

STRATEGIC HRM AS PART OF STRATEGIC MANAGEMENT: A THEORETICAL PERSPECTIVE

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The Objective of the paper is to describe the meaning of Strategic Human Resource Management (SHRM) and to explain the extent to which Human Resource Management (HRM) is, or should be, a part of Strategic Management. The discussion starts with general description to historical evolution of SHRM and leads through definitions and main features to strategic functions. Finally it explains HRM as a part of Strategic Management.

STRATEGIC HRM

The Historical Evolution

The field of Human Resource Management has undergone tremendous changes and growth over the past 200 years (Butler et. al, 1991, p.10). The importance of HRM in relation to the overall effectiveness of an organisation has been increased considerably and over the last forty years or so, new techniques, activities, approaches of managing people have been developed as a result of the research and experiences in the field. Broadly HRM has gone through several stages of the development as indicated in Exhibit-1.

Exhibit-1 Stages in the Development of HRM

Time	Stages	Level of Management Hierarchy	Title of the Functional Head
1900s (very early)	Welfare	Not in Managerial Level	Welfare Secretary
1940s	Personnel Administration	First-line	Personnel Administrator/Officer
1950s	Personnel Management (The Developing phase)	Lower Middle/Middle	Personnel Manager

Early late 1960s & 70s	Personnel Manage- ment (The mature phase)	Middle/Upper Middle	Senior Personnel Manager/Assistant General Manager (Personnel)
1980s & 90s	HRM/strategic HRM	Top	Deputy General Manager (HRM)/ Vice President (HRM)

Accordingly HRM has extended from Welfare to Strategic HRM (SHRM). Viewing from the role perspective played by HR manager it is possible to mention that it occurred a shift from operation role (Data storage, providing information upon request and administration of personnel matters etc.) to Strategic role (Identifying line needs, sharing in long-term decision and ongoing dialogue with line management etc.). It is viewed as a change or development driven by fundamental environmental changes (particularly in product market conditions) which were not capable of being adequately responded to by the traditional concerns, orientations and power of the personnel management function (Beaumont, 1992, p.22).

Definitions

There is no standard definition of 'SHRM'. Different definitions of the term have been given by different writers and some of these are presented in appendix-1. Simply SHRM is long-term decision making with regard to employees.

SHRM is the process of making those decisions which have a major and long term effect on the effective and efficient utilization of human resources (HR) to accomplish overall goals of the organization. It is a vital ingredient in HRM providing a pradiam with which a coherent approach is developed to the creation and installation of HRM overall goals, policies, systems and practices. It has long-term perspectives, seeking to integrate all the HR aspects of the organization into a coherent whole and to establish high-level employee objectives. It is the strategic dimension of HRM involving the total deployment of HR within the organization. The aim of SHRM is to ensure that the culture, style and structure of the organization, and the quality, commitment and motivation of its employees, contribute fully to the achievement of business objectives (Armstrong, 1992, p. 47). It seems that SHRM does not replace personnel management, but it looks at the process of managing employees from a macro perspective.

Main Features

One feature of SHRM is that it is a macro approach to managing people based on a philosophy of HR. This philosophy suggests that people are a valued and very important asset of which effective management contributes significantly to organizational success and thus will be a source of competitive advantage to the organization concerned. HR are critical investment in an organization's current and future performance.

A central feature of SHRM is integration. Guest (1989, p,49) names this integration as strategic integration and explains it as one of the four policy goals. The term 'integration' stresses two major themes. The first is that HRM should be fully integrated with the strategy and the strategic needs of the organization. This is mainly achieved through the link between Human Resource Planning (HRP) and Strategic Planning (SP). HRP should be an integral part of SP rather than flowing from SP. HRM issues should be considered in the formulation of business strategy. Because HR are the most variable, and the least easy to understand and control of all management resources, effective utilization of HR is likely to give organizations a significant competitive advantage and therefore HRM dimension must be fully integrated into the SP process (Guest, 1987, p.512). HRM activities can build organizational capability and sustain a business organization's competitive advantage in four specific ways (see appendix - 2).

SHRM focuses on matching HRM activities and policies to business strategy and structure. For example, a cost-oriented strategy calls for multiskilled employees, smaller staff and a focus on performance-based pay with a great emphasis on efficiency and financial impact. In order to link to this strategy staffing should focus on acquiring flexible employees with multiskills and training should focus on giving variety of skills and knowledge. Exhibit 2 indicates how HRM links to strategy and structure.

The second theme is the coherence of HRM policies within themselves and with other areas of policy. Policies on staffing, compensation, training etc. must match to each other and help towards the attainment of strategic objectives. For example employee performance appraisal should be integrated with rewarding and development activities. Employees should be rewarded and developed according to the result of appraisal. In other words there should be a clear link between appraisal, rewarding and development as depicted by figure - 1.

