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ARMSTRONG'S HANDBOOK OF STRATEGIC HUMAN RESOURCE MANAGEMENT

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CONTENTS

Introduction 1

PART ONE Strategic human resource management (SHRM)

01 The essence of strategic human resource management 5
Strategic human resource management described 5
Aims of SHRM 7
The process of SHRM 8
The components of SHRM 9
SHRM and HR strategy 13
Practical implications 14
References 14

02 The evolution of SHRM 17
Beginnings – the focus on vertical integration or fit 17
Recognizing the importance of horizontal as well as vertical fit 19
'Best fit' or 'best practice'? 19
Development of a conceptual framework for SHRM 20
Focus on implementation 20
Practical implications 21
References 22

03 The context of SHRM 25
The nature and significance of context 25
Responses to contextual issues 27
Preparing for unexpected disruptions 29
Practical implications 31
References 31

04 Human resource management 33
Human resource management defined 33
The HR architecture 34

The HR system 35
Practical implications 41
References 41

05 Strategic management 43
Strategic management defined 43
Strategic management and strategic HRM 44
The meaning of strategy 44
Practical implications 48
References 48

06 Strategic alignment 51
The nature of strategic alignment 51
Vertical integration 51
Horizontal integration 55
Perspectives on strategic alignment 56
Best fit or best practice? 57
Practical implications 59
References 60

07 The resource-based view 63
The resource-based view defined 63
Antecedents and development of the resource-based view 68
Criticisms of the resource-based view 68
What resource-based SHRM can offer 70
Practical implications 71
References 71

08 Ability, motivation and opportunity (AMO) 75
AMO defined 75
AMO and SHRM 76
The antecedents and development of AMO 77
Application of AMO 79
Practical implications 80
References 80

PART TWO The nature, development and implementation of HR strategy

09 HR strategy 85
The nature of HR strategy 85
Approaches to HR strategy 88
Broad statements of strategic intent 89
Overall HR strategy 92
Specific HR strategies 97
Practical implications 100
References 101

10 Developing HR strategy 103
The nature of HR strategy development 103
Principles of HR strategy development 104
Considerations affecting HR strategy development 104
HR strategy development programmes 110
Stage 1 – analysis 112
Stage 2 – diagnosis 117
Stage 3 – formulation 117
Stage 4 – implementation 118
Recommendations by practitioners 118
Examples of HR strategy development 119
Practical implications 121
References 121

11 Implementing HR strategy 123
Embedding HR strategy 123
The problem of implementation: the say–do gap 123
The approach to implementation 126
The role of line managers in implementing HR strategy 130
Practical implications 132
References 132

12 The strategic role of the HR function 135
The strategic role of HR 135
The partnership role of HR professionals 137

The strategic business partner model 138
The role of HR in managing change 140
The strategic role of HR professionals 141
Practical implications 144
References 145

PART THREE Overall HR strategies

13 The employee experience 149
The meaning of the employee experience 149
The stages of the employee experience 153
Developing an employee experience strategy 153
The employer brand and the employee value proposition 154
Enhancing employee engagement 157
Practical implications 161
References 161

14 Organization development 163
Organization development defined 163
Organization development strategy 166
Formulating and implementing organization development strategy 166
Culture change 167
Practical implications 169
References 169

15 Organizational performance 171
The nature of organizational performance 171
The role of HR in managing organizational performance 174
The impact of HRM on organizational performance 175
The process of managing organizational performance 180
The strategic approach to managing organizational performance 181
Implementing strategic organizational performance management 183
Developing a high-performance culture 185
Practical implications 191
References 191

16 Individual performance 195
Performance defined 195
The factors affecting individual performance 196
Components of an individual performance strategy 196
Performance management systems 197
Performance leadership 201
Skills development 202
Performance pay 202
Work systems 203
Practical implications 204
References 205

17 Human capital management 207
Characteristics of HCM 207
Aims of HCM 208
The role of HCM strategy 208
The link between HCM and business strategy 209
Developing an HCM strategy 211
Practical implications 215
References 216

18 Knowledge management 217
The process of knowledge management 217
Sources and types of knowledge 218
Components of a knowledge management strategy 219
Strategic knowledge management issues 220
Practical implications 222
References 222

19 Corporate social responsibility 225
Corporate social responsibility defined 225
The rationale for CSR 226
The role of strategic CSR 227
CSR activities 228
Developing a CSR strategy 229
Role of the HR function in CSR 230
Practical implications 231
References 231

20 ESG strategy 233
The ESG framework 233
The significance of ESG 234
ESG reporting 234
Developing an ESG strategy 235
Responsibility for ESG 239
Practical implications 240
References 241

PART FOUR Specific HR strategies

21 Resourcing 245
The rationale for strategic resourcing 245
The strategic HRM approach to resourcing 246
Integrating business and resourcing strategies 247
Bundling resourcing strategies and activities 248
The components of employee resourcing strategy 248
Resourcing plans 253
Retention strategy 255
Flexibility strategy 260
Practical implications 261
References 262

22 Talent management 263
Talent management defined 263
The meaning of talent 265
Talent management and HRM: what's the difference? 266
Talent management and management succession planning 266
Talent on demand 267
Talent management strategy 268
The talent management system 269
Practical implications 271
References 272

23 Learning and development 275
Learning and development strategy 275
Strategy for creating a learning culture 276

Organizational learning strategy 276
Individual learning strategy 276
Formulating L&D strategy 278
Practical implications 279
References 280

24 Reward 281
Reward management defined 281
Reward strategy defined 281
Practical implications 283
Reference 283

25 Employment relationships 285
The nature of the employment relationship 285
The nature of the employment relations strategy 286
A strategy for creating a constructive and positive employment relations climate 288
A strategy for achieving mutual gains 289
A strategy for building trust 290
Trade union recognition strategy 291
Practical implications 292
References 292

26 Equality, diversity and inclusion 293
The meaning of equality, diversity and inclusion 293
Equality strategy 293
Diversity and inclusion strategy 294
Practical implications 296
References 297

27 Employee wellbeing 299
The case for wellbeing 299
Factors affecting wellbeing 300
Features of an employee wellbeing strategy 302
Practical implications 303
References 303

28 Digital HRM 305
Digital HRM defined 305
Digital HRM strategy 306
Applications of digital HRM 306
Digital transformation 309
Artificial intelligence (AI) 309
Practical implications 313
References 314

29 International HRM 315
The basis of international HRM strategy 315
Resourcing strategy 316
International talent management 318
International performance management 320
International reward management 322
Managing expatriates 323
Practical implications 324
References 324

Conclusions 327

Author index 335
Subject index 339

Introduction

Strategic human resource management (SHRM) provides a conceptual framework for the development and implementation of human resource (HR) strategies that define how organizations intend to manage the people they employ. It is particularly concerned with the alignment of HR strategies generally with the business or corporate strategy and the integration of specific strategies with one another. It is based on the fundamental proposition that the human resources of an organization play a strategic role in its success. This book deals with SHRM in four parts.

Part 1: Strategic human resource management (SHRM)

In this part the essential characteristics of SHRM are described in the first chapter. This is followed by chapters on the evolution of SHRM and the contextual factors that affect it. The next two chapters (4 and 5) deal with the basic constituents of SHRM, namely human resource management and strategic management. The remaining chapters (6, 7 and 8) cover the three main underpinning concepts that influence the application of SHRM to the development of specific HR strategies: those of strategic alignment, the resource-based view and the importance of developing the ability, motivation and opportunities (AMO) of people in the organization.

Part 2: The nature, development and implementation of HR strategy

SHRM is an overarching concept concerned with an approach to the formulation of individual HR strategies that emphasizes the importance of taking

into account the needs of the organization and of the people who work there. HR strategies are SHRM in action. This part starts with a chapter that describes the nature of HR strategy and continues with chapters 10 and 11 covering how HR strategy is developed and implemented. The part ends with a chapter in which the role of the HR function in developing and managing the implementation and operation of HR strategy is examined.

Part 3: Overall HR strategies

Following the coverage of HR strategy in Part 2, this part deals with the ways in which HR strategies are developed that cover all or most aspects of HRM in the organization.

Part 4: Specific HR strategies

This part deals with the ways in which HR strategies are developed for specific aspects of HRM, for example resourcing.

PART ONE
Strategic human resource management (SHRM)

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The essence of strategic human resource management

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CHAPTER OBJECTIVES

Strategic human resource management (SHRM) was defined by Kaufman (2015: 404) as: 'The choice, alignment, and integration of an organization's HRM system so that its human capital resources most effectively contribute to strategic business objectives.' SHRM provides the basis for the development and implementation of HR strategies.

This chapter provides an introduction to the concept of SHRM under the following headings:

1 Strategic human resource management described
2 Aims of SHRM
3 The process of SHRM
4 The components of SHRM
5 SHRM and HR strategy
6 Practical implications

Strategic human resource management described

Strategic human resource management was defined by Wright and McMahan (1992: 298) as: 'The pattern of planned human resource deployments and

activities intended to enable an organization to achieve its goals.' Randell Schuler (1992: 18) produced this expanded definition:

> Strategic human resources 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 the strategic needs of the firm; (2) HR policies cohere both across policy areas and across hierarchies; and (3) HR practices are adjusted, accepted, and used by line managers and employees as part of their everyday work.

In the words of Truss and Gratton (1994: 666), SHRM is an 'overarching concept that links the management of and deployment of individuals within the organization to the business as a whole and its environment'. It was described by Boxall (1996) as the interface between strategic management and HRM.

SHRM is not simply a collection of techniques. It is a mindset that becomes real when it exerts influence on actions that can be regarded as strategic, that is, which express a broad view of *what* has to be achieved in the longer term and declare intentions on *how* it is to be achieved. These intentions are realized either in the form of overall or specific HR strategies or by strategic behaviour on the part of HR professionals working alongside line managers.

As Truss et al (2012: 49) put it, SHRM is about turning 'strategic intent into action'. It derives its focus on providing a sense of purpose and longer-term direction from the concept of strategic management. SHRM also absorbs the HRM belief as expressed by Boxall and Purcell (2022: 31) that: 'Human resources belong to people but they are critical for the basic survival and relative success of organizations.'

The following conclusions on the characteristics of SHRM were produced by Kaufman (2015: 396):

> The central elements [of SHRM] are: HRM as the people management component of organizations, a holistic systems view of individual HRM structures and practices, a strategic perspective on how the HRM system can best promote organizational objectives, HRM system alignment with organizational strategy and integration of practices within the system, and emphasis on the long-run benefits of a human capital/high-commitment HRM system.

Levels of SHRM

On the basis of their research for the Institute for Employment Studies, Brown et al (2019: 4) identified three levels of SHRM:

1. The context and drivers of the SHRM; the key determinants of the contents of that strategy; and the tailoring 'best fit' process.
2. The components of SHRM which contain a longer-term workforce plan, a shorter-term plan for the HR function activity, as well as core priorities and policies for managing people and a strong link to values and culture.
3. The capabilities and processes required in the organization to implement and put SHRM into practice and to avoid the policy-practice gap.

They noted that:

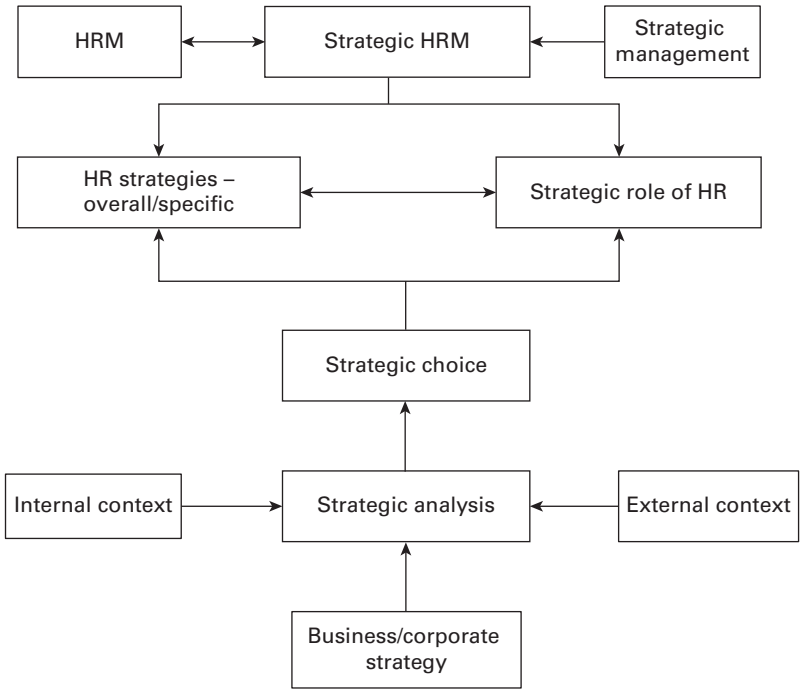
> The idea of strategic HRM implies that HRM policies are 'aligned' in linear fashion with and driven by a formal business strategy; and the HRM strategy in turn translates the people aspects of that business strategy into a plan for action on the people aspects of the business and drives the HR activity designed to support that process.

Aims of SHRM

The basic aim of SHRM is to ensure that HR strategies support the achievement of the organization's business or corporate strategy. As Fombrun et al (1984: 37) emphasized: 'The critical managerial task is to align the formal structure and human resource systems so that they drive the strategic objectives of the organization.' Boxall and Purcell (2016: 69) pointed out that SHRM also aims 'to align management and worker interests, at least at the level of a contract that meets the base line requirements of both parties'.

Dealing with HR issues strategically means deciding what needs to be done to meet the needs of the organization's stakeholders in the short and longer term. The objective is to set a clear direction and reflect the 'strategic intent' of the organization. This requires the development of HR strategies that are aligned to the business or corporate strategy and integrated with one

Figure 1.1 Strategic HRM model



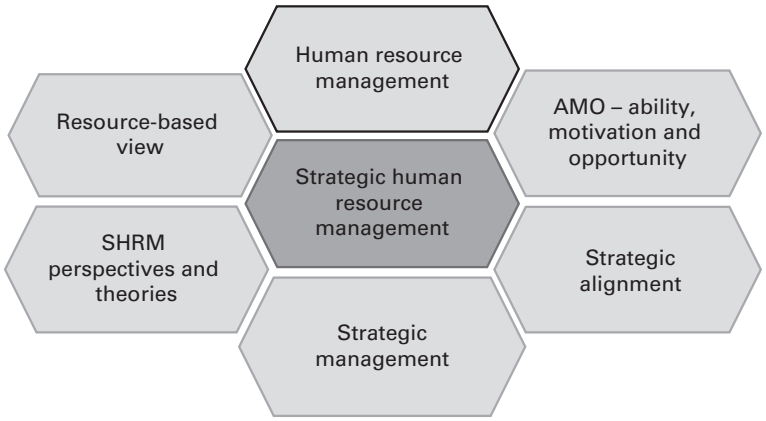
another, and then ensuring that what needs to be done is done. In essence, SHRM aims to:

- take a longer-term view of where HR should be going and how to get there;
- achieve integration or 'fit' between HR and business/corporate strategies;
- decide how coherent and mutually supporting HR strategies should be developed and implemented;
- ensure that the messages delivered by the various SHRM concepts are taken into account when formulating HR strategy.

The process of SHRM

As modelled in Figure 1.1, strategic HRM guides the development of HR strategies and furthers the strategic role of the HR function. It uses strategic management techniques and influences human resource management policies and practices but is also influenced by them. There is always a choice about the individual HR strategies and the strategic role of HR. This choice

Figure 1.2 Aspects of SHRM



is based on strategic analysis as conducted in reviews that take account of the internal and external context of the organization and its business or corporate strategies.

The components of SHRM

SHRM is complex. As illustrated in Figure 1.2 and described below, it is based on the practices of human resource management and strategic management, but it also incorporates a number of different theories and concepts that influence the approach adopted to the development of HRM strategies.

Human resource management

HRM is concerned with all aspects of how people are employed, managed and developed in organizations. Strategic human resource management (SHRM) could be regarded as a dynamic aspect of human resource management (HRM) in that it is about the way forward for people management rather than the day-to-day management of employees.

Strategic management

Strategic management is an approach to management that involves taking a broad and long-term view of where the organization or part of the organization

is going and managing activities in ways that ensure that this strategic thrust is maintained.

Strategic alignment

The notion of strategic alignment or strategic fit expresses the need when developing HR strategies to achieve: 1) alignment between them and the organization's business/corporate strategies within the context of its external and internal environment, and 2) the integration of different HR strategies and practices. As Wright and McMahan (1992: 52) observed: 'First, vertically, it entails the linking of human resource management practices with the strategic management processes of the organization. Second, horizontally, it emphasizes the coordination or congruence among the various human resource management practices.'

The resource-based view

The resource-based view (RBV) as first described by Penrose (1959) and later developed by Wernerfelt (1984) and Barney (1991, 1995) 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 RBV provides the rationale for the strategic development of an organization's rare, hard to imitate and hard to substitute human resources. It is examined in more detail in Chapter 7.

The RBV is associated with human capital theory, which regards people as assets. Investing in human capital supports the achievement of sustained competitive advantage.

AMO

The formula Performance = Ability + Motivation + Opportunity, as described in Chapter 8, provides the basis for developing HR systems that attend to the interests, activities and needs of employees, namely: their motivation, skill requirements, energies and discretionary behaviour, and the scope to use and develop their skills.

SHRM perspectives and theories

The following perspectives and theories describe and explain the process of SHRM.

The multi-stakeholder perspective

A stakeholder is a person or a body that has a legitimate interest in an organization. Internal stakeholders include the owners of a business (shareholders) or the authorities or trustees responsible for an organization, senior management, line managers and employees. External stakeholders consist of customers, clients, suppliers and the community or public at large.

A multi-stakeholder approach to managing an organization recognizes the need to satisfy the interests of all these stakeholders – employees as well as shareholders, external as well as internal. The aim is to achieve a balance between the interests of employees and those of owners and management.

The competitive advantage perspective

Sustained competitive advantage is achieved when a business consistently outperforms competitors, thus getting better results than its rivals and placing the firm in a competitive position. Its drivers, as listed by Michael Porter (1985), are innovation, quality and cost leadership. The SHRM perspective is that sustained competitive advantage will be attained when the organization's human resources are valuable, rare, inimitable and non-substitutable. To do this, the organization has to attract, retain and develop a pool of skilled, intelligent and effective people that cannot be replicated by its competitors.

The performance perspective

The performance perspective emphasizes that strategic human resource management has to focus on generating higher levels of performance. In the UK, studies such as those conducted by Guest et al (2000), West et al (2002), Purcell et al (2003), Carlson et al (2006) and Birdi et al (2008) have shown that effective HRM practice and firm performance are correlated. In the US, extensive research on the impact of HRM on performance was conducted by Arthur (1994), Huselid (1995), Ichniowski et al (1997) and Combs et al (2006). Summing up the findings of these and other studies, Lengnick-Hall et al (2009: 79) noted that: 'Evidence continues to accumulate that there is a relationship between HR systems and organizational performance, although the causal sequence may be more reciprocal than direct.'

The behavioural perspective

As described by Lepak and Shaw (2008), the behavioural perspective suggests that HRM practices affect firm performance by encouraging needed role behaviours that are aligned to the organization's strategy. For example,

a strategy of innovation requires people who are creative, are willing to take risks and can tolerate ambiguity. Technological changes often force organizations to be fluid, and the structures and processes emanating from the HRM system must follow suit. Paauwe et al (2013) referred to research that suggests that a coherent and consistent HR system is used in order to send messages to employees regarding desired behaviours.

Schuler and Jackson (1987) asserted that different strategy types (innovation, quality improvement and cost reduction) require different types of employee role behaviours. Further, they argued that once the desired employee role behaviours have been identified to fit the strategy, HR practices should be used to ensure that those behaviours take place. In this perspective, as emphasized by Jackson and Schuler (1995), HRM practices are viewed as an organization's best means of eliciting and sustaining desired employee behaviours. The focus is shifted from individuals to social systems characterized by multiple roles.

Research by Cabrera and Bonache (1999) highlighted the need to align an organization's culture with its strategy. As they noted, a culture will be an asset for an organization if it encourages behaviours that support its intended strategy. They argued that a strong strategic culture can be created through two processes: planning HR practices that are aligned with the organization's strategy to promote the desired behavioural norms, and deliberately selecting candidates who share the desired values.

Dyer and Ericksen (2005) extended the behavioural perspective to argue that the future of HRM in terms of creating value lies in the ability of the HRM system to develop an agile and flexible workforce. Thus the behavioural perspective enhances the resource-based view to provide a conceptual framework for talent management. They commented that: 'Agile enterprises require guiding principles that encourage the inflow and outflow of talent in ways that facilitate and only minimally disrupt internal fluidity' (p 187).

The systems perspective

The systems perspective suggests that SHRM needs to take into account the fact that HRM functions through systems of interrelated activities. Systems thinking is required when developing HR strategy. Bassett-Jones (2023: 33–4) observed that: 'Systems thinking is a way of thinking about social, economic, organizational and political issues, how they interact and the consequences for organizations, groups and individuals.'

Resource dependence theory

Resource dependence theory as devised by Pfeffer and Salancik (1978) explains that firms depend on their external environment to provide the resources they need to survive. They have to deal with the issues that environment creates, especially those generated by the larger and more dominant firms in their network that can put pressure on the other network firms in resourcing matters such as the recruitment and deployment of staff.

Institutional theory

Institutional theory examines the processes by which structures and processes become established as social behaviour in organizations. It is an approach to understanding organizations and management practices as the product of social rather than economic pressures. Truss et al (2012: 113) observed: that: 'The RBV and the institutionalist framework are… based on different assumptions about the behaviour of firms and individuals.' Oliver (1997: 700) noted that: 'Institutionalist theory assumes that individuals are motivated to comply with external social pressures whereas the resource-based view assumes that individuals are motivated to optimize available economic choices.'

As Truss et al (2012: 113) mentioned, Paauwe and Boselie (2003) 'sought to combine the [institutional and behavioural] approaches by suggesting that firms are subject to external forces that will tend to foster similar approaches, and the key therefore is to find ways of managing these constraints to develop unique solutions that are difficult for competitors to copy'.

It is advisable to take account of institutional theory to ensure as far as possible that in spite of external pressures, any unique characteristics of the organization's resources are preserved and encouraged thus fulfilling the message of the RBV.

SHRM and HR strategy

SHRM provides a conceptual framework for the creation of specific HR strategies. As suggested by Truss et al (2012: 87), SHRM can be regarded as 'encompassing a number of individual strategies, for instance a strategy for rewards, for organizational development and for performance management'. An organization should take into account the messages delivered by SHRM

when creating individual HR strategies, and these can be seen as existing under the umbrella of an overall SHRM approach that incorporates relevant perspectives and theories relating to people management.

PRACTICAL IMPLICATIONS

- Establish as clearly as possible the organization's business or corporate strategy and endeavour to align HR strategy with it (achieve vertical fit).
- Use a systems thinking approach to understand the interrelationships between the different areas of HR strategy in order to achieve horizontal fit thus making them mutually supportive.
- Take account of the debate on best fit versus best practice and ensure when making a decision that attention is paid to the factors involved as described in Chapter 6.
- Think of the resource-based view as a means of justifying investments in human capital and of achieving competitive advantage.
- Use the AMO framework as a model to guide the development of performance-enhancing strategies.
- Recognize the importance of adopting a multi-stakeholder approach.
- Develop high-performance strategies, for example a high-performance work system.

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The evolution of SHRM 02

CHAPTER OBJECTIVES

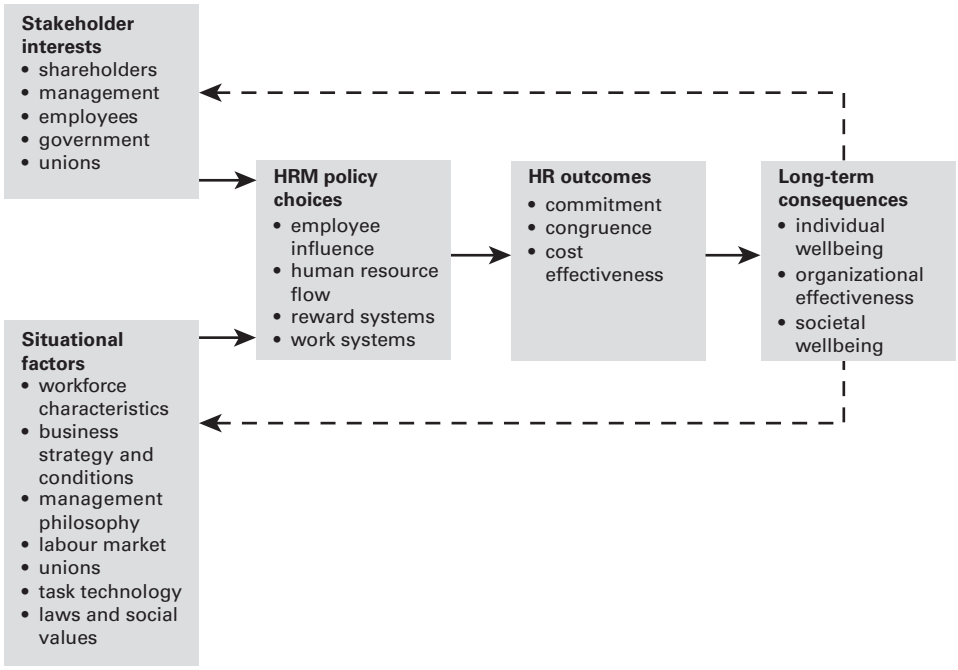
The development of SHRM has not been linear. Many of its concepts have emerged concurrently and, in some respects, it has been a circular process. This chapter traces the evolution of SHRM from its earliest days. It is set out under the following headings:

1 Beginnings – the focus on vertical integration or fit
2 Recognizing the importance of horizontal as well as vertical fit
3 'Best fit' or 'best practice'?
4 Development of a conceptual framework for SHRM
5 Focus on implementation
6 Practical implications

Beginnings – the focus on vertical integration or fit

The first suggestion that human resource planning and strategic planning should be linked came from Walker (1978). This was followed by Tichy et al (1982) who argued that: 'The fundamental strategic management problem is to keep the strategy, structure and human resource dimensions of the organization in direct alignment' (p 47). Lengnick-Hall et al (2009) pointed out that early strategic HRM literature (Baird and Meshoulam, 1988; Wright and McMahan, 1992) emphasized a contingency perspective in which the focal point was fit between HR policies and practices and business strategy (vertical integration or fit).

Figure 2.1 The Harvard HRM framework



SOURCE Beer et al (1984)

It was during this early period that the two seminal books on human resource management were published – Beer at al (1984) and Fombrun et al (1984). The former (the Harvard framework) emphasized the importance of a multi-stakeholder approach, and the latter (the Michigan framework) advocated matching HR strategy to the business strategy, that is, vertical fit.

The multi-stakeholder approach

The significance of a stakeholder approach was highlighted by Beer et al (1984) in their HRM model shown in Figure 2.1.

Later researchers such as Schuler and Jackson (1987) and Becker et al (1997) concentrated largely on the business perspective, implying that the only stakeholders who matter are the shareholders. Delery (1998) commented on the failure in many SHRM studies to consider more than bottom-line performance.

More recent developments have focused more on the arguments in favour of a multi-stakeholder approach with particular attention being paid

to employee wellbeing. Paauwe et al (2013: 75), observed that 'little attention has been paid to the meaning of performance from the perspective of other stakeholders' and proposed 'a multidimensional concept of performance taking different types of stakeholders into account'. Beer (2015) revived attention to the multi-stakeholder approach when he emphasized that strategic HRM, while it must be concerned with the vertical integration of HR strategies with business strategies, should also take into account the needs of employees. As Sparrow (2017: 12) commented: 'People in organizations should be linked horizontally by shared identities and values.'

Recognizing the importance of horizontal as well as vertical fit

Baird and Meshoulam (1988) expanded the notion of fit to incorporate both external and internal components. External fit is aligning a firm's HR practices with its strategy, whereas internal or horizontal fit is aligning a firm's HR practices with one another thus enabling them to mutually reinforce each other, a process that became known as 'bundling'. The significance of 'horizontal fit' as a means of achieving high employee performance also emerged in the writings of Wright and McMahan (1992) and MacDuffie (1995).

Dyer and Reeves (1995: 656–7) pointed out 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.'

'Best fit' or 'best practice'?

The emergence of the notions of vertical and horizontal fit sparked a debate at about this time on the relative merits of what became known as 'best practice' (universally applicable best practices exist) and 'best fit' (HR practices must be congruent with the circumstances of the organization). Doubts about the notion of best practice were expressed by commentators such as Cappelli and Crocker-Hefter (1996). The weight of opinion was that 'best fit is better than best practice' although Paauwe (2004) suggested that there were limitations to the notion of best practice.

Development of a conceptual framework for SHRM

SHRM is essentially conceptual. The notion of adopting a strategic approach to managing people is supported by two associated key theories, namely, the resource-based view and human capital theory. The former (Barney, 1991; Kamoche, 1996) propose that it is the range of resources in an organization, including its human resources, that produces its unique character and creates competitive advantage. The latter states that the unique nature of human capital resources within the firm also has the potential to generate sustainable competitive advantage (Nyberg et al, 2014; Ployhart et al, 2014).

Focus on implementation

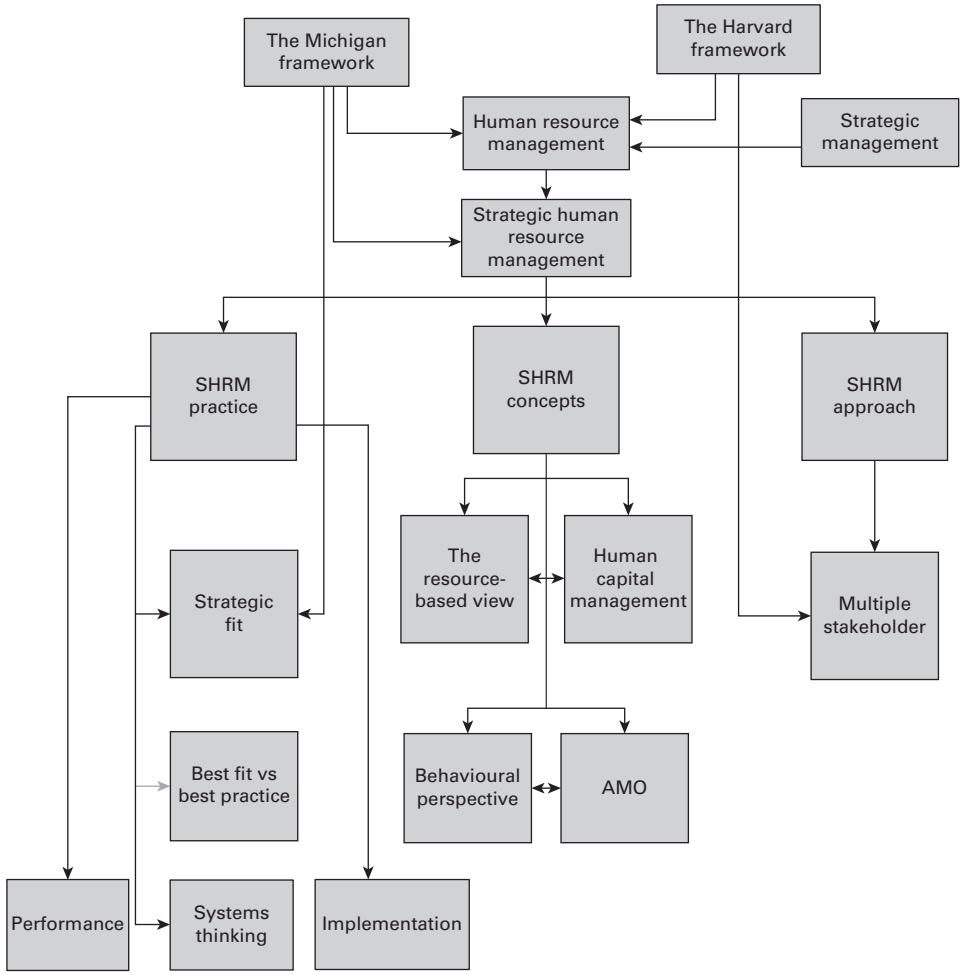
The problem of implementing HR strategy was mentioned by Fombrun et al (1984) but SHRM commentators began to pay more attention to implementation issues later (Barney, 2001; Wright and Nishii, 2004; Guest and Bos-Nehles, 2013). As Lengnick-Hall et al (2009: 79) observed:

> There is a growing recognition that intended SHRM practices may be different from realized SHRM practices and to simply rely upon what is stated rather than what is actually in place may lead to ineffective implementation as well as ambiguous results in studies of the relationship between HR practices and organizational performance. The construct of employee line-of-sight to strategic objectives provides more insight into the implementation process. If employees don't understand or know how to contribute to strategic objectives, they are unlikely to be effective in doing so.

A study conducted by Khilji and Wang (2006) of HR implementation in Pakistani banks noted a gap between intended and implemented HR practices, with some line managers choosing not to implement the practices.

A model of the evolution of SHRM is shown in Figure 2.2.

Figure 2.2 The evolution of strategic HRM



PRACTICAL IMPLICATIONS

- Note the increasing importance being attached to adopting a multi-stakeholder approach.
- Observe that during much of its history SHRM has focused on how it affects resourcing strategies with special reference to the resource-based view (RBV). Use the message of the RBV to support the business case for strategies to enhance the skills base of the organization by targeting

high-level candidates in recruitment campaigns and through learning and development programmes that identify skills development needs and offer learning interventions that will satisfy them.

- Take account of the debate on best practice versus best fit and ensure that when adopting what is felt to be best practice it will fit the circumstances in which it will be applied.
- When developing HR strategy always give careful consideration to implementation issues.

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The context of SHRM

03

CHAPTER OBJECTIVES

The context in which an organization exists largely shapes its HR strategies and practices. It is set out in this chapter under the following headings:

1 The nature and significance of context
2 Responses to contextual issues
3 Preparing for unexpected disruptions
4 Practical implications

The nature and significance of context

Organizations function within the context of their internal and external environment. Boxall and Purcell (2022) observed that they are complex systems which, like living organisms, have to adapt when faced with unexpected disruptions in order to thrive.

As modelled in Figure 3.1, business and HR strategy and the HR system are influenced by the underpinning internal factors of the organization's sector, size, technology and culture. These will all affect the sorts of people employed and how they are employed. But the external factors shown in the model – the PESTLE categories consisting of political, economic (including the labour market), social, technological, legal and environmental factors – are also crucial.

The significance of context

As Karen Legge (1978: 87) wrote: 'Different organizational and environmental circumstances will necessitate transformation of general prescription into

and Rafferty (2018: 380) stated that: 'HRM in organizations cannot be fully understood in an atomic sense isolated from economic, social, and institutional interconnecting relationships.'

The context of the of the crises of the 2020s (Covid-19, etc) has been instrumental in making significant differences to the nature of work with particular reference to the increase in home and hybrid working, the pressure for more flexible working and the growth of the gig economy.

Environmental disruptions

Another major contextual factor is what are called 'environmental disruptions' defined by Kim et al (2022: 284) as follows:

> Environmental disruptions – life-threatening changes in the extra-organizational environment – have been widely discussed in the context of management, particularly in the last 2 years. A disruptive environment [such as the Covid-19 pandemic] is a type of extreme managerial context but is different from other extreme management contexts, such as risky or emergency contexts, in the sense that it normally does not allow for preparation.

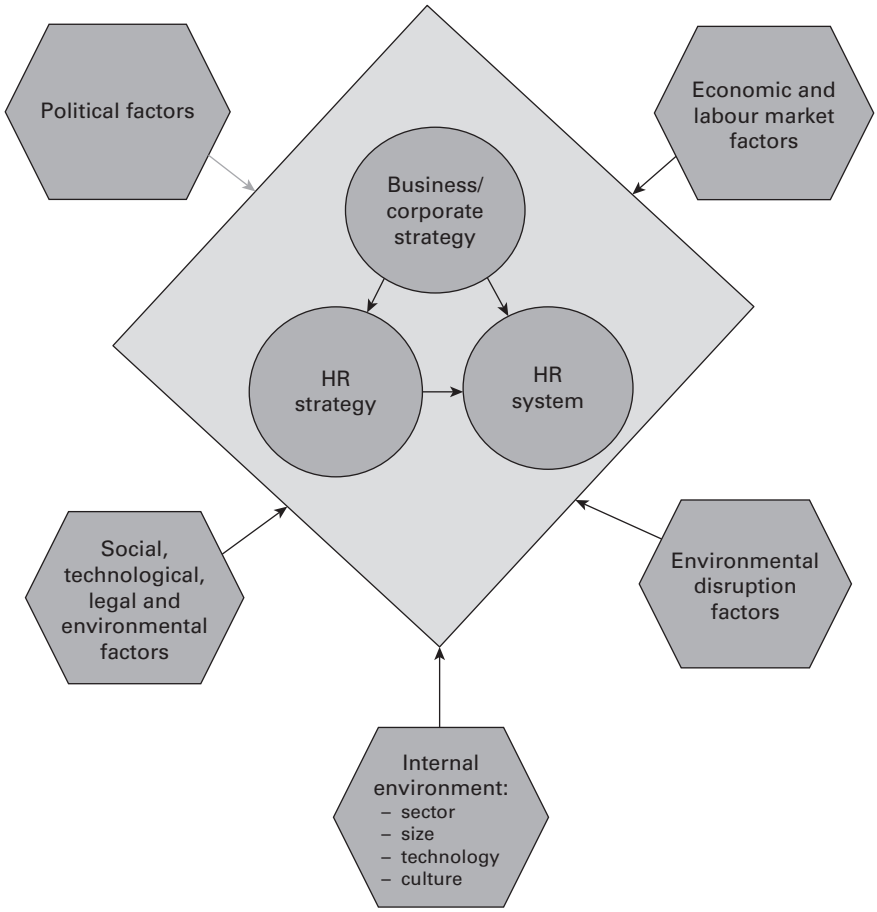
Disruptions include what Boxall and Purcell (2022: 97) described as 'Schumpeterian shocks' – the great Austrian economist's view that capitalism involves 'gales of creative destruction' (Schumpeter, 1950: 84). In addition, there are the continuing contextual factors of volatility, uncertainty, complexity and ambiguity (VUCA).

As Eredi et al (2022: 2504) commented:

> In the past two decades, the world of work has encountered crisis, uncertainty and natural disasters, all of which came in many forms and shapes. Organizations and employees within them do not operate in a vacuum, and so are vulnerable to these externalities… Economic crises, uncertainty, and political instability touch upon the lives of everyone, thus shaping the direction and sustainability of HRM practices across the globe.

Organizations have always had to cope with external crises and Schumpeterian shocks but the pressure intensified in the 2020s when a 'permacrisis' situation prevailed. Permacrisis was Collins dictionary's word of the year in 2022 and was defined there as: the 'upheaval caused by Brexit, the pandemic, severe weather, the war in Ukraine, political instability, the energy squeeze and the cost-of-living crisis' resulting in 'an ongoing state of uncertainty and worry'. Organizations

Figure 3.1 The context of SHRM



have also had to face a severe recruitment/retention 'crunch'. These have combined to exert a huge influence on employment policies, recruitment, talent management and skills development strategies, and reward programmes.

Responses to contextual issues

Strategic human resource management involves ensuring that contextual factors are taken into account in formulating HR strategies. This means analysing the context, assessing the scope for influencing it and preparing the organization as far possible for the demands that an unforeseeable crisis might impose on it.

Table 3.1 Framework for analysing an organization's context

Internal or external	Type of context	Possible impact	Implications
Internal	Sector		
	Size		
	Technology		
	Culture		
External	Political factors		
	Economic factors		
	Social factors		
	Technological factors		
	Legal factors		
	Environmental factors		
	The labour market		

Analysing the context

A framework for context analysis is set out in Table 3.1.

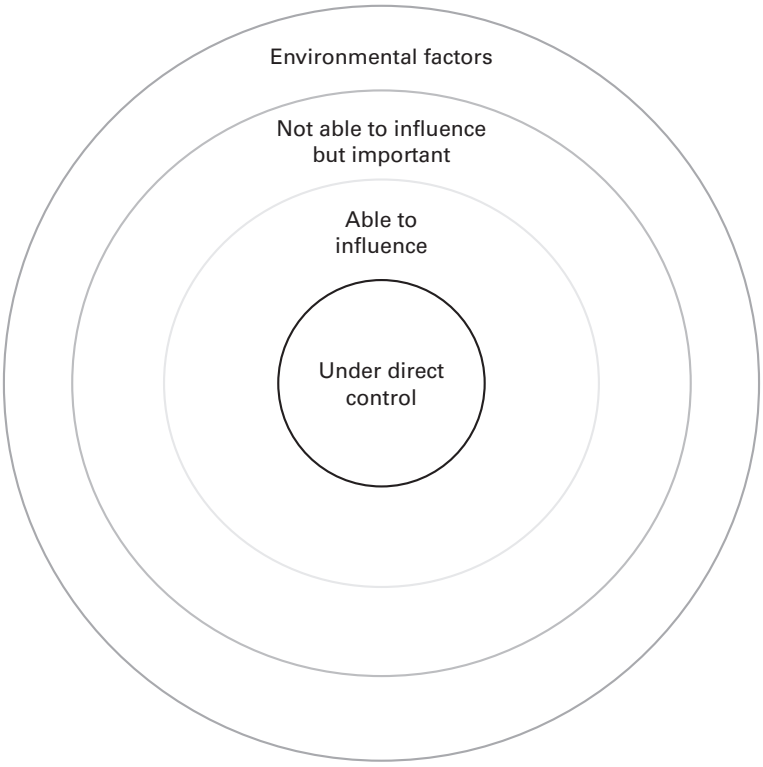
Scope to influence

The scope to influence can be assessed with the help of a context diagram, as illustrated in Figure 3.2.

In a context diagram, an analysis is made under four headings (the concentric rings in Figure 3.2) of the context within which an HR strategy is to be developed. For example, formulating a resourcing strategy for obtaining the skills required by the organization could lead to the following analysis:

- *Under direct control* – the organization's policy and practice in recruitment and learning and development.
- *Able to influence* – provide support and encouragement for local and national training and skills development initiatives.
- *Not able to influence but important* – supply of people in labour market, availability and take-up of training.
- *Environmental factors* – impact of Brexit on labour supply; government policies on immigration.

Figure 3.2 A context diagram



SOURCE Adapted from Hostford (2020); Flood and Carson (1993)

Preparing for unexpected disruptions

Organizations are complex systems that, like living organisms, have to adapt when faced with unexpected disruptions in order to thrive. As specified by Eredi et al (2022) there are three main sources of unexpected environmental disruptions: 1) natural disaster, 2) economic upheaval and 3) political turmoil. Kim et al (2022: 285) pointed out that: 'These disruptions contain unsystematic high uncertainties that do not allow organizations to predict and prepare for the occurrence and their consequences.'

Catastrophic disruptions such as Covid-19 may force organizations to abandon their established ways of managing their workforces by, for example, introducing homeworking. Political turmoil such as terrorism may require international companies operating in hostile environments to reconsider their HR provisions for protecting employees. Disruptive changes in immigration and refugee policies compel employers to adjust their strat-

It is possible to prepare for unexpected disruptions by enhancing agility and resilience. These are different but complementary qualities that enable organizations to cope with the turbulent environments in which they live. As Lynda Holbeche (2023: 22–3) argued:

> Strategic agility is vital to any organization aspiring to change in today's business environment. Yet agility alone will not achieve sustainable success. In a future defined by ambiguity, unpredictability, complexity, multiple stakeholders and rapid change, organizations also need resilience in order to respond to change that is severely disruptive and surprising.

Organizational agility

Organizational agility is the ability of an organization to adjust rapidly and effectively when confronted with change. It is a way of dealing with, and ultimately succeeding in, an uncertain and turbulent environment.

The term 'Agile' sometimes refers simply to a project management technique that breaks projects down into a number of dynamic phases and values collaborative teams rather than working independently. Its emphasis on flexibility and adaptability, as well as teamwork, is a feature of any strategy for developing organizational agility. Such a strategy will concentrate on establishing a flexible operating model, supported by collaborative and fluid people management. It will provide employees with the environment and support they need and trust them to get the job done. It will touch every facet of the organization, including people, process, strategy, structure and technology.

Organizational resilience

Organizational resilience is the firm's capability to absorb, interact, and engage with environmental disruptions that could potentially threaten its prosperity or even survival. It was defined by Williams et al (2017: 742) as: 'The process by which an organization builds and uses its capability endowments to interact with the environment in a way that positively adjusts and maintains functioning prior to, during, and following adversity.'

Empirical studies have reported that HRM can enhance an organization's resilience against environmental disruptions. Carvalho and Areal (2016) found that companies listed as 'Great Places to Work' are more resilient and maintain better financial performance in times of crisis than other companies. Kahn et al

(2013) examined the role of HR practices in building employee resilience in the Pakistani telecommunication sector, which is affected by political instability and terrorism. Their qualitative study revealed that job design, information sharing, employee benefits and employee development opportunities enhance employees' resilience. Gannon and Paraskevas (2019) found that international hotels build organizational resilience against hostile environments by using sophisticated HR practices to manage the expatriation process.

Kim et al (2022) reported that researchers have emphasized the role of the compassionate spirit that an organization can demonstrate to its members during environmental disruptions. Being compassionate is not only morally recommendable but also a valuable strategy for organizations that go through disruptive situations (Dutton et al, 2006). A compassionate approach can enhance employee resilience and thereby make organizations more resilient and adaptive (Tonkin et al, 2018).

PRACTICAL IMPLICATIONS

- Appreciate that HR strategies will be contingent to a large degree on the organization's context.
- When developing strategy, analyse the organization's context and the degree to which it can be managed to establish how it will impact on intentions.
- Develop organizational agility by creating a flexible operating model, supported by collaborative and fluid people management processes.
- Take steps to enhance the resilience of the organization through resilience training programmes and by promoting the wellbeing of employees.

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Human resource management

04

CHAPTER OBJECTIVES

Strategic human resource management (SHRM) can be regarded as a dynamic aspect of human resource management (HRM) in that it is about the way forward for people management rather than their day-to-day management. To understand SHRM it is necessary to understand HRM. It is set out in this chapter under the following headings:

1 Human resource management defined
2 The HR architecture
3 The HR system
4 Practical implications

Human resource management defined

Human resource management (HRM) is concerned with all aspects of how people are employed, managed and developed in organizations. Boxall and Purcell (2022: 8) in the 5th edition of their seminal book *Strategy and Human Resource Management* wrote that: 'In order to build the human and social capital the organization needs, managers adopt policies for organizing work and employing people. These policies and practices are the basic materials, or instruments, of HRM.' They also noted that: 'HRM is an essential function in organizations, which depend on the human resources that belong to people' (p 333).

The hard and soft models of HRM

Storey (1989: 8) distinguished between the 'hard' and 'soft' versions of HRM. He explained 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 suggested by Keenoy (1997: 838) that 'hard and soft HRM are complementary rather than mutually exclusive practices'. 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.

HRM and people management

The notion of referring to people as resources as if they were any other factor of production has been criticized. 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.' Boxall and Purcell (2022: 6) stated that: 'People are not human resources. On the contrary, people are independent agents who possess resources.' People management is sometimes preferred as an alternative, but in spite of these doubts, HRM is still the most commonly used term.

Delivering HRM

HRM is delivered through the HR architecture of people, systems and structures, the HR function and, importantly, line managers.

The HR architecture

The HR architecture is a comprehensive representation of all that is involved in HRM. It incorporates the HR system of policies and practices, the roles and behaviour of managers and employees generally and the contribution made by members of the HR function.

The concept was first referred to by Becker and Gerhart (1996: 786) in an article examining the strategic impact of HR on key performance outcomes. They wrote that: 'There may be a best HR system but whatever the bundles or configurations of policies implemented, the individual policies must be

aligned with one another and be consistent with the HR architecture if they are ultimately to have an effect on firm performance.' It was developed by Lepak and Snell (1999), who stated that the HR architecture in an organization consists of its different employment modes, employment relationships and HR configurations. They suggested that it draws attention to HRM as a strategic asset, enables the study of the alternative employment arrangements used by firms and helps those concerned to understand which forms of human capital have the potential to be a source of competitive advantage. 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.'

