



# Strategic HRM

Presentation Slides

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# Human Resource Management

## Strategic HRM

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## Sources

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## What is strategic HRM? (Lengnick-Hall & Lengnick-Hall, 1988, Wright & McMahan, 1992)

- Management of a firm's human resources in such a way so as to achieve strategic objectives of the firm.
- "SHRM is concerned with ensuring that 'human resources management is fully integrated into strategic planning; that HRM policies cohere both across policy areas and across hierarchies & that HRM practices are accepted and used by line managers as part of their everyday work.'" (Guest, 1989, in Wright & McMahan, 1992)
- "All those activities affecting the behavior of individuals in their efforts to formulate and implement the strategic needs of the business." (Schuler, in Wright & McMahan, 1992)
- "The pattern of planned human resource deployments and activities intended to enable an organization to achieve its goals."

## Why strategic HR? (Lengnick-Hall & Lengnick-Hall, 1988)

- To help a firm achieve competitive advantage, “... by lowering costs, by increasing sources of product and service differentiation, or by both”



## Competitive strategies (Schuler & Jackson, 1987)

- Strategic initiative: “Ability to capture control of strategic behavior in the industries in which a firm competes.”
- Competitive strategies that can be used to gain competitive advantage:
  - *Innovation strategy*: “...used to develop products or services different from those of competitors [...] offering something new and different”
  - *Enhancement strategy*: “”Enhancing product and/or service quality”
  - *Cost reduction strategy*: “... being the lowest cost producer.”

## Strategic theories of HRM (Wright & McMahan, 1992)

### ■ Resource based view of the firm:

- “Competitive advantage can only occur in situations of firm resource heterogeneity and firm resource immobility (inability of competing firms to obtain resources from other firms)”
- “...given resource heterogeneity and resource immobility and satisfaction of the requirements of value, rareness, imperfect imitability, and non-substitutability, a firm’s resources can be a source of sustained competitive advantage.”



## Strategic theories of HRM (Contd.)

(Wright & McMahan, 1992)

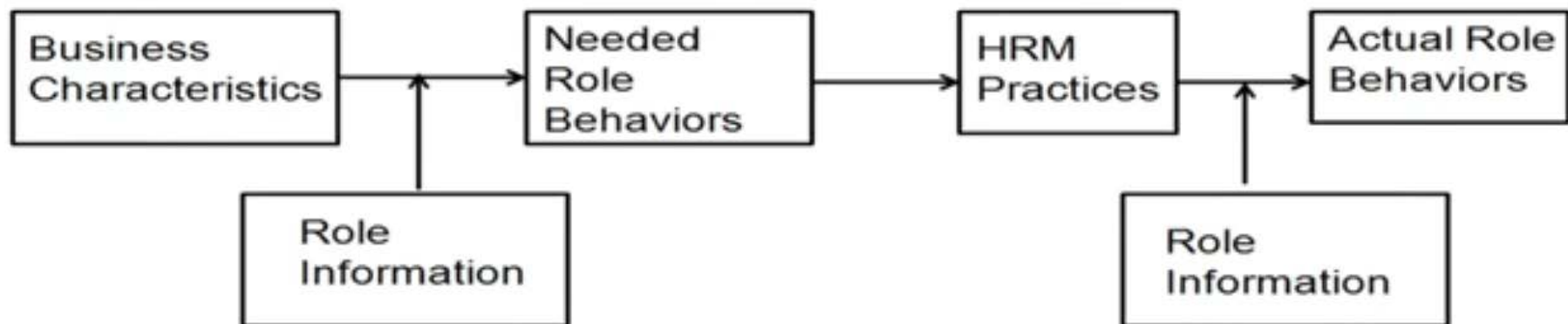
### ■ *The behavioral perspective:*

- "... focuses on employee behavior as the mediator between strategy and firm performance"
- "... assumes that the purpose of various employment practices is to elicit and control employee attitudes and behaviors. The specific attitudes and behaviors that will be most effective for organizations differ, depending upon various characteristics of organizations, including the organizational strategy. In the context of SHRM, these differences in role behaviors required by the organization's strategy require different HRM practices to elicit and reinforce those behaviors."

## Behavioral perspective (Contd.)

(Wright & McMahan, 1992)

Schuler and Jackson's Model for linking HRM practices with firm performance



## Employee role behaviors for competitive strategies (Schuler & Jackson, 1987)

- Predictability vs. creativity and innovation
- Short-term vs. long-term focus
- Cooperation and interdependence vs. independence and autonomy
- Concern for quality and quantity
- Risk taking ability and orientation
- Concern for process
- Avoiding vs. assuming responsibility
- Flexibility to change
- Preference for stability vs. tolerance of ambiguity and unpredictability
- Range of skill application
- Job involvement and engagement

