

Strategic Human Resource Management (SHRM) - A Model of Achieving Competitive Advantage

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Abstract—“Human Resource isn’t a thing we do. It’s a thing that run our business” Organizations are increasingly looking at human resources as a unique asset that can provide sustained competitive advantage. The changes in the business environment with increasing globalization, changing demographics of the workforce, increased focus on profitability through growth, technological changes, intellectual capital and the never-ending changes that organizations are undergoing have led to increased importance of managing human resources. In this scenario, a human resource (HR) department that is highly administrative and lacks strategic integration fails to provide the competitive advantage needed for survival, thus losing its relevance. Huselid and Becker (1997) found that there were noticeable financial returns for the organisations whose human resource management (HRM) systems have achieved operational excellence and are aligned with business strategic goals. HRM is strategic by its very nature and all its elements have strategic linkages. Strategic HRM defines the organization’s intentions and plans on how its business goals should be achieved through people. It is based on three propositions: first, that human capital is a major source of competitive advantage; second, that it is people who implement the strategic plan; and, third, that a systematic approach should be adapted to defining where the organization wants to go and how it should get there. Strategic HRM addresses broad organizational issues relating to changes in structure and culture, organizational effectiveness and performance, matching resources to future requirements, the development of distinctive capabilities, knowledge management, and the management of change.

The paper attempts to give an insight about the meaning, aim of strategic HRM, how Strategic HRM helps in achieving competitive advantage, approaches and limitations of Strategic HRM.

Index Terms—Aim of strategic advantage, competitive advantage, limitations of strategic advantage, strategic human resource management.

I. INTRODUCTION

Strategic HRM addresses broad organizational issues relating to changes in structure and culture, organizational effectiveness and performance, matching resources to future requirements, the development of distinctive capabilities, knowledge management, and the management of change. It is concerned with both human capital requirements and the development of process capabilities, that is, the ability to get things done effectively. Overall, it deals with any major people issues that affect or are affected by the strategic plans of the organization. As Boxall (1996) remarks: ‘The critical concerns of HRM, such as choice of executive leadership and formation of positive patterns of labour relations, are strategic in any firm.’

Basically any strategic process can be broken down into two phases:

- **Strategy formulation** :- Strategic formulation is concerned with making decisions with regard to defining the organization’s vision and mission, establishing long- and short-term objectives to achieve the organization’s vision and selecting the strategy to be used in achieving the organization’s objectives.
- **Strategy implementation** :- Strategic implementation is concerned with aligning the organization structure, systems and processes with the chosen strategy. It involves making decisions with regard to matching strategy and organizational structure and providing organizational leadership pertinent to the strategy and monitoring the effectiveness of the strategy in achieving the organization’s objectives.

Strategic management is the process of formulating, implementing and evaluating business strategies to achieve organizational objectives. Cunningham’ has defined strategic management as a manner by which organizations plan to deal with the various aspects of management like problem perception, divergent thinking, substantial resources, decisions making, innovations, taking risks and facing uncertainty.

Strategic HRM focuses on actions that differentiate the firm from its competitors (Purcell, 1999). It is suggested by Hendry and Pettigrew (1986) that it has four meanings:

- the use of planning;
- a coherent approach to the design and management of personnel systems based on an employment policy and workforce strategy and often underpinned by a ‘philosophy’;
- matching HRM activities and policies to some explicit business strategy;
- seeing the people of the organization as a ‘strategic resource’ for the achievement of ‘competitive advantage’.

Strategic HRM can be regarded as a general approach to the strategic management of human resources in accordance with the intentions of the organization on the future direction it wants to take. What emerges from this process is a stream of decisions over time, which form the pattern adopted by the organization for managing its human resources and define the areas in which specific HR strategies need to be developed. HR strategies will focus on the specific intentions of the organization on what needs to be done and what needs to be changed.

II. AIM OF STRATEGIC MANAGEMENT

The rationale for strategic HRM is the perceived advantage of having an agreed and understood basis for developing approaches to people management in the longer term. It has been suggested by Lengnick-Hall and Lengnick-Hall (1990) that underlying this rationale in a business is the concept of achieving competitive advantage through HRM.

Strategic HRM supplies a perspective on the way in which critical issues or success factors related to people can be addressed, and strategic decisions are made that have a major and long-term impact on the behaviour and success of the organization. The fundamental aim of strategic HRM is to generate strategic capability by ensuring that the organization has the skilled, committed and well-motivated employees it needs to achieve sustained competitive advantage. Its 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. As Dyer and Holder (1988) remark, strategic HRM should provide 'unifying frameworks which are at once broad, contingency based and integrative'.

When considering the aims of strategic HRM it is necessary to consider how HR strategies will take into account the interests of all the stakeholders in the organization: employees in general as well as owners and management. In Storey's (1989) terms, 'soft strategic HRM' will place greater emphasis on the human relations aspect of people management, stressing continuous development, communication, involvement, security of employment, the quality of working life and work-life balance. Ethical considerations will be important. 'Hard strategic HRM' on the other hand will emphasize the yield to be obtained by investing in human resources in the interests of the business. Strategic HRM should attempt to achieve a proper balance between the hard and soft elements. All organizations exist to achieve a purpose and they must ensure that they have the resources required to do so and that they use them effectively. But they should also take into account the human considerations contained in the concept of soft strategic HRM. In the words of Quinn Mills (1983), they should plan with people in mind, taking into account the needs and aspirations of all the members of the organization. The problem is that hard considerations in many businesses will come first, leaving soft ones some way behind.

