

# CHANGING FACE OF HUMAN RESOURCE MANAGEMENT : A STRATEGIC PARTNER IN BUSINESS

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## ABSTRACT

**Various approaches and models of strategic human resource management have been developed within the framework of strategic HRM. Like many theories of organization, none are complete. Rather being right or wrong each approach points to different aspect of the process needed to develop effective strategic human resource functions. The issue of fitting HR practices to business strategy has become increasingly relevant over few years. Therefore, in the present study we have made efforts to highlight various issues that are relevant to the strategic HRM in the changing scenario of business environment. The present paper has been divided into six parts. In the first and second part, the changes occurring in the business environment and its implications for human resource functionaries have been discussed respectively. In the third part we have highlighted the changing role of human resource management. In the fourth part the historical background of strategic human resource management, its role in addressing the challenges of changing business scenario and determinants of strategic fit have been presented. In the fifth part the relationship of strategic human resource management and business performance has been reviewed and at last conclusions have been drawn that what needs to be done on the part of the HR functionaries and the organization itself to enhance the strategic fit between the various HR practices and the overall organizational strategic plan.**

## INTRODUCTION

The industrial revolution in the nineteenth century brought about the automation in the manufacturing process putting the muscle power to the back seat and focusing mainly on production of goods. The focus later on shifted to marketing consideration putting customer satisfaction on the top. The information technology revolution of the twentieth century along with globalization has brought the drastic changes in the working environment-putting people as the most important resource. The importance of

human resources can be traced back to ancient Hindu texts such as Kautilya's Arthashastra, which provides the evidence of existence of systematic management of people as early as 320 B.C. (Khanka, 2003). However, the first evidence of origin of HRM practices has its roots in the industrial revolution of the 17th century. The technical advancements during this period created the need for better work methods, productivity and quality. Adam Smith (1776) in his book "An Enquiry into Nature and Causes of Wealth of Nations" talked about the economic advantages of the division of labour. He proposed that

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work could be made more efficient through specialisation. From the division of labour he saw three advantages: - the development of skills, time saving and the possibility of using specialised tools. The importance of people in the business performance can be traced from the work of Robert Own (1789). He argued that money spent on improving labour was one of the best investments that business executives can make. Charles Babbage (1832) examined and expanded upon the division of labour in his work and concluded that it allows a more careful matching of people's skills and physical abilities with specific tasks. Landmark revolution came in the field of management and human resource management when Taylor (1911) attempted to formalize the processes, methods, workers experiences and tacit skills into objective rules and formulae. The path breaking studies that revolutionized the people management practices were conducted from 1927 – 1932 by Elton Mayo and his associates to study the relationship between productivity and the working environment followed by the studies carried out by Barnard (1938), and others. All these studies have identified commitment, communication, employee motivation, leadership and learning as the antecedents of organizational success.

