

# ARMSTRONG'S HANDBOOK

OF HUMAN RESOURCE  
MANAGEMENT PRACTICE

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12TH EDITION

# ARMSTRONG'S HANDBOOK

OF HUMAN RESOURCE  
MANAGEMENT PRACTICE



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**Michael Armstrong**

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# SUPPORTING RESOURCES FOR INSTRUCTORS AND STUDENTS

**A**s a reader of *Armstrong's Handbook of Human Resource Management Practice* you have automatic access to a range of additional resources designed to enhance your experience and use of the book. Full details are provided below.

## **For practitioners**

78 questionnaires and checklists included in the 14 toolkits for use as diagnostics.

58 action points and checklists for HR activities.

## **For lecturers and instructors**

615 PowerPoint slides virtually all containing additional notes covering 56 of the 70 chapters (the remaining 14 chapters contain toolkits).

Session outlines for each chapter other than the toolkits.

A glossary of 950 HRM terms.

A bibliography of 706 books and articles.

A selection of multiple-choice questions.

51 case studies.

A literature review covering 382 publications.

## **For students**

Flash cards for revision purposes containing answers to the 454 questions posed in the text.

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A bibliography of 706 books and articles.

A literature review covering 382 publications.

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# PREFACE

A number of radical changes have been made to this 12th edition of the *Handbook*. Two whole new parts have been added. One covers 16 key skills required by human resource management (HRM) professionals, the other contains 14 toolkits that provide practical guidance on developing and implementing fundamental HRM practices. These additional parts recognize that, however important the conceptual framework of HRM is as dealt with in the first two parts of the book and however important it is to know about the different areas of HRM as covered in the next six parts, ultimately HRM is all about putting things into practice. This needs a wide range of skills and a systematic

approach to managing development and implementation programmes.

Other innovations include many more illustrations of HRM in action by means of case studies and examples, and a number of critical evaluations of significant HRM concepts or approaches.

Apart from these substantial changes, the *Handbook* has been brought up to date by reference to the findings of a number of recent significant research projects and other investigations into how HRM operates in practice. The plan of the book is illustrated in the ‘route map’ shown in Figure 0.1.

The companion website provides further resources for students and lecturers, as described on page xxv.

**FIGURE 0.1** *Handbook of Human Resource Management Practice route map*

# PART I

## The practice of human resource management

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### Introduction

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Human resource management (HRM) is a comprehensive and coherent approach to the employment and development of people. HRM can be regarded as a philosophy about how people should be managed that is underpinned by a number of theories relating to the behaviour of people and organizations. It is concerned with the contribution it can make to improving organizational effectiveness through people but it is, or should be, equally concerned with the ethical dimension – how people should be treated in accordance with a set of moral values. HRM involves the application of policies and practices in the fields of organization design and development,

employee resourcing, learning and development, performance and reward, and the provision of services that enhance the wellbeing of employees. These are based on human resource (HR) strategies that are integrated with one another and aligned to the business strategy.

Some people criticize the notion of referring to people as ‘resources’ as if they were any other factor of production. Osterby and Coster (1992: 31) argued that: ‘The term “human resources” reduces people to the same category of value as materials, money and technology – all resources, and resources are only valuable to the extent they can be exploited or leveraged into economic value.’ ‘People management’ is sometimes preferred as an alternative, but in spite of its connotations, ‘HRM’ is the term most commonly used.

Whatever term is adopted the approach should be based on the principle laid down by Schneider (1987: 450) that: 'Organizations are the people in them; that people make the place ... Positive job attitudes for workers in an organization can be expected when the natural inclinations of the persons there are allowed to be reflected in their behaviours by the kinds of processes and structures that have evolved there.'

But as Keegan and Francis (2010: 873) observed, HR work is now 'largely framed as a business issue'. The emphasis is on business alignment and strategic fit. These are important requirements, but focusing on them can lead HR professionals to place correspondingly less emphasis on employee needs and motivations when developing their new and altered arrangements. A simplistic view of the business

imperative permits little room for considering how HR strategy should impact on individual employees. HRM indeed aims to support the achievement of business goals but, equally, it should aim to build a relationship based on trust, openness and personal fulfilment.

This first part of the handbook deals with the broad areas and concerns of the practice of HRM, covering its conceptual basis, the strategic framework within which HRM activities take place and the various factors that affect it, including the impact of HRM on performance, the international context, the specific functions of human capital management, knowledge management and competency-based HRM and, importantly, the ethical and social responsibility considerations that need to be taken into account when practising HRM.

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# 01

# The concept of human resource management

## KEY CONCEPTS AND TERMS

Added value	Agency theory
AMO theory	Commitment
Contingency theory	Hard HRM
HR philosophy	Human capital theory
Human resource management (HRM)	Institutional theory
Motivation	Organizational behaviour theory
Organizational capability	Resource dependence theory
Resource-based theory	Soft HRM
Strategic human resource management (SHRM)	Transaction costs theory
Unitarist	

## LEARNING OUTCOMES

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On completing this chapter you should be able to define these key concepts. You should also know about:

- The meaning of HRM
- The hard and soft versions of HRM
- The reservations about HRM
- How HRM developed
- The conceptual framework of HRM
- The position of HRM today

## Introduction

Human resource management (HRM) is concerned with all aspects of how people are employed and managed in organizations. It covers activities such as strategic HRM, human capital management, knowledge management, corporate social responsibility, organization development, resourcing (workforce planning, recruitment and selection and talent management), learning and development, performance and reward management, employee relations, employee wellbeing and the provision of employee services.

HRM as conceived in the 1980s had a conceptual framework consisting of a philosophy underpinned by a number of theories drawn from the behavioural sciences and from the fields of strategic management, human capital and industrial relations. The HRM philosophy was heavily criticized in the 1990s by academics, but this criticism has subsided, perhaps because it became increasingly evident that the term 'HRM' was being used as a synonym for what used to be called 'personnel management'. HRM practice is no longer governed by the original philosophy, if it ever was. HRM today is simply what HR people and line managers do. Few references are now made to the HRM conceptual framework. This is a pity – an appreciation of the philosophy and underpinning theories of HRM provides a sound basis for understanding and developing HR practice.

The aim of this chapter is to remedy this situation. It starts with an overview of HRM and continues with analyses of the concept of HRM and its underpinning theories. Reference is made to the reservations about HRM and this leads to an assessment of where HRM has got to now. Following this analysis the next two chapters explain how in general terms HRM is planned through the processes of strategic HRM and delivered through the HR architecture and system, by the HR function and its members, and by line managers.

## HRM overview

The following overview of HRM explains what it is, sets out its main concerns and summarizes the contribution of those who originated and developed the concept. This provides the backcloth to the

analysis of the conceptual framework in the next section.

### HRM defined

Human resource management can be defined in line with the original concept as a strategic, integrated and coherent approach to the employment, development and wellbeing of the people working in organizations. It was described more pragmatically by Boxall and Purcell (2003: 1) as 'all those activities associated with the management of employment relationships in the firm'. A later more comprehensive definition was offered by Watson (2010: 919):

HRM is the managerial utilisation of the efforts, knowledge, capabilities and committed behaviours which people contribute to an authoritatively co-ordinated human enterprise as part of an employment exchange (or more temporary contractual arrangement) to carry out work tasks in a way which enables the enterprise to continue into the future.

### The development of the HRM concept

What might be called the founding fathers of HRM were the US academics Michael Beer and Charles Fombrun and their colleagues. In the UK they were followed by a number of commentators who developed, explained and frequently criticized the concept.

Beer *et al* (1984) produced what has become known as the 'Harvard framework'. They started with the proposition that: 'Human resource management (HRM) involves all management decisions and actions that affect the nature of the relationship between the organization and employees – its human resources' (*ibid*: 1). They believed that: 'Today ... many pressures are demanding a broader, more comprehensive and more strategic perspective with regard to the organization's human resources' (*ibid*: 4). They also stressed that it was necessary to adopt 'a longer-term perspective in managing people and consideration of people as a potential asset rather than merely a variable cost' (*ibid*: 6). Beer and his colleagues were the first to underline the HRM tenet that it belongs to line managers. They suggested that HRM had two characteristic features: 1) line managers accept more responsibility



for ensuring the alignment of competitive strategy and HR policies; and 2) HR has the mission of setting policies that govern how HR activities are developed and implemented in ways that make them more mutually reinforcing.

The other major early contributors to the development of the philosophy of HRM – Fombrun *et al* (1984) – produced what has been termed the ‘matching model’, which indicated that HR systems and the organization structure should be managed in a way that is congruent with organizational strategy. This point was made in their classic statement that: ‘The critical management task is to align the formal structure and human resource systems so that they drive the strategic objectives of the organization’ (*ibid*: 37). Thus they took the first steps towards the concept of strategic HRM.

Following these US pioneers, as Legge (2005: 101) commented, ‘the term [HRM] was taken up by both UK managers (for example, Armstrong, 1987; Fowler, 1987) and UK academics’. Hendry and Pettigrew (1990: 18) observed that: HRM was ‘heavily normative from the start: it provided a diagnosis and proposed solutions’. They also commented that: ‘What HRM did at this point was to provide a label to wrap around some of the observable changes, while providing a focus for challenging deficiencies – in attitudes, scope, coherence, and direction – of existing personnel management’ (*ibid*: 20).

## The goals of HRM

The goals of HRM are to:

- support the organization in achieving its objectives by developing and implementing HR strategies that are integrated with the business strategy (strategic HRM);
- contribute to the development of a high-performance culture;
- ensure that the organization has the talented, skilled and engaged people it needs;
- create a positive employment relationship between management and employees and a climate of mutual trust;
- encourage the application of an ethical approach to people management.

HRM is delivered in most organizations by HR specialists working in partnership with line managers.

## The diversity of HRM

The practice of HRM can be diverse. Dyer and Holder (1988) pointed out that HRM goals vary according to competitive choices, technologies, characteristics of employees (eg could be different for managers) and the state of the labour market. Boxall (2007: 48) observed that: ‘Human resource management covers a vast array of activities and shows a huge range of variations across occupations, organizational levels, business units, firms, industries and societies.’

## Hard and soft HRM

One aspect of diversity is the distinction made by Storey (1989: 8) between the ‘hard’ and ‘soft’ versions of HRM. He wrote that:

The hard one emphasizes the quantitative, calculative and business-strategic aspects of managing human resources in as ‘rational’ a way as for any other economic factor. By contrast, the soft version traces its roots to the human-relations school; it emphasizes communication, motivation and leadership.

However, it was pointed out by Keenoy (1997: 838) that ‘hard and soft HRM are complementary rather than mutually exclusive practices’ and research in eight UK organizations by Truss *et al* (1997) indicated that the distinction between hard and soft HRM was not as precise as some commentators have implied. Their conclusions are set out below.

### Source review

Conclusions on hard and soft models of HRM – Truss *et al* (1997: 70)

Even if the rhetoric of HRM is ‘soft’, the reality is almost always ‘hard’, with the interests of the organization prevailing over those of the individual. In all the organizations, we found a mixture of both hard and soft approaches. The precise ingredients of this mixture were unique to each organization, which implies that factors such as the external and internal environment of the organization, its strategy, culture and structure all have a vital role to play in the way in which HRM operates.

## The philosophy of human resource management

The following explanation of HRM philosophy was made by Legge (1989: 25) whose analysis of a number of HRM models identified the following common themes:

That human resource policies should be integrated with strategic business planning and used to reinforce an appropriate (or change an inappropriate) organizational culture, that human resources are valuable and a source of competitive advantage, that they may be tapped most effectively by mutually consistent policies that promote commitment and which, as a consequence, foster a willingness in employees to act flexibly in the interests of the 'adaptive organization's' pursuit of excellence.

Storey (2001: 7) noted that:

the beliefs of HRM included the assumptions that it is the human resource which gives competitive edge, that the aim should be to enhance employee commitment, that HR decisions are of strategic importance and that therefore HR policies should be integrated into the business strategy.

## Underpinning theories of HRM

The original notion of HRM had a strong theoretical base. Guest (1987: 505) commented that: 'Human resource management appears to lean heavily on theories of commitment and motivation and other ideas derived from the field of organizational behaviour.' These theories are summarized below.

### Commitment

The significance in HRM theory of organizational commitment (the strength of an individual's identification with, and involvement in, a particular organization) was highlighted in a seminal *Harvard Business Review* article by Richard Walton.

### Source review

From control to commitment – Walton (1985: 77)

Workers respond best – and most creatively – not when they are tightly controlled by management, placed in narrowly defined jobs and treated as an unwelcome necessity, but, instead, when they are given broader responsibilities, encouraged to contribute and helped to take satisfaction in their work. It should come as no surprise that eliciting commitment – and providing the environment in which it can flourish – pays tangible dividends for the individual and for the company.

The traditional concept of organizational commitment resembles the more recent notion of organizational engagement (see Chapter 14).