The notion of HR architecture highlights the fact that managing people is a complex process affected by a number of interconnected factors. Lepak and Snell (1999: 32) emphasized that:

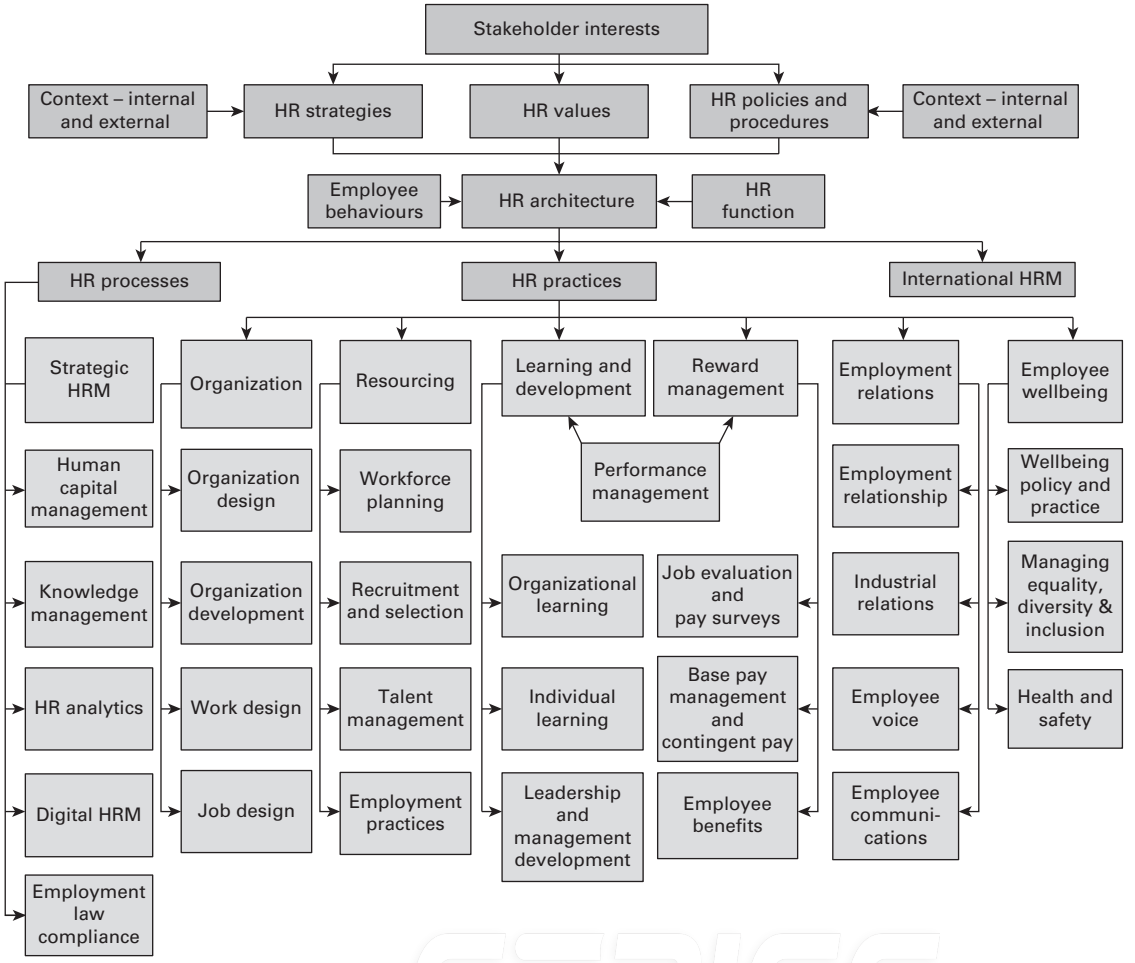
> It may be inappropriate to simplify the nature of human capital investments and suggest that there exists a single 'optimal' HR architecture for managing all employees. Rather, we believe that the most appropriate mode of investment in human capital will vary for different types of human capital.

The HR system

The HR system provides the framework for the processes of managing people in an organization. The core of the system consists of a set of interrelated and jointly supportive HRM practices or activities. The range and nature of these activities is governed by the organization's context (its internal and external environments including its culture) and by its HRM philosophy, strategies and policies.

Bowen and Ostroff (2004) advocated a 'strong' HR system to ensure the more effective implementation of HRM practices. They developed a model of HRM in which HR practices could be viewed as communications from the employer to employee and suggested that 'when the HRM system is perceived as high in distinctiveness, consistency, and consensus, it will create a strong situation' (p 208). They argued that a strong HRM system can significantly affect firm performance by creating powerful, focused organizational cultures that help to structure and direct employee behaviour and effort towards desired organizational goals.

Figure 4.1 An HR system



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An HR system as illustrated in Figure 4.1 exists to cater for the requirements and needs of the organization's stakeholders – anyone who has a legitimate interest in an organization, including the owners of a company, the public sector authorities or voluntary sector trustees with responsibility for an organization, senior management, line managers, employees generally, customers, suppliers and the community or public at large. Stakeholder theory as originally developed by Freeman (1984) states that organizations must satisfy a variety of constituents who can influence organizational outcomes.

Values for managing people

Organizations and the HR function within them should be value driven. The values should be based on the belief that people are valuable in themselves as well as sources of value. Values may not be articulated although they can be an important albeit implicit aspect of the corporate culture: 'the way things are done around here'. But there is much to be said for expressing them in a 'belief structure' – a formal definition of the values adopted by the organization concerning the employment, development, management and wellbeing of its employees. Thus they can function as a set of guiding principles – setting out what is believed to be appropriate behaviour and action. An example of a belief structure in the form of a ten-point value statement is given below:

1. People should be treated with dignity and respect.
2. Just treatment is the absolute right of all employees.
3. The organization has a duty of care for those who work there and should promote their wellbeing in the broadest sense.
4. People have the moral right to be dealt with properly above and beyond their legal rights.
5. Everyone should be given the scope to use and develop their talents effectively and have equal access to opportunities at work in line with their capabilities.
6. People should be able to influence the decisions that affect them.
7. The environment should enable different kinds of people to thrive and succeed.

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8 The organization is committed to dealing with equality, diversity and inclusion on the basis that everyone should be valued as an individual and treated equally and fairly irrespective of their race, gender, level of disability, religion, sexual orientation or age.

9 The organization exercises social responsibility by being concerned with the interests of all its stakeholders.

10 The organization operates in accordance with the principles of the ESG (environment, social and governance) framework.

Of course, what is important is that these should be 'values in use' – people should 'live the values' rather than simply 'profess them'. Unfortunately, this is by no means always the case.

HR processes

The main HR processes and activities are summarized below.

Strategic human resource management (SHRM) – an approach to making decisions on the intentions of the organization concerning its people that provides a conceptual framework for the creation of specific strategies for their management and development.

Human capital management (HCM) – treating people as assets and achieving competitive advantage by strategic investments in those assets. It involves measuring the value of human capital in order to represent the value of people and making good use of the information gained from measurements generated by HR analytics.

Knowledge management – storing, sharing and using the wisdom, understanding and expertise accumulated in an organization about its processes, techniques and operations.

HR analytics – the application of mathematical, statistical and data collection techniques to obtain data on and therefore insight into HR strategies, policies and practices, and thus inform evidence-based HR decisions.

Digital HRM – the use of digital technologies in the form of web-based applications involving analytics, artificial intelligence (AI), computer hardware and software, smartphones and social media to help in the delivery of HRM services.

HR procedures – the ways in which certain actions concerning people should be carried out by the management or individual managers. In effect, they

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constitute a formalized approach to dealing with specific matters of policy and practice, such as handling disciplinary issues, redundancies or poor performance (capability).

Employment law compliance – ensuring that employment law requirements are met by the organization and its individual managers and employees, and dealing with employment law issues if they arise.

HR practices

The main HR practices are described below:

Organizing – designing organization structures, work systems and jobs and developing organizations to ensure that they function effectively.

Resourcing – the employment activities of:

- workforce planning – establishing an organization's people requirements so that plans can be made to satisfy them;
- recruitment and selection – finding the people the organization needs and deciding which applicants or candidates should be appointed to fill vacancies;
- talent management – ensuring that the organization has the capable and well-qualified people it needs to attain its goals. It involves the systematic attraction, retention, identification and development of individuals who are of particular value to an organization.

Employment – managing the employee life cycle: the six stages of an individual's experience as an employee: attraction, recruitment, onboarding, development, retention and separation. Seeking ways in which to increase flexible working to benefit both individuals and the organization, and managing home and hybrid workers. Take steps to enhance the employee experience – what happens to people at work and how they feel about it.

Learning and development – ensuring that the organization has the people with the skills, knowledge and abilities it needs. Learning and development takes place at organizational and individual levels. It involves enabling employees to acquire knowledge and skills, and develop their potential through experience and social contacts, coaching, mentoring, guidance provided by line managers, self-managed learning, digital learning and formal training provided by the organization. It includes special arrangements for developing leadership and management capabilities.

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Performance management – the continuous process of agreeing objectives for individuals and teams, aligning those objectives with the strategic goals of the organization, planning performance to achieve the objectives, reviewing and assessing progress, taking steps to improve performance when necessary and developing the capabilities of people. Performance management is exercised by line managers acting as performance leaders. It provides a means of identifying learning and development needs and rewarding people through recognition and the provision of opportunities as well as informing performance pay decisions where these are required.

Reward management – the development, implementation and maintenance of a reward system that provides for contribution and merit to be recognized by financial and non-financial means. Financial reward management consists of processes for deciding the value of jobs (job evaluation and pay surveys), base pay management (administering pay structures), contingent (performance) pay and employee benefits such as pensions. Non-financial reward management means providing rewards by recognition or by giving people the scope for achievement, responsibility, autonomy, influence and personal growth.

Employment relations (also known as employee relations) – managing the employment relationship and the psychological contract and relating to employees either collectively or individually. Collective relations may be with trade unions or formally constituted groups of employees, or held informally. Employment relations also involves providing employees with a voice and developing communications between them and management.

Equality, diversity and inclusion (EDI) – the ways in which an organization ensures that a fair and equitable approach is adopted to issues relating to the treatment of employees who are treated unequally, or are different culturally or individually.

Employee wellbeing – improving the quality of the working life of individuals in terms of their experience of work – how satisfied they are with their job and how the organization treats them. This includes their work–life balance, flexible working, physical, mental and financial wellbeing, relationships with their line manager and colleagues, and the extent to which they have a sense of purpose and feel in control of what they do.

International HRM – the process of managing people across international boundaries by multinational companies (MNCs). It involves the worldwide management of people, not just the management of expatriates.

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HR policies and procedures – implementing HRM through a variety of policies and procedures that affect the approach adopted in HR practice areas and support the implementation of HR strategies and activities. They interact with one another and other aspects of people management and therefore play a key part in the operation of HRM as a system.

PRACTICAL IMPLICATIONS

- Develop HR strategies that will create a 'strong system' as advocated and described by Bowen and Ostroff (2004).
- Adopt a 'systems thinking' approach to the development of HR strategy (systems thinking is an analytical way of understanding how different elements interact within a system so that account can be taken of these interactions when creating and operating the system).
- Use a value-driven approach to thinking about HR strategy.
- Take into account the requirement to respect the interests of all the stakeholders of the organization (a 'multi-stakeholder' policy).

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Strategic management

05

CHAPTER OBJECTIVES

In this chapter strategic management is described as an approach to management that focuses on defining the way ahead and how it is proposed to get there. It is about *strategic intent* – a view on what direction should be taken to achieve a purpose and so convert aspirations into reality.

The chapter is set out under the following headings:

1 Strategic management defined
2 Strategic management and strategic HRM
3 The meaning of strategy
4 Practical implications

Strategic management defined

Strategic management was defined 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'. Its purpose was described by Kanter (1984: 288) as being to 'elicit the present actions for the future and become action vehicles – integrating and institutionalizing mechanisms for change'. As stated by Boxall and Purcell (2022: 53): '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 as the environment changes.' The key strategic management activity at organization level is to identify its mission and what needs to be done to achieve that mission. As described by Thompson and Strickland (1996: 3), strategic management at this level 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

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be accomplished'. Truss et al (2012: 49) emphasized the action-oriented nature of strategic management. They defined it as: 'The process that enables organizations to turn strategic intent into action.'

For line managers, strategic management means thinking about what the organization wants to be and become and what they can do to ensure that this happens. They will be capable of seeing 'the big picture', looking beyond the confines of the immediate problems they and the business face to what lies ahead, how these problems can be solved and what they can do to support the efforts of other people. Managers who think and act strategically will have a broad and long-term view of where they are going. They will be aware that they are responsible, first, for planning how to allocate resources to opportunities that contribute to the implementation of strategy, and second, for managing these opportunities in ways that will add value to the results achieved by the organization.

To summarize, strategic management deals with both ends and means. As an end it describes a vision of what something will look like in the future. As a means, it shows how it is expected that the vision will be realized.

Strategic management and strategic HRM

Strategic HRM (SHRM) adopts the strategic management approach described above and takes a broad and long-term view of how HRM strategy should be developed. The fundamental aims of both strategic management and SHRM are the same: to further the achievement of organizational goals, bearing in mind that these goals are to meet the needs of all the organization's stakeholders, including employees as well as shareholders and management.

To understand how strategic management functions, it is necessary to appreciate the meaning of strategy as discussed below.

The meaning of strategy

The classic definition of strategy was made by Chandler (1962: 13) who wrote that it was: '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.' Freedman (2003: 2) defined

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strategy as: 'The framework of choices that determine the nature and direction of an organization.' Boxall and Purcell (2016: 54) suggested that: 'Strategies are the ways in which managers of firms understand their goals and develop resources – both human and non-human – to reach them. Some strategies may be formally planned but it is inevitable that much of a firm's strategy emerges in a stream of action over time.' 'Strategy was described by McKeown (2011) as a balance of 'desirable ends with available means.' A businessman's view on strategy was made by Julian Richer (2017: 144) who defined it as simply the process of 'identifying the direction we should be moving in.'

Characteristics of strategy

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. 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 phrase (1993), ensures that organizations adapt to changing demands and circumstances by 'mastering the present and pre-empting the future'.

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).

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

The content of strategy

Hambrick and Fredrickson (2001) explained that a complete business strategy needs to cover five points:

1. Where the organization will be active – what types of products and services it will offer, what markets it will serve.
2. How it will operate – where it will operate or get its products and services.

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3 How it will win – what its competitive advantage will be.

4 What its moves will be – how it will change and grow.

5 How it will be profitable – what business model it will follow, as discussed below.

Business model innovation

Strategy in a business is concerned with defining and developing its business model – a picture of the business that explains how it achieves competitive advantage and makes money. Business model innovation is the process followed by an organization to introduce a new business model or change an existing one in order to improve its performance.

Developing strategy

Developing strategy is a matter of creating a sense of direction and purpose and ensuring strategic fit. It used to be regarded as a logical, step-by-step affair. This was described by Whittington (1993) as the classical approach – strategy formulation as a rational process of deliberate calculation. But it 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 often happens in what he called 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' (p 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' (p 73).

Another difficulty is that strategies are often based on the questionable assumption that the future will resemble the past. Many years ago, Robert Heller (1972: 150) had a go at the then 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

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> 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.

Boxall and Purcell (2003: 34) suggested that: 'We should not make the mistake of equating the strategies of firms with formal strategic plans… 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.'

Strategy as practice

As Whittington (1996: 731) observed: 'The practice perspective on strategy focuses on strategists and strategizing, rather than organizations and strategies.' Meyers et al (2020: 568) concluded that:

> A firm's strategy is not only captured in official organizational policy documents, but first and foremost in the actions of organizational strategists, that is, managers. The strategic behaviour of managers is illustrated by the tools or practices they use. Even if managers use the official organizational practices (e.g. HR or talent-management practices), they will infuse them with their own meaning depending on their beliefs and intentions. In other words, the meaning of a practice only manifests itself in the intention with which it is used.

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.'

Strategies mean change and such change impacts on people. The implementation of strategy is therefore a change management process as explained in Chapter 11.

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PRACTICAL IMPLICATIONS

- Learn and apply the basic principle of strategic management, which is to ensure a sense of purpose that takes account of the needs of both the organization and the people who work there.
- Remember that the formulation of strategy may not be a rational or linear process.
- Bear in mind that a strategy often has to be a balancing act because of potentially conflicting goals.
- Note that a strategy is only as good as the results it enables to take place.
- Ensure that the strategy is and can be modified to meet changing circumstances.

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Strategic alignment

06

CHAPTER OBJECTIVES

Strategic alignment, also known as strategic integration or fit, is a fundamental concept of strategic human resource management. It is examined in this chapter under the following headings:

1 The nature of strategic alignment
2 Vertical integration
3 Horizontal integration
4 Perspectives strategic alignment
5 Best fit or best practice?
6 Practical implications

The nature of strategic alignment

Strategic alignment is about the integration of HR strategy with the business or corporate strategy (vertical integration or fit), and the integration of individual HR strategies with one another (horizontal integration or fit). Strategic alignment involves choice on the approach to the adoption of particular strategies. There are a number of perspectives which affect that choice and these lead to the debate on the extent to which it should be determined by the circumstances of the organization ('best fit') or should follow generally accepted views on what are the most effective approaches ('best practice').

Vertical integration

Vertical integration or fit refers to the degree to which HR strategies are consistent with the business or corporate strategy and support its achievement.

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It means that HR strategy will be most effective as a means of contributing to organizational success if it addresses the key people issues that influence that success.

The CIPD (2023: 1) noted that individual HR strategies may be shaped by the business strategy, but that: 'It's too simplistic to suggest that strategic HRM simply follows on from business strategy – the two must inform one another. The way in which people are managed, motivated and deployed, and the availability of skills and knowledge, should all shape the business strategy.'

Models of vertical integration

Three models of vertical integration exist:

- *Competitive strategies model* – HR strategy should match the preferred strategy of the firm in seeking sustainable competitive advantage. Porter (1985) listed the drivers of competitive advantage as innovation, quality and cost leadership.
- *Life-cycle model* – as the organization changes through the four stages of start-up, growth, maturity and decline, HR strategy must change to meet its needs (Baird and Meshoulam, 1988).
- *Strategic configuration model* – HR strategy should match one of the three types of organization as defined by Miles and Snow (1978): prospectors, defenders and analysers.

Achieving vertical fit

Guidance on the approach to achieving vertical fit is provided by each of these models. They influence the sequence of actions required as shown in Figure 6.1.

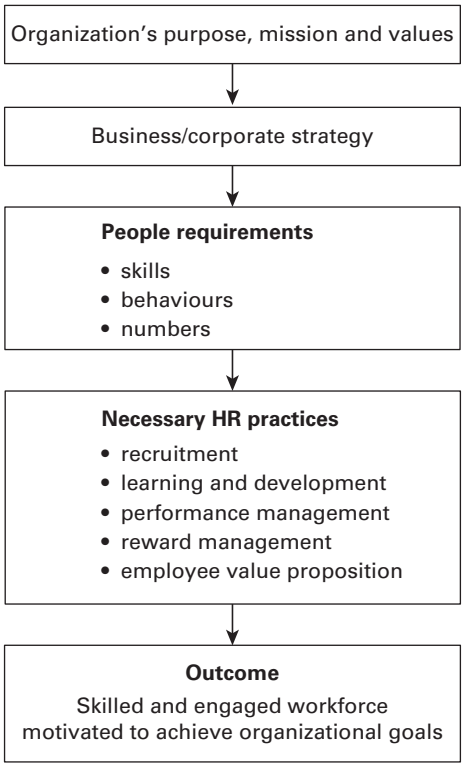
The specific HR areas that can be developed to support the achievement of the business strategy and business drivers are shown in Figure 6.2.

A framework for integration was proposed by Schuler and Jackson (1987). This identified the 'employee role behaviours' required to achieve competitive advantage and the competitive strategies prescribed by Michael Porter (1985) of innovation, quality enhancement and cost leadership. The behaviours included:

- *Competitive strategy*: innovation, risk taking, concern for results, readiness to assume responsibility. Independent, autonomous behaviour.

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Figure 6.1 Linking HR practices to business/corporate strategy



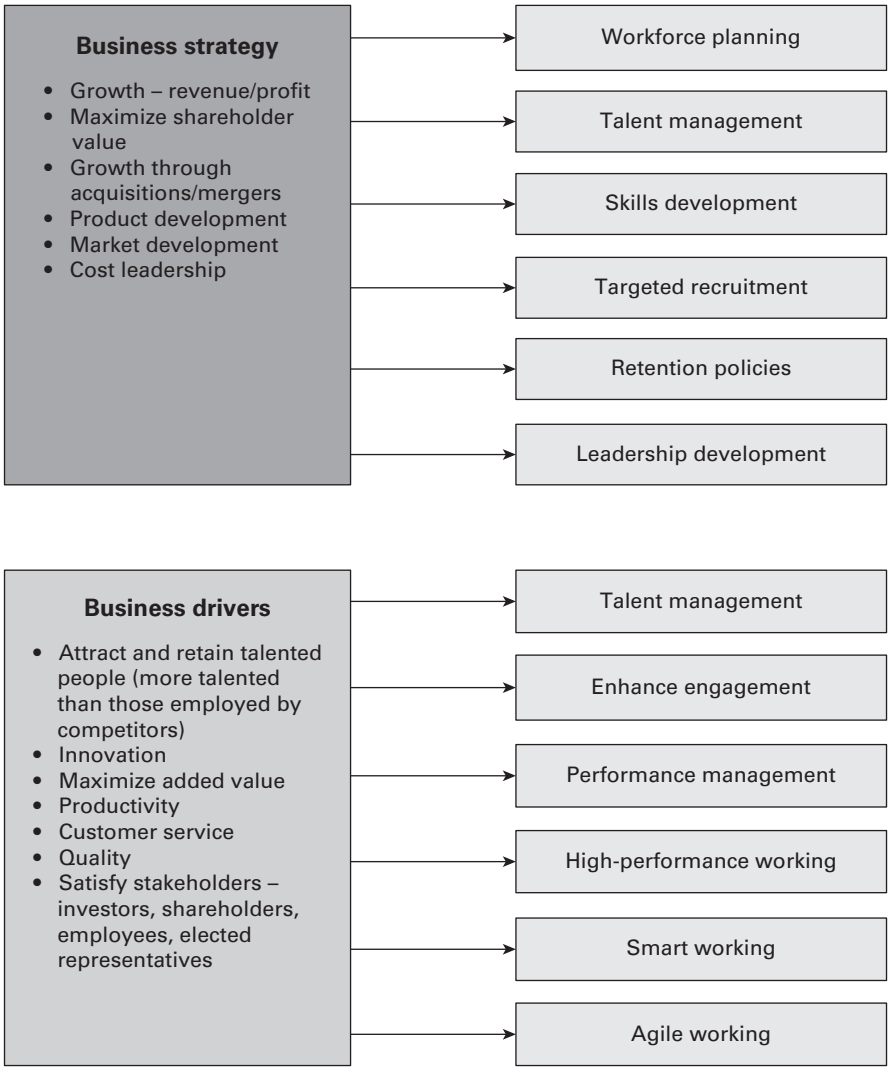
- *Innovation*: creativity, risk taking, independence, flexibility.
- *Quality enhancement*: long-term focus, high concern for process, low-risk approach, commitment to organization's goals.
- *Cost leadership*: short-term focus, high concern for output, primary concern for results, comfort with stability.

Factors to be taken into consideration

Sometimes, the link between an organization's strategy and HR strategy will be quite specific: a business plans to develop a new venture; a public authority

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Figure 6.2 HR support to business strategy and business drivers



takes on responsibility for a new service; the organization wants to improve productivity in a particular area of activity. At others, the link may be more generalized: the organization is simply seeking better overall performance in terms of the achievement of organizational goals or productivity. In the former case it may be easier to establish a link than in the latter.

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Account should be taken of the fact that strategies for change have also to be integrated with changes in the external and internal environments. Fit may exist at a point in time but circumstances will change and fit no longer exists. An excessive pursuit of 'fit' with the status quo will inhibit the flexibility of approach, which is essential in turbulent conditions. This is the 'temporal' factor in achieving fit identified by Gratton et al (1999). An additional factor that makes the achievement of good vertical fit difficult is that the business strategy may not be clearly defined – it could be in an emergent or evolutionary state. This would mean that there could be little or nothing with which to fit the HR strategy.

Horizontal integration

Horizontal integration or fit takes place when the various HR strategies cohere and are mutually supporting. Thus the sum becomes greater than the parts. The significance of horizontal fit as a means of achieving high employee performance was highlighted by Wright and McMahan (1992) and Macduffie (1995). It can be attained by the process of 'bundling'. This is carried out first by deciding on appropriate HR policies and practices, second by assessing how the items in the bundle can be linked together so that they reinforce one another, and finally by drawing up programmes for the development of these practices, paying particular attention to the links between them.

Dyer and Reeves (1995: 656–7) pointed out 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.' 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 pay. Richardson and Thompson (1999) 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. Research in US automotive assembly plants by MacDuffie (1995) established that innovative HR practices do not affect performance individually but as interrelated elements in an internally consistent HR bundle. He observed that: 'Implicit in the notion of a "bundle" is the idea that practices within bundles are interrelated and internally consistent, and that

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"more is better" with respect to the impact on performance, because of the overlapping and mutually reinforcing effect of multiple practices' (p 197).

Bundling can take place in a number of ways. For example:

- high-performance work systems consisting of practices such as work and job design, skills development, autonomous work teams, total reward, information sharing and involvement;
- talent management programmes that involve targeted recruiting, performance management, career planning and leadership development;
- grade structures that define career ladders in terms of knowledge and skills requirements and thus provide the dual purposes of defining career paths and skill-based pay progression opportunities;
- performance management systems that identify learning and development needs and also inform performance pay decisions.

Perspectives on strategic alignment

Delery and Doty (1996) identified three perspectives that illuminated the notion of strategic alignment:

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 these practices and firm performance.
2. *The contingency perspective* – to be effective, an organization's HR policies must be consistent with the situation in which they are practised – the features and circumstances of the organization.
3. *The configurational perspective* – this is a holistic approach that emphasizes the importance of the pattern of HR practices and the greater impact on organizational performance if they are associated with one another. It suggests that an organization must develop HR as a system so that both horizontal and vertical fit can be achieved.

Michie and Sheehan (2005) tested these perspectives on a sample of UK manufacturing and service-sector firms. They found that the relationship between HR policies and practices and performance is dependent upon business strategy (the contingency perspective) and that companies pursuing an integrated approach to HR perform best.

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The typology produced by Delery and Doty provided the basis for what has become the most commonly used categorization of approaches, which is to adopt the terms 'best practice' and 'best fit' for the universalistic and contingency perspectives, and 'bundling' for the configurational approach. This follows the classification made by Guest (1997) of fit as an ideal set of practices, fit as contingency and fit as bundles.

Best fit or best practice?

A debate has been going on for some time as to whether best fit is better than best practice when applying the principles of strategic human resource management to the practice of developing HR strategies (strategic alignment). As described by Boxall and Purcell (2016: 47) 'The best fit school argues that HR strategy will be more effective when it is appropriately integrated with its specific organizational and broader environmental context.' They also noted that: 'The other model advocates universalism. It argues that all firms will be better off if they identify and adopt best practice in the way they manage people.'

The best fit approach

The best fit approach proposes that HR strategies should be related to the type, circumstances and context of the organization. It is in line with contingency theory. As Dyer and Holder (1988: 31) observed: 'The inescapable conclusion is that what is best depends.'

But there are limitations to the concept of best fit. Paauwe (2004: 37) argued that: 'It is necessary to avoid falling into the trap of contingent determinism, i.e. acting as if the context absolutely determines the strategy. There is, or should be, room for making strategic choices.'

There is a danger of attempting mechanistically to match 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. Boxall (2007: 61) contended that: 'It is clearly impossible to make *all* HR policies reflective of a chosen competitive or economic mission.'

Purcell (1999: 35) referred to the notion of 'idiosyncratic contingency', which 'shows that each firm has to make choices not just on business and

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operational strategies but on what type of HR system is best for its purposes'. He warned 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, let alone the need to model idiosyncratic and path dependent contingencies (p 37).

The best practice approach

The best practice or 'universalist' approach is based on the assumption that there is a set of best HRM practices and that adopting them will lead to superior organizational performance. They are universal in the sense that they are best in any situation. The following well-known list of best practices was produced 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 practice' rubric was attacked by Cappelli and Crocker-Hefter (1996: 7) who commented that the notion of a single set of best practices has been overstated: 'There are examples in virtually every industry of highly successful firms that have very distinctive management practices. We argue that these distinctive human resource practices help to create unique competencies that differentiate products and services and, in turn, drive competitiveness.'

In accordance with contingency theory, which emphasizes the importance of interactions between organizations and their environments so that what organizations do is dependent on the context in which they operate, it is difficult to accept that there is any such thing as universal best practice. Boxall and Purcell (2022: 85) argued that: 'Without understanding what management is seeking in a specific context, and how well managers are going about

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it, deeming something a best practice in HRM is a very dubious approach.' What works well in one organization will not necessarily work well in another because it may not fit its strategy, culture, management style, technology or working practices. 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. Perhaps it is best to think of 'good practice' rather than 'best practice'.

Conclusions on the best practice versus best fit debate

It is often claimed that best fit is better than best practice but Stavrou et al (2010: 952) argued differently:

> There may be merit in both approaches [best fit and best practice] 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.

It can also be argued that there are some HR techniques such as structured interviewing that at least can be regarded as good practice, although how they are used may depend on the circumstances. Certainly, it is no use installing best practice if it does not fit the environment of the organization. Best fit is vital. But best or at least good practice exists in all aspects of HR and should be considered when developing any HR strategy as long as pains are taken to ensure that it will fit into the organization.

PRACTICAL IMPLICATIONS

- Keep pace with developments in the organization's business or corporate strategy.
- Identify the implications for HR strategy of any corporate strategy development that affects the acquisition, development or deployment of people.

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- Be prepared to take immediate and effective action on any demand for additional skills arising from the business strategy.
- Advise senior management on any implications for the organization that might affect the corporate strategy, for example local or national skill shortages, the impact of a cost-of-living crisis, how the organization should deal with the human implications of unexpected environmental disruptions such as natural disasters or economic upheavals.
- Adopt a systems thinking approach when considering the formulation of an HR strategy, i.e. analyse how the proposed strategy will interact with other HR strategies in the HR system and what should be done to ensure that they support and complement one another.
- Take care when considering the adoption of a new HR practice that it will fit into the particular circumstances of the organization. Avoid slavishly adopting the latest fad until it is certain that it will work for your organization.

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The resource-based view

07

CHAPTER OBJECTIVES

The resource-based view (RBV) plays an important part in the concept of strategic human resource management. According to Delery and Roumpi (2017), it arguably constitutes one of the most popular theoretical frameworks in the management literature. It is set out in this chapter under the following headings:

1 The resource-based view defined
2 Antecedents and development of the resource-based view
3 Criticisms of the resource-based view
4 What resource-based SHRM can offer
5 Practical implications

The resource-based view defined

The resource-based view (RBV) states that it is the range of resources in an organization, including its human resources, that produces its unique character and creates sustainable competitive advantage. Barney (1991: 101) noted that the RBV 'assumes that firms within an industry (or group) may be heterogeneous with respect to the strategic resources they control… These resources may not be perfectly mobile across firms, and thus heterogeneity can be long lasting. And heterogeneous resources create distinct strategic options.' He made the critical observation (p 105) 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.

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As observed by Boxall and Purcell (2022: 96), Barney 'distinguishes between a competitive advantage that a term temporarily enjoys, but that others will be able to copy, and *sustained* competitive advantage that rivals find themselves unable to compete away, despite their best efforts'.

The RBV is associated with human capital theory, which is concerned with the knowledge, skills, abilities and capacity to develop and innovate possessed by people in an organization and the added value they therefore provide. The aim is to enhance the value of the organization's human capital so that the business can perform successfully in the short and longer term and achieve competitive advantage.

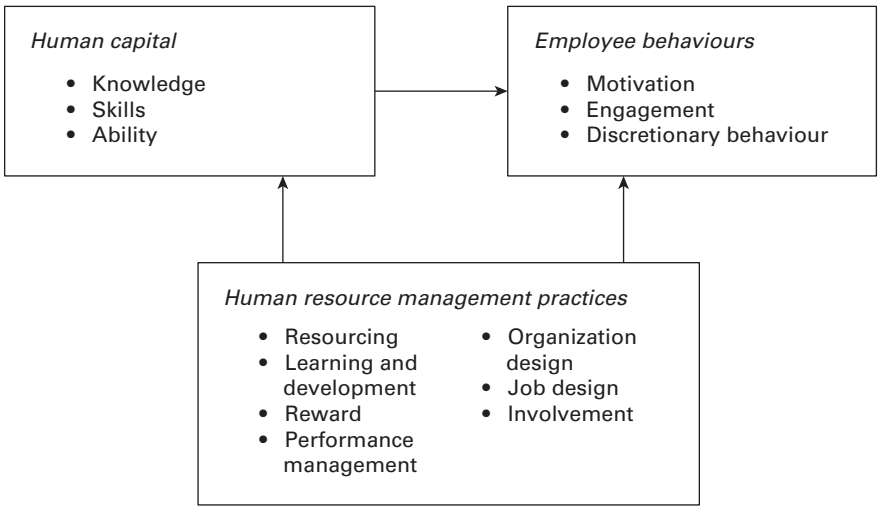
An illustration of the components of the RBV produced by Wright et al (2001: 705) is set out in Figure 7.1.

Kamoche (1996: 214) commented that: 'In the resource-based view, a firm is regarded as a bundle of tangible and intangible resources required for product/market competition', and pointed out that resources are 'a potential source of competitive advantage' (p 216). He referred to the human resource of firms as: 'The accumulated stock of knowledge, skills and abilities that the individuals possess which the firm has built up over time into an identifiable expertise.'

The following rationale for strategy based on the RBV was produced by 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

Figure 7.1 Components of the resource-based view



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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.

The features of the RBV as described below include its emphasis on the concept of competitive advantage, its use of the notion of dynamic capabilities, the need to recognize the existence of resource ambiguity, the importance of past experiences (path dependency), and the distinction between human resource practices and human resources and the idea of core competencies.

Competitive advantage

Competitive advantage as originally defined by Michael Porter (1980) is achieved when a business outperforms its competitors thus achieving better results than its rivals and placing the firm in a competitive position. He observed (1985: xxiv) that:

> Competitive strategy is a combination of the ends (goals) for which the firm is striving and the means (policies) by which it is seeking to get there… Essentially, developing a competitive strategy is developing a broad formula for how a business is going to compete, what its goals should be, and what policies will be needed to carry out those goals.

Barney (1991: 102) stated that: 'A firm is said to have a *sustained competitive advantage* when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitor *and* when these other firms are unable to duplicate the strategy.'

The role of dynamic capabilities in the RBV

Dynamic capabilities were defined by Teece et al (1997: 516) as 'the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments. Dynamic capabilities thus reflect an organization's capacity to achieve new and innovative forms of competitive advantage given path dependencies and market positions.'

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This definition was expanded by Eisenhardt and Martin (2000: 1107) as follows:

> The firm's processes that use resources – specifically the processes to integrate, reconfigure, gain and release resources – to match and even create market change. Dynamic capabilities thus are the organizational and strategic routines by which firms achieve new resource configurations as markets emerge, collide, split, evolve, and die.

They went on to assert that the potential for long-term competitive advantage 'lies in using dynamic capabilities sooner, more astutely, or more fortuitously than the competition to create resource configurations that have that advantage' (p 1117).

Causal ambiguity

The extent to which other firms can replicate what others do is limited by 'causal ambiguity'. This exists when, as is quite likely, it is difficult for them to understand the relationship between what a firm does or the resources it has and its performance. As Barney (1991: 109) explained: 'When the link between a firm's resources and its sustained competitive advantage is poorly understood, it is difficult for firms that are attempting to duplicate a successful firm's strategies through imitation of its resources to know which resources to imitate.'

Path dependence

The concept of path dependence – that every firm's past shapes its present and future performance – was originated by Leonard-Barton (1992). Teece et al (1997: 522) suggested that: 'The notion of path dependencies recognizes that 'history matters… bygones are rarely bygones'. Boxall and Purcell (2022: 98) commented that the RBV places 'emphasis on the way that historical learning acts as a barrier to newcomers and slower rivals'. They cited Teece's (2011) observation that competitive success does not come simply from making choices in the present but stems from building up strategic capabilities at critical junctures and over considerable periods of time.

Resource dependence

As defined by Truss et al (2012: 114): ' Resource dependence theory argues that firms are dependent on others in their network for important resources

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and the nature of the dependency relationship will impact on the leeway available to the form to choose its own solutions to managerial dilemmas.' Truss and her co-writers suggested that this restrains the scope for an organization to exercise free choice on how it deploys its resources. They referred to the comment made by Kinnie et al (2005) to the effect that the networks within which organizations operate may contain firms that are powerful enough to put pressure on the HR systems of other network systems in terms of the recruitment and deployment of staff.

Human resources and human resource practices

A distinction is made by Wright et al (1994: 304) between human resources and human resource practices:

> We define *human resources* as the pool of human capital under the firm's control in a direct employment relationship. Human resource *practices*, on the other hand, are the organizational activities directed at managing the pool of human capital and ensuring that the capital is employed towards the fulfilment of organizational goals.

They noted that: 'For a resource to be a source of sustained competitive advantage, it must be inimitable because its output is not characterized by causal ambiguity, social complexity or unique historical conditions' (p 313). They also commented that practice-oriented approaches focus on HR practices as the source of sustained competitive advantage rather than on the human resources themselves But they argued that, while HR practices are important, 'they are easily imitated and/or substituted, and thus cannot by themselves be a source of sustained competitive advantage. Therefore, the source of sustained competitive advantage lies in the human resources themselves, not the practices used to attract, utilize and retain them' (p 317).

Core competencies

The concept of core competencies is associated with the RBV. It was originated by Hamel and Prahalad (1993) who argued that competitive advantage in the long run stems from building 'core competencies' in a firm that are superior to those in its rivals. As Snell et al (1996: 61) explained: 'While core competencies are knowledge-based, they are not solely human. They consist of human capital, social capital (internal/external relationships and exchanges), and organizational capital (processes, technologies, databases).'

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Antecedents and development of the resource-based view

The resource-based view was founded on the ideas of Edith Penrose (1959) who wrote that the firm is 'an administrative organization and a collection of productive resources' (pp 24–5). She saw resources as 'bundles of potential services' and stressed that firms are heterogeneous (p 74), and argued that: 'It is the heterogeneity… of the productive services available or potentially available that gives each firm its unique character' (p 75).

As Nelson (1991: 61) commented, competition never entirely eliminates 'differences among firms in the same line of business'. And Boxall and Purcell (2016: 72) observed later that 'these differences account for major performance variations'.

The term 'resource-based view' was originated by Wernerfelt (1984: 172) who commented that:

> For the firm, resources and products are two sides of the same coin. Most products require the services of several resources and most resources can be used in several products. By specifying the size of the firm's activity in several product markets, it is possible to infer the minimum necessary resource commitments. Conversely, by specifying a resource profile for a firm, it is possible to find the optimal product-market activities.'

He defined resources as those assets that are tied semi-permanently to the firm.

The concept was developed by Barney (1995: 49) who noted that: 'An environmental analysis of strengths, weaknesses, opportunities and threats (SWOT analysis) 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 wrote that: 'Creating sustained competitive advantage depends on the unique resources and capabilities that a firm brings to competition in its environment' (p 60).

Criticisms of the resource-based view

The concept of the resource-based view is beguiling but it has been criticized widely by academics (it does not seem to have interested practitioners much – it is not mentioned in the CIPD's Profession Map or its SHRM fact sheet). The

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main criticisms have been that it is inadequate as a theory, tautological, not applicable to all kinds of organizations and contains no prescriptions that would be useful for practitioners.

The RBV is inadequate as a theory

Priem and Butler (2001a) argued that the RBV does not constitute a theory. They questioned the extent of the RBV's explanatory and predictive power and considered that its adoption as a theoretical framework to drive research and understanding was therefore restricted. They commented that the RBV argument is static and descriptive: 'It identifies generic characteristics of rent-generating resources without much attention to differing situations or resource comparisons and has notable limitations for strategic management research' (2001b: 33).

The RBV is tautological

The resource-based view (RBV) theory can be criticized for being tautological. It defines competitive advantage as the possession of valuable, rare, inimitable and non-substitutable (VRIN) resources and it claims that a firm gains a competitive advantage if it has VRIN resources. But these resources are often considered valuable precisely because they lead to a competitive advantage. This can be seen as circular reasoning and suggests that the RBV lacks a clear explanation of what constitutes a competitive advantage.

Priem and Butler (2001a) suggested that the underlying problem is Barney's (1991: 107) statement 'that valuable and rare organizational resources can be a source of competitive advantage'. This, they contended (p 28), means that competitive advantage is defined in terms of value and rarity, and the resource characteristics leading to competitive advantage are also defined in value and rarity terms (i.e. the statement is tautological). They commented later (Priem and Butler, 2001b: 58) that:

> Our argument is that the RBV statement 'if a resource is valuable and rare, then it can be a source of competitive advantage' is a tautology if 'valuable' and 'competitive advantage' are defined in the same terms. For example, if valuable resources are defined as those increasing efficiency and/or effectiveness, and competitive advantage is defined as achieving increases in efficiency and/or effectiveness, a tautology exists.

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The RBV is not applicable to all kinds of organizations

As Barney (2002) admitted, an important limit to the applicability of the RBV is that it only holds as long as the 'rules of the game' in an industry remain relatively fixed. In unpredictable environments, in which new technologies and new markets emerge and the value of resources can drastically change, it is necessary to go beyond the RBV to explain a firm's sustained competitive advantage.

The RBV also ignores the existence of public sector organizations. Yet the UK had nearly 6 million employees in that sector in June 2023.

The RBV does not help practitioners

Priem and Butler (2001a: 31) contended that 'a fundamental question for strategy researchers is the utility of the RBV in developing meaningful management tools in the form of actionable prescriptions for practitioners'. They referred to the concept of operational validity devised by Thomas and Tymon (1982: 348) who defined it as 'the ability of the practitioner to implement the action implications of a theory'. As Priem and Butler pointed out:

> Simply advising practitioners to obtain rare and valuable resources in order to achieve competitive advantage and, further, that those resources should be hard to imitate and non-substitutable for sustainable advantage, does not meet the operational validity criterion… Effective prescription must also include, at a minimum, criteria on which each alternative resource can be judged on each resource characteristic.

What resource-based SHRM can offer

In spite of the reservations expressed above, the RBV has a lot to offer. Importantly, it focuses attention on the importance of developing the skills base of the firm. Boxall (1996: 66) observed 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'. He explained that resource-based strategy can enhance the human or intellectual capital of the firm: 'It helps to place emphasis not only on implementing predetermined competitive scenarios but in building strategic capability, on improving the long-term resilience of the firm' (p 70).

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A resource-based approach to SHRM can result in what Boxall and Purcell (2016: 14) referred to as 'human resource advantage'. They explained that this can be broken down into two dimensions: human capital advantage, which a firm has when it employs more talented people than its rivals, and social capital advantage when a firm adopts better ways of combining the work of people in collaborative activities.

The aim is to achieve 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 the need to invest in people in order to increase their value to the firm. And as they commented (p 87):

> There is no doubting the fact that the resource-based perspective is an important set of spectacles for viewing the strategic problems facing the firm. It focuses on the analysis of internal strengths and weaknesses, paying particular attention to the ways in which firms can develop valuable resources and erect barriers to imitation of them.

PRACTICAL IMPLICATIONS

- Use the RBV message that people are a major source of sustained competitive advantage to reinforce the business case for investing in talent management, learning and development, enhancing the employee experience, and attracting and retaining high-quality people.
- Pay particular attention to the attraction, development, reward and retention of key employees.
- Find out as much as you can about the human resources and HR practices of competitors to indicate how your organization could do better than them.

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Ability, motivation and opportunity (AMO) 08

CHAPTER OBJECTIVES

As an approach to managing, developing and motivating people, AMO is a leading feature of strategic human resource management. It is set out in this chapter under the following headings:

1 AMO defined
2 AMO and SHRM
3 The antecedents and development of AMO
4 Application of AMO
5 Practical implications

AMO defined

The AMO formula states that performance is a function of employee ability, motivation and opportunity. This can be expressed in the formula P = *f* (A.M.O). In other words, as Boxall and Purcell (2003: 20) put it, people perform effectively when:

- they are able to do their job well because they have the necessary abilities in the form of knowledge and skills; as suggested by Dreyer and Docherty (2001) – cited by Boxall and Purcell (2003: 137) – this consists of 'declarative knowledge' (what we know about things) and 'procedural knowledge' (how we actually do things);
- they are motivated to do the work and to do it well;
- they have the opportunity to use their knowledge and skills in their job.

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Bos-Nehles et al (2023: 727) expanded this as follows:

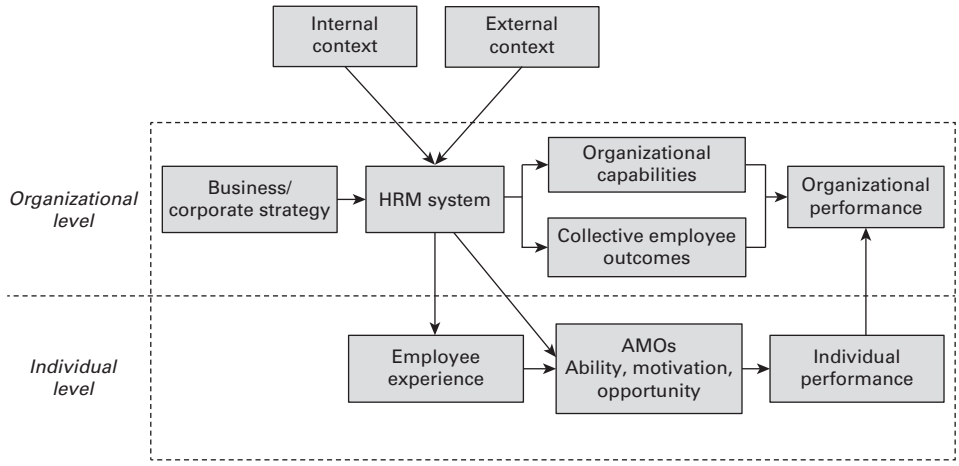
> *Ability* can be understood as physiological and cognitive capabilities that enable an individual to perform a task effectively or, more generally, as employees' knowledge, skills, competencies and proficiencies *Motivation* can be considered as a force that directs, energizes, and sustains behaviour or the willingness and desire of employees to perform a task. Finally, *Opportunity* covers the contextual or environmental factors that are beyond the direct control of an individual.

But as Bos-Nehles et al (2023) had previously commented, the nature of AMO interactions and their relationship with individual and organizational performance are topics of ongoing debate. They noted (p 863) that Boxall and Purcell (2003) had described performance as an 'additive function' using the formula P = f(A+M+O) meaning that each element will affect performance. Bos-Nehles and her colleagues argued that: 'Motivation and opportunity by themselves cannot directly influence HRM performance without the necessary skills and knowledge to implement the HRM practices on the work floor. Ability is therefore a prerequisite for performance to occur.'

AMO and SHRM

SHRM is concerned with enhancing individual and organizational performance and how the AMO concept helps to do this is illustrated in Figure 8.1.

Figure 8.1 A model of strategic human resource management incorporating AMO



SOURCE Adapted from Wilkinson et al (2013)

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The antecedents and development of AMO

The significance of the impact of motivation and ability on performance was identified by Vroom (1964). He devised the formula P = *f* (AM) where P is performance, A ability and M motivation. Note that the relationship between ability and motivation is multiplicative, which means that performance is only possible when both ability and motivation exist. The absence of one or the other results in nil performance. But Campbell and Pritchard (1976: 91) observed that, although the formula Performance = (ability × motivation) had been widely adopted, 'its capability to account for additional variance in performance has been singularly unsuccessful'.

