



STUDENT SUMMARY NOTES

chapter 2 corporate strategy and strategic HRM

Chapter overview

Chapter 2 discusses the concept of strategic HRM (SHRM) and explores various themes associated with SHRM. It also introduces a new dimension into the debate – the notion of a ‘green strategy’. It begins however with introducing the student to the traditional prescriptive strategic management model, the SWOT model. The chapter then goes on to examine competing SHRM models: the ‘matching’ model, the ‘control-based’ model, the ‘resource-based’ model and an ‘integrative’ model.

Chapter objectives:

After reading this chapter, you should be able to:

1. Describe the characteristics of strategic decisions and define what is meant by strategy and strategic management
2. Appreciate the meaning of ‘quadruple bottom line’ as a firm or organization strategy for sustainable work systems
3. Describe how strategic priorities vary by level – corporate, business and operational – and comment on the links between business strategy and HRM
4. Explain three models of HR strategy, control, resource and integrative.
5. Comment on the limitations of the literature on strategic HRM and HR strategy

Introduction

Strategic planning model shows how corporate and business level strategies, as well as environmental pressures determine the choices of HRM structures, policies and practices.

A number of important questions are addressed: how do higher-level corporate decisions affect HRM? Is it possible to identify a cluster or 'bundle' of HR practices with different strategic competitive models? Do firms that adopt certain bundles of HR practices experience superior performance?

Strategic Management

Definition: strategic management refers to a pattern of managerial decisions and actions that determines the long-run performance of the organization.

Strategic management requires constant adjustment of three interdependent poles (see Figure 2.1).

Model of strategic management

The prescriptive management literature describes many different strategic planning models. Most however replicate what we have done; they reduce the basic idea to the SWOT model.

The model reduces the strategic management process into five neatly delineated steps.

HRM in practice 2.1 Why is self-employment in the UK at a record high?

This example (p. 42) emphasizes the importance of understanding the 'flexible labour market' and its implications for SHRM.

Hierarchy of strategy

The prescriptive model depicts different levels of strategy: corporate, business, and functional. Strategies must be integrated. **See Figure 2.3** (p. 44)

At the functional level, HR strategy is formulated and implemented to facilitate the business strategy goals.

Business-HRM links are classified in terms of low-cost, differentiation and focus. Four simple business-level strategies are discussed with relevant examples: low-cost leadership strategy (e.g. Wal-Mart), Differentiation strategy (e.g. Tommy Hilfiger), Focused low-cost leadership strategy (e.g. Rent-a- Wreck car hire) and Focused differentiation (e.g. Mountain Equipment Co-operative).

Miles and Snow's (1984) strategic models are examined: Defenders, Prospectors, Analyzers and Reactors. Proactive - HR specialist helps formulate strategy.

Reactive - HR function is fully subservient.

Some models emphasize the importance of the environment as a determinant of HR policies and practices.

Strategy, ethics and corporate social responsibility

This section provides an introduction to ethics and CSR and draws attention to ethical aspects of strategic decision-making. Unethical strategic decisions can have profound long-term implications for profits and brand image. They can also have negative impacts on workers and local communities. E.g., 'Hackingate' and unethical violations of emission laws by motor manufacturer, VW.

Corporate sustainability

This section provides one definition of environmental sustainability. It also draws attention to a recurrent theme in the literature that the issues of environmental sustainability, business ethics and CRS are closely interrelated, and discussions of HRM's role should be addressing these issues as part of the same strategic narrative. **Figure 2.4** (p. 48) illustrates the long-term balance of economic, environment, social and cultural goals – the so-called *quadruple bottom line*. The issues of ethical strategic decision-making and sustainability are more fully examined in Chapter 11 (HRM and ethics) and Chapter 16 (Green HRM and environmental sustainability).

Strategic HRM

SHRM literature is rooted in 'manpower' planning.

Strategic HRM is described as the process by which managers seek to link human assets to the strategic needs of the organization.

HR strategy is discussed in terms of an 'outcome' – the pattern of decisions relating to HR policies and practices.

HRM and globalization 2.1 : 'Business urged to keep on eco-track?'

This report (p. 51) illustrates the need for responsive governments and the need for sustainable corporate strategies.

The four-task model of HRM provides the rationale "the *leitmotiv* of HRM" that guides the strategic choice of HR policies and practices. **See Table 2.1** (p. 52)

The environment as a determinant of HR strategy is examined as is the notion of 'upstream' or 'first-order' strategic decisions. HR approaches are 'third-order' strategic decisions.

HRM in practice 2.2 More women leaders: the answer to the financial crisis?

This report (p. 53) illustrates the difficulties of changing attitudes and culture towards gender perceptions in the workplace.

The 'best-fit' model

The best-fit school of SHRM argues that the variety in HR practices observed suggest that managers adapt HR policy and practices to 'fit' their specific context.

This school of thought proposes that SHRM should be concerned with matching the "five ps" which reinforce employee role behaviour for each generic Porterian competitive strategy.

The notion of 'fit' is also a central tenet of Beer's et al model (refer back to Chapter 1 and **Figure 1.3**, p. 20)

Limitations of the matching model: Conceptual - predicted upon the rational view of strategic decision-making. Empirical - limited empirical support for the model.

The 'best-practice' model

The best-practice school of SHRM argues that all organizations will see performance improvements if managers identify and enact a universal set of 'best' HR practices.

The section compares Pfeffer's seven 'best' practices with Den Hartog and Verburg's eight 'best' practices. See Table 2.2 (p. 55).

