets of an organization are acquired and subsequently managed by treating them as investments. The strategic objectives of the organization determine the optimal type and quality of physical and capital assets needed. An analysis of the cost and benefit, extent of risk involved, and the potential returns on expenditure on these assets is also undertaken. When human resources are viewed from an investment perspective, an organization goes on to determine how best to invest in its people. Therefore, just as an organization determines the expenditure allocation for physical and capital assets, it also considers the expenditure allocation for human assets to meet its long-term performance goals. For example, if an organization plans to expand its operations, it needs to consider the kind of training and development to extend to its current employees as well as the number and types of new recruitments that will be required. Rapidly growing organizations, such as those in the IT sector (e.g., Wipro, Infosys, TCS, etc.) often state the number of people they are likely to hire in the next two years based on their business growth projections.

In taking a decision related to expenditure on a new training programme, an organization needs to consider not only the cost of training (with respect to the training material cost, trainers' fees, etc.) but also the related costs such as time spent away from work by the employees during training (time lost on the job). At the same time, the potential benefits of training should be considered. These include improved job performance, enhanced commitment to the organization, and increase in employee motivation. The cost of training should be weighted against the benefits. The training also needs to be assessed in relation to the associated risks such as enhanced employability of employees that makes them more desirable to competitors.

Risks Involved in Investing in Human Assets

Investment in human assets is not without risks, and is a source of dilemma for organizations. When an organization does not invest in its employees, it is regarded as less attractive by prospective employees. The organization also finds it more difficult to retain current employees who see no opportunities for growth and advancement. Frequent employee turnover weakens the competitive position of an organization by diverting the attention of the organization to the recruitment and hiring of new employees. On the other hand, an organization that invests in its employees also faces the likelihood of losing them to its competitors. Trained employees are more sought after, especially by competitors. Competitors are often willing to pay more to these employees because they save employee training costs. Thus, there is a risk involved in human asset investment. Organizations need to develop an appropriate and integrated approach to HRM to ensure that employees stay long enough with the organization and contribute to an acceptable return on investment (ROI) relative to the skills and knowledge they have acquired.

In certain types of organizations, employee mobility may not be alarming. For instance when the skills needed by an organization are not rare or valuable, their transferability may not matter much to the organization. The fast food industry is an example of such an organization. An organization needs to be concerned about both employee mobility and skill mobility. Stevens (1994) defined *skill mobility* as the ease with which employees with a particular skill set can move from one employer to another with little loss in pay or responsibility. Employees who have a particular skill set that is valuable to the organization, but still easily transferable to its competitors, can be the target of competing organizations. Therefore, investment in this set of employees has a high degree of associated risk. For example, employees with an IT skill set can easily move from one organization to another, where the cost of switching jobs is quite low. This has compelled IT firms to frequently adjust and improve their employment packages and design HR strategies to stay ahead of their rivals.

Factors Determining the Investment Orientation of an Organization

Not all organizations view human assets from an investment perspective. Mello (2003) identified five major factors that affect how investment oriented a company is in its management of human resources:

1. management values
2. attitude towards risk
3. nature of skills needed by employees
4. 'utilitarian' or 'bottom-line' perspective
5. availability of outsourcing

Management values The extent to which management values its people is a critical factor that determines an organization's willingness to invest in human assets. The values of the senior management play an important role in decisions regarding the investments in human assets. An organization is more likely to be investment oriented if it considers its people as central to its mission, and if the organization's mission statement emphasizes the role of human assets in achieving organizational goals. For example, an organization which values its employees will engage in extensive communication programmes when significant events such as mergers are planned. The manner in which the employees are treated post-merger is also a reflection on the people values of the organization.

Attitude towards risks An important aspect of investment is that it is accompanied by risks as well as returns. As a general rule, investments with higher risks generally result in greater potential return, while those with lower risks are expected to have a more modest return (e.g., investment in bonds versus investment in stocks and shares). Investment in human assets is considered more risky for an organization than investment in physical assets. An organization with a risk-aversive management philosophy is less likely to invest heavily in people. Other organizations willing to take higher levels of risk will invest more in employees. They will, alongside, develop strategies to minimize the potential risks of losing their investments. For example, they can institute employment contracts, offer stock ownership programmes as incentives for employees, and also offer further developmental opportunities, such as study leave, etc. Thus, an organization can gain employee 'ownership' through these strategies, reducing the possibility of employee turn over, or losing their investment in human assets.

Nature of skills The nature of skills needed by the employees of an organization also determines the extent to which investment in human assets is risky and the willingness of the organization to invest in its employees. When an organization requires the employees to develop and utilize specialized skills that may not be applicable or transferable to other organizations, the investment in people is less risky. However, when an organization needs employees who have skills that are highly marketable and who can move from one employer to another, then investment in human assets involves more risk. The high-risk employee investment requires an organization to develop a strong retention strategy, since the trained employees are sought after by organizations that do not invest in employee training. For instance, Infosys was the first Indian company to start an employee stock option plan to retain employees. The company now offers variable compensation packages as well as cutting-edge training programmes. HCL Technologies and Patni computers, are among the innumerable companies that have developed retention strategies when the problem of employee turnover turned acute.

Utilitarian/bottomline perspective Investment orientation of an organization is also determined by the utilitarian, that is, bottom-line perspective. Organizations which adopt the utilitarian perspective evaluate all investments through a cost-benefit analysis. In cost-benefit analysis, the costs of any investment are compared with its benefits to determine whether that investment is profitable. The utilitarian approach quantifies all costs and benefits. For example, in delivering a training programme, it will consider not only the direct cost of delivering a training programme, but also costs such as employee time spent away from work, unfinished job duties during the training period, and so on. The problem with cost-benefit analysis with reference to investment in people arises because many benefits of HR programmes and policies are difficult to quantify. For example, in a firm that provides internet services, it is difficult to assess objectively the measures of effective service and to determine how much service may be necessary to prevent customers from switching loyalties to other service providers.

Availability of outsourcing A final factor that determines an organization readiness to invest in employees is the availability of outsourcing. The organization can determine whether employee investment can produce a sustainable competitive advantage over time. When specialists are available outside the organization, who may be more efficient than internal employee resources, the internal human investment is likely to be limited. Further, an organization will invest in human resources to such an extent that it results in the greatest potential return when compared against investments in market and product development, physical facilities, or technology. When investment in human assets is not expected to give higher returns, it is unlikely for an organization to invest in the employees at the cost of other resources. For example, in the fast food industry, there is high turnover of workers, and the skill set they require is easily developed, requires minimal experience, and does not require high levels of investment in training. Employers in the fast food industry, therefore, invest little in their employees and tend to invest more in competitive advertising, physical expansion, etc.

Just as human resources have come to be perceived as valuable assets over time, the HR function has also transformed from being a routine administrative function to a strategic one. The next section briefly discusses this transformation.

EVOLUTION OF SHRM

The HR function has evolved over time. The history of the function pre-dates Taylor's theory of scientific management and Fayol's administrative theory. However, it was only during the 1930s and 1940s that the function grew in significance, largely due to the war-time imperatives. At this time, the HR functions matured and focused largely on labour relations and staffing. In India, the Tata Iron and Steel Company (TISCO) was one of the first organizations to set up a personnel department in the year 1947. Figure 1.5 presents the evolution of the HR function.

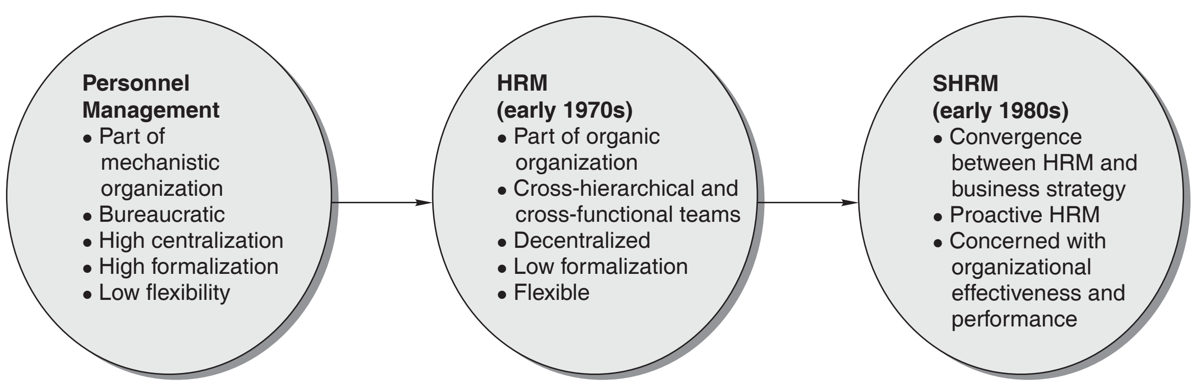

Figure 1.5: Evolution of the HR Function

From Personnel Management to HRM

The early 1970s witnessed the emergence of the term HRM as a replacement for personnel management. The change in terminology also suggests a change in the objectives and boundaries of the function. The main objective of HRM is to ensure the achievement of organizational goals through people. The HRM function emphasizes the following two aspects:

- the importance of gaining the commitment of the people to the goals of the organization
- the need for a strategic fit between business strategy and HR strategy

Personnel management and HRM differ from each other on several counts. One major difference being that while personnel management is part of the more mechanistic form of organization, HRM is aligned with the organic design of the organization. Thus, personnel management is more bureaucratic with high levels of centralization and formalization and lower levels of flexibility. Human resource management, on the other hand, is decentralized, flexible (with low levels of formalization), and has cross-functional and cross-hierarchical teams. Another difference between personnel management and HRM that has been pointed out is the *strategic nature of HRM*. Personnel management is not viewed as involved in the strategic areas of business. Despite these differences, it is often believed that HRM is just a more modern term for personnel management. Hence, HRM may be seen as an *approach* rather than as an alternative to the traditional personnel management.