An important contribution to the development of AMO theory was made by Blumburg and Pringle (1982). Their theme was essentially that ability and motivation as incorporated in the Vroom performance formula were not enough. They asserted (p 562) that:

> The serious shortcomings of the [Vroom] formulation become obvious when an attempt is made to use it to organize what is known about work performance. If the formulation is correct and complete, then each of the many variables that affect work performance should be capable of being subsumed under either the dimension of ability or that of motivation. In fact, however, a number of relevant variables fall under neither of these categories.

Opportunity was also important. They defined opportunity (p 565) as:

> the particular configuration of the field of forces surrounding a person and his or her task that enables or constrains that person's task performance and that are beyond the person's direct control. Opportunity interacts with capacity and willingness to make performance more probable but, like willingness and capacity, opportunity alone cannot ensure performance… all three elements – opportunity, capacity, and willingness – must be present in some degree for performance to occur.

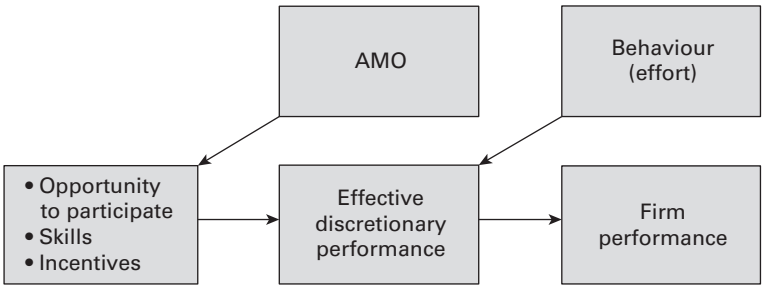
The first time the AMO formula was mentioned in its present form was by Bailey (1993), who proposed that for the greater motivation of workers to translate into improved performance for the organization, they must have the skills required and participative organizational structures to apply their creativity, imagination and intimate knowledge of the work process effectively.

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The notion of AMO was taken up by Appelbaum and Batt (1994), who used the flow chart illustrated in Figure 8.2 to show how AMO worked and adopted it as a formula to analyse the impact of high-performance work systems in US industry.

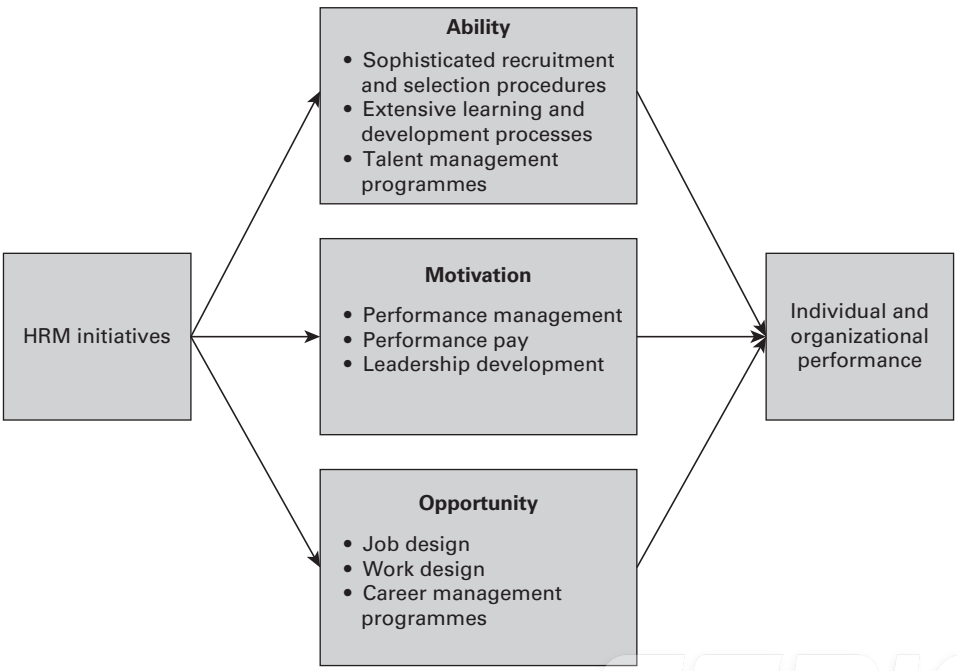
In the UK, the first reference to AMO theory was made by Boxall and Purcell (2003). They noted that someone's ability, motivation and opportunity to perform would depend on two groups of factors: 1) the individual's experience, intelligence, health personality, etc; and 2) the situational factors

Figure 8.2 AMO and firm performance



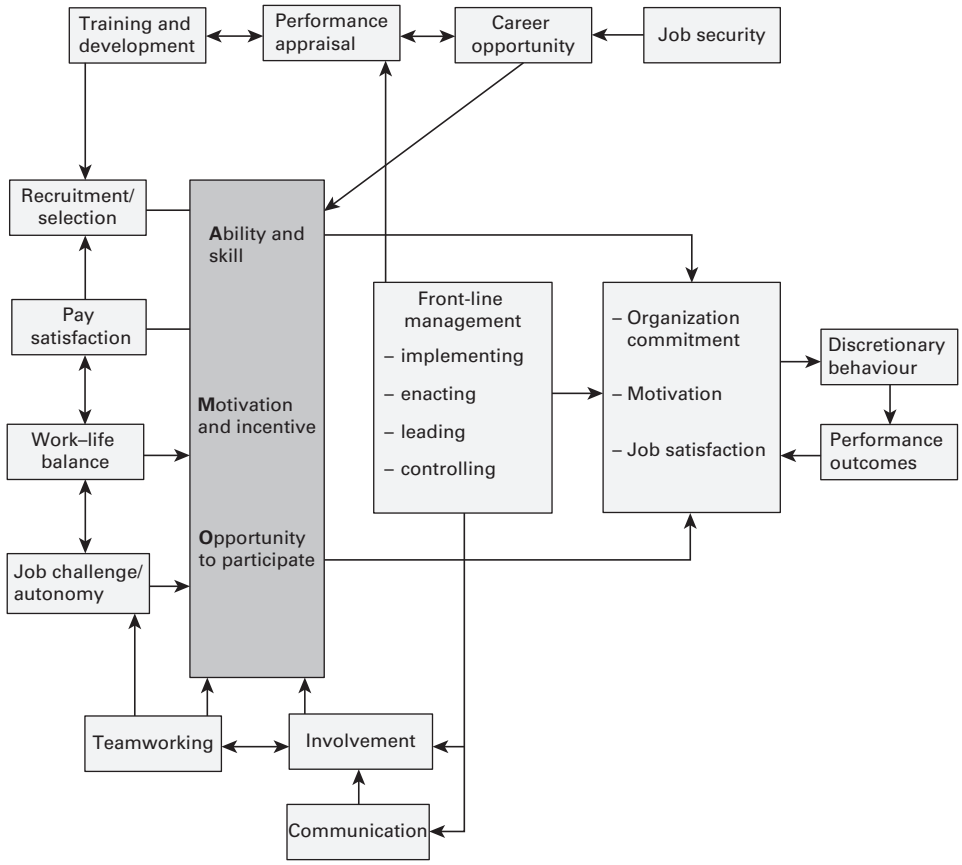
SOURCE Adapted from Appelbaum and Batt (1994)

Figure 8.3 The AMO model as a framework for performance-enhancing HRM practices



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Figure 8.4 The Bath people and performance model



SOURCE Adapted from Purcell et al (2003)

of HR policies and practices oriented to creating 'AMO' and related variables in the production system and the organizational context.

Kaufman (2015) argued that in order to achieve better performance, perceived as individual productivity, creativity and discretionary effort, companies should focus on boosting the ability and motivation of employees while creating opportunities by giving them the necessary autonomy, tools and power to make decisions.

Application of AMO

The AMO formula can be used as a framework for developing performance-enhancing HRM strategies as shown in Figure 8.3.

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It can also be used as a basis for analysing the factors that affect organizational performance. This is what Professor John Purcell and his colleagues from Bath University did in their investigation into the link between people and performance (Purcell et al, 2003). In that longitudinal research it was established that: 'One of the prime functions of AMO policies is… the way they help develop attitudes or feelings of satisfaction, commitment and motivation in most employees since these translate into discretionary behaviour if the job allows for it' (p 7). Their illustration of the link between people policy and performance is set out in Figure 8.4.

PRACTICAL IMPLICATIONS

- Adopt a systems approach when using the model: ability is important but the other two factors – motivation and opportunity – have to be brought into play at the same time and the model dealt with as a whole.
- Avoid simplistic solutions to motivating people such as performance pay.
- Remember that the most important motivators are line managers and give special consideration to their development.
- Don't underestimate the significance of the 'opportunity' factor. For example, job design is important.

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PART TWO
The nature, development and implementation of HR strategy

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HR strategy 09

CHAPTER OBJECTIVES

HR strategy is SHRM in action. As Boxall (1996: 61) stated, it provides 'a framework for making decisions on critical ends and means'. It is set out in this chapter under the following headings:

1 The nature of HR strategy
2 Approaches to HR strategy
3 Broad statements of strategic intent
4 Overall HR strategy
5 Specific HR strategies
6 Practical implications

The nature of HR strategy

Human resource (HR) strategy is a declaration of intent that defines and describes the way forward – what the organization wants to do about how it manages, develops, rewards and looks after its employees. It is a stream of action over time designed to achieve change. It provides a sense of direction and, in the words of the CIPD (2019: 9), enables the organization to avoid the pitfall of developing a 'menu' of initiatives that are not joined up.

Dyer and Reeves (1995: 656) suggested that HR strategies can be described as 'internally consistent bundles of HRM practices'. Purcell (2001: 72) stated that: 'Strategy in HR, like in other areas, is about continuity and change, about appropriateness in the circumstances, but anticipating when the circumstances change.' Truss et al (2012: 87) observed that: 'The focus is on the longer-term strategic needs of the organization in terms of its people, rather than day-to-day HR policies and practices.' But Boxall and Purcell (2011: 67) argued that: 'We should not assume that HR strategies are uniform within firms… It is better to think of HR strategy as a cluster of HR systems.'

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HR strategy should be based on the values that an organization believes govern its approach to people management. These include the point made by Schneider (1987) that 'the people make the place'. HR strategy will set out intentions but it is not just a long-term plan. It should be immediately relevant. It is necessary to bear in mind the dictum of Fombrun et al (1984) that business and managers must perform well in the present to succeed in the future.

Research by the Institute for Employment Studies (Brown et al, 2019: 4–5) established that people strategy has to balance explicit business alignment with the need to keep flexible in certain circumstances. The following were the key features of the strategies in the organizations they examined.

> Prioritization seems to be the clear goal and requirement of people management strategies today. One HR director told us that extremely lengthy and over-ambitious HR strategies have bedevilled the function and given HR a bad reputation in the past for over-promising and under-delivering. Focus and delivery seem to be the new watchwords for people management.

HR strategy and SHRM

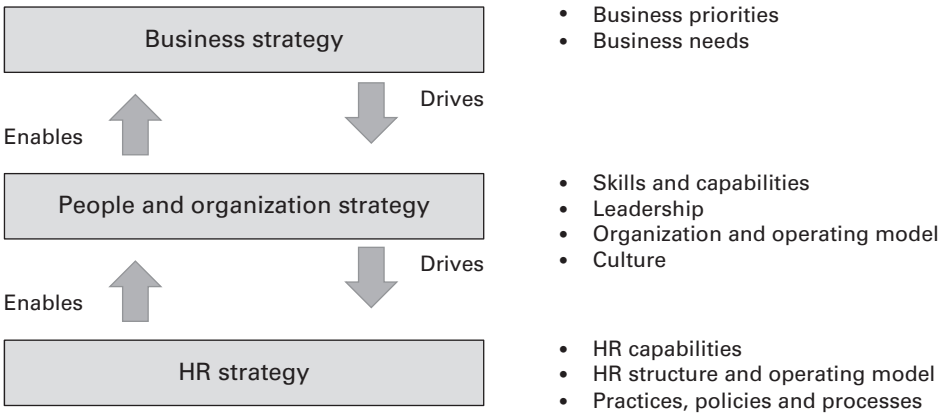
HR strategy is an 'action vehicle' in the sense that it defines and implements specific courses of direction. In contrast, strategic SHRM is conceptual. It provides guidance on the development of HR strategy through its framework of concepts, perspectives and theories such as strategic alignment, the resource-based view, the AMO framework and institutional theory. Individual strategies exist within the umbrella provided by the SHRM approach to people management.

HR and organization strategy

Peter Cheese (2021: 255) contrasts HR and people and organization strategy. He suggests that HR strategy is what HR needs to figure out the best way best to run the function. This will include the capabilities it needs, how to structure and organize, and how to interact with the business. People and organization strategy is concerned with general people management matters, especially those related to skills, capabilities and leadership and overall issues of organization and culture. His illustration of the inter-relationships between these two aspects of people/HR strategy and business strategy is shown in Figure 9.1.

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Figure 9.1 The different strategy domains



SOURCE Cheese (2021)

HR strategies and plans

An HR strategy is not the same as a plan. A strategy incorporates a pattern of decisions. It looks at each influencing factor and is concerned with the whole situation – the big picture – not just one end result. In contrast, a plan is a programme or scheme that is limited to the achievement of a definite purpose although this may be part of a strategy. Thus it might be decided to adopt a reward strategy based on the concept of 'total reward' (the combination of financial and non-financial rewards to become an integrated and coherent whole). To support this strategy a plan could be made for the introduction of a formal recognition scheme.

HR strategy and policy

A distinction can also made between HR strategy and HR policy. HR strategy is purposeful and dynamic. It provides a sense of direction and constantly adjusts to meet changed circumstances. HR policy is more about the here and now. It defines 'the way things are done around here'. It may evolve but this is not necessarily the result of a strategic choice. It is when a deliberate decision is made to change a policy that a strategy for achieving this change may have to be formulated.

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Approaches to HR strategy

Because all organizations are different, all HR strategies are different. Research into HR strategy conducted by Armstrong and Long (1994) and Armstrong and Baron (2002) revealed many variations. Some articulated strategies are simply very general declarations of strategic intent or statements of the values that the organization has adopted for managing people. Others go into much more detail.

HR strategy may not be deliberate. It was pointed out by Mintzberg (1987: 67) that: 'An organization can have a pattern (a realized strategy) without knowing it, let alone making it explicit.' He produced the principle of 'emergent strategy' stating that: 'A realized strategy can emerge in response to an evolving situation' (p 68). As Mintzberg et al (1988) suggested, strategies can simply exist in the 'collective minds' of the people on whom they make an impact. The fact that they have not been articulated may not matter too much as long as people in the organization share the same perspective through their intentions or their actions. But will they?

Grant (1998) argued that the Mintzberg approach, which tends to downplay the role of systematic analysis and emphasizes the role of intuition and vision, fails to provide a clear basis for reasoned choices. Mintzberg (1987: 69) did accept that 'purely emergent strategy making precludes control'. He stated that there is no such thing as a purely deliberate strategy or a purely emergent one and that 'deliberate and emergent strategy form the end-points of a continuum along which the strategies which are crafted in the real world may be found' (p 69). And the real world largely consists of the line managers who are expected to put HR strategy into practice.

HR strategy as practice

Meyers et al (2020: 568) observed that: 'Strategy is not only captured in official organizational policy documents, but first and foremost in the actions of organizational strategists, that is, managers.' As Purcell et al (2003: 58) put it: 'Line managers bring HR policies to life.' Following their extensive longitudinal research they commented that: 'Time and again in our case studies, whether interviewing senior executives or employees, the way line managers implement and enact policies… was often something of a concern' (p 59).

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The case for HR strategy

Although strategists have to be flexible and able to react quickly to changing circumstances there is a strong case for adopting a deliberate approach to the development and implementation of HR strategy. The case can be put very simply: 'If you don't know where you're going you'll never get there'. The issue is not the self-evident need to have a sense of direction. It is rather the importance of thinking systematically about how to make things happen in the future. And how can you expect line managers or anyone else to understand and enact the strategy if it has not been articulated after deliberate consideration in which they have been involved?

Types of strategy

HR strategies come in all shapes and sizes but three basic types can be identified: 1) broad statements of intent, 2) overall HR strategies and 3) specific strategies.

Broad statements of strategic intent

HR strategy may simply consist of a broad statement of strategic intent, which provides the framework for more specific overall or individual strategic plans. Mintzberg (1987) referred to this approach as 'umbrella strategy', in which senior management sets out broad guidelines leaving the specifics to people lower down in the organization.

The research conducted by Armstrong and Baron (2002) found in the organizations they studied that the overall objectives of their HR strategies were typically to modify values, behaviours and attitudes. However, the paths taken to get there were quite different.

Broad statements of intent define an overarching purpose and set of organizational values and will be concerned with indicating the overall direction for managing people in which the organization intends to go. They provide a framework for the development of more specific overall or individual strategies.

This approach is in line with the notion of 'the big idea' that emerged from the longitudinal research conducted in 12 companies by Professor John Purcell and his colleagues from Bath University (Purcell et al 2003: ix).

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> Organizations with a Big Idea displayed five common characteristics – the idea was embedded, connected, enduring, collective and 'measured and managed'. The Big Idea therefore means more than just having a formal mission statement. It means that the values are spread throughout the organization so that they are embedded in policies and practices. These values interconnect the relationships with customers (both internal and external), culture and behaviour, and provide the basis upon which employees should be managed.

Thus, the big idea is a clear sense of mission underpinned by values and a culture expressing what the firm is and its relationship with its employees and customers.

The big ideas in five of the organizations studied by John Purcell and his colleagues were summarized as:

- AIT – make the workplace a good place to work
- Jaguar Cars – quality management in terms of outcomes, process and routines
- Nationwide Building Society – mutuality as a key value
- Selfridges – turning values into value
- Tesco – focus on people and customer issues

The following were the 'big ideas' in the organizations studied by Armstrong and Long (1994) although they were not called that then:

- 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

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to attract very high-calibre people. The key differentiator on anything any company does is fundamentally the people. Money is easy to get hold of, good people are not. All we do in terms of HR practice is directly linked to business improvement' (managing director).

The research conducted for the Institute for Employment Studies by Brown et al (2019) identified the following key issues (i.e. 'big ideas') in the HR strategies of the organizations they investigated:

- Ensure that we have a tailored, excellent, clearly signalled, support and development offer, which will attract and retain talent, and is amongst the best across the Civil Service. (Ministry of Housing, Communities and Local Government (now the Department for Levelling Up, Housing and Communities))
- Support LSE to deliver success through its most critical asset: its people. (London School of Economics)
- Keep the workforce at the 'front and centre' of everyone's thinking. (Anchor Homes)
- Recognize that our people provide the outstanding customer experience that is at the heart of our strategy. (Revolution Bars)

Other examples of strategic intent are given below.

STATEMENTS OF OVERALL STRATEGIC INTENT

AEGON

The Human Resources Integrated Approach aims to ensure that from whatever angle staff now look at the elements of pay management, performance, career development and reward they are consistent and linked.

Boots

'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… 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)

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GlaxoSmithKline

'We want GSK to be a place where the best people do their best work.'

Lands' End

The overall HR strategy is based on the principle that staff who are enjoying themselves, are being supported and developed, and who feel fulfilled and respected at work, will provide the best service to customers.

Overall HR strategy

Overall HR strategy is concerned with the development of organization-wide programmes such as high-performance management, high-involvement management, high-commitment management or high engagement. Overall strategy may also be developed by 'bundling' a number of related HR strategies.

High-performance management

High-performance management aims to make an impact on the performance of the organization through its people in such areas as productivity, quality, levels of customer service, growth, profits and, ultimately, the delivery of increased shareholder value. The objective is to achieve this by rigorous recruitment and selection procedures, extensive and relevant training and management development activities, incentive pay systems and performance management processes. As a bundle, these practices are often called high-performance work systems (HPWS).

High-involvement management

High-involvement management practices were described by Wood (2010: 410) as follows:

> High involvement management includes first, practices such as teamworking, flexible job descriptions, and idea capturing schemes, which are means of ensuring greater flexibility, proactivity and collaboration; and second, practices that give workers the opportunities for the acquisition of skills and knowledge that are needed to ensure they have the capacities to work in an involved

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way. They include intensive training geared towards teamworking, functional flexibility and information sharing, particularly about the economics and market of the business.

The practices included in a high-involvement system have sometimes expanded beyond this original concept and included high-performance practices. For example, 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.'

High-commitment management

One of the characteristics of the concept of HRM is the notion of mutuality, the belief expressed by Walton (1985) that organizations consist of people with shared interests – management and employees are interdependent and both benefit from this interdependency. According to Walton, this meant that organizations had to abandon their traditional emphasis on control and replace it with a commitment strategy, which involved giving employees broader responsibilities, encouraging them to contribute and helping them to achieve satisfaction from their work. This was the basis for the approach known as 'high-commitment management', which was described by Wood (1996: 41) 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.'

Collins (2021: 332, 335) described high-commitment human resource (HCHR) strategy as:

> a philosophical approach to managing the employer-employee relationship which focuses on HR policies that invest in employee skill and capability development, build attachment to the organization, and enable employee involvement… Typical HR policies within an HCHR system include attracting and selecting employees based on fit to organizational culture and norms, high levels of investment in employee training and development, a focus on internal labor markets to provide employees career progression and growth, higher levels of pay tied to organizational performance, and higher levels of employee autonomy and involvement in decision making.

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High-engagement strategy

A high-engagement strategy is one in which the organization pays close attention to enhancing the engagement of its employees with both their jobs and the organization. The CIPD (2018) suggested that engagement strategies should pay attention to:

- fair treatment of employees and support for wellbeing;
- empowering employees to shape their jobs;
- effective channels for employee voice;
- good people management skills;
- performance management systems that motivate and provide opportunities for professional development;
- communications to reinforce purpose and vision and keep employees informed.

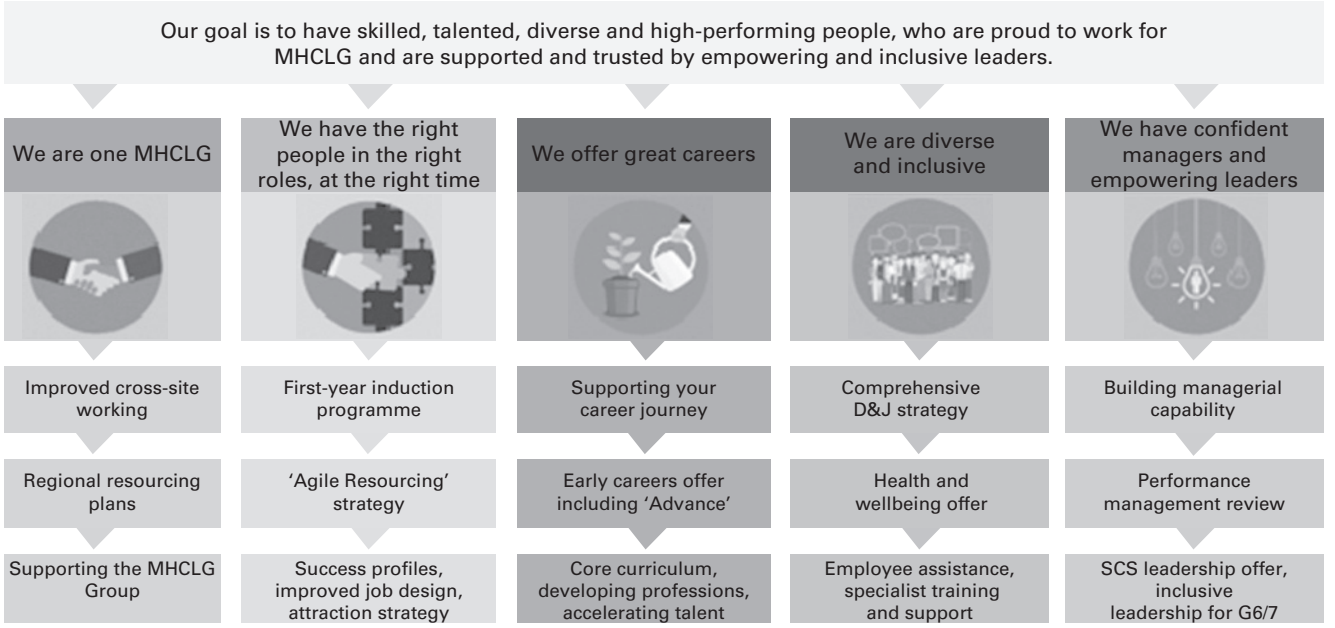
Jenkins and Delbridge (2013) proposed that in line with Storey's (1989) contrast between 'hard' and 'soft' HRM, it was possible to distinguish between hard and soft management approaches to enhancing engagement. In their case studies of two companies, one adopted a soft approach that centred on work design and promoting positive workplace conditions and relationships between management and employees. Enhanced employee engagement was seen as a positive outcome – productivity was not the primary goal. In the other case, a 'hard' approach concentrated on directly increasing employee effort to improve organizational performance. In the company using a soft approach high levels of engagement were reported, while in the company with a hard approach high levels of employee disengagement were evident.

Bundles of HR strategies

'Bundling' is the development and implementation of several HR practices together so that they are interrelated and mutually supportive. They therefore complement and reinforce each other and further 'horizontal fit'. The research conducted for the Institute for Employment Studies by Brown et al (2019) identified good examples of bundling in the Ministry of Housing, Communities and Local Government (MHCLG), and the London School of Economics, which are illustrated in Figures 9.2 and 9.3 respectively.

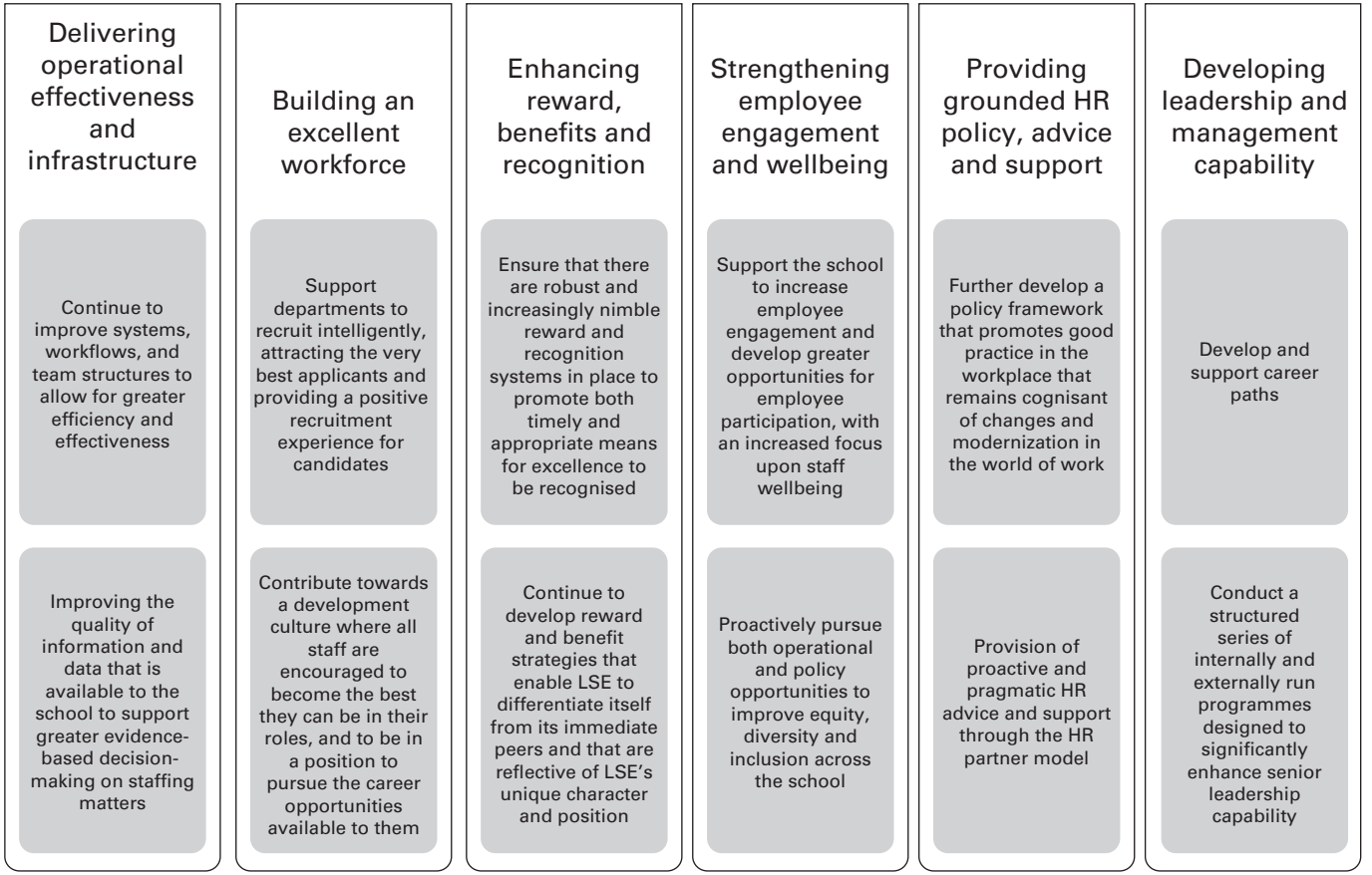
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Figure 9.2 The Five Strategic Pillars at MHCLG



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Figure 9.3 The Six Core Pillars of HR Activity at LSE



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Specific HR strategies

Specific HR strategies set out what the organization intends to do about particular aspects of HR. These can cover organization, enhancing the employee experience, resourcing, learning and development, performance management, reward management, employment relations, equality, diversity and inclusion, and employee wellbeing. HR strategy examples and case studies are given below.

A large charity

- Implement the rewards strategy of the charity 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.

A food and drink group

The three broad strands to the Organization and People Strategy are:

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

The strategy 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'.

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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.

CASE STUDIES

The following are two case studies of how organizations develop and apply HR strategies, collected by Brown et al (2019).

Anchor Homes

Anchor Homes, the care home division of Anchor Trust is England's largest provider of residential care for older people. Anchor's workforce was over 9,000 people in 2018. Anchor Trust merged with Hanover Housing Association to form Anchor Hanover.

The HR strategy and process

Rather than having a separate, written HR strategy, which is deliberately avoided, people issues are fully embedded in the main strands of the business plan. HR strategy is therefore, in effect, driven by the whole leadership team. This integrated approach to business and employment strategy creates an ownership of the people issues in the top team. The whole management population is involved in the people approach so everyone owns and has an opinion about the people strategy. Senior HR people see this broad and deep involvement of the management population in HR

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matters as a positive. Managers do not expect to have to find a way round the HR culture. HR needs to be genuinely close to the business and to understand it commercially, not just in HR terms. And the business needs to be genuinely people-focused in its strategy, investing in employees in this low-paying, low-margin sector for the long-term returns delivered by the high-quality care they provide.

The HR strategy and content

The Anchor strategic business plan has four main themes or 'planks':

1 Best customer service
2 Best place to work
3 Best run company
4 Growth

The HR management and employment strategy is woven through this business plan, which determines the areas of HR that need attention and HR priorities. These have included supporting greater organizational efficiency, enabling a performance-focused culture, ensuring a compelling yet affordable employee value proposition and improving people data and analytics.

Implementation and delivery in practice

With a large number of front-line and unit managers, spread across so many work locations, implementing this approach to business and employment strategy requires careful consideration of how the HR function can best support local managers in delivering the business plan.

The HR function has rethought how it offers personalized support, which Jane Ashcroft, former CEO Anchor Hanover, described as 'stripping out cost without stripping out value'. HR previously operated with a fairly traditional face-to-face control and support model. But now HR staff visits to care homes have largely been replaced by an HR telephone helpline for managers. It is important for the function to listen to managers in order to understand the issues they need support with and then to provide effective information and advice.

Revolution Bars

Revolution Bars currently manage an estate of 79 bars under two brands, Revolution and Revolucion de Cuba. Retailers have been facing a difficult climate of rising costs and falling footfall on the high street and Revolution Bars is no exception; there are financial problems. But the company is surviving and as the chairman has put it 'Revolution's 3,200 people, most of whom work in the bars – provide the outstanding customer experience that is at the heart of our strategy.'

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The People Development Plan

The People Development Plan, which is updated annually, guides the budget, activities and outputs of the department. It is contained in a large, regularly updated spreadsheet, with a series of activity headings highlighting issues to address, and figures setting out the current state and improvement targets. Each activity in the People Development Plan has defined key outputs and targets, for example for recruitment, reducing average days to fill posts, costs-per-hire and first year turnover. Linked to it are quite sophisticated workforce plans, which run right down to people plans at the individual bar level. Current issues are:

- succession planning and talent management, and refocusing of training and development;
- recruitment review;
- new reward and recognition strategy;
- improving quality of life/team engagement;
- developing and improving the appraisal process.

Characteristics of the plan

In a competitive, fast-moving and rapidly changing environment, the People Development Plan has to be very flexible and HR needs to be able to react rapidly to external events and internal changes. The People Development Director, Fiona Regan, and her team regularly undertake PESTLE and risk analysis on their activities and priorities answering questions such as 'How will the minimum wage move next year?', 'What changes are likely to the apprenticeship levy?' and 'How will Brexit impact our labour supply?'

The existence of the plan means that there is a much clearer overall direction for all people management initiatives aligned to the business strategy, and the culture and values supporting its delivery. Increasingly, the people development strategy and HR initiatives are being adapted and used to shift the culture and behaviours in the company so as to better fit the current and future environment on the high street. The planning process has changed from a 'maintain' people plan focused on solving immediate problems to something much more transformational.

PRACTICAL IMPLICATIONS

- Be realistic about what can and should be done.
- Recognize that the strategy has to be a process of integration and involvement rather than just a plan.

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- Appreciate that how the strategy is developed and delivered is at least as important as the content.
- Ensure that the strategy is closely linked to operations, i.e. is not an abstract statement of an ideal future state.
- Think about the potential risks and pitfalls.
- Bear in mind that good intentions can too easily be subverted by the harsh realities of what happens to the organization.
- Remember that an articulated strategy will only be useful if its development and method of implementation have been fully discussed with those affected by it.
- Pinpoint the areas that can benefit most from the strategy and ensure that it makes an appreciable impact in them.

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Developing HR strategy

10

CHAPTER OBJECTIVES

Developing HR strategy is about creating a sense of direction and purpose. It is set out in this chapter under the following headings:

1 The nature of HR strategy development
2 Principles of HR strategy development
3 Considerations affecting HR strategy development
4 HR strategy development programmes
5 Stage 1 – analysis
6 Stage 2 – diagnosis
7 Stage 3 – formulation
8 Stage 4 – implementation
9 Recommendations by practitioners
10 Examples of HR strategy development
11 Practical implications

The nature of HR strategy development

HR strategy development is about finding out what needs to be done, deciding how it should be done and then doing it. Strategy development is based on rigorous analysis and diagnosis and involves line managers and employees. It was described by Perkins and Shortland (2006) as a process of 'informed premeditation'.

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Principles of HR strategy development

There are six basic principles to follow when developing HR strategy:

1. Ensure consideration is given to the basic characteristics of strategic HRM: that it should support the achievement of corporate goals, cohere with other aspects of HR strategy and meet the obligations of the organization to its stakeholders, employees as well as owners and management.
2. Understand that HR strategies never stand alone. They should always be treated as an integral part of the strategic thrust of an organization.
3. Align HR strategy with what has to be done to achieve the social purpose of the organization by satisfying wider social expectations, for example on equality, diversity, inclusion and employee wellbeing and security.
4. Appreciate that an HR strategy often has to be a balancing act because of potentially conflicting goals.
5. Develop strategy with implementation in mind, otherwise a 'say–do' gap will be created.
6. *Simple, clear and agreed is best!*

Considerations affecting HR strategy development

The considerations affecting the development of HR strategy are:

- the difference between planned and emergent strategy;
- the guidance provided by strategic human resource management (SHRM) concepts;
- use of a contingent approach;
- the existence of strategic options and choices;
- the rhetoric/reality gap;
- the choice of approach.

Planned and emergent strategy

Strategies can be initiated deliberately but this is not necessarily the case. They can emerge during day-to-day management activities rather than as the

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result of a formal development programme. Henry Mintzberg (1987: 66) stated that strategy development was not necessarily done on purpose. He observed that: 'Formulation and implementation merge into a fluid process of learning through which creative strategies evolve.' On the basis of their research in 30 UK companies, Tyson and Witcher (1994: 22) concluded that:

> The process of formulating HR strategy was often as important as the content of the strategy ultimately agreed. It was argued that by working through strategic issues and highlighting points of tension, new ideas emerged and a consensus over goals was found.

They also commented that: 'The different approaches to strategy formation reflect different ways to manage change and different ways to bring the people part of the business into line with business goals' (p 24). Peter Boxall (1993: 653) referred to this process as 'creative incrementalism'. He also stressed (p 657) that: 'The strategy formation process is complex, and excessively rationalistic models that advocate formalistic linkages between strategic planning and HR planning are not particularly helpful to our understanding of it.'

The different situations in which strategies can be planned or emerge were listed by Whittington (1993) in his fourfold typology of strategy:

1. *Classical* – strategy formulation as a rational process of deliberate calculation that is separate from its implementation.
2. *Evolutionary* – strategy formulation as an evolutionary process that is a product of market forces in which the most efficient and productive organizations win through.
3. *Process-based* – strategy formulation as an incremental process that evolves through discussion and disagreement. It may be impossible to specify what the strategy is until after the event.
4. *Systemic* – strategy as shaped by the social system in which it is embedded. Choices are constrained by the cultural and institutional interests of a broader society rather than the limitations of those attempting to formulate corporate strategy.

Emergent strategies may not have been planned, but a strategic review should try to identify and define them so that their effectiveness can be assessed. The comment by Boxall and Purcell (2003: 28) that: 'strategy is best discerned in behaviour' should be remembered when conducting a review.

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The guidance provided by SHRM concepts

The main concepts of SHRM and their practical implications are summarized in Table 10.1.

Use of a contingent approach

HR strategy has to take account of the particular circumstances of the organization and the context in which it operates. It is necessary to adopt a contingent approach and then make appropriate strategic choices. It was noted by Cappelli (1999: 8) that: 'The choice of practices that an employer pursues is heavily contingent on a number of factors at the organizational level, including their own business and production strategies, support of HR policies, and cooperative labour relations.'

Strategic options and choices

Adopting a formal process for developing HR strategy means generating strategic options and then making appropriate strategic choices. There is seldom if ever one right way forward. Choices should relate to but also anticipate the critical needs of the business and the people in it. They should be evidence-based – founded on detailed analysis and study, not just wishful thinking – and should incorporate the experienced and collective judgement of top management about the organizational requirements while also taking into account of the needs of line managers and employees generally. The emerging strategy should anticipate the problems of implementation, which may arise if line managers are not committed to the strategy and/or lack the skills and time to play their part. The strategy should be capable of being turned into an actionable programme.

It is essential when a strategy has been formulated to conduct an impact assessment, which assesses the impact the strategy will make on the organization and its stakeholders and identifies any problems that may arise and how they will be dealt with.

The rhetoric/reality gap

There is too often a wide gap between the rhetoric of strategic people management and the reality of its impact. Gratton et al (1999) maintained that

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Table 10.1 The practical implications of SHRM concepts

SHRM concept	Summary	Practical implications
Strategic alignment	When developing HR strategies it is necessary to achieve: (1) congruence between them and the organization's business/ corporate strategies within the context of its external and internal environment and (2) the integration of different HR strategies and practices	• Keep pace with developments in the organization's business strategy • Identify the implications for HR strategy of any business strategy development that affects the acquisition, development or deployment of people • Be prepared to take action to respond to any demand for additional skills arising from the business strategy.
The resource-based view	It is the range of resources in an organization, including its human resources, that produces its unique character and creates competitive advantage	• Use the RBV message that people are a major source of sustained competitive advantage to reinforce the business case for investing in talent management, learning and development, enhancing the employee experience and attracting and retaining high-quality people • Pay particular attention to the attraction, development, reward and retention of key employees • Find out as much as you can about the human resources and HR practices of competitors to indicate how your organization could do better than them
AMO	The performance levels achieved by individuals depend on their ability, motivation and opportunity	• Adopt a systems approach when using the model: ability is important but the other two factors – motivation and opportunity – have to be brought into play at the same time and the model dealt with as a whole • Avoid simplistic solutions to motivating people such as performance pay • Remember that the most important motivators are line managers and give special consideration to their development • Don't underestimate the significance of the 'opportunity' factor. For example, job design is important

(*continued*)

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Table 10.1 (Continued)

SHRM concept	Summary	Practical implications
The multi-stakeholder perspective	A multi-stakeholder approach to managing an organization recognizes the need to satisfy the interests of all its stakeholders	• A balance needs to be achieved between the interests of employees and those of owners and management
The competitive advantage perspective	Competitive advantage is achieved when a business outperforms competitors thus gaining and sustaining better results than its rivals and placing the firm in a competitive position. This is more likely to happen when its human resources are valuable, rare, inimitable and non-substitutable	Competitive advantage is more likely to be achieved when the organization attracts, retains and develops a pool of skilled, intelligent and effective people than cannot be replicated by its competitors
The performance perspective	The performance perspective emphasizes that strategic human resource management should focus on generating higher levels of performance	Develop high-performance strategies, e.g. a high-performance work system
The behavioural perspective	The behavioural perspective suggests that HRM practices affect firm performance by encouraging needed role behaviours that are aligned to the organization's strategy	Ensure that the HR system sends clear messages to employees about expected behaviours
The systems perspective	SHRM needs to take into account the fact that HRM functions through systems of interrelated activities	Use systems thinking as a framework for seeing the interconnections in a system and a discipline for seeing and understanding the relevant aspects of the whole system
Resource dependence theory	Resource dependence theory explains that organizations are dependent on others in their network for their human resources	Pay close attention to what is happening in the external environment and ensure that contextual considerations are taken into account when developing HR strategy

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good intentions can too easily be subverted by the harsh realities of organizational life. For example, strategic objectives such as increasing commitment by providing more security and offering training to increase employability may be abandoned by organizations or at least modified because of the short-term demands made on the business as a result of financial pressures.

Choice of approach

Research conducted by Wright et al (2004) identified two approaches that can be adopted by HR to strategy formulation. 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.

The preferred 'outside-in' approach starts with the customer, competitor and other issues the business faces. The HR strategy then derives directly from these challenges to 'create real solutions and add real value' (p 37). Wright and his co-writers made the point that 'the most advanced linkage was the "integrative" linkage in which the senior HR executive was part of the top management team, and was able to sit at the table and contribute during development of the business strategy' (p 37). Their recommendations on using an outside-in approach (pp 45–6) were:

1. Adopt a formal process for involving line executives in the development of HR strategy.
2. Have formal mechanisms for tracking developments in the external environment as part of the process.
3. Begin with the assumption that everything the current HR function is doing is either wrong or does not exist. Identify the key business and people metrics that will determine or indicate the success of the business, then constantly track and communicate those metrics to the entire internal HR community.
4. Based on the business issues and metrics, develop the HR strategy that will maximally drive performance on those metrics.
5. Remember that the HR strategy is a process, not a document, intervention or event. Any strategy is a pattern in a stream of decisions, and as business and people issues change or obstacles appear, the pattern (strategy) will also have to change.

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HR strategy development programmes

There are three varieties of HR strategy development programmes: 1) broad statements of strategic intent; 2) overall HR strategies such as a high-performance work system or a high-engagement strategy; and 3) specific strategies in HR areas such as resourcing and reward. These programmes include reviews of existing and emergent strategies to assess the extent to which they are appropriate and effective and to define any necessary changes. And they use analytical and diagnostic methods to identify and define new strategies to deal with strategic business and HR demands.

Two phases for strategy development were recognized by Dutton and Duncan (1987: 108):

> The strategic planning process can be conceptualized as a process having two major phases… phase one is called initiation – referring to the initial activities in the change process, when knowledge of the need for change is built and a decision to make a change is made. Phase two is called implementation, and it refers to the activities surrounding the utilization and institutionalization of the change in the organization.

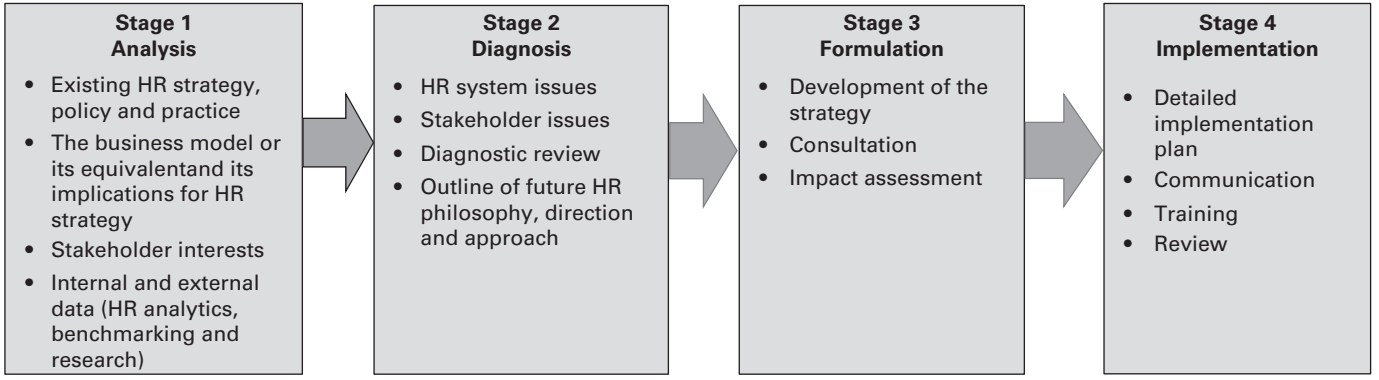
But as shown in Figure 10.1, the initiation phase can be divided into three stages: 1) the systematic analysis of facts and opinions; 2) a diagnosis of the nature of any requirements or problems by reference to this analysis; and 3) the formulation of the strategy, which will include an impact assessment.

This staged model describes HR strategy development as a step-by-step process, which is a logical approach that provides a useful framework for a development programme. But in practice, the sequence may not be so clear cut. The initial two phases may merge into one another when the analysis reveals answers to why a problem exists, that is, a diagnosis. And this may give an indication of the way forward so that, to a degree, the third phase can overlap with the previous two. This will not matter if it means that the initiation of strategy is based on clear evidence from which supportable conclusions are reached on what needs to be done.

A review may be comprehensive, covering all aspects of HRM. But bearing in mind that there may a number of distinct strategies covering different aspects of HR, a review may be limited to one or two areas. But what might take place is a process of what Henry Mintzberg (1987) called 'crafting strategy'. This means that rather than a comprehensive design process finding new long-term solutions, a review may simply examine the need for incremental change.

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Figure 10.1 A model of HR strategy development



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Stages 1 to 3 are described below and stage 4 (implementation) is covered in more detail in the next chapter.

Stage 1 – analysis

The analysis stage starts with a review of existing HR strategies to assess the extent to which they are appropriate and effective and to establish the need for any changes or for the introduction of new strategies. The analysis then concentrates on the factors that might affect this need and the content of any new or revised strategy. This is done by studying information about the organization and its business model, conducting scans of the internal and external environment, collecting data through HR analytics on HR activities and performance, discussions with senior management, line managers and employees, and employee surveys that obtain views on HR policy and practice and measure levels of engagement.

The analysis will use quantitative data collected through analytics and surveys. But it is also necessary to obtain qualitative data by holding discussions with senior management, line managers and employees to obtain their views on current arrangements and suggestions for improvement. These discussions could be conducted formally as part of a special development exercise. But the process of establishing reactions should be a continuous one. HR strategists should be constantly absorbing information on what is going on and what needs to be done in the course of their normal daily duties.

Existing HR strategies

The review of existing strategies covers both those that have been specially constructed and those that have emerged without having been deliberately planned. In the latter case it is necessary to define what they are and how they work. The aim of the review is to assess the extent to which they are fit for purpose and support the achievement of organizational goals and the enactment of the organization's values.