Exhibit - 2 Human Resource Management Links to Strategy and Structure

Strategy	Structure	Human Resource Management			
		Selection	Appraisal	Rewards	Development
1. Single product	Functional	Functionally oriented: subjective criteria used	Subjective: measure via personal contact	Unsystematic and allocated in a paternalistic manner	Unsystematic, largely job experiences: single function focus
2. Single product (vertically integrated)	Functional	Functionally oriented: standardized criteria used	Impersonal: based on cost and productivity data	Related to performance and productivity	Functional specialists with some generalists: largely job rotation
3. Growth by acquisition (holding company) of unrelated businesses	Separate, self-contained businesses	Functionally oriented, but varies from business to business in terms of how systematic	Impersonal: based on return on investment and profitability	Formula-based and includes return on investment and profitability	Cross functional but not cross-business
4. Related diversification of product lines through internal growth and acquisition	Multidivisional	Functionally and generalist oriented: systematic criteria used	Impersonal: based on return on investment, productivity, and subjective assessment of contribution to company	Large bonuses: based on profitability and subjective assessment of contribution to overall company	Cross functional, cross divisional, and cross corporate/divisional: formal
5. Multiple products in multiple countries	Global organization (geographic center and world-wide)	Functionally and generalists oriented: systematic criteria used	Impersonal: based on multiple goals such as return on investment, profit tailored to product and country	Bonuses: based on multiple planned goals with moderate top management discretion	Cross divisional and cross subsidiary to corporate: formal and systematic

Source: Fombrun et. al. (1984) pp. 38-39 (adapted from J. Galbraith and D.Nathanson, *Strategy Implementation: The Role of Structure and Process*. st. Paul, MN: West Publishing, 1978.)

It is important to create a horizontal integration among policies of functional management fields to achieve strategic business objectives. Guest (1987, p, 512) emphasizes that HR policies must cohere with those for marketing, production and finance and not become ends in themselves.

Another feature of SHRM is the involvement of line management. Line management should internalise the importance of HR and this should be reflected in their behaviour. As emphasised by Werther and Davis (1989, p.25), HRM is the responsibility of every manager and the HRM department

exists to serve line managers and employees through its expertise. Every line manager has subordinates to be managed. Therefore HRM is a responsibility of all those who manage people as well as specialists designated as HR/ Personnel Managers.