### Organizational behaviour theory

Organizational behaviour theory describes how people within their organizations act individually or in groups and how organizations function in terms of their structure, processes and culture. It therefore influences HRM approaches to organization design and development and enhancing organizational capability (the capacity of an organization to function effectively in order to achieve desired results).

### Motivation theory

Motivation theory explains the factors that affect goal-directed behaviour and therefore influences the approaches used in HRM to enhance engagement (the situation in which people are committed to their work and the organization and are motivated to achieve high levels of performance).

### AMO theory

The 'AMO' formula as set out by Boxall and Purcell (2003) states that performance is a function of

Ability + Motivation + Opportunity to Participate. HRM practices therefore impact on individual performance if they encourage discretionary effort, develop skills and provide people with the opportunity to perform. The formula provides the basis for developing HR systems that attend to employees' interests, namely their skill requirements, motivations and the quality of their job.

### **Human capital theory**

Human capital theory is concerned with how people in an organization contribute their knowledge, skills and abilities to enhancing organizational capability and the significance of that contribution.

### **Resource dependence theory**

Resource dependence theory states that groups and organizations gain power over each other by controlling valued resources. HRM activities are assumed to reflect the distribution of power in the system.

### **Resource-based theory**

Resource-based theory states that competitive advantage is achieved if a firm's resources are valuable, rare and costly to imitate. HRM can play a major part in ensuring that the firm's human resources meet those criteria.

### **Institutional theory**

Organizations conform to internal and external environmental pressures in order to gain legitimacy and acceptance.

### **Transaction costs theory**

Transaction costs economics assumes that businesses develop organizational structures and systems that economize the costs of the transactions (interrelated exchange activities) that take place during the course of their operations.

### **Agency theory**

Agency theory states that the role of the managers of a business is to act on behalf of the owners of

the business as their agents. But there is a separation between the owners (the principals) and the agents (the managers) and the principals may not have complete control over their agents. The latter may therefore act in ways that are against the interests of those principals. Agency theory indicates that it is desirable to operate a system of incentives for agents, ie directors or managers, to motivate and reward acceptable behaviour.

### **Contingency theory**

Contingency theory states that HRM practices are dependent on the organization's environment and circumstances. This means that, as Paauwe (2004: 36) explained:

The relationship between the relevant independent variables (eg HRM policies and practices) and the dependent variable (performance) will vary according to the influences such as company size, age and technology, capital intensity, degree of unionization, industry/sector ownership and location.

Contingency theory is associated with the notion of *fit* – the need to achieve congruence between an organization's HR strategies, policies and practices and its business strategies within the context of its external and internal environment. This is a key concept in strategic HRM.

## **Reservations about the original concept of HRM**

On the face of it, the original concept of HRM had much to offer, at least to management. But for some time HRM has been a controversial topic in academic circles. The main reservations have been that HRM promises more than it delivers and that its morality is suspect:

- Guest (1991: 149) referred to the 'optimistic but ambiguous label of human resource management'.
- 'The HRM rhetoric presents it as an all or nothing process which is ideal for any organization, despite the evidence that different business environments require

different approaches' (Armstrong, 2000: 577).

- HRM is simplistic – as Fowler (1987: 3) wrote: 'The HRM message to top management tends to be beguilingly simple. Don't bother too much about the content or techniques of personnel management, it says. Just manage the context. Get out from behind your desk, bypass the hierarchy, and go and talk to people. That way you will unlock an enormous potential for improved performance.'
- The unitarist approach to employee relations implicit in HRM (the belief that management and employees share the same concerns and it is therefore in both their interests to work together) prompted Fowler (1987: 3) to write: 'At the heart of the concept is the complete identification of employees with the aims and values of the business – employee involvement but on the company's terms. Power in the HRM system remains very firmly in the hands of the employer. Is it really possible to claim full mutuality when at the end of the day the employer can decide unilaterally to close the company or sell it to someone else?'
- HRM is 'macho-management dressed up as benevolent paternalism' (Legge, 1998: 42).
- HRM is manipulative: Wilmott (1993: 534) asserted that, 'any (corporate) practice/value is as good as any other so long as it secures the compliance of employees'.
- HRM is managerialist: 'The analysis of employment management has become increasingly myopic and progressively more irrelevant to the daily experience of being employed. While the reasons for this development are immensely complex ... it is primarily a consequence of the adoption of the managerialist conception of the discourse of HRM' (Delbridge and Keenoy, 2010: 813).

## HRM today

These are valid concerns but the more important messages of HRM, such as the need for strategic

integration, the desirability of gaining commitment, the virtues of partnership and participation and the key role of line managers are now generally accepted. However, the increasing emphasis on the business partnership role of HR at the expense of its function as an employee champion has been rightly criticized (Keegan and Francis, 2010). But the underpinning theories are as relevant today as they ever were.

As a description of people management activities in organizations, the term 'HRM' is here to stay even if it is applied diversely or only used as a label to describe traditional personnel management practices. Emphasis is now placed on the need for HR to be strategic and business-like and to add value, ie to generate extra value (benefit to the business) by the expenditure of effort, time or money on HRM activities. There have been plenty of new interests and developments including human capital management, engagement, talent management, competency-based HRM, e-HRM, high-performance work systems, and performance and reward management. But these have not been introduced under the banner of the HRM concept as originally defined.

### Source review

The meaning of HRM –  
Boxall *et al* (2007: 1)

Human resource management (HRM), the management of work and people towards desired ends, is a fundamental activity in any organization in which human beings are employed. It is not something whose existence needs to be radically justified: HRM is an inevitable consequence of starting and growing an organization. While there are a myriad of variations in the ideologies, styles, and managerial resources engaged, HRM happens in some form or other. It is one thing to question the *relative* performance of particular models of HRM in particular contexts ... It is quite another thing to question the necessity of the HRM process itself, as if organizations cannot survive or grow without making a reasonable attempt at organizing work and managing people.

HRM has become something that organizations *do* rather than an aspiration or a philosophy and the term is generally in use as a way of describing the process of managing people. In the words of Storey (2001: 5), HRM has become ‘a generic term simply denoting any approach to employment management’.

The convincing summary set out on page 8 of what HRM means today, which focuses on what HRM *is* rather than on its philosophy, was provided by Peter Boxall, John Purcell and Patrick Wright (2007), representing the new generation of commentators.

### Key learning points: The concept of HRM

#### HRM defined

Human resource management is concerned with all aspects of how people are employed and managed in organizations.

#### Goals of HRM

The goals of HRM are to:

- support the organization in achieving its objectives by developing and implementing HR strategies that are integrated with the business strategy (strategic HRM);
- contribute to the development of a high-performance culture;
- ensure that the organization has the talented, skilled and engaged people it needs;
- create a positive employment relationship between management and employees and a climate of mutual trust;
- encourage the application of an ethical approach to people management.

#### Philosophy of HRM

*The beliefs of HRM included the assumptions that it is the human resource which gives competitive*

*edge, that the aim should be to enhance employee commitment, that HR decisions are of strategic importance and that therefore HR policies should be integrated into the business strategy. (Storey, 2001: 7)*

#### Underpinning theories

‘Human resource management appears to lean heavily on theories of commitment and motivation and other ideas derived from the field of organizational behaviour’ (Guest, 1987: 505).

#### The diversity of HRM

Many HRM models exist, and practices within different organizations are diverse, often only corresponding to the conceptual version of HRM in a few respects.

#### Reservations about HRM

On the face of it, the concept of HRM has much to offer, at least to management. But reservations have been expressed about it. There may be something in these criticisms but the fact remains that as a description of people management activities in organizations, HRM is here to stay even if it is applied diversely or only used as a label to describe traditional personnel management practices.



## Questions

- 1 What is HRM?
- 2 What was the main message of the Harvard framework?
- 3 What was the main message of the matching model?
- 4 What are the goals of HRM?
- 5 What is the difference between hard and soft HRM?
- 6 What is the essence of the philosophy of HRM?
- 7 What is resource-based theory?
- 8 What is the significance of contingency theory?
- 9 What are the key reservations expressed by commentators about the early version of HRM?
- 10 What is the position of HRM today?

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# 02

## Strategic HRM

### KEY CONCEPTS AND TERMS

Best fit	Best practice
Bundling	Business model
Business model innovation	Competency framework
Competitive advantage	Configuration
Contingent determinism	High-commitment management
High-involvement management	High-performance management
High-performance work system	Human resource advantage
Lifecycle model	Resource-based view
Resource dependence theory	Strategic configuration
Strategic fit	Strategic HRM
Strategic management	Strategy

### LEARNING OUTCOMES

On completing this chapter you should be able to define these key concepts. You should also understand:

- The conceptual basis of strategic HRM
- The fundamental characteristics of strategy
- How strategy is formulated
- The aims of strategic HRM
- The resource-based view and its implications
- The meaning of strategic fit
- The three HRM ‘perspectives’ of Delery and Doty
- The significance of bundling
- The significance of the concepts of ‘best practice’ and ‘best fit’
- The significant features of strategic HRM
- The content and formulation of HR strategies

## Introduction

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Strategic human resource management (strategic HRM or SHRM) is an approach to the development and implementation of HR strategies that are integrated with business strategies and support their achievement. SHRM has been described by Boxall (1996) as the interface between HRM and strategic management. Schuler and Jackson (2007: 5) stated that SHRM is fundamentally about ‘systematically linking people with the firm’.

Baird and Meshoulam (1988: 116) pointed out that: ‘Business objectives are accomplished when human resource practices, procedures and systems are developed and implemented based on organizational needs, that is, when a strategic perspective to human resource management is adopted.’ Wright and McMahan (1992: 295) explained that the field of HRM has ‘sought to become integrated with the strategic management process through the development of a new discipline referred to as strategic human resource management’.

In essence, strategic HRM is conceptual; it is a general notion of how integration or ‘fit’ between HR and business strategies is achieved, the benefits of taking a longer-term view of where HR should be going and how to get there, and how coherent and mutually supporting HR strategies should be developed and implemented. Importantly, it is also about how members of the HR function should adopt a strategic approach on a day-to-day basis. This means that they operate as part of the management team, ensure that HR activities support the achievement of business strategies on a continuous basis, and add value.

The aim of this chapter is to explore what this involves. It starts with an analysis of the meaning of SHRM. It then covers: an examination of its nature and its aims; an analysis of its underpinning concepts – the resource-based view and strategic fit; and a description of how strategic HRM works, namely the universalistic, contingency and configurational perspectives defined by Delery and Doty (1996) and the three approaches associated with those perspectives – best practice, best fit and bundling. The chapter continues with a summary of the distinctive features of strategic HRM and ends with an examination of how HR strategies are developed and implemented when an SHRM approach is adopted.

## The conceptual basis of strategic HRM

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Strategic HRM takes the notion of HRM as a strategic, integrated and coherent process and associates it with an approach to management that involves adopting a broad and long-term view of where the business is going and managing it in ways that ensure that this strategic thrust is maintained. It is influenced by the concepts of strategic management and strategy.

### **Strategic management**

According to Boxall and Purcell (2003: 44): ‘Strategic management is best defined as a process. It is a process of strategy making, of forming and, if the firm survives, reforming its strategy over time.’ Strategic management was described by Johnson *et al* (2005: 6) as ‘understanding the strategic position of an organization, making strategic choices for the future, and turning strategy into action’. The purpose of strategic management has been expressed by Kanter (1984: 288) as being to: ‘elicit the present actions for the future’ and become ‘action vehicles – integrating and institutionalizing mechanisms for change’ (*ibid*: 301).

The key strategic management activity identified by Thompson and Strickland (1996: 3) is: ‘deciding what business the company will be in and forming a strategic vision of where the organization needs to be headed – in effect, infusing the organization with a sense of purpose, providing long-term direction, and establishing a clear mission to be accomplished.’

The focus is on identifying the organization’s mission and strategies, but attention is also given to the resource base required to make it succeed. Managers who think strategically will have a broad and long-term view of where they are going. But they will also be aware that they are responsible, first, for planning how to allocate resources to opportunities that contribute to the implementation of strategy, and secondly, for managing these opportunities in ways that will add value to the results achieved by the firm.

## The concept of strategy

Strategy is the approach selected to achieve specified goals in the future. As defined by Chandler (1962: 13) it is: ‘The determination of the long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out those goals.’ The formulation and implementation of corporate strategy is a process for developing a sense of direction, making the best use of resources and ensuring strategic fit.

Strategy has three fundamental characteristics. First, it is forward looking. It is about deciding where you want to go and how you mean to get there. It is concerned with both ends and means. In this sense a strategy is a declaration of intent: ‘This is what we want to do and this is how we intend to do it.’ Strategies define longer-term goals but they also cover how those goals will be attained. They guide purposeful action to deliver the required result. A good strategy is one that works, one that in Abell’s (1993: 1) phrase enables organizations to adapt by ‘mastering the present and pre-empting the future’. As Boxall (1996: 70) explained: ‘Strategy should be understood as a framework of critical ends and means.’