## Strategic theories of HRM (Contd.)

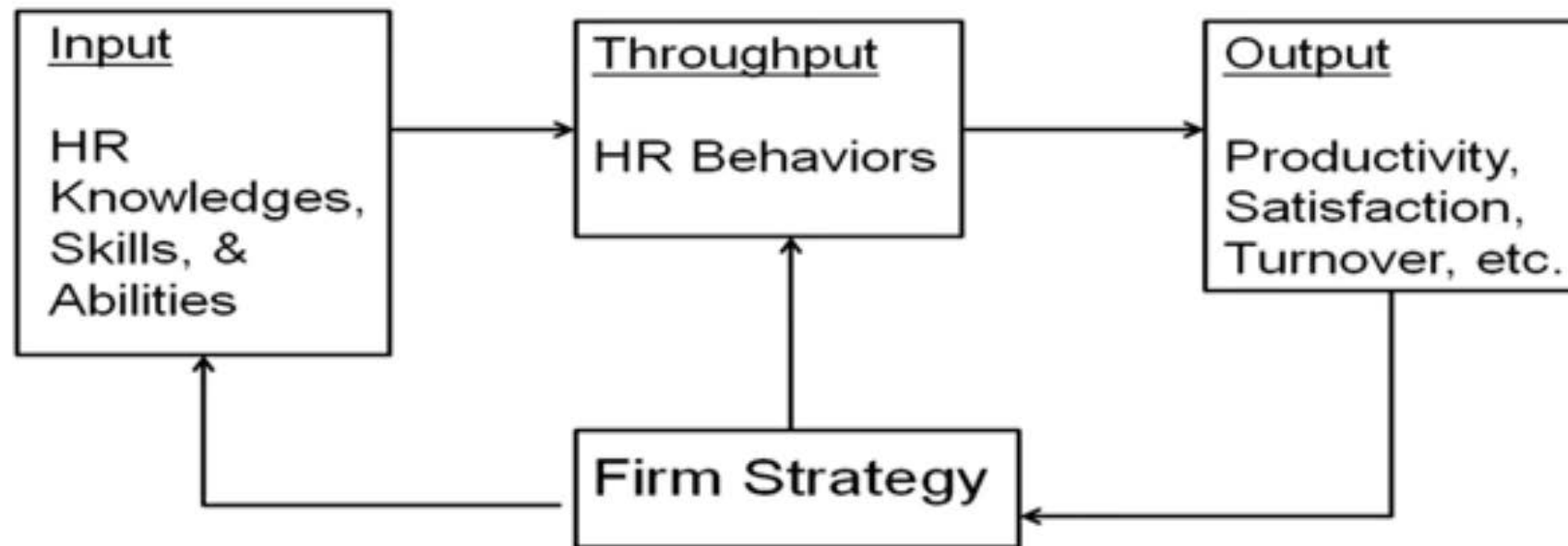
(Wright & McMahan, 1992)

### ■ *Cybernetic Systems:*

- "... organizations consist of the patterned activities of individuals aimed at some common output or outcome. These activities can be characterized as consisting of the energetic input into the system (i.e. inputs of people, money, technology, etc.), the transformation of energies within the system (i.e., putting the inputs to work together), and the resulting product or energetic output (i.e., the product that results from the patterned activities of the input and throughput phases.)"
- "... negative feedback loop informs the system that it is not functioning effectively, thereby allowing for changes to reduce any discrepancies."

# Cybernetic model of HR Systems

(Wright & McMahan, 1992)





## Cybernetic model (Contd).

(Wright & McMahan, 1992)

- Inputs: “Competencies of the individuals in the organization that the firm must import from its external environment.”
- Throughput: “Behaviors of those individuals in the organizational system.”
- Outputs: “Consist of both performance and affective outcomes.”



## Cybernetic model (Contd).

(Wright & McMahan, 1992)

### ■ Responsibilities of SHRM:

- Competence management: “Those things that the organization does to ensure that the individuals in the organization have the skills required to execute a given organizational strategy.”
  - Competence acquisition: “Refers to the activities such as training & selection that seek to ensure that the individuals in the organization have the required competencies.”
  - Competence utilization deals with activities that seek to utilize latent skills or skills that had been deemed unnecessary under a previous strategy.”
  - Competence retention is a strategy aimed at retaining various competencies in the organization through reduction of turnover & constant training.”
  - “Competence displacement consists of activities aimed at eliminating competencies that are no longer necessary for the organizational strategy.”

## Responsibilities of SHRM (Contd.)

(Wright & McMahan, 1992)

- Behavior management: “Concerned with ensuring that once individuals with the required skills are in the organization, they act in ways that support the organizational strategy.”
  - Behavioral control: “Activities such as performance appraisal & pay systems that seek to control employee behavior to be in line with organizational goals.”
  - Behavioral coordination: “Appraisal and organizational development activities that seek to coordinate behavior across individuals to support the organizational strategy.”

## Strategic theories of HRM (Contd.)

(Wright & McMahan, 1992)

### ■ *Agency/ Transaction cost theory:*

- “Transaction costs are the costs associated with negotiating, monitoring, evaluating and enforcing exchanges between parties, and they are incurred in order to make exchanges more efficient.”
- “Agency problem exists when one party requires services from another in a situation where uncertainty exists and both parties will behave self-interestedly.”
- “Agency costs are the costs associated with establishing efficient contracts between parties.”
- “The central premise of the transaction cost approach is that employees have strong incentives to shirk (reduce their performance) and free-ride (rely on the efforts of others in the group) and no incentive to increase their performance, unless task conditions allow employees to demonstrate their unique contributions and to benefit from those contributions.”



Competitive strategy of a firm is dependent upon

## Competitive strategy of a firm is dependent upon (Lengnick-Hall & Lengnick-Hall, 1988)

- Economic conditions
- Industry structure
- Distinct competence
- Competitive Advantage
- Product/ Market scope

Human resource strategy is dependent upon



## Human resource strategy is dependent upon

(Lengnick-Hall & Lengnick-Hall, 1988)

- Labor market
- Skills and values
- Economic conditions
- Culture