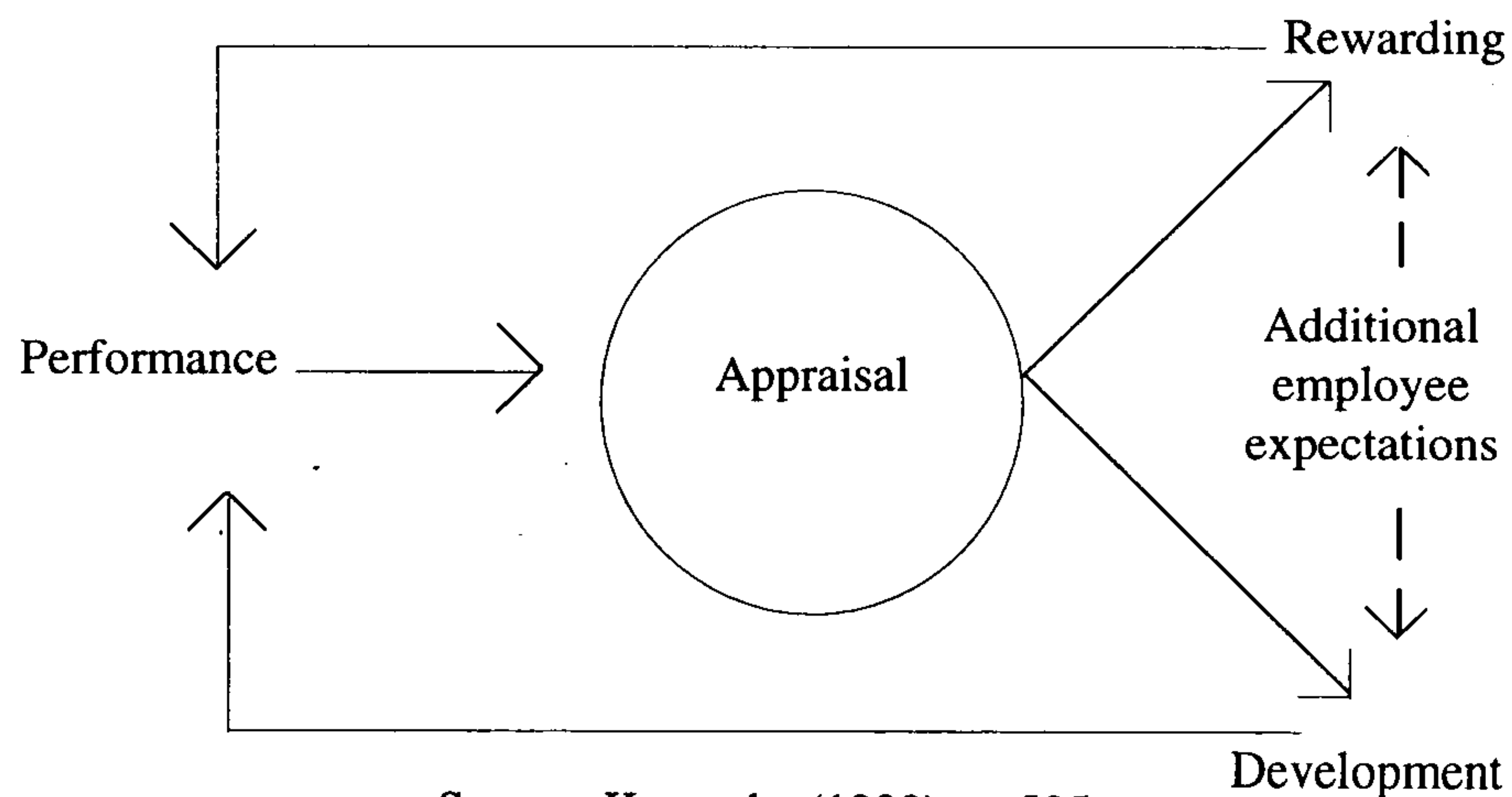
Strategic Functions

According to Robert Anthony's definition of managerial work there are three levels i.e. strategic, managerial and operational. Strategic level focuses on SHRM and this level is concerned with the following:

1. Determining sort of people needed to run future businesses;
2. Determining implications of strategic plans on the future structure, HR systems and resource requirements;
3. Auditing the strengths and weaknesses related to HR capability;
4. Analysing and determining threats and opportunities regarding HR in the external environment;
5. Formulating policies and programs for long-term HR so as to fit environmental conditions and organization strategy.

These functions have long-run time horizon, large quantity of resources required

Figure - 1 The link between Appraisal, Rewarding and Development



Source: Kamoche (1992), p. 505

and high organizational impact. They affect, and are affected by business strategic decisions. Exhibit - 3 shows HR activities at the strategic level relevant to four generic activities.

HRM AS A PART OF STRATEGIC MANAGEMENT

The extent to which HRM is a part of SM

HRM has been included in the strategic management (SM) process of many companies in USA. In 1981 a set of HR executives and strategic planners in 224 large corporations was surveyed by the Strategy Research Center and Columbia University with the objective of ascertaining how the heads of these functions viewed the role of HRM in strategy formulation and implementation. According to this survey several important conclusions were made with respect to current practice of SP activities and the role of HRM in strategy formulation and implementation. See appendix - 3 for the conclusions of the survey.

Bernardin and Russell (1993, p. 2) observe :
HRM activities are sometimes faddish and disjointed, with little consideration of the organization's mission or goals. Many HRM activities are directed at correcting a problem rather than anticipating and planning to avoid problems in the future".

In UK the role of HRM in SM seems to be immaterial. Very few UK organizations appear to practise a distinctive form of HRM, although many are moving slowly in that direction through, for example, policies of employee involvement (Guest, 1987,p.503).

The above explanation indicates that there exist the need for a strategic HR role as well as the need for increasing the extent to which HR activities should be used in SM.

Exhibit - 3 Human Resource Activities

Management Level	Selection	Appraisal	Rewards (Compensation and Fringe Benefits)	Development
Strategic	Developing characteristics of people needed to run business in long term Designing internal and external systems to reflect future businesses	In long term, what should be valued? Developing means to appraise future dimensions Early identification of potential	In world as it might be in long term, how will force be rewarded? Linking rewards to the long-term business strategy	Planning developmental experiences for people running business of the future Designing systems with flexibility to adjust to change Developing career paths

Source: Fombrun et al. (1984) p. 44

The extent to which HRM should be a part of SM

Important relevant HRM function in formulating strategy is HRP. It is most imperative that HRP fits with SP. In other words there should be a SP-HRP linkage.

Basically it is possible to break down SM into two phases: strategy formulation and strategy implementation. Strategy formulation is concerned with making decisions with regard to 1. Defining the organization's philosophy and mission. 2. Establishing long-and short-range objectives to achieve the organization's mission. 3. Selecting the strategy to be used in achieving the organization's objectives (Byars,1992,p.5).

HRM gives an important contribution to the performance of the above mentioned major steps of strategy formulation. The HR managers are in a good position to understand, analyse and help to create the organization's philosophy and its mission. By establishing HR philosophy HR managers are able to contribute to defining organizational philosophy which represents the values, beliefs and guidelines for the manner in which the organization is going to conduct its business.

Performing the activity of HRP HR managers have to forecast how many and what kind of employees will be required in the future, and to what extent this demand is likely to be met. In estimating the demand for HR, HR managers consider external challenges (legal, social, technical, competitive and economic), work force challenges (retirement, resignations, terminations, deaths, leaves of absence) in addition to strategic plans. Therefore HR managers are capable of advising/providing valuable information to strategic planners when analysing macro-environment and competitive position. In estimating internal supply HR managers perform HR audits the result of which is the creation of skill inventories, management inventories and replacement charts/summaries (succession plans) which do help strategic planners to identify strengths and weaknesses of HR area when doing the internal organizational analysis.