#### **THE CHANGING SCENARIO OF HR MANAGEMENT**

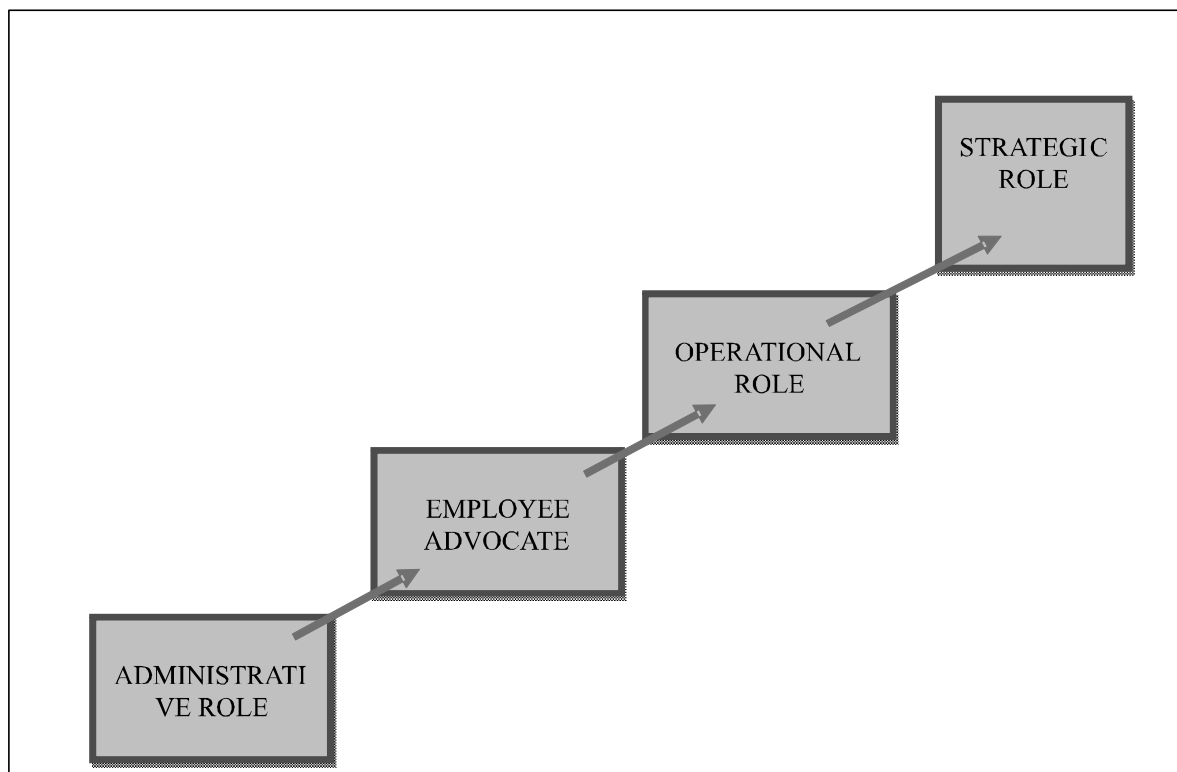
The nature, status and role of human resource management have progressively become broader and strategic since the days of industrial revolution. Today human resource management is not just about hiring and firing people, managing pay rolls, administering benefit programmes and implementing the strategic intention of the top management rather it is playing an active role in formulating the business strategies. The

advent of the era of globalization and liberalization accompanied by the information technology revolution has transformed the world around us. This has made possible the free flow of people, technology and goods across the globe. Business activities are no more limited and confined to the geographical boundaries of the countries. According to Ulrich and Brockbank (2005) there has been exponential growth in international movements of goods and services. The traditional jobs have become blurred. The economies across the globe are experiencing new order. Globalization is an important factor that influences organizations that compete for customers with high expectations for performance, quality, and low cost. The most pressing competitive issues facing firms are globalisation, embracing technology, managing change, developing human capital, responding to the market and optimization of costs. As more and more companies go abroad or operate internationally, the impact on various business functions and in particular on human resource management has become more evident. Effective and strategic human resource management is essential as the international businesses place additional stress on human resource functionaries. Human resources are being viewed as an input, which can provide sustained competitive advantage to the organizations. Over the years, organisations' expectations from their HR managers and departments have changed considerably. The function was and still is expected to ensure that its policies, practices and procedures shape the culture of the organization in a way that is consistent with its values and vision. People management practices need to acknowledge and work within the context and reflect a broader perspective. Human resource policies and practices need to

facilitate the work process across time, distance and cultures. The reality today is that most companies consciously or unconsciously experience one or more aspects of international management. Despite the fact the core principles of human resource management also apply to global human resource management, global human resource management presents some unique challenges. Managing people in global settings requires human resource professionals to address broader range of issues such as taxation, exchange rates, compensation plans, dealing with foreign governments and religious groups. Recently terrorism added many anxieties to employees, their families and the employers, which further

had accentuated the need to manage human resources effectively to gain competitive advantage in the global market place. To achieve this, organizations require an understanding of the factors that can determine the effectiveness of various HR practices and approaches. This is because countries differ along a number of dimensions that influence the attractiveness of Direct Foreign Investments in each country. These differences determine the economic viability of building an operation in a foreign country and they have a particularly strong impact on HRM in that operation. There are a large number of factors such as culture, economic systems, political systems and the legal framework etc. that affect HRM in global markets.