From HRM to SHRM: Shift in Focus

The dynamic and competitive business environment resulting from globalization has led management to bring a new focus on how human resources should be organized and managed. The HR function now has to develop a more strategic role. The early 1980s saw the emergence and increase in the use of the term strategic HRM. The late 1980s and early 1990s witnessed a visible convergence between HRM and business strategy. In the 21st century this convergence has become startlingly obvious with the use of terms, such as 'knowledge', 'networked', 'knowledge-based firm', and 'the virtual organization'. When the adjective *strategic* is prefixed to HRM it puts an emphasis on the ways in which HRM contributes to the organizational effectiveness.

Strategic human resource management focuses on the relationship of HRM with the strategic management of the organization, as defined earlier. It goes beyond the functional role of HRM and emphasizes proactive HRM at the strategic level of the organization. Strategic human resource management is concerned with organizational effectiveness and performance, changes in structure and culture, matching resources to the present and future requirements of the organization, capability development, employment relationship, and change management. Since corporate plans are implemented through people and because human resources provide competitive advantage to the organization, it is important to integrate HR considerations with the development of the strategic corporate/business plans.

Hendry and Pettigrew (1986) put forward four meanings of SHRM:

1. the use of planning in human resource management
2. an integrated approach to the design and implementation of HR systems
3. matching HRM policies and activities with the business strategy of the organization
4. viewing people as a strategic resource for the achievement of competitive advantage

Fombrun, Tichy, and Devana were the first to formulate the concept of strategic HRM in 1984. These researchers emphasized a strategic fit between HRM and corporate strategy. The concept of 'fit' is discussed later in the chapter.

Objectives of SHRM

The major objectives of SHRM are as follows:

- To ensure the availability of a skilled, committed, and highly motivated workforce in the organization to achieve sustained competitive advantage.
- To provide direction to the organization so that both the business needs of the organization and the individual and collective needs of its workforce are met. This is achieved by developing and implementing HR practices that are strategically aligned.

The extent of application of SHRM within organizations, as well as the form and content of SHRM, vary from one organization to another. Strategic human resource management is practiced in only those organizations that have a clearly articulated corporate or business strategy. Organizations that lack a corporate plan cannot have SHRM. Rather, in such organizations, HR personnel carry out the traditional administrative and service roles and are not concerned with strategic business issues.

Difference between SHRM and Traditional HRM

Strategic human resource management and the traditional HR function differ from each other in several ways. The major points of differences between the two are highlighted in Table 1.1.

Table 1.1: Traditional HRM versus SHRM

	Traditional HRM	SHRM
Responsibility for HR programmes	Staff personnel in the HR department	Line managers; all managers responsible for people are HR managers
Focus of activities	Employee relations—ensuring employee motivation and productivity, compliance with laws	Partnerships with internal (employees) and external (customers, stakeholders, public interest groups) groups
Role of HR	Reactive and transactional	Proactive and transformational, change leader
Initiative for change	Slow, piecemeal, and fragmented, not integrated with larger issues	Fast, flexible, and systemic, change initiatives implemented in concert with other HR systems
Time horizon	Short-term	Consider various time frames as necessary (short, medium, or long-term)
Control	Bureaucratic control through rules, procedures, and policies	Organic control through flexibility, as few restrictions on employee behaviour as possible
Job design	Focus on scientific management principles—division of labour, independence, and specialization	Broad job design, flexibility, teams and groups, and cross-training
Important investments	Capital, products, technology, and finance	People and their knowledge, skills, and abilities
Accountability	Cost centre	Investment centre

Adapted from: Mello 2003

Difference between SHRM and HR Strategies

The terms *strategic human resource management* and *human resource strategies* are often used interchangeably, however some distinction can be made between the two. In a general sense, the difference between SHRM and HR strategies is similar to that between strategic management and corporate business strategies. Both SHRM and strategic management describe an approach adopted by the management and focus on the long-term issues and provide direction to the organization. Human resource strategies and business strategies, are outcomes of this approach which focus on the organizational view concerning key issues and specific functions, or activities.

Table 1.2: Difference between SHRM and HR Strategies

SHRM	HR Strategies
▪ A general approach to strategic management of human resources ▪ Aligned with the organizational intention about its future direction ▪ Focus on long-term people issue ▪ Defines the areas in which specific HR strategies need to be developed ▪ Focus on macro concerns such as structure, culture ▪ Strategic HRM decisions are built into the strategic business plan	▪ Outcome (manifestation) of the general SHRM approach ▪ Focus on specific organizational intentions about what needs to be done ▪ Focus on specific issues that facilitate the achievement of corporate strategy ▪ Human resource strategy decisions are derived from SHRM

Adapted from: Armstrong 2000

Strategic human resource management deals with macro concerns such as quality, commitment, performance, culture, and management development. It defines the areas in which specific HR strategies need to be developed. Human resource strategies, on the other hand, are concerned with ensuring the availability of an efficient workforce, training, rewards, good employee relations, etc. Human resource strategies are more specific and facilitate the successful achievement of the corporate objectives and goals. The major differences between SHRM and HR strategies are presented in Table 1.2.

Link between HR Strategy and Business Strategy

Central to the concept of SHRM is the idea of *strategic fit*. In order to ensure that HR strategies facilitate the achievement of business strategies, a strategic integration between the two is necessary. A key factor that influences the linkage between business strategy and HR strategy is the organization's quest to attain competitive advantage. An organization may pursue several different strategies to achieve its goals.

Three types of business strategies that may be adopted by an organization are *cost leadership*, *differentiation*, and *focus*. This classification of business strategies was advanced by Porter (1985), and has been extensively used in SHRM literature. According to Porter, an organization may adopt any one of the three business strategies in order to compete successfully in a particular market, and gain and sustain superior performance as well as an advantage over its competitors. The three business strategies and their characteristics are presented in Table 1.3.

Table 1.3: Porter's (1985) Classification of Business Strategies

Type of Business Strategy	Characteristics	Examples
Cost leadership	▪ The firm increases its efficiency, cuts costs so that products or services may be priced lower than the industry average ▪ Assumes that a small change in price will significantly affect customer demand ▪ Assumes that customers show greater price sensitivity than brand loyalty—this is because the products/services of each firm are non-distinguishable	Retailers such as Vishal Mega Mart
Differentiation	▪ The firm distinguishes its products/services from its competitors or at least attempts to make consumers perceive that there are differences ▪ The firm charges a premium for its products/services because it offers its customers something that is unique, extraordinary, or innovative ▪ The firm seeks to develop brand loyalty	Nike, Sony
Focus	▪ The firm recognizes that different segments of the market have different needs and attempts to satisfy one particular group ▪ The firm can charge a premium for its services since the market has overlooked these market segments	Clothes manufacturers that cater to petite women, restaurants that target only families

Adapted from: Mello 2003

Each of the business strategies presented in Table 1.3 requires different types of HR strategies or strategic approaches to managing people. That is, there should be a congruence or 'fit' between the organization's business and HR strategies. The 'fit' perspective provides a conceptual framework for SHRM and is discussed next.

STRATEGIC FIT: A CONCEPTUAL FRAMEWORK

Organizations are often confronted with a dilemma—should they adopt business strategies that fit the available competencies and capabilities in the firm, or should they first decide their business strategy, and then stretch and modify their competencies and capabilities to fit the business strategy? The strategic fit proposes that if an organization seeks to maximize its competitive advantage, it must match its internal resources and skills (organizational competencies) with the opportunities available in the external environment. When an organization attempts to implement new strategies with outmoded or inappro-priate HR strategies, it can face problems. Strategic human resource management is largely about integration.

Guest (1989) emphasized that it is important to ensure that HRM is fully integrated into strategic planning. In 1997, Guest identified the following five types of fit (Figure 1.6):

1. fit as strategic interaction (best fit approach)—HR practices linkage with the external context
2. fit as contingency—HR approaches to ensure that internal practices of the organization respond to external factors such as the nature of the market, skill availability, etc.
3. fit as an ideal set of practices (best practice approach)—there are 'best practices' which all firms can adopt
4. fit as gestalt—emphasizes the importance of finding an appropriate combination of practices
5. fit as 'bundles' (the configuration approach)—suggests a search for distinct configuration or bundles of HR practices that complement each other, in order to determine which 'bundle' is likely to be most effective

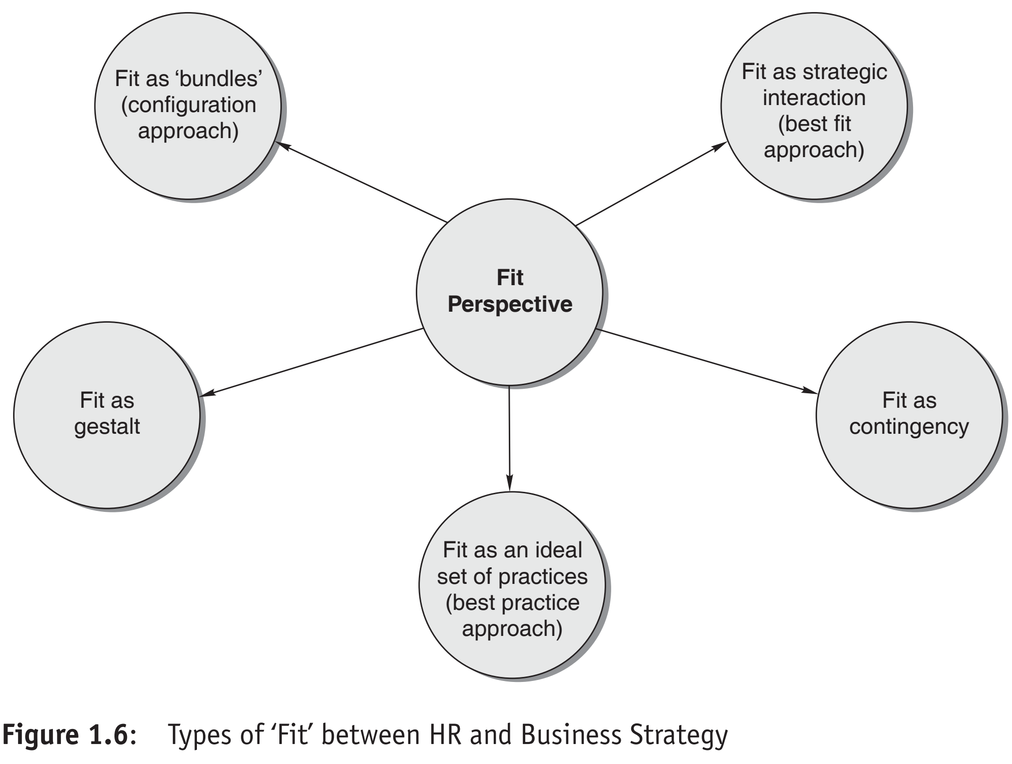

Figure 1.6: Types of 'Fit' between HR and Business Strategy

Three of the above five types of fit provide the following possible approaches to SHRM:

- the best fit approach
- the HR bundles or configuration approach
- the best practice approach

Best Fit Approach

The focus of the best fit approach is on the linkage of HR strategies with business strategies. This linkage is also referred to as *external fit* or *vertical integration.* Differences in business orientations or strategies of organizations give rise to the need for different types of people as well as diverse approaches towards investment in human capital.

Best fit also means that HR strategies should match the stages of development of the firm, namely start-up, maturity, decline or degeneration, and regeneration or transformation. Business strategies, and therefore HR strategies, will differ between a greenfield firm and one that is in the transformation stage. Whenever an organization embarks upon a change or a transformational programme as part of its business strategy, appropriate change strategies need to be developed. Human resource strategies, supportive of business initiatives, should be developed to manage the organizational transition from the present state to the future state.

Bases of Classification of HR Strategies:

There are various conceptualizations of the relationship between business strategy and HR strategy in SHRM literature. Beaumont (1992) noted three bases of classification of HR strategies:

Different types of business strategies When an organization selects a strategy of becoming a 'low-cost producer', it adopts different HR approaches to compensation as compared to an organization that adopts a 'product innovation' strategy. Taking a similar approach, earlier, Schuler and Jackson (1987) had proposed that the different business strategies described by Porter (1985) will result in variations in HR practices.

Stages in the business or product cycle According to this classification, HR practices are related to variations in the life cycle stages of a business—start-up, growth, maturity, and decline. Different dimensions of HR practices are important at various stages of the business life cycle. For example, in the growth stage, an organization recruits an adequate number and mix of qualified people. In the maturity stage, the organization encourages sufficient turnover to minimize layoffs and facilitate reorganization. At the decline stage, the

Table 1.4: HR Practices Corresponding to the Stages of an Organization's Life Cycle

Life Cycle Stages	HR Practices
Start-up	▪ Flexible patterns of work ▪ Recruitment of highly motivated and committed employees ▪ Competitive pay ▪ Little formality ▪ No unions
Growth	▪ More sophisticated recruitment and selection ▪ Training and development ▪ Performance management processes ▪ Reward systems ▪ Focus on high commitment ▪ Developing stable employee relations
Maturity	▪ Attention to the control of labour costs ▪ Focus on increasing productivity ▪ Strained employee relations ▪ Control compensation
Decline	▪ Emphasis on rationalization of workforce and downsizing ▪ Abandoning some longstanding practices to cut costs ▪ Trade unions have a marginalized role ▪ Retraining and career consulting services

Adapted from: Armstrong 2000

organization plans and implements workforce reductions and reallocation. The HR practices corresponding to the four stages of an organization's life cycle are provided in Table 1.4.

Types and numbers of products Fombrun et al. (1984) suggested that the strategy aimed at achieving variations in product focus (the numbers and types of products), results in structural modifications and influences HR strategy. For example, an organization with a single product strategy having a functional structure is likely to be subjective in its selection criteria and appraisals, and rewards are rather unsystematic and allocated in a paternalistic manner. On the other hand, an organization that follows a strategy of growth by acquisition (holding company) of unrelated businesses, with separate self-contained businesses, has different criteria of selection that vary from business to business. Performance appraisals and rewards are impersonal and are based on the return on investment and profitability. Development is cross-functional but not cross-business.

HR Strategy Classification

Of these three bases of classification of HR strategy, the most popular approach is the type of business strategy and the adoption of complementary HR strategies. Some approaches linking business strategy with HR strategy are discussed. Porter emphasized the fit point of view by stating that all the activities of an organization must be tailored to fit its business strategy. Schuler and Jackson focused on Porter's classification of the three generic business strategies, i.e., *cost leadership*, *differentiation*, and *focus*. They argued that HR practices should be designed to reinforce the behavioural implications of these generic strategies. Based on the role requirements, each competitive strategy is defined in terms of a matching HRM strategy, as shown in Table 1.5.

Table 1.5: Linking Business Strategy and HR Strategy

Business Strategy	HR Strategy
Cost Leadership ▪ Suitable for repetitive and predictable behaviour ▪ Concerned with short-term focus and quantities (volumes) ▪ Result-oriented	**Utilization HR Strategy** ▪ HR strategy focussed on short-term performance measures, that is, results or outcomes ▪ Efficiency is the norm, job assignments are specialized, explicit job descriptions ▪ Hierarchical pay, few incentives ▪ Narrow career paths, limited training ▪ Limited employment security ▪ Cost-cutting may involve incentives for employees to leave the firm ▪ Limited participation
Differentiation ▪ Long-term focus ▪ Creative job behaviour ▪ Moderate concern for quality and quantity	**Facilitation HR Strategy** ▪ Broad career paths ▪ Extensive training ▪ Equal and fair pay, many incentives for creativity ▪ Long-term performance measures ▪ External recruitment and hiring of people who bring in new ideas ▪ High employee participation ▪ Some employment security
Focus ▪ High concern for quality ▪ Moderate concern for quantity ▪ Long/medium-term focus	**Accumulation HR Strategy** ▪ Equal and fair pay with many incentives ▪ Hiring employees belonging to the target market ▪ Broad career paths with extensive training ▪ High employee participation ▪ Some employee security

Source: O'Riordon 2005

Miles and Snow's Classification of Business Strategy and HR Strategy

Miles and Snow (1984) suggested that HRM practices should be tailored to the demands of the business strategy. They identified four types of organizational strategies on the basis of the dominant culture of the organization. These are *defenders*, *prospectors*, *analysers*, and *reactors*. The first three strategies pursue consistent business strategies. The reactors do not have consistency in their strategies. The type of HR practices that are likely to be adopted by an organization with the three consistent strategies are presented in Table 1.6.

Other Frameworks Linking Business Strategy with HR Strategy

Two other frameworks linking business strategy with HR strategy that have received a great deal of attention in the literature on the subject are presented in Table 1.7.

Table 1.6: Miles and Snow's Classification of Business Strategy and HR Strategy

Dominant Culture of the Organization (Business Strategy)	HR Strategy
Defenders ▪ Find change threatening ▪ Favour strategies which encourage continuity and security	▪ Bureaucratic approach ▪ Planned and regularly maintained policies to provide for lean HR ▪ Build human resources ▪ Likely to emphasize training programmes and internal promotion
Prospectors ▪ Thrive on change ▪ Favour strategies of product and/or market development	▪ Creative and flexible management style ▪ Have high quality human resources ▪ Emphasize redeployment and flexibility of HR ▪ Little opportunity for long-term HR planning ▪ Acquire human resources ▪ Likely to emphasize recruitment, selection, and performance-based compensation
Analysers ▪ Seek to match new ventures with the present business set-up ▪ These firms are followers—the ventures are not new to the market, only new to the firm	▪ Low levels of monitoring and coordination ▪ 'Buy' as well as 'make' key human resources ▪ Emphasize HR planning

Source: O'Riordon 2005 and Khatri 2000

Table 1.7: Frameworks Linking Business and HR Strategy

Scholars	Frameworks
Golden and Ramanujam (1985)	Proposed the following four types of linkages between HRM and strategic planning process: 1. **Administrative Linkage**: HR department adopts the traditional personnel role, provides routine operational support, and handles paperwork. Functional managers see HR function as relatively unimportant. 2. **One Way Linkage**: There is a sequential relationship between strategic planning and the HR function. The HR function reacts to and designs HR programmes to support the strategic objectives of the firm. 3. **Two Way Linkage**: There is a reciprocal, interdependent relationship between strategic planning and HR function. Business plans affect and are affected by HR activities. HR function is seen as important. 4. **Integrative Linkage**: There is a dynamic interaction, formal as well as informal, between HR function and strategic linkage. The senior HR executive is a strategic business partner with other senior executives of the firm.
Schuler (1992)	Proposed the 5-P model that links the strategic business needs with strategic HRM activities. The 5Ps are: *HR philosophy*, *HR policies*, *HR programmes*, *HR practices*, and *HR processes*. Strategic human resource management begins with the identification of strategic business needs. It is seen as consisting of all those activities that formulate and implement the strategic business needs. These activities have an influence on the behaviour of people. If SHRM helps meet business needs, then it is important to assess the impact of business on HRM activities including the 5Ps.