The review should start with an overall analysis of the existing strategies by establishing the extent to which they:

- support the achievement of business or corporate goals;
- help to significantly improve organizational and individual performance;

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- enable the organization to recruit, retain and develop the skilled and engaged people it needs;
- enhance the employee experience of working in the organization;
- ensure that employees are rewarded according to their contribution;
- contribute to the creation of a positive employment relations climate;
- provide for employees to have a voice in the organization's affairs that affect them;
- promote the wellbeing of employees.

Individual strategies should be reviewed by answering the following questions:

1. What is the aim of the strategy?
2. How does it try to achieve that aim?
3. Generally, how successful has it been in achieving the aim?
4. In particular, to what extent is the strategy aligned to business or corporate strategy, realistic, and supported by line managers and employees?
5. If there have been any shortcomings, why have they happened?
6. Are there any changes required to improve the strategy's effectiveness?

Information about the organization

Details are required of the organization: its size, structure, sector, main activities and the type and number of people employed. The prevailing organization culture – 'how things are done around here'– and the defined or implicit values adopted by the organization as part of that culture, should be analysed.

The business model

In a business, the starting point for creating or reviewing HR strategy is to understand the business model of the organization and how it affects people management. As defined by Magretta (2002: 87), business models

> are at heart stories – stories that explain how enterprises work… They answer the fundamental questions every manager needs to ask: How do we make money in this business? What is the underlying economic logic that explains how we can deliver value to customers at an appropriate cost?'

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She explained that a business model 'focuses attention on how all the elements in a system fit into a working whole' (p 90).

The business model and the business or corporate strategies that deliver it govern the sorts of people the organization needs in terms of skills and behaviours, and the numbers required. As Peter Boxall (2007: 63) observed: 'A capable group of people with sufficient motivation to work together productively and economically is a necessary condition of business survival.'

It should be remembered that business models develop and change – the process of 'business model innovation'. The role of the HR function in dealing with business model change was spelt out by Sparrow et al (2010: 14–15) as follows:

> A central task for HR directors is to identify how they as a leader, and how their function's own delivery model, structure, and the people processes it manages, add value during periods of business model change. In order for organizations to make their models work, they have to understand the potentially deep implications they have for people management. People management experts have to make sure that those engineering the new business models are working on assumptions that can reasonably be executed.

In the public sector the equivalent to a business model is a governance or public service model. This outlines how government entities provide services to the public, taking into account public interest, accountability and effective resource allocation. In the voluntary sector the equivalent concept to a business model is a description of how they fulfil their social purpose or mission by providing support, guidance or services.

Environmental scans

Environmental scans provide the evidence required for a diagnosis of what needs to be done about HR strategy, by collecting and analysing information on what is happening in the internal and external environment of the organization and the impact environmental factors have on it.

The analysis of the internal environment covers organizational performance. For a business, the measures used include financial results, shareholder value, competitive position (the achievement of sustained competitive advantage), productivity, and employee quality and engagement. For a public or voluntary organization, the measures include the degree to which the purpose of the organization as expressed in its strategic goals has been attained, the levels of service achieved, cost-effectiveness and, again, employee quality and

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engagement. The aim is to identify strategic business or operational issues and to pinpoint the HR concerns that are critical to organizational success.

Two established diagnostics can be used for environmental scanning. The first is SWOT – an internal and external analysis of the organization's strengths, weaknesses, opportunities and threats. The second is PESTLE – an external scan of the political, economic, sociological, technological, legal and environmental issues affecting the organization.

HR analytics

HR or people analytics were defined by Marler and Boudreau (2017: 15) as 'a number of processes, enabled by technology, that use descriptive, visual and statistical methods to interpret people data and people management practice'. As Huselid (2014) observed: 'HR analytics present a tremendous opportunity to help organizations understand what they don't yet know… By identifying trends and patterns, HR professionals and management teams can make better strategic decisions about the workforce challenges they may soon face.'

The process of identifying measures or metrics and collecting and analysing data relating to them focuses the attention of the organization on what needs to be done to find, keep, develop and make the best use of its human capital. Predictions can be made to provide guidance on the development of HR strategy, and progress in achieving strategic HR goals can be monitored. In accordance with the principle that 'you cannot manage what you cannot measure', the effectiveness and impact of HR practices can be calculated.

There are three types of analytics:

1. *Descriptive analytics*: The use of data to record a particular aspect of people management and provide information on what has been happening to, for example, levels of engagement, recruitment and learning and development activities, pay distribution, labour turnover, absence rates and analyses of employees by gender, ethnic group, age and sexual orientation.
2. *Multidimensional analytics*: The combination of different sets of data to establish any relationships (correlations) between them and, hopefully, indicate causation (i.e. a particular HR initiative has caused an improvement in performance).
3. *Predictive analytics*: The use of data to predict trends and therefore provide guidance on HR strategy. This is the most advanced form of HR analytics.

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Stakeholder analysis

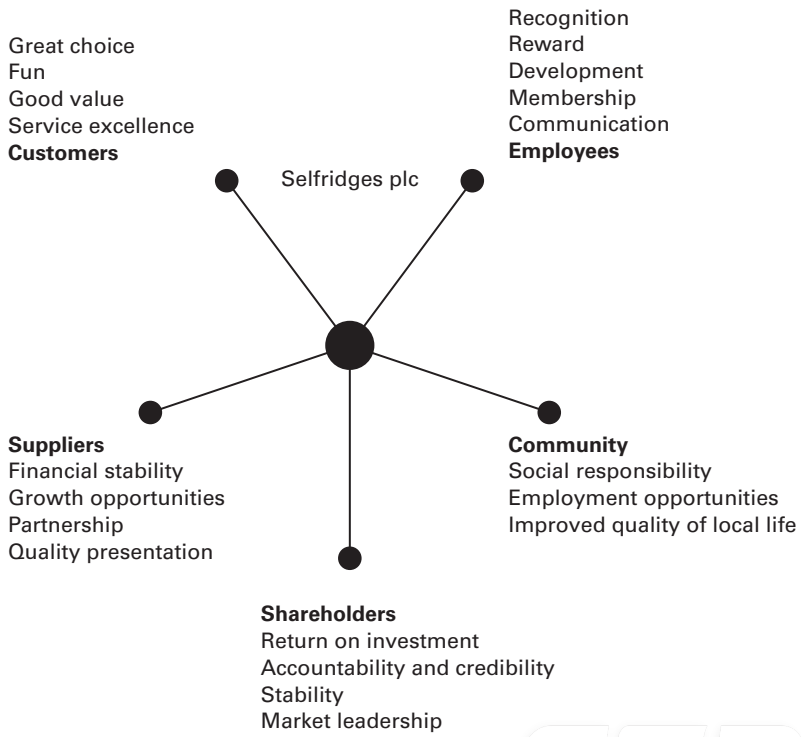
A stakeholder analysis establishes who has legitimate interests in the organization's HR strategy and what those interests are. Table 10.2 is a framework for analysing the interests and impact of stakeholders.

Figure 10.2 shows a model for stakeholder analysis used by Selfridges plc.

Table 10.2 Stakeholder analysis of interests and impact

Stakeholder	Interests	Potential impact
Senior management		
Line management		
Employees		
Trade union(s)		
Shareholders (owners)		
Customers		
Suppliers		
The community		

Figure 10.2 The Selfridges stakeholder value model



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Employee surveys

Employee surveys, also known as attitude or opinion surveys, seek the views of employees on matters affecting their work and are used extensively by management to measure levels of engagement. But they can also address particular issues such as pay and benefits. Pulse surveys measure employee feelings on a quarterly, monthly or even weekly basis rather than the more usual annual survey. Surveys typically include about 20 or 30 questions or items. Respondents may be invited to indicate the extent to which they agree or disagree with statements such as 'My work is very satisfying'. The response can be on a five-point 'Likert' scale, e.g.: 'Strongly agree', 'Inclined to agree', Neither agree nor disagree', 'Inclined to disagree' and 'Strongly disagree'. The responses can be scored 5 for the most positive option, 1 for the most negative option. Adding these item scores produces an overall score for, say, engagement, which can be used to assess trends as measured by successive surveys or, as part of an HR analytics exercise, to assess the impact of an HR strategy innovation or policy. But there is a problem. Senior managers like to deal with numbers. They prefer the tick-box analyses provided by typical employee surveys and seize on purely quantitative data without appreciating the more subtle factors that are not revealed by the statistics.

Stage 2 – diagnosis

Stage 2 involves a diagnosis of the issues that have to be addressed, or HR problems solved, and the reasons for their occurrence. It refers to the factors affecting the organization (both internal and external) established by analysis. This leads to a broad definition of the future HR philosophy, direction and approach. As noted earlier, this is not always a separate stage. A diagnosis can emerge as an analysis is taking place. But it is still necessary to ensure that it does emerge so that a clear indication is given of the way ahead.

Stage 3 – formulation

Stage 3 then sees the initiation and definition of the HR strategy on the basis of the analysis and diagnosis. It is typically the most resource-intensive part of the process. Importantly, it includes consultation with stakeholders and the conduct of a communications programme, which ensures that everyone concerned knows what is proposed and how it will affect them.

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There is no standard format for HR strategies. They are all different just as all organizations are different. But it is important to ensure as far as possible that the direction set by the strategy is clear, that it is based on thorough analysis and diagnosis and addresses any issues identified by the diagnosis, that it is understood and accepted by stakeholders, that it is realistic, and that it can be implemented without too much difficulty.

Stage 4 – implementation

Stage 4 is concerned with implementing the proposed or revised strategy, often in a sequential and phased manner. The progress of implementation is monitored so that adjustments can be made if circumstances change, as they will. This is covered in more detail in Chapter 11.

Recommendations by practitioners

Senior practitioners in the case study organizations examined by the Institute for Employment Studies (Brown et al, 2019) made the following recommendations on the approach to adopt when developing people strategy:

- Stay close to the business and listen to what managers say they want from HR.
- Be strongly evidence-based, with progress particularly on the HR operational side demonstrated through regular reporting and discussion of appropriate HR metrics.
- Obtain a good understanding of the environment and the industry so that you can show how people development programmes will address the key challenges facing the business and how you are meeting them.
- Be curious, get into and understand every aspect of the organization's culture – this is essential if you want to influence and change it.
- Shape and tailor your strategy to suit your own specific setting.
- Keep it within the 'sphere of the possible' and ensure that your strategies are realistic and grounded.
- Focus on the priorities from both management and workforce perspectives.
- Be really strong on consultation and involvement, not just with leaders, but also with staff at different levels, functions and locations.

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Examples of HR strategy development

STRATEGIC REVIEW OF HUMAN RESOURCE MANAGEMENT IN UNICEF

UNICEF's total staff complement is over 8,000, drawn from 178 nationalities located at Headquarters (New York and Geneva) and in eight Regional Offices.

Purpose of the strategic review

'How well is UNICEF managing and enhancing its human resource capacity to reach its strategic objectives?'

Key questions

The review will address the following key questions:

1. Does UNICEF have clear and workable HR policies relevant to the strategic goals of the organization? What impact is UNICEF HR policy and practice having on the achievement of UNICEF strategic goals?
2. How well suited are UNICEF HRM policy, process, employment contracts and budgeting to the long-term maintenance of a skilled UNICEF workforce?
3. Are the accountabilities for HRM clear, understood and fulfilled?
4. What progress has been made in the implementation of the Brasilia strategy and what factors underlie UNICEF achievements and failings in improving HRM?
5. To what extent does UNICEF staff have the appropriate competencies to meet the organization's strategic goals?
6. To what extent do managers in UNICEF have the competencies to effectively manage resources (human and financial) to achieve the organization's goals and motivate their teams?
7. To what extent do UNICEF management culture, management structures and HR systems encourage or constrain effective HRM?
8. To what extent do UNICEF (non-financial) rewards, incentives, and sanctions encourage managers to be effective in their management of human resources?
9. To what extent is UNICEF HRM helped or constrained by the HR regulations and procedures of the United Nations system, and to what extent is it free to be creative in generating its own HRM solutions?
10. Does UNICEF have the appropriate HR expertise to support the realization of its strategic goals, both in DHR and across the organization?

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11 To what extent do UNICEF levels of investment in HR personnel and systems encourage or constrain effective HRM?

12 How efficiently and cost-effectively deployed are the staff resources within the Division of Human Resources, and other HR-related posts globally?

DEVELOPING HR STRATEGY IN A LARGE HOUSING ASSOCIATION

The chief executive explained that:

> First of all you have your business strategy, which includes at management team level a review of what we expect our HR to deliver. We define what the strategy means in terms of its implications for us as individuals and for our employees. We decide what changes we have to effect and how we are going to communicate with and motivate the staff group to achieve those changes. The management team needs to be clear on what our vision for our people is, what we see our people doing, what we think they have to learn and what practices they need to change to affect the strategy we want. When you have answered those questions, then you can start to decide what the strategy is. The key to this is that all our directors have to contribute. The most important thing is the corporate understanding and responsibility for HR strategy.
>
> A good HR 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, a team, or individual. It must show that what they do either together or individually fits into the 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.

FORMULATING HR STRATEGY AT A LARGE RETAILER

The director of HR explained that:

> I start with the top line, the four or five things which are the strategic platform for the company. I get my managers together to look at the implications. We then pull it together so that it is all derived from the original strategic platforms and then work top-down and bottom-up to get the amalgam of what we can achieve. This then feeds into the final operating plan so we can agree budgets.

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PRACTICAL IMPLICATIONS

- Make the strategy integrative – align it with business/corporate strategies and other HR strategies.
- Tailor it to the organization's culture and work processes.
- Focus on the needs of all stakeholders, including employees as well as owners.
- Deal with the immediate issues but also adopt a long-term, incremental approach.
- Conduct an impact assessment to establish how well the strategy is likely to work.

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Implementing HR strategy

11

CHAPTER OBJECTIVES

The process of implementing HR strategy is examined in this chapter under the following headings:

1 Embedding HR strategy
2 The problem of implementation: the say–do gap
3 The approach to implementation
4 The role of line managers in implementing HR strategy
5 Practical implications

Embedding HR strategy

A good strategy is one that works. The ultimate challenge of HR strategy is making it happen. To do so it has to be embedded. An embedded strategy is one that is considered by everyone (senior management, line managers and employees generally) to be relevant, helpful and practical and is put into good effect by them on a day-to-day basis. But there are problems – plenty of rhetoric; not enough reality – the 'say–do gap'.

The problem of implementation: the say–do gap

As pointed out by Khilji and Wang (2006) it is necessary to distinguish between 'intended HRM', which refers to HR practices formulated by policy makers, and 'implemented HRM', which refers to HR practices as operationalized in organizations. Managements sometimes say they are going to do something and then don't. As Gratton (2000: 30) commented: 'There is no great strategy, only great execution.' Strategies cannot be left as generalized

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aspirations or abstractions. But even when the way ahead seems to be quite clear, getting strategies into action is not easy: intent does not always lead to action. Too often, strategists behave like the Charles Dickens character Mr Pecksmith, who was compared by Dickens (1843) 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 know or care how'.

Fombrun et al (1984: 26) commented that new HR strategy initiatives often yield only modest results and lack staying power because in many companies 'much time and thought had gone into analysing and planning strategy yet very little time into its implementation'. Guest (1999) suggested that the impact of HR practices on attitudes and behaviour is likely to depend more on employee perception and evaluation of these practices than on the intended HR practices or policies themselves.

Lengnick-Hall et al (2009: 79) observed that:

> There is a growing recognition that intended SHRM practices may be different from realized SHRM practices and to simply rely upon what is stated rather than what is actually in place may lead to ineffective implementation as well as ambiguous results in studies of the relationship between HR practices and organisational performance. The construct of employee line-of-sight to strategic objectives provides more insight into the implementation process. If employees don't understand or know how to contribute to strategic objectives, they are unlikely to be effective in doing so.

An extensive research project conducted by Guest and Conway (2011: 1700) led to the conclusion that: 'There are three elements in a logical model of HR effectiveness. HR practices must be present, they must be effective and they must be effectively implemented.' Wright and Nishii (2013) commented that HR strategies are not always implemented and if they are, may be implemented in ways that differ from the original intention.

Gratton (1999: 202) noted:

> the disjunction between rhetoric and reality in the area of human resource management, between HRM theory and HRM practice, between what the HR function says it is doing and how that practice is perceived by employees, and between what senior management believes to be the role of the HR function, and the role it actually plays.

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The factors identified by Gratton (1999) that contribute to creating this gap are:

- initiatives that are so complex or ambiguous that may not be understood by employees or are perceived differently by them, especially in large, diverse organizations;
- it is more difficult to gain acceptance of non-routine initiatives;
- the initiative is seen as a threat;
- inconsistencies between corporate strategies and values;
- the extent to which senior management is trusted;
- the perceived fairness of the initiative.

To which could be added failure to take account of the strategic needs of the business. This may be difficult for any of the following reasons: they are changing too rapidly or no one really understands them; inadequate assessment of the environmental and cultural factors that affect the strategies; the development of ill-conceived, unmanageable and irrelevant initiatives, possibly because they are current fads or because there has been a poorly digested analysis of 'best practice'; and failure to involve stakeholders in the formulation of the strategy. These problems are compounded when insufficient attention is paid to practical implementation problems, particularly where line managers are concerned and there is a need for supporting systems. The role of line managers is vital.

López-Cotarelo (2018) conducted a case study in a large UK-based fashion retailer and found that the important contribution made by line managers to the effective implementation of HRM systems was achieved by exerting their cognitive and political abilities to bring about decisions that are well suited to their local situations.

The findings from research in a large London hospital conducted by Woodrow and Guest (2014) on the implementation of a bullying policy revealed that while the policy reflected best practice, implementation was uneven, resulting in persisting high levels of bullying, which negatively affected staff wellbeing and performance. The results indicated that it is misleading to look just at HR practices, and that even 'best HR practices' are unsuccessful unless implemented effectively. The following explanation was given by Woodrow and Guest for failures to implement:

> Poor quality or non-existent policy implementation was attributed to a number of factors by interviewees… These attributions fell into two broad categories. The first concerned difficulties which managers faced when attempting to

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> implement policy, particularly where they lacked either the confidence or the time to do so… The second broad set of factors to which interviewees attributed poor management of bullying concerned management competency. Several participants, including those with management responsibility, felt that a lack of training in either conflict resolution or general leadership skills led to failures in policy implementation (p 50).

Nishii et al (2008) carried out research in a US supermarket chain to investigate how employees reacted to HR innovations. They established that to achieve a satisfactory reaction, organizations should 'communicate the intentions of HR practices in an unambiguous and salient manner, both through formal organizational communications and also more indirectly through line managers' (p 41).

Research by Trevor (2011: 201) into the implementation of pay strategy in seven British large consumer goods companies led to the following conclusions:

> All firms encounter significant difficulties when attempting to implement strategic pay systems with the result that in the majority of cases, what is realized operationally as pay practice is neither what was desired nor intended strategically. As a result of the *gap* between intended policy and achieved practice, between the espoused and the realized, pay within a number of the case companies does not fulfil the strategic objectives of motivating managerial, professional and technical employees to work harder. It does not engender commitment or loyalty as outcomes, nor does it equip management with the behavioural 'lever' promised by standard theory. Despite the best efforts of leading companies, and the rhetoric of their espoused pay practice, pay practice is operationally non-strategic.

A model by Jonathan Trevor of the gap between strategy and execution is shown in Figure 11.1.

The approach to implementation

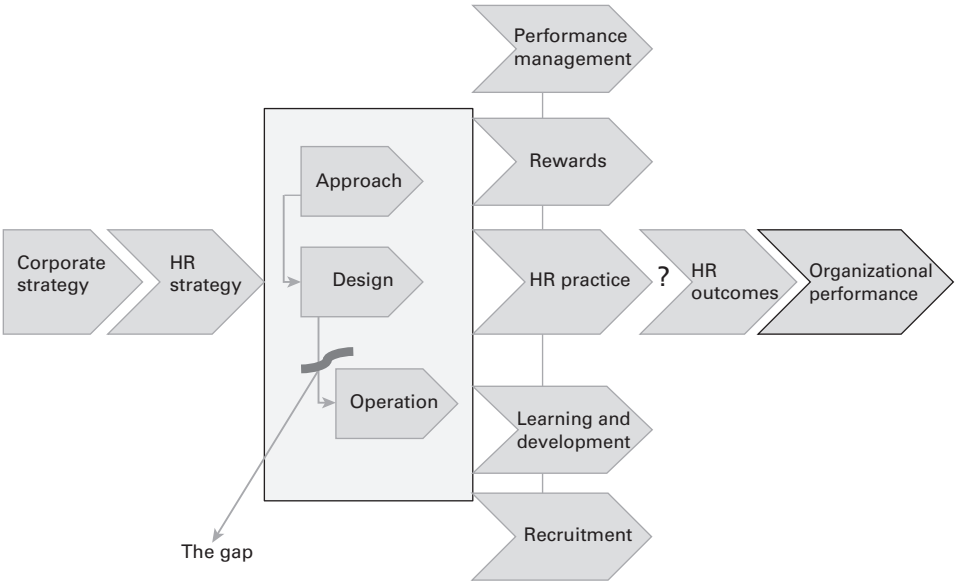
Implementation is more likely to do well if the following six steps are taken:

1 Formulate practical strategies

HR strategy should take into account all the barriers that create the say–do gap. Particularly careful thought has to be given to the practical issues present

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Figure 11.1 The gap between strategy and execution



SOURCE Adapted from Trevor (2011)

in implementation. It is necessary to consider the role of line managers in delivering HR strategy as well as that of HR specialists. The aims should be to: 1) spell out how the strategy is to be implemented as well as what is to be implemented; 2) ensure that support is given to line managers in the shape of advice, guidance and training; and 3) keep it simple.

2 Involve

Involve as many line managers and other employees as possible in formulating the strategy – people support what they help to create. This can be done through formal consultation processes or through workshops and focus groups whose members are representative of the different constituencies in the organization and who can be encouraged to pass on what they have been doing to their colleagues. The analytical tools described in Chapter 10 can be used. The questions can be answered individually and then discussed by a group to gain greater understanding and as much consensus as possible. Alternatively, the questions can be considered initially by a group or groups of employees. It is also possible to involve everyone by conducting an employee survey. The survey should be followed up by discussions with employee groups on its implications for HR strategy and practice.

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It can be useful to involve managers individually. Informal conversations can be held with selected managers especially those with influence. Issues can be raised and discussed. Ideas can be tested. Managers can be encouraged to help with the development and implementation of the strategy.

3 Communicate

It is essential to communicate details of the strategy to line managers and employees. If an impact assessment has been made at the design stage (which it should have been), the likely concerns will have been highlighted and can be addressed. The communication should explain what is proposed, why it has been proposed (indicating the benefits both to the organization and employees) how it will work, who will be affected and the timetable for introduction. As far as possible it should be by word of mouth to individuals or through team briefing or briefing group arrangements involving everyone in an organization, level by level, in face-to-face meetings to present, receive and discuss information.

4 Build skills

New strategies may require the use of new skills or the development of existing ones. This applies to employees generally as well as to line managers, who should be trained in what they have to do to implement the strategy. Skills can be built through formal off-the-job training courses but there is much to be said for coaching and mentoring.

5 Monitor and evaluate

The introduction of HR strategy should be monitored in order to evaluate its effectiveness. Corrective action in the shape of modifications to the strategy or training can then be taken.

6 Manage change

The implementation of HR strategy involves change, which can be hard to introduce and may be resisted. The problems of implementing strategic change were summed up by Lawler and Mohrman (2003: 24) as follows:

> Most strategies, like most mergers, fail not because of poor thinking, but because of poor implementation. Implementation failures usually involve

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the failure to acknowledge and build the needed skills and organizational capabilities, to gain support of the workforce, and to support the organizational changes and learning required to behave in new ways. In short, execution failures are often the result of poor human capital management. This opens the door for HR to add important value if it can deliver change strategies, plans and thinking that aid in the development and execution of business strategy.

Implementing change can indeed be difficult. Research by Carnall (1991) in 93 organizations identified the following explanations for failures to implement change effectively:

- implementation took more time than originally allowed;
- major problems that had not been identified beforehand emerged during implementation;
- coordination of implementation activities was not effective enough;
- competing activities and other crises distracted management from implementing the change decision;
- the capabilities of the employees involved were not sufficient;
- training and instruction to lower-level employees was inadequate;
- uncontrollable factors in the external environment had an adverse effect on implementation.

The following suggestions on how to minimize such problems were put forward by Nadler and Tushman (1980):

- *Motivate* in order to achieve changes in behaviour by individuals.
- *Manage the transition* by making organizational arrangements designed to ensure that control is maintained during and after the transition and by developing and communicating a clear image of the future.
- *Shape the political dynamics of change* so that power centres develop that support the change rather than block it.
- *Build in stability* of structures and processes to serve as anchors for people to hold on to – organizations and individuals can only stand so much uncertainty and turbulence, hence the emphasis by Quinn (1980) on the need for an incremental approach.

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The Guest and Bos-Nehles model for implementation

A model for the approach to implementation was produced by Guest and Bos-Nehles (2013: 80–1). They identified four stages, each one being a necessary requirement for those that follow:

1 Decision to introduce HR practices (HR managers and senior executives)
2 Quality of HR practices (HR managers)
3 Implementation of HR practices (line managers)
4 Quality of implementation (line managers)

The role of line managers in implementing HR strategy

To a large extent, HR strategies are implemented by line managers. As Purcell et al (2003: 72) observed: 'The way they [line managers] exercise leadership in the sense of communicating, solving problems, listening to suggestions, asking people's opinions, coaching and guiding, and controlling lateness, absence and quality make the vital difference.' They stated that implementing and enacting HR strategies is the task of line managers. They emphasized that to ensure that managers can play their part it is necessary to do three things: 1) involve them in the development of the strategy – bearing in mind that things done with line managers are much more likely to work than things done to line managers; 2) ensure that the HR policies they are expected to put into practice are manageable with the resources available; and 3) provide them with the briefing, training, supporting processes and on-the-spot guidance they need.

Jonathon Trevor (2011) established through his research into the implementation of reward strategy that, too often, line managers compromised, even sabotaged the implementation of strategies because they were not convinced that they were necessary, or lacked the skills or motivation to put them into practice. It could be said that the HR management function may propose but line managers dispose – line managers can bring people policies to life but they can also put them to death.

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IMPLEMENTING HR STRATEGY: CHANGE MANAGEMENT IN A LARGE CHARITY

A few years ago, this large charity was facing a chronic skills shortage, high staff turnover and loss of morale. There was a culture of avoidance when it came to tackling difficult HR issues such as poor performance or sickness absence. There was also a 'can't do' attitude, because people were constantly under pressure as a result of staff shortages. Following the change programme summarized below, which was planned and managed by the new head of HR, the charity won awards from both *Charity Times* and *Nursing Times* for being a great place to work, based on the views of its staff. The change programme consisted of a series of well-planned HR interventions, spearheaded by the head of HR and implemented gradually over 18 months with the full backing of the board.

The main features of the change programme were:

- HR issues were put on the senior team's agenda, which met more often and considered issues such as recruitment and retention;
- A development programme for senior managers was delivered by an external consultancy to help them improve their skills and confidence; it included a training needs analysis, psychometric testing and 360-degree appraisal.
- Everything was done in a low-key, non-threatening way that emphasized development opportunities rather than the need for change.
- Staff were asked what they liked about working for the charity and said that they had time to build relationships and really care for their clients, that there was high-quality training on offer, and that 'everyone smiles around here'.
- These personal testimonials were used to devise new recruitment campaigns and, as a result, the number of job applications soon increased, helped by a recruitment video filmed at the charity.
- Pay scales for staff carers were reviewed and the time it would take them to reach higher rates shortened.
- New job descriptions were produced with five to seven headings detailing accountabilities, plus a series of behavioural competencies.
- A new performance management system was implemented.
- Better sick pay was provided combined with tools to help managers handle absence more effectively, with the result that it fell 10 per cent in the first year and 12 per cent in the next year.
- A fast-track training programme was developed to build a core of cross-trained nurses that would allow the charity to react quickly to changing circumstances.

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PRACTICAL IMPLICATIONS

- Ensure that the strategy as designed can be implemented properly with the available resources.
- Spell out *how* the strategy is to be implemented as well as *what* is to be implemented.
- Involve line managers and employees in developing the strategy.
- Ensure that support is given to line managers in the shape of advice, guidance and training.
- Communicate, communicate, communicate.

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The strategic role of the HR function 12

CHAPTER OBJECTIVES

Strategic HR is put into effect through the strategic behaviour of HR specialists working with their line management colleagues to ensure that the business or operational goals of the organization are achieved, and its values are put into practice. In this chapter the strategic role of the HR function is described under the following headings:

1 The strategic role of HR
2 The partnership role of HR professionals
3 The strategic business partner model
4 The role of HR in managing change
5 The strategic role of HR professionals
6 Practical implications

The strategic role of HR

The strategic role of HR is to understand the strategic mission of the organization and support the achievement of that mission by developing and helping to implement appropriate HR strategies. This is a challenge. Beer et al (2015: 430) commented that: 'HRM practitioners operate in a complex world in which multiple outcomes have to be considered.' An important aspect of that role is the management of change.

This role also involves providing advice and services that further the achievement of the organization's goals. The work of HR practitioners can be divided into two main areas: transactional and transformational. Transactional activities consist of the service delivery aspects of HRM such as recruitment, training, dealing with people issues, legal compliance, record

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keeping and employee services. Transformational HR activities are concerned with organizational development and facilitating change in order to support the achievement of the organization's goals and values. They involve the development and implementation of forward-looking HR strategies, for example those dealing with performance and talent management. The aims will be to align these with business or corporate objectives and integrate individual strategies with each other. Importantly, strategic HR practitioners work with their line management colleagues in the continuous formulation and execution of the business or corporate strategy. But HR professionals should not pursue business objectives at the expense of ethical considerations, especially those concerning employee wellbeing, and equality, diversity and inclusion.

It is necessary to get the correct balance between strategic and transactional activities. In its anxiety to enhance the standing of the HR profession the Chartered Institute of Personnel and Development (CIPD) sometimes gives the impression that the only thing that counts is 'being strategic'. Forget about the boring transactional stuff. Rosabeth Moss Kanter (1984: 294) thought that '"strategic" is clearly an overused word'. Alvesson (2009: 57) noted that HR people are redefining themselves 'from being administrators and managers to becoming "strategists"'. He felt that: 'Sometimes one gets the impression that there is very little "non-strategic" HRM going on' (p 57).

HR must get its transactional service delivery activities right – that's what it's there to do, day by day, and its reputation with line managers largely depends on this. As an HR specialist remarked to Caldwell (2004: 203): '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 view in many organizations. Syrett (2006: 63) commented 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.'

But in accordance with the resource-based view that human capital is the key to achieving competitive advantage, the credibility of HR professionals, especially at the highest level, also depends on their ability to make a strategic contribution that ensures that the organization has the quality of skilled and engaged people it needs. Sparrow et al (2010: 88) observed that 'HR must be fully responsive to the strategy and business model of the business.' The strategic role of HR is based on a partnership approach.

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The partnership role of HR professionals

Members of the HR function have to act as the partners of line managers when formulating and implementing HR strategy. Partnership means that managers and HR professionals are jointly involved in dealing with issues, solving problems and, importantly, introducing new HR strategies, policies and practices. Traditionally, some HR specialists have tended to lay down the law to their line manager clients: 'This is the policy, this is what you have to do about it, this is how I am going to help you'. In a partnership mode, they will take time to explain what the policy is all about and what the responsibilities of the manager are in implementing it, and they will still provide guidance and advice. But in adopting a partnership approach the HR professional will be most concerned with understanding the particular concerns and preoccupations of individual managers and working alongside them to produce a joint agreement on how to proceed based on that understanding. It will be a matter of agreeing rather than prescribing.

When acting as partners HR specialists demonstrate to line managers that they appreciate the situation in which the latter operate and the pressures they face. HR professionals need to be accepted as colleagues who understand the business and will listen to managers when they make suggestions or express doubts about a new strategy. They will discuss possible approaches and even agree modifications to fit particular circumstances as long as these do not fundamentally affect the policy. They will work alongside line managers when a new strategy is being introduced, not as a prescriptive trainer but as, in effect, a coach. To do this they need the communications and political skills that emerged from the research conducted by the Institute for Employment Studies (Brown et al, 2019) that were described as:

> a real understanding of the business and ability to work closely with senior leaders; the ability to identify and prioritise people issues; understand the timeframes on which they need to be addressed; and help managers to see practical solutions. This sometimes means challenging the views of senior people and reminding them of the importance of taking a customer and employee perspective, not just seeing the business from their own point of view.

An HR specialist interviewed by Pritchard (2010: 182) gave the following advice on partnership:

> I think the way you change their [the business clients'] behaviours in the longer term is by getting to be a trusted advisor, and the way to become a trusted

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> advisor is to know your individual, to know your client and to know how to hook the individual, right?

It is against the background of this notion of partnership that the strategic business partner model has become popular.

The strategic business partner model

The strategic business partner model operationalizes the concept of the partnership role carried out by HR practitioners. In 1985, Tyson described them as business managers who have the capacity to identify business opportunities, to see the broad picture and to understand how their role can help to achieve the company's business objectives. They integrate their activities closely with top management and ensure that they serve a long-term strategic purpose. They anticipate needs, act flexibly and are proactive.

The concept of strategic partner was initiated by Dyer and Holder (1988: 31–2), not Dave Ulrich as is generally assumed. They described the role as follows.

The recommended role for the HR function is that of 'strategic partner'. This role typically has four aspects:

1. Top HR executives cooperate with their line counterparts in formulating HR strategies.
2. Top HR executives fully participate in all business strategy sessions as equals to chief financial officers and other top executives thus permitting early evaluation of proposals from an HR perspective.
3. HR executives work closely with line managers on an ongoing basis to ensure that all components of the business strategies are adequately implemented.
4. The HR function itself is managed strategically

Ulrich and Lake (1990: 95–6) popularized the idea. They argued that:

> To ensure that management practices become a means for gaining a sustained competitive advantage, human resource professionals need to become strategic business partners and gear their activities to improving business performance. To do this they require a good working knowledge of the organization and its strategies. In assessing the role of human resources in an organization,

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management needs to determine the extent to which these professionals meet the following criteria:

1. Spend time with customers and clients – diagnosing, discussing and responding to needs.
2. Actively participate in business planning meetings and offer informed insights on strategic, technological, and financial capabilities.
3. Understand business conditions.
4. Demonstrate competence in business knowledge, particularly customer relations, delivery of world-class management practices and management of change.

Schuler and Jackson (2007: xiv) made a similar point when they wrote: 'Today, human resource professionals are being challenged to learn more about the business, its strategy, its environment, its customers, and its competitors.'

The notion of strategic business partner was taken up enthusiastically within the HR profession and its professional body in the UK – the Chartered Institute of Personnel and Development (CIPD) – which explained in 2007 that the task of strategic business partners was to work closely with business leaders influencing strategy and steering its implementation.

Note that none of these comments indicated any awareness that HR should be concerned with ethical as well as business considerations and act accordingly. However, to do Ulrich justice, he did write later that HR professionals should 'represent both employee needs and implement management agendas' (Ulrich, 1997: 5).

The term 'strategic business partner' has been shortened in common parlance to 'business partner'. Conceptually, HR business partners work closely with line managers and are probably embedded in a business unit or a line function. They fully understand the strategies and activities of their unit or function and appreciate the role they can play as partners to the line managers with whom they work in ensuring that business goals are achieved. Business partners are there to enable those line managers to achieve their objectives through their people.

However, the concept does not always work, especially when it is installed as a fashionable ploy without considering how well it will match the way in which the business operates. Another problem is that the qualities required by HR business partners are demanding and people with those qualities may be hard to find. As quoted by Stephens (2015: 36), Stuart

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Woollard, director of King's College London's HRM learning centre claimed that: 'The implicit promise of an HR business partner role is to contribute to the value of an organization through facilitating more effective human capital management.' In reality, he said 'Business partners have become part of a dominant HR structure that remains reactive, procedurally focussed and transaction-orientated.' Stephens noted that research carried out by the CIPD in 2013 showed that the credibility of the business partner concept was fragile when it found that that a misalignment existed between what business partners thought were the priorities for the business and those reported by business leaders.

The role of HR in managing change

Being strategic means managing change. The role of HR in doing this was described by Vere and Butler (2007: 34) as follows:

- The issue needs to be on the strategic business agenda and managers must see how action will improve business results: that is, there needs to be a sound business case for the initiative. HR managers need to be able to demonstrate the return on the planned investment.
- The change needs to have the active backing of those at the top of the organization, so it is for the HR director to gain the commitment of the top team and engage them in a practical way in taking the work forward.
- HR needs to engage managers in the design of change from the outset (or, if this is a business-driven change, HR needs to be involved at the outset).
- The programme needs to be framed in the language of the business to have real meaning and achieve 'buy in' for all parties; if there is too much HR jargon, this will be a turn off.
- Project and people management skills are crucial to ensure the programme is well planned and resourced and risks are assessed and managed.
- As in all change programmes, the importance of communication is paramount, to explain, engage and commit people to the programme.
- In this respect the crucial role that HR can play is to ensure that employees are fully involved in the design and implementation of the change.
- HR needs to draw on others' experience and learning.

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The strategic role of HR professionals

The strategic roles of HR directors, heads of HR functions, strategic business partners and HR advisers or assistants are described below.

The strategic role of HR directors

The strategic role of HR directors is to promote the achievement of the organization's goals and values by 1) developing and implementing HR strategies that are integrated with the business strategy and are coherent and mutually supportive, 2) ensuring that a strategic approach is adopted which provides that HR activities support the organization and add value, and 3) taking into account the ethical dimension of people management. To carry out this role, HR directors need to:

- understand the strategic goals of the organization;
- appreciate the business or operational imperatives and performance drivers relative to these goals;
- in a commercial business, understand the business model of the organization (how it makes money), play a part in business model innovation, comprehend how sustainable competitive advantage can be obtained through the people employed in the organization and know how HR practices can contribute to the achievement of strategic goals;
- in a public or not-for-profit organization, appreciate its aims and purpose and how it provides the services it is expected to offer;
- be aware of the critical factors governing organizational success so that they can encourage and contribute to the development of initiatives designed to improve overall organizational performance such as smart working;
- contribute to the development of the business or corporate strategy on an 'outside-in' basis (Wright et al, 2004) starting from an analysis of the customer, competitor, business or operational issues the organization faces; the HR strategy then derives directly from these challenges to create solutions, add value and ensure that the organization has the distinctive people required to make an impact;
- contribute to the development for the organization of a clear vision and a set of integrated values;

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- ensure that senior management understands the HR implications of its corporate or business strategy;
- see the big picture, including the broader context (the environment and the business, economic, social, legal and governmental factors that affect it) in which the organization operates;
- think in longer terms of where HRM should go and how to get there;
- understand the kinds of employee behaviour required to execute the corporate strategy successfully and achieve competitive advantage;
- believe in and practise evidence-based management;
- be capable of making a powerful business case for any proposals on the development of HR strategy;
- fully embrace ethical considerations when developing and implementing HR strategy.

The strategic role of heads of HR functions

The strategic role of heads of HR functions is fundamentally the same for their function as that of HR directors for the whole organization. They promote the achievement of the organization's goals by developing and implementing functional strategies that are aligned with the corporate strategy and integrated with the strategies for other HR functions. And they adopt a strategic approach in the sense of ensuring that HR activities support the organization, add value and are ethical. To carry out this role, heads of HR functions should:

- understand the strategic goals of the organization as they affect their function;
- appreciate the imperatives and performance drivers relative to these goals;
- help senior management to understand the implications of its strategy for the HR function;
- know how HR practices in the function can contribute to the achievement of the strategic goals;
- ensure that their activities provide added value for the organization;
- be aware of the broader context (the competitive environment and the business, economic, social and legal factors that affect it) in which the function operates;

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- think in terms of the bigger and longer-term picture of where people strategies for the function should go and how to get there;
- believe in and practise evidence-based management;
- be capable of making a powerful business case for any proposals on the development of people strategies for the function;
- fully embrace ethical considerations when developing and implementing people strategy for their function.

The strategic role of HR business partners

The strategic role of HR business partners is to promote the achievement of the business or operational goals of the organizational unit or function in which they work. To carry out this role, they should:

- understand the organization and its environment;
- understand the goals of their part of the organization and its plans to attain them;
- understand the key features of whatever activities are carried out in their function and the skills needed to carry out those activities;
- ensure that their activities provide added value for the unit or function;
- build relationships founded on trust with their line management clients;
- provide support to the strategic activities of their colleagues;
- align their activities with business or operational requirements;
- believe in and practise evidence-based management;
- be proactive, anticipating requirements, identifying problems, and producing innovative and evidence-based solutions to them;
- see the broad picture and rise above the day-to-day detail;
- fully take into account ethical considerations when performing their business partner role.

The strategic contribution of HR assistants or advisers

The role of HR or assistants or advisers is to deliver effective HRM 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 goals

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of the departments or managers for whom they provide services in order to ensure that these services support the achievement of those goals. They should also fully take into account ethical considerations when performing their role.

THE STRATEGIC ROLE OF HR AT SMITHS INDUSTRIES

The HR Director of Smiths Industries commented on the strategic role of HR as follows:

> I do not believe that you can have stand-alone HR strategies. You have to develop strategies that are an integral part of the business objectives. I don't see HR standing alone in an ivory tower. Everything we do has to have a value-added benefit for the business. If it doesn't have a positive benefit for the business, we don't do it. If you can make a business case, then it will be supported.
>
> There are issues where it is appropriate for the HR director to lead, but in the main we try to go for an integrated approach. If we are reorganizing a business to respond to a particular market situation, then we would be developing strategies to help the managing director of that business to get to where he/she needs to be.

PRACTICAL IMPLICATIONS

- Understand the purpose of the organization: the business model in the private sector or in the public sector, the part it plays in providing national or local governance and services.
- Be familiar with the business or corporate strategies of the organization.
- Appreciate the skills and behaviours required to fulfil these strategies.
- Translate this knowledge into practical strategies for obtaining the skills and fostering the behaviours required.
- Support at corporate and functional levels the efforts of management and line managers to implement the business or corporate strategy.

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PART THREE
Overall HR strategies

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The employee experience

13

CHAPTER OBJECTIVES

The employee experience refers to how people feel about what happens to them at work . In this chapter employee experience strategy is examined under the following headings:

1 The meaning of the employee experience
2 The stages of the employee experience
3 Developing an employee experience strategy
4 The employer brand and the employee value proposition
5 Enhancing employee engagement
6 Practical implications

The meaning of the employee experience

The concept of the employee experience was defined by Morgan (2017) as encompassing all the interactions between an organization and its employees. He noted (p 7) that:

> For the people who are part of an organization, their experience is simply what it is like to work there. From the perspective of the organization, employee experience is what is designed and created for employees, or put another way, it's what the organization believes the employee reality should be like.

Plaskoff (2017: 138) commented that it is important to empathize with employees and to think holistically about their entire experience to understand the employee's perception of the relationship with the employer: 'Instead of starting with the company, the development work on employee experience has to start with the employees, generating insights on their needs.'

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The concept is based on the belief that employees want and deserve their working life to be rewarding, engaging, productive and enjoyable. It is associated with the idea of employee engagement but it focuses more on the integration of HR processes over the longer term and getting the views of employees as a means of enhancing their experience rather than concentrating on shorter-term ways of improving engagement levels.

The employee experience starts with the impression employees gain of the organization when they join it. It continues during their working life – the employee life cycle – with the ways in which they are treated – fairly, without bias and with respect and consideration. Other significant aspects of their work experience are their relationships with line managers and colleagues, the extent to which work is stressful, working conditions, work–life balance and the degree to which jobs are fulfilling. The work experience is also affected by the extent to which the organization listens to what employees say and implements progressive and effective policies on diversity and inclusion, protection from bullying or harassment and handling grievances. Bersin et al (2017) summarized the factors that contribute to a positive employee experience as:

- meaningful work – autonomy, select to fit, small empowered teams, time for slack;
- supportive management – clear and transparent goals, coaching, investment in development of managers, agile performance management;
- positive work environment – flexible work environment, humanistic workplace, culture of recognition, fair, inclusive workplace;
- growth opportunity – training and support in the job, facilitated talent mobility, self-directed dynamic learning, high-impact learning culture;
- trust in leadership – mission and purpose, continuous investment in people, transparency and honesty, inspiration.

They commented (p 1) that:

> Traditionally, HR has addressed issues such as employee engagement, culture, rewards, and learning and career development as separate, independent programs in individual silos. Each program has a senior HR leader, a set of tools and diagnostics, and solutions to drive and measure change. The employee sees the picture differently. Starting as potential hires and recruits, employees look at everything that happens at work as an integrated experience that impacts daily life in and outside the workplace, including overall physical, emotional, professional, and financial well-being. Candidates assess future employers from

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> the very start of the talent acquisition experience and make quick judgments about what life will be like for them in the organization, based on how they interact with the enterprise during the recruiting cycle. This integrated view increasingly leads to employees demanding a holistic, end-to-end – recruitment-to-retirement – experience from their employers, whether they are full-time employees, contingent workers, or even crowdsourced talent. This also requires a radical change in emphasis on the part of employers.

The notion of the employee experience has sometimes been treated as a form of 'brand management'. This involves organizations 'branding' what they offer employees (the 'employer brand') in the same way as they brand their products for customers. In this sense, employees are customers. But brand management in the commercial sense can be more about improving the image of the product than improving the product itself. The employer brand may be important when attracting people to the organization but there is more to people management and the notion of the employee experience than just presenting an attractive image.

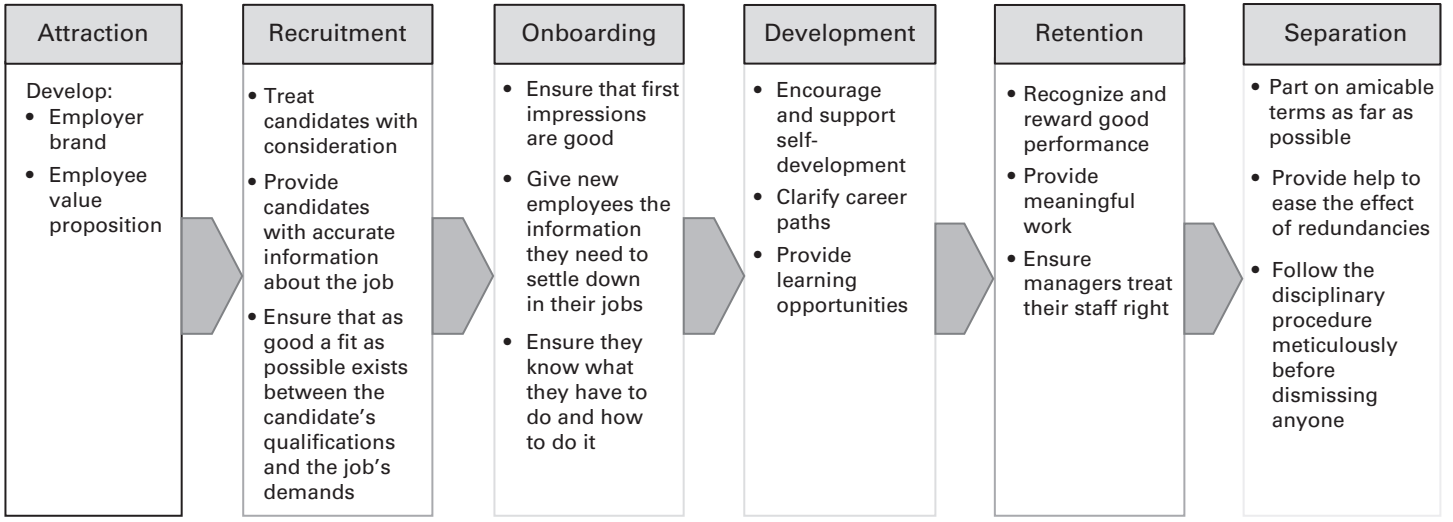
Managing the employee experience is essentially the pursuit of a policy of integration. This means developing management practices that address the issues raised by the factors that affect the experience and dealing with these as a whole in an employee experience framework, ensuring that a coherent approach is adopted, and seeing that the practices are mutually supportive. There is nothing fundamentally new in this aspect of managing the employee experience. It is simply the well-established process of bundling (achieving horizontal fit). But the perspective is different. Managing the employee experience is a 'bottom-up' rather than a 'top-down' process. The starting point is to gain understanding of how employees perceive their experience of working in the organization and from that analysis identify what needs to be done to deal with any issues and enhance that experience. It is not a matter of deciding what is best for them and then imposing the practices from above. And this understanding is gained not just by an annual engagement survey but by regular 'pulse' surveys using feedback apps supported by discussions with individual employees and focus groups.