#### Changing Roles of HR Management



**Source: Mathis, R.L. & Jackson, J.H. (2003). Nature of Human Resource Management, Human Resource Management, 10e, pp, 16, South Western, Bangalore**

**Strategic role of HR:** In the 1970s and 1980s the business function responsible for people was called “The Personnel Department.” The role of this function was to hire people, pay them, and make sure they contribute to the achievement of organizational objectives. In this role, the personnel department was a well understood business function. Subsequently the increasing competition forced organisations to take the strategic approach to management as a result there has been growing interest in the strategic management, which further compelled the sub functions of the organisations to redefine their role in the strategic management process. Human resource management was no exception to this. The function also sought to become integrated into strategic management process and as a result a new approach to HRM emerged as Strategic human resource management. In late eighties and early nineties it was realised that HR function has a much larger role: recruiting the right people, training them, helping the business design job roles and organization structures, develop compensation packages including benefit plans and serving as a central point of communication for employee health and happiness. In this role, the HR department now became more than a business function: it is a business partner, reaching out to support lines of business. The strategic role of HR includes enhancing organizational performance, get involved in strategic planning, decision making on mergers, acquisitions and down sizing, redesigning organizations and work processes and ensuring financial accountability for HR results. In view of the soaring competition and increased expectations of the top management, HRM has certain strategic challenges. The central challenge facing HRM is to provide

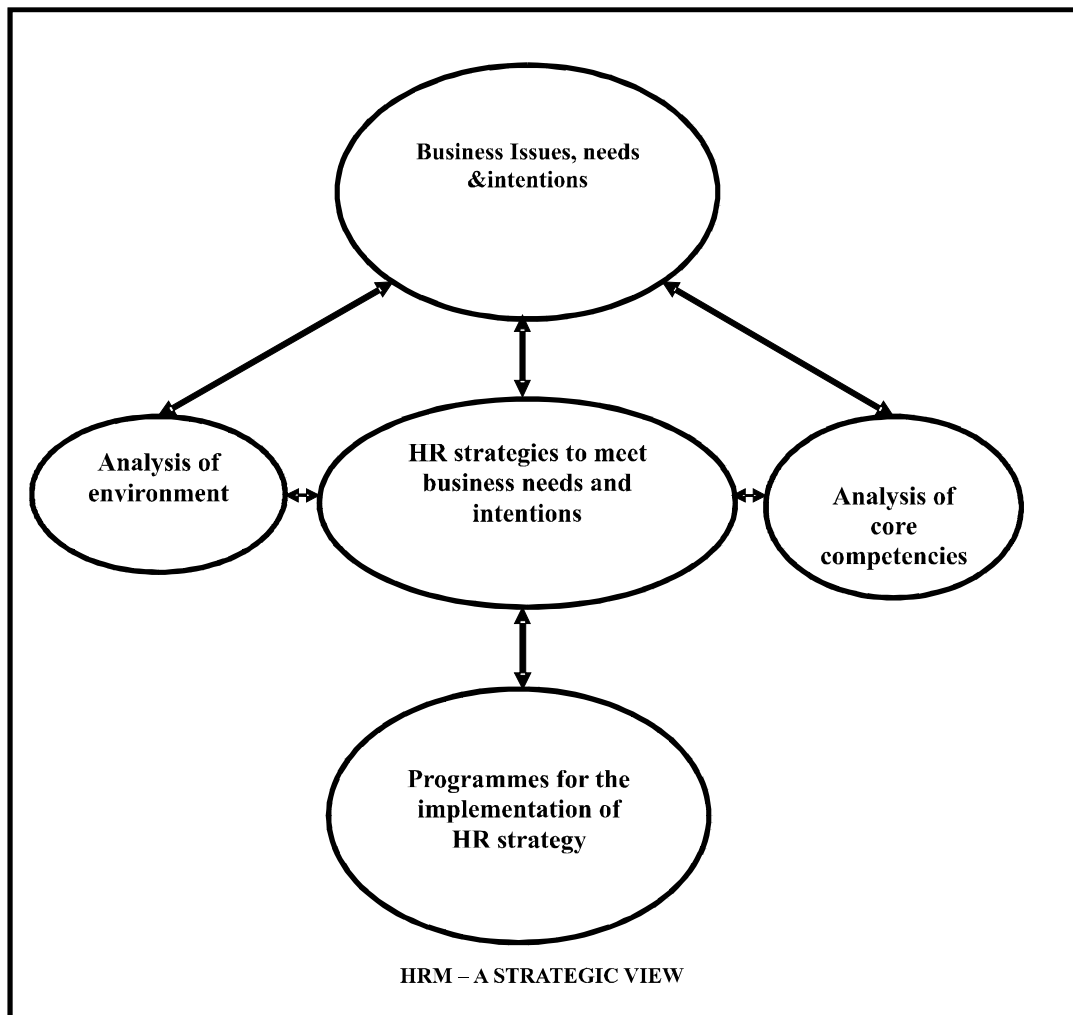
a set of services that make sense with the company’s strategic plan. HR managers need to support the corporate productivity and performance efforts and must be involved in designing not just executing the strategic plan.