Source: Khatri 2000

Drawbacks of the Best Fit Approach

The *best fit* approach implies that an organization's performance will improve when HR practices reinforce the organization's competitive position. The best fit approach and its proposition that HR practices should be driven by the competitive strategy of the organization have been criticized on a number of grounds. First, the approach is seen as failing to align employee interests with those of the organization. Secondly, the criticism of the model relates to viewing the competitive strategy in the form of a typology. The competitive strategy is multidimensional and subject to important variations across industries. Hence, devising HR strategies based on a typology of competitive strategy that may not be appropriate in a particular context can be misleading. Thirdly, and related to the second criticism, the approach is viewed as lacking attention to the dynamic scenario.

It is suggested that the model needs to go beyond a fit between HR and competitive strategies, to simultaneously incorporate flexibility in the range of skills and behaviours that may be important for coping with the changing and dynamic competitive scenarios of the future, such as technological advances or changes in customer expectations. This criticism leads to the notion of internal coherence of HR practices around a desirable theme, that is, bundling.

The 'HR Bundles' Approach

Bundling refers to the development and implementation of several HR practices together so that they are interrelated and internally consistent. Each HR practice complements and reinforces the other. MacDuffie (1995) referred to 'bundling' as the use of 'complementarities', while Delery and Doty (1996) called it the adoption of a 'configurational mode'. In general terms, the bundles approach is also termed as *internal fit* or *horizontal integration*. The purpose of bundling is to bring about coherence between HR practices. Coherence exists when a mutually reinforcing set of HR practices is developed to contribute to the strategic objectives of the organization, so that these practices ensure the matching of resources to the needs of the organization, and bring about improvement in performance and quality. Coherence is achieved when the firm has an overriding driving force or strategic imperative. For example, the driving force for a firm may be quality, or high performance, or it could be the development of competencies. This driving force leads to various HR practices that are designed to operate in concert with each other to achieve this imperative. If high performance is the driving force, recruitment standards can be specified, development needs identified, and the required standards of behaviour and performance specified.

MacDuffie conducted research in flexible production manufacturing plants in the United States, and on the basis of his findings pointed out that flexible production techniques need to be supported by bundles of high commitment human resource practices such as performance-contingent pay, employment security, etc. The research also indicated that plants which use flexible production systems that bundle HR practices into a system outperform plants which use more traditional mass production systems in both productivity and quality. Based on the research work in 43 automobile plants in the US, Pil and MacDuffie (1996) established that when a high-involvement HR practice that is complementary to other HR practices, is introduced in a firm, the new practice produces an improvement in performance. At the same time, the other complementary HR practices also lead to incremental improvement in performance.

Integration between HR practices is more likely to take place if HR personnel and line managers share their values on how HR policies should be implemented. Integration is also about ensuring that when any innovation in a particular HR practice is planned, its implications on other aspects of HR policies and practices are understood in order to work out how the innovation can support these practices.

Drawbacks of 'HR Bundles' Approach

However, there are problems associated with the achievement of internal fit also. These problems arise when, for example, senior managers call for changes in a particular HR practice as a quick fix, and the changes are isolated from complementary HR practices. Problems can also arise when performance-related pay is introduced without the existence of a related performance management system or when there is difficulty in determining which 'bundles' are likely to be most appropriate in a situation.

In general, however, both the internal and external fit models propose that HR strategy becomes more effective when it is designed to fit the contingencies within the specific context of the organization.

The Best Practice Approach

Contrary to the internal and external contingency perspectives, is the view that organizations should adopt the *best practice* irrespective of the context. According to this view, superior management practices are readily identifiable and are transferable across organizations. An organization, therefore, should identify any organization with a reputation for excellence in some function, and copy its practices in order to perform well. That is, all organizations can attain performance improvements if they identify and implement the best practice or benchmark. However, the notion of best practice is not new. It was an important theme in personnel management literature in the 1970s. Pfeffer's (1994) list of sixteen practices has been the most significant influence on the definitions of best practice. Subsequently, Pfeffer summarized this list down to seven, viz.:

1. employment security
2. selective hiring
3. teamworking
4. high pay contingent on company performance
5. extensive training
6. reduction of status differences
7. information sharing

Drawbacks of the Best Practice Approach

Most definitions of best practice draw from four functions of personnel psychology, that is, selection, training, appraisal, and pay. Aspects of best practices are widely acknowledged by researchers and practitioners. For example, not many scholars advocate a trait-based performance appraisal over appraisals that are behaviour or outcome based. Beyond this, however, agreements are relatively few. For instance, the list of desirable best practices varies significantly in literature. Moreover, advocates of the approach do not answer *what* goals are being served by best practices, nor do they specify *whose* goals are being served.

An important point of disagreement with the best practice approach relates to the fact that many successful organizations refuse to adopt these practices. Hence, the assumption that perhaps, competition will drive out firms that do not adopt the best practices, leading to the failure of these firms, does not hold ground.

There is, thus, a counterpoint to the best practice approach that argues that the notion of a single set of best practices may be overstated. This view adopts the premise that distinctive HR practices lead to the competitiveness of a particular firm.

DISTINCTIVE HUMAN RESOURCE PRACTICES

In virtually every industry, there are firms that follow very distinctive HR practices. Cappelli and Crocker-Hefter (1999) suggested that these HR practices help to create unique competencies that differentiate a firm's products and services. An essential function of strategic management is to bring about product differentiation. This differentiation leads to competitiveness of the firm.

Hamel and Prahalad (1993, 1994) argued that competitive advantage of a firm, over the long run, results from building the 'core competencies' in the firm that are superior to those of its rivals. According to these management thinkers, the chief executive officers (CEOs) of multidivisional and international firms need to identify the underlying clusters of expertise in their companies that cut across all the strategic business units. The distinctive human resource practices shape the core competencies that determine how firms compete with each other. This notion of a fit between business strategy and HR practices has already been discussed. What is unique in this approach is the view that HR practices are the drivers that lead to core competencies, and, in turn, to business strategies.

Cappelli and Crocker-Hefter (1999) examined pairs of successful organizations competing in the same industry. For instance, Sears and Nordstrom in the retailing industry, Boston Consulting Group (BCG) and McKinsey & Company in strategic consulting, and Harvard Business School and Wharton School, among business schools. Each organization in the pair had very different HR practices. The distinctive competencies and competitive advantages of each organization were identified. In most organizations, the competencies were clearly associated with particular employee groups, for example, customer service, marketing, etc. The HR practices of the relevant employee group were also described. The paired comparisons revealed clear patterns in the relationship between business strategies and HR practices. For example, organizations that move rapidly to seize new opportunities to get the first mover advantage, or to quickly respond to changing customer preferences, compete by being flexible. These firms do not develop employee competencies from within since it does not pay to do so. Examples of such organizations include BCG, and Pepsi, which rely on the 'outside' market to take in new competencies. Such organizations are called *prospectors* (Figure 1.7). On the other hand, organizations that compete through their dominance in an established/stable market rely on capabilities that are specific to the organization and are developed internally. McKinsey & Company and Coca-Cola are examples of firms belonging to this category. These firms are called *defenders* (Figure 1.7).

According to Cappelli et al., flexible organizations like Pepsi exist in part because they have competitors with established markets, such as Coca-Cola, that do not, or perhaps cannot, respond quickly to new opportunities. Organizations like McKinsey & Company succeed because they have competitors such as BCG that cannot match the depth of competencies and long-term investments that the former has established. It has been suggested that it is difficult for firms to change strategies, from a flexible business strategy/outside development to established markets/inside selection and vice versa. When a firm invests in a particular approach, it creates a reputation for the firm that, in turn, makes it difficult for the firm to change strategies. Hindustan Lever Limited (HLL) is an example of such firms. General Electric (GE) is one of the firms that did make this transition in its business strategy (from established market to flexibility) and HR strategy (from the inside approach to the outside approach). However, it took GE a decade to make this transition. While start-up firms can make the transition in their HR strategy from the outside approach to the inside approach more readily, it is much more difficult for mature organizations to change their HR strategy. Some of IBM's recent problems may be seen within this context, that is, the inability of IBM to respond to the changing market due, in part, to the lack of new talent.

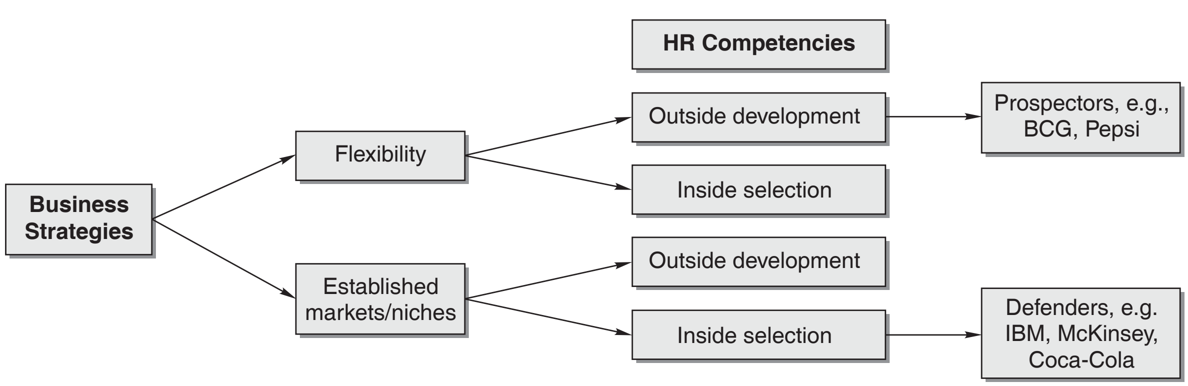

Figure 1.7: Business Strategies and HR Competencies

Since HR practices are so difficult to change and transfer, it explains the basic premise underlying the notion that the core competencies should drive the business strategy of the firm and not vice versa. According to Cappelli and Crocker-Hefter, it is easier for firms to find a new business strategy to go with the existing HR practices and competencies, than to develop new HR practices and competencies to match new business strategies. This is especially true for firms that rely on 'inside' competencies (firms that develop employee competencies from within). However, firms that secure skills from the outside market (rely on outside market to get new competencies) have HR strategies that can be reproduced by other firms. That is, these competencies are available to everyone in the open market. To obtain competitive advantage in this case, a firm needs to be better at spotting talent in the open market than its competitors, who may also be trying to secure the same competencies. For example, BCG achieves competitive advantage because it is able to hire new consultants at salaries somewhat lower than those of its leading competitors.