Also HRP does create implications to be considered by the top management in case company objectives need amendment- for example, it may not be possible to increase production by the planned amount because labour of the kind required either is impossible to train in the time available, or does not exist in the quantity needed. Actually HRP gives feedback for possible modification to organization objectives so that they are feasible in HR terms.

HR managers can give valuable data on HR implications to strategic planners in evaluating relative suitability, acceptability and feasibility of strategic alternatives. For example, if the strategy is a merger or an acquisition, HR manager is capable of providing data through HR audit of considered merger/acquisition and advice on possible HR side effects.

Figure-2 depicts diagrammatically how HRM can contribute to strategy formulation phase of SM. It is clear that HRM is an integral part of strategy formulation and requiring a HR component in SP is indispensable.

As the second phase of SM, strategy implementation is the way in which an organization creates the organizational arrangements that allow it to put its strategic plan into operation most efficiently and to accomplish its objectives. Strategy is implemented through organizational design which involves selecting the combination of organizational structure and control systems that let an organization pursue its strategy most efficiently (Hill and Jones, 1992, p.312). It is obviously possible for HR managers to give insights to design, change and develop structures and processes to support strategy. Miles and Snow (1984, p. 51) describe:

"Increasingly, however, HR departments are being viewed as the logical repositories of growing body of knowledge and skill in the area of designing and changing organizational systems. If HR is to take its rightful place alongside such other functions as marketing, finance, and production as a full partner in the SP process, top management must be able to turn to the HR department with questions about organization design, just as it would turn to the engineering group with a technical question concerning mechanical design."

Once the organizational arrangements are decided upon, the organization must attract, retain, control and motivate employees to perform the tasks needed to ensure that its objectives and strategy are implemented at the levels of efficiency and effectiveness. This major role is played by not anything else, but by HRM. Exhibit - 4 shows the role of HRM activities in implementing strategy.