#### STRATEGIC HRM AS RESPONSE TO THE CHANGING ENVIRONMENT

SHRM is considered a relatively new concept, despite its continuous development over the past two decades. Although there is still no consensus on an exact definition of SHRM among scholars, broad agreement has been reached on its basic function, which involves designing and implementing a set of internally consistent policies and practices that ensure the human capital of a firm contributes to the achievement of its business objectives (Schuler and MacMillan, 1984; Baird and Meshoulam, 1988; Jackson and Schuler, 1995). Essentially, SHRM emphasises developing the firm’s capacity to respond to the external environment through a better deployment of human resources. Since strategy is the course of action of a business firm to deal with and to meet the challenges of the environment, a human capital reservoir with a wide variety of skills that are complementary to the corporate strategy, is a catalyst for fulfilling the strategic goals through promoting behavioural utility among employees. Strategic Human Resource Management (SHRM) is a set of human resource strategies designed and implemented to ensure that business objectives are achieved. (Baird & Meshoulam, 1988; Delery & Doty, 1996; Huselid, et al., 1997; Jackson & Schuler, 1995). Strategic human resource management (SHRM) is a strategic approach to manage human resources of an organisation. It is the linkage between the HRM and strategic goals and objectives

in order to improve business performance and develop organisational cultures that foster innovation and flexibility. By combining the HRM function with business strategy, SHRM reflects a more flexible arrangement and utilisation of human resources to achieve the organisational goals, and accordingly help organisations gain a competitive advantage (Wei, 2006). According to Hendry & Pettigrew (1986), SHRM is a logical approach to people management