Literature on the approaches to SHRM has multiplied rapidly, so much so that it is now possible to identify the emergent SHRM perspectives. The following section discusses the different perspectives on SHRM that have evolved over time.

THEORETICAL PERSPECTIVES OF SHRM

Swiercz (2002) identified four perspectives on SHRM, namely, fit, functional, economic, and typological perspectives. This classification is proposed to organize a range of related yet distinct views on SHRM (Figure 1.8). A brief discussion of each of these perspectives follows.

The Fit Perspective

In a literal sense, the term fit means 'congruity'. In HR literature, Dyer was the first to discuss the idea of 'fit' in 1983. Baird and Meshoulam (1988), took it further and argued that HRM practices should be integrated with the strategic planning process of the organization. They also distinguished between the two types of fit—internal and external. These have already been discussed in the previous section. The primary proposition of Baird and Meshoulam (1988) was that an organization's performance can be enhanced if it adopts HRM practices that complement other HR practices (internal fit), as well as the strategic objectives of the organization (external fit). Empirical investigations of the proposed benefits of the internal fit perspective are limited. However, the proposed benefits of the external fit perspective have been examined by a number of scholars. They have reported that HRM practices varied systematically with the type of manufacturing system, firm environment, etc. Studies also indicate a significant relationship between the adoption of high-performance

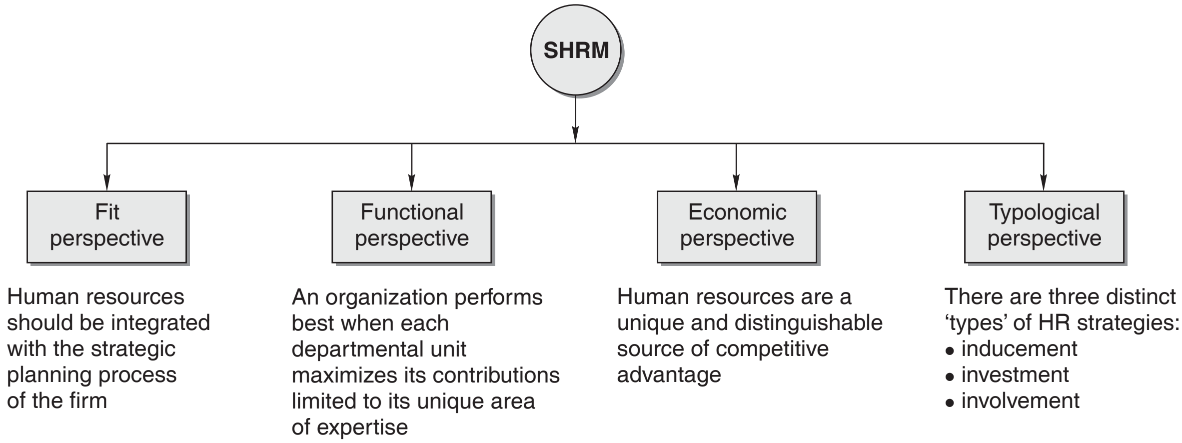

Figure 1.8: Theoretical Perspectives of SHRM

HR practices and organization performance indicators. The fit perspective, therefore, proposes HR as a critical success variable that must be integrated into all phases of organizational planning. Moreover, even the best laid strategic plans cannot be implemented without taking into account the HR practices.

Functional Perspective

Strategic human resource management literature classified as 'functional' has two characteristics.

1. Human resource is seen as a staff function and, therefore, as advisory and subordinate to the core line functions. This is in accordance with the classical organization design theory.
2. The sub-functional strategies, such as the compensation and recruitment strategies, are equated with the overall HR strategy.

This perspective relies on the principle that an organization performs best when each departmental unit maximizes its contributions, limited to its unique area of expertise. It further accepts that organizations should be structured around differences in rank or grade, resulting in the creation of staff functional specialists. General managers at the top have the responsibility of giving direction to the firm, functional managers with independent expertise (HR functional staff specialists) are in the middle, and subordinates who carry out supervisors' directives are at the bottom. Schuler and Jackson's (1987) framework is representative of this perspective. Strategic HRM, according to this perspective, is defined as a carefully planned effort by functional HR managers to shape subordinate behaviour so as to make it consistent with the desires of top management as expressed in the strategic plan. This approach represents the traditional definitions of HR wherein HR was proposed to be a staff activity.

The second characteristic of the functional perspective treats functional sub-strategies as equivalent with the overall concept of strategic HR. These sub-strategies include recruitment, compensation, human resource information systems, career development, training, job analysis, and international HRM. According to this perspective, the difference between strategic staffing and conventional staffing is that strategic staffing helps the organization to procure long-term human assets, while conventional staffing fulfils the immediate operational objectives. Similarly, strategic compensation aligns compensation practices with the critical contingencies facing the firm. Any HR practice, therefore, becomes a strategy when it is carefully selected to complement the pressing concerns faced by the management.

Economic Perspective

This perspective views human resources as a unique and distinguishable source of competitive advantage. Barney's resource-based VRIO framework, discussed earlier, takes an economic perspective on SHRM. Wright and McMahan (1992) extended Barney's view and argued that human resources can be a source of sustained competitive advantage when four basic requirements are met—human resources must add value to the firm's production processes, skills sought by the firm must be rare, human capital must not be easily imitable, and human resources must not be subject to replacement by technological advances or other substitutes.

Typological Perspective

Typologies help in developing systematic comprehensive theories for the study of new innovations in managerial thought. Dyer and Holder (1988) identified three 'ideal' HR strategic types based on their observations of HR practices in several firms in the US. They intended their typology to specify the content of HR strategic decisions and also to highlight the underlying philosophical considerations that are the major determinants of strategy. The three distinct types of HR strategies identified by them were as follows:

Inducement strategy It is used by firms to support a business environment that is highly competitive with respect to price and/or quantity. In this strategy, the decision making power is highly centralized, with supervisors accepting only a moderate amount of employee initiative, while discouraging innovation and spontaneity. Human resource strategies focus on cost, expecting high performance in a minimally staffed organization. Loyalty and commitment are rewarded by the organization to discourage high employee turnover.

Investment strategy It is most likely to be found in firms where the business strategy is based on differentiation, such as quality, features, or service, rather than price. The organization is characterized by a tall structure, power is centralized, and the technology is modern and adaptable. The HR strategy encourages creativity, initiative, and high performance standards. Formal rules and procedures are minimal. The organization is comfortably staffed, jobs are broadly defined, and continuous employee development is encouraged. Compensation is a balance of fixed and variable components. The Compensation programmes encourage and reward creativity and initiative.

Involvement strategy It is found in firms with a business strategy based on innovation and flexibility when they are confronted with a market that is characterized by a highly competitive price and/or quality. This strategy is also found in firms that use innovation to continuously provide differentiated products or services, and also respond fast as there is a change in markets or when their competitors catch up. Involvement firms are usually smaller, but if the size of these firms is large, they employ decentralized units with flat structures. The HR strategy seeks to provide autonomy and challenge to the employees to motivate them for high and meaningful performance. The firm expects high levels of commitment from its employees. Decision-making is pushed down to the lowest levels and performance is rewarded by compensation that links personal outcomes to the organizational performance.

There is empirical evidence that suggests a causal relationship between the SHRM orientation, business strategy, and financial performance of an organization. The typological perspective has generated a lot of enthusiasm. A primary reason for this is that the perspective is directly linked to the resource-based view of the firm by the assumption that the unique bundles of HR practices distinguish firms from each other, and are also a source of sustainable competitive advantage for some organizations. The typologies, in fact, provide a tool to capture the 'bundle' of HR practices that are associated with particular business strategies. By extension, then, it also agrees with the 'fit' perspective, for it agrees with the assumption that improved performance will result when there is a congruency between the organization's overall competitive strategy and its strategic HR orientation.

The linkage between HR strategies and business strategies are complex and multi-faceted. The questions being raised pertain to the manner in which HR strategies relate to business strategies, and what the organization expects to accomplish through the design of new HR strategies. However, all approaches to SHRM agree on one point, that is, particular HR strategies should (or will) vary with the type of business strategy. Also, there is no one best approach to SHRM. One particular combination of HR strategy cannot be applied to all situations. Theorists who follow a typological perspective have emphasized that a particular business strategy can have a single or a range of HR strategies appropriate to that business strategy. Thus, a cost reduction strategy will have different implications for HR strategy than an innovation strategy.

SHRM APPROACHES: THE INDIAN CONTEXT

As is evident, conceptual and theoretical developments in the management of human resources have largely been limited to the contributions made by Western scholars. However, the concept and practice of HRM, as also the linkage of HRM with the overall goals of the organization, are not entirely new to India. Three major approaches to understanding the 'people' function developed in India are presented in Figure 1.9.

The Integrated Systems Model

As proposed by Rao (1986), this model has development at its core, which suggests that the development of motivated, dynamic, and committed employees is a means to achieve better organizational performance. This perspective views HRM as a process, and not merely as a set of practices, mechanisms, or techniques. Human resource practices such as performance appraisal, training, rewards, etc. are used to initiate, facilitate, and promote this process in a continuous way. These subsystems are designed to work together in an integrated system. Although any one of these practices may exist in isolation in an organization that does not have a long-term plan, in isolation these subsystems lack the synergistic benefits of integrated systems. Thus, the viewpoint agrees with the internal fit or horizontal integration approach to SHRM discussed earlier. It is also close to the resource-based view which suggests a bundling of HR practices or subsystems.