Figure - 2 The Role of HRM in Strategy Formulation

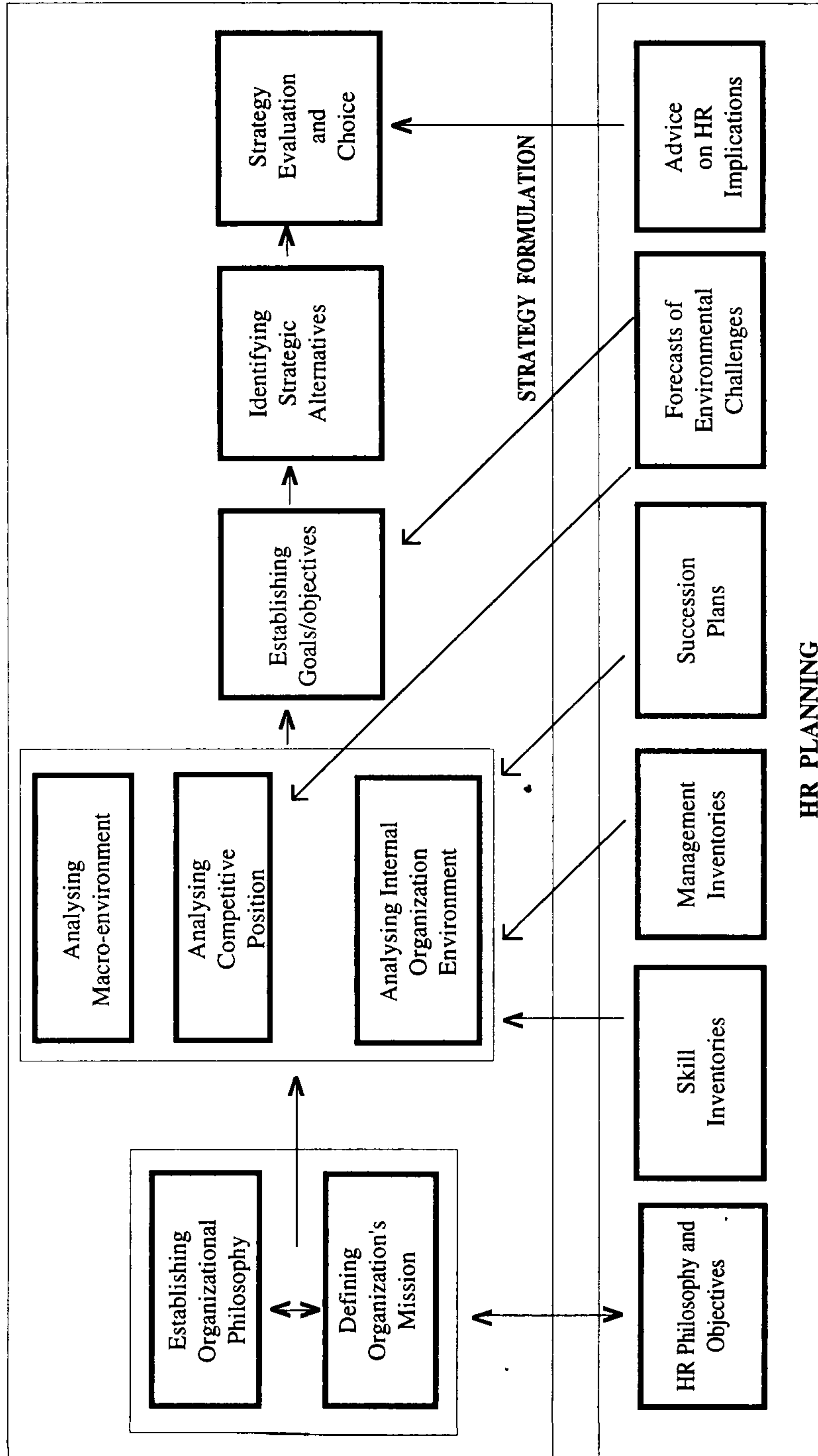


Exhibit - 4 The Role of HRM Activities in Implementing Strategy

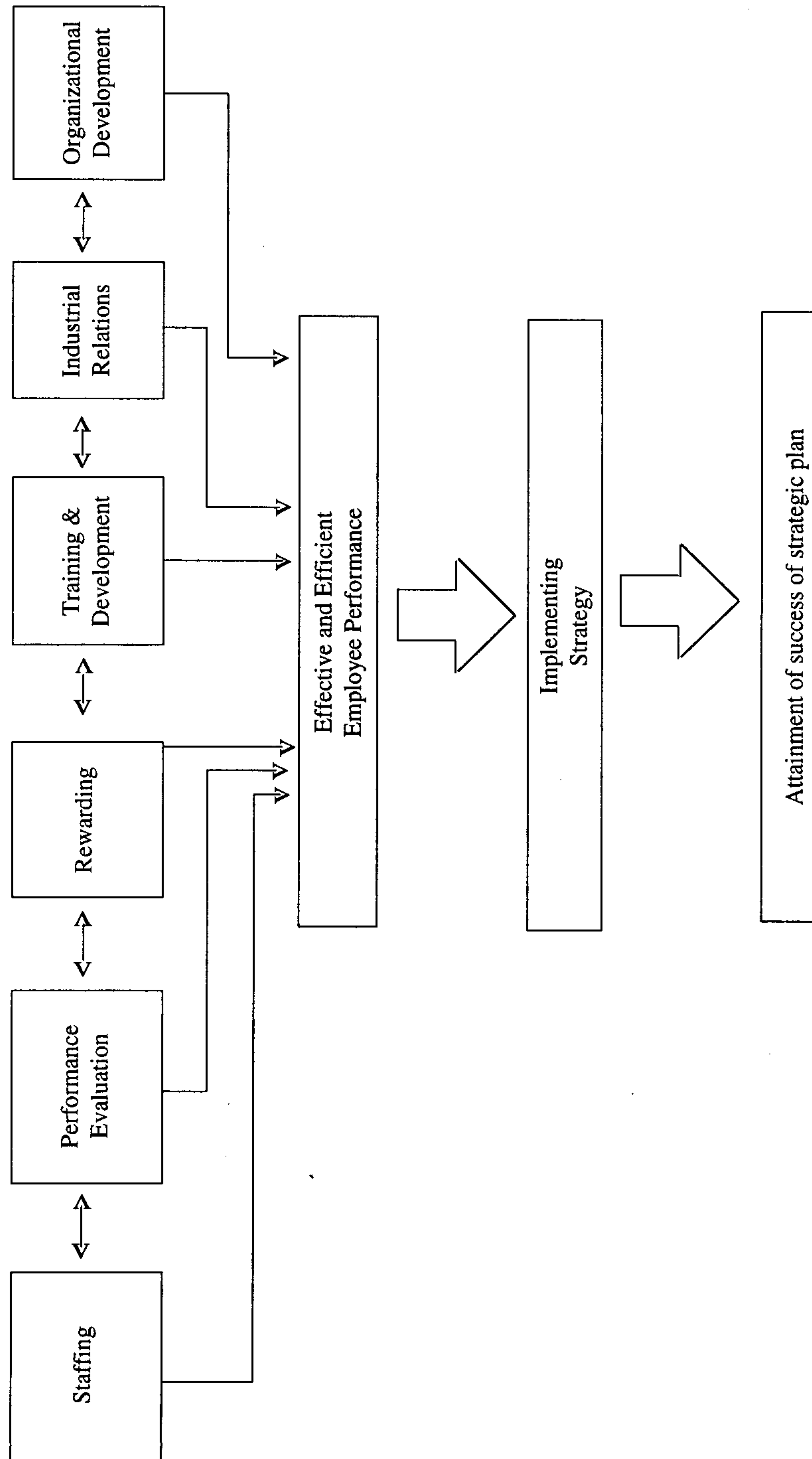
Generic HRM Activity	The Role
Staffing	Attracting, selecting, and hiring the right people who are best able to perform the jobs defined by organization and job design.
Rewarding	Rewarding people according to the levels of performance, for improving performance and for preparation for a new position.
Performance Evaluation	Assessing the extent to which employees are performing the jobs effectively and efficiently.
Training and Development	Providing employees with knowledge, skills and attitudes needed to enhance their current performance at work as well as to prepare them to perform future jobs.
Industrial Relations	Developing and maintaining appropriate personnel relations and labour relations with the main purpose of eliminating industrial unrest and creating industrial peace.
Organizational Development	Managing culture and stress, redesigning organization structures and jobs, and building team so that the firm may better adapt to changes.