The second characteristic of strategy is the recognition that the organizational capability of a firm (its capacity to function effectively) depends on its resource capability (the quality and quantity of its resources and their potential to deliver results). This is the resource-based view as described later in this chapter.

The third characteristic of strategy is that it aims to achieve strategic fit – the need when developing functional strategies such as HR to achieve congruence between them and the organization’s business strategies within the context of its external and internal environment.

## Implementation of strategy

‘Implementation entails converting the strategic plan into action and then into results’ (Thompson and Strickland, 1996: 20). Dreaming up a strategy is fairly easy; getting it to work is hard. Kanter (1984: 305) noted that: ‘Many companies, even very sophisticated ones, are much better at generating impressive plans on paper than they are at getting “ownership” of the plans so that they actually guide operational decisions.’

## Critical evaluation of the concept of strategy

The development of corporate strategy is often assumed to be a logical, step-by-step affair, the outcome of which is a formal written statement that provides a definitive guide to the organization’s intentions. Many people still believe and act as if this were the case, but it is a misrepresentation of reality. In practice the formulation of strategy may not be as rational and linear a process as some writers describe it or as some managers attempt to make it. There are limitations to the totally logical model of management that underpins the concept of strategic human resource management. In the words of Mabey *et al* (1998: 74): ‘The reality is ... that strategies may not always be easy to discern, that the processes of decision making may be implicit, incremental, negotiated and compromised.’

Sparrow *et al* (2010: 4) asserted succinctly that: ‘Strategy is not rational and never has been.’ Strategy formulation can best be described as ‘problem solving in unstructured situations’ (Digman, 1990: 53) and strategies will always be formed under conditions of partial ignorance. Quinn (1980: 9) stated that a strategy may simply be ‘a widely held understanding resulting from a stream of decisions’. He believed that strategy formulation takes place by means of ‘logical incrementalism’, ie it evolves in several steps rather than being conceived as a whole. Pettigrew and Whipp (1991: 26) observed that: ‘strategy does not move forward in a direct linear way, nor through easily discernable sequential phases. Quite the reverse; the pattern is much more appropriately seen as continuous, iterative and uncertain.’

Another difficulty is that strategies are often based on the questionable assumption that the future will resemble the past. Some years ago, Heller (1972: 150) had a go at the cult of long-range planning: ‘What goes wrong’ he wrote, ‘is that sensible anticipation gets converted into foolish numbers: and their validity always hinges on large loose assumptions.’ Faulkner and Johnson (1992: 17–18) said of long-term planning that it:

was inclined to take a definitive view of the future, and to extrapolate trend lines for the key business variables in order to arrive at this view. Economic turbulence was insufficiently considered, and the reality that much strategy is formulated and

implemented in the act of managing the enterprise was ignored. Precise forecasts ending with derived financials were constructed, the only weakness of which was that the future almost invariably turned out differently.

Strategy formulation is not necessarily a deterministic, rational and continuous process, as was emphasized by Mintzberg (1987). He noted that, rather than being consciously and systematically developed, strategy reorientation happens in what he calls brief 'quantum loops'. A strategy, according to Mintzberg, can be deliberate – it can realize the intentions of senior management, for example to attack and conquer a new market. But this is not always the case. In theory, he says, strategy is a systematic process: first we think, then we act; we formulate then we implement. But we also 'act in order to think'. In practice, 'a realized strategy can emerge in response to an evolving situation' (*ibid*: 68) and the strategic planner is often 'a pattern organizer, a learner if you like, who manages a process in which strategies and visions can emerge as well as be deliberately conceived' (*ibid*: 73). This concept of 'emergent strategy' conveys the essence of how in practice organizations develop their business and HR strategies.

Boxall and Purcell (2003: 34) suggested that, 'it is better if we understand the strategies of firms as *sets of strategic choices* some of which may stem from planning exercises and set-piece debates in senior management, and some of which may emerge in a stream of action'. Research conducted by Tyson (1997: 280) confirmed that, realistically, strategy:

- has always been emergent and flexible – it is always 'about to be', it never exists at the present time;
- is not only realized by formal statements but also comes about by actions and reactions;
- is a description of a future-oriented action that is always directed towards change;
- is conditioned by the management process itself.

## The nature of strategic HRM

Strategic HRM is an approach that defines how the organization's goals will be achieved through people by means of HR strategies and integrated HR policies and practices. It was defined by Mabey

*et al* (1998: 25) as the process of, 'developing corporate capability to deliver new organizational strategies'. It is based on two key ideas, namely, the resource-based view and the need for strategic fit, as discussed later in this chapter.

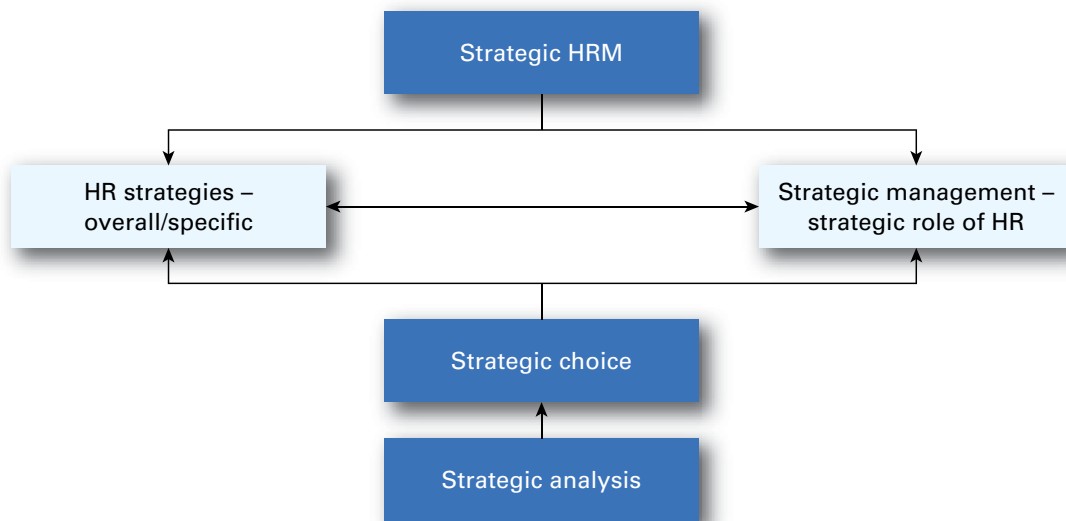
SHRM can be regarded as a mindset underpinned by certain concepts rather than a set of techniques. It provides the foundation for strategic reviews in which analyses of the organizational context and existing HR practices lead to decisions on strategic plans for the development of overall or specific HR strategies. SHRM involves the exercise of strategic choice (which is always there) and the establishment of strategic priorities. It is essentially about the integration of business and HR strategies so that the latter contribute to the achievement of the former.

Strategic HRM is not just about strategic planning, nor does it only deal with the formulation of individual HR strategies. Its main concern is with integrating what HR does and plans to do with what the business does and plans to do. As modelled in Figure 2.1, SHRM is about both HR strategies and the strategic management activities of HR professionals.

## Aims of SHRM

The fundamental aim of strategic HRM is to generate organizational capability by ensuring that the organization has the skilled, engaged, committed and well-motivated employees it needs to achieve sustained competitive advantage. Alvesson (2009: 52) wrote that strategic HRM is about, 'how the employment relationships for all employees can be managed in such a way as to contribute optimally to the organization's goal achievement'.

SHRM has three main objectives: first to achieve integration – the vertical alignment of HR strategies with business strategies and the horizontal integration of HR strategies. The second objective is to provide a sense of direction in an often turbulent environment so that the business needs of the organization and the individual and collective needs of its employees can be met by the development and implementation of coherent and practical HR policies and programmes. The third objective is to contribute to the formulation of business strategy by drawing attention to ways in which the business can capitalize on the advantages provided by the strengths of its human resources.

**FIGURE 2.1** Strategic HRM model

## Critical evaluation of the concept of SHRM

The whole concept of SHRM is predicated on the belief that HR strategies should be integrated with corporate or business strategies. Vertical integration (strategic fit between business and HR strategies) may be desirable but it is not easy to achieve for the following reasons.

### *Diversity of strategic processes, levels and styles*

The different levels at which strategy is formulated and the different styles adopted by organizations may make it difficult to develop a coherent view of what sort of HR strategies will fit the overall strategies and what type of HR contributions are required during the process of formulation.

### *The complexity of the strategy formulation process*

Business strategy formulation and implementation is a complex, interactive process heavily influenced by a variety of contextual and historical factors. In these circumstances, as Guest (1991) has asked, how

can there be a straightforward flow from the business strategy to the HR strategy? It has been pointed out by Truss (1999) that the assumption of some matching models of strategic HRM is that there is a simple linear relationship between business strategy and human resource strategy, but this assumption ‘fails to acknowledge the complexities both between and within notions of strategy and human resource management ... (It) is based on a rational model of organizations and individuals which takes no account of the significance of power, politics and culture’.

### *The evolutionary nature of business strategy*

The evolutionary and incremental nature of strategy making may make it difficult to pin down the HR issues that are likely to be relevant. Hendry and Pettigrew (1990) suggest that there are limits to the extent to which rational HR strategies can be drawn up if the process of business strategic planning is itself irrational.

### *The absence of articulated business strategies*

If, because of its evolutionary nature, the business strategy has not been clearly articulated, this would



add to the problems of clarifying the business strategic issues that human resource strategies should address.

### **The qualitative nature of HR issues**

Business strategies tend, or at least aim, to be expressed in the common currency of figures and hard data on portfolio management, growth, competitive position, market share, profitability, etc. HR strategies may deal with quantifiable issues such as resourcing and skill acquisition but are equally likely to refer to qualitative factors such as engagement, commitment, motivation, good employee relations and high employment standards. The relationship between the pursuit of policies in these areas and individual and organizational performance may be difficult to establish.

### **Integration with what?**

The concept of SHRM implies that HR strategies must be totally integrated with corporate/business strategies in the sense that they both flow from and contribute to such strategies. But as Brewster (2004) argued, HR strategy will be subjected to considerable external pressure; for example, in Europe, legislation about involvement. These may mean that HR strategies cannot be entirely governed by the corporate/business strategy.

The question: 'To what extent should HR strategy take into account the interests of all the stakeholders in the organization, employees in general as well as owners and management?' also needs to be answered.

### **Conclusions**

The difficulties mentioned above are real, but they are frequently glossed over in rhetorical statements about the need for integration. Too often the outcome is a platitudinous statement such as, 'Our HR strategy is to develop a performance culture' or, 'Our HR strategy is to ensure that the organization has the talented people it needs.' These are perfectly laudable broad objectives but they need to be more specific about how the aims will be achieved and how they will support the achievement of business goals.

Matching HR and business strategies is a problematic process but this doesn't mean that the attempt to do should be abandoned. HR strategists must make every effort to understand the business model of their organization (ie a picture of an organization that explains how it achieves competitive advantage and makes money) and the plans for business model innovation (the process followed by an organization to develop a new business model or change an existing one). They have to take into account the difficulties mentioned above but they need to overcome these by persistent efforts designed to obtain insight into the real issues facing the organization, leading to plans for practical interventions that address those issues.

## **The resource-based view of SHRM**

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To a very large extent, the philosophy of SHRM is underpinned by the resource-based view. This states that it is the range of resources in an organization, including its human resources, that produces its unique character and creates competitive advantage. The resource-based view is founded on the ideas of Penrose (1959: 24–5), who wrote that the firm is, 'an administrative organization and a collection of productive resources' and saw resources as 'a bundle of potential services'. It was expanded by Wernerfelt (1984: 172), who explained that strategy, 'is a balance between the exploitation of existing resources and the development of new ones'. Resources were defined by Hunt (1991: 322), as, 'anything that has an enabling capacity'.

The concept was developed by Barney (1991: 102), who stated that, 'a firm is said to have a competitive advantage when it is implementing a value-creating strategy not simultaneously being implemented by any current or potential competitors *and* when these other firms are unable to duplicate the benefits of this strategy'. This will happen if their resources are valuable, rare, inimitable and non-substitutable. He noted later (Barney 1995: 49) that an environmental (SWOT) analysis of strengths, weaknesses, opportunities and threats was only half the story: 'A complete understanding of sources of a firm's competitive advantage requires the analysis

of a firm's internal strengths and weaknesses as well.' He emphasized that:

Creating sustained competitive advantage depends on the unique resources and capabilities that a firm brings to competition in its environment. To discover these resources and capabilities, managers must look inside their firm for valuable, rare and costly-to-imitate resources, and then exploit these resources through their organization. (*ibid*: 60)

The following rationale for resource-based strategy was produced by Grant.