On the basis of years of work in the field of Human Resource Development (HRD), Pareek and Rao (1992) developed a *systems framework* that is useful for an in-depth understanding of HRD/HRM. The component systems of HRD, according to them, are the career system (manpower planning, recruitment, retention, continuous potential appraisal and career planning, and development activities), work-planning system (helping individuals understand organizational needs, plan, and improve their work), development system (training, counselling, and other development mechanisms), self-renewal system (team building, survey feedback, research), and culture system

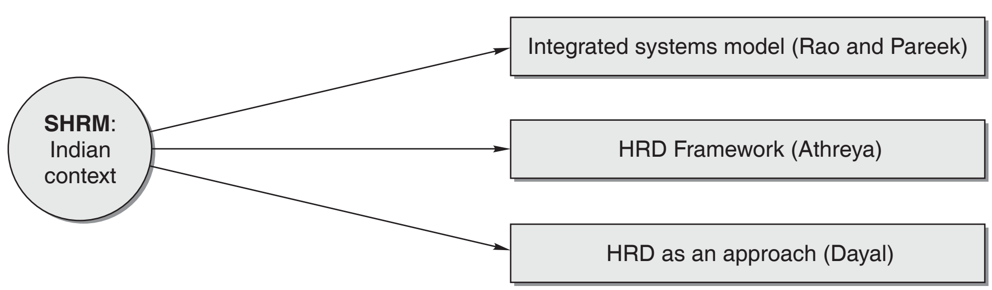

Figure 1.9: Approaches to SHRM: The Indian Context

(a climate that sets norms, values, and culture, and ensures a high level of motivation for employees). It is not necessary for a firm to use all the systems at the same time.

An organization can facilitate the process of development by allocating resources for the purpose and by exemplifying an HRD philosophy that values human beings and promotes their development. The model also emphasizes a linkage between the HRD subsystems and corporate plans of the organization. Thus, the framework also incorporates the external fit perspective. The basic themes underlying these subsystems are as follows:

- human resources are the most important assets of the organization
- a healthy climate is essential for the development of human resources
- employee commitment is enhanced with the opportunity to discover and actualize one's potential in one's work
- human resource development practices can be monitored so as to make them beneficial to both the individual and the organization

A periodic evaluation of the functioning of these systems or practices helps in re-engineering and realigning HRD to the organization's business needs. Rao proposed a model to explain the linkages between HRD instruments (put in operation they become practices), processes, outcomes, and organizational effectiveness. In this model, the HRD instruments include various tools, that is, subsystems such as performance appraisal, training, compensation, etc. The HR practices, if effectively used, can create a conducive HRD culture and learning processes. Human resource development processes are intermediate variables and affect the HRD outcomes. They are less easily observable and are softer dimensions that indicate the effectiveness of HR practices. Human resource development process variables include role clarity, communication, and the practice of HRD values such as openness, collaboration, trust, autonomy, confrontation, etc. Such HRD culture and processes can result in more observable and quantifiable outcomes.

The HR outcomes may include a higher level of employee competence and better utilization of human resources through higher motivation and commitment. These outcomes can influence the business goals of the organization, which may be in terms of higher productivity, more profits, better image, and more satisfied customers and stakeholders.

According to the model, HR, by itself, cannot contribute to profits. The strategies, technology, finances, markets, etc., also need to be in place. However, good HR practices may build the competencies and commitment of employees to such an extent that they make sure that the other variables are taken care of to a great extent. Thus, it is the people who can provide competitive advantage to an organization. This model suggests that, other things being the same, an organization that has a better HRD climate and processes, and competent and committed employees, is likely to do better than an organization that scores low on these counts. Also, various HR practices/subsystems contribute to the organizational effectiveness through HRD climate and HR outcomes.

The HRD Framework

According to Athreya (1988), the ultimate aim of HRD is full participation of the individual in his/her job and life. The starting point for moving towards fuller employee participation is the reaffirmation of the HR philosophy. The HR philosophy has an underlying belief in the employees' potential for growth. A positive HRD climate is important to make the organization more receptive to the introduction of relevant additional systems, and to make the existing systems more effective. In order to sustain HRD on a long-term basis, it is important to support the improved climate through the introduction of a comprehensive HR system. An integrated HRD system has many potential benefits, such as moving from alienation to participation, enhancing individual effectiveness, improving organizational climate and organizational effectiveness. The very concept of a system implies that one may intervene at any point of the system, but it will logically lead through the other subsystems towards the total system. The point of entry depends on the needs of the organization.

HRD as an Approach

This perspective has been put forward by Dayal (1993), who advocates that HRD is an approach, and not a function. This perspective highlights that the underlying belief of all HR programmes of an organization is individual growth and development, which lead to improved organizational performance. Dayal propounds that HR programmes are need-based, and may vary significantly in their approach and emphasis in the following ways:

- *Emphasis on philosophy*: When an organization articulates its beliefs about people and operationalizes them in personnel systems and managerial practices in the organization, it views HRD as a way of life, and not as a programme.
- *Emphasis on programmes*: Human resource initiatives by an organization are integrated with the problem areas identified by the organization.
- *Emphasis on leader behaviour*: In some situations, leader behaviour is regarded as the central feature of HR initiatives. Transformational leaders create an environment in which employees can improve their capabilities and achieve an impressive growth.

Growth of individuals without that of the organization is not sustainable. Hence, HR initiatives should aim at the development of the system as a whole.

The Indian Approach vis-à-vis the Western Approach

It is apparent from the above discussion that the Indian HRM frameworks suggest that HR practices should be aligned with the business plans of the organization and with each other, and that HR approaches should be adapted to the specific business strategies followed by the organization. The main distinguishing feature of the Indian approach is that it is anchored in *values*. However, both the Indian and the Western perspectives agree on the point that HR programmes should contribute towards both individual development and organizational effectiveness. Moreover, there needs to be a judicious blend between concern for the organization and that for the people. Other points of similarity between these perspectives are as follows:

- People are an important resource of the organization.
- Human resource systems and practices are strategically integrated. Changes in business strategy necessitate corresponding changes in HR strategy.
- Human resource systems lead to high employee commitment, cost effectiveness, low turnover, as also enhanced organizational effectiveness and profitability.
- There is a reciprocal interaction between HR practices and content, on one hand, and the climate of the organization, on the other. A supportive culture characterized by dominant values is proposed as essential for the successful implementation of HR practices in such a manner that both the individual and organizational objectives are achieved.

Over the last decade, the importance of HRM has increased, and it has become closely associated with business strategies. Thus, SHRM can be defined as a particular approach to the management of the employment relationship with a distinctive set of HR practices designed to produce specific individual and organizational outcomes—to secure the greater commitment of employees and promote synergy in order to increase organizational effectiveness. Since SHRM is an approach to manage the employment relationship, it follows that in seeking to gain competitive advantage, alternative strategies to the management of the workforce can be adopted by organizations. This has been discussed in the following section.

ALTERNATIVE HR STRATEGIES

Following are some examples of the business–HR linkage and the alternative HR strategies adopted by firms in different industries.

Contract Companies in the Manufacturing Sector

The use of contract workers has increased significantly at the production sites in the electric and auto industries since the 1990s. The purpose is to reduce personnel costs by transforming employee costs into a variable cost. Nowadays, contract workers provide services that are indispensable for manufacturing goods at many production sites. Accordingly, there has been a spurt of contract firms since the 1990s. Contract firms have managed to increase their client base through 'price competition' and their ability to supply the needed personnel speedily to client firms. Client firms also expect the contract firms to handle more skilled and technically challenging operations, and also to provide onsite operation management. Therefore, it has become essential for contract firms to encourage long-term commitment from contract workers, raise the skill levels of contract workers, and train the onsite production managers by devising training programmes and compensation systems.

It has become important for contract companies to practice strategic management so that they can utilize their resources most effectively. It is also important for contract companies to establish HRM practices that suit their business strategies if they are to generate high profits.

Business Strategies of Contract Firms

Fujimoto and Kimura classified the business strategies of contract firms on the basis of two criteria:

- Workers' skill levels: Whether the firm focuses on operations that require highly technical skills to add value to its services (development type), or on those operations that do not require highly advanced skills (acquisition type).
- Assigning onsite managers and improving operation management: Whether operation management is administered by the contract company (contractor-managed type) or the client company (client-managed type).

A firm that attaches importance to high skill levels, that is, *development type* of firms, will have an HRD system for its contract workers that will be characterized by training programmes emphasizing skill development, skill-based wage systems, promotion and pay-raise schemes, and encouragement to workers for long-term commitment. In contrast, a firm that has an *acquisition type* of policy on workers' skills will not feel the need to invest in an HRD system, or in other measures such as promotion/pay increase schemes. Such a firm cannot differentiate itself by the quality of human resources since it does not emphasize highly advanced skills. Instead, it adds value to its services by offering low contract fees.

Contractor-managed firms generate more value by providing operation management as well, even if they do not handle high-skill operations. These firms also add value to their services by raising their productivity levels. *Client-managed firms* find it easier to reduce personnel costs and offer services at lower levels since they do not have to assign personnel for administering operation management.

Based on the two criteria just discussed, four possible business strategies of contract firms were identified. These are shown in Table 1.8.

Each of the above four types of business strategies that can be followed by contract firms, will require appropriate and matching HR strategies. Some of these have been discussed below:

Development/contractor-managed type These firms add value by handling high-skill contract work and improving their operation management. The HRM practices of these firms include careful screening during selection to increase retention, providing candidates a realistic job preview, selection-board screenings for long-term commitment among candidates, skill-based evaluations, wage increases based on skill evaluations, offer of regular employment contracts to employees, and job rotations to expand the skill range of workers.