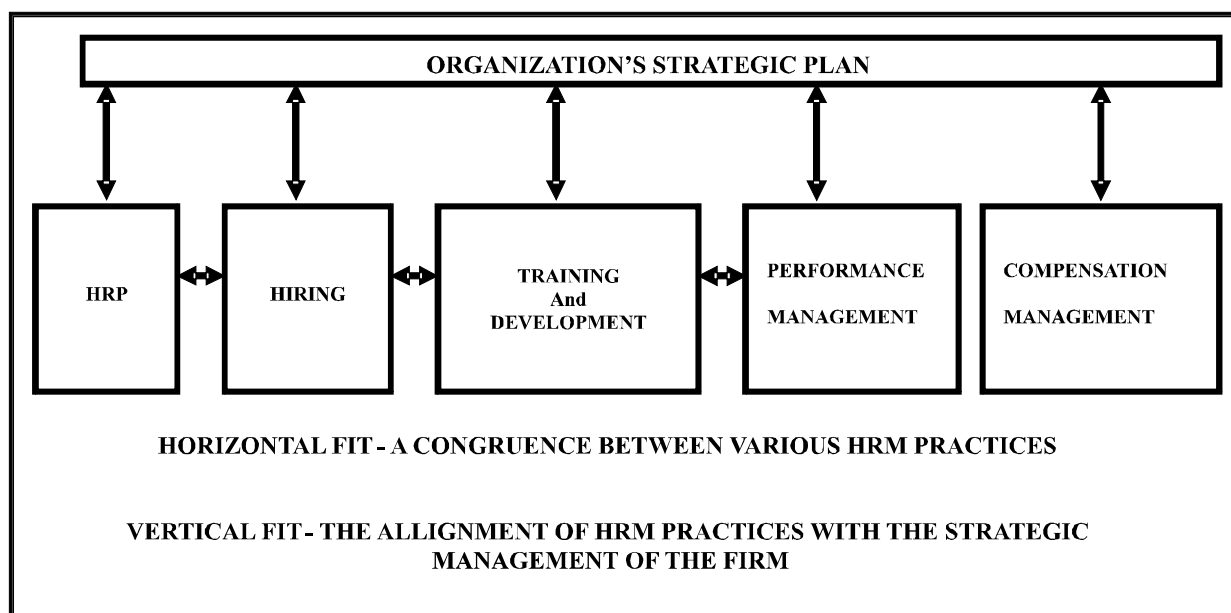
which is based on the organizational philosophy and the strategy and it views the people as the strategic resource for creating competitive advantage. The linkage between HR practice and business strategy has been emphasised in studies related to SHRM (Miles and Snow 1984; Baird & Meshoulam 1988; Wright and McMahan 1992; Kazmi and Ahmad 2001; Devanna et al. 1981; Torrington and Hall 1995). Strategic view of HRM can be explained as



**Source: Armstrong, M. and Baron, A. (2004).The Development and Delivery of HR Strategies, Strategic HRM: The key to improved business performance, Encyclopedia of Human Resource Development, Vol 5, pp. 99, first impression, Jaico Publication, Mumbai.**

**Theoretical Foundations of Strategic HRM:** A number of theoretical models have been developed for the design and implementation of human resource practices and processes. There are general models named as universalistic, the contingency and configurational (Delery and Doty, 1996) or as best practice and best fit and configurational (Richardson and Thompson, 1999) and particular models namely high performance management, high commitment management and high involvement management. As stated by Armstrong and Baron (2004), the best practice approach focuses on adopting a set of universally effective HR practices whereas the best fit focuses on situational factors as there cannot be any universal prescription for HRM policies and practices. The configurational approach is concerned with adopting a set or bundle of HR practices rather than any single HR program or policy. MacDuffie (1995), Richardson and Thompson (1999) concluded that a firm with bundles of HR practices should have a higher level of fit with its corporate strategy. But the problem with this approach is how to decide which bundle of HR practices better suits the organisation. High performance working model involves the development of a number of interrelated approaches, which together make an impact on the performance of the firm through its people. The organizational effectiveness is achieved by enhancing the skills and engaging the enthusiasm of the employees (Stevens, 1998). The high commitment management model emphasizes on the importance of enhancing mutual commitment. Walton (1985) & Wood (1996) define high commitment management as a form of management which is aimed at eliciting a commitment

so that behaviour is primarily self regulated rather than controlled. The high commitment management model is concerned with creating high levels of trust within the organizations. The high involvement management model involves treating employees as partners in the enterprise whose interests are respected and who have a say in the matters related to them. Pil and MacDuffie (1999) identify five high involvement work practices and concluded that there was clear evidence that high involvement work practices result in superior performance. Which theoretical model is correct and practically possible, probably answer to this question is not simple. Each model points out the different aspects of the process needed for developing SHRM. Best fit is perhaps more helpful in developing the HR strategies. Fit refers to the utilisation of human resources to help the organisation to achieve its goals. Fit means the pattern of planned human resource deployments and activities intended to enable the firm to achieve its goal (Wright and McMahan, 1992). Scholars suggest that there are two kinds of fit: straight or horizontal fit and upright or vertical fit. Horizontal fit is the fit among the number of HRM practices and policies. Horizontal fit refers to the alignment among the various HRM practices (Baird & Meshoulam 1988), whereas the vertical fit refers to the alignment of HRM practice with the strategic management processes of the firm (Schuler & Jackson 1987). Particularly, vertical fit is viewed as a vital step towards attaining the organisational goals through initiating some human resource activities that are aligned with firm objectives, while horizontal fit is essential when making good use of these resources. The concept of fit can be explained as