The IBM Smarter Workplace Institute working in conjunction with Globoforce in 2018 developed an employee experience index with five dimensions:

1. *Belonging* – feeling part of a team, group or organization.
2. *Purpose* – understanding why one's work matters.

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Figure 13.1 Employee life cycle actions



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3 *Achievement* – a sense of accomplishment in the work.

4 *Happiness* – the pleasant feeling arising in and around work.

5 *Vigor* – the presence of energy, enthusiasm and excitement at work.

IBM and Globoforce used this index in a workforce survey covering 113 organizations and found that organizations that score in the top 25 per cent earned nearly three times the return on assets compared to organizations in the bottom quartile. It was established that employee experience is positively associated with employee work performance, discretionary effort and turnover intention. The conclusion reached following the research was that to create a positive employee experience, organizations had to provide for meaningful work, empowerment and voice, feedback, recognition, opportunities for growth and work–life balance.

The stages of the employee experience

The employee experience progresses over the six stages of the employee life cycle as shown in Figure 13.1 above, in which examples of the actions employers can take at each stage are listed. These actions can be recorded in an employee experience framework, which is a statement of what an organization intends to do to enhance the employee experience during the employee life cycle. It is the basis for HR programmes and for defining the responsibilities of line managers for managing the experience.

Developing an employee experience strategy

An employee experience strategy will define how the organization intends to create a positive and rewarding experience for its employees. In doing so, it should be remembered that the relationships will be complex and multidirectional, varying in each situation. If the strategy is to succeed, conceptual clarity and language is needed, along with tailored and practically effective programme design and management. There are no easy short-term fixes or universal solutions. The strategy can be expressed in an employee experience framework such as the one described above that sets out the actions required for each stage in the life cycle. An integrated approach should be adopted in which the activities contained in the framework are bundled together so that they complement and reinforce each other and thus provide mutual support.

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It was suggested by Lynda Gratton (2019) that HR leaders can deliver a positive people experience by being creative in designing people management solutions that support wellbeing and resilience, while also empowering workers to adapt to changing contexts. She emphasized the need for the solutions to be values driven. Instead of replicating the best practices of other companies, HR professionals should identify what works within their own organizations. Creating sustainable and tailored processes that are underpinned by the organization's values will ensure that they are sustainable and not easily imitated by competitors.

The steps required to formulate an employee experience strategy are:

1. Gather information
2. Develop the employer brand and the employee value proposition
3. Make provisions for enhancing employee engagement
4. Provide for any improvements needed in the working environment

Gathering information

As mentioned earlier, managing the employee experience is a bottom-up not a top-down process. It starts by finding out what employees want and comparing this with what they get. This provides the basis for developing an employee experience framework to eliminate any deficiencies. The information can be obtained through discussions and surveys. The marketing technique of 'customer journey mapping' can be used to provide a visual representation of the perceptions and needs of employees. An employee journey map covers the sequence of experiences they have with the organization. It helps the organization to understand the reactions of employees to their experiences at each stage of their life cycle. In marketing language, these are the 'touchpoints' – the times when there is a significant interaction between the organization and the employee.

The employer brand and the employee value proposition

The employer brand and the employee value proposition are two concepts that are sometimes confused but, although associated, there are differences. The employee brand refers to how an organization presents itself generally

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to prospective and existing employees while the employee value proposition spells out specifically what the organization has to offer those prospective and existing employees. However, both contribute to the employee experience and need to be taken into consideration when developing an employee experience strategy.

The employer brand

The employer brand is the overall perception or image of the organization as an employer, encompassing its reputation, culture and identity. A distinctive and convincing employer brand will help the organization to attract high-quality staff by differentiating itself from competing organizations. As defined by the CIPD (2023a: 1): 'The employer brand is a set of attributes and qualities, often intangible, that makes an organisation distinctive, promises a particular kind of employment experience, and appeals to those people who will thrive and perform best in its culture.' The CIPD also noted that: 'A strong employer brand should connect an organisation's values, people strategy and policies, and be linked to the company brand.'

The development and implementation of an employer brand strategy is carried out in the following steps:

1. Find out how the employer brand is perceived by senior management, line managers and employees through discussions and surveys.
2. Use the information provided by the initial analysis to determine what the organization's employer brand should look like.
3. Publish the new or modified brand on the organization's website and in social media communications.
4. Apply the brand to help in attracting and recruiting good candidates for jobs in the organization.

The employee value proposition

The employee value proposition (EVP) is a set of specific and, ideally, unique offerings that prospective and existing employees will value and which will help to persuade them to join or remain with the organization. Offerings include tangible, contractual rewards (pay and employee benefits) and less tangible rewards related to fulfilling work, career opportunities, scope for learning and development, and the quality of working life provided by the work environment.

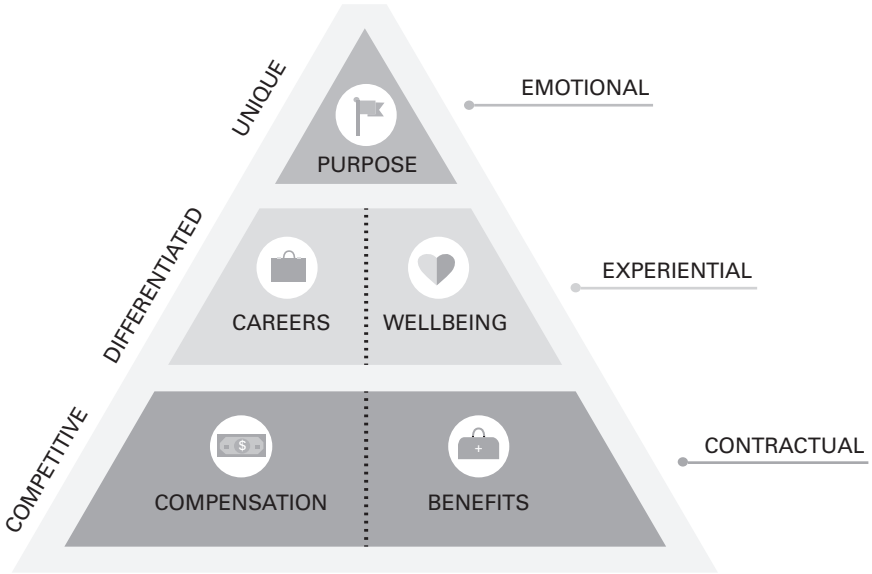
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Mercer (2018) has a three-category approach as shown in Figure 13.2 based on its employer and employee research. This emphasizes the non-financial components. Arguing for employers to 'rethink their value proposition' it believes that those 'expanding their focus beyond contractual rewards by enhancing the employee experience and reinforcing employees' emotional connection to the organization have an opportunity to leverage the power of a thriving, more productive workforce'.

Its three categories are defined as follows:

- Contractual rewards, such as pay and benefits, are the foundation of the EVP – a competitive offering is critical.
- Experiential rewards reflect how employees experience their organization. They include career management programmes and measures that enhance employees' wellbeing. These can provide employees with a 'Differentiating, compelling work experience they may not find at another employer'.
- Emotional rewards represent the unique emotional connection between an employee and an organization, brought about by aligning individuals to the organization's larger societal purpose, or by designing jobs that give them purpose. This is the key to an effective EVP.

Figure 13.2 Mercer's model of an EVP



SOURCE Mercer (2018)

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Since the Covid-19 pandemic, many employers believe that this third, emotional aspect of the EVP has become more important to employees who are now seeking greater purpose and meaning in their lives.

Mercer (2018) analysed data from over 5 million employees working in 172 countries considering the relationships between EVPs and performance and employee engagement levels. The main findings were that:

- there were significant relationships between all EVP elements and all outcome measures;
- career development as a component of an EVP yielded the strongest correlation with most outcome measures and tended to be the single strongest driver of employee engagement levels. The results suggested employees are more likely to be motivated to work 'above and beyond' when they feel they are doing work that is personally meaningful, a key feature of many EVPs;
- a strong sense of belonging and support for wellness by the organization are highly correlated with employee commitment and retention.

According to Gartner (2021), HR leaders must 'evolve their EVP management by delivering a more human deal centered around the whole person'. This new 'human deal' comprises five components, which it defines as: 'deeper connections, radical flexibility, personal growth, holistic well-being and shared purpose'.

Enhancing employee engagement

An important aim of an employee experience strategy is to enhance employee engagement, high levels of which positively affect the experience, which in turn affects engagement levels. Employees are engaged when they are committed to their work and the organization and motivated to achieve high levels of performance. The organization can enhance engagement generally by being value driven and earning the trust of employees, and specifically by providing learning and career development opportunities, developing a supportive work environment, achieving a satisfactory level of work–life balance, creating and implementing strategies for performance and reward management, and looking after the wellbeing of employees.

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But much of the responsibility for enhancing employee engagement rests with line managers. What they can do is to:

- set clear goals and define what is expected;
- explain how the work should be done and provide coaching, guidance and help as necessary;
- give positive feedback and praise and reward good work;
- ensure that resources are available to meet workload demands;
- help to develop employees' careers;
- trust and involve employees;
- treat employees fairly;
- show concern for the wellbeing of employees.

This is quite a lot to ask and it is hardly surprising that some managers fail to meet all these demands. This is more likely to happen when they have been thrust into their jobs without adequate training or when they have been over-promoted. Research by the Chartered Institute of Management (2023: 6) revealed that 68 per cent of managers who enter management positions were not given any formal management and leadership training – they were 'accidental managers'. It was found that:

- A third of current managers and leaders have never received any formal management and leadership training (33 per cent), including a quarter (26 per cent) of senior managers and leaders.
- Those with formal management training are significantly more likely to trust their team, to feel comfortable leading change initiatives and to feel comfortable calling out bad behaviour compared to those that don't.
- Overall, only 27 per cent of workers assessed their manager as highly effective, 37 per cent said they were somewhat effective, 18 per cent rated them as neither effective or ineffective, and 18 per cent rated them as somewhat (8 per cent) or highly ineffective (6 per cent).
- Workers who rate their manager as ineffective are significantly more likely to be planning to leave their organization in the next 12 months than those who say their line manager is effective (50 per cent vs 21 per cent).
- Staff who rated their manager as ineffective are far less likely to have job satisfaction or feel personally valued and respected. They are unlikely to do a good job, or to praise their company culture.

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This indicates that one of the best ways of enhancing engagement is to select, train and develop managers who are capable of behaving in the ways described earlier and then to review their performance in doing so and provide further guidance or training as necessary.

Improvements in the working environment

The CIPD (2023b: 1) stated that: 'Employee experience is about creating a great work environment for people, and helping them to be their best.' The working environment includes generally the quality of working life and specifically the ways in which employees are treated by the organization and their line managers, the reward system, development and career opportunities, the work system and job design, and working conditions, for example work–life balance, flexible working hours, the design of work systems and job design. Areas for action are listed below.

- *Learning and development* – opportunities for personal growth and scope for accomplishment; these make work meaningful because they provide pathways for employee growth and fulfilment.
- *Autonomy* – the freedom, independence and discretion allowed to employees in scheduling their work and determining the procedures for carrying it out. It provides a sense of ownership and control over work outcomes.
- *Variety* – jobs that allow individuals to perform many different activities or use many different skills.
- *Feedback* – providing employees with direct and clear information about the effectiveness of their performance.
- *Fit* – the existence of compatibility between an individual and a work environment (e.g. job, organization, manager, co-workers) that allows individuals to behave in a manner consistent with how they see or want to see themselves.
- *Rewards and recognition* – these represent both direct and indirect returns on the personal investment of the time of employees in carrying out their work.

Taking these steps presents three challenges. The first is the range and scope of the activities, although there is nothing special about them – they are all familiar HR practices. The second is the problem of prioritizing what has to

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be done. The third is how to integrate these activities so that they complement and support one another. This process of integration is a distinguishing feature of the employee experience concept. And it is important to recognize that the process is just as important as the product. As suggested by the CIPD (2021), the processes of enhancing the employee experience consist of:

- assessing in consultation with employees the impact that people practices and policies have on the employee experience;
- designing employee experience frameworks (an integrated approach to the various ways in which the employee experience can be enhanced);
- creating ways to measure and assess engagement (for example, through surveys);
- reviewing and enhancing the employer brand;
- designing approaches to communications that provide for employee voice;
- improving physical and mental wellbeing;
- building a culture of trust.

CASE STUDY Developing the employee experience at Ford

With a focus on innovation, Ford Motor Co, with nearly 200,000 employees, is expanding its business model to fortify and transform its core automotive business while growing in the areas of electrification, autonomy and mobility. These changes require a change in the way executives think about their people. As the company moves from a product to consumer focus in its products and services, it is also moving from a product to employee experience focus in its workforce solutions.

Starting with a three-week global people strategy lab in which HR leaders from around the globe participated, Ford developed a new people strategy, HR vision, integrated plan and business case. As part of its efforts to define its vision, the HR team deployed a company-wide polling process that let employees contribute ideas, share their experiences, and rate and rank which HR products and services they felt were most important. The company also conducted workshops around the world, attended by more than 200 HR leaders, and held regional focus groups with employees and people leaders across all areas of Ford's business.

Ford found that many employees felt that people processes were overly administrative, complex and not always useful in getting their work done. People leaders felt that HR business partners were overwhelmed by operational tasks, negatively impacting the time they could spend engaging and developing their teams.

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To address these issues, the HR team is now developing products and services that are more integrated and focused on the employee experience, tools that are more intuitive and user-friendly, an interaction model that allows the workforce to interact with HR through multiple channels, and programmes that are 'fit for purpose'. It is working to simplify everything HR does. All of this is aimed at improving the employee experience and freeing HR professionals to support strategic business needs.

PRACTICAL IMPLICATIONS

- Obtain through discussions and surveys the views of employees on their experience of working for the organization.
- Identify any issues related to the experiences revealed by these discussions and surveys.
- Create an employee experience framework that sets out what needs to be done to enhance the employee experience at each stage in the employee life cycle.
- Decide on priorities and the resources required.
- Provide the resources needed to introduce and maintain the framework.
- Monitor progress to ensure that it is going according to plan.

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Organization development

14

CHAPTER OBJECTIVES

Organization development is concerned with what needs to be done to improve how well an organization functions. This chapter is set out under the following headings:

1 Organization development defined
2 Organization development strategy
3 Formulating and implementing organization development strategy
4 Culture change
5 Practical implications

Organization development defined

Organization development is a systematic approach to improving organizational capability, that is, the capacity of an organization to function effectively in order to achieve desired results. It is concerned with process – how things get done. An early definition by Beer (1980: 10) stated that organization development operates as 'a system wide process of data collection, diagnosis, action planning, intervention and evaluation'.

The original version of organization development, or 'OD' as it was known, was based on behavioural science concepts relating to the study of human behaviour. It was practised through what were called 'interventions'. During the 1980s and 1990s a number of other approaches were developed. More attention was paid to culture change activities and organization-wide processes such as high-performance working and total quality management (TQM). Further changes occurred in the following decade during which a more strategic focus was adopted and business-oriented activities such as smart working came to the fore.

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There is a wide range of organization development activities or 'interventions' as shown in Table 14.1.

Table 14.1 Organization development activities

Organization development activity	Brief description	Objective
Business model innovation	The process followed by an organization to develop a new business model or change an existing one	To obtain insight into the business issues facing the organization, leading to plans for practical interventions that address those issues
Change management	The process of planning and introducing change systematically, taking into account the likelihood of it being resisted	To achieve the smooth implementation of change
Culture change	The process of changing the organization's culture in the shape of its values, norms and beliefs	To improve the ability of an organization to achieve its goals by making effective use of the resources available to it and to ensure that the organization's core values are put into practice
Engagement, enhancement of	The development of improved levels of job and organizational engagement	To ensure that people are committed to their work and the organization, and motivated to achieve high levels of performance
High-performance working	Developing work system processes, practices and policies to enable employees to perform to their full potential	To impact on the performance of the organization through its people in such areas as productivity, quality, levels of customer service, growth and profits
Knowledge management	Storing and sharing the wisdom, understanding and expertise accumulated in an organization about its processes, techniques and operations	To get knowledge from those who have it to those who need it in order to improve organizational effectiveness
Lean	A process improvement methodology, which focuses on continuous improvement, reducing waste and ensuring the flow of production	To deliver value to customers

(*continued*)

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Table 14.1 (Continued)

Organization development activity	Brief description	Objective
Organizational learning	The acquisition and development of knowledge, understanding, insights, techniques and practices	To facilitate performance improvement and major changes in strategic direction
Organization design	The process of deciding how organizations should be structured in terms of the ways in which the responsibility for carrying out the overall task is allocated to individuals and groups of people and how the relationships between them function	To ensure that people work effectively together to achieve the overall purpose of the organization
Performance management	A systematic process involving the agreement of performance expectations and the review of how those expectations have been met	To improve organizational performance by developing the performance of individuals and teams
Smart working	An approach to organizing work through a combination of flexibility, autonomy and collaboration, in parallel with optimizing tools and working environments for employees	To drive greater efficiency and effectiveness in achieving job outcomes
Team building	Using interactive skills training techniques to improve the ways in which people in teams work together	To increase group cohesion, mutual support and cooperation
Total rewards	The combination of financial and non-financial rewards available to employees. It involves integrating the various aspects of reward	To blend the financial and non-financial elements of reward into a cohesive whole so that together they make a more powerful and longer-lasting impact on job satisfaction and performance

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Organization development strategy

The strategic nature of organization development is based on the role it can play in the implementation of business or corporate strategy. For example, business model innovation as a strategy could result in the need for new organization processes. This would involve organization development and change management activities.

Organization development strategy sets out intentions on how the organization is going to cope with new demands arising from system-wide change, the management of culture change and the need to improve organizational processes involving people, such as teamwork and communications. These intentions will be converted into actions on structure design, systems development and, possibly, OD-type interventions.

Formulating and implementing organization development strategy

The formulation and implementation of organization development strategy can take place through the process of integrated strategic change as conceived by Worley et al (1996). The steps required are:

1. Carry out strategic analysis, a review of the organization's strategic orientation (its strategic intentions within its competitive environment) and a diagnosis of the organization's readiness for change.
2. Develop strategic capability – the ability to implement the strategic plan quickly and effectively.
3. Integrate individuals and groups throughout the organization into the processes of analysis, planning and implementation to maintain the firm's strategic focus, direct attention and resources to the organization's key competencies, improve coordination and integration within the organization and create higher levels of shared ownership and commitment.
4. Create the strategy, gain commitment and support for it and plan its implementation.

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5 Implement the strategic change plan, drawing on knowledge of motivation, group dynamics and change processes, dealing with issues such as alignment, adaptability, teamwork, and organizational and individual learning.

6 Allocate resources, provide feedback and solve problems as they arise.

A statement of core values might also be made as in the example below.

STATEMENT OF CORE VALUES BY JOHNSON & JOHNSON

- We believe our first responsibility is to the doctors, nurses and patients, to mothers and all others who use our products and services.
- Our suppliers and distributors must have an opportunity to make a fair profit.
- We must respect the dignity of our employees and recognize their merit.
- We must maintain in good order the property we are privileged to use, protecting the environment and natural resources.

Culture change

The implementation of organization development strategy can involve a culture change programme. The aim of such a programme is to ensure that people are aware of what the change involves for them and will act accordingly. The change strategy may be wide ranging, aimed at the development of a strong and pervasive culture that will keep organization members pulling in the same direction. This could take the form of transformational change involving fundamental and comprehensive alterations in structures, processes and behaviours, which have a dramatic effect on the ways in which the organization functions. Or it may focus on a specific issue, for example in a bank, ensuring that all its operations, especially those in its foreign exchange trading function, conform to the values of integrity and fair dealing that have been espoused by top management. But because cultural values and norms are often deeply embedded, a change programme can present considerable difficulties. To mitigate these problems the following steps need to be taken:

1 *Analysis* – an analysis of the existing culture. This could make use of a diagnostic tool such as the Organizational Culture Inventory devised by Cooke and Lafferty (1989).

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2 *Diagnosis* – a review of the analysis to identify any cultural issues or problems.

3 *Definition of the desired culture* – this might take the form of a statement of core values, as produced by Johnson & Johnson.

4 *Plan the action required* – this could include communicating the details of the change covering how people will be affected and the part they are expected to play in implementing it, and briefing and educational programmes.

5 *Implement* – this is where HR can play a major part.

6 *Monitor* – review how well the change has been or is being implemented and take corrective action if it is not going according to plan.

A successful change programme is more likely to be achieved if top management demonstrates its commitment to the change, plays a major part in implementing it and is seen to be acting in accordance with the values associated with the change. Involving managers and other employees in each of the six steps set out above is very desirable.

HR specialists help by acting as change agents to facilitate the change. A change agent was defined by Caldwell (2001: 39–40) as an 'individual or team responsible for initiating, sponsoring, managing and implementing a specific change initiative or complete change programme'. Alfes et al (2010) noted that change agents establish what is required, involve people in planning and managing change, advise on how change should be implemented and communicate to people the implications of change.

Ulrich (1997: 7) observed that HR professionals should be 'as explicit about culture change as they are today about the requirements for a successful training program or hiring strategy'. He later emphasized that: 'HR should become an agent of continuous transformation, shaping processes and a culture that together improve an organization's capacity for change' Ulrich (1998: 125).

MANAGING CULTURE CHANGE IN CISCO

The management of Cisco, the global technology giant, with over 12,000 employees working in 62 countries, wanted to steer the company towards a more collaborative leadership culture, fully embracing the company's own virtual communications technology. The strategic aim was to ensure that leaders

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exhibited the essential behaviours for a globally connected business. This heralded a move away from autocratic leadership towards collaborative leadership, from functions and silos in isolated country branches to cross-departmental, global team working.

Leaders who once ran a small team in a single office could now find themselves leading a team of remote workers dispersed around the globe. It was necessary to ensure that leaders could still lead in this new kind of environment.

Leaders were given the freedom to translate organizational change as they saw fit within their regions, but they had to demonstrate that they were viable and in touch.

HR's role in this development was to guide and support business leaders but the process is continually evolving.

PRACTICAL IMPLICATIONS

- Base organization development programmes on a comprehensive review as a basis for the analysis and diagnosis of the need for any organization development interventions.
- Identify the most appropriate approach.
- Plan and implement the intervention.

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Organizational performance 15

CHAPTER OBJECTIVES

This chapter examines the development of an HR strategy for managing organizational performance. It is set out under the following headings:

1 The nature of organizational performance
2 The role of HR in managing organizational performance
3 The impact of HRM on organizational performance
4 The process of managing organizational performance
5 The strategic approach to managing organizational performance
6 Implementing strategic organizational performance management
7 Developing a high-performance culture
8 Practical implications

The nature of organizational performance

The level of performance achieved by an organization can be assessed or measured in a number of ways. In a business, as explained below, this could be in terms of its financial performance, productivity, support for stakeholders, achievement of competitive advantage and approach to environmental and social sustainability. In the public sector, performance is measured by reference to its efficiency and effectiveness in carrying out its function.

Financial performance

The financial performance of a business is measured by its profitability, earnings to share ratio and the return on investment it generates. All these are affected by the quality of its employees and this is affected by the impact of HR strategies and practices.

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Productivity

Productivity is the relationship between the input and output of a manufacturing process or some form of service delivery. It is not simply performance and not simply the economic use of resources, but a combination of both. Productivity is usually represented as output per unit of input over a period of time. It can be expressed as a ratio, for example:

$$\frac{\text{units produced or processed}}{\text{number of employees}} \qquad \frac{\text{added value}}{\text{number of employees}} \qquad \frac{\text{sales turnover}}{\text{number of employees}}$$

Productivity levels can be directly improved by HR strategies such as high-performance working (see later in this chapter). Productivity is related to the quality of management, the quality and efforts of employees and the amount invested by the company in equipment, facilities and skills development.

Support for stakeholders

The level of performance achieved by an organization can be assessed by reference to its reputation for meeting the interests of its stakeholders. This particularly applies to its employees, customers and suppliers. An organizational performance strategy will include provisions for improving levels of support and service. Again, a high-performance working system will be appropriate.

Sustained competitive advantage

Sustained competitive advantage is the ability of a business to outperform competitors thus achieving and sustaining better results than its rivals and placing the firm in a competitive position. Barney (1991: 102) distinguished between a competitive advantage that other firms will be able to copy and a sustained competitive advantage that they will not be able to imitate.

Three strategies for achieving competitive advantage were identified by Michael 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'.

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Barney (1995: 60) emphasized the importance of the impact of people on competitive advantage when, in describing the resource-based view, he wrote that: 'Managers must look inside their firm for valuable, rare and costly-to-imitate resources, and then exploit these resources through their organization.' And Teece (2011) observed that competitive advantage is achieved when strategic capabilities are developed over considerable periods of time. This is the notion of 'path dependence'.

The resource-based view provides insight into the achievement of sustained competitive advantage. As Peter Boxall (1996: 66) commented, 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'. The concept of 'human capital advantage', originated by Boxall and Purcell (2022: 14), incorporates the notion that sustained competitive advantage can be achieved when a firm employs more talented people than its rivals (human capital advantage) and makes better use of the collaborative efforts of employees (social capital advantage). The aim is to develop strategic capability – the mix of, skills, processes and behaviours that combine to deliver organizational goals. This can be achieved by developing and implementing a skills-based strategy. The basis of such a strategy is that the roles people play consist of a portfolio of skills and not just a group of tasks. The focus is therefore on the identification of required skills and the development of those skills. Recruitment is skills-based rather than job-based and skills-based pay is introduced.

Approach to environmental and social sustainability

Sustainability is defined as meeting the needs of the present without compromising the ability of future generations to meet their own needs. Environmental sustainability is the ability to maintain an ecological balance in the environment and conserve natural resources to support the wellbeing of current and future generations. Social sustainability is the process of managing for the longer term the positive and negative impacts of working in organizations on people and their lives. In a business, sustainability is about how its products and services contribute to longer-term and continuing development.

The extent to which an organization achieves environmental and social sustainability can be measured through the ESG (environmental, social and corporate governance) framework. ESG considerations are used to screen investments based on corporate policies and to encourage companies to act responsibly. Environmental criteria may include a company's energy use,

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waste, pollution and natural resource conservation. The criteria can also be used in evaluating any environmental risks a company might face and how the company is managing those risks. Social criteria look at the company's external and internal relationships and seek answers to questions like these: does it only work with suppliers that treat their employees responsibly? Does the company donate a percentage of its profits to the local community or encourage employees to perform volunteer work there? Do the company's working conditions show high regard for its employees' health and safety? Are other stakeholders' interests taken into account? Governance criteria refer to how companies are directed and controlled by their boards of directors, who are accountable to their firms' owners for the decisions they make and the results they achieve.

The role of HR in managing organizational performance

Developing and implementing a strategy for the management of organizational performance is the continuing responsibility of top management who plan, organize, monitor and control activities, and provide leadership to achieve strategic goals and satisfy the needs and requirements of stakeholders. Individual performance management systems as covered in Chapter 16 play an important part although they function within the context of what is done to manage organizational performance.

Top management will devise and implement the corporate strategy for improving organizational performance. But the HR function in its strategic capacity is involved in both the formulation and the implementation of the strategy. It is people who implement the corporate plan. To carry out this role it is necessary for members of the function, especially the more senior ones, to understand what is involved. This is strategic HR management in action – HR strategies affecting performance (and they all do) must be integrated with the business strategy.

Any strategy for improving organizational performance inevitably focuses on individual performance through practices like high-performance work systems, as described in this chapter. But it is also necessary to consider more specifically how HRM strategies and practices, including performance management systems, can impact on individual performance either separately or better, when 'bundled' together through the process of horizontal integration. This is dealt with in Chapter 16.

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The impact of HRM on organizational performance

The internal factors that shape short- and long-term organizational performance are the quality of the people working for the organization at every level, the capacity of the business to innovate and compete, and the cost effectiveness and efficiency with which it plans and conducts operations. The external factors are competition in the UK and globally, economic trends, government financial and business policies and legislation, international influences and pressures, for example Brexit in the UK, Covid-19 and the state of the labour market.

But to do well, organizations depend largely on the quality, expertise, skill, dedication and enthusiasm of the people working in them. The message of the resource-based view is that HRM delivers added value and helps to gain 'sustainable competitive advantage' through the strategic development of the organization's rare, hard-to-imitate and hard-to-substitute human resources. As Guest (1997: 269) argued: 'The distinctive feature of HRM is its assumption that improved performance is achieved through the people in the organization.' If, therefore, appropriate HR policies and practices are introduced, it can also be assumed that HRM will impact on firm performance. 'The way in which human resource management (HRM) contributes to business performance is at the heart of the field of strategic HRM' (Boxall, 2013: 47).

Much research has been carried out showing that people practices can create value and that good HRM practice and firm performance are correlated. As Woodrow and Guest (2014: 51) commented: 'One stream of previous research has placed employee responses at the heart of the analysis and has shown that HR policy and practice can affect employee attitudes and behaviour, which in turn affects organisational performance.' But they also observed that that any impact is likely to be limited if good HR policy and practice is poorly implemented.

Storey et al (2009: 4) stated that: 'The premise is that, in some shape or form, HR policies have an effect on HR practices and these in turn influence staff attitudes and behaviours which will, in turn again, impact on service offerings and customer perceptions of value.' The assumption is that good HRM practices will enhance performance and add value, that is, the benefits to the organization will exceed the cost of developing and operating them.

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As Guest and Bos-Nehles (2013: 79) pointed out:

> An optimistic version [of the relationship between HRM and performance] proposes that HRM has a positive association with performance because workers respond positively to it. An alternative, more pessimistic view is that HR practices result in intensification of work and it is this that leads to performance gains.

Bowen and Ostroff (2004) argued that the link between HRM and performance is likely to be greater where what they describe as a 'strong' HR system is in place. Core characteristics of their 'strong' system are high levels of distinctiveness, consistency and consensus. Where these are present there will be an organizational climate that supports HR implementation. But they suggested that it is not enough just to have good practices; they have to be properly implemented. As Guest (2011: 6) commented: 'What this does is switch the focus to line management.' Guest and Conway (2011: 1700) stressed that: 'To make an impact, HR practices must be present, they must be effective and they must be effectively implemented.' And Nishii et al (2008) argued that it is not just the presence of practices that is important but 'perceptions about the intentions behind the practices'.

Uncertainties about the link between HRM and performance

As Ulrich (1997: 304) declared: 'HR practices seem to matter; logic says it is so; survey findings confirm it. Direct relationships between performance and attention to HR practices are often fuzzy, however, and vary according to the population sampled and the measures used.'

Paauwe (2009) remarked that, although progress has been made on the link between HRM and performance, significant methodological issues exist in the understanding of this relationship. He argued that while it may be possible to observe HRM inputs in the form of HR practices and to measure firm performance outputs, it may be difficult to ascertain, through research, what happened in between – what the HRM outcomes were that converted the input of HR practices into firm performance outputs. Guest (2011: 11) concluded that: 'After hundreds of research studies we are still in no position to assert with any confidence that good HRM has an impact on organisation performance.'

There are three issues that affect the determination of a link between HRM and firm performance: causal ambiguity, contextual factors and the 'black box' phenomenon.

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Causal ambiguity

The term causal ambiguity refers to the numerous, subtle and often hidden interconnections between the factors influencing cause and effect. As explained by Einhorn and Hogarth (1985), causal ambiguity is a state of uncertainty that entails incomplete understanding and knowledge. They pointed out that if no one inside or outside an organization understands the causal connections between resources, activities and outcomes, then performance becomes a matter of luck rather than strategy.

Boselie et al (2005: 75) referred to the causal distance between an HRM input and an output such as financial performance: 'Put simply, so many variables and events, both internal and external, affect organizations that this direct linkage strains credibility.'

A basic reason for ambiguity is multiple causation, which exists when there is more than one possible cause for an effect. HRM may have caused an improvement in performance but there may be many other economic or business factors that did so, and it could be difficult to unravel them. Another factor is the possibility of reversed causality (a situation where A might have caused B but B might well have caused A). As Purcell et al (2003: 2) expressed it: 'Although it is nice to believe that more HR practices leads to higher economic return, it is just as possible that it is successful firms that can afford more extensive (and expensive) HRM practices.'

Contextual factors

Causation will additionally be affected by the organization's context, that is, the internal and external environmental factors that influence what happens within the organization.

The black box phenomenon

The black box phenomenon is the situation in which, while it may be possible to observe HRM inputs in the form of HR practices and to measure firm performance outputs, it may be difficult to ascertain through research what happened in between – what the HRM outcomes were that converted the input of HR practices into performance outputs. Alvesson (2009: 56) suggested that: 'Research does not proceed beyond attempts to find an empirical association between HR practices and organizational performance. The phenomena are in a black box, only input and output are registered and what is happening remains clouded in the dark.'

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Explanations of how HRM makes an impact

Guest (1997: 268) stated that: 'The assumption is that "appropriate" HRM practices tap the motivation and commitment of employees.' His view on how expectancy theory might help to explain the HR/performance link was:

> The expectancy theory of motivation provides one possible basis for developing a more coherent rationale about the link between HRM practices and performance… Specifically, it proposes that high performance at the individual level depends on high motivation plus possession of the necessary skills and abilities and an appropriate role and understanding of that role. It is a short step to specify the HRM practices that encourage high skills and abilities, for example careful selection and high investment in training; high motivation, for example employee involvement and possibly performance-related pay; and an appropriate role structure and role perception, for example job design and extensive communication and feedback.

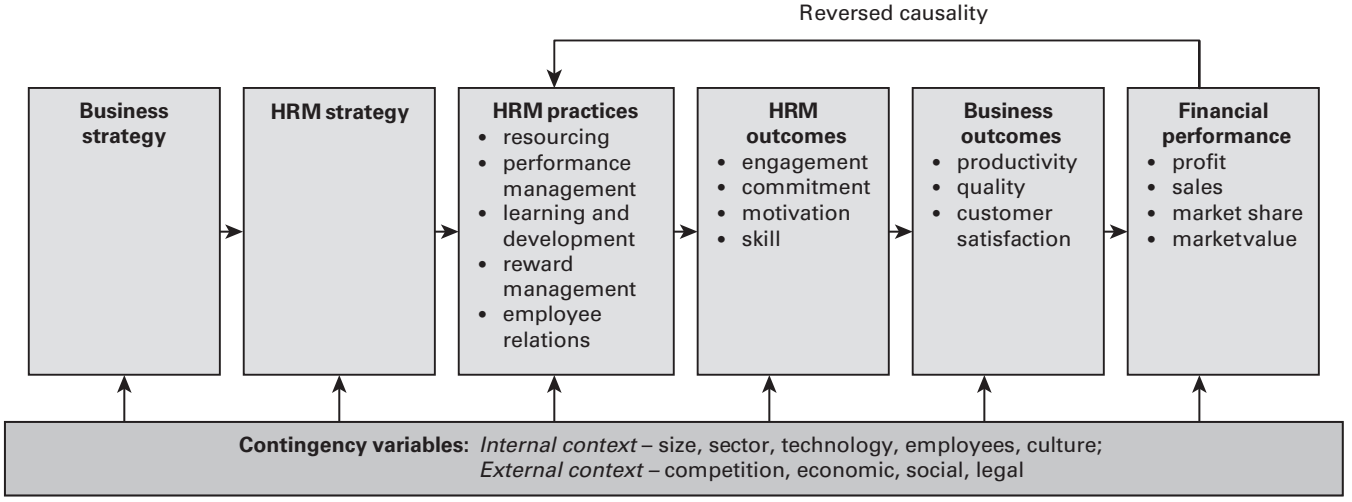
Opinions on how people practices add value and how HRM impacts on organizational performance are likely to be based on three propositions: 1) that HR practices can make a direct impact on employee characteristics such as engagement, commitment, motivation and skill; 2) if employees have these characteristics it is probable that organizational performance in terms of added value, productivity, quality and the delivery of high levels of customer service will improve; and 3) if such aspects of organizational performance improve, the financial results achieved by the organization will improve. This can be described as the HR value chain.

The propositions highlight the existence of an intermediate factor between HRM and financial performance. This factor consists of the HRM outcomes in the shape of employee characteristics affected by HR practices. Therefore, HRM does not make a direct impact. But Den Hartog et al (2004) and Wright and Nishii (2007) suggested that it is not the HR practices as intended by policy makers, but rather how employees experience the HR practices that affect employee outcomes.

Signalling theory explains how this happens when two parties (individuals or organizations) have access to different information. As Connelly et al (2011: 39) noted: 'Typically, one party, the sender, must choose whether and how to communicate (or signal) that information, and the other party, the receiver, must choose how to interpret the signal.' However, the signals of the HR system are often not interpreted similarly or reacted to in the same way by each individual due to differences in experience, values or preferences.

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Figure 15.1 Impact of HRM on organizational performance



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A model of the impact of HRM (based on Paauwe, 2004) taking into account the considerations of reverse causality and contingency effects mentioned earlier is shown in Figure 15.1.

The process of managing organizational performance

Gheorghe and Hack (2007) observed that: 'Actively managing performance is simply running a business – running the entire business as one entity. It's a continuous cycle of planning, executing, measuring results and planning the next actions. In the context of a larger strategic initiative, that means continuous improvement.' They noted that the management of organizational performance is a strategic approach that takes place on a number of dimensions. It has to take account of the needs of multiple stakeholders and makes use of business performance management systems.

The dimensions of managing organizational performance

Sink and Tuttle (1990) stated that there are five dimensions to managing organizational performance:

1. Creating visions for the future.
2. Planning – determining the present organizational state, and developing strategies to improve that state.
3. Designing, developing and implementing improvement interventions.
4. Designing, redesigning, developing and implementing measurement and evaluation systems.
5. Putting support systems in place to reinforce progress.

The approach to managing organizational performance

The approach to managing organizational performance as described in the rest of this chapter is based on processes of strategic performance management supported by the use of a business performance management system. In general, it is concerned with developing organizational capability through such processes as high-performance work systems, lean working, quality management, increasing agility, and the supporting people

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management processes of talent management, learning and development, and the enhancement of engagement and motivation.

The strategic approach to managing organizational performance

A strategic approach to managing organizational performance means taking a broad and longer-term view of where the business is going and then managing performance in ways that ensure this strategic thrust is maintained. The 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 integrated systems for managing and developing performance.

Organizational performance management systems are strategic in the sense that they are aligned to the business strategy of the organization and support the achievement of its strategic goals. They focus on developing work systems and the working environment as well as developing individuals. To create the systems and make them function effectively it is necessary to ensure that all aspects of the strategy are understood, including, as Kaplan and Norton (2000) pointed out, the crucial but perplexing processes through which intangible assets are converted into tangible outcomes. They originated the concept of the balanced scorecard so that all aspects of the performance of a business could be understood and measured from four related perspectives: the customer, internal processes, innovation and learning, and finance. The notion of mapping strategy was also initiated by them.

Strategy maps show the cause-and-effect links by which specific improvements create desired outcomes. They describe the elements of the organization's systems and their interrelationships and therefore constitute an aid to systems thinking and a route map for systems improvement leading to performance improvement. They give employees a clear line of sight into how their jobs are linked to the overall objectives of the organization. They also provide a visual representation of a company's critical goals and the relationships between them that drive organizational performance. Bourne et al (2003) call them 'success maps' that act as diagrams showing the logic of how the goals of the organization interact to deliver overall performance. An example of a strategy map is given in Figure 15.2.

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Figure 15.2 A strategy map



This map shows an overall objective to improve profitability as measured by return on capital employed. In the next line the map indicates that the main contributors to increased profitability are increases to the gross margin (the difference between the value of sales and the cost of sales), improvements to operational capability and better cost management. At the next level down the objective is to increase sales turnover in order to increase the gross margin. How this is to be achieved is set out in the next group of goals and their interconnections comprising increases in customer satisfaction and sales force effectiveness, innovations in product/market development and marketing, and improvements in customer service and quality levels. The key objective of improving operational capability is underpinned by developments in high-performance working and the contribution of the organization's human capital. The latter is supported by human resource management goals in the fields of performance management, talent management, employee engagement and learning and development.

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The overall objective of increasing profitability in this example addresses the concerns of only one section of the stakeholders of an organization – the investors. This need would probably be given precedence by many quoted companies. But there are other goals, which relate to their other stakeholders, for example those related to corporate social responsibility. These could be catered for in separate strategy maps. Better still, they could be linked to their commercial goals. Public and voluntary sector organizations will certainly have goals that relate to all their stakeholders as well as their overall purpose. A stakeholder approach to the strategic management of performance is required.

A STRATEGIC APPROACH TO THE MANAGEMENT OF ORGANIZATIONAL PERFORMANCE, AS DESCRIBED BY JOHNSON & JOHNSON

As we embarked on developing an integrated performance and development process into the organization, we knew that driving change and an enhanced process requires a cultural shift within an organization. The best performance management becomes a continuous process and is not a one-time event; it takes time and effort and a dedication to developing people. We also knew that from a business standpoint it was critical to build and develop the talent pipeline of the organization to meet the aggressive business goals and dynamically changing marketplace.

Implementing strategic organizational performance management

Strategic organizational performance management starts with a definition of the areas of activity and achievement that are most important to the organization. These could be called organizational key result areas. The next step is to devise strategies that will contribute to organizational capability. Finally, the focus is on developing a high-performance culture.

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Areas of activity and achievement

These might include all or a selection of the following:

- Financial (profitability, shareholder value, cost control, etc)
- Market share
- Sales
- Productivity
- Quality
- People management
- Customer service
- Innovation
- Corporate social responsibility

In each of these areas strategic goals are set to which individual goals can be aligned This is a key aspect of a performance management system for individuals.

Organizational capability

Organizational capability is the capacity of an organization to function effectively. It is about the ability of an organization to identify its core competencies (what the organization is good at doing) and critical success factors, guarantee high levels of performance for each of these factors, achieve its purpose, deliver results and meet the needs of its stakeholders. The development of organizational capability is concerned with the organization as a system in line with the belief expressed by Coens and Jenkins (2002) that to 'focus on the overall "system" of the organization yields better results than [simply] trying to get individual employees to improve their performance'.

The aim is to increase organizational capability by improving organizational processes such as the formulation and implementation of strategy, innovation and the achievement of high quality and levels of customer service, facilitating the management of change and obtaining better performance from people, getting them to work well together.

This has to take place in a context in which organizations are increasingly embracing a new management culture based on inclusion, involvement and participation. This needs to replace the traditional command, control and compliance paradigm, which Flaherty (1999) claimed 'cannot bring about

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the conditions and competence necessary to successfully meet the challenges of endless innovation; relentless downsizing [and] re-engineering'. This new management paradigm requires the development of a high-performance work culture through management practices that value and support achievement, growth and learning. It also calls for facilitative behaviours that focus on employee empowerment, learning and development.

Developing a high-performance culture

High-performance cultures are ones in which the improvement of performance levels is a way of life. The characteristics of such cultures are:

- Management defines what it requires in the shape of performance improvements, sets goals for success and monitors performance to ensure that the goals are achieved.
- People know what's expected of them – they understand their goals and accountabilities.
- People feel that their job is worth doing, and there is a strong fit between the job and their capabilities.
- There is strong leadership from the top, which engenders a shared belief in the importance of continuing improvement.
- There is a focus on promoting positive attitudes that result in an engaged, committed and motivated workforce.
- Work practices such as 'lean' are adopted and there is an emphasis on agility and flexibility.
- There is a climate of trust and teamwork, aimed at delivering a distinctive service to the customer.
- A clear line of sight exists between the strategic aims of the organization and those of its departments and its staff at all levels.

Organizations develop high-performance cultures through the systems of work they adopt but these systems are managed and operated by people. Ultimately, therefore, high-performance working is about improving performance through people. But this process can be facilitated through such methods as high-performance work systems, smart working, agile working, lean manufacturing and organization restructuring, as described below.

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High-performance work systems

A high-performance work system (HPWS) was defined by Becker and Huselid (1998) as: 'An internally consistent and coherent HRM system that is focused on solving operational problems and implementing the firm's competitive strategy.' They suggested that such a system 'is the key to the acquisition, motivation and development of the underlying intellectual assets that can be a source of sustained competitive advantage'.

The basic features of a HPWS were described by Shih et al (2005) as follows:

- *Job infrastructure* – workplace arrangements that equip workers with the proper abilities to do their jobs, provide them with the means to do their jobs and give them the motivation to do their jobs. These practices must be combined to produce their proper effects.
- *Training programmes to enhance employee skills* – investment in increasing employee skills, knowledge and ability.
- *Information sharing and worker involvement mechanisms* – to understand the available alternatives and make correct decisions.
- *Compensation and promotion opportunities that provide motivation* – to encourage skilled employees to engage in effective discretionary decision-making in a variety of environmental contingencies.

Developing a HPWS

The steps required to develop a high-performance work system are described below. The more line managers and other employees can be involved at every stage, the better.

1 *Analyse the business strategy:*
   - What is the business model?
   - Where is the business going (what innovations to the model are planned)?
   - What are the strengths and weaknesses of the business?
   - What threats and opportunities face the business?
   - What are the implications of the above on the types of people required by the business, now and in the future?
   - To what extent do we – can we – obtain competitive advantage through people?

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2 *Define the desired performance culture of the business and the objectives of the exercise* – refer to the characteristics of an effective performance culture set out earlier and produce a list of desirable characteristics that is aligned to the culture and context of the business, and a statement of the objectives of developing a HPWS.

3 *Analyse the existing arrangements* – start from the headings defined at stage 2 and analyse against each heading:
   - What is happening now in the form of practices, attitudes and behaviours (what do you want people to do differently?).
   - What should be happening.
   - What people feel about it (the more involvement in this analysis from all stakeholders, the better).

4 *Identify the gaps between what is and what should be* – clarify specific practices where there is considerable room for improvement.

5 *Draw up a list of practices that need to be introduced or improved* – at this stage only a broad definition should be produced of what ideally needs to be done.

6 *Establish links* – identify the practices that can be linked together in 'bundles' in order to complement and support one another.

7 *Assess practicality* – the ideal list of practices, or preferably, bundles of practices, should be subjected to a reality check:
   - Is it worth doing? What's the business case in terms of added value? What contribution will it make to supporting the achievement of the organization's strategic goals?
   - Can it be done?
   - Who does it?
   - Have we the resources to do it?
   - How do we manage the change?

8 *Prioritize* – in the light of the assessment of practicalities, decide on the priorities that should be given to introducing new or improved practices. Adopt a realistic approach. There will be a limit on how much can be done at once or at any future time. Priorities should be established by assessing:
   - the added value the practice will create;
   - the availability of the resources required;
   - anticipated problems in introducing the practice, including resistance to change by stakeholders (too much should not be made

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of this, change can be managed, but there is much to be said for achieving some quick wins);
- the extent to which they can form bundles of mutually supporting practices.

9 *Define project objectives* – develop the broad statement of objectives produced at stage 2 and define *what* is to be achieved, why and how.

10 *Get buy in* – this should start at the top with the chief executive and members of the senior management team, but so far as possible it should extend to all the other stakeholders (best to involve them at earlier stages and communicate intentions in full).

11 *Plan the implementation* – this is where things become difficult. Deciding what needs to be done is fairly easy; getting it done is the hard part. The implementation plan needs to cover:
- who takes the lead – this must come from the top of the organization; nothing will work without it;
- who manages the project and who else is involved;
- the timetable for development and introduction;
- the resources (people and money required);
- how the change programme will be managed, including communication and further consultation;
- the success criteria for the project.

12 *Implement* – too often, 80 per cent of the time spent on introducing a HPWS is spent on planning and only 20 per cent on implementation. It should be the other way round. Whoever is responsible for implementation must have highly considerable project and change management skills.