Acquisition/client-managed type These firms stay competitive through the speedy supply of contract workers and by handling contract operations that can be executed at the current skill level in a wide range of industries. The HRM practices include maintaining a human resource database of workers wishing to work as contract workers, but these firms have no evaluation and

Table 1.8: Types of Business Strategies of Contract Firms

Operation Management Policy	Workers' Skill Level	
	Require highly technical skills (*development type*)	**Do not require highly advanced skills (*acquisition type*)**
Administered by contract company, assigns onsite managers, in addition to operating production lines (*contractor-managed type*)	Development/ contractor-managed type	Acquisition/ contractor-managed type
Administered by client company. Contract firm operates only the production lines and relegates production management to the client company (*client-managed type*)	Development/ client-managed type	Acquisition/ client-managed type

Source: Fujimoto and Kimura

no system for rewarding the skill development of the contract workers. They are not active in providing training for their workers.

Restructuring and SHRM in Healthcare Organizations

The healthcare industry is in a growth mode and there is a high level of focus on healthcare costs. As part of the strategy, the hospital industry is likely to engage in downsizing and restructuring. Restructuring and downsizing have largely been associated with job loss and other psychological consequences. More recently, there have been attempts to understand the effectiveness of restructuring as an organizational tool for increasing profits, reducing costs, and increasing shareholder returns on investments.

Wooten and Decker (1996) proposed a strategic HRM model for downsizing/restructuring based on best-case practices. This model has three major components, that is, *pre-structuring*, *restructuring*, and *post-restructuring activities*. Wooten and Decker suggested that if hospitals and healthcare organi-zations are engaged in strategies involving these three components, they can adopt the practices that are known to be successful during restructuring.

According to the strategic HRM model proposed, the following steps should be adopted by hospitals that plan to restructure:

1. Environmental scan prior to developing and restructuring activities given the turbulent nature of the hospital industry. The scan should involve collecting, categorizing, and interpreting environmental information related to competitors and regulatory agencies, and a SWOT (strengths, weaknesses, opportunities, and threats) analysis.
2. The environmental scan will result in defining the business strategy—cost leadership, differentiation, or focus.
3. Pre-structuring should involve clarifying the core issues and the mission related to the strategy. The specific HR issues to be considered at this stage are:
   - Deciding the organizational design (hospitals generally use hybrid forms of structure due to the unique environmental conditions).
   - Conducting human resource audit (examining the knowledge, skills, and abilities of the employees and workforce utilization).
   - Conducting risk analysis.
   - Examining the existing culture and articulating what aspects of the culture and sub-culture need to be changed. The culture should support the proposed new mission and the strategy of the firm.
   - Deciding on reward systems and linking them to the business strategy (these reinforce the culture of the organization).
   - Deciding on support systems to assist employees, for instance, outplacement services for dismissed employees.

- Training communicators within the firm to systematically disseminate information about the restructuring to employees and to answer their queries and concerns.

4. Restructuring involves communicating decisions and implementing policies. At this stage, the following issues are important:
   - Communication from the top leadership about the plans for the restructuring, and the need to communicate a sense of justice. Reduction of workforce, job sharing, and voluntary separation incentives occur at this time.
   - Providing support and transition services after the downsizing. These range from hiring outplacement firms and establishing in-house career centres to involvement in community-based employment services. The transition services affect the commitment of the employees remaining with the organization.
   - Re-assignment of responsibility.
   - The need to alter the manner in which employees are recruited and retained.
5. The post-restructuring stage involves helping the organization evolve and adapt, rebuild trust, and clarify rewards. Several issues need to be addressed at this stage. These include the following:
   - Reinforcing the new mission, culture, and values of the restructured healthcare organization by redefining beliefs, structures, and practices. Since change is usually accompanied by disenchantment and disorientation, it is important to provide assistance to the employees in the form of workshops, stress management, and a general awareness of the stages of change.
   - Human resource activities directed towards survivors and other employees who may subsequently leave. Realistic future expectations should be generated among this group. To foster commitment and career growth, career development opportunities should be provided.
   - Recruitment and selection should support the new culture.
   - Rewards should support mission-related performance.

The above model reinforces the view that business strategy changes need to be accompanied by concomitant SHRM initiatives to ensure the success of the business strategy.

Competition-related HRM Changes in the Retail Banking Industry

Since the mid-1990s, the retail banking divisions of commercial banks are under pressure to change the way they do business. Banks are faced with an extremely competitive environment as well as threats from non-banking institutions. Information technology has changed the way people interact with their banks. In the 1970s and 1980s, the manufacturing industry had difficulty in switching over from the established methods of managing people when faced with increased competition. Manufacturing firms were seen as having failed to adopt HR strategies that could have produced higher quality products and made these organizations more flexible and cost-effective. In the 1990s, the retail banking sector was confronted with similar challenges. The intensely competitive environment has resulted in changes in HRM practices in retail banks. It is important for firms to manage people in ways that are consistent with their organizational strategy.

At the corporate level, retail banks are typically owned by a holding company that has its own strategic agenda. Sometimes, the retail banks may be strong and have independent lines of business. The strategy of the holding company must be understood along with the role of the retail bank in carrying out that strategy. In addition to its contribution to broader corporate aims, a retail bank may also have its own competitive strategy.

Focus or Niche Strategy

The consumer financial services industry is characterized by mergers and the likelihood of merger activity shapes much of the thinking of top manage-ment in most banks. New technologies for delivering financial services continue to be developed rapidly. The environment is increasingly dynamic and non-banking competitors are increasingly attracting investment funds and other products (such as alternatives for auto and home equity financing). This environment has encouraged retail banks to move to sales-oriented practices in order to compete successfully.

Larry Hunter (1995) from the Wharton School, University of Pennsylvania, concluded that retail banks mostly used the 'focus' strategy in terms of Porter's classification of business strategy. While all banks claim to be cutting costs (cost advantage strategy), none of the banks follow the goal of being the lowest cost provider. Moreover, true differentiation is nearly impossible to achieve in consumer-oriented financial services. The features can easily be imitated by competitors and there are very few barriers to the introduction of new products. Therefore, most banks follow the *focus* and *niche strategies*; the typical initiatives are as follows:

- being a 'one-stop' financial service provider
- aggressive selling to new customers
- aggressive cross-selling of new products to existing customers
- establishing a presence in chosen geographical markets

- establishing alternative channels of delivery of financial services
- developing a reputation for providing the highest quality service

Each strategy has implications for human resource imperatives. For example, the strategy focusing on gaining market share by selling a broader range of financial services to young professionals, will result in success for retail banks when the corresponding HRM strategies include incentive pay and performance appraisal systems that reward these kind of sales, specific training programmes aimed at these goals, the hiring and promotion of staff based on their ability to make such sales, and job designs that encourage customer contact.

Thus, it is evident from this discussion that strategic decisions should be backed by appropriate HRM practices for an organization to succeed.

Summary

All physical and capital resources depend on people for their efficient utilization, maintenance, and management. Hence, there is an increasing recognition among management thinkers of the importance of human resources in providing competitive advantage to organizations. As a result, employees are now referred to as human capital or human assets. Instead of viewing human resources as a cost to the organization', firms have begun to consider employees as 'investments'. Since business objectives are achieved through people, it is important to integrate HRM with the business strategy of the organization.

In this chapter, we discussed the meaning of SHRM and the evolution of HR function over time into a strategically focused one. According to the resource-based view (RBV) of the firm, human resources become a source of sustained competitive advantage for a firm when the four criteria of value, rareness, non-imitability, and organization are met. Factors that determine how investment oriented a firm is in its management of human resources were highlighted. Three conceptual approaches to SHRM, that is, the 'best practice', 'best fit', and 'HR bundles' approach, were examined to understand the concept of 'fit' between business strategy and HR strategy. The premise that distinctive HR practices are the drivers that lead to core competencies, firm competitiveness and, in turn, business strategies, was also discussed. Four theoretical perspectives of SHRM, viz. fit, functional, economic, and typological perspective, were presented and the relationship between business strategy and HR strategy was examined. The chapter discussed three bases of classification of HR strategies, that is, stages of business life-cycle, type of business strategy, and types and numbers of products. The Indian perspective on SHRM was also presented. The chapter ends with a few examples of the business-HR strategy linkage from the manufacturing, hospital, and retail banking industries.

Keywords

Administrative Theory is a classical organization theory proposed by Henri Fayol. The focus of this approach was on the most efficient way of structuring organizations. This approach attributed managerial success to certain principles of management.

Asset is something that is owned by the firm and that has an exchange value.

Best Practices are superior management practices that are readily identifiable and transferable across organizations irrespective of the context. All firms will attain performance improvements only if they identify and implement 'best practice' or 'benchmark'.

Change Management refers to specific efforts undertaken by a firm to steer a planned change in a specified direction with the help of a change agent.

Competitive Advantage is a situation where an organization is able to differentiate its products or services from those of its competitors to increase its market share and gains, and maintains an edge over its competitors.

Distinctive HR Practices refer to unique HR practices that help to create unique competencies that differentiate the products and services. This differentiation leads to competitiveness of the firm.

Employee Stock Option Plans (ESOP) give employees the right to purchase a fixed number of shares of the company stock at a specified, usually lower, price for a limited period of time. ESOPs are used by firms as an incentive for executives and as a retention tool.

External Fit is a theory that proposes that differences in business orientations or strategies of organizations call for different types of people as well as different HR strategies. This is also called vertical integration.

Greenfield Firms are high performing firms that are started from scratch at a new site.

HR Strategy refers to the planned and effective use of human resources by an organization to facilitate the successful achievement of the corporate strategy. It is concerned with ensuring that the organization has the required people, training, rewards, and good employee relations.

Human Capital is a term used to refer to the collective skills and knowledge of the total workforce of an organization that have an economic value to the organization and enhance its productivity and profitability.