### Source review

Rationale for resource-based strategy – Grant (1991: 13)

The resources and capabilities of a firm are the central considerations in formulating its strategy: they are the primary constants upon which a firm can establish its identity and frame its strategy, and they are the primary sources of the firm's profitability. The key to a resource-based approach to strategy formulation is understanding the relationships between resources, capabilities, competitive advantage and profitability – in particular, an understanding of the mechanisms through which competitive advantage can be sustained over time. This requires the design of strategies which exploit to maximum effect each firm's unique characteristics.

Resource-based SHRM can produce what Boxall and Purcell (2003) referred to as 'human resource advantage'. The aim is to develop strategic capability. This means strategic fit between resources and opportunities, obtaining added value from the effective deployment of resources, and developing managers who can think and plan strategically in the sense that they understand the key strategic

issues and ensure that what they do enables the strategic goals of the business to be achieved. In line with human capital theory, the resource-based view emphasizes that investment in people increases their value to the firm. It proposes that sustainable competitive advantage is attained when the firm has a human resource pool that cannot be imitated or substituted by its rivals.

Boxall (1996: 66) suggested that, 'the resource-based view of the firm provides a conceptual basis, if we needed one, for asserting that key human resources are sources of competitive advantage'. He noted that human resource advantage is achieved by a combination of 'human capital advantage', which results from employing people with competitively valuable knowledge and skills, and 'human process advantage', which follows from the establishment of, 'difficult to imitate, highly evolved processes within the firm, such as cross-departmental cooperation and executive development'. Accordingly, 'human resource advantage', the superiority of one firm's labour management over another's, can be thought of as the product of its human capital and human process advantages. He also observed (*ibid*: 66) that the strategic goal emerging from the resource-based view was to, 'create firms which are more intelligent and flexible than their competitors' by hiring and developing more talented staff and by extending their skills base. Resource-based strategy is therefore concerned with the enhancement of the human or intellectual capital of the firm. As Ulrich (1998: 126) commented: 'Knowledge has become a direct competitive advantage for companies selling ideas and relationships. The challenge to organizations is to ensure that they have the capability to find, assimilate, compensate and retain the talented individuals they need.'

The strategic goal emerging from the resource-based view is to create firms that are more intelligent and flexible than their competitors (Boxall, 1996) by hiring and developing more talented staff and by extending their skills base. Resource-based strategy is therefore concerned with the enhancement of the human or intellectual capital of the firm. Resource dependence theory (Pfeffer and Davis-Blake, 1992) suggests that HR strategies such as those concerned with reward are strongly influenced by the need to attract, retain and energize high-quality people.

## Critical evaluation of the resource-based view

The resource-based view has had considerable influence on thinking about human resource management. It provides a justification for attaching importance to resourcing activities, especially those concerned with talent management. It can also be used to enhance the value of the HR contribution in achieving competitive advantage. But it has the following limitations:

- it may be difficult to find resources that satisfy all the criteria;
- external factors such as product market pressures are ignored;
- it provides only generalized guidance on what resources are suitable;
- different resource configurations can provide the same value for firms;
- as Priem and Butler (2001) pointed out, the theory is tautological because valuable resources and competitive advantage are defined in the same terms.

## Strategic fit

The concept of strategic fit stresses that when developing HR strategies it is necessary to achieve congruence between them and the organization's business strategies within the context of its external and internal environment. This notion is fundamental to SHRM, as was stressed by Wright and Snell (1998: 758) who wrote that: 'The primary role of strategic HRM should be to promote a fit with the demands of the competitive environment.' In more detail, Schuler (1992: 18) stated that:

Strategic human resource management is largely about integration and adaptation. Its concern is to ensure that: (1) human resources (HR) management is fully integrated with the strategy and strategic needs of the firm (vertical fit); (2) HR policies cohere both across policy areas and across hierarchies (horizontal fit); and (3) HR practices are adjusted, accepted and used by line managers and employees as part of their everyday work.

## Perspectives on SHRM

Taking into account the concepts of the resource-based view and strategic fit, Delery and Doty (1996: 802) contended that, 'organizations adopting a particular strategy require HR practices that are different from those required by organizations adopting different strategies' and that organizations with 'greater congruence between their HR strategies and their (business) strategies should enjoy superior performance' (*ibid*: 803). They identified these three HRM perspectives:

- 1 *The universalistic perspective* – some HR practices are better than others and all organizations should adopt these best practices. There is a universal relationship between individual 'best' practices and firm performance.
- 2 *The contingency perspective* – to be effective an organization's HR policies must be consistent with other aspects of the organization. The primary contingency factor is the organization's strategy. This can be described as 'vertical fit'.
- 3 *The configurational perspective* – this is a holistic approach that emphasizes the importance of the *pattern* of HR practices and is concerned with how this pattern of independent variables is related to the dependent variable of organizational performance.

This typology provided the basis for what has become the most commonly used classification of approaches as used by Richardson and Thompson (1999), which is to adopt the terms 'best practice' and 'best fit' for the universalistic and contingency perspectives, and 'bundling' as the third approach. This followed the classification made by Guest (1997) of fit as an ideal set of practices, fit as contingency and fit as bundles.

## The best practice model

This model is based on the assumption that there is a set of best HRM practices that are universal in the sense that they are best in any situation, and that adopting them will lead to superior organizational performance.



A number of lists of ‘best practices’ have been produced, the best known being by Pfeffer (1998):

- 1 employment security;
- 2 selective hiring;
- 3 self-managed teams;
- 4 high compensation contingent on performance;
- 5 training to provide a skilled and motivated workforce;
- 6 reduction of status differentials;
- 7 sharing information.

### The best fit model

The best fit model is in line with contingency theory. It emphasizes that HR strategies should be congruent with the context and circumstances of the organization. ‘Best fit’ can be perceived in terms of vertical integration or alignment between the organization’s business and HR strategies. There are three models: lifecycle, competitive strategy, and strategic configuration.

### The lifecycle model

The lifecycle model is based on the theory that the development of a firm takes place in four stages: start-up, growth, maturity and decline. This is in line with product lifecycle theory. The basic premise of this model was expressed by Baird and Meshoulam (1988: 117) as follows:

Human resource management’s effectiveness depends on its fit with the organization’s stage of development. As the organization grows and develops, human resource management programmes, practices and procedures must change to meet its needs. Consistent with growth and development models it can be suggested that human resource management develops through a series of stages as the organization becomes more complex.

### Best fit and competitive strategies

Three strategies aimed at achieving competitive advantage were identified by Porter (1985):

- 1 *Innovation* – being the unique producer.
- 2 *Quality* – delivering high-quality goods and services to customers.

- 3 *Cost leadership* – the planned result of policies aimed at ‘managing away’ expense.

It was argued by Schuler and Jackson (1987) that to achieve the maximum effect it is necessary to match the role characteristics of people in an organization with the preferred strategy.

### Strategic configuration

Another approach to best fit is the proposition that organizations will be more effective if they adopt a policy of strategic configuration (Delery and Doty, 1996) by matching their strategy to one of the ideal types defined by theories such as those produced by Miles and Snow (1978). This increased effectiveness is attributed to the internal consistency or fit between the patterns of relevant contextual, structural and strategic factors. They identified the following four types of organizations, classifying the first three types as ‘ideal’ organizations:

- 1 *Prospectors*, which operate in an environment characterized by rapid and unpredictable changes. Prospectors have low levels of formalization and specialization and high levels of decentralization. They have relatively few hierarchical levels.
- 2 *Defenders*, which operate in a more stable and predictable environment than prospectors and engage in more long-term planning. They have more mechanistic or bureaucratic structures than prospectors and obtain coordination through formalization, centralization, specialization and vertical differentiation.
- 3 *Analysers*, which are a combination of the prospector and defender types. They operate in stable environments like defenders and also in markets where new products are constantly required, like prospectors. They are usually not the initiators of change like prospectors but they follow the changes more rapidly than defenders.
- 4 *Reactors*, which are unstable organizations existing in what they believe to be an unpredictable environment. They lack consistent well-articulated strategies and do not undertake long-range planning.

## Critical evaluation of the best practice and best fit models

### The best practice model

The notion of best practice incorrectly assumes that there are universally effective HR practices that can readily be transferred. The ‘best practice’ rubric has been attacked by a number of commentators. Cappelli and Crocker-Hefter (1996: 7) commented that the notion of a single set of best practices has been over-stated: ‘There are examples in virtually every industry of firms that have very distinctive management practices. ... Distinctive human resource practices shape the core competencies that determine how firms compete.’

Purcell (1999: 26) noted that ‘the search for best practice tends to take on the flavour of a moral crusade’. He has also criticized the best practice or universalist view by pointing out the inconsistency between a belief in best practice and the resource-based view, which focuses on the intangible assets, including HR, that allow the firm to do better than its competitors. He asked how can ‘the universalism of best practice be squared with the view that only some resources and routines are important and valuable by being rare and imperfectly imitable?’ He stated that: ‘The claim that the bundle of best practice HRM is universally applicable leads us into a utopian cul-de-sac’ (*ibid*: 36). Boxall (2007: 5) concluded that he was, ‘deeply sceptical about claims for universal applicability for particular HRM practices or clusters of practices [but] this does not rule out the search for general principles in the management of work and people’.

However, a knowledge of what is assumed to be best practice can be used to inform decisions on what practices are most likely to fit the needs of the organization, as long as it is understood *why* a particular practice should be regarded as a best practice and what needs to be done to ensure that it will work in the context of the organization. Becker and Gerhart (1996) argued that the idea of best practice might be more appropriate for identifying the principles underlying the choice of practices, as opposed to the practices themselves.

### The best fit model

The best fit model seems to be more realistic than the best practice model. As Dyer and Holder (1988:

31) observed: ‘The inescapable conclusion is that what is best depends.’ But there are limitations to the concept. Paauwe (2004: 37) emphasized that: ‘It is necessary to avoid falling into the trap of “contingent determinism” (ie claiming that the context absolutely determines the strategy). There is, or should be, room for making strategic choices.’

There is a danger of mechanistically matching HR policies and practices with strategy. It is not credible to claim that there are single contextual factors that determine HR strategy, and internal fit cannot therefore be complete. Purcell (1999: 35) pointed out that: ‘each firm has to make choices not just on business and operational strategies but on what type of HR system is best for its purposes’. As Boxall (2007: 61) asserted: ‘It is clearly impossible to make *all* HR policies reflective of a chosen competitive or economic mission.’ They may have to fit with social legitimacy goals. And Purcell (1999: 37) commented that: ‘The search for a contingency or matching model of HRM is also limited by the impossibility of modelling all the contingent variables, the difficulty of showing their interconnection, and the way in which changes in one variable have an impact on others.’

Best fit models tend to be static and don’t take account of the processes of change. They neglect the fact that institutional forces shape HRM – it cannot be assumed that employers are free agents able to make independent decisions.

## Conclusions

It is often said that best fit is better than best practice but this statement can only be accepted with reservations. As Stavrou *et al* (2010: 952–3) argued:

There may be merit in both approaches where the debate is between general principles/bundles (training and development, staffing, compensation and benefits, communication and participation, and planning) and the manner in which they are carried out ... It seems that the ‘best fit’ and ‘best practice’ approaches of the HR-performance relationship are not necessarily mutually exclusive. On the contrary, they may be combined to provide a more holistic picture.

This is particularly the case if the term ‘best practice’ is replaced by ‘good practice’, thus avoiding the notion of universality implied by the former term. For example, the meta-analysis carried out by

Schmidt and Hunter (1998) established conclusively that when selecting people, the best levels of predictive validity are achieved by a combination of structured interviews and intelligence tests. But a decision on what sort of structured interview should be adopted and whether or not to use intelligence tests would depend on the situation in which the decision was made.

## Bundling

'Bundling' is the development and implementation of several HR practices together so that they are interrelated and therefore complement and reinforce each other. This is the process of horizontal integration, which is also referred to as the use of 'complementarities'. Richardson and Thompson (1999) suggested that a strategy's success turns on combining vertical or external fit and horizontal or internal fit. They concluded that a firm with bundles of associated HR practices should have a higher level of performance, provided it also achieves high levels of fit with its competitive strategy.

Dyer and Reeves (1995: 656–7) noted that: 'The logic in favour of bundling is straightforward ... Since employee performance is a function of both ability and motivation, it makes sense to have practices aimed at enhancing both.' Thus there are several ways in which employees can acquire needed skills (such as careful selection and training) and multiple incentives to enhance motivation (different forms of financial and non-financial rewards). Their study of various models listing HR practices that create a link between HRM and business performance found that the activities appearing in most of the models were involvement, careful selection, extensive training and contingent compensation.

The process of bundling HR strategies is an important aspect of the concept of strategic HRM. In a sense, SHRM is holistic: it is concerned with the organization as a total system or entity and addresses what needs to be done across the organization as a whole. It is not interested in isolated programmes and techniques, or in the ad hoc development of HR strategies and practices.