III. APPROACHES TO STRATEGIC MANAGEMENT

There are five approaches to strategic HRM. These consist of resource-based strategy, achieving strategic fit, high-performance management, high-commitment management and high-involvement management.

A. The Resource Based Approach

A fundamental aim of resource-based HR strategy, as Barney (1991) indicates, is to develop strategic capability

- achieving strategic fit between resources and opportunities and obtaining added value from the effective deployment of resources. A resource-based approach will address methods of increasing the firm's strategic capability by the development of managers and other staff who can think and plan strategically and who understand the key strategic issues.

The resource-based approach is founded on the belief that competitive advantage is obtained if a firm can obtain and develop human resources that enable it to learn faster and apply its learning more effectively than its rivals (Hamel and Prahalad, 1989). Human resources are defined by Barney (1995) as follows: 'Human resources include all the experience, knowledge, judgement, risk-taking propensity and wisdom of individuals associated with the firm.' Kamoche (1996) suggests that: 'In the resource-based view, the firm is seen as a bundle of tangible and intangible resources and capabilities required for product/market competition.' A convincing rationale for resource-based strategy has been produced by Grant (1991): *When the external environment is in a state of flux, the firm's own resources and capabilities may be a much more stable basis on which to define its identity. Hence, a definition of a business in terms of what it is capable of doing may offer a more durable basis for strategy than a definition based upon the needs (eg markets) which the business seeks to satisfy.*

B. Strategic Fit

The HR strategy should be aligned to the business strategy (vertical fit). Better still, HR strategy should be an integral part of the business strategy, contributing to the business planning process as it happens. Vertical integration is necessary to provide congruence between business and human resource strategy so that the latter supports the accomplishment of the former and, indeed, helps to define it. Horizontal integration with other aspects of the HR strategy is required so that its different elements fit together. The aim is to achieve a coherent approach to managing people in which the various practices are mutually supportive.

C. High Performance Management

High-performance management (called in the United States high performance work systems or practices) aims to make an impact on the performance of the firm through its people in such areas as productivity, quality, levels of customer service, growth, profits and, ultimately, the delivery of increased shareholder value. High-performance management practices include rigorous recruitment and selection procedures, extensive and relevant training and management development activities, incentive pay systems and performance management processes. A well-known definition of a high-performance work system was produced by the US Department of Labor (1993). The characteristics listed were:

- careful and extensive systems for recruitment, selection and training;

- formal systems for sharing information with the individuals who work in the organization;
- clear job design;
- high-level participation processes;
- monitoring of attitudes;
- performance appraisals;
- properly functioning grievance procedures;
- promotion and compensation schemes that provide for the recognition and financial rewarding of the high-performing members of the workforce.

D. 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.' The approaches to achieving high commitment as described by Beer et al (1984) and Walton (1985) are:

- the development of career ladders and emphasis on trainability and commitment as highly valued characteristics of employees at all levels in the organization
- a high level of functional flexibility with the abandonment of potentially rigid job descriptions;
- the reduction of hierarchies and the ending of status differentials;
- a heavy reliance on team structure for disseminating information (team briefing), structuring work (team working) and problem solving (improvement groups or quality circles).

E. High Involvement Management

This approach involves treating employees as partners in the enterprise whose interests are respected and who have a voice on matters that concern them. It is concerned with communication and involvement. The aim is to create a climate in which a continuing dialogue between managers and the members of their teams takes place in order to define expectations and share information on the organization's mission, values and objectives. This establishes mutual understanding of what is to be achieved and a framework for managing and developing people to ensure that it will be achieved.

IV. LIMITATIONS TO THE CONCEPT OF STRATEGIC MANAGEMENT

The concept of strategic HRM appears to be based on the belief that the formulation of strategy is a rational and linear process.. This indicates that the overall HR strategy flows from the business strategy and generates specific HR strategies in key areas. The process takes place by reference to systematic reviews of the internal and external environment of the organization, which identify the business, organizational and HR issues that need to be dealt with.

But strategic HRM in real life does not usually take the form of a formal, well articulated and linear process that flows logically from the business strategy, as Mintzberg (1987) and others have emphasized. The research conducted by Gratton et al (1999) in eight British organizations established that 'In no case was there a clearly developed and articulated strategy that was translated into a mutually supportive set of human resource initiatives or practices.

V. CREATING AN EFFECTIVE HR STRATEGY

An effective HR strategy is one that works in the sense that it achieves what it sets out to achieve. In particular, it:

- will satisfy business needs;
- be 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 stake holders. As Boxall and Purcell (2003) emphasize: "HR planning should aim to meet the needs of the key stakeholder groups involved in people management in the firm."

A good strategy is one which actually makes people feel valued. It makes them knowledgeable about the organization and makes them feel clear about where they sit as a group, or team, or individual. It must show them how what they do either together or individually fits into that strategy. Importantly, it should indicate how people are going to be rewarded for their contribution and how they might be developed and grow in the organization.

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