The linkage between HR practice and strategy has been studied by scholars (Wright and McMahan, 1992; Wright and Snell, 1998). Due to the lack of rigorous empirical evidence, it is argued that this linkage is relatively weaker than the relationships among internal HR practices. However, from the perspective of the resource based view (RBV) of the firm (Barney, 1986, 1991) researchers advocate that HR systems aligned with the firm's strategy is helpful for creating competitive advantage. Resource based model (Barney, 1995) is based on the idea that organization gain competitive advantage when they possess resources that are valuable, rare and difficult for competitors to imitate. The aim of the RBV is to improve the resources capability. It can develop strategic capability - achieving strategic fit between resources and opportunities and obtaining added value from the effective deployment of resources (Barney, 2001). Furthermore, the linkage of organisational resources and firm strategy cannot be easily identified and imitated by other firms due to the social complexity and

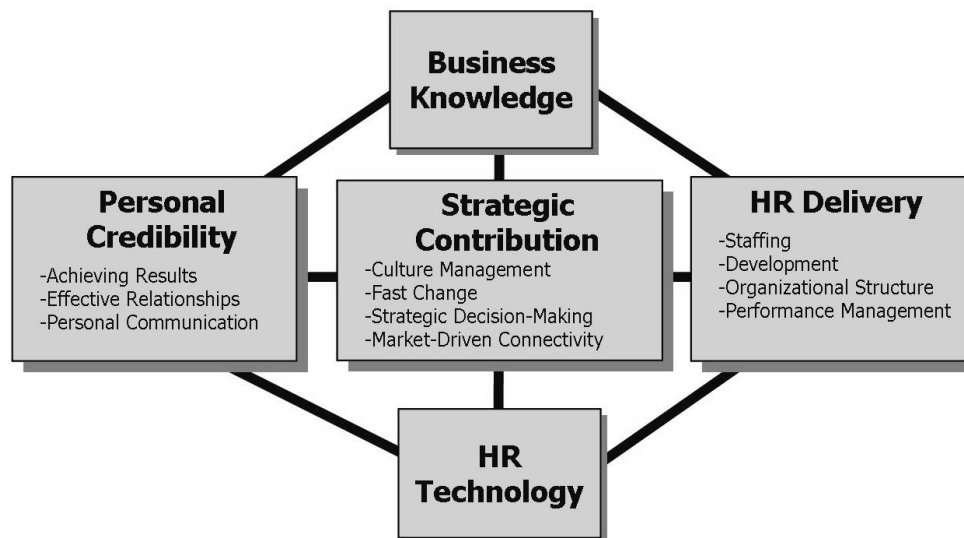
causal ambiguity (Barney, 1991; Boxall, 1998). Thus, the integration of human resources with the appropriate strategy can generate a sustained competitive advantage for the firm. A fundamental problem faced by a firm is to acquire or create the bundle or package of human resource practices necessary for its strategy and to enhance its overall performance. Now the question is what are the issues or factors influencing the achievement of horizontal fit and vertical fit? Since achieving both kinds of fit is necessary for the performance of the organization, an examination of the relevant determinants of fit is helpful to better understand the nature of SHRM as well as its contribution to organisational performance.

**Determinants of Fit:** An apparent question here is: How can organizations effectively adopt, implement and maximize HRM practices for valued firm level outcomes? i.e. how can firms increase the probability that they will adopt and then effectively implement appropriate HRM practices? The appropriate human capital