In case of implementing strategies such as mergers and acquisitions managing culture and stress becomes very significant. Ivancevich et. al. (1988, p.107) conclude:

" A high percentage of corporate combinations have failed to live up to expectations because little or no preplanning of thought was given to the HR problems that they created... evidence suggests that management's success rate can be improved by doing something about employee stress."

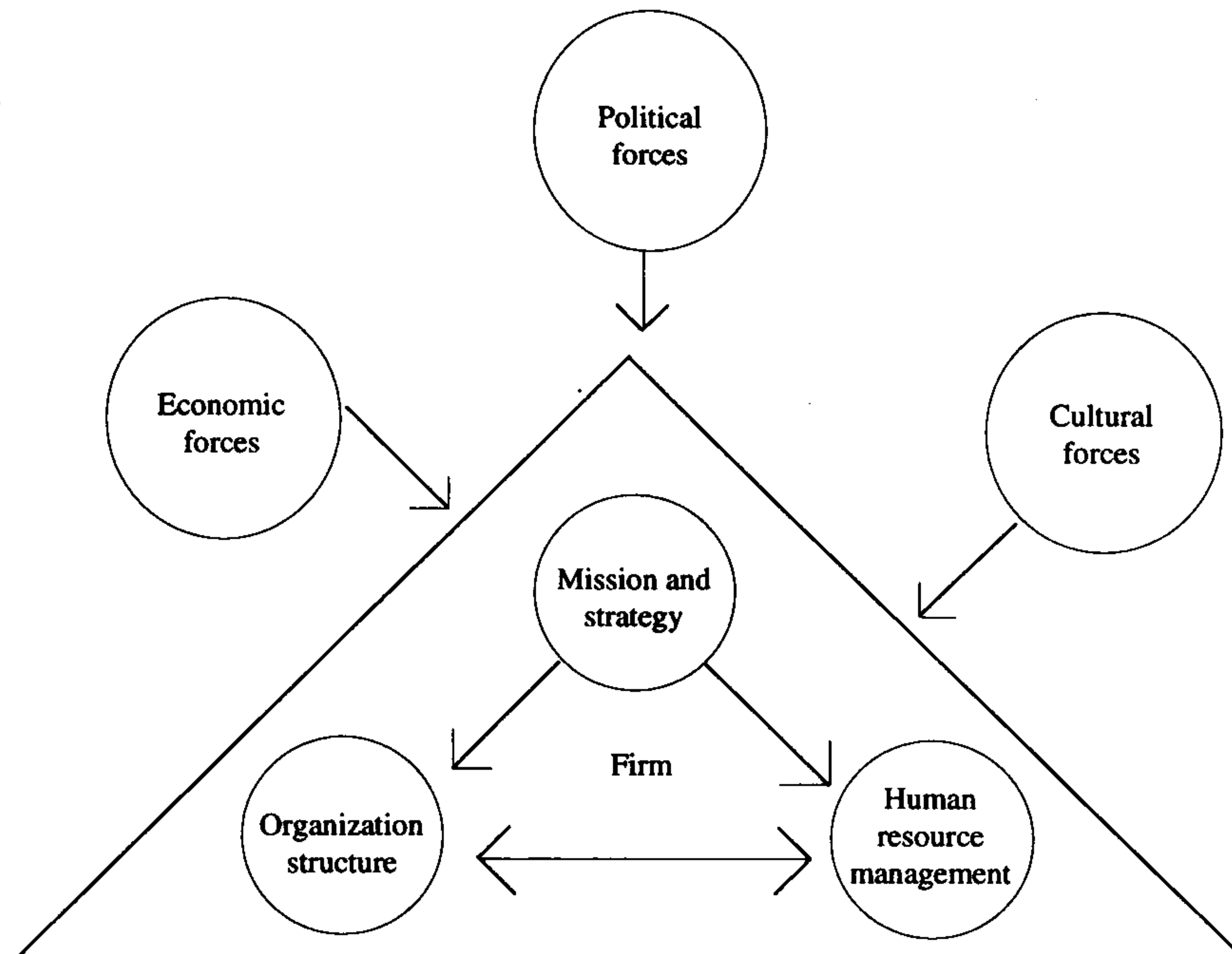
All HRM activities contribute to desired performance at both the individual level and the organizational level. Employee performance is a function of all the HR activities. The more effective and efficient the operation of HRM activities is the more effective and efficient employee performance is. When effective and efficient employee performance occurs it is most likely that implementation of strategy occurs. Figure-3 indicates the way HRM activities contribute to strategy implementation phase of SM.