Bundling can take place in a number of ways. For example, competency frameworks (a set of definitions of the competencies that describe the types of behaviour required for the successful performance of a role) can be devised that are used in a number

of ways, for example to specify recruitment standards, provide a framework for competency-based interviews, identify learning and development needs and indicate the standards of behaviour or performance required. Job evaluation can also be used to clarify and define levels in an organization. Grade structures can define career ladders in terms of competency requirements (career family structures) and thus provide the basis for learning and development programmes. Total reward approaches 'bundle' financial and non-financial rewards together. High-performance systems are in effect based on the principle of bundling because they group a number of HR practices together to produce synergy and thus increase their impact.

## Critical evaluation of bundling

Bundling sounds like a good idea. The research by MacDuffie (1995) and others has shown that bundling can improve performance. But there are a number of inhibiting factors, namely:

- deciding which bundles are likely to be best – there is no evidence that one bundle is generally better than another;
- actually linking practices together – it is always easier to deal with one practice at a time;
- managing the interdependencies between different parts of a bundle;
- convincing top management and line managers that bundling will benefit the organization and them.

These can be overcome by dedicated HR professionals, but it is hard work. What can be done, with difficulty, is to find ways in which different HR practices can support one another, as in the examples given above.

## HR strategies

HR strategies indicate what the organization wants to do about its human resource management policies and practices and how they should be integrated with the business strategy and each other. They set out aspirations that are expressed as intentions, which are then converted into actions. As suggested by Chesters (2011: 32), they should be regarded as a statement of the organization's collective endeavour.

They are not just a laundry list of everything the organization would like to do.

HR strategies were described by Dyer and Reeves (1995: 656) as, ‘internally consistent bundles of human resource practices’. Richardson and Thompson (1999: 3) observed that:

A strategy, whether it is an HR strategy or any other kind of management strategy must have two key elements: there must be strategic objectives (ie things the strategy is supposed to achieve), and there must be a plan of action (ie the means by which it is proposed that the objectives will be met).

Purcell (2001: 72) made the point that: ‘Strategy in HR, like in other areas, is about continuity and change, about appropriateness in the circumstances, but anticipating when the circumstances change. It is about taking strategic decisions.’

The purpose of HR strategies is to articulate what an organization intends to do about its HRM policies and practices now and in the longer term to ensure that they contribute to the achievement of business objectives. However, it is necessary to bear in mind the dictum of Fombrun *et al* (1984) that business and managers should perform well in the present to succeed in the future.

HR strategies may be defined formally as part of a strategic HRM process that leads to the development of overall or specific strategies for implementation by HR *and*, vitally, line managers. But an organization that has developed an HR strategy will not be practising SHRM unless that HR strategy has strategic relevance to the organization’s success. As Wright and McMahan (1999: 52) indicated, HRM can only be considered to be strategic if ‘it enables an organization to achieve its goals’.

Pettigrew and Whipp (1991: 30) emphasized that strategy, ‘far from being a straightforward, rational phenomenon, is in fact interpreted by managers according to their own frame of reference, their particular motivations and information’. They were writing about business strategy, but the same applies to HR strategy, which can appear through an emergent, evolutionary and possibly unarticulated process influenced by the business strategy as it develops and changes in the internal and external environment. But there are still strong arguments for a systematic approach to identifying strategic directions that can provide a framework for decision making and action. The main argument for

articulating HR strategies is that unless you know where you are going, you will not know how to get there or when you have arrived.

Because all organizations are different, all HR strategies are different. There is no such thing as a standard strategy. Research into HR strategy conducted by Armstrong and Long (1994) and Armstrong and Baron (2002) revealed many variations. Some strategies are simply very general declarations of intent. Others go into much more detail. The two types of HR strategies are: 1) general strategies such as high-performance working, and 2) specific strategies relating to the different aspects of HRM such as learning and development and reward.

## General HR strategies

General strategies describe the overall system or bundle of complementary HR practices that the organization proposes to adopt or puts into effect in order to improve organizational performance. The three main approaches are summarized below.

### High-performance management

High-performance management aims, through high-performance work systems (bundles of practices that enhance employee performance and facilitate their engagement, motivation and skill enhancement), to make an impact on the performance of the organization in such areas as productivity, quality, levels of customer service, growth and profits. High-performance working practices include rigorous recruitment and selection procedures, extensive and relevant training and management development activities, incentive pay systems and performance management processes.

### High-commitment management

One of the defining characteristics of HRM is its emphasis on the importance of enhancing mutual commitment (Walton, 1985). High-commitment management has been described by Wood (1996) as: ‘A form of management which is aimed at eliciting a commitment so that behaviour is primarily self-regulated rather than controlled by sanctions and pressures external to the individual, and relations within the organization are based on high levels of trust.’

## High-involvement management

As defined by Benson *et al* (2006: 519): ‘High-involvement work practices are a specific set of human resource practices that focus on employee decision-making, power, access to information, training and incentives.’ Camps and Luna-Arocas (2009: 1057) observed that: ‘High-involvement work practices aim to provide employees with the opportunity, skills and motivation to contribute to organizational success in environments demanding greater levels of commitment and involvement.’ The term ‘high-involvement’ was used by Lawler (1986) to describe management systems based on commitment and involvement, as opposed to the old bureaucratic model based on control.

## Examples of general HR strategies

- A local authority. As expressed by the chief executive of this borough council, its HR strategy is about ‘having a very strong focus on the overall effectiveness of the organization, its direction and how it’s performing; there is commitment to, and belief in, and respect for individuals, and I think that these are very important factors’.
- A public utility. ‘The only HR strategy you really need is the tangible expression of values and the implementation of values ... unless you get the human resource values right you can forget all the rest’.  
(*Managing Director*)
- A manufacturing company. ‘The HR strategy is to stimulate changes on a broad front aimed ultimately at achieving competitive advantage through the efforts of our people. In an industry of fast followers, those who learn quickest will be the winners.’  
(*HR Director*)
- A retail stores group. ‘The biggest challenge will be to maintain (our) competitive advantage and to do that we need to maintain and continue to attract very high calibre people. The key differentiator on anything any company does is fundamentally the people, and I think that people tend to forget that they are the most important asset. Money is easy to get hold

of, good people are not. All we do in terms of training and manpower planning is directly linked to business improvement’.  
(*Managing Director*)

## Specific HR strategies

Specific HR strategies set out what the organization intends to do in areas such as:

- *Human capital management* – obtaining, analysing and reporting on data that informs the direction of value-adding people management strategic, investment and operational decisions.
- *Knowledge management* – creating, acquiring, capturing, sharing and using knowledge to enhance learning and performance.
- *Corporate social responsibility* – a commitment to managing the business ethically in order to make a positive impact on society and the environment.
- *Engagement* – the development and implementation of policies designed to increase the level of employees’ engagement with their work and the organization.
- *Organization development* – the planning and implementation of programmes designed to enhance the effectiveness with which an organization functions and responds to change.
- *Resourcing* – attracting and retaining high-quality people.
- *Talent management* – how the organization ensures that it has the talented people it needs to achieve success.
- *Learning and development* – providing an environment in which employees are encouraged to learn and develop.
- *Reward* – defining what the organization wants to do in the longer term to develop and implement reward policies, practices and processes that will further the achievement of its business goals and meet the needs of its stakeholders.
- *Employee relations* – defining the intentions of the organization about what needs to be done and what needs to be changed in the ways in which the organization manages



its relationships with employees and their trade unions.

- *Employee wellbeing* – meeting the needs of employees for a healthy, safe and supportive work environment.

The following are some examples of specific HR strategies.

### The Children's Society

- Implement the rewards strategy of the Society to support the corporate plan and secure the recruitment, retention and motivation of staff to deliver its business objectives.
- Manage the development of the human resources information system to secure productivity improvements in administrative processes.
- Introduce improved performance management processes for managers and staff of the Society.
- Implement training and development that supports the business objectives of the Society and improves the quality of work with children and young people.

### Diageo

There are three broad strands to the *Organization and People Strategy*:

- 1 *Reward and recognition*: use recognition and reward programmes to stimulate outstanding team and individual performance contributions.
- 2 *Talent management*: drive the attraction, retention and professional growth of a deep pool of diverse, talented employees.
- 3 *Organizational effectiveness*: ensure that the business adapts its organization to maximize employee contribution and deliver performance goals.

It provides direction to the company's talent, operational effectiveness and performance and reward agendas. The company's underlying thinking is that the people strategy is not for the human resource function to own but is the responsibility of the whole organization, hence the title 'Organization and People Strategy'.

### A government agency

The key components of the HR strategy are:

- Investing in people – improving the level of intellectual capital.
- Performance management – integrating the values contained in the HR strategy into performance management processes and ensuring that reviews concentrate on how well people are performing those values.
- Job design – a key component concerned with how jobs are designed and how they relate to the whole business.
- The reward system – in developing reward strategies, taking into account that this is a very hard driven business.

### A local authority

The focus is on the organization of excellence. The strategy is broken down into eight sections: employee relations, recruitment and retention, training, performance management, pay and benefits, health and safety, absence management and equal opportunities.

### Criteria for an effective HR strategy

An effective HR strategy is one that works in the sense that it achieves what it sets out to achieve. Its criteria are that it:

- will satisfy business needs;
- is founded on detailed analysis and study, not just wishful thinking;
- can be turned into actionable programmes that anticipate implementation requirements and problems;
- is coherent and integrated, being composed of components that fit with and support each other;
- takes account of the needs of line managers and employees generally as well as those of the organization and its other stakeholders.

### Formulating HR strategy

Research conducted by Wright *et al* (2004) identified two approaches that can be adopted by HR to strategy formulation. 1. *The inside-out approach* begins with the status quo HR function (in terms of skills, processes, technologies, etc) and then attempts

(with varying degrees of success) to identify linkages to the business (usually through focusing on ‘people issues’), making minor adjustments to HR activities along the way. 2. *The outside-in approach* in which the starting point is the business and the customer, competitor and business issues it faces. The HR strategy then derives directly from these challenges to add real value.

They commented that HR strategies are more likely to flow from business strategies dominated by product/market and financial considerations. But there is still room for HR to make an essential contribution at the stage when business strategies are conceived, for example by focusing on resource issues. This contribution may be more significant when strategy formulation is an emergent or evolutionary process – HR strategic issues will then be dealt with as they arise during the course of formulating and implementing the corporate strategy.

### Implementing HR strategy

As Gratton (2000: 30) commented: ‘There is no great strategy, only great execution.’ Strategies cannot be left as generalized aspirations or abstractions. But getting strategies into action is not easy: intent does not

always lead to action. Too often, strategists act like Mr Pecksmith, who was compared by Dickens (*Martin Chuzzlewit*, Penguin Classics, 2004: 23) to ‘a direction-post which is always telling the way to a place and never goes there’. It is necessary to avoid saying, in effect: ‘We need to get from here to there but we don’t care how.’

If, in Kanter’s (1984) phrase, HR strategies are to be action vehicles, they must be translated into HR policies that provide guidelines on decision making and HR practices that enable the strategy to work. These can be the basis for implementation programmes with clearly stated objectives and deliverables.

To a large extent, HR strategies are implemented by line managers. As Purcell *et al* (2003: x) stressed, it is front-line managers who ‘bring policies to life’. They pointed out that:

Implementing and enacting policies is the task of line managers. It is necessary first to involve line managers in the development of HR strategy – bearing in mind that things done *with* line managers are much more likely to work than things done *to* line managers. Second, ensure that the HR policies they are expected to put into practice are *manageable* with the resources available. Third, provide managers with the training, supporting processes and on the spot guidance they need.

#### Key learning points: Strategic HRM

##### The conceptual basis of strategic HRM

Strategic HRM is the ‘interface between HRM and strategic management’. It takes the notion of HRM as a strategic, integrated and coherent approach and develops that in line with the concept of strategic management (Boxall, 1996).

##### The fundamental characteristics of strategy

- Forward looking.
- The organizational capability of a firm depends on its resource capability.
- Strategic fit – the need when developing HR strategies to achieve congruence between them and the organization’s business strategies within the context of its external and internal environment.

##### How strategy is formulated

An emergent and flexible process of developing a sense of direction, making the best use of resources and ensuring strategic fit.

##### The aim of SHRM

To generate organizational capability by ensuring that the organization has the skilled, engaged, committed and well-motivated employees it needs to achieve sustained competitive advantage.

##### Implications of the resource-based view (RBV)

The RBV emphasizes the importance of creating firms that are ‘more intelligent and flexible than their competitors’ (Boxall, 1996) by hiring and developing more talented staff and by extending the skills base.

### Implications of the concept of strategic fit

The concept of strategic fit means developing HR strategies that are integrated with the business strategy and support its achievement (vertical integration or fit), and the use of an integrated approach to the development of HR practices.