or competencies for the members of the human resource personnel have been suggested as one way to increase the likelihood of effective implementation of HRM practices (Huselid, et al., 1997). There are a number of factors that influence the congruence among the various human resource practices as well as the alignment between HR practices and the organizational strategic plan. The determinants of fit can further be classified as HR system related factors, individuals related factors and organizational level factors. The system related factors refer to the factors that are related to the HR subsystem - its philosophy, policy and position in the organization. The individuals related factors refer to the personal capabilities or strengths, weaknesses, leadership style, conceptual skills etc. of the individuals who are responsible for formulating and implementing the HR strategies and the organizational level factors refer to the overall organizational focus, the organizational objectives, structure and the organizational culture. Bundle or choices of the practices available with the human resource department provide the options to the human resource functionaries to decide upon the best suitable practices. Bhattacharya and Wright (2005) suggested that human resource option could be useful in this regard. Investment (direct and indirect) in human resource development is another important factor that determines the congruence among various HRM practices (Pfeffer and Salancik, 1978). With regard to individual or personal factors, the various researches (Lado and Wilson, 1994; Lado, Boyd and Wright, 1992; Wie and Lau, 2005) suggest that personal factors such as personal capabilities, leadership style, commitment, knowledge and skills are

important factors that determine the strategic fit among the various HR practices as well as the business strategic plan. With regard to vertical fit, besides system related factors and individual factors, the organizational factors also play an important role. The types of strategy, organizational culture, the value system, and the organizational philosophy are important determinants of vertical fit (Schuler and Jackson, 1987). The influence of nature of strategy has been demonstrated by Martell, Gupta and Carroll (1996). Organizational culture and values shape the HRM practices (Wie and Lau, 2005). The strategic fit is also influenced by the economic conditions, structure of the industry, the supply of human resources etc. (Lengnick and Hall, 1998). Truss and Gratton (1994) refer to the external environment as the one that provides opportunities and constraints for HR managers. Sparrow & Pettigrew (1987) identify the external factors like technology, political, social and economic conditions as factors that influence the HR practices. They also point out that organizational philosophy, culture, structure interact with the external environment in the process of HRM. To ensure that HRM plays an important role in achieving the strategic objectives of the organization, the human resource professionals need to have certain competencies. In order to manage employees for competitive edge in a period of globalization, human resource personnel must possess competencies relevant for effective implementation of such strategic HRM policies and practices. In the 2002 Human Resource Competency Study, five major categories or domains of HR competencies emerged from HR professionals in high performing firms:





**Source : Human Resource Competency Study, 2002, Michigan, Ross School of Business**

The essential elements in developing strategic human resource management and thereby contributing to the organizational performance are:

1. Transforming the HR functionaries - Based upon the resource based view of the firm, Huselid, Jackson and Schuler (1997) differentiated traditional HRM activities from strategic HRM activities. In the traditional role, staff members need to be specialist in certain personnel functional activities such as attracting high quality employees, placing them in appropriate positions, training them to work in the firm's specific way, and motivating them to devote more efforts to organisational goals. Strategic fit will be enhanced if the HR staff members and other functionaries are well equipped with the organizational development concept, tools and techniques. They need to share responsibility for performance and profitability, be customer driven, focus on solutions not on activities, be strategic, initiate, and lead.

2. Restructuring of HR department and enhancing administrative efficiency -

As with many other forms of organizational restructuring, a key issue in designing strategic human resource is to determine which activities should be centralized and which should be decentralized. Companies like Warner - Lambert, Motorola, and Coca cola have created new organization structure to realign the roles. Beer et al, (1984) and Walton (1985) describe a high level of functional flexibility, with the abandonment of potentially rigid job descriptions, a heavy reliance on team structure, structuring work and problem solving are some of the ways for high commitment. Restructuring of HR department and enhancing its administrative efficiency is very essential for effective strategy formulation, strategic fit and strategy implementation.

3. Integrating HR into strategic planning - In order to achieve the strategic fit (Horizontal as well as vertical fit) HR must play a role of the partner in the strategic planning or strategy formulation process. Ulrich (1998) is of the view that HR executives should impel and guide serious discussion of how the company

should be organized to carry out its strategy. Tyson (1985) discusses HR should integrate their activities closely with top management and ensure that they serve a long term strategic purpose. HR people have the capability to identify business opportunities, to see the broad picture, and to see how their HR role can help to achieve the company's business objectives. The same is also evidenced by Armstrong (2001). One important aspect of integrating the HR with strategic planning is to decide about the role, position and status of the HR executives in comparison to other top executives. The strategic fit will be enhanced when the HR functionaries play a role of a partner in strategic planning process.