Figure - 3 HRM Activities contribute to Strategy Implementation



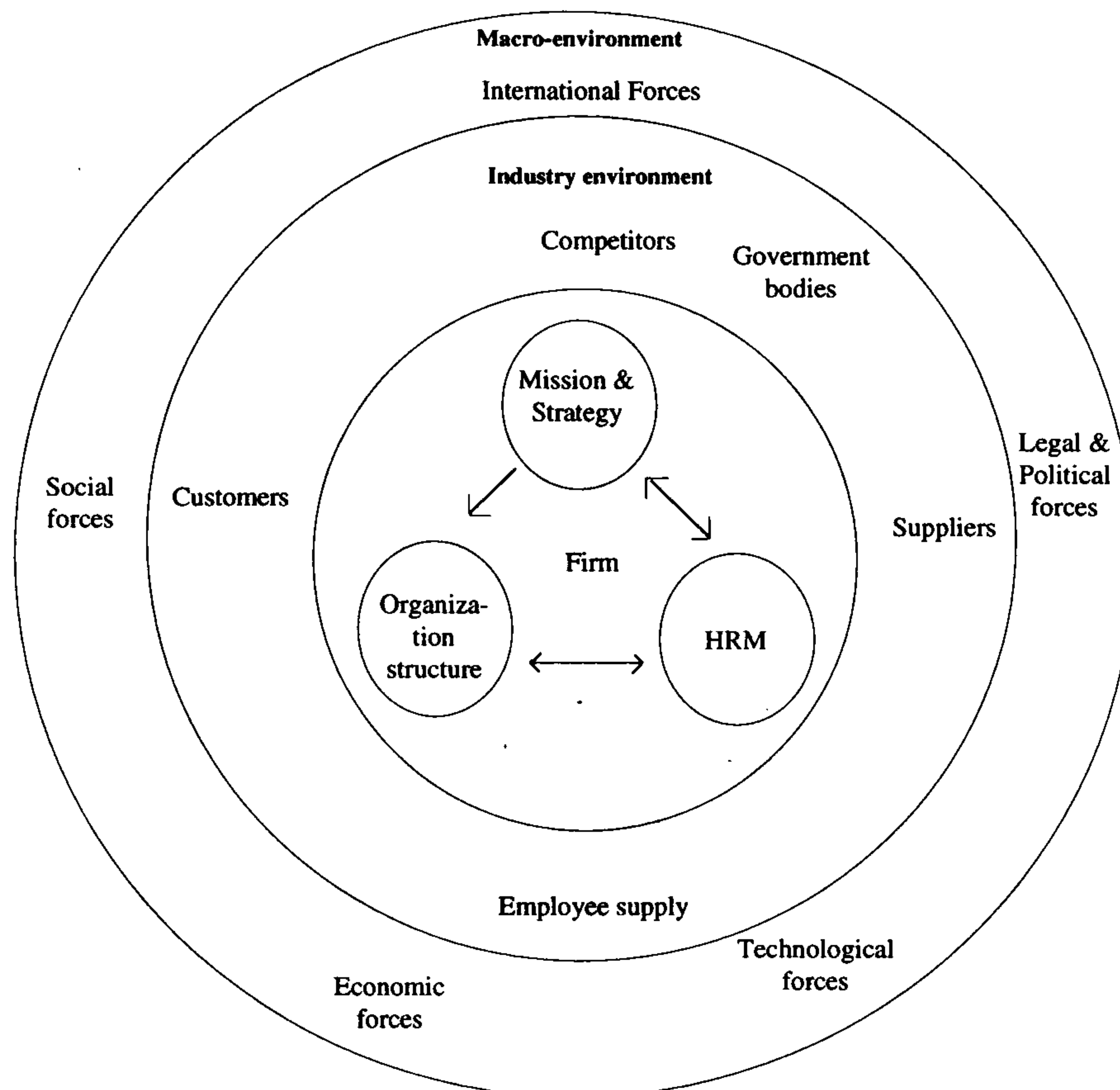
It does seem that HRM is an integral part of SM. Figure-4 shows the framework developed by Fombrun et. al. elaborating the traditional view of how a firm should think about SM by including HRM as an integral tool that managers can use in the strategic arena of their organizations.

Figure - 4 SM and Environmental Presures



Source: Fombrun et. al. (1984) P. 35

The arrow between mission and strategy and HRM of the figure indicates only one-way flow. It is true that HRM system is tailored to, and derived from the demands of business strategy. Also it is evident that HRM provides direct inputs for strategy formulation and therefore the arrow should represent a two-way flow. Examples of the use of HRM as an integral part of strategy formulation are found in such companies as IBM, CE and Intel and indeed, many companies have begun to require a HRM component in their plans (Fombrun et. al. 1998, p. 25). By considering this fact and also including the industry environment in which the organization competes and macro-environment composed of forces that have general influences on the organization it is possible to modify the figure towards a figure which appears below.