### Best practice

There is a set of best HRM practices that are universal in the sense that they are best in any situation and adopting them will lead to superior organizational performance. The notion of best practice incorrectly assumes that there are universally effective HR practices that can readily be transferred.

### Best fit

HR strategies should be congruent with the context and circumstances of the organization. More

realistic than best practice, but there is a danger of mechanistically matching HR policies and practices with strategy.

### The significance of bundling

The process of bundling HR strategies is an important aspect of the concept of SHRM, which is concerned with the organization as a total system or entity and addresses what needs to be done across the organization as a whole.

### HR strategies

HR strategies set out what the organization intends to do about its HRM policies and practices and how they should be integrated with the business strategy and each other. The two types of HR strategies are: 1) general strategies such as high-performance working, and 2) specific strategies relating to the different aspects of HRM such as learning and development and reward.

## Questions

- 1 What is strategic HRM?
- 2 What is strategic management?
- 3 What is strategy?
- 4 What is the resource-based view?
- 5 What is the meaning and significance of strategic fit?
- 6 What is the best practice model and to what extent is it valid?
- 7 What is the best fit model and to what extent is it valid?
- 8 What is bundling?
- 9 What are HR strategies?
- 10 What are the criteria for an effective HR strategy?

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# 03

## Delivering HRM

### KEY CONCEPTS AND TERMS

Business partner	Centre of excellence
HR architecture	HR delivery model
HR philosophies, policies, practices, processes and programmes	HR system
Professionalism	Shared service centre
Strategic business partner	The three-legged stool model
Transactional HR activities	Transformational HR activities

### LEARNING OUTCOMES

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On completing this chapter you should be able to define these key concepts. You should also understand:

- The framework for delivering HRM
- What the concept of HR architecture means
- What an HR system looks like
- The HR role of line managers
- The role and organization of the HR function
- The nature of an HR delivery model
- The role of HR professionals

## Introduction

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The framework for delivering HRM is provided by the HR architecture of an organization, which consists of the HR system, HR practices and the HR delivery model adopted by the HR function. Within that framework HRM is the responsibility of the HR function and the HR professionals who are members of the function and, importantly, line managers.

HR techniques such as organization development, selection testing, talent management, performance management and total reward play an important part in the delivery of HRM. But there is the danger that new and seemingly different techniques become ‘flavours of the month’ only to be quickly forgotten when they fail to deliver. Some time ago McLean (1981: 4) observed that:

The history of the management of human resources is littered with examples of widely acclaimed techniques enthusiastically introduced by managers who are keen to find solutions to their ‘people’ problems, only to be discarded and discredited by the same disillusioned and increasingly cynical managers some time later.

Times have not changed. The effective delivery of HRM depends on using techniques that are tried, tested and appropriate, not ones that have been promoted vigorously as ‘best practice’ without supporting evidence.

## HR architecture

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HR architecture consists of the HR systems, processes and structure, and employee behaviours. It is a comprehensive representation of all that is involved in HRM, not simply the structure of the HR function. As explained by Becker *et al* (2001: 12): ‘We use the term HR architecture to broadly describe the continuum from the HR professionals within the HR function, to the system of HR related policies and practices, through the competencies, motivation and associated behaviours of the firm’s employees.’ It was noted by Hird *et al* (2010: 25)

that: ‘this architecture is seen as a unique combination of the HR function’s structure and delivery model, the HR practices and system, and the strategic employee behaviours that these create’.

Purcell (1999: 38) suggested that the focus should be on ‘appropriate HR architecture and the processes that contribute to organizational performance’. Becker and Huselid (2006: 899) stated that: ‘It is the fit between the HR architecture and the strategic capabilities and business processes that implement strategy that is the basis of HR’s contribution to competitive advantage.’

## The HR system

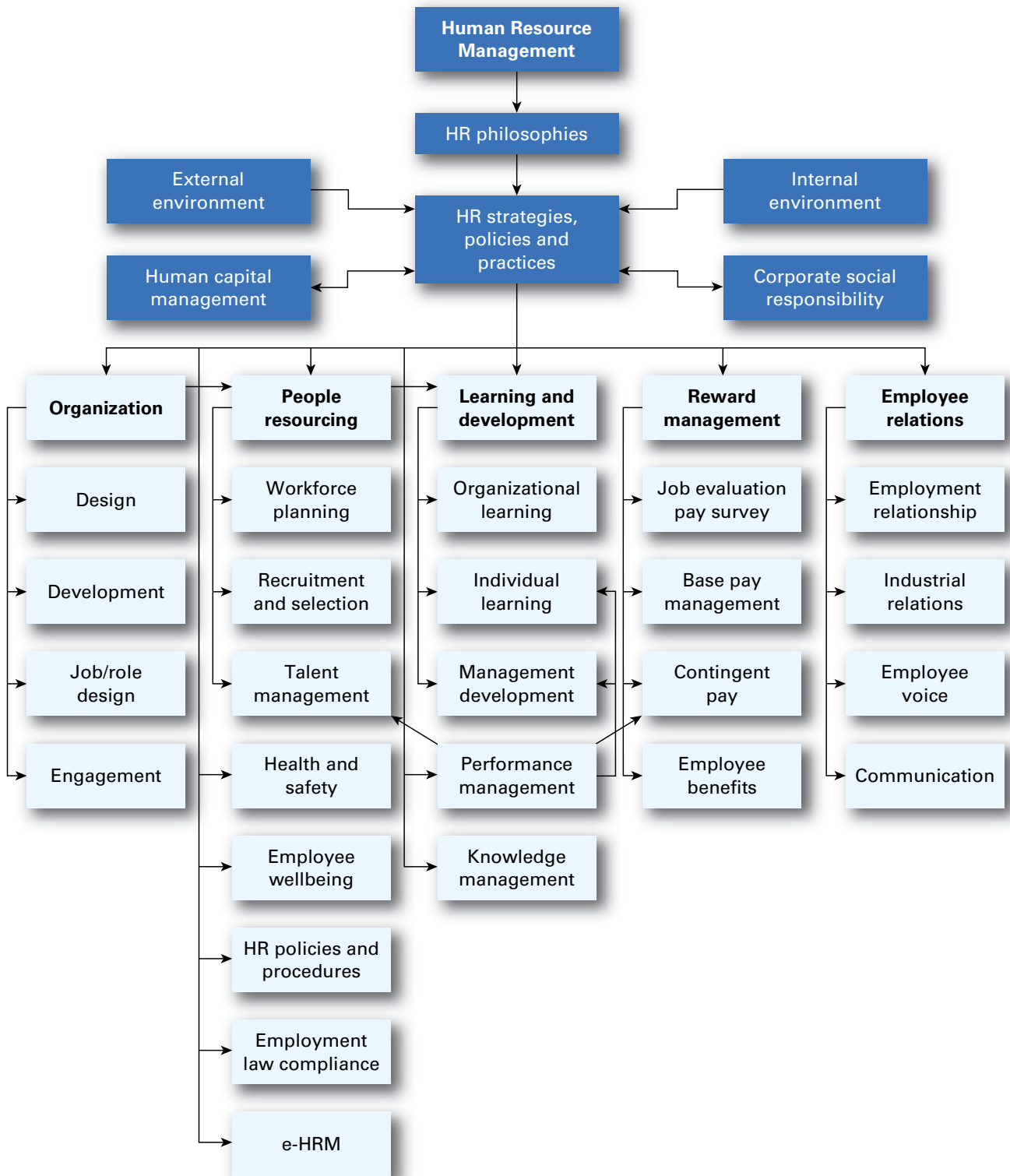
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The HR system contains the interrelated and jointly supportive HR activities and practices which together enable HRM goals to be achieved. Becker and Huselid (1998: 95) observed that: ‘The HRM system is first and foremost a vehicle to implement the firm’s strategy.’ Later (2006) they argued that it is the HR system which is the key HR asset. Boselie *et al* (2005: 73) pointed out that in its traditional form HRM can be viewed as ‘a collection of multiple discrete practices with no explicit or discernible link between them. The more strategically minded system approach views HRM as an integrated and coherent bundle of mutually reinforcing practices’.

As illustrated in Figure 3.1, an HRM system brings together *HR philosophies* that describe the overarching values and guiding principles adopted in managing people. Taking account of the internal and external environments in which the organization operates, the system incorporates:

- *HR strategies*, which define the direction in which HRM intends to go in each of its main areas of activity.
- *HR policies*, which set out what HRM is there to do and provide guidelines defining how specific aspects of HR should be applied and implemented.
- *HR practices*, which consist of the HRM activities involved in managing and developing people and in managing the employment relationship.

**FIGURE 3.1** The HR system



## The HR delivery model

In a sense HR is in the delivery business – providing the advice and services that enable organizations to get things done through people. The HR delivery model describes how those services are provided. These methods of delivery take place irrespective of the degree to which what is done corresponds with the conceptual HRM model described in Chapter 1.

The most celebrated delivery model was produced by Dave Ulrich. In his highly influential *Harvard Business Review* article (1998: 124) he wrote that: ‘HR should not be defined by what it does but by what it delivers – results that enrich the organization’s value to customers, investors, and employees.’ More specifically he suggested that HR can deliver in four ways: as a strategic partner, an administrative expert, an employee champion, and a change agent. This first model was later modified by Ulrich and Brockbank (2005), who defined the four roles as employee advocate, human capital developer, functional expert, and strategic partner. The role and organization of the HR function in delivering HRM is explored below.

## The role and organization of the HR function

Members of the HR function provide insight, leadership, advice and services on matters affecting the management, employment, learning and development, reward and wellbeing of people and the relationships between management and employees. Importantly, they contribute to the achievement of organizational effectiveness and success (the impact of HRM on performance is considered in Chapter 4).

The basic role of HR is to deliver HRM services. But it does much more than that. It plays a key part in the creation of an environment that enables people to make the best use of their capacities, to realize their potential to the benefit of both the organization and themselves, and to achieve satisfaction through their work.

Increasingly, the role of HR is seen to be business-oriented – contributing to the achievement of sustained competitive advantage. Becker and Huselid (1998: 97) argued that HR should be ‘a resource

that solves real business problems’. But one of the issues explored by Francis and Keegan (2006) through their research is the tendency for a focus on business performance outcomes to obscure the importance of employee wellbeing in its own right. They quoted the view of Ulrich and Brockbank (2005: 201) that ‘caring, listening to, and responding to employees remains a centrepiece of HR work’. The HR function and its members have to be aware of the ethical dimensions of their work.

### HR activities

HR activities can be divided into two broad categories: 1) transformational (strategic) activities that are concerned with developing organizational effectiveness and the alignment and implementation of HR and business strategies; and 2) transactional activities, which cover the main areas of HR service delivery – resourcing, learning and development, reward and employee relations. A CEO’s view on the HR agenda as quoted by Hesketh and Hird (2010: 105) was that it operates on three levels: ‘There’s the foundation level, which we used to call personnel, it’s just pay and rations, recruitment, all that sort of stuff that makes the world go round, transactional work. Level two to me is tools, it could be engagement, reward, development, those sort of things. Level three is the strategic engagement.’

### The organization of the HR function

The ways in which HR operates vary immensely. As Sisson (1990) commented, HR management is not a single homogeneous occupation – it involves a variety of roles and activities that differ from one organization to another and from one level to another in the same organization. Tyson (1987) claimed that the HR function is often ‘balkanized’ – not only is there a variety of roles and activities but these tend to be relatively self-centred, with little passage between them. Hope-Hailey *et al* (1997: 17) believed that HR could be regarded as a ‘chameleon function’ in the sense that the diversity of practice established by their research suggests that ‘contextual variables dictate different roles for the function and different practices of people management’.

The organization and staffing of the HR function clearly depend on the size of the business, the extent to which operations are decentralized, the type of



work carried out, the kind of people employed and the role assigned to the HR function. A survey by Incomes Data Services (IDS, 2010) found that the overall median number of HR staff in the responding organizations was 14. In small and medium-sized companies (with 1–499 staff) the median number was 3.5, and in companies with 500 or more employees it was 20. While, as would be expected, large organizations employed more staff than small and medium-sized enterprises (SMEs), they had on average fewer HR staff per employee. For SMEs the median ratio of employees to HR staff was 62:1; in large employers it was 95:1. The overall ratio was 80:1. The IRS 2011 survey of HR roles and responsibilities found that the median ratio of employees to HR practitioners was 83:1.

A traditional organization might consist of an HR director responsible directly to the chief executive, with functional heads dealing, respectively, with recruitment and employment matters, learning and development, and reward management. Crail (2006: 15) used the responses from 179 organizations to an IRS survey of the HR function to produce a model of an HR department. He suggested that this ‘might consist of a team of 12 people serving a workforce of around 1,200. The team would have a director, three managers, one supervisor, three HR officers and four assistants. It would include a number of professionally qualified practitioners, particularly at senior level’. However, there is no such thing as a typical HR function, although the ‘three-legged stool’ model as described below has attracted a lot of attention.