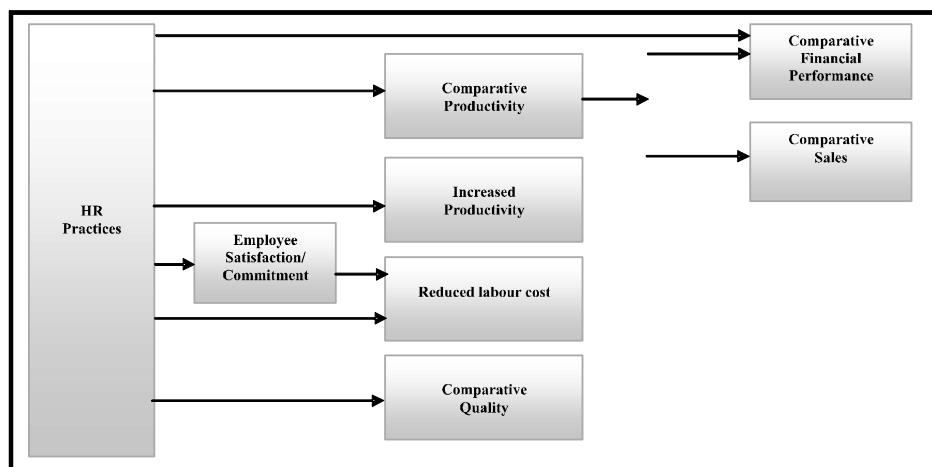
4. Developing partnership with line managers. - It is impossible for HR activities to have a value adding impact of HR practices and to enhance the strategic fit if those performing the HR functions do not work closely with line managers. Development of partnership between line managers and HR staff is critical. Lucent Technologies provide a very good example of partnership between HR and line management. To become a business

partner the HR managers must learn the firm's business, must be more responsive about the needs and direction of the business and demonstrate how critical HR is to the success of the business.

5. Measuring and benchmarking the HRM impact. - In order to make the contribution to the organizational performance or to enhance the contribution of HR practices to the organizational performance, the HR activities or practices are to be measured in terms of return on investment. Customer reaction approach can also be a useful tool for this purpose. It is very important for HR to carry out a customer (other departments) survey to evaluate the effectiveness of its practices. An example of Kodak is very relevant to mention, it uses a variety of measure and it approaches the measurement from various strategic perspective.

**STRATEGIC HRM AND BUSINESS PERFORMANCE**

Researches have evidenced the strong relationship between HRM practices and organizational performance (Huselid, 1995, Pfeffer 1998).



**Source: Armstrong, M. and Baron, A. (2004). The Development and Delivery of HR Strategies, Strategic HRM: The key to improved business performance, Encyclopedia of Human Resource Development, Vol 5, pp. 113, first impression, Jaico Publication, Mumbai.**

From the above discussions, the following issues emerge.

- (1) There is considerable evidence that HR has the strategic value for the organizations.
- (2) There is a considerable relationship between strategic HRM practices and employee attitude.
- (3) There is a considerable relationship between strategic HRM practices and organizational performance.
- (4) There is comparatively high degree of strategic fit between HRM practices and the organizational objectives in the high performing firms from those in the low performing firms.
- (3) Finally, environmental context variables like firm size, technology and union status affect the extent of implementing HRM practices.

#### CONCLUSION

On the basis of overwhelming evidences we may conclude that progressive human resource practices improve business performance. Organizations gain competitive advantage when they adopt a strategic and rational approach to people management. The new economic order has provided an opportunity as well a challenge to human resource management and its functionaries to play an important role in achieving the strategic objectives of the organization. They are not required to implement the organizational strategies only but to play an active role in designing and formulating the strategies. For this they need to have a multidisciplinary approach and an understanding of the business goals. HR functionaries have got to play significant role in addressing challenges of fast changing business scenario as well as enhancing the strategic fit between the HR practices and

organizational strategic plan. Taking the strategic approach to human resource management involves making the function of managing the human assets the most important priority in the organizations and integrating all human resource policies and procedures with the company strategy.

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