Smart working

As defined by the CIPD (2008: 4), smart working is 'An approach to organizing work that aims to drive greater efficiency and effectiveness in achieving job outcomes through a combination of flexibility, autonomy and collaboration, in parallel with optimizing tools and working environments for employees.' The characteristics of smart working are:

- self-management – a high degree of autonomy and a philosophy of empowerment;
- the use of virtual teams or work groups;

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- focus on outcome-based indicators of performance;
- flexibility in work locations and hours;
- use of more advanced communications technology;
- hot-desking and working from home;
- ways of working that are underpinned by or drive high-trust working relationships;
- alignment of smart working with business objectives.

Typical smart working arrangements identified by CIPD research include flexible working, high-performance working, 'lean manufacturing' and designing jobs in which there is a higher degree of freedom to act.

Agile working

Agile working is an approach to running a business that enables it to respond rapidly to change, new demands and increasing complexity. A report by the Economist Intelligence Unit (2009) stated that the characteristics of an 'agile' business were a high-performance culture, flexibility of management practices and resources, and organizational structures that support collaboration, rapid decision-making and execution. Nearly 90 per cent of senior executives surveyed across the world by the Economist Intelligence Unit believe that organizational agility (ability to anticipate and address the forces affecting the business) is critical for business success.

AGILE WORKING IN DELOITTE

Agile working in Deloitte, the professional services firm, is based on three principles:

1. *Outcomes, not inputs, matter*: the focus had to be shifted from the visibility of an individual in the office to the actual outputs of their work.
2. *Mutual trust*: an underlying assumption that the majority of employees are motivated, ambitious and there to do a good job.
3. *Two-way open communication* between the manager, other team members and the individual.

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Research conducted by the CIPD (2014) found that the main methods organizations use to achieve agility are:

- flexible working;
- providing the skills required to meet new demands through the use of multiskilling and rapid retraining;
- workforce planning to ensure that the supply of people matches requirements;
- improving leadership and management capability; and
- organization restructuring.

Lean manufacturing

Lean manufacturing or lean production, often known simply as 'Lean', is a process improvement methodology developed by Toyota in Japan. Lean focuses on reducing waste and ensuring the flow of production in order to deliver value to customers. It concentrates initially on the design of the process so that waste can be minimized during manufacture. It then examines operations to identify opportunities to improve the flow of production, remove wasteful practices and engage in continuous improvement. Various tools are available such as '5S', a workplace methodology involving sorting, straightening, systematic cleaning, standardizing and sustaining. Reference to these enables a dialogue to take place with employees on how work should be done.

But as noted by the CIPD (2008: 11), the success of Lean depends not so much on the tools but on its approach to work. Lean is implemented by communities of people who carry out and supervise the work and may include stakeholders such as customers. Lean team members are encouraged to think flexibly and be adaptable to change. They have a sense of ownership of what they do and achieve.

Organization restructuring

Organization restructuring is about enabling people to work effectively together. It means deciding how organizations should be designed in terms of the ways in which the responsibility for carrying out the overall task is allocated to individuals and groups of people, how the relationships between them function and job design. There is no ideal structure but in any organization that

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depends on innovation and the ability to cope with change and turbulence, the best outcomes are likely to be achieved when the structure is relatively informal with flat, lean and flexible horizontal processes. Roles should be flexible and enriched with more autonomy, and teams should be self-managed.

PRACTICAL IMPLICATIONS

- Consider how the organization's performance is affected by the contributions of its employees.
- Define general and specific areas for action.
- Consider the development of a general system for managing performance, for example a high-performance work system.
- Identify specific areas for action, for example resourcing, talent management, skills development, performance and reward.
- Take steps in conjunction with stakeholders to develop the chosen general or specific actions.

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Individual performance 16

CHAPTER OBJECTIVES

A strategy is required that defines the intentions of the organization on what it wants to do about developing the performance of individual employees. This is considered in this chapter under the following headings:

1 Performance defined
2 The factors affecting individual performance
3 Components of an individual performance strategy
4 Performance management systems
5 Performance leadership
6 Skills development
7 Performance pay
8 Work systems
9 Practical implications

Performance defined

Performance is about what has been achieved and how it has been achieved, in other words, both outcomes and behaviours. When people are said to be performing well it does not solely refer to the results they deliver, it is also concerned with how they deliver them.

Performance management is what the organization and its managers do to ensure that individuals and teams achieve the levels of performance expected of them. Managers manage performance all the time. The organization develops the performance culture and performance management systems that enable them to do this. Importantly, the organization also provides managers

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with the guidance and training that enables them to act as performance leaders who enhance performance by focusing on the motivation, development and wellbeing of the members of their teams.

The factors affecting individual performance

A strategy for managing performance must take account of the five factors affecting individual performance:

1. *The individual*, who needs the right levels of abilities, motivation and opportunities to perform well.
2. *The individual's job*, which has to be designed to provide the scope to use and develop skills and give an appropriate degree of autonomy in carrying out the work.
3. *The individual's manager*, who has to provide leadership and support and act as a coach and mentor as required.
4. *The individual's work group*, whose members will exercise a strong positive or negative influence on the attitudes, behaviour and performance of the individual.
5. *The organization*, which has to operate a work system that facilitates high performance.

Components of an individual performance strategy

There are a number of approaches to the development of individual performance as listed below and described in the next four sections of this chapter:

- A traditional formal performance management system
- A policy of 'performance leadership'
- Skills development
- Performance pay

The strategy will involve the choice between these approaches or a combination of them. Systems thinking is required. This is an analytical approach to understanding how different elements interact within a system. By identifying the underlying structures and relationships that drive events and patterns of

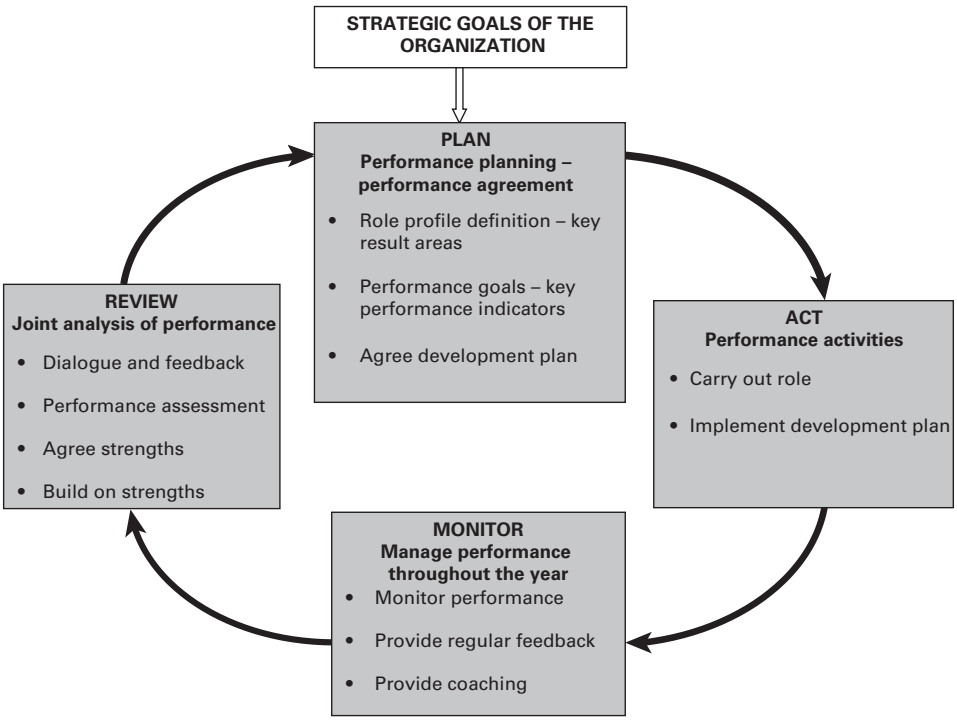
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behaviour it is possible to clarify and expand the choices available and create better long-term solutions. Systems thinking has been described as a language for talking about the complex, interdependent issues managers face every day. And one of these is certainly the development of individual performance.

Performance management systems

A performance management system formalizes the conduct of the five activities deemed to be necessary to achieve improvements in individual performance: 1) agreeing performance goals; 2) aligning those goals with the strategic goals of the organization; 3) planning performance to achieve the goals; 4) reviewing and assessing progress; and 5) developing the capabilities of individuals. A performance management system is a continuous and self-renewing cycle as shown in Figure 16.1.

Figure 16.1 The performance management cycle



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THE PERFORMANCE MANAGEMENT SYSTEM AT A LARGE INTERNATIONAL DELIVERY AND LOGISTICS FIRM

The annual performance management process begins in August when the core elements of the scheme are designed at the top level. Following this, in mid-November, based on the aims decided upon in August, targets are set for the year by a panel of senior staff. Once devised, these targets are cascaded down the organization into individual personal objectives, following discussions between line managers and HR.

The cascading process is designed to ensure that targets are refined and altered to align with each individual's actual job. Further discussions then take place to decide what each target means for employees in practice and their implications for competencies. Around the same time, attainment levels and scoring based on the previous year's performance take place to determine bonus levels and salary rises. Following this, with targets already set, around the middle of January, an outline for recording performance targets for personal and financial performance for the coming year is designed and in mid-February, the company's financial results become known. This makes it possible to determine the pot available for bonus payments and salary increases relating to the previous year. Bonuses are paid in either March or April while salary reviews take place in April.

The initial stage of establishing overall objectives and the target-setting framework sets the tone for the year. Conditions change from year to year, with the priorities of senior management reflecting the current state of affairs. As a result, each year there are a number of overarching themes such as serving customers, for example, or health and safety. These core individual key objectives (IKOs) are strictly adhered to, although local managers can determine themselves how to manage their attainment. In contrast, more flexibility exists for other objectives with managers at lower levels able to alter them to align with their particular needs. There is further flexibility in the system with regard to its timing.

The advantage usually claimed for adopting this traditional approach is its systematic nature. Managers and individuals know what is expected of them and will do it regularly. The analysis of learning and development needs is particularly important. But there are problems.

Problems with the traditional performance management system

Like all models, the performance management cycle has its limitations. It is normative in that it attempts to prescribe a norm or standard pattern as best

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practice by presenting an ideal picture of what a performance management system should look like and how it should work.

One problem with the traditional system is that it can encourage an over-elaborate approach. What should be a natural and straightforward management process can be turned into a bureaucratic nightmare with complex procedures and intricate paper- or computer-based forms. Many managers don't like this and won't do it properly, if at all. Employees can regard it as yet another control mechanism imposed from above.

Another problem with the model is the suggestion that there is a smooth transition from the organization's strategic goals to individual goals. But this is much more difficult than it seems. Strategic goals at organizational level may not always translate easily into individual goals because organizational goals are not defined well enough or are too remote from the work of individual employees. Many commentators have extolled the virtue of alignment; few have made practical suggestions about how it can be achieved. It can also be argued that strategic goals will inevitably be determined by top management without consulting employees, and that simply 'cascading' goals downwards contradicts the performance management principle that people should be involved in agreeing their own goals.

Thereafter, the model indicates a steady progression through the stages of performance management, each of them linked together. This is both logical and desirable but in reality it may be difficult to achieve. The natural tendency of managers is to compartmentalize these activities, if they carry them out at all. They do not always appreciate how they are connected and what they should do to ensure that the cycle works smoothly.

Performance management is applied in many different ways according to the context in which it is used. These ways will not necessarily conform to those prescribed by the model. The contextual factors include the type of operation and the organization's structure. Importantly they also include the organization's culture as expressed in its philosophy or norms (explicit or implicit) on how people should be managed and the prevailing management style, for example, the degree to which it is controlling or participative. As Stoskopf (2002) put it: 'A [performance management] system with the most academically correct competencies or performance measures may fail if it does not fit with the company's culture or workforce.' Pulakos et al (2008) summed this up as follows:

> Performance management is often referred to as the 'Achilles heel' of HRM. All modern organizations face the challenge of how best to manage performance. That is, they must determine the best ways to set goals, evaluate work and distribute rewards in such a way that performance can be improved over

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> time. While all firms face similar challenges, the way a firm responds to these challenges will depend on where the firm is located and the context within which it is operating. Differences in culture, technology or simply tradition make it difficult to directly apply techniques that have worked in one setting to a different setting.

Performance management can promise more than it achieves. Coens and Jenkins (2002) delivered the following judgement:

> Throughout our work lives, most of us have struggled with performance appraisal. No matter how many times we redesign it, retrain the supervisors, or give it a new name, it never comes out right. Again and again, we see supervisors procrastinate or just go through the motions, with little taken to heart. And the supervisors who do take it to heart and give it their best mostly meet disappointment.

Shields (2007) argued that: 'Ill-chosen, badly designed or poorly implemented performance management schemes can communicate entirely the wrong messages as to what the organization expects from its employees.'

The fundamental problem is that performance management systems are easy to conceive but hard to deliver. Duncan Brown (2010) remarked that:

> The problems [of performance management] are… not of ambition or intent, but rather practice and delivery. Low rates of coverage and even more frequently low-quality conversations and non-existent follow-up are commonplace in the wake of uncommitted directors, incompetent line managers, uncomprehending employees and hectoring HR with their still complex and bureaucratic HR processes.

In 2015 Buckingham and Goodall argued for the 'reinvention of performance management'. They proposed that the focus should be on continuous coaching and development rather than on one annual and stressful review, described by Helen Murlis (Armstrong and Murlis, 1994) as 'a dishonest annual ritual'. Buckingham and Goodall advocated the use of performance and development conversations as required rather than an annual event.

The next development was the emphasis by Murphy (2020: 25) on the significance of performance leadership rather than the use of performance management systems. He wrote: 'I believe it would be possible to create successful performance management systems by focusing on the behaviours that have consistently been shown to be essential to successful leadership.' He referred to a well-established leadership theory originally devised by the

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Ohio State researchers Halpin and Winer (1957). They identified two dimensions of leadership behaviour:

- *Initiating structure* – specifying ways and means of achieving the objectives of the group and coordinating the activities of its members.
- *Consideration* – exhibiting concern for the wellbeing of employees and maintaining internal harmony and satisfaction.

Both these behaviours can make a significant contribution to achieving high performance levels. As Murphy points out, they are applied in the important process of cascading organizational and unit level goals to become team and individual goals. This is the role of the manager as a translator and communicator and above all, as a performance leader.

Performance leadership

As performance leaders, managers set the direction, make available the resources needed to get results, motivate their team members, help people to develop their skills (coaching), monitor their progress, provide feedback by means of constructive conversations and ensure that corrective action is taken when necessary.

A study by Dilys Robinson (2013) of the Institute for Employment Studies to identify the qualities of managers who achieved high levels of engagement in their teams found that the key behaviours of such 'engaging managers' were as follows:

- Managers were very clear in their expectations, which gave a focus and a sense of purpose to their teams.
- Managers were good at seeing that team members knew what they were supposed to be doing. But the managers did not prescribe activities, go into great detail or 'micro manage' in any way. Rather, they explained the task, its intended outcome and why the team was being asked to do it, and then allowed people to get on with it.
- Managers set clear quality and behavioural standards, so their teams knew the level at which they should be operating. The teams appreciated the way in which the managers acted as role models by following these standards themselves.

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- Managers were aware of how individuals and the team as a whole were doing, and gave frequent feedback (both positive and, when things were not going so well, remedial). Team members appreciated the timely and frequent feedback they received.

It is these behaviours that should be encouraged and developed rather than imposing a formal performance management system

Skills development

Skill is a learnt ability to apply knowledge effectively in performing a role or task. It is knowing how to do something and then doing it. Skills are the basis for getting work done and are transferable. Hard skills are the professional, technical, administrative or manual skills required to do a job. Soft skills are mainly concerned with interpersonal relationships involving interactions between people. Skills make use of knowledge – the theoretical or practical understanding of a subject. They can be abstract, for example analytical skills, or concrete – the capacity to do what is necessary to fulfil the demands of a role by carrying out the tasks involved effectively.

Skills are developed through education (much of it acquired prior to joining an organization), training and experience. Skills development within an organization is a matter of building on the innate abilities of individuals and their previous education, training and experience to ensure that they have the skills required to carry out their present roles well, including any new demands, and to undertake greater or additional responsibilities in the future.

Performance pay

Some organizations regard performance-related pay (PRP) and performance bonuses as the best ways to incentivize higher performance levels. PRP sounds like a no-brainer. What can be wrong with incentivizing people by relating pay increases to performance? But there are a number of problems:

1 While PRP can serve to recognize and reward high performance it may not be so effective as a motivator and therefore an incentive. Motivation is only likely when a clearly perceived and usable relationship exists between performance and outcome and the outcome is seen as a means of satisfying needs. There must be a clear 'line of sight' between the effort and the reward and this is not easily achievable in many jobs. The value of the

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reward must be worth the effort and this is unlikely to be the case when the average PRP increase is only 3–4 per cent.

2 It relies on judgements of performance, which may be subjective; transforming such judgements into ratings does not make them more objective.

3 It can be prejudicial to teamwork.

4 It focuses on outputs, not quality.

5 It is difficult to manage well.

Some organizations prefer to rely upon re-earnable bonuses that are capable of making a bigger impact and easier to manage.

Work systems

The context of the organization will have a considerable influence on how performance is managed. It has been said that: 'Rather than manage performance, manage the context in which performance occurs' (Jones, 1995: 426). He went on to explain (p 431) that:

> In this equation, the role of management focuses on clear, coherent support for employees by providing information about organization goals, resources, technology, structure, and policy, thus creating a context that has multiplicative impact on the employees, their individual attributes (competency to perform), and their work effort (willingness to perform). In short, managing context is entirely about helping people understand; it is about turning on the lights

The context comprises the organizational culture, the people involved at all levels, including top management, line managers and employees generally, the employee relations climate, and the internal environment in terms of the organization's structure, its size, its technology and working practices and the ways in which jobs are designed. Commentators such as Deming (1986) and Coens and Jenkins (2002) stressed that system factors are instrumental in governing the level of organizational and individual performance. The latter referred to the need to replace the mechanistic model of managing individual performance, that is, a performance management system, with a more dynamic, organic model. According to Coens and Jenkins (p 41) such a model

> attributes organizational outcomes to the interaction of organizational systems and structures (sometimes called *systems theory*) rather than individual performance. This model capitalizes on *freedom* rather than maintaining

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control. We see more and more managers who are willing to experiment with leadership attuned to this new paradigm. It is based on *trust* and a greater belief in people. It assumes that, with less control and greater *autonomy*, commitment and innate motivation will flourish. It rests on the premise that with *less* structure, people can effectively work in concert, within naturally emerging systems that foster optimal work patterns.

Note the reference to leadership.

High-performance work systems

Methods of increasing levels of individual performance described earlier can be enhanced if they take place within the context of a high-performance work system (HPWS) defined by Dundon and Rafferty (2018: 384) as one 'that includes a bundle of innovative HR practices and work processes that are mutually reinforcing, and which correlate to performance improvements at both the individual employee and organizational levels'. The components of such a system could consist of strategies for:

- increasing levels of engagement;
- talent management;
- learning and development with special consideration being given to leadership development;
- financial and non-financial rewards;
- the development and use of performance management systems.

PRACTICAL IMPLICATIONS

- Adopt a systems management approach. Look at the various ways of enhancing individual performance and consider how they will best interact with and support one another.
- Focus on developing a culture of performance leadership, bearing in mind that it is line managers who have the greatest influence on individual performance.
- Remember that individual performance will be affected by the work system. Pay attention to getting that right thus giving individuals the opportunity to perform.

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Human capital management 17

CHAPTER OBJECTIVES

Human capital management (HCM) strategy is closely associated with strategic HRM. It is concerned with obtaining, analysing and reporting on data that inform the direction of HRM strategy and provide for it to be linked to the business strategy. This chapter is set out under the following headings:

1 Characteristics of HCM
2 Aims of HCM
3 The role of HCM strategy
4 The link between HCM and business strategy
5 Developing an HCM strategy
6 Practical implications

Characteristics of HCM

The defining characteristic of HCM is the use of people analytics (metrics) to guide an approach to managing people who are regarded as assets rather than costs. It emphasizes that competitive advantage is achieved by strategic investments in those assets through employee engagement and retention, talent management, and learning and development programmes. HCM is a bridge between people and business strategy. It provides the basis for 'evidence-based people management', that is, the process of ensuring that decisions and proposals on the development and application of people strategies and practices are backed up with hard data derived from research, benchmarking and the analysis and evaluation of the organizational context and management activities.

The Accounting for People Task Force Report (2003: 3) stated that HCM involves 'the systematic analysis, measurement and evaluation of how people

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policies and practices create value'. HCM was defined as 'an approach to people management that treats it as a high level strategic issue rather than an operational matter "to be left to the HR people"' (p 7). The Task Force expressed the view that HCM had been under-exploited as a way of gaining competitive edge.

Scarbrough and Elias (2002: 3) defined human capital as 'something that employees bring to the organization but is also developed through training and experience within the organization'. Nalbantian et al (2004: 75) described human capital as 'The accumulated stock of skills, experience and knowledge that resides in an organization's workforce and drives productive labour' and suggest that human capital management involves 'putting into place the metrics to measure the value of these attributes and using that knowledge to effectively manage the organization'.

HCM is sometimes defined more broadly without the emphasis on measurement and so becomes almost indistinguishable from strategic HRM. Chatzkel (2004: 139) claimed that 'Human capital management is an integrated effort to manage and develop human capabilities to achieve significantly higher levels of performance'. Kearns (2004: 14) asserted that 'everything done in the name of HRM is done in the name of value'. He described HCM as: 'The total development of human potential expressed as organizational value.' He emphasized that it is about creating value through people and that it is 'a people development philosophy, but the only development that means anything is that which is translated into value' (p 205).

Aims of HCM

The aims of HCM are to develop and use people analytics that determine the impact of people on the business and their contribution to value, and provide data that will inform strategies and practices designed to improve the effectiveness of people management in the organization.

The role of HCM strategy

Human capital management strategy was defined by Nalbantian et al (2004: 79) as: 'a blueprint for securing, managing and motivating the workforce needed to support the organization's strategic goals. To be effective, the

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management practices that influence the workforce should be consistent with one another and mutually reinforcing.' HCM presents both an opportunity and a challenge – an opportunity to recognize people as assets that contribute directly to organizational performance; a challenge to develop the skills needed to identify, analyse and communicate that contribution and ensure it is recognized in business decision-making. By developing strategies to generate better and more accurate information in the form of HR analytics and communicating this information both internally and externally, organizations will not only improve their business decision-making but also enable stakeholders to make more accurate assessments about the long-term future performance of the organization. There is evidence of a growing demand from the investment community for better information to explain intangible value. Many organizations are beginning to understand that, in an increasingly knowledge-intensive environment, the key to good management lies in understanding the levers that can be manipulated to change employee behaviour and develop commitment and engagement. This in turn encourages individuals to deliver discretionary behaviour or willingly share their knowledge and skills to achieve organizational goals.

Human capital management strategy involves planning the use of HR metrics that help management and HR specialists to understand factors that will have a direct impact on employees. It can also help executives to understand and identify areas in which there are issues regarding the effective management of staff and to design management development programmes to address these.

The link between HCM and business strategy

HCM and business strategy are closely linked and an HCM approach provides guidance on both HR and business strategy. Scarbrough and Elias (2002: 17) made the point that: 'By linking good HR practice and strategic management to human capital measurement firms are able to make a number of better informed decisions that will help to ensure long-term business success.' Donkin (2005: 3) commented that the HCM proposition 'emphasizes the connections and value flows between strategy, statistical analysis and the key stakeholders – employees, customers and investors'.

The issue is to determine what this link is and how to make it work. A proposition that HCM informs HR strategy, which in turn informs business

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Table 17.1 Analysis of business strategy and business drivers

	Content of business strategy	HR supporting activities	Supporting data required
Business strategy	• Growth – revenue/profit • Maximize shareholder value • Growth through acquisitions/mergers • Growth in production/servicing facilities • Product development • Market development • Price/cost leadership	• Human resource planning • Talent management • Skills development • Targeted recruitment • Retention policies • Leadership development	• Workforce composition • Attrition rates • Skills audit • Outcome of recruitment campaigns • Learning and development activity levels • Outcome of leadership surveys
Business drivers	• Innovation • Maximize added value • Productivity • Customer service • Quality • Satisfy stakeholders – investors, shareholders, employees, elected representatives	• Talent management • Skills development • Total reward management • Performance management • Develop high-performance/smart/agile working • Enhance motivation, engagement and commitment • Leadership development	• Balanced scorecard data • Added value ratios (e.g. added value per employee, added value per £ of employment cost) • Productivity ratios (e.g. sales revenue per employee, units produced or serviced per employee) • Outcomes of general employee opinion survey and other surveys covering engagement and commitment, leadership, reward management and performance management • Analysis of competence level assessments • Analysis of performance management assessments • Analysis of customer surveys • Analysis of outcomes of total quality programmes • Return on investment from training activities • Internal promotion rate • Succession planning coverage

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strategy, tells us nothing about what is involved in practice. It is saying no more than that all business strategic plans for innovation, growth and price/cost leadership depend on people for their implementation. This is not a particularly profound or revealing statement and is in the same category as the discredited cliché 'Our people are our greatest asset'. It is necessary to be more specific, otherwise all that happens is that things are done – more training, talent management, performance management, performance-related pay and so on – in the hope rather than the expectation that they will improve business results.

One way of being more specific is to use HCM assessments of the impact of PM practices on performance to justify these practices and improve the likelihood that they will work. The future of HCM as a strategic management process largely depends on getting this done.

A second way of specifying the link is to explore in more detail the people implications of business strategy and, conversely, the business implications of people strategy. This can be done by analysing the elements of the business strategy and the business drivers and deciding on the HRM supporting activities and supporting data required in the form of HR analytics, as illustrated in Table 17.1.

A third, and potentially the most productive way of linking HR and business strategy is to relate business results to HRM practices to determine how they can best contribute to improving performance.

Developing an HCM strategy

The programme for introducing human capital management is illustrated in Figure 17.1.

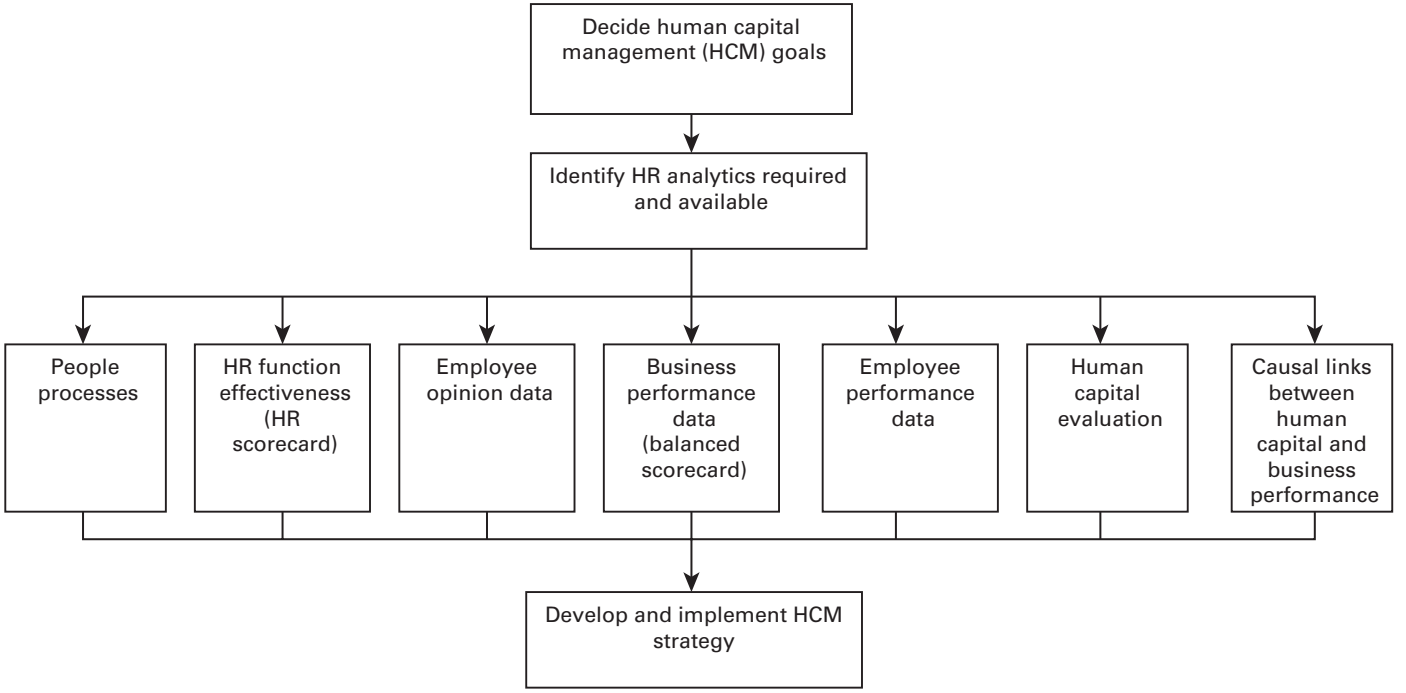
Aims

The development programme starts with a definition of the aims of the HCM strategy, for example to:

- obtain, analyse and report on data that inform the direction of HR strategies and processes;
- assess the value of the organization's human capital;
- inform the development of business strategy;

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Figure 17.1 Developing an HCM strategy



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- use measurements to prove that superior HRM strategies and processes deliver superior results;
- reinforce the belief that HRM strategies and processes create value through people;
- determine the impact of people on business results;
- improve the effectiveness of HR;
- provide data on the performance of the organization's human capital for the operating and financial report;
- demonstrate that HR processes provide value for money.

HR analytics development

The programme continues with the identification of possible HR analytics and how they can be used, as set out in Table 17.2.

Table 17.2 Possible HR analytics and their use

Possible analytics	Use
Workforce composition – gender, race, age, full-time, part-time	• Analyse the extent of diversity • Assess the implications of a preponderance of employees in different age groups, e.g. extent of losses through retirement • Assess the extent to which the organization is relying on part-time staff
Length of service distribution	• Indicate level of success in retaining employees • Indicate preponderance of long- or short-serving employees • Enable analyses of performance of more experienced employees to be assessed
Skills analysis/assessment – graduates, professionally/technically qualified, skilled workers	• Assess skill levels against requirements • Indicate where steps have to be taken to deal with shortfalls
Attrition – employee turnover rates for different categories of management and employees	• Indicate areas where steps have to be taken to increase retention rates • Provide a basis for assessing levels of commitment

(*continued*)

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Table 17.2 (Continued)

Possible analytics	Use
Attrition – cost of	• Support business case for taking steps to reduce attrition
Absenteeism/sickness rates	• Identify problems and need for more effective attendance management policies
Average number of vacancies as a percentage of total workforce	• Identify potential shortfall problem areas
Total payroll costs (pay and benefits)	• Provide data for productivity analysis
Compa-ratio – actual rates of pay as a percentage of policy rates	• Enable control to be exercised over management of pay structure
Percentage of employees in different categories of contingent pay or payment-by-result schemes	• Demonstrate the extent to which the organization believes that pay should be related to contribution
Total pay review increases for different categories of employees as a percentage of pay	• Compare actual with budgeted payroll increase costs • Benchmark pay increases
Average bonuses or contingent pay awards as a percentage of base pay for different categories of managers and employees	• Analyse cost of contingent pay • Compare actual and budgeted increases • Benchmark increases
Outcome of equal pay reviews	• Reveal pay gap between male and female employees
Personal development plans completed as a percentage of employees	• Indicate level of learning and development activity
Training hours per employee	• Indicate actual amount of training activity (note that this does not reveal the quality of training achieved or its impact)
Percentage of managers taking part in formal management development programmes	• Indicate level of learning and development activity
Internal promotion rate (percentage of promotions filled from within)	• Indicate extent to which talent management programmes are successful
Succession planning coverage (percentage of managerial jobs for which successors have been identified)	• Indicate extent to which talent management programmes are successful
Percentage of employees taking part in formal performance reviews	• Indicate level of performance management activity

(*continued*)

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Table 17.2 (Continued)

Possible analytics	Use
Distribution of performance ratings by category of staff and department	• Indicate inconsistencies, questionable distributions and trends in assessments
Accident severity and frequency rates	• Assess health and safety programmes
Cost savings/revenue increases resulting from employee suggestion schemes	• Measure the value created by employees
Measures of impact of PM practices	• Evaluation of effectiveness

USE OF HCM MEASURES IN STANDARD CHARTERED BANK

Standard Chartered Bank began at the strategic level when it came to designing HCM measures. Its starting point for the development of metrics was the identification of people levers for the achievement of business strategy. Next, the bank set out a series of questions designed to inform progress against these people levers. The bank has avoided reporting on data that is readily available but does not address the strategic business questions that had been identified.

PRACTICAL IMPLICATIONS

- Use HCM to indicate the direction to be taken by a resource-based approach in order to improve resource capability.
- Establish a clear line of sight between HR interventions and business success.
- Identify through HRM the drivers of organizational performance such as customer service, innovation, quality and sales/cost leadership.
- Evaluate the impact of HR strategies by means of HCM data and establish the areas in which they could add most value.
- Use HCM data to inform stakeholders on how the organization is managing its human capital.

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Knowledge management 18

CHAPTER OBJECTIVES

Knowledge management strategy plans how to capture an organization's collective expertise and distribute it to where it can be best used. This chapter is set out under the following headings:

1 The process of knowledge management
2 Sources and types of knowledge
3 Components of a knowledge management strategy
4 Strategic knowledge management issues
5 Practical implications

The process of knowledge management

Knowledge management aims to ensure that what is known and understood about an organization's operations, processes and policies accumulated over time is shared by linking people with that information so that they learn from it. This is in accordance with the resource-based view of the firm which, as argued by Grant (1991), suggests that the source of competitive advantage lies within the firm (i.e. in its people and their knowledge), not in how it positions itself in the market. A successful company is a knowledge-creating company.

Scarbrough et al (1999: 1) defined knowledge management as 'any process or practice of creating, acquiring, capturing, sharing and using knowledge, wherever it resides, to enhance learning and performance in organizations'. They suggested that it focuses on the development of firm-specific knowledge and skills that are the result of organizational learning processes. Knowledge management is concerned with both stocks and flows of knowledge. Stocks

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include expertise and encoded knowledge in databases. Flows represent the ways in which knowledge is transferred from people to people or from people to a knowledge database.

The purpose of knowledge management is to transfer knowledge from those who have it to those who need it in order to improve organizational effectiveness. It treats knowledge as a key resource. It can be argued that in the information age, knowledge rather than physical assets or financial resources is the key to competitiveness. The effective management of highly specialized knowledge differentiates a business from its competitors and is therefore a source of sustained competitive advantage.

Knowledge management is as much if not more concerned with people and how they acquire, exchange and disseminate knowledge as it is about information technology. That is why it has become an important strategic HRM area. Scarbrough et al (1999: 59) stated that HR specialists should have 'the ability to analyse the different types of knowledge deployed by the organization… [and] to relate such knowledge to issues of organizational design, career patterns and employment security'.

The concept of knowledge management is closely associated with intellectual capital theory in that it refers to the notions of human, social and organizational or structural capital. It is also linked to the concepts of organizational learning and the learning organization.

Sources and types of knowledge

Strategies for knowledge management should be based on an understanding of the sources and types of knowledge to be found in organizations. Knowledge can be stored in databanks and found in presentations, reports, libraries, policy documents and manuals. It can be moved around the organization through information systems and by traditional methods such as meetings, workshops, courses, 'masterclasses', written publications, emails and social media. An intranet provides an effective medium for communicating knowledge.

As argued by Nonaka (1991) and Nonaka and Takeuchi (1995), knowledge is either explicit or tacit. Explicit knowledge can be codified – it is recorded and available and is held in databases, in corporate intranets and intellectual property portfolios. Tacit knowledge exists in people's minds. It is difficult to articulate in writing and is acquired through personal experience. Hansen et al (1999) suggested that it includes scientific or technological expertise, operational

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know-how, insights about an industry and business judgement. The main challenge in knowledge management is how to turn tacit knowledge into explicit knowledge.

Components of a knowledge management strategy

A knowledge management strategy could be concerned with organizational people management processes that help to develop an open culture. This will be one in which the values and norms emphasize the importance of sharing knowledge and facilitate knowledge sharing through networks. It might aim to encourage the development of communities of practice, defined by Wenger and Snyder (2000: 139), as 'groups of people informally bound together by shared expertise and a passion for joint enterprise'. The strategy could refer to methods of motivating people to share knowledge and rewarding those who do so. The development of processes of organizational and individual learning including the use of seminars and symposia that will generate and assist in disseminating knowledge could also be part of the strategy.

Two approaches to knowledge management have been identified by Hansen et al (1999):

1. *The codification strategy* – knowledge is carefully codified and stored in databases where it can be accessed and used easily by anyone in the organization. Knowledge is explicit and a 'people-to-document' approach is used. This strategy is therefore document driven. Knowledge is extracted from the person who developed it, made independent of that person and reused for various purposes. It will be stored in some form of electronic repository for people to use and allows many people to search for and retrieve codified knowledge without having to contact the person who originally developed it. This strategy relies largely on information technology to manage databases and also on the use of the intranet.
2. *The personalization strategy* – knowledge is closely tied to the person who has developed it and is shared mainly through direct person-to-person contacts. This is a 'person-to-person' approach, which is concerned with tacit knowledge. The exchange is achieved by creating networks and encouraging face-to-face communication between individuals and teams by means of informal conferences, communities of practice, workshops, brainstorming and one-to-one sessions.

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The research conducted by Hansen et al (1999) established that companies which use knowledge effectively pursue one strategy predominantly and use the second strategy to support the first. Those who try to excel at both strategies risk failing at both.

Strategic knowledge management issues

The following issues need to be addressed in developing knowledge management strategy.

The pace of change

The strategy has to ensure that knowledge management processes keep up with the pace of change and identify what knowledge needs to be captured and shared. This is not easy.

Relating knowledge management strategy to business strategy

Hansen et al (1999: 109) contended that it is not knowledge per se but the way it is applied to strategic objectives that is the critical ingredient in competitiveness: 'A company's knowledge management strategy should reflect its competitive strategy: how it creates value for customers, how that value supports an economic model, and how the company's people deliver on the value and the economics.'

Technology and people

Technology is central to organizations adopting a codification strategy. But for those following a broader and potentially more productive personalization strategy, IT assumes more of a supportive role. As Hansen et al (1999: 113) commented:

> In the codification model, managers need to implement a system that is much like a traditional library – it must contain a large cache of documents and include search engines that allow people to find and use the documents they need. In the personalization model, it's more important to have a system that allows people to find other people.

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Scarbrough et al (1999: 35) suggested that 'technology should be viewed more as a means of communication and less as a means of storing knowledge'. Knowledge management is more about people than technology. As research by Davenport (1996) established, managers get two-thirds of their information from face-to-face, or [then] telephone conversations. There is a limit to how much tacit knowledge can be codified. In organizations relying more on tacit than explicit knowledge, a person-to-person approach works best, and IT can only support this process; it cannot replace it.

The significance of process, social capital and culture

A preoccupation with technology may mean that too little attention is paid to the processes (social, technological and organizational) through which knowledge combines and interacts in different ways (Blackler, 1995). The key processes are the interactions that take place between people. These provide the social capital of an organization, that is, the 'network of relationships [that] constitute a valuable resource for the conduct of social affairs' (Nahapiet and Ghoshal, 1998). Social networks can be particularly important to ensure that knowledge is shared. What is also required is another aspect of social capital: trust. People will not be willing to share knowledge with those whom they do not trust.

The culture of the company may inhibit knowledge sharing. The norm may be for people to keep knowledge to themselves as much as they can because 'knowledge is power'. An open culture will encourage people to share their ideas and knowledge.

THE COMMUNITIES OF PRACTICE APPROACH AT ABB

Engineering company ABB has made a considerable commitment to developing face-to-face communities among its service engineers,

The engineers always had an informal network whereby they telephoned each other for advice on technical problems, which was generally on a one-to-one basis. However, the company's senior management wanted to share knowledge more systematically and use it to add value.

Accordingly, they divided the engineers into three regional groups, each of which met for a day every month. Half of the time at these meetings was spent

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listening to ideas updates about the company from their manager, and the other half involved running through reports prepared by the engineers. But after 12 months it was established that most participants were not completing their reports and that the meeting had become a top-down process.

The engineers then made a number of proposals, which were accepted. They minimized the reporting requirements so that a one-line email would be acceptable; they elected the coordinator of each community from their own number; the agenda of meetings was driven much more by the needs of the engineers themselves; and the coordinators of the three groups met regularly to share experiences and ideas.

PRACTICAL IMPLICATIONS

- Recognize the importance of knowledge management as a source of competitive advantage.
- Take steps to codify important areas of knowledge.
- Create networks and communities of practice (groups of people bound together by shared expertise who meet together to share knowledge).
- Generally encourage the communication of information between people.

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Corporate social responsibility 19

CHAPTER OBJECTIVES

Corporate social responsibility (CSR) strategy is concerned with planning how to ensure that the organization conducts its business in an ethical way, taking account of its social purpose and the human, environmental and economic impact of its operations, and going beyond compliance. It is covered in this chapter under the following headings:

1 Corporate social responsibility defined
2 The rationale for CSR
3 The role of strategic CSR
4 CSR activities
5 Developing a CSR strategy
6 The role of the HR function in CSR
7 Practical implications

Corporate social responsibility defined

As defined by McWilliams et al (2006: 1) CSR refers to the actions taken by businesses 'that further some social good beyond the interests of the firm and that which is required by law'. CSR was described by Husted and Salazar (2006) as being concerned with 'the impact of business behaviour on society'. Porter and Kramer (2006: 83) argued that to advance CSR: 'we must root it in a broad understanding of the interrelationship between a corporation and society while at the same time anchoring it in the strategies and activities of specific companies'. They saw CSR as a process of integrating business and society. CSR is very much about sustainability – 'meeting the needs of the present without compromising the ability of future generations to meet their own needs' (World Business Council for Sustainable Social Development, 2006: 1).

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As Windsor (2006: 99) commented: 'Ethical managers engage in impartial moral reflection beyond the law.' Wood (1991: 695) reflected that: 'The basic idea of corporate social responsibility is that business and society are interwoven rather than distinct entities; therefore, society has certain expectations for appropriate business behaviour and outcomes.' CSR, as explained in this chapter, is mainly a strategic matter that impinges strongly on the behaviour of organizations as it affects their stakeholders. Strategic HRM has an important contribution to make.

The rationale for CSR

The philosophy of CSR is largely based on stakeholder theory. This proposes that managers should tailor their policies to satisfy a number of constituents, not just shareholders. Stakeholding is based on the idea that a company is responsible not just to its shareholders but to a plurality of groups. The inclusion of such groups assumes that they all have an interest in the operation of the company. Investors, employees, suppliers and customers come into this category.

The rationale for CSR as described by Hillman and Keim (2001) is based on two propositions; first, there is a moral imperative for businesses to 'do the right thing' without regard to how such decisions affect firm performance (the social issues argument), and second, firms can obtain competitive advantage by tying CSR activities to primary stakeholders (the stakeholders argument). Their research in 500 firms implied that investing in stakeholder management may be complementary to shareholder value creation and could indeed provide a basis for competitive advantage as important resources and capabilities are created that differentiate a firm from its competitors (the resource-based view). The arguments supporting CSR identified by Porter and Kramer (2006) were:

1. *The moral imperative* – companies have a duty to adopt good citizenship behaviour.
2. *Sustainability* – an emphasis on environmental and community stewardship.
3. *Licence to operate* – every company needs tacit or explicit permission from government, communities and other stakeholders to do business.
4. *Reputation* – CSR initiatives can be justified because they improve a company's image, strengthen its brand, enliven morale and even raise the value of its stock.

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A lot of research has been conducted on the impact of CSR. Russo and Fouts (1997) found that there was a positive relationship between environmental performance and business performance. Waddock and Graves (1997) established that CSR results in an improvement in firm performance. But McWilliams and Siegel (2001) discovered only a neutral relationship between CSR and profitability.

The opposing view was expressed forcibly by marketing expert Theodore Levitt. In a *Harvard Business Review* article 'The dangers of social responsibility' (1958: 44), he emphasized that: 'The essence of free market enterprise is to go after profit in any way that is consistent with its own survival as an economic system.' Milton Friedman (1970), the Chicago monetarist, expressed the same sentiment. His view was that the social responsibility of business is to maximize profits within the bounds of the law. He argued that the mere existence of CSR was an agency problem within the firm in that it was a misuse of the resources entrusted to managers by owners that could be better used on value-added internal projects or returned to the shareholders.

But it can be argued, as do Moran and Ghoshal (1996), that what is good for society does not necessarily have to be bad for the firm, and what is good for the firm does not necessarily have to come at a cost to society. This notion may support a slightly cynical view that there is room for enlightened self-interest – doing well by doing good.

The role of strategic CSR

CSR can be an integral element of a firm's business and corporate-level differentiation strategies. Therefore, it should be considered as a form of strategic investment. Even when it is not directly tied to a product feature or production process, CSR can be viewed as a form of reputation building or maintenance. Baron (2001) pointed out that CSR is what a firm does when its business and marketing strategy is concerned with the public good. And Husted and Salazar (2006: 83) commented that: 'There are additional benefits that the firm extracts from a given level of social output… precisely because the firm has designed a strategy so as to appropriate such benefits.'

Strategic CSR is about deciding initially whether or not the firm should be involved in social issues and then creating a corporate social agenda – deciding what social issues to focus on and to what extent. Porter and Kramer (2006: 85) argued that: 'It is through strategic CSR that the company will

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make the greatest social impact and reap the greatest business benefits.' They also stressed (p 91) that:

> Strategy is always about making choices, and success in corporate social responsibility is no different. It is about choosing which social issues to focus on… organizations that make the right choices and build focused, proactive and integrated social initiatives in concert with their core strategies will increasingly distance themselves from the pack.

McWilliams and Siegel (2001) suggested that CSR activities should be included in strategy formulation and that the level of resources devoted to CSR be determined through cost/benefit analysis

CSR strategy needs to be integrated with the business strategy but it is also closely associated with HR strategy. This is because it is concerned with ethical behaviour both outside and within the firm – with society generally and with the internal community. In the latter case this means creating a working environment where personal and employment rights are upheld and HR policies and practices provide for the fair and ethical treatment of employees.

CSR activities

CSR activities as listed by McWilliams et al (2006) include incorporating social characteristics or features into products and manufacturing processes, adopting progressive human resource management practices, achieving higher levels of environmental performance through recycling and pollution abatement and advancing the goals of community organizations.

Business in the Community (2007) surveyed the CSR activities of 120 leading British companies and summarized them under four headings:

1. *Community* – skills and education, employability and social exclusion were frequently identified as key risks and opportunities. Other major activities were support for local community initiatives and being a responsible and safe neighbour.
2. *Environment* – most companies reported climate change and resource use as key issues for their business. Eighty-five per cent of them managed their impacts through an environmental management system.
3. *Marketplace* – the issues most frequently mentioned by companies were research and development, procurement and supply chain, responsible selling, responsible marketing and product safety. There was a rising focus

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on fair treatment of customers, providing appropriate product information and labelling, and on the impacts of products on customer health.

4 *Workplace* – this was the strongest management performing area as most companies have established employment management frameworks that can cater for workplace issues as they emerge. Companies recognized the crucial role of employees to achieve responsible business practices. Increasing emphasis was placed on internal communications and training to raise awareness and understanding of why it is relevant to them and valuable for the business. Attention was being paid to health and wellbeing issues as well as the traditional safety agenda. More work was being done on equality, diversity and inclusion (EDI) both to ensure that the business attracts a diverse workforce and to demonstrate that it cares.

Business in the Community also reported a growing emphasis on responsible business as a source of competitive advantage when firms move beyond minimizing risk to creating opportunities.

FIRST CHOICE HOMES OLDHAM – THE LIVE WELL PROGRAMME

By involving colleagues in setting up a health and wellbeing programme, First Choice Oldham created an action plan that has led to healthier, happier and better motivated staff with improved physical and mental wellbeing. Priorities were set using sickness statistics, health and wellbeing information from a colleague survey and general health information from the Borough of Oldham.