Human Resource Management (HRM) is an overall approach towards the management of people working in the organization for accomplishing the goals of the organization.

Human Resources is a term used to refer to the people who work in an organization. These are the resources on which other resources depend for their effective and efficient utilization.

Internal Fit refers to the development and implementation of several HR practices together so that they are interrelated and internally consistent with each HR practice, complementing and reinforcing the other. This is also known as 'horizontal integration' or 'bundling'.

Knowledge Economy refers to all jobs, companies, and industries in which the knowledge and skills of people, rather than the capabilities of machines and technologies, determine competitive advantage.

Resource-Based View (RBV) is a view that holds that human resources contribute to sustained competitive advantage for a firm when they are valuable, non-tradable, non-imitable, and non-substitutable. This view is popularly called the VRIO framework

Scientific Management is an early approach to management and organizational behaviour proposed by F.W. Taylor. The approach focused on the role of employees as individuals and emphasized the importance of designing jobs as efficiently as possible.

Skill Mobility refers to the ease with which employees with a particular skill set can move from one employer to another with little loss in pay or responsibility.

Strategic Fit is a theory that proposes that if an organization seeks to maximize competitive advantage, it must match its internal resources and skills (organizational competencies) with the opportunities available in the external environment.

Strategic Human Resource Management (SHRM) is the relationship between HRM and strategic management in a firm. It is the pattern of planned human resource deployment and activities intended to enable the firm to achieve its goals.

Strategy refers to the determination of the long-term goals and objectives of an organization, and the allocation of resources necessary for carrying out these goals.

The Mission Statement of a company is a brief statement that represents 'why' the organization exists. It is a statement of the purpose of the firm.

Concept Review Questions

1. Define strategic human resource management (SHRM). What are the main points of difference between SHRM and human resource strategies?
2. Are people always an organization's most valuable asset? Why or why not? Discuss with reference to the growth of knowledge-based organizations. Give examples.
3. Should organizations view human resources from an investment perspective? Discuss the factors that determine the extent to which an organization is investment oriented in its management of human resources.
4. Compare and contrast the best fit and best practice approaches to the management of human resources.
5. Describe the Indian perspective on SHRM. How is it different from the Western view of SHRM?
6. Identify and discuss the different bases for classifying HR strategies. How can HR strategies help an organization to create competitive advantage?

Critical Thinking Questions

1. 'Strategic human resource management is largely about integration or strategic fit between HR strategy and business strategy'. Do you agree? Differentiate between external fit and internal fit. Give examples of organizations you know of, that have achieved a fit between business strategy and HR strategy. Describe and evaluate the type of fit that exists in each of these organizations.
2. Read the section on Barney's resource-based view (RBV). According to the VRIO framework, which type of human resources can be a source of competitive advantage for a firm? How can the application of VRIO transform HR function from being a 'cost' into a strategic function that contributes to the performance of an organization?
3. Describe the business strategy classification proposed by Porter. Which types of HR practices are likely to be adopted by organizations for each of the three generic business strategies proposed in this classification? Give examples of a few firms you know of that practice each of the three business strategies. Also, examine the corresponding HR strategies for each firm. Compare the HR strategies of the firms and explain how they depend on the characteristics of the business strategy of the firm.
4. According to one viewpoint, it is easier for a firm to find a new business strategy to go with the existing HR practices and competencies, than to develop new HR practices and competencies to match with the new business strategies. Do you agree? Explain the rationale behind this viewpoint. Cite examples of organizations that have relied on distinctive HR practices to attain competitive advantage.

Simulation and Role Play

1. Mr Apte has recently been deputed from a large public sector manufacturing firm to head the HR department of a national airline. He does not have prior experience in the airline industry. However, he has extensive experience as an HR person and has high levels of functional expertise. He has proved himself by successfully aligning HRM with the strategic objectives of the organization in his parent firm. The national airline has lost its monopoly with the entry of private players in the airline industry. As the head of HR, Mr Apte feels that the national airline has failed to align its strategy around its distinctive competencies. Mr Apte has resolved to bring up this issue in a meeting with the top management and highlight the need to build business strategy around the distinctive competencies of the firm.

   Six students should volunteer for the role-play, each playing the role of a member of the top management team. One student plays the role of Mr Apte. The other five play the following roles respectively: Head of Marketing, Head of Business Strategy, Head of Finance, Head of Operations, and the CEO. As Mr Apte, the student should convince the members of the team about the importance of designing the business strategy around the distinctive competencies of the firm. Further, he should emphasize that instead of attempting to imitate the strategy of its competitors, the airline should focus on its distinctive competencies. The other team members should raise questions about the suggestion and discuss its pros and cons. All the members should keep the contemporary scenario of the airline industry in mind. The role-play should end with a draft preparation that identifies the distinctive competencies of the airline and suggests the business strategy that would be most appropriate. Alternatively, the members may suggest what business strategy (according to Porter's classification) the airline should adopt and why. They should also suggest the HR strategy that will match the suggested business strategy.

2. Assume that you are an external consultant hired by a firm that is planning a restructuring exercise. After an extensive study of the firm, you discover that it continues to be traditional in its approach to managing human resources. You have taken an appointment with the Vice President (HR) of the firm to discuss your findings and to suggest changes. Structure your discussion around the following aspects:
   - the need to view human resources as an asset and a source of competitive advantage
   - the need to move towards a strategic perspective of HR function
   - major HR issues during and after the restructuring
   - changes in the HR strategy of the firm

Classroom Projects

1. The purpose of this activity is to discuss the direction of business–HR strategy linkage. Half the students in the class should take Position 1 and the other half should take Position 2 with respect to the notion of fit between business strategy and HR practices:

   Position 1: 'The competitive strategy of the firm should determine the HR strategy'

   Position 2: 'Distinctive HR practices of the firm determine the core competencies that determine the competitive strategy of the firm'

   Each student should individually develop and write his/her ideas in support of the position taken. The students of the class can be divided into two groups according to the position they take. The members of each group should share their individual ideas and develop arguments in support of their chosen position. After allowing 15 minutes time for group discussion, each group should present its arguments. Each group can have a presentation time of 10 minutes. An open discussion with the class should highlight the pros and cons of each position. The students should also be encouraged to cite examples of successful firms that have relied on either of the above positions to support their arguments.

2. This exercise needs some out-of-class preparation. As the first part of the project, students are asked to read the description of traditional HR versus strategic HR presented in the chapter. Each student should choose an organization and collect information about the HR function and strategy of this organization. The organizations should belong to one of the following industries: FMCG, pharmaceutical, airlines, hospitality, or software. The information should relate to the various aspects on which traditional HR differs from strategic HR. To obtain this information, the student can use Internet resources as well as available company documents. The students should prepare and submit this report to the class instructor prior to the class.

   For the second part of the project, the students should be divided into small groups based on their chosen industry. Each group should consist of the students who choose the same industry. Each group member should identify and discuss the nature of the HR function and practices followed by the organization he/she selects within the particular industry. They should also compare the organizations within the industry and discuss the similarities and differences, and the causes for the same. Class presentations should follow discussions on the importance of SHRM, transformation of HR function from a traditional to a strategic function, significance of linking business strategy and HR strategy, and intra-industry and inter-industry differences with respect to HR strategy.

3. Form groups of four to five members and discuss the significance of human resources for achieving competitive advantage with respect to the manufacturing as well as the service sector. Also, discuss whether human resources are a cost or an investment for an organization. Report your discussion to the class.

4. Apply the resource-based view (RBV) model to your institute/University. In groups of four, determine the value of the institute's human resources in terms of Barney's four criteria for achieving competitive advantage. Compare your institute/University with a competitor on these criteria. Develop an HR strategy to best deploy and utilize the human resources of the institute. Prepare a report for class discussion.

Field Projects

1. For this project, the instructor should divide the class into groups of five each. Each group should visit two organizations, both of which should be at the same stage of development in the business life cycle, that is, start-up, growth, maturity, or decline. The group members should conduct interviews with HR managers as well as a few senior line managers of the organizations to obtain information about the business strategies and HR strategies of these organizations. Each group should prepare a report for class presentation as well as a written report for submission to the instructor. The groups should make presentations in the class highlighting the development stage of the organizations they visit, their business strategy, and the nature of the HR strategy of these organizations. When all groups have made their presentations, the instructor should engage the class in a discussion about the need to match the HR strategies with the stage of development of the organization. The discussion should

also focus on how and why HR strategies of organizations at different stages of business life cycle differ from each other.

2. Visit a retail bank that has been through a merger or acquisition. Interview one or two senior managers of the bank in order to obtain information about the business strategies of the two banks, prior to as well as after the merger/acquisition. Use Porter's classification of business strategy to determine the strategy of the banks. Also interview the HR managers of the banks to understand the HR strategy of each of these organizations before the merger or acquisition. Obtain information on the changes in HR practices after the merger/acquisition. Based on the information, answer the following questions:
   - What type of business strategy was followed by each bank prior to merger/acquisition?
   - Was there a change in the business strategy of these banks after the merger/acquisition?
   - What HR strategies were followed by each bank prior to the merger/acquisition?
   - Did the HR strategies change post merger/acquisition?
   - What were the main HR aspects related to the mergers and acquisitions that were faced by these banks? How were these issues handled?
   - Were the HR practices and strategy congruent with the business strategy in the newly formed entity as a result of the merger/acquisition?

   You may also interview four to five line managers to obtain their perception of and satisfaction with the merger/acquisition. Find out what human resource practices were used and obtain their evaluations on what was helpful or harmful. Also obtain their appraisal about the success or failure of the merger/acquisition. On the basis of the above information present a critical appraisal of the role of HR strategy in the success or failure of business decisions such as mergers and acquisitions. Prepare a written report for classroom submission.

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