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# **Making Human Resource Management Strategic**

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**Lesson 2**

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# Learning objectives

- After this lecture you should be able to:
    - Explain how a strategic approach to HRM can improve the effectiveness of organizations.
    - Describe the strategy formulation process and the competitive strategies.
    - Explain the universalistic and contingency approaches to the main HR strategies.
    - Explain how HR strategies and competitive strategies are aligned.
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# What is Strategy?

- **Strategy** is a set of coordinated choices about goals, actions and resources.
  - From an HRM perspective, there are actually two types of strategy
    1. **competitive business strategy**, which focuses on choices about how to serve the needs of customers
    2. **HR strategy**, which focuses on choices concerning the management of people within the organization
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# Strategy Formulation Process

## Step 1: Gather Information

- Scan the organizational environment to assess opportunities and threats
- Assess internal capabilities and resources to determine strengths and weaknesses
- Focus on human resources as a rare resource that is difficult to imitate



## Step 2: Analyze Information and Make Decision

- Form a group that meets together to develop collective intuition
- Encourage quick conflict
- Set flexible timetables that keep the group moving toward decisions
- Diffuse politics and create a culture of cooperation



## Step 3: Implement the Decision

- Take action and make specific plans for action
- Assign specific areas of responsibility and hold people accountable for results
- Develop procedures to measure success in carrying out decisions

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# Competitive Strategy

- The logic of the **business idea**....
  - Understanding broad changes outside the organization is critical for HR strategy as well → Organizations need information about demographic and cultural changes to forecast **how many workers with particular skills will be available in the future**.
  - There are two **strategies** pursued at the business level.
    - **Cost leadership strategy**
    - **Differentiation strategy**
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# HR strategy: the Universalistic approach

- The **universalistic approach** seeks to identify a set of human resource practices that is beneficial for all organizations → **the commitment strategy:**
    - communicate the **message that management cares about employees.**
    - help to ensure that employees have **training** and freedom to pursue important **job tasks.**
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# HR strategy: the Contingency approach

## (1)

- The **contingency approach** seeks to match HR practices with the **competitive business strategy**
  - For Example, organizations concerned with reducing costs (cost leadership) emphasize processes and general roles. While, organizations following differentiation strategies will emphasize flexibility and distinctiveness.
  - Another difference is whether the organization has an **internal or an external labor orientation**
    - Organizations with an internal labor orientation seek long-term relationships with employees
    - Organizations with an external labor orientation seek flexibility and do not make long-term commitments to employees.
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# HR strategy: the Contingency approach (2)

## *Strategic Human Resource*

Cost strategy	Differentiation Strategy
Emphasis on group <i>contribution</i>	Emphasis on individual contribution
Focus on improving processes	Focus on outcomes and results
Development of general employee skills	Development of specific employee skills
Cooperation among employees	Moderate competition among employees
Efficiency culture	Innovation culture
Clearly prescribed tasks	Flexible task assignments
Rules and procedures that standardize work	Few rules and procedures; exceptions to rules allowed

# HR strategy: the Contingency approach (3)

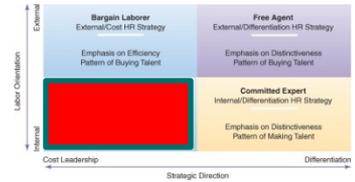
## *Differences in Labor Orientation*

Internal	External
Hiring of people early in their careers	Hiring people who have already developed skills
Extensive orientation for new employees	Limited orientation of company policies
Focus on internal promotions	Focus on bringing in new talent
Ongoing training opportunities	Limited training opportunities
Development of skills valuable only to specific organization	Development of skills valuable to many organizations
Employees contribute because of loyalty	Acceptance of employee layoffs and contribution for money
People identify with the organization	People identify with profession

# Four HR strategies



# The Loyal Soldier



- Hiring people early in their careers and retaining loyal employees that fit the organizational culture.
- Broad roles and a great variety of tasks.
- Efforts to reduce the employees' turnover.
- Extensive training in different skills.
- Careers with very different positions.
- Performance appraisals on cooperation rather than competition.
- Compensation with long-term incentives and benefits linked to the overall performance of the organization.
- Unions, frequently help to build feelings of unity.

# Bargain Laborer



- Hiring employees who do not demand high wages.
- Coordination with direct supervision.
- Clearly defined simple tasks that do not require developed skills.
- Little attention to meeting the long-term needs of employees. No careers with clear paths for promotion.
- Performance appraisal focuses on day-to-day feedback and rarely incorporates formal measures.
- Training limited to on-the-job techniques.
- Compensation on hours worked with no benefits and long-term incentives.
- The lack of consistency among employees tends to make unions somewhat rare.

# Committed Expert



- Hiring people early in their careers and retaining specialized ones that fit with the organizational culture.
- Employees have freedom to innovate in performing tasks.
- Long-term training to be experts in specific fields.
- Performance appraisals are designed to balance cooperation and competition.
- Careers with numerous promotions into similar jobs with increasing responsibility.
- Compensation is relatively high and usually includes a benefits package.

# Free Agent



- Hiring people with already critical skills, not expected to remain with the organization for a long period of time.
- Work with extensive responsibility and autonomy within specific areas.
- Short-term commitment, compensation and benefits.
- No training and no long-term careers in the organization.
- Performance appraisal focuses on outcomes and results and linked with compensation.
- Unions are rarely seen in these organizations

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# Alignment of hr and competitive business strategies

- Organizations are likely to have HR practices that fit with their competitive business strategies → the four HR strategies
  - Research suggests that organizations with a cost leadership competitive strategy excel when they follow a Loyal Soldier HR strategy.
  - Organizations with a differentiation competitive strategy excel when they use a Committed Expert strategy.
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