### **The three-legged stool model**

The notion of delivering HRM through three major areas – centres of expertise, business partners and HR shared service centres – emerged from the HR delivery model produced by Ulrich (1997, 1998), although, as reported by Hird *et al* (2010: 26): ‘Ulrich himself has gone on record recently to state that the structures being implemented by HR based on his work are not actually his idea at all but an interpretation of his writing.’ They noted that the first reference to the three-legged stool was in an article by Johnson (1999), two years after Ulrich published his delivery model. In this article Johnson quoted David Hilborn, an associate of William Mercer, management consultants, as follows.

#### Source review

The three-legged stool model – David Hilborn as quoted by Johnson (1999: 44)

The traditional design [of an HR department] typically includes a vice president of HR, then a manager of compensation and benefits, a manager of HRIS and payroll, a manager of employment and so on. However, the emerging model is more like a three-legged stool. One leg of the stool includes an administrative service centre which processes payroll, benefits and the like and focuses on efficiency in transaction functions. The second leg is a centre of excellence (or expertise) in which managers and specialists work. These employees concentrate on design rather than transactions and will have line managers as their customers. HR business partners make up the third leg. They are generalists who usually report to line managers and indirectly to HR. These employees don’t get involved in transactions, but instead act as consultants and planners, linking the business with appropriate HR programmes.

This exposition provided the blueprint for all subsequent versions of the model, which has evolved as follows:

- 1 *Centres of expertise* – these specialize in the provision of high-level advice and services on key HR activities. The CIPD survey on the changing HR function (CIPD, 2007) found that they existed in 28 per cent of respondents’ organizations. The most common expertise areas were training and development (79 per cent), recruitment (67 per cent), reward (60 per cent) and employee relations (55 per cent).
- 2 *Strategic business partners* – these work with line managers to help them reach their goals through effective strategy formulation and execution. They are often ‘embedded’ in business units or departments.
- 3 *HR shared service centres* – these handle all the routine ‘transactional’ services across the

business, which include such activities as recruitment, absence monitoring and advice on dealing with employee issues like discipline and absenteeism.

### Critical evaluation of the three-legged stool model

Although this model has attracted a great deal of attention, the 2007 CIPD survey found that only 18 per cent of respondents had implemented all three 'legs', although 47 per cent had implemented one or two elements, with business partners being the most common (29 per cent).

Moreover, there are difficulties with the notion. Gratton (2003: 18) pointed out that: 'this fragmentation of the HR function is causing all sorts of unintended problems. Senior managers look at the fragments and are not clear how the function as a whole adds value'. And as Reilly (2007) commented, respondents to the CIPD survey mentioned other problems in introducing the new model. These included difficulties in defining roles and accountabilities, especially those of business partners, who risk being 'hung, drawn and quartered by all sides', according to one HR director. At the same time, the segmented nature of the structure gives rise to 'boundary management' difficulties, for example when it comes to separating out transactional tasks from the work of centres of expertise. The model can also hamper communication between those engaged in different HR activities. Other impediments were technological failure, inadequate resources in HR and skills gaps.

Hird *et al* (2010: 31) drew attention to the following issues:

- An 'off the shelf' introduction of a new HR structure without careful thought as to how the model fits the organization's requirements.
  - A lack of care in dealing with the boundary issues between elements of the HR structure which can easily be fragmented.
  - A lack of attention to the new skill sets needed by business partners to ensure they can play at the strategic level.
  - A lack of understanding on the part of managers as to the value of a new HR structure.
  - A lack of skill on the part of line managers to make the required shift to greater responsibility for people issues implied by the new model.
- What is referred to as the 'polo' problem: a lack of provision of the execution of HR services as the business partner shifts to strategic work, and the centre of expertise to an advisory role.

However, some benefits were reported by respondents to the CIPD (2007) survey. Centres of expertise provide higher quality advice. Business partners exercise better business focus, line managers are more engaged, and the profile of HR is raised. Also, the introduction of shared services results in improved customer service and allows other parts of HR to spend more time on value-adding activities.

### Evaluating the HR function

It is necessary to evaluate the contribution of the HR function to ensure that it is effective at both the strategic level and in terms of service delivery and support. The prime criteria for evaluating the work of the function are its ability to operate strategically and its capacity to deliver the levels of services required.

Research conducted by the Institute for Employment Studies (Hirsh, 2008) discovered that the factors that correlated most strongly with line managers' and employees' satisfaction with HR were:

- being well supported in times of change;
- HR giving good advice to employees;
- being well supported when dealing with difficult people or situations;
- HR getting the basics right.

But the results showed that HR could do better in each of these areas. The conclusions reached were that HR must find out what its customers need and what their experiences of HR services are. HR has to be responsive – clear about what it is there for and what services it offers, and easy to contact.

The IRS 2011 survey of HR roles and responsibilities established that the top six measures used by respondents to assess HR effectiveness were:

- 1 absence management data – 80 per cent;
- 2 staff turnover data – 78 per cent;
- 3 discipline and grievance data – 73 per cent;
- 4 results of employee surveys – 67 per cent;
- 5 exit interview feedback – 65 per cent;
- 6 anecdotal/informal feedback – 65 per cent.



## CASE STUDIES ON THE ORGANIZATION OF THE HR FUNCTION

### HR organization at the National Australia Bank Group

HR at the National Australia Bank Group has a number of centres of expertise, business partners, solutions consultants, project managers, a shared services centre, and telephone advisory service for employees (the people advisory helpline).

#### Centres of expertise

Centres of expertise cover areas such as reward, employment policy, talent management, culture management, diversity and performance. The staff in the centres are specialists in their respective fields, while the other parts of HR can be found in the HR service centre, with the exception of recruitment, which is conducted by line managers.

#### Business partners

Business partners attend business unit leadership team meetings and set the company's people strategies and deliver the HR requirements emerging from various projects.

They tend to work in the areas of talent, performance, leadership, diversity and culture and their job is to facilitate the implementation of corporate people initiatives with the relevant specialist HR partners. Unlike shared services staff, they only get involved in HR's daily operational matters if projects escalate and extra help is required.

#### Solutions consultants

Solutions consultants deal with operational queries referred to them from the people advisory helpline – mainly issues of case management and other more complex enquiries. They are a key point of contact for people leaders on matters of policy and procedure, although they do participate in some transaction work as well.

#### Project staff

Project staff work on projects that emerge from strategic discussions.

### The HR shared services model at PricewaterhouseCoopers (PwC)

The HR shared services model at PwC consists of transactional and professional areas. Transactional functions include payroll, benefits administration and the joiners/leavers process department. The transactional functions also provide services for their professional counterparts. In contrast, professional areas organized into centres of expertise include functions such as recruitment, learning and development, reward, diversity and legal and advisory.

The centres of expertise sit within the central human capital services centre but there are definite lines between them. Every centre of expertise is a cost centre, but for the

annual budgeting process all are looked at together as part of the HR shared services function.

The result of introducing the centres of expertise has been that specialist knowledge is now organized into discrete units enabling know-how and experience to be more easily shared. The new structure means there is less duplication and the improved efficiencies allows more time to be dedicated to strategic issues. Additionally, a decrease in costs has been achieved via a combination of reductions in headcount, economies of scale and related efficiencies.

### Reorganizing HR in the Greater Manchester Fire Service

Following major changes in operations, it was decided by senior management that the role of the fire service's HR function was to provide high-level, strategic advice from advisers who could work closely with them, backed

up by specialists. In other words, a business partner model. So the brigade began to recruit business partners – placing a special emphasis on those with expertise in employee relations – and specialists to cover areas such

as occupational health, equality and diversity, reward, pensions and recruitment. Finding candidates with sufficient gravitas to act as top-level strategic advisers was difficult. There weren't many true business partners about. A lot of people calling themselves business partners were really HR advisers.

When the team was in place the major developments were:

- to introduce a more transparent promotions process;
- work on the organizational climate and leadership – a series of away-days for leaders using organizational climate tools such as 360-degree feedback and the Belbin Team Inventory;
- the recruitment process was also modernized by putting together a resourcing team, building a microsite and developing an applicant tracking system;
- reorganize training;
- a departmental competency framework was put in place to ensure HR staff would be able to move easily within the organization rather than becoming bogged down in specialist areas.

## The roles of HR professionals

The roles of HR professionals vary widely according to the extent to which they are generalist (eg HR director, HR manager, business partner), or specialist (eg head of learning and development, head of talent management, head of reward), the level at which they work (strategic, executive or administrative) the needs of the organization, the view of senior management about their contribution, the context within which they work and their own capabilities. They can act as strategists, business partners, innovators, change agents, internal consultants, change agents, facilitators and coaches. Tyson and Fell (1986: 7) believed that they were 'specialists in managing the employment relationship'. The competencies required by the role are demanding.

### The overall role

HR professionals can play a proactive role, contributing to the formulation of corporate strategy, developing integrated HR strategies and volunteering guidance on matters related to upholding core values and ethical principles. They are involved in business issues and working with line managers to deliver performance targets but they are also concerned with people issues. They help to improve organizational capability – the capacity of the organization to perform effectively and thus reach its goals. They can also be regarded as facilitators;

in the words of Tyson and Fell (1986: 65): 'Their work allows other managerial work to happen.'

The 'Next Generation' research conducted by the CIPD in 2010 emphasized the need for HR professionals to be 'insight-led'. Commenting on the outcomes of the research, Sears (2011: 35) reported that: 'We found that demonstrating a sense of purpose that spans the whole pyramid demands a wide-awake HR function, with a deep understanding of business, contextual and organizational factors.'

Research conducted by Hoque and Noon (2001: 19) established that: 'The growing number of specialists using the HR title are well qualified, are more likely to be involved in strategic decision-making processes and are most likely to be found in workplaces within which sophisticated methods and techniques have been adopted.' However, in some situations they play a mainly reactive and transactional role. They spend much of their time doing what they are told or asked to do, responding to requests for services or advice. They provide the administrative systems required by management. This is what Storey (1992) refers to as the non-interventionary role in which HR people merely provide a service to meet the demands of management and front-line managers.

For many HR practitioners their most important function is service delivery, which includes transactional activities such as recruitment, training and advisory services. The importance of this aspect of their work should not be underestimated by focusing too much on the strategic or business partner roles, as described below.

## The strategic role

The strategic role of HR professionals varies according to whether they are operating at strategic levels (as HR directors or heads of the HR function, heads of centres of expertise or key HR functions, and strategic business partners), or at a transactional level (as an HR officer, adviser or assistant delivering basic HR services such as recruitment or training, or working in an HR shared service centre). The strategic HRM skills they need to carry out this role are described in Chapter 41.

## Strategic level roles

The roles of HR professionals at a strategic level are:

- 1 To formulate and implement, in conjunction with their management colleagues, forward-looking HR strategies that are aligned to business objectives and integrated with one another. In doing so they adopt an ‘outside-in’ approach as described by Wright *et al* (2004) in which the starting point is the business, including the customer, competitor and business issues it faces. The HR strategy then derives directly from these challenges to create real solutions and add real value.
- 2 To contribute to the development of business strategies. They do this by advising on how the business can achieve its strategic goals by making the best use of its human resources and by demonstrating the particular contribution that can be made by the talented people it employs.
- 3 To work alongside their line management colleagues and provide on an everyday basis continuous support to the implementation of the business or operational strategy of the organization, function or unit.

## The strategic contribution of HR advisers or assistants

The role of HR advisers or assistants is primarily that of delivering effective HR services within their function, or as a member of an HR service centre. While they will not be responsible for the formulation of HR strategies they may contribute to them within their own speciality. They will need to understand the business goals of the departments or

managers for whom they provide services in order to ensure that these services support the achievement of those goals.

## The business partner role

The notion of HR professionals as business partners has seized the imagination of HR people. In essence, the concept is that, as business partners, HR specialists share responsibility with their line management colleagues for the success of the enterprise and get involved with them in implementing business strategy and running the business.

As business partners, HR practitioners work closely with their line management colleagues. They are aware of business strategies and the opportunities and threats facing the organization. They are capable of analysing organizational strengths and weaknesses and diagnosing the issues facing the enterprise and their human resource implications. They understand the business model and know about the critical success factors that will create competitive advantage. They adopt a ‘value-added’ approach when making a convincing business case for innovations.

The term ‘value added’ looms large in the concept of the HR business partner. In the language of accounting, where the phrase originated, added value is defined as the value added to the cost of raw materials and bought-out parts by the process of production and distribution. In HR speak, a value-added approach means creating value through HR initiatives that make a significant contribution to organizational success. Strictly speaking, added value is measured by the extent to which the value of that contribution exceeds its cost or generates a return on investment. But the term is often used more generally to signify the business-oriented approach HR professionals are expected to adopt and how it contributes to the creation of value by the firm. Adding value is about improving performance and results – getting more out of an activity than was put into it.