Staff can now access health and lifestyle assessments, a health kiosk and help to stop smoking, and as a result awareness of cancer risk and mental health has been raised.

Employee engagement has increased as healthier employees demonstrate higher levels of commitment, and sickness absence has been reduced.

Developing a CSR strategy

A CSR strategy will set out how the organization intends to fulfil its social purpose by its meeting its social responsibilities. The steps required to develop and implement the strategy are:

1 Establish the nature of the business, political and social environment in which the organization operates and its corporate and HR strategies.

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2 Identify the organization's stakeholders and find out their views and expectations on CSR.
3 Define and prioritize the areas in which CSR activities might take place by reference to their relevance within the context of the organization, and an evaluation of their significance to stakeholders.
4 Draw up the strategy and obtain approval for it from top management and key stakeholders.
5 Introduce and then measure and evaluate the effectiveness of CSR.

Role of the HR function in CSR

The most obvious role HR has to play in CSR is as the expert on ethical employment practices, which is a core strand of corporate responsibility. But beyond this, HR is also the single function best placed to pick up on and develop organizational culture and values to embed corporate responsibility. HR's remit for leadership capability, people management practices and employee behaviours means that it can add value to all aspects of the business, and it must be prepared to speak up on these.

The CIPD (2024: 5) stated that: 'The way a company treats its employees will contribute directly to the picture of a company that is willing to accept its wider responsibilities.' CSR is an opportunity for the HR function to demonstrate a strategic focus and for its members to act as business partners. The credibility of CSR is dependent on delivery, not on rhetoric and HR is responsible for many of the key systems and processes (e.g. recruitment, training, communications) on which effective delivery depends. People management policy and practice on the way an organization treats its employees, including what it does about equality, diversity and inclusion, employee representation and development, and employee wellbeing, will contribute to the picture of a company that is willing to accept its wider responsibilities.

The CIPD (2013: 9) expressed the view that 'the HR function has a key role to play in embedding corporate responsibility in all aspects of the business'. The ways in which this could be done were suggested by the CIPD as being to:

- ensure that corporate responsibility is part and parcel of HR's strategy;
- thread sustainability concerns through people management policies and practices;

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- develop management capability and promote organizational learning in corporate responsibility;
- ensure alignment between the organization's values, culture and business activity.

The CIPD also pointed out that it is in the last of these that HR is seen to have a unique role in corporate responsibility. Beyond its own remit of people management practices, it is ideally placed to be able to gauge, understand and help to change organizational culture, the critical ingredient in corporate responsibility. Organizational culture runs through all aspects of a business and, in acting as its guardian, HR can become a mirror of conscience to the rest of the organization.

PRACTICAL IMPLICATIONS

- Make out the business case for CSR as well as the ethical one.
- Identify the areas in which a CSR strategy should be developed. Consult with stakeholders on their view about the involvement of the organization in CSR and what this would mean in practice.
- Ensure that any CSR strategies that are developed are practicable and acceptable to stakeholders.
- Constantly monitor the implantation of CSR strategy and take swift action to deal with any problems.

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ESG strategy 20

CHAPTER OBJECTIVES

The ESG acronym, standing for 'environmental, social and governance', covers three criteria that can be referred to by stakeholders in order to understand what actions an organization is taking to deal with the issues it faces in these areas. Such actions can be recorded in an 'ESG framework' and reported on regularly by the organization. The performance of a business in relation to ESG criteria is increasingly being taken into account by investors when making their decisions. But as a framework the criteria can also provide a valuable guide to policy in the areas they cover. This chapter is set out under the following headings:

1 The ESG framework
2 The significance of ESG
3 ESG reporting
4 Developing an ESG strategy
5 Responsibility for ESG
6 Practical considerations

The ESG framework

The ESG framework contains three criteria:

1 *Environmental criteria* that include issues such as an organization's energy use, waste, pollution and natural resource conservation and the consequences for human beings as a result. The criteria may also be used to evaluate any environmental risks an organization might face and how it is managing those risks.
2 *Social criteria* that look at the company's relationships with internal and external dealing with issues such as the experience of employees working

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for the company, diversity policies, concerns for the health and safety of employees, relationships with the community and how the company treats its customers and suppliers.

3 *Governance criteria* that cover such issues as the internal system of practices and controls an organization adopts to govern itself, the composition of the board, the use of accurate and transparent accounting methods, and executive pay.

The significance of ESG

According to PwC (2022), it is anticipated that asset managers globally will increase their ESG-related assets under management to US$33.9 trillion by 2026, from US$18.4 trillion in 2021, with a projected compound annual growth rate of 12.9 per cent. They commented that this represents a dramatic and continuing shift in the asset and wealth management industry. PwC noted (pp 7, 9) that:

> Strong asset and wealth management market growth over the past ten years has been driven by both asset prices and flows. Now ESG is poised to become a key market driver… These changes underline the importance for asset managers and institutional investors alike to understand how to capture the shift to ESG as a counterbalance to potential portfolio underperformance… Companies with better ESG performance can increase share-holder value by better managing risks related to emerging ESG issues, by anticipating regulatory changes or consumer trends, and by accessing new markets or reducing costs… Moreover, ESG issues can have a strong impact on reputation and brands, an increasingly important part of company value.

ESG reporting

ESG reporting is typically done by publishing a sustainability report based on an ESG framework supported by an ERG materiality assessment (these terms are explained later in this chapter). Data may be disclosed through web pages that showcase the company's ESG performance in addition to a more standard report.

A distinction should be made between sustainability frameworks and sustainability standards. Frameworks offer principles-led guidance on how information is structured, how it is prepared and what broad topics are covered.

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Standards provide specific, detailed and replicable requirements for what should be reported for each topic, including metrics. Standards make frameworks actionable, ensuring comparable, consistent and reliable disclosure. Frameworks and standards are complementary and are designed to be used together.

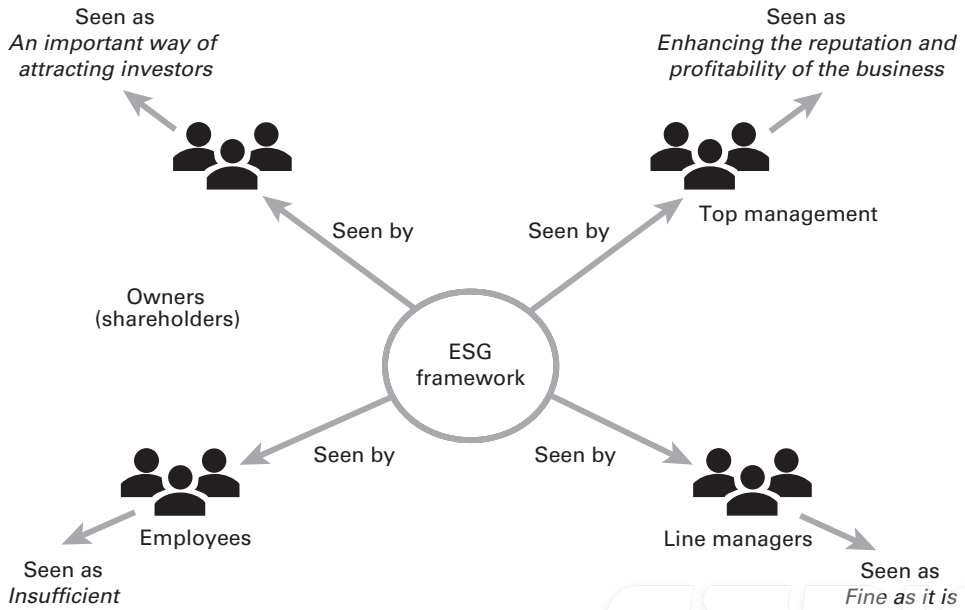
Developing an ESG strategy

An ESG strategy will set out how an organization intends to use the ESG framework as a basis for fulfilling its social purpose and for persuading potential investors that the business is committed to behaving responsibly. PwC (2022: 18) stated that: 'The faster and more effectively you can build ESG into the heart of your strategy and capabilities, the better your ability to meet investor expectations and attract new mandates.' The steps required to develop an ESG strategy are explained below.

Step 1 Consult internal and external stakeholders

Obtain the views of internal stakeholders (management, managers and employees) and external stakeholders (customers, suppliers, shareholders, community leaders) on what ESG issues are important to the business and what

Figure 20.1 A stakeholder model



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matters to them. Views can be presented in a format such as that illustrated in Figure 20.1.

In addition, the present situation in the organization relating to the ESG criteria should be analysed and examples of good practice in other organizations studied.

Step 2 Construct ESG framework

An ESG framework sets out under the three ESG headings the areas of activity and performance that the organization intends to report on and deal with. Its contents will be based on the information obtained in Step 1. A study of 16 frameworks adopted by a number of major worldwide companies reveals that the average (mean and median) number of items was 18. Common ones included toxic emissions, waste, decarbonization, the employee experience, community relations, fair treatment of suppliers, business integrity and company leadership. An example is given in Table 20.1.

Step 3 Assess the materiality of the ESG issues (areas of activity and performance)

Materiality is the financial accounting term for importance or significance. At this stage an assessment is made of the relative materiality of the various ESG issues from the points of view of both the stakeholders and the business. This will enable the prioritization of actions to take place. It is expressed in an ESG materiality matrix, an example of which is given in Figure 20.2.

Table 20.1 An ESG framework

Environment	Society	Governance
• Decarbonization • Energy efficiency management • Natural resource depletion • Toxic releases and waste • Water pollution	• Community relations • Employee experience • Fair treatment of suppliers • Funding underserved communities • Health and safety	• Board structure and composition • Business integrity • Company leadership • Data protection • Executive pay • Regulatory compliance

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Figure 20.2 An ESG materiality matrix

IMPORTANCE TO INTERNAL AND EXTERNAL STAKEHOLDERS	EXTREMELY IMPORTANT	• Health and safety	• Fair treatment of suppliers	• *Business integrity* • *Company leadership* • Employee experience • **Toxic releases and waste** • **Water pollution**
	VERY IMPORTANT	• **Decarbonization**	• *Data protection* • **Energy efficiency management**	• *Board structure and composition* • Community relations
	IMPORTANT	• *Executive pay* • **Natural resource depletion**	• Funding underserved communities	• *Regulatory compliance*
		IMPORTANT	VERY IMPORTANT	EXTREMELY IMPORTANT
		IMPORTANCE TO BUSINESS PERFORMANCE		

Key: **Environment** | Society | *Governance*

Step 4 Establish a baseline on ESG performance

Document current performance levels, policies, practices and statistics on the ESG factors that will be addressed as part of the strategy. Doing so provides a starting point for future comparisons to evaluate the progress of ESG efforts.

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Step 5 Decide on measures

Decide on the measures or metrics to be used in setting targets and analysing performance. Examples of measures for three quantitative standards and one qualitative one are:

- Percentage of renewable energy used to total energy consumed.
- Percentage of eligible products by revenue certified to an environmental life cycle standard.
- Changes in greenhouse gas emission in metric tonnes.
- How the company includes end-of-life considerations in product design, for example the use of materials that are easily and commonly recyclable.

Step 6 Define targets for ESG initiatives

Set performance targets or objectives for each ESG item, for example: 'reduce carbon emissions by 20 per cent over the next twelve months'; 'increase the representation of women on the board to 25 per cent over the next two years'; 'reduce the accident rate by 30 per cent over the next 12 months'. These targets will provide the basis for action, analysis and reporting.

Step 7 Decide on the reporting format

There are no standard formats. What is necessary is that the statistics on outcomes under each ESG heading should be recorded, and actuals and targets should be compared, The highlights for the reporting period can be set out in a narrative. The following example shows part of a narrative, extracted from the PwC Environmental Impact Report (2023).

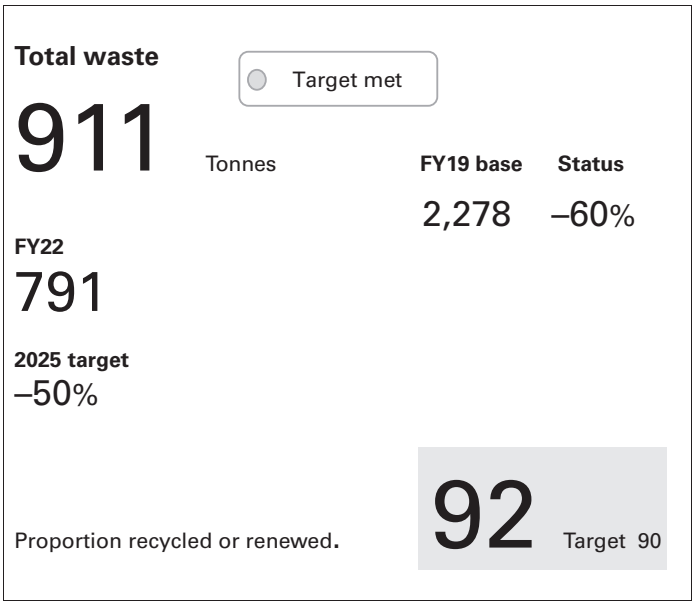
DRIVING A NET ZERO AND SUSTAINABLE FUTURE

With the launch of our net zero commitments and sustainability targets, we moved our baseline reporting year to FY19. Our total carbon emissions have decreased by 51% compared to this baseline, while our revenues increased by 20% over the same period.

We have achieved an 87% reduction in our Scope 1 and 2 carbon emissions since FY19, surpassing our target of -50%. This is a result of our ongoing efforts to enhance energy efficiency in our offices through energy-saving projects and renovations during the year.

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Figure 20.3 Extract from PwC (2023) Environmental Impact Report



Detailed information on individual items can also be given, as in the example in Figure 20.3.

Step 8 Collect, analyse and report on ESG data

Decisions made at earlier stages will indicate what data should be collected, how it should be analysed and how reports will be structured. The reports can then be prepared and communicated to stakeholders, including the general public. They should include details of any proposed actions to deal with issues such as shortfalls in hitting targets.

Responsibility for ESG

The ultimate responsibility for ESG is, of course, top management. Larger organizations may appoint a head of sustainability to direct and control ESG matters. The work of writing and publishing reports and issuing press releases may be allocated to a PR department or a consultancy. The type of data to be included in those reports will be subject to approval by senior management. It will be assembled by the heads of the various functions involved. The

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role of HR is to act as the expert on ethical employment practices and so it is well placed to advise on issues of organizational culture and values. Its role as an advisory and service provision function makes it a good choice for the job of coordinating the development and implementation of an ESG strategy if it is not thought necessary to have a head of sustainability.

PRACTICAL IMPLICATIONS

- Define the significance and value of adopting the ESG framework (this should be done by the board).
- Allocate the responsibility for overseeing all aspects of ESG to a member of the executive board (this could be a full-time appointment, but, less desirably, it could be added to existing responsibilities).
- Make a senior manager responsible to the director of ESG for coordinating and managing the development and implementation of the ESG strategy including, importantly, the preparation and implementation of plans and programmes for achieving ESG targets.
- Consult with stakeholders on what items should be incorporated in the ESG framework.
- Construct the ESG framework selecting items that are regarded as being important by the organization and its stakeholders.
- Review the relative importance (materiality) of the different items.
- Decide on what data is to be used, where it is to be obtained and how it will be presented.
- Determine the format of any reports or press releases.
- Set targets for reaching the required ESG standards and ensure that the appropriate function takes steps to achieve them.
- Monitor the implementation and ensure that corrective action is taken to deal with any shortcomings. The day-to-day responsibility should be allocated to the ESG coordinator, but the ultimate responsibility rests with the board, which should be prepared to actively monitor progress and initiate action when necessary.

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PART FOUR
Specific HR strategies

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Resourcing 21

CHAPTER OBJECTIVES

Resourcing is what organizations do to ensure they have the people they need. Resourcing strategy is concerned with identifying how many and what sort of employees and skills are required and making plans to obtain and retain them and to employ them efficiently. This chapter is set out under the following headings:

1 The rationale for strategic resourcing
2 The strategic HRM approach to resourcing
3 Integrating business and resourcing strategies
4 Bundling resourcing strategies and activities
5 The components of employee resourcing strategy
6 Resourcing plans
7 Retention strategy
8 Flexibility strategy
9 Practical implications

The rationale for strategic resourcing

Strategic resourcing is a key part of the strategic human resource management process – one that is fundamentally about matching human resources to the strategic and operational needs of the organization and ensuring the full utilization of those resources. It is concerned not only with getting and keeping the number and quality of employees needed but also with selecting and promoting people who 'fit' the culture and the strategic requirements of the organization. It involves 'skills-based hiring' as distinct from 'job-based hiring', that is, the focus is on the skills required to carry out a role rather than the content of a job in terms of its duties and responsibilities.

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The rationale for developing a resourcing strategy flows from the suggestion by Ewart Keep (1989: 122) some time ago but just as relevant today that HRM should make a significant effort towards:

> obtaining the right basic material in the form of a workforce endowed with the appropriate qualities, skills, knowledge and potential for future training. The selection and recruitment of workers best suited to meeting the needs of the organization ought to form a core activity upon which most other HRM policies geared towards development and motivation could be built.

The concept that the strategic capability of a firm depends on its resource capability in the shape of people (the resource-based view) provides an additional rationale for resourcing strategy. A key aim of this strategy is to ensure that a firm achieves competitive advantage by employing more capable people who have a wider and deeper range of skills than those of its rivals. The organization attracts such people by being 'the employer of choice'. It retains them by providing better opportunities and rewards than others, offering a worthwhile employee experience and developing a positive employment relationship that increases engagement and creates mutual trust.

The strategic HRM approach to resourcing

HRM places emphasis on finding people whose skills, attitudes and behaviour are likely to fit the criteria believed by management to be appropriate and conducive to success. In the words of Townley (1989: 92), organizations are concentrating more on 'the attitudinal and behavioural characteristics of employees'. This tendency has its dangers. Innovative and adaptive organizations need a cadre of non-conformists, even mavericks, who can 'buck the system'. If managers recruit people 'in their own image' there is the risk of staffing the organization with conformist clones and thus perpetuating a dysfunctional culture – one that may have been successful in the past but is no longer appropriate in the face of new challenges. As Pascale (1990) put it: 'nothing fails like success'. The HRM approach to resourcing therefore emphasizes that matching resources to organizational requirements may mean radical changes in thinking about the skills and behaviours required in the future to achieve sustainable growth and cultural change.

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Integrating business and resourcing strategies

The philosophy behind the strategic HRM approach to resourcing is that it is people who implement the strategic plan. As Quinn Mills (1985) expressed it, the process is one of 'planning with people in mind'.

The integration of business and resourcing strategies is based on an understanding of the direction in which the organization is going and the determination of:

- the skills required to support the achievement of business strategies;
- the numbers of people with those skills required to meet business needs;
- the impact of organizational restructuring as a result of rationalization, decentralization, delayering, acquisitions, mergers, product or market development, or the introduction of new technology, for example AI;
- plans for changing the culture of the organization in such areas as innovation, leadership, teamworking, performance standards, quality and customer service, which indicate the need for people with different attitudes, beliefs and personal characteristics;
- plans for introducing a high-performance work system or for creating a leaner or more agile organization;
- plans for improving the employee experience – everything that people encounter, observe and feel during the course of their employment from its beginning and onwards;
- plans for increasing flexibility in the use of people.

These factors will be strongly influenced by the types of business strategies adopted by the organization and the sort of business it is in. These may be expressed in such terms as Miles and Snow's (1978) typology of defender, prospector and analyser organizations.

Resourcing strategies exist to provide the people and skills required to support the business strategy, but they should also contribute to the formulation of that strategy. HR directors have an obligation to point out to their colleagues the human resource opportunities and constraints that will affect the achievement of strategic plans. In mergers or acquisitions, for example, the ability of management within the company to handle the new situation and the quality of management in the new business will be important considerations.

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Bundling resourcing strategies and activities

Employee resourcing is not just about recruitment and selection. It is also concerned with ensuring that the experience of employees in working for the organization is satisfying and that it meets the needs for certain skills and behaviours. A strategy to enlarge the skill base may start with recruitment and selection but would extend into learning and development to enhance skills and modify behaviours, and into methods of rewarding people for the acquisition of extra skills. Performance management processes can be used to identify development needs (skills and behavioural) and motivate people to make the most effective use of their skills. The aim should be to develop a reinforcing bundle of strategies along these lines. Talent management as an aspect of resourcing is a 'bundling' process.

The components of employee resourcing strategy

The components of employee resourcing strategy are:

- Workforce planning – assessing future business needs and deciding on the numbers and types of people required.
- Developing the organization's employee value proposition and its employer brand.
- Resourcing plans – preparing plans for finding people from within the organization and/or for learning and development programmes to help people learn new skills. If needs cannot be satisfied from within the organization, it involves preparing longer-term plans for ensuring that recruitment and selection procedures will satisfy them.
- Retention strategy – preparing plans for retaining the people the organization needs.
- Flexibility strategy – planning for increased flexibility in the use of human resources to enable the organization to make the best use of people and adapt swiftly to changing circumstances, although it should be remembered that flexibility for the employer can mean insecurity for the employee.
- Talent management strategy – ensuring that the organization has the talented people it requires to provide for management succession and meet present and future business needs

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Workforce planning

Workforce planning determines the human resources required by the organization to achieve its strategic goals and prepares and implements programmes for satisfying those requirements. It was defined by the CIPD (2023: 1) as: 'A core business process which aligns changing organisation needs with people strategy.'

Workforce planning (sometimes called human resource planning) is based on the belief that people are an organization's most important strategic resource. It is generally concerned with matching resources to business needs in the longer term, although it will also deal with shorter-term requirements. It addresses people needs both in quantitative and qualitative terms. This means answering two basic questions: 1) How many people? and 2) What sort of people? Workforce planning also looks at broader issues relating to the ways in which people are employed and developed in order to improve organizational effectiveness. It can therefore play an important part in strategic human resource management.

Link to business planning

Workforce planning should be an integral part of business planning. The strategic planning process defines projected changes in the types of activities carried out by the organization and the scale of those activities. It identifies the core competencies the organization needs to achieve its goals and therefore its skill and behavioural requirements.

Workforce planning interprets these plans in terms of people requirements. But it may influence the business strategy by drawing attention to ways in which people could be developed and deployed more effectively to further the achievement of business goals. It may also focus on any problems that might have to be resolved in order to ensure that the people required will be available and will be capable of making the necessary contribution. As Quinn Mills (1985: 105) indicated, human resource planning is 'a decision-making process that combines three important activities: (1) identifying and acquiring the right number of people with the proper skills, (2) motivating them to achieve high performance, and (3) creating interactive links between business objectives and people-planning activities'.

Hard and soft workforce planning

A distinction can be made between 'hard' and 'soft' workforce planning. The former is based on quantitative analysis in order to ensure that the right

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number of the right sort of people is available when needed. Soft planning is concerned with broader issues about the employment of people than is the traditional quantitative approach. But it also addresses those aspects of human resource management that are primarily about the organization's requirements for people with the requisite skills. It may therefore include a skills audit designed to establish what skills are available in the organization, a skills forecast to determine, as far as possible, future skills requirements, and a gap analysis to examine any discrepancy between availability and requirement and to decide what to do about it.

However, although the notion of workforce planning is well established in the people management vocabulary, it does not seem to be embedded as a key HR activity. As Rothwell (1995: 175) commented: 'Apart from isolated examples, there has been little research evidence of increased use or of its success.' She explains the gap between theory and practice as arising from:

- the impact of change and the difficulty of predicting the future – 'the need for planning may be in inverse proportion to its feasibility';
- the 'shifting kaleidoscope' of policy priorities and strategies within organizations;
- the distrust displayed by many managers of theory or planning – they often prefer pragmatic adaptation to conceptualization;
- the lack of evidence that human resource planning works.

Research conducted by Cowling and Walters (1990) indicated that the only formal and regular activities carried out by respondents were the identification of future training needs, analysis of training costs and analysis of productivity. Fewer than half produced formal labour supply and demand forecasts, and less than 20 per cent formally monitored HR planning practices.

Summarizing the problem, Taylor (1998: 64–5) observed that:

> It would seem that employers, quite simply, prefer to wait until their view of the future environment clears sufficiently for them to see the whole picture before committing resources in preparation for its arrival. The perception is that the more complex and turbulent the environment, the more important it is to wait and see before acting.

Be that as it may, it is difficult to reject out of hand the belief that some attempt should be made to determine broadly the future human resource requirements, if only as an indication of what skills will be needed as a basis for strategic planning and action.

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Approaches to workforce planning

Resourcing strategies show the way forward through the analysis of business strategies and demographic trends. They are converted into action plans based on the outcome of the following interrelated planning activities:

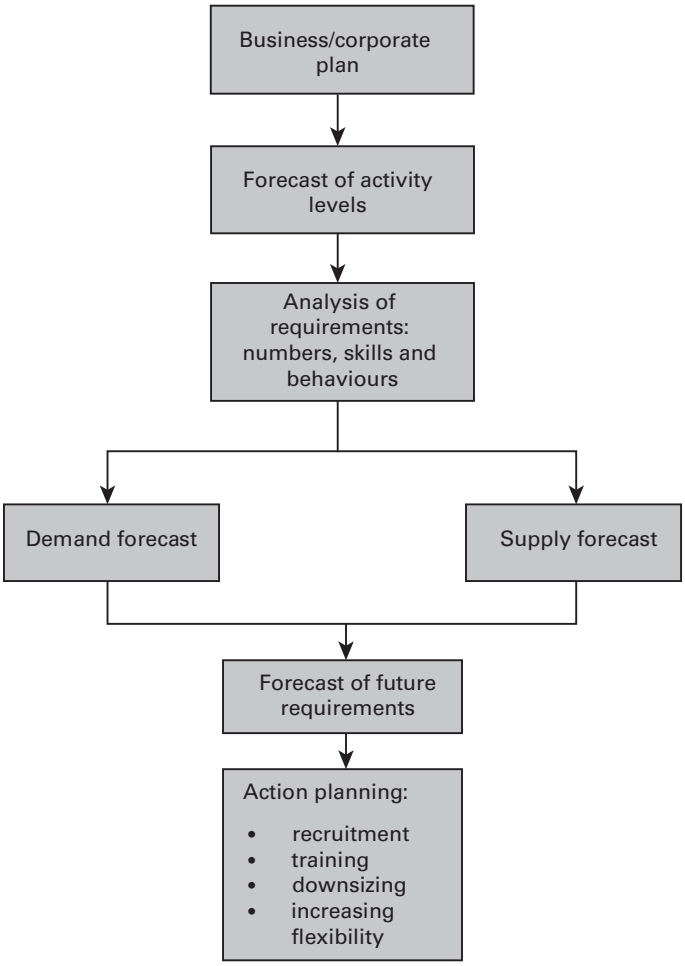
- Demand forecasting – estimate future needs for people and skills by reference to corporate and functional plans and forecasts of future activity levels.
- Supply forecasting – estimate the supply of people by reference to analyses of current resources and future availability, after allowing for wastage. The forecast will also take account of labour market trends relating to the availability of skills and to demographics.
- Forecasting requirements – analyse the demand and supply forecasts to identify future deficits or surpluses, with the help of models where appropriate.
- Action planning – prepare plans to deal with forecast deficits and to match supply and demand through internal promotion, training or external recruitment. If necessary, plan for unavoidable downsizing so as to avoid any compulsory redundancies, if that is possible.
- Develop retention and flexibility strategies.

Although these are described as separate areas they are closely interrelated and often overlap. For example, demand forecasts are estimates of future requirements, and these may be prepared on the basis of assumptions about the productivity of employees. But the supply forecast will also have to consider productivity trends and how they might affect the supply of people.

A flow chart of the process of workforce planning is shown in Figure 21.1, which represents an ideal deterministic model of how it should happen. It may be useful to have such a model and the activities involved in mind, but in practice, organizations tend to do their workforce planning on the hoof, for the reasons given earlier. Some or all the activities represented on the model may take place, but not in a neat sequential sequence. Mabey et al (1998: 520) observed that: 'Much SHRM literature assumes a naive, over-rationalist view of organizational decision-making.' This comment applies as much if not more to workforce planning as to any other strategic HRM decisions. The model ignores both the political realities and the reluctance of senior managers to make people strategy decisions.

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Figure 21.1 Workforce planning flow chart



Employee value proposition

An important aspect of resourcing strategy is the development and actioning of plans to shape what the organization has to offer to people who join and stay with it. This can be done by drawing up an employee value proposition – a statement of what an organization will provide that people will value. It will include pay, which is important but can be overemphasized compared with other elements. These non-financial factors may be crucial in attracting and retaining people and include:

- the attractiveness of the organization;
- responsibility – corporate conduct and ethics;

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- respect – diversity and inclusion;
- work–life balance;
- opportunities for personal and professional growth.

Employer brand

The employee value proposition can be expressed as an employer brand that defines what is special, even unique, about an organization that will attract people to join it and encourage those already there to stay. Employer branding is the creation of a brand image of the organization for prospective employees. It will be influenced by the reputation of the organization as a business or provider of services, as well as by its reputation as an employer.

Resourcing plans

The analysis of future requirements should indicate what steps need to be taken to appoint people from within the organization and what learning and development programmes should be planned. If these steps are insufficient to meet requirements, an analysis will establish how many people will need to be recruited.

Internal resourcing

Ideally, internal resourcing should be based on data already available about skills and potential. This should have been provided by regular skills audits and the analysis of the outcomes of performance management reviews. A 'trawl' can then be made to locate available talent, which can be accompanied by an internal advertising campaign.

External resourcing

External resourcing requirements can be met by developing a recruitment strategy. The aims of this strategy would be first to make the organization 'the employer of choice' in its particular field or for the people it wants to recruit (e.g. graduates). Secondly, the strategy should plan the best methods of defining precisely what is needed in terms of skills. Finally, the strategy should be concerned with planning to use the most effective methods of obtaining the number and type of people required. This could include the use of social media

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and 'recruitment process outsourcing' (RPO), the term used when an organization commissions a provider to take responsibility for the end-to-end delivery of the recruitment process, covering all vacancies or a selection of them. Increasingly, organizations are using AI to write role profiles and person specifications, to prepare job advertisements based on predictions of which words will make the most impact on applicants, and even to interview candidates.

The strategy should be developed as follows:

1. Define skill requirements – these can form the material upon which focused and structured skill-based interviews can take place and be used as criteria for selection. They may also indicate where and how psychometric tests could be helpful.
2. Analyse the factors affecting decisions to join the organization – these include:
   - the pay and total benefits package – this may have a considerable effect on decisions to join the organization but it is by no means the only factor; those set out below can be just as important and even more significant for some people;
   - career opportunities;
   - the opportunity to use existing skills or to acquire new skills;
   - the opportunity to use the latest technology and equipment with which the organization is well supplied (of particular interest to research scientists and engineers);
   - access to high-level training;
   - a responsible and intrinsically rewarding job;
   - a belief that what the organization is doing is worthwhile;
   - the reputation of the organization as an employer;
   - the opportunity the job will provide to further the individual's career – for example, the scope to achieve and have achievements recognized, increase in employability or a respected company name to put on a CV.
3. Competitive resourcing – this will start from an analysis of the basis upon which the organization competes with other firms for employees. The factors mentioned above should be covered and the aim would be to seek competitive advantage by exploiting those that are superior to those of rivals. One of the factors will be pay. This may not be the only one but it can be important. It is necessary to track market rates and make a policy decision on where the organization wants to be in relation to the market.

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4 Alternative strategies for satisfying people requirements – these consist of outsourcing, re-engineering, increasing flexibility skills training, multiskilling and downsizing.

5 Recruitment and selection techniques – the strategy should explore methods not only of recruiting the number of people required, but also of finding staff who have the necessary skills, who are likely to deliver the right sort of behaviour and who will fit into the organization's culture readily. These processes and techniques could include the use of:
   - artificial intelligence;
   - skills analysis;
   - the internet and social media for recruitment;
   - structured interviews;
   - psychometric testing;
   - assessment centres.

The aim of the strategy is to develop the best mix of recruitment and selection tools. It has been demonstrated that a 'bundle' of selection techniques is likely to be more effective as a method of predicting the likely success of candidates than relying on a single method such as an interview.

Retention strategy

Retention strategy aims to ensure that key people stay with the organization and that wasteful and expensive levels of employee turnover are reduced. It will be based on an analysis of why people stay and why they leave.

The reasons why people remain with the organization can be established through employee surveys. These could segment respondents according to their length of service and analyse the answers of longer-serving employees to establish if there are any common patterns. The survey results could be supplemented by focus groups that would discuss why people stay and identify any problems.

An analysis of why people leave through exit interviews may provide some information but they can be unreliable – people do not necessarily give the real reasons for leaving. It is better to conduct employee surveys at regular intervals (pulse surveys). The retention plan should address each of the areas in which lack of commitment and dissatisfaction can arise. The actions to be considered under each heading are listed below.

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Pay

Problems arise because of uncompetitive, inequitable or unfair pay systems. Possible actions include:

- reviewing pay levels on the basis of market surveys;
- introducing job evaluation or improving an existing scheme to provide for equitable grading decisions;
- ensuring that employees understand the link between performance and reward;
- reviewing performance-related pay schemes to ensure that they operate fairly;
- adapting payment-by-results systems to ensure that shop-floor employees are not penalized when they are engaged only on short runs;
- tailoring benefits to individual requirements and preference;
- involving employees in developing and operating job evaluation and contingent pay systems.

Job design

Dissatisfaction results if jobs are unrewarding in themselves. Jobs should be designed to maximize skill variety, task significance, autonomy and feedback, and they should provide opportunities for learning and growth.

Performance

Employees can be demotivated if they are unclear about their responsibilities or performance standards, are not given feedback on how well they are doing or feel that their performance assessments are unfair. The following actions can be taken:

- express performance requirements in terms of hard but attainable goals;
- get employees and managers to agree on those goals and the steps required to achieve them;
- encourage managers to praise employees for good performance but also get them to provide regular, informative and easily interpreted feedback – performance problems should be discussed as they happen in order that immediate corrective action can be taken;

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- train managers in performance review techniques such as counselling;
- brief employees on how the performance management system works and obtain feedback from them on how it has been applied.

Learning and development

Resignations and turnover can increase if people are not given opportunities for learning and development, or feel that demands are being made upon them that they cannot reasonably be expected to fulfil without proper training. New employees can go through an 'induction crisis' if they are not given adequate training when they join the organization. Learning and development programmes should be developed and introduced, which:

- give employees the competence and confidence to achieve expected performance standards;
- enhance existing skills;
- help people to acquire new skills so that they can make better use of their abilities, take on greater responsibilities, undertake a greater variety of tasks and earn more under skill- and competency-based pay schemes;
- ensure that new employees quickly acquire and learn the basic skills and knowledge needed to make a good start in their jobs;
- increase employability, inside and outside the organization.

Career development

Dissatisfaction with career prospects is a major cause of turnover. To a certain extent, this has to be accepted. More and more people recognize that to develop their careers they need to move on, and there is little their employers can do about it, especially in today's flatter organizations where promotion prospects may be limited. These are the individuals who acquire a 'portfolio' of skills and may consciously change direction several times during their careers. To a certain degree, employers should welcome this tendency. The idea of providing 'cradle to grave' careers is no longer as relevant in the more changeable job markets of today, and this self-planned, multiskilling process provides for the availability of a greater number of qualified people. But there is still everything to be said in most organizations for maintaining a

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stable core workforce and in this situation employers should still plan to create career opportunities by:

- providing employees with wider experience;
- introducing more systematic procedures for identifying potential, such as assessment or development centres;
- encouraging promotion from within;
- developing more equitable promotion procedures;
- providing advice and guidance on career paths.

Commitment

This can be increased by:

- explaining the organization's mission, values and strategies and encouraging employees to discuss and comment on them;
- communicating with employees in a timely and candid way, with the emphasis on face-to-face communications through such means as briefing groups;
- constantly seeking and taking into account the views of people at work;
- providing opportunities for employees to contribute their ideas on improving work systems;
- introducing organization and job changes only after consultation and discussion.

Lack of group cohesion

Employees can feel isolated and unhappy if they are not part of a cohesive team or if they are bedevilled by disruptive power politics. Steps can be taken to tackle this problem through:

- teamwork – setting up self-managing or autonomous work groups or project teams;
- team building – emphasizing the importance of teamwork as a key value, rewarding people for working effectively as members of teams and developing teamwork skills.

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Dissatisfaction and conflict with managers and team leaders

A common reason for resignations is the feeling that management in general, or individual managers and team leaders in particular, are not providing the leadership they should, or are treating people unfairly or bullying their staff (not an uncommon situation). As the saying goes, people tend to leave their managers, not the organization. This problem should be remedied by:

- selecting managers and team leaders with well-developed leadership qualities and people management skills or with the potential to acquire those skills;
- training them in leadership and people management and in methods of resolving conflict and dealing with grievances;
- establishing a corporate set of values that include requirements on how people should be treated;
- ensuring that the performance management system as applied to managers and team leaders defines on an individual basis the values to be upheld and people management skills required, reviews the extent to which behaviour is in accordance with the values and competencies, and initiates action to develop leadership and people management skills;
- introducing better procedures for handling grievances and disciplinary problems, and training everyone in how to use them.

Recruitment, selection and promotion

Rapid turnover can result simply from poor selection or promotion decisions. It is essential to ensure that selection and promotion procedures match the capacities of individuals to the demands of the work they have to do.

Over-marketing

Creating unrealistic expectations about career development opportunities, tailored training programmes, increasing employability and varied and interesting work can, if not matched with reality, lead directly to dissatisfaction and early resignation. Care should be taken not to oversell the firm's employee development policies. This can be achieved by using realistic previews (telling people as it is) as part of the selection process.

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Flexibility strategy

The aims of the flexibility strategy should be to provide for greater operational and role flexibility. The steps to be considered are:

- take a radical look at traditional employment patterns to find alternatives to full-time, permanent staff working in the establishment – this may take the form of segregating the workforce into a 'core group' and one or more peripheral groups, compressed hours, offering part-time or term-time working, flexitime, home or hybrid working, or job-sharing;
- outsourcing – getting work done by external firms or individuals;
- multiskilling to increase the ability of people to switch jobs or carry out any of the tasks that have to be undertaken by their team.

RECRUITMENT AND RETENTION STRATEGY AT A LOCAL AUTHORITY

Attracting and retaining high-quality staff is considered key to the corporate strategy in this local authority employing 14,000 people. Resourcing is one of the most important things the authority does to improve performance.

Resourcing and people strategy

The resourcing strategy complements and reinforces the people strategy, which has five targets:

- being the best employer;
- bringing in additional talent;
- developing existing talent;
- championing diversity;
- transforming the organization.

The people dashboard

A people strategy dashboard has been created to ensure that human resources are managed more effectively. This extends the people strategy targets and is used to monitor progress in achieving them.

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Improving recruitment and selection

This involves:

- strengthening the employer brand;
- developing a better recruitment website;
- developing a talent bank to ensure that vacancies are filled quickly;
- streamlining processes to reduce the time to fill vacancies;
- the development of a competency framework used for competency-based selection.

Retaining talent

A holistic approach is adopted to retaining talent. This involves paying attention to every aspect of the employment relationship and setting a best-employer target. A staff survey is used to measure employee engagement.

Total reward strategy

A total reward approach is adopted including the use of total reward statements.

Talent management

A talent management toolkit is used to identify and develop potential high performers at every level in the organization.

PRACTICAL IMPLICATIONS

- Obtain information on corporate and major functional plans that will have an impact on people requirements.
- On the basis of that information, conduct a review of the people available with the necessary skills.
- If there are any gaps between availability and requirements, prepare recruitment and/or learning and development plans to fill them.
- Review the employee value proposition offered by the organization and make any changes needed to aid recruitment and retention.

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Talent management

22

CHAPTER OBJECTIVES

Talent management is about ensuring that the organization has the right people in the right place at the right time. It is covered in this chapter under the following headings:

1 Talent management defined
2 The meaning of talent
3 Talent management and HRM: what's the difference?
4 Talent management and management succession planning
5 Talent on demand
6 Talent management strategy
7 The talent management system
8 Practical implications

Talent management defined

The notion of talent management originated from a survey conducted by McKinsey & Company, which coined the phrase 'the war for talent' in 1997. McKinsey consultants Ed Michaels and his colleagues (2001: xii) defined talent as 'the sum of a person's abilities – his or her intrinsic gifts, skills, knowledge, experience, judgement, attitude, character and drive [and] includes the ability to learn and grow'. In the first use of the term talent management they stated (p 7) that 'excellent talent management has become a crucial source of competitive advantage. Companies that do a better job of attracting, developing, exciting and retaining will gain more than their fair share of this critical resource and will boost their performance

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dramatically.' They recommended (p 126) that 'companies should strengthen their talent pool by investing in A players, developing B players and acting decisively on C players, and use job experience, coaching and mentoring to cultivate managers' potential'.

From these beginnings, talent management has developed as a concept that has many different meanings and has been applied in many different ways. A succinct definition was produced by Peter Cappelli (2008: 1) who wrote that: 'At its heart, talent management is simply a matter of anticipating the need for human capital and setting out a plan to meet it.' Gallardo-Gallardo et al (2020: 457) offered a more detailed definition of talent management as:

> The activities and processes that involve the systematic attraction, identification, development, engagement, retention, and deployment of those talents which are of particular value to an organization to create strategic sustainable success.

Vardi and Collings (2023: 677) stated that the aim of talent management was to 'focus on building an internal market for talent in which individuals can be deployed where their skills are most useful at a given point'.

As Chamorro-Premuzic (2017: 85) commented: 'The two critical issues in talent management concern the ability to place the right people in the right roles and to ensure their typical performance is as close to their maximum performance as possible.'

The following are examples of how Australian HR practitioners interviewed by Jones et al (2012: 409) described talent management:

1. It is about identifying high potential candidates, fostering and growing them.
2. It is looking at a specific job family or group of people in an organization that for purposes of development, retention or attraction the organization wants to spend time and effort on.
3. It's about understanding what your enterprise's strategic plan is, and ensuring that you have the people resources in place to deliver on that; therefore, it's attracting and retaining high quality people
4. It's the identification and development of high potential employees.

To understand how talent management works it is necessary to define what is meant by talent.

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The meaning of talent

Talents were seen by Dries (2013: 279) as 'unique strategic resources, central to achieving sustained competitive advantage'. As described by Minbashian (2017: 77): 'Talent comprises unique abilities together with knowledge and skills that are acquired by practice, and commitment, all of which facilitate the achievement of superior performance in a given context.' Boselie and Thunnessin (2017: 426) suggested that talented people are high performers with potential.

When developing a talent management strategy, organizations have to decide who are the talented people that should be included in a talent management programme. Dries (2013: 277) described two basic approaches: 'An inclusive perspective on talent departs from the assumption that all people are talented, but in a different way; an exclusive perspective, on the other hand, is built on the premise that some people are inherently more talented (and thus more valuable).'

Formal talent management systems generally adopt an exclusive approach. Minbashian (2017: 77) claimed that: 'Focusing on all employees in all positions fails to recognize that different positions may differentially contribute to [achieving] the firm's strategic objective; consequently, given a limited pool of resources, organizations need to identify and invest their resource in those positions that are likely to deliver the greatest strategic value.' And Collings (2017: 305) observed that: 'The underlying objective is to invest resources disproportionately in positions where one expects the greatest possible returns.'

However, it is possible and may be desirable to be both exclusive and inclusive. Vardi and Collings (2023: 672) commented that 'perhaps the most common criticism of talent is the implication that while a small percentage of the workforce is identified as talent, by definition, the remainder is designated as non-talent. Thinking about talent through a binary lens certainly leads to this conclusion.' They also claim that 'multiple talent approaches can exist within organizations, allowing other employees to deliver on their potential' (p 673).

A case study of a global management consultancy (Tansley and Tietze, 2013) revealed that its approach to talent management was simultaneously inclusive (everyone is talented) and exclusive (key people are developed in ways different to those adopted for 'everyday talent'). But the consultancy suggested that even if an exclusive policy were adopted, it should not be at the expense of the development needs of people generally.

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Talent management and HRM: what's the difference?

It is sometimes asserted that talent management is no more than a re-branding of HRM in that it simply involves the typical HRM activities of workforce planning, recruitment, managing employee retention, performance management, potential assessment, leadership and management development, succession planning and career planning. The difference is that talent management is an integrated approach that 'joins up' these HR practices in order to focus on ensuring the organization has the talented people it needs. Talent management, with its focus on the vertical and horizontal alignment of HRM strategies, is an important tool for the implementation of strategic human resource management. An analysis by Iles et al (2010: 187) of their meetings with managers and consultants in multinational companies in Beijing found that:

> Most interviewees saw a continuity with HRM; both talent management and HRM were seen to emphasize integration with business strategy [and] the importance of appropriate role allocation, and both covered the same functional areas of recruitment, selection, training and development and appraisal and reward management. However, whilst there were such similarities, there were also differences; HRM was seen to have a broader scope than talent management, and HRM was seen to emphasize egalitarianism in contrast to the 'segmentation' focus of talent management.

Talent management and management succession planning

Management succession planning – the process of identifying successors for key posts and then planning career moves and development activities for these potential successors – has been a feature of HRM for a long time. So what's the difference? Sparrow and Balain (2009: 109) provided an answer.

> The primary purpose served by succession management was to reduce risk by identifying immediately capable reserve labour – replacements for senior executives who might leave the organization due to retirement or resignation. Talent management moved this concept of replacement planning into both

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> the creation of a competitive internal labour market and an extended range of development activities necessary to build employee capability or source this capability.

Management succession planning systems hardly ever worked well. Attempts to plan career moves and earmark individuals for possible future vacancies were doomed to fail in today's flexible and rapidly changing organizations, where they are likely to be out of date as soon as they are made.

Talent on demand

Talent on demand, an approach originated by Cappelli (2008), means creating and maintaining a 'talent pool' consisting of high-performing and high-potential individuals who will be ready when required to meet emerging needs for senior managers and other key staff. It recognizes that specific steps have to be taken to guarantee that talent needs are met but that attempting to do this by a form of workforce planning seldom if ever works. As Cappelli (2008: 1) explained: 'In today's uncertain world, managers can't forecast their business needs accurately, never mind their talent.' He proposed that a talent on demand policy should be based on four principles:

1. Make and buy talent to manage the demand-side risk.
2. Reduce the uncertainty in talent demand.
3. Earn a return on investment in developing employees.
4. Balance employee interests by creating an internal labour market that offers all the advantages of the external labour market and helps to reduce staff turnover and loss of talents.

McDonnell and Collings (2011: 64) reflected that:

> Succession planning has evolved from the traditional short-term focus on replacing senior managers if they happened to leave without prior warning. There is now a more long-term aim of developing a cadre of key talent who are able to take on higher level roles, potentially roles that may not currently exist… The utilization of talent pools consisting of employees with key generic type competencies and skills allows the organization far greater scope when positions become available. Management will be able to select the most suitable candidate from a pool of candidates and train the person into the specific requirements of that particular role.

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Talent management strategy

Talent management is a strategic process when it is based on an understanding of the strategic intent of the organization and the implications of what has to be done to ensure the availability of talented people who have the skills and abilities to turn that intent into action. Strategic talent management was defined by Collings and Mellahi (2009: 305) as the:

> activities and processes that involve the systematic identification of key positions which differentially contribute to the organisation's sustainable competitive advantage, the development of a talent pool of high potential and high performing incumbents to fill these roles, and the development of a differentiated architecture to facilitate filling these positions with competent incumbents and to ensure their continued commitment to the organisation.

Cappelli (2008) suggested that the signs of a successful talent management strategy are that it can address and resolve any incongruity between the supply and demand of talent. He argued that talent management should not just be about employee development or succession planning, as many of the commonplace definitions suggest, but should focus on helping the firm attain its strategic objectives.

Talent management strategy is based on the strategic decisions made on the three aspects of talent management referred to above, namely: 1) a definition of what is meant by talent; 2) the adoption of an exclusive approach; and 3) the creation of talent pools as a means of achieving 'talent on demand'. The strategy can then focus on the development of a talent management system as described below. Such systems are typically exclusive and incorporate 'talent pipelines' as a means of creating talent pools.