Figure - 5 Strategic Management and the External Environment

Finally it is possible to conclude that HRM plays a very significant role in strategy formulation and implementation and therefore it is, or should be an integral part of SM. To mention here is important that strategic business planning group and HRM group should work under a fully integrated system as suggested by Butler et. al. (1991,p.18). Before concluding let me mention some important design principles proposed by Miles and Snow (1984,p. 47) to be used in constructing a SHRM system.

The HR managers should (1) possess a comprehensive understanding of the language and practice of SP (2) pursue appropriate strategies to match the organization's business strategies (3) act as professional consultants to line units (4) be knowledgeable about organization structure, management processes and organizational change and development.

Appendix - 1

Definitions of SHRM

1. *SHRM is concerned with those decisions which have a major and long-term effect on the employment and development of people in the organization, and on the relationship which exist between its management and staff*" Armstrong (1992)p.47.

2. *'Strategic' in HRM has at least four meanings:*

i) *the use of planning;*

ii) *a coherent approach to the design and management of personnel systems based on an employment policy and manpower strategy, and often underpinned by a philosophy";*

iii) *matching HRM activities and policies to some explicit business strategy,*

and

iv) *seeing the people of the organisation as a "strategic resource" for achieving competitive advantage"*

- Hendry and Pettigrew (1986) p.4.

3. *"SHRM" is largely about integration and adaptation. Its concern is to ensure that:*

i) *HRM is fully integrated with the strategy and the strategic needs of the firm;*

ii) *HR policies cohere both across areas and hierarchies;*

iii) *HR practices are adjusted, accepted and used by line managers and employees as part of their everyday work".*

- Schuler (1992)

4. *"SHRM appears to reflect recognition of interdependencies between strategy, organization, and HRM in the functioning of the firm"*

- Evans (1986) p.149.

5. *"SHRM encompasses those decisions and actions which concern the management of employees at all levels in the business and which are directed towards creating and sustaining competitive advantage"*

- Miller (1989)p.51.

Appendix - 2

The Four Specific Ways

- I. **Helping formulate strategy and allowing for strategy implementation:** HRM activities provide direct inputs for both formulation and implementation of strategy.
- II. **Creating capacity for change:** It is possible to increase the capacity for change by hiring people who are flexible, developing them in such a way that they will realize that change is an important part of growth, setting performance standards to encourage flexibility and diversity, rewarding employees for being innovative, and communicating to employees the types of necessary changes.
- III. **Building strategic unity:** Strategic unity represents the extent to which stakeholders inside (e.g. employees) and outside a business (e.g. customers) share a core set of values and assumption about the business (Bernardin and Russell, 1993, p.39). For example, if the stakeholders believe that customer service is of central significance to corporate performance, this core value can be developed and nurtured among employees, suppliers, and customers of the business through training, incentives, and communication programs. HRM helps create an internal unity among employees at all levels/units channeling their attention toward an important strategic goal such as service to customers which will then be a unique service that cannot easily be copied by competitors.
- IV. **Using HRM practices on others:** specifically, companies can gain a competitive advantage by helping their suppliers, customers of services, distributors with their practices (Schuler and MacMillan, 1984, p.253). According to Schuler and MacMillan, it is very difficult for competitors to imitate sound HRM practices developed or they will delay responding due to the four inertia barriers i.e. needs-matching challenge, attaining consistency, lack of commitment and time horizon.

Source: Partly based on Bernardin and Russell (1993) pp 38-40 and Schuler and MacMillan (1984) pp 252-253

Appendix - 3**The Conclusions derived from the Survey****The Role of HRM in Strategy Formulation**

- * HR data such as external manpower studies, inventory of managerial talents, forecasts of future talent, inventory of technical talent, audit of considered acquisitions are being used on strategy formulation.
- * Availability of these data (except HR audit of acquisition because this is done only for immediate use in considering an acquisition) are more than use of them.
- * According to 53% of the respondents, HR considerations have less than a moderate effect on strategy formulation.
- * Generally both HR executives and strategic planners wish to see more HR data utilized in strategy formulation.

The Role of HRM in Strategy Implementation

- * Seven types of HR activities are considered as potentially useful for strategy implementation. They are: 1. Matching executives to strategic plans, 2. Identification of managerial characteristics to run firm in long term, 3. Modifying reward system to drive managers towards long term strategic objectives, 4. Changing staffing patterns to help implement strategies, 5. Appraising key personnel for their future in carrying out strategic goals, b. Conducting development programs designed to support strategic changes, 7. Conductiong career planning to help develop key personnel plans.
- * While the first five activities are used moderately the last two are used less than moderately.
- * There is a large difference between the extent of using HR activities and the extent to which they should be used in strategy implementation. The greatest difference is in the last two activities.
- * 95% of the respondents reported they would like to see a greater use of HR activities in the strategy implementation.

Source: Based on Fombrun et. al. (1984) pp. 19-24

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