## Critical evaluation of the business partner concept

It can be argued that too much has been made of the business partner model. Perhaps it is preferable to emphasize that the role of HR professionals is to

be *part* of the business rather than merely being partners. There is the danger of over-emphasizing the seemingly glamorous role of business or strategic partner at the expense of the service delivery aspect of the HR practitioner's role. Syrett (2006) noted that whatever strategic aspirations senior HR practitioners have, they will amount to nothing if the function they represent cannot deliver the essential transactional services their internal line clients require. As an HR specialist commented to Caldwell (2004): 'My credibility depends on running an extremely efficient and cost-effective administrative machine ... If I don't get that right, and consistently, then you can forget about any big ideas.' Another person interviewed during Caldwell's research referred to personnel people as 'reactive pragmatists', a realistic situation in many organizations.

The problem of the over-emphasis on the business partner role has been influenced by the erroneous belief that Ulrich was simply focusing on HR executives as business partners. This has had the unfortunate effect of implying that it was their only worthwhile function. But Ulrich cannot be blamed for this. In 1998 he gave equal emphasis to the need for HR people to be administrative experts, employee champions and change agents, and this was confirmed in the revised model (Ulrich and Brockbank, 2005).

### Example – business partnering at the AA

The key competencies required by the AA for its business partners are concerned with commercial decision making, commerciality, influencing people and facilitating change. They have to:

- understand the key factors affecting overall costs and profits;
- understand and interpret financial data;
- understand the connectivity between functional areas of the business;
- understand the impact of actions on cash flow and profitability.

### The innovation role

A strategic and therefore proactive approach to HRM will mean that HR specialists will need to innovate – to introduce new processes and procedures they believe will increase organizational effectiveness.

The case for innovation should be established by processes of analysis and diagnosis using an evidence-based management approach to identify the business need and the issues to be addressed. 'Benchmarking' can be used to identify 'best practice' in other organizations. But 'best fit' is more important than 'best practice' – in other words, the innovation should meet the particular needs of the business, which are likely to differ from those of other 'best practice' organizations. It has to be demonstrable that the innovation is appropriate, beneficial, practical in the circumstances and can be implemented without too much difficulty in the shape of opposition from those affected by it or the unjustifiable use of resources – financial and the time of those involved.

The danger, according to Marchington (1995), is that HR people may go in for 'impression management' – aiming to make an impact on senior managers and colleagues through publicizing high profile innovations. HR specialists who try to draw attention to themselves simply by promoting the latest flavour of the month, irrespective of its relevance or practicality, are falling into the trap which Drucker (1955: 243), anticipating Marchington by 40 years, described as follows: 'The constant worry of all personnel administrators is their inability to prove that they are making a contribution to the enterprise. Their preoccupation is with the search for a "gimmick" which will impress their management colleagues.'

As Marchington points out, the risk is that people believe 'all can be improved by a wave of the magic wand and the slaying of a few evil characters along the way'. This facile assumption means that people can too readily devise elegant solutions that do not solve the problem because of the hazards encountered during implementation – for example, the indifference or even open hostility of line managers. These have to be anticipated and catered for.

Guidelines for HR innovations are set out overleaf.

### The change agent role

The implementation of strategy means that HR specialists have to act as change agents, facilitating change by providing advice and support on its introduction and management. Caldwell categorizes HR change agents in four dimensions.

### Guidelines for HR innovations

- 1 Be clear on what has to be achieved and why.
- 2 Ensure that what you do fits the strategy, culture and circumstances of the organization.
- 3 Don't follow fashion – do your own thing as long as it is relevant and fits the organization's needs.
- 4 Keep it simple – over-complexity is a common reason for failure.
- 5 Don't rush – it will take longer than you think.
- 6 Don't try to do too much at once – an incremental approach is generally best.
- 7 Assess resource requirements and costs.
- 8 Pay close attention to project planning and management.
- 9 Remember that the success of the innovation rests as much on the effectiveness of the process of implementation (line manager buy-in and skills are crucial) as it does on the quality of the concept, if not more so.
- 10 Focus on change management approaches – communicate, involve and train.

### Source review

HR specialists as change agents: the four dimensions – Caldwell (2001)

- 1 *Transformational change* – a major change that has a dramatic effect on HR policy and practice across the whole organization.
- 2 *Incremental change* – gradual adjustments of HR policy and practices which affect single activities or multiple functions.
- 3 *HR vision* – a set of values and beliefs that affirm the legitimacy of the HR function as a strategic business partner.
- 4 *HR expertise* – the knowledge and skills that define the unique contribution the HR professional can make to effective people management.

## **Ambiguities in the role of HR practitioners**

The activities and roles of HR specialists and the demands made upon them as described above appear to be quite clear cut, but Thurley (1981) pointed out that HR practitioners can be specialists in ambiguity. This continues in the age of Ulrich. As Hope-Hailey *et al* (2005: 51) commented: 'Ulrich highlighted that HR professionals must be both strategic and operational, yet the potential role conflict this could engender was not addressed.'

Caldwell (2004: 212) reached the following conclusions on the basis of his research:

There is the issue of 'powerlessness' or the marginality of HR practitioners in management decision-making processes, especially at a strategic level. The HR function has an inward-looking tendency to identify professional expertise mainly with administrative concerns over who controls HR activities, rather than questions of HR practices or who has responsibility for implementing HR policy.



## The status of HR

Over the years, the HR profession has suffered from an inferiority complex. This may arise because the role of HR professionals is ill-defined (they are unsure of where they stand), their status is not fully recognized, or top management and line managers have equivocal views about their value to the organization. Tyson and Fell (1986: 68) remarked that ‘the ambiguous character of their work contributes to the problems of convincing others of its value’.

Drucker (1955: 243) observed that: ‘The constant worry of all personnel administrators is their inability to prove that they are making a contribution to the organization.’ Skinner (1981: 106) in his *Harvard Business Review* article, ‘Big hat no cattle’, stated that ‘the corporate role of personnel has always been problematic’; and Tyson and Fell (1986: 136) argued that: ‘Classical personnel management has not been granted a position in decision-making circles because it has frequently not earned one. It has not been concerned with the totality of the organization but often with issues which have not only been parochial but esoteric to boot.’

Fernie *et al* (1994) claimed on the basis of their analysis of WIRS3 that the presence of a personnel manager is associated with a poorer climate of industrial relations, although Guest and Hoque (1994) questioned this conclusion. Watson (1996) referred to the perpetual marginality of the HR function and, as quoted above, Caldwell (2004: 212) raised the ‘issue of “powerlessness” or the marginality of HR practitioners in management decision-making processes’.

Traditionally, the HR practitioner’s reaction to this problem has been, in the words of Drucker (1955: 243), to ‘search for a “gimmick” that will impress their management colleagues’. This was later called adopting ‘the flavour of the month’. HR professionals have now become more sophisticated. They have enthusiastically supported approaches that appeal to management such as engagement policies and talent management.

Research conducted by Guthrie *et al* (2011: 1681) confirmed that ‘HR departments are still often viewed, collectively, as a function that is more bureaucratic than strategic.’ They noted previous research which has shown that, ‘it is this role – the strategic role – in which line executives believe that HR is particularly deficient’ (*ibid*: 1682). Perhaps

this explains why there has been so much emphasis recently on being strategic, although what is meant by that is not always made clear. The following perceptive comment was made on this trend by Keegan and Francis (2010: 878):

Bearing in mind the history of HR practitioners’ struggles for acceptance as key organizational players it is hardly surprising that a way of discursively modelling the concept of HR as ‘hard’ and relating it to others concepts such as ‘business driven agendas’ and ‘strategic management’, has become so popular. It offers perhaps a way out of the dualism when they seek to claim a share of strategic decision making while at the same time struggling to attend to the employee centred and administrative aspects of the role.

They also commented that: ‘Exhortations for HR practitioners to pursue strategic roles and downplay their historically embedded administrative and employee championing pose a serious threat to the integrity of HR work and claims to professional expertise’ (*ibid*: 894).

## HR competencies

The demands made on HR professionals in terms of skills and expected behaviours are considerable although, nowadays, as Keegan and Francis (2010: 884) commented, ‘Success in HR roles is measured in terms of developing effective business rather than people skills.’ Brockbank *et al* (1999) conducted research that led to a definition of the key HR competency ‘domains’ and their components, as set out in Table 3.1.

## HR behaviours

The CIPD’s HR profession map issued in June 2009 (CIPD, 2010) listed the following behaviours needed by HR professionals to carry out their activities:

- curious;
- decisive thinker;
- skilled influencer;
- driven to deliver;
- collaborative;
- personally credible;
- courage to challenge;
- role model.

**TABLE 3.1** Key HR specialist competency areas (Brockbank *et al*, 1999)

Competency domain	Components
1. Personal credibility	Live the firm's values, maintain relationships founded on trust, act with an 'attitude' (a point of view about how the business can win, backing up opinion with evidence).
2. Ability to manage change	Drive change: ability to diagnose problems, build relationships with clients, articulate a vision, set a leadership agenda, solve problems and implement goals.
3. Ability to manage culture	Act as 'keepers of the culture', identify the culture required to meet the firm's business strategy, frame culture in a way that excites employees, translate desired culture into specific behaviours, encourage executives to behave consistently with the desired culture.
4. Delivery of human resource practices	Expert in the speciality, able to deliver state-of-the-art innovative HR practices in such areas as recruitment, employee development, compensation and communication.
5. Understanding of the business	Strategy, organization, competitors, finance, marketing, sales, operations and IT.

### **What it means to be an HR professional**

Professionalism in HR as in other fields can be defined generally as the conduct exhibited by people who are providing advice and services that require expertise and which meet defined or generally accepted standards of behaviour. Work done by a professional is usually distinguished by its reference to a framework of fundamental concepts that reflect the skilful application of specialized education, training and experience. It is accompanied by a sense of responsibility and an acceptance of recognized standards. Even more loosely, people can be described as acting 'professionally' when they do their work well and act responsibly.

Professionalism in HR means working in accordance with a professional ethos. As suggested by Fletcher (2004) this is characterized by:

- the possession of specialized knowledge and skills;
- power and status based on expertise;
- self-discipline and adherence to some aspirational performance standards;
- the opportunity to display high levels of autonomy;
- the ability to apply some independence of judgement;
- operating, and being guided by, a code of ethics.

HR professionals are required to uphold the standards laid down by their professional body, the CIPD, but they must also adhere to their own ethical values. Additionally, they are bound by organizational codes of conduct expressed formally or accepted and understood as core values (the basic values adopted by an organization that set out what is believed to be important about how people and organizations should behave).

## The HR role of line managers

HR can initiate new policies and practices but it is line managers that have the main responsibility for implementing them. In other words, 'HR proposes but the line disposes.' As Guest (1991: 159) observed: 'HRM is too important to be left to personnel managers.'

If line managers are not inclined favourably towards what HR wants them to do they won't do it or, if compelled to, they will be half-hearted about it. On the basis of their research, Guest and King (2004: 421) noted that 'better HR depended not so much on better procedures but better implementation and ownership of implementation by line managers'.

As pointed out by Purcell *et al* (2003), high levels of organizational performance are not achieved simply by having a range of well-conceived HR policies and practices in place. What makes the difference is how these policies and practices are implemented. That is where the role of line managers in people management is crucial: 'managers ... play a vital role in making involvement happen, in communicating, in being open to allow employee concerns to be raised and discussed, in allowing people space to influence how they do their job, and in coaching, guiding and recognizing performance and providing help for the future' (*ibid*: 40). Purcell and his colleagues noted that dealing with people is perhaps the aspect of their work in which line managers can exercise the greatest amount of discretion and they can use that discretion by not putting HR's ideas into practice. As they observed, it is line managers who bring HR policies to life.

A further factor affecting the role of line managers is their ability to do the HR tasks assigned to them. People-centred activities such as defining roles, interviewing, reviewing performance, providing feedback, coaching and identifying learning and development needs all require special skills. Some managers have them; many don't. Performance-related pay schemes sometimes fail because of untrained line managers.

Hutchinson and Purcell made the following recommendations on how to improve the quality of the contribution line managers make to people management.

### Source review

Improving the quality of line managers as people managers – Hutchinson and Purcell (2003)

- Provide them with time to carry out their people management duties which are often superseded by other management duties.
- Select them carefully with much more attention being paid to the behavioural competencies required.
- Support them with strong organizational values concerning leadership and people management.
- Encourage the development of a good working relationship with their own managers.
- Ensure they receive sufficient skills training to enable them to perform their people management activities such as performance management.

To which can be added that better implementation and better ownership by line managers of HR practices is more likely to be achieved if: 1) the practice demonstrably benefits them; 2) they are involved in the development and, importantly, the testing of the practices; 3) the practice is not too complicated, bureaucratic or time-consuming; 4) their responsibilities are defined and communicated clearly; and 5) they are provided with the guidance, support and training required to implement the practice.