Limits: research suggests that a very limited number of organizations have implemented Pfeffer's seven 'best' practices. The section also raises the question: For whom is 'best practice' best? This takes the reader into a brief discussion on CEO's pay and poses the question: Is the growing pay gap between CEO and regular workers' pay justified?

Study Tip:

To provide further insight into HRM-business strategy links and to stimulate discussion, see Glenn Morgan's chapter 'Understanding Multinational Corporation' (pp. 554-601) in *Oxford Handbook of Work & Organization* (eds.) Ackroyd, Batt, Thompson and Tolbert (2005). Morgan shows the political nature of MNCs and how active they have been in reorganizing themselves to operate profitably within new global networks and markets. You may also like to draw on Mintzberg et al (1998), which offers an excellent critique of Porter's generic competitive strategies. For instance, the authors argue that strategic specialization might cause inflexibility and actually narrow a firm's vision.

The 'resource-based' model

The resource-based school of SHRM emphasizes the strategic value of human assets and continuous workplace strategic learning. Whereas the matching SHRM model focuses on external 'Opportunities' and 'Threats' (from SWOT), the resource-based SHRM model focuses on the strategic significance of internal 'Strengths'.

Organizations can identify which resources are potentially strategic by using Barney's (1991) criteria: a) valuability b) rarity c) inimitability d) substitutability. The organization's resources and capabilities shape strategy (see **Figure 2.5**, p. 57).

a) Limitations of resource-based model

- Conceptual: conceptual vagueness, imbalance giving too much attention to internal resources at the expense of external competition.

- Empirical: little evidence that many firms have adopted the 'learning organization' or 'soft' SHRM model.

b) Integrative model characterizes two dimensions of HR strategy:

- Acquisition and development focuses on internal human capital
- Locus of control focuses on monitoring employees' compliance

Two dimensions (a and b) yield four 'ideal types' of dominant HR strategies: commitment, collaborative, paternalistic and traditional

Study tip:

Go to the *HRM As I See It* feature (p. 58). The interview with a HR professional, Sarah Myers, discusses, amongst other HR practices, talent management, which can be linked to the resource-based model.

HR strategy and organizational dynamics

This section of the chapter emphasizes the point that HR strategies are not uniform before going on to examine the link between business strategy and HR strategy. HR strategies are the pattern of decisions regarding HR policies and practices used by management to design work, select, train and develop, appraise, motivate and control employees.

Three models to differentiate 'ideal types' of HR strategies:

1. Control-based model
2. Resource-based model
3. Integrated model

Control-based model discusses management structures and HR strategy as instruments to control all aspects of the labour process in order to secure higher efficiency and profitability. Individual, bureaucratic and technical controls are discussed. *Process-based* control adopted when mean-ends relation are certain
Outcome-based controls adopted when means-ends are less certain

Study tip: Form a peer study group. In your group look at the 'Reflective Question' section on p. 60, and discuss the question: To what extent do organizations have different types of control systems depending on the firm's product or service? Think of examples.

HRM and globalization 2.2: 'The effect of business strategy on workers' psychological health'. This feature (p. 61) illustrates how HR strategy can impact on individual employees in non-traditional ways – a violation of the psychological contract, rather than downsizing, which is a traditional focus.

Resource-based model (RBV) underscores the importance of HRD.

Integrated model of HR strategy attempts to synthesize elements of both the control and RBV models. Figure 2.6 (p. 63) shows that two main dimensions of HR strategy yield four different 'ideal types' of dominant HR strategy: commitment, traditional, collaborative and paternalistic.

Critiquing SHRM and models of HR strategy

Critical organizational theorists have questioned the linear and 'rational' choice model because lack of information, time and 'cognitive capacity'.

SHRM and HR strategy thesis focuses too much on the link between external marketing strategies the HR function and pays insufficient attention to internal operating strategies.

The notion that a commitment HR strategy follows from a real or perceived 'added value' competitive strategy is plausible in theory but problematic in practice. Managerial behaviour is influenced also by the indeterminacy of the employment contract.

Achieving the goal of 'close fit' of business and HR strategy may contract the goal of employee commitment and cooperation. The foregoing analysis suggests that there is 'no one best way' of managing contradictions.

Study tip: To gain further insight into HRM-business strategy links, see May Wong's (2001) article, 'The strategic use of contingent workers in Hong Kong's economic upheaval.' *Human Resource Management Journal*, 11 (4). The author discusses how companies' use of contingent employment changes in the contextual environment regarding their long-term growth. The articles may be used to examine aspects of international HRM, as well as an introduction to the changing context of HRM and the debate on non-standard employment practices.

Engaging in critical thinking

Chapter Case Study – Zuvan Winery

The case study asks students to demonstrate an understanding of strategic management and environmental sustainability.

Study tip: This case requires you to demonstrate that you understand the key concepts of corporate strategy, the challenges associated with enacting a strategy and examining the links between 'green' strategy and HR strategy.

Reflective question/essay question

Is the resource-based SHRM model distinctive? How does this model relate to the debate on 'hard' and 'soft' variants of HRM?

Tip to students: This question requires you to evaluate strategic HRM models. A comprehensive answer would define strategy and explain HRM-business strategy links. Note that the matching model emphasizes external 'opportunities' and 'threats' facing the firm, whereas the resource-based model draws attention to internal 'strengths' i.e., the SWOT analysis. Barney's (1991) four criteria for identifying potential strategic resources should also be discussed: a) valuability b) rarity c) inimitability (d) substitutability. The resource-based approach, with its focus on 'knowledge capital' and learning reflects many of the features contained in the 'soft' version of HRM. Look at figure 2.6 and consider the merits of 'commitment HR strategy' versus 'traditional HR strategy'.