TALENT MANAGEMENT STRATEGY AT BAE SYSTEMS

At BAE Systems there are five mandated core business management processes to support the delivery of corporate strategy and foster high performance. Talent management is seen within a business performance context. An annual integrated business review planning process is used by individual businesses to establish and plan for the delivery of objectives in line with corporate strategy, supported by quarterly business reviews, customer reviews and data from employee surveys. Project performance is assessed by contract reviews.

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Performance is reviewed throughout the year by the performance management system. A performance centred leadership framework is used to integrate management, resourcing and people development, focusing on the traditional outcomes of performance (financial, project and behavioural), reward and development. There is behavioural performance feedback and a performance potential rating (called Spectrum). Line leaders and functional directors ensure the framework is implemented. HR's role is one of assisting in development interventions and providing some oversight and governance of the processes.

SOURCE Sparrow et al (2015)

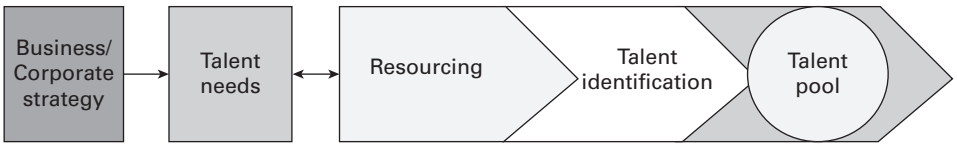
The talent management system

The core of a talent management system as illustrated in Figure 22.1 is a 'talent pipeline' in which successive resourcing, talent identification and talent development activities take place as described below to create a talent pool. In accordance with a talent on demand policy, this is the source of the talented people needed by the organization as determined by the business or corporate strategy.

The talent pool

A talent pool contains the resources of talented people required by an organization to ensure that vacancies for people in pivotal roles can be filled readily. Talent management policy will define the view of the organization on what constitutes talent and who should be included in a talent management pool. The talent management strategy will indicate the size of the talent pool and the operation of the talent pipeline.

Figure 22.1 A talent management system



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Talent needs

The talent needs of an organization comprise immediate demands to fill vacancies arising from promotion, attrition or retirement, and short- to longer-term requirements to enlarge the skills base of the organization in response to projected business initiatives. Scenario planning techniques may be used. These consider the possible future changes in the business and its environment that are likely to affect its talent needs. The aim is to produce a picture of where the organization might be heading and to predict the possible situations that may have to be dealt with in the future. Predictive HR analytics can be deployed to assess what needs to be done.

Resourcing

Resourcing involves recruitment to satisfy immediate and short-term needs. The objective will be as far as possible to obtain good-quality people who can join the talent pool immediately or have the potential to move along the talent pipeline. As Sparrow and Balain (2009) explained, organizations can sometimes recruit 'against the curve' by recruiting trainees or apprentices without reference to specific vacancies and providing them with the training or experience that will enable them to join the talent pipeline and progress into the talent pool.

Resourcing also means devising strategies to retain key employees whose loss can have a disproportionate impact on the business. The people that organizations wish to retain are often the ones most likely to leave. Risk analysis can be used to identify possible leavers and quantify the seriousness of losing key people. The analysis would cover the likelihood of a loss occurring, how serious the effects of a loss would be on the business, the ease with which a replacement could be made and the replacement costs. An assessment would be made of the likely reasons for a loss and what could be done to prevent it. The actions that can be taken include spelling out the opportunities available to the employee to increase their skills and advance their careers, providing competitive reward packages or special retention bonuses, and ensuring that selection and promotion procedures match the capacities of individuals to the demands of the work they have to do.

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Identifying talent

A talent pipeline system includes procedures for identifying employees who are qualified now for membership of a talent pool or who have the potential to become members after completing a talent management development programme. Managers can be asked to assess potential and make recommendations on who should be included in such a programme. A simple three-box method can be used to classify people:

1 Ready now to progress beyond current grade

2 Could progress beyond current grade within two years

3 Best suited to current grade

A more elaborate method is the nine-box grid for identifying talent. This has two axes – performance and potential – with three levels on each axis.

Talent development

Talent development is the process of ensuring that talented employees gain the skills and experience required to fulfil their promise, advance their careers and satisfy the organization's need to fill senior and key posts with high-quality people. It enables those with potential to become a member of a talent pool but, because there is always room for further growth, qualified members of a talent pool will still benefit from continuing developmental activities. Talent development involves leadership and management development programmes and career development policies.

PRACTICAL IMPLICATIONS

- Define what is meant by talent in the organization.
- Decide on whether the approach to developing should be exclusive or inclusive or a combination of the two.
- Adopt a talent on demand policy.
- Consider what a talent pipeline could look like in the organization, covering the acquisition of talent and its development.
- Introduce procedures for the successful management of each stage of the pipeline.

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Learning and development

23

CHAPTER OBJECTIVES

Learning and development strategy sets out what an organization intends to do about developing the capabilities of employees through its learning policies and practices. It is covered in this chapter under the following headings:

1 Learning and development strategy
2 Strategy for creating a learning culture
3 Organizational learning strategy
4 Individual learning strategy
5 Formulating L&D strategy
6 Practical implications

Learning and development strategy

Learning and development (L&D) strategy defines the priorities that should be attached to different aspects of learning and development and how they should be aligned with the corporate or business strategy and integrated – 'bundled' – with each other. The CIPD (2023: 1) stated that: 'A learning and development strategy sets out the workforce capabilities, skills and competencies the organisation needs, and how they can be developed to ensure a sustainable, successful organization.'

L&D strategy is driven by the capability needs of the organization – what it requires in terms of people with the necessary knowledge, skills and abilities (KSAs) to ensure that it will be able to respond adequately to any demands made upon it and achieve its strategic goals. It should be concerned with encouraging personal growth

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The overall L&D strategy should be to create a learning culture and encourage organizational learning. In particular it should cover individual learning in areas such as the development of workplace learning, the use of digital learning facilities and the extension of self-directed learning. It should be concerned with encouraging and developing personal growth as well as satisfying organizational needs.

Strategy for creating a learning culture

A fundamental objective of L&D strategy is to develop a learning culture. This is one in which learning is recognized by top management, line managers and employees generally as an essential organizational process to which they are committed and in which they engage continuously. The strategy should clarify how learning benefits individuals and the organization. It should spell out the roles in organizational and individual learning of all the stakeholders. This means support from senior management, the active involvement of line managers, the participation of individual employees in self-directed learning, and the contributions of members of the HR and learning and development functions. It should indicate what will be done to facilitate workplace learning ('learning in the flow of work'), to make use of digital learning and to provide face-to-face training.

Organizational learning strategy

Organizational learning strategy aims to improve organizational effectiveness through the acquisition and development of knowledge, understanding, insights, techniques and practices. This is in accordance with one of the basic principles of L&D, which is to recognize the importance of increasing the organization's stock of knowledge and skills and ensuring that it has the human capital it needs.

Individual learning strategy

The individual learning strategy of an organization is driven by its skill requirements. As the CIPD (2021) observed on the basis of its research: 'The evolving world of work and the catalyst of the pandemic have driven

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up the demand for workforce agility and the need for reskilling and redeployment.' Malik (2020) referred to research indicating that skills generally have a 'half-life' of about five years, with more technical skills at just two and a half years (a half-life is the time in which the value of something becomes 50 per cent smaller and it can be seen as how long a skill is relevant). From a skills perspective, organizations are increasingly recognizing that to prepare for the future requires the merging and expansion of two very different skill sets: technical and behavioural.

An individual learning strategy will be based on understanding of how people learn – people learn for themselves but they also learn from other people and they tend to learn better from experience than from what they have been told. Most learning happens in the workplace during the flow of work and priority needs to be given to enabling this. Employees should be encouraged by the organization and their line managers to take more responsibility for their own learning and provided with the support and guidance to do so.

PEOPLE DEVELOPMENT STRATEGY STATEMENT: ASTRAZENECA

A key strategic business objective of AstraZeneca is: *To ensure a well-motivated organization in which people are respected, enjoy their jobs and obtain fulfilment*.

1 Our people development strategy applies to all employees, not just to managers or people of high potential. It relates to the continuing development of ability and contribution in each person's current job and, if considered to have the potential to advance further, towards subsequent jobs.

2 People development strategies are vital to the business but it is important that they support the key business strategies. The appropriate resources must be available to meet the key priorities for people development. Expenditure on education, training and development is regarded as a necessary and calculated investment yielding considerable pay-off in terms of enhanced business performance.

3 Managers have a clear responsibility to develop their subordinates. Performance management, which is the key management process that brings together the setting of personal work targets and development plans, is the preferred integrated approach by which employees' learning and development are managed continually in relation to all work activities.

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4 All employees must have a personal development plan jointly agreed with their manager and this plan must be progressed and regularly reviewed and updated. It should be derived from the accountabilities of the jobholder and the personal targets for the coming period, plus any anticipated future needs. The plan should cover coaching and on-the-job and off-the job training.

5 All employees are to be encouraged continually to develop their skills and experience both for their own benefit and that of the business through the improved contribution that will result, thus maintaining and extending the business's competitive advantage.

6 Career planning will be a joint activity between the individual and the manager, with employees having a major responsibility for their own career management, including personal development.

7 The development of individuals must take into account that AstraZeneca is a complex, globally managed business. Particular emphasis should be placed on the need for good business understanding and teamwork across the business worldwide. The nature of the business requires special attention in the areas of organization development activities, team building, project management and cross-cultural management skills.

8 People development activities will be regularly audited to ensure that appropriate, cost-effective investment is made in all parts of the organization to support current business activities.

Formulating L&D strategy

When formulating L&D strategy the aim is to develop an understanding shared by all stakeholders of the direction it is believed learning and development should take. Proposals should be relevant, realistic and actionable. They should respond to but also anticipate the critical needs of the organization and the people in it. They should be evidence-based – founded on the detailed analysis and study of learning needs, not just wishful thinking. As Birdi et al (2007: 267) emphasized:

> Strategic needs analysis processes [are required] to identify the key performance priorities for the organization, the tasks employees need to do differently to meet those priorities, and the underlying knowledge and skills required to undertake those tasks. The information derived from strategic needs analysis can therefore help identify the most appropriate learning practices for changing employee knowledge, skills and behaviour to benefit organizational performance.

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The experienced and collective judgement of top management about organizational requirements should be taken into account as well as the views of line managers and employees generally. L&D strategies should be tailored to reflect the needs of the future rather than mirroring current conditions or past practices. They may fundamentally be business-led but it can be a reciprocal process – an analysis of the needs of the business for skills or a review of the issues facing the business in obtaining those skills can lead to the identification of problems in implementing the business strategy that need to be addressed.

DEVELOPING A LEARNING STRATEGY FOR REMPLOY

Remploy operates 83 factories and provides employment and development opportunities for people with disabilities The company's strategy for learning is explicit and well understood in the organization, and was developed from the bottom up rather than top down. Its starting point was recognition that a number of local initiatives in the factories were proving successful and could be developed on a national basis.

The trade unions advocated enhanced opportunities for skill development in basic areas. As a result, a national strategy was developed with learning centres as a major element in all 83 sites. Although the use of each learning centre is locally determined, they all have the following in common: a physical location (with at least some PCs); a relationship with a local college whose tutors will visit the site to advise and facilitate; and access to a suite of e-learning programmes, made available from the LearnDirect library (the national e-learning initiative).

PRACTICAL IMPLICATIONS

- Focus on creating a learning culture.
- Base the strategy on evidence of learning needs at organizational and individual levels.
- Prioritize workplace learning rather than simply making formal training interventions.
- Encourage self-managed learning but provide learners with support and guidance from their managers and the organization.

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Reward 24

CHAPTER OBJECTIVES

This chapter gives an overview of reward management strategy under the following headings:

1 Reward management defined
2 Reward strategy defined
3 Practical implications

Reward management defined

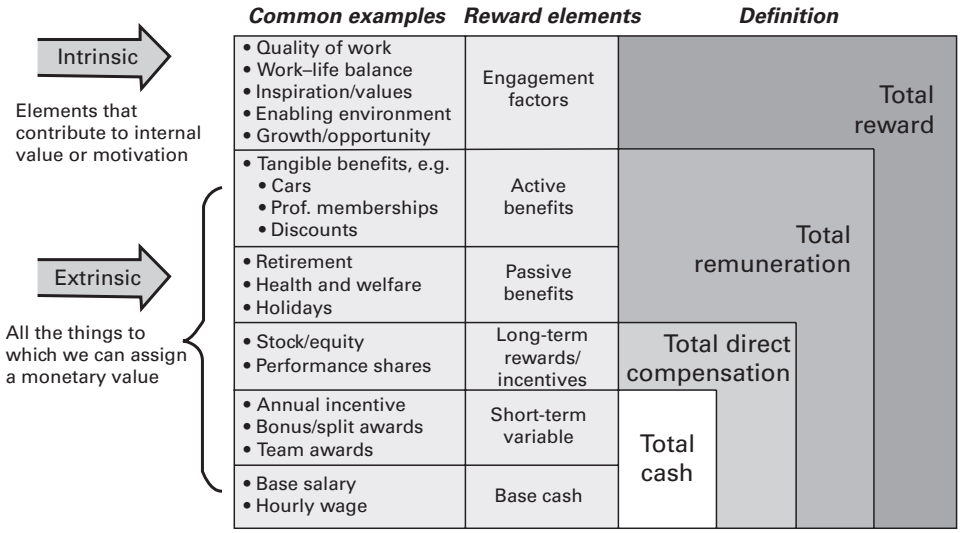
Reward management is concerned with how organizations value the people who work for them and develop and operate the base pay management and recognition processes required to do this. People are rewarded both financially and non-financially. Financial (tangible) rewards are provided through the base pay for the job they do (job-based pay), to which additions can be made related to the level of their performance, contribution, skill or service in the job (person-based pay). They can also receive individual performance-related cash bonuses and/or bonuses related to the performance of their team or organization. Non-financial (mainly intangible) rewards include recognition and praise, and people will feel rewarded by the work itself when it is satisfying or fulfilling and by opportunities to develop their skills and careers.

Reward strategy defined

Reward strategy expresses what is believed should be done about reward management policy and practice by an employer. It addresses longer-term issues about how to attract, retain and motivate high-quality staff but it

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Figure 24.1 A total reward model



can also be concerned with satisfying immediate needs – 'this is what we have to do now about the pay of hard-to-recruit IT professionals'. It will be affected by the context of the organization and the demands made upon it by competitive, economic, social and political pressures and by a 'YUCA' environment, that is, one characterized by volatility, uncertainty, complexity and ambiguity to which recent crises have contributed. It is increasingly necessary to take account of the ESG criteria rather than just financial considerations.

It may cover all or most aspects of reward and this could mean adopting a total reward approach. As illustrated in Figure 24.1, this involves the combination of all the financial and non-financial rewards available to employees. The various aspects of reward, namely base pay, contingent pay, employee benefits and non-financial rewards, which include intrinsic rewards from the work itself, are linked together and treated as an integrated and coherent whole.

Alternatively, reward strategy may address more specific areas such as how reward policy and practice should respond to the challenges and demands made by changes in the external context of the organization, how reward should contribute to improving organizational performance, the strategic implications of the ESG framework, levels of pay, pay structures, performance pay, or employee wellbeing and benefits. It provides the basis for plans on how and when these requirements will be put into effect.

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Armstrong and Murlis (2007) observed that: 'Reward strategy will be characterized by diversity and conditioned both by the legacy of the past and the realities of the future.' It often has to be a balancing act because of potentially conflicting pressures and goals. For example, it may be necessary to reconcile the competing claims of being externally competitive *and* internally equitable – paying a specialist more money to reflect market rate pressures may disrupt internal relativities. Or the belief that a simple and universally applicable reward system is required may conflict with the perceived need to adopt a more complex policy of segmentation (varying the reward package for different jobs, occupations or people to reflect particular knowledge and skills and the types and levels of contribution they make).

PRACTICAL IMPLICATIONS

- Ensure when developing reward strategies that full consideration is given to the basic principle of strategic reward, that it should support the achievement of corporate goals, meet the obligations of the organization to its stakeholders, especially the needs of employees, and cohere with other aspects of HR strategy.
- Recognize that people can be rewarded intrinsically (by non-financial rewards such as recognition) as well as extrinsically (by financial rewards such as performance pay) and that both these types of reward should be used. This can be done by adopting a total reward strategy that provides for the provision of all aspects of reward as an integrated and coherent whole.
- Ensure that reward strategy is aligned with labour market realities and, importantly, also with what has to be done to achieve the social purpose of the organization by satisfying wider social expectations, for example, dealing with equality, employee wellbeing and low pay.

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Employment relationships

25

CHAPTER OBJECTIVES

Employment relationships strategy defines the intentions of the organization about how it handles its associations with employees and, if any, their trade unions. It is covered in this chapter under the following headings:

1 The nature of the employment relationship
2 The nature of the employment relations strategy
3 A strategy for creating a constructive and positive employment relations climate
4 A strategy for achieving mutual gains
5 A strategy for building trust
6 Trade union recognition strategy
7 Practical implications

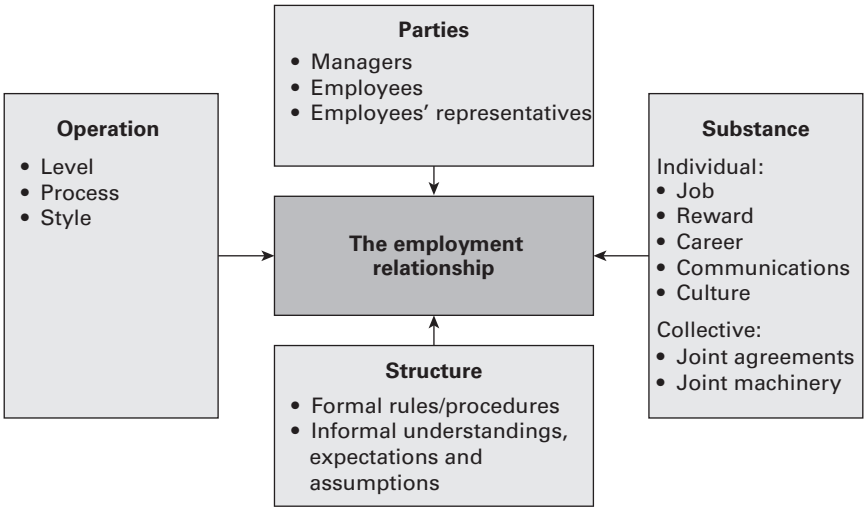
The nature of the employment relationship

The employment relationship was defined by Boxall (2013: 5) as 'the primary vehicle for marrying the needs of individuals and organizations'. He pointed out that: 'Organizations have simultaneous needs for commitment and flexibility, while individuals have enduring needs for security and community' (p 8).

The employment relationship can also be described as being a largely informal and constant process that happens whenever an employer has dealings with an employee, and vice versa. Underpinning the employment relationship is the psychological contract, which expresses certain assumptions

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Figure 25.1 Dimensions of the employment relationship



and expectations about what managers and employees have to offer and are willing to deliver. The dimensions of the employment relationship as described by Kessler and Undy (1996) are shown in Figure 25.1.

The difficulty of managing the employment relationship arises from its dynamic nature. The problem is compounded by the multiplicity of factors that influence it – the culture of the organization, the prevailing management style, the values (espoused and practised) of top management, the existence or non-existence of a climate of trust, day-to-day interactions between employees and line managers, and the HR policies and practices of the business.

Strategies for managing the employment relationship will therefore focus on establishing overall intentions about how a constructive and cooperative employment relations climate can be developed and what approaches are adopted to achieving mutuality and trust.

The nature of the employment relations strategy

Like all other aspects of HR strategy, employment relations strategy takes account of the business strategy and aims to support it. Support will exist if employment relations are conducted in a way that recognizes the possibility of achieving mutual gains through partnership. This will aim to achieve high levels of trust, cooperation and commitment.

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Approaches to employment relations strategy

There are four approaches to employment relations strategy:

1. Adversarial: the organization decides what it wants to do and employees are expected to fit in. Employees only exercise power by refusing to cooperate.
2. Traditional: a good day-to-day working relationship, but management proposes and the workforce reacts through its elected representatives.
3. Partnership: the organization involves employees in the drawing up and execution of the organization's policies, but retains the right to manage.
4. Power sharing: employees are involved in both day-to-day and strategic decision-making.

Adversarial approaches are much less common today in most organizations. The traditional approach is still the most typical but more interest is being expressed in partnership as discussed later in this chapter. Power sharing is rare.

The concerns of employment relations strategy

Overall, employment relations strategy is concerned with building stable and cooperative relationships with employees that minimize conflict. More specifically the strategy covers matters such as:

- the achievement of increased levels of commitment through involvement or participation – giving employees a voice;
- developing a 'partnership' with trade unions, recognizing that employees are stakeholders and that it is to the advantage of both parties to work together – this could be described as a unitary strategy, the aim of which is to increase mutual commitment (a unitary approach is based on the belief that management and employees share the same concerns and it is therefore in both their interests to work together);
- changing forms of recognition, including single union recognition, or derecognizing the union(s);
- changes in the form and content of procedural agreements, which define the rules that regulate relationships between management and employees;

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- new bargaining structures, including decentralization, or single-table bargaining (negotiations are conducted simultaneously between management and more than one trade union).

EMPLOYEE RELATIONS AT CAPGEMINI UK

Capgemini UK is part of a global IT services company providing management consulting, outsourcing and professional services, with 112,000 employees across the world and 9,000 employees in the UK.

Capgemini's principal consultative mechanism is the 'forum', which includes both union and non-union representatives. The forum approach was established in 1999 using the works council model adopted by Capgemini in the Netherlands. This is seen as a problem-solving model encouraging two-way communication, as opposed to the more adversarial approach characteristic of consultation in France. Local forums have been established covering individual business areas; the UK National Works Council (NWC) is made up of nominated representatives from each of the local forums and an international works council operates from the global company headquarters in Paris.

A strategy for creating a constructive and positive employment relations climate

The employment relations climate of an organization consists of the perceptions of management, employees and their representatives about the ways in which relationships between them are conducted – how the various parties (managers, employees and trade unions) behave when dealing with one another. An employment relations climate may be created by the management style adopted by management or by the behaviour of the trade unions or employee representatives (cooperative, hostile, militant, etc) or by the two interacting with one another. It can be good, bad or indifferent according to perceptions about the extent to which:

- management and employees trust one another;
- management treats employees fairly and with consideration;
- management is open about its actions and intentions – employment relations policies and procedures are transparent;

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- harmonious relationships are generally maintained on a day-to-day basis;
- conflict, when it does arise, is resolved without resort to industrial action and resolution is achieved by integrative processes that result in a 'win–win' solution;
- employees are generally committed to the interests of the organization and, equally, management treat them as stakeholders whose interests should be protected as far as possible.

A strategy for improving the climate may involve developing fair employment relations policies and procedures and making plans to implement them consistently. Line managers and team leaders who are largely responsible for the day-to-day conduct of employment relations need to be educated and trained on the approaches they should adopt. Transparency can be achieved by communicating policies to employees, and commitment increased by involvement and participation processes. Importantly, as discussed below, the organization can address its obligations to the employees as stakeholders and formulate strategies for mutual gains and building trust.

A strategy for achieving mutual gains

The concept of mutual gains was originated by Kochan and Osterman (1994) who argued that rather than being blockages to productivity improvements, worker representatives, in collaboration with management and underpinned with institutional supports, could engage in joint problem-solving to improve both firm performance and returns for workers. It is still held that management and workers will want to maintain their own separate interests, but ultimately, they will seek to satisfy such interests through cooperation. Kochan and Osterman suggested that: 'Employees must commit their energies to meeting the economic objectives of the enterprise. In return, owners (stakeholders) must share the economic returns with employees and invest those returns in ways that promote the long-run economic security of the workforce' (p 46).

As described by Cullinane et al (2014: 810), the idea of mutual gains 'outlines that whilst management and workers' interests may diverge, there is ample opportunity, through problem-solving arrangements, to create shared benefits for both parties'. They also observed that: 'Mutual gains rotates on an assumption that, in the process of problem-solving, both sides exchange

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information to advance interests that are deemed beneficial to both parties, with the subsequent generation of options and finally, the choosing of those that offer the highest joint returns' (p 819).

Boxall (2013: 5) set out three conditions under which the quality of employment relationships may facilitate the achievement of mutual gains: a) capability match – fit between employer's need for a competent workforce and employees' need for a conducive work environment; b) commitment match – fit between employer's need for employees' commitment and employees' need for job security and fair treatment from the employer; and c) contribution match – the extent to which the employer and employees perceive that their respective needs are being met.

The concept of mutual gains is associated with the notion of mutuality as formulated by Walton (1985). Mutuality was defined by Guest and Peccei (2001: 212) as 'the idea of focusing on the shared interests and shared goals of two or more interdependent parties while recognizing that they have other potentially differing interests'. But the term mutual gains is used more nowadays, perhaps because it better conveys the outcomes of mutuality by defining what happens when its principles are applied, for example as a basis for negotiations.

A strategy for building trust

Trust is a firm belief that a person may be relied on. A climate of trust is an essential ingredient in the recipe for constructing a positive employment relationship. It has been suggested by Herriot et al (1998) that trust should be regarded as social capital – the fund of goodwill in any social group that enables people within it to collaborate with one another.

A strategy for building trust must focus on how it can be created and maintained by managerial behaviour and by the development of better mutual understanding of expectations – employers of employees, and employees of employers. The sort of behaviour by managers that should be fostered by the strategy is being honest with people, keeping their word (delivering the deal) and practising what they preach. Managements that espouse values ('people are our greatest asset') and then proceed to ignore them will inhabit low-trust organizations. More specifically, trust will be developed if management acts fairly, equitably and consistently, if a policy of transparency is implemented, if intentions and the reasons for proposals or decisions are communicated both

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to employees generally and to individuals, if there is full involvement in developing HR policies and processes, and if mutual expectations are agreed through performance management.

Trade union recognition strategy

It may be necessary to decide on a strategy for recognizing or derecognizing a trade union. An employer fully recognizes a union for the purposes of collective bargaining when pay and conditions of employment are jointly agreed between management and trade unions. Unions can be derecognized, although this is happening less frequently.

Employers in the private sector are in a strong position now to choose whether they recognize a union or not, which union they want to recognize and the terms on which they would grant recognition, for example a single union agreement.

When setting up on greenfield sites, employers may refuse to recognize unions. Alternatively, they can hold 'beauty contests' to select the union they prefer to work with, one that will be prepared to reach an agreement in line with what management wants.

An organization deciding whether or not to recognize or derecognize a union should take some or all of the following factors into account:

- the perceived value or lack of value of having a process for regulating collective bargaining;
- if there is an existing union, the extent to which management has freedom to manage; for example, to change working arrangements and introduce flexible working or multi-skilling;
- the history of relationships with the existing union;
- the proportion of employees who are union members and the degree to which they believe they need the protection their union provides;
- any preferences as to a particular union, because of its reputation or the extent to which it is believed a satisfactory relationship can be maintained;
- if derecognition is contemplated, the extent to which the perceived advantages of not having a union outweigh the disadvantages of upsetting the status quo.

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PRACTICAL IMPLICATIONS

- Focus on building a positive employee relations climate based on the achievement of mutual gains and trust.
- Pay particular attention to giving employees a voice.
- Consider a partnership approach in which the organization involves employees in the drawing up and execution of the organization's policies, but retains the right to manage.
- Evaluate with care the advantages and disadvantages of recognizing a trade union before making a decision.

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Equality, diversity and inclusion 26

CHAPTER OBJECTIVES

Equality, diversity and inclusion (EDI) strategy defines how an organization proposes to deal fairly and equitably with issues relating to the treatment of employees who are treated unequally or are different culturally or individually. It is covered in this chapter under the following headings:

1 The meaning of equality, diversity and inclusion
2 Equality strategy
3 Diversity and inclusion strategy
4 Practical implications

The meaning of equality, diversity and inclusion

As defined by the CIPD (2022) equality is about ensuring equality of access, treatment, outcomes and impact in both employment and service delivery. Diversity refers to differences between people – 'the mix'. Inclusion is the deliberate act of welcoming diversity and creating an environment where different kinds of people can thrive and succeed. Diversity is what you have. Inclusion is what you do about it. But you need to pay attention to both diversity and inclusion.

Equality strategy

The CIPD (2022: 1) stated that 'Inequalities can be manifested through prejudice, oppression and discrimination – direct and indirect – and can be systemic through behaviour, policies, practices and cultures.'

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An equality strategy will be based on the two principles of equality: equal treatment and equal opportunity. It will spell out the organization's intentions on how these are to be achieved in its policies and practices for recruitment, promotion, access to learning and development opportunities, pay and benefits, and wellbeing. It will indicate how the organization proposes to be an equal opportunity employer.

This means preventing direct or indirect discrimination against any employee on the grounds of race, nationality, sex, sexual orientation, disability, religion, marital status or age. Direct discrimination takes place when a person is treated less favourably than others are or would be treated in similar circumstances. Indirect discrimination takes place when, whether intentional or not, a condition is applied that adversely affects a considerable proportion of people of one race, nationality, sex, sexual orientation, religion or marital status, those with disabilities or older employees.

The strategy should deal with the extent to which the organization wants to take 'affirmative action' to redress imbalances between the numbers employed according to sex or race or other areas where EDI problems might exist. Where appropriate and where permissible under the relevant legislation and codes of practice, the strategy will indicate how employees in underrepresented groups will be given positive training and encouragement to achieve equal opportunity.

Diversity and inclusion strategy

Managing diversity in the workplace means bringing together people of different ethnic backgrounds, religions, gender, sexual orientation and age groups into cohesive and productive organizational units. It means developing a strategy that maximizes the potential advantages of diversity while minimizing the potential disadvantages. It also means developing a culture which spells out that 'this is the way we do things around here about diversity'. It is a concept that recognizes the benefits to be gained from differences. It is not the same as equal opportunity, which aims to legislate against discrimination, assumes that people should be assimilated into the organization and, often, relies on affirmative action.

A strategy for inclusion is about forming and maintaining an environment in which individuals of all backgrounds – not just members of historically favoured groups – are fairly treated and valued for who they are. Inclusive

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cultures are characterized by a collective commitment to integrating diverse identities as a source of insight and skill. It is the process of ensuring that people feel they belong and are connected.

The management of diversity and the management of inclusion are closely connected. In fact, they overlap and much of what can be done to improve one will affect the other. But diversity issues concerning distinct groups of people as well as more general inclusion issues need to be considered when developing policy and practice, and ensuring that everyone knows what they need to do through means such as communications, workshops and training interventions.

However, Nishii (2013: 1754) warned that:

> To the extent that diversity management practices that focus specifically on improving the outcomes of historically disadvantaged groups cause resentment or backlash on the part of individuals who do not directly benefit from these practices, they can have the unintended effect of exacerbating negative stereotypes and perceived intergroup competition… To really manage both the problems and the potential benefits associated with diversity, organizations need to create environments that are inclusive of all employees.

The CIPD (2019: 20) confirmed that the strategy should be concerned with both diversity and inclusion:

> A core part of organizational inclusion is the presence of policies and commitment to diversity – which needs to recognize that some groups typically face higher levels of discrimination at work or barriers to inclusion. This means that a two-pronged approach needs to be taken. Policies might need to be adapted or targeted for the needs of a particular group, recognizing the unique needs of individuals

The purpose of the strategy should be to ensure that cultural and individual differences in the workplace are acknowledged, the different qualities that people bring to their jobs are valued and people with different backgrounds are included as part of the organization on the same terms as everyone else. It should focus on fairness so that merit, skill, competence and potential are the basis for recruitment, promotion and development decisions, and for reviews and assessments of performance. It should also aim to ensure that everyone is alert to the influence of conscious and unconscious biases when dealing with people.

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When developing a diversity and inclusion strategy it is first necessary to ensure that initiatives will have the support of senior management. This will mean preparing a business case but equal emphasis should be placed on the moral imperative. The case should cover the following areas of diversity and inclusion: gender and transgender, ethnicity, age, disability, sexual orientation and religion.

The strategy should make it plain that the focus will be on fairness and inclusion, ensuring that merit, competence and potential are the basis for all recruitment, employment, development and reward decisions, and being alert to the influence of conscious and unconscious biases. It should emphasize that responsibility is shared among all members of the organization. The strategy should also cover the need to define the values of the organization concerning diversity and inclusion and it should stress the importance of involving employees both in agreeing those values and, importantly, discussing how they should be put into effect as 'values in use'.

A broad indication should be given of the methods that will be used in a programme for managing diversity and inclusion such as communications and the creation of diversity networks and training, bearing in mind that managing diversity and inclusion is a continuous process of improvement, not a one-off initiative. Additionally, the strategy should set out the employment areas that will be covered. These are typically recruitment and selection, performance management, rewards, opportunities for learning and development, career development, talent management and work–life balance.

PRACTICAL IMPLICATIONS

- Ensure the meaning and significance of equality, diversity and inclusion are understood and accepted at all levels in the organization.
- Establish the extent to which there any issues over equality, diversity and inclusion.
- Propose a strategy that deals with these issues, making use of communications, education and training and creating diversity networks that exist to build communities consisting of employees with similar social identities who can meet and discuss issues related to inequality freely within the safe confines of the group.
- Conduct an impact assessment to assess how well an EDI strategy will work.
- Set equality, diversity and inclusion targets and take steps to achieve them through communication, education and training, and guidance to line managers.

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Employee wellbeing

27

CHAPTER OBJECTIVES

Employee wellbeing is about the quality of the experience people have at work in terms of their health, work environment, relationships, scope for personal growth and financial security. It is covered in this chapter under the following headings:

1 The case for wellbeing
2 Factors affecting wellbeing
3 Features of an employee wellbeing strategy
4 Practical implications

The case for wellbeing

Employers have a duty of care. This means adopting a socially responsible approach to looking after their people by creating a good work environment. As Brown et al (2019: 5–6) stated:

> Employers seem to be becoming more, not less, focused on the wellbeing of their employees, recognising that high performance in a service and knowledge-based economy generally can't be programmed and regulated into people; that they have to be engaged, supported and enabled by leaders and HR professionals to deliver it.

Krekel et al (2019) of the Saïd Business School surveyed the evidence in a meta-analysis of 339 independent research studies, including the wellbeing of 1,882,131 employees and the performance of 82,248 business units,

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originating from 230 independent organizations across 49 industries in the Gallup database. A significant and strong positive correlation was found between employees' satisfaction with their company and employee productivity and customer loyalty, and a strong negative correlation with staff turnover. Ultimately, higher wellbeing at work is positively correlated with more business-unit-level profitability.

Factors affecting wellbeing

The internal factors that affect wellbeing and possible actions to deal with them are set down in Table 27.1.

Table 27.1 Wellbeing factors and actions

Wellbeing factor	Description	Possible actions
The work environment	Physical and mental wellbeing resulting from the system of work, working conditions, and health and safety considerations	Provide a good work environment in terms of working conditions and take account of the need to provide a healthy and safe system of work including minimizing stress and paying attention to ergonomic considerations in the design of equipment and workstations. Provide amenities such as subsidized restaurants, sports and social clubs, gyms and childcare facilities
Job design and demands	The extent to which the jobs people have match their abilities and allow individuals to control their work (self-determination) and use their skills and abilities. The physical and mental demands involved in meeting job requirements especially when work intensification has taken place	Review job design practices to ensure that the principles of good design are being met Review job demands to ensure that they are not excessive and therefore negatively affect work–life balance and lead to undue stress and even burnout Review working conditions and ergonomic factors to ensure that they provide for the physical wellbeing of employees

(*continued*)

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Table 27.1 (Continued)

Wellbeing factor	Description	Possible actions
Relationships with line managers	How people are treated at work by their managers can strongly affect wellbeing. Research by Pfeffer and Sutton (2006) found that 60–75% of the employees in the organization surveyed reported that the worst or most stressful aspect of their job was their immediate supervisor Line managers are in regular contact with the employees they are responsible for, so they are in a good position to identify the early signs of stress. A line manager can have a significant influence on employee attitudes and behaviours	Select people as managers who are likely to have the leadership qualities to create and maintain good working relationships with their team members Make responsibility for employee health and wellbeing an important part of the line manager's role so that they help to ensure employees feel valued, content and able to discuss any concerns before they reach a crisis point (NICE, 2009) Provide training and coaching in approaches to managing stress, including the leadership skills needed and the skills required to plan tasks and design jobs
Relationships with colleagues	The quality of social relationships and the extent to which negative behaviour such as bullying and harassment exist	Provide facilities for socializing at work. Introduce robust bullying and harassment policies and ensure that they function effectively
Work–life balance	The achievement of a satisfying equilibrium between work and non-work (e.g. family) activities. A survey by Eurofound (2013) established that poor ratings of work–life balance were the strongest predictor of stress	Introduce family-friendly policies providing for a reasonable degree of flexibility. Minimize excessive job demands
Financial wellbeing	Financial wellbeing is the state of being and feeling financially healthy and secure, today and for the future. It involves having control over finances, the capacity to cope with a financial crisis and being on track to meet financial obligations	Pay people fairly. Provide counselling for employees with financial worries
Stress	Stress at work is a major factor. It can be caused by problems in any of the areas set out above	Take action such as those referred to above. Introduce an employee assistance programme (EAP) to provide counselling and advice

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Negative external factors affecting employee wellbeing include the impact of crises such as Covid-19 and increases in the cost of living and unemployment insecurity. Positive factors are pressures on organizations from the government, regulatory authorities and the media to behave responsibly in the way they treat their people. But there is also a need for organizations to take account of the stresses their employees have to face outside the organization; these include maintaining a reasonable balance between life and work, taking care of children and dependants, health issues and financial problems.

Features of an employee wellbeing strategy

The purpose of an employee wellbeing strategy is to provide a framework for the introduction of policies and practice designed to increase the level of wellbeing among the employees of an organization. The strategy should take into account the concept of the quality of working life (QWL), the conditions for which, as summarized by Walton (1974), are the development of human capacities, growth and security, social integration, rights and representation, the social relevance of work, consideration of the total life space, a safe and healthy working environment, and adequate and fair compensation. Warr (1987) suggested that the factors affecting wellbeing were: opportunity for control, opportunity for skill use, variety at work, opportunity for interpersonal contact, a healthy, safe and supportive environment, availability of money, security and a valued social position.

The strategy should be evidence-based. Pulse employee surveys (i.e. ones taking place on a quarterly, monthly or even weekly basis rather than the more typical annual survey) should be conducted, possibly through an enterprise social network (a social network operated within an organization that functions in the same way as social networks such as Facebook). The surveys would measure the reactions of employees to key aspects of wellbeing: the work environment, their jobs, relationships with their managers and work–life balance. HR analytics should be used to analyse the causes of any sickness absence to identify the incidence of stress and to examine indicators of employee dissatisfaction such as absenteeism and disputes. The evidence should indicate any areas in which prioritized action is required, taking into account the internal factors listed in Table 27.1 and the external factors referred to after that table.

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Consideration should be given to possible developments in consultation with employees at meetings and/or through the enterprise social network When decisions have been agreed, the work of developing policy and practices such as those set out in Table 27.1 can begin. Account should be taken not only of the form and contents of the policy or practice but also of how it is to be implemented.

Proposals should be discussed with those affected by them, and managers and employees enlisted to support their detailed development and implementation. A change management programme may have to be drawn up with provision for communications, further involvement and any training required for those concerned. The implementation plan may be phased or test runs could be carried out. The whole implementation process should be carefully monitored to ensure that it is going according to plan.

PRACTICAL IMPLICATIONS

- Conduct regular employee surveys (pulse surveys) to identify any employee health and wellbeing issues.
- Assess the causes of those issues by reference to the factors affecting wellbeing listed in this chapter.
- Develop a wellbeing strategy that will deal with any immediate issues and provide for continuing high standards of wellbeing in consultation with stakeholders.
- Pay particular attention to the role of line managers in providing for the wellbeing of employees.

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Digital HRM 28

CHAPTER OBJECTIVES

This chapter is concerned with what organizations do about making strategic decisions on the use of digital HRM technology including AI, set out under the following headings:

1 Digital HRM defined
2 Digital HRM strategy
3 Applications of digital HRM
4 Digital transformation
5 Artificial intelligence (AI)
6 Practical implications

Digital HRM defined

Digital HRM is the use of digital technologies in the form of web-based applications including human resource information systems, cloud technologies and various other technologies such as artificial intelligence (AI), chatbots, social media and smartphones.

'Digital' is strictly defined as the representation of values as discrete numbers (1 and 0) rather than as a continuous spectrum. More generally, the term covers anything to do with computers (and smartphones, in that they work as computers), how they function and how they are used. Digital technology is concerned with computer-based applications and solutions. It involves converting information from a physical form into a digital one (digitization) and using that to facilitate business and HRM processes (digitalization).

Dave Ulrich (2019: xvi) argued that:

> Every organization requires a digital agenda to use information to win in the financial, customer, and employee marketplaces. This digital business agenda enables the organization to source information that help the business win in their chosen financial and customer markets.

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He broadened the agenda when he suggested (p xix) that:

> Currently in most firms, technology is used to deliver administrative efficiency (phase 1), upgrade and innovate HR practices (phase 2), and deliver information (phase 3). Increasingly, technology should encourage belonging through social and emotional connections among employees in an organization and among employees and stakeholders outside an organization.

Digital HRM strategy

A digital HRM strategy defines the intentions of the organization on the use of digital HRM and AI. It will cover not only proposed applications but also, by means of impact assessments, the effects these will have on the organization and its employees and what should be done about those effects. It will be particularly concerned with digital transformation – the integration of digital technology into all aspects of a business.

The strategy needs to cover familiar applications such as a human resource information system (HRIS), the use of social media, recruitment aids and learning systems. But it will also have to pay particular attention to the use of AI.

Applications of digital HRM

The main applications of digital HRM, other than AI, are administration, processing people data, communications, and as an aid to resourcing and learning and development activities.

Administration (processing people data)

HR administration is about maintaining a database containing the personal details of individual employees and their employment, pay and benefits, attendance, holiday, performance appraisal, training and disciplinary records. It also covers the administration of the payroll and employee benefits. Administrative practices relating to personal data have to conform to the requirements of data protection legislation.

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Communications

Digital HRM improves the capacity of organizations to communicate to their employees and of employees to communicate with their employers and each other. This is done through social media and chatbots. Organizations can operate an enterprise social network (ESN), also known as an internal social network, that functions in the same way as social networks such as Facebook

Social media uses digital technologies that allow people to connect with each other to create and share information. It involves an online digital platform or website (a social networking site) that enables people to interact via 'instant messaging' (real-time, direct text-based communication between two or more people using smartphones, personal computers, laptops or tablets).

Chatbots are an AI facility that can be embedded in a messaging application. They can be used to answer queries by employees on such matters as holiday and maternity leave entitlement, information on terms and conditions of employment and work problems. Chatbots are either accessed through virtual assistants such as Google Assistant and Amazon Alexa, or via messaging apps such as Facebook Messenger or WeChat.

Resourcing

Digital recruitment involves the use of the internet to advertise or post vacancies, provides information about jobs and the organization, and enables email communications to take place between employers and candidates. The latter can apply for jobs online and can email application forms and CVs to employers or agencies. Tests can be completed online, identifying the most effective job boards for specific roles, or the events and approaches that can broaden attraction.

The advantages of digital recruiting are that it can reach a wider range of possible applicants. It can be used alongside other recruitment methods to maximize response and is quicker and cheaper than traditional methods of advertising. It can also identify the most productive sources of candidates. More details of jobs and firms can be supplied on the site, CVs can be matched and applications submitted electronically. In high-volume recruitment, screening tools help sift through thousands of applications efficiently and identify candidates from under-represented, disadvantaged and

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discriminated-against backgrounds. There are many screening tools, from simple multiple-choice questionnaires to more sophisticated AI-assessed video interviews and chatbots. The main varieties of digital recruiting are corporate websites, networking sites such as LinkedIn, social media and matching technology to establish the extent to which candidates meet the job or person specification.

Learning and development

Digital learning involves the application of e-learning and learning platforms, the development of virtual learning environments and the use of smartphones.

E-learning

E-learning is the delivery and administration of learning material and support in a discrete package via computer, networked and web-based technology. It is usually managed through a learning platform.

Learning platforms

A learning platform is an integrated set of interactive digital services that provides L&D professionals, managers and learners with the information, tools and resources they need to support and enhance learning. The original platform was a learning management system (LMS). Newer learning platforms use paths or tracks to arrange content by role or skill and can provide machine-driven recommendations. Learning experience platforms (LEPs) create personalized learning experiences for employees by integrating, consolidating and customizing formal and informal learning initiatives from across the organization. Learners have a single point of access to discover, gain and share knowledge.

Virtual learning environment

A virtual learning environment provides learning online (remote learning) rather than in a training centre or classroom. It can consist of learning facilities such as virtual classrooms (environments that allow trainers and learners to connect online in order to provide and receive instruction), webinars (interactive seminars or workshops that are transmitted over the web using video conferencing software), video conferencing or integrated learning (tools such as Moodle that take learners through a whole system of learning experiences and integrate their online interactions).

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Smartphones

Learning material in short 'bites' can be easily distributed on smartphones, usually through a learning app.

Digital transformation

Digital transformation is what happens when organizations successfully take advantage of the opportunities offered by digital technology. The aim is to achieve digital maturity – the integration of digital technology into all areas of the business and its acceptance as a way of life. It is not just about its development and introduction. It is also about the ability of people to adapt to the new circumstances. This means changing their mindset and ensuring that they have the understanding and skills required.

Digital transformation will not be achieved unless innovations meet the needs of both the organization and the people working in it. The reasons for and the implications of proposed new digital technology should be communicated to and discussed with those affected by it. Those directly involved should be given the opportunity in good time to learn the necessary skills. HR has a crucial role in ensuring that people issues are considered, that the change is managed effectively and that learning programmes are planned and delivered.

Artificial intelligence (AI)

Artificial intelligence (AI) is the use of computers to engage in human-like thought processes, such as learning and self-correction. It enables things to be done through what has been learnt. AI systems function without being programmed. They are based on the data they collect and how the systems are used. AI algorithms (sets of rules to be followed step by step in calculations or other problem-solving operations) 'learn' from the data they are fed or 'trained' on. AI can analyse data ('data mining') and handle questions by looking up an answer in a data set. As the CIPD (2019: 10) commented:

> Current emerging technology centres on artificial intelligence (AI), including both machine learning and set automated algorithms, and robotics. This latest era is changing the nature of work in new ways, where the technology not only assists in basic physical tasks, but also tasks that require higher cognitive

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functions. In addition, AI and automation can result in new integrations and co-operation possibilities and challenges, which also can create new types of jobs and services.

The components of AI

The components of AI are:

1. *Machine learning* – providing computers with the ability to learn without being explicitly programmed. Machine learning uses algorithms (sets of rules to be followed in calculations or other problem-solving operations) to spot patterns and associations in data sets, and predict what will happen next or initiate an action.
2. *Natural language processing* – understanding human language and processing and analysing large amounts of natural language data.
3. *Deep learning* (hierarchical learning) – making a series of machine learning decisions where outputs from one decision inform the analysis of the next. Iterations continue until the output reaches an acceptable level of accuracy.
4. *Neural networks*, which process information in a similar way to the human brain. They learn by example and cannot be programmed to perform a specific task. Examples of the use of neural networks are facial and handwriting recognition.
5. *Generative AI* – the production of text, images, video, audio clips or information in response to requests or 'prompts'. Generative AI applications, such as ChatGPT, produce text for learning and other purposes by automatically producing sentences that are followed by more text. Advanced natural language processing techniques complete the final product. They may make use of a large language model (LLM) that can recognize and generate text, among other tasks. LLMs are called 'large' because they are trained on huge sets of data.

AI strategy

AI strategy is concerned with what AI applications should be used and what needs to be done about the concerns of employees as considered below. It is an aspect of overall digital strategy but its growing significance means that it

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needs to be treated specifically. The five steps to success in developing an AI strategy listed by *People Management* (2023) were:

1. *Check your need*
   Just because AI is the latest tool, doesn't mean it's an ideal solution in all areas. If you don't need to use it, don't.
2. *Communicate with staff*
   Outlining clearly what the benefits are – and assuaging the fears – will help keep staff on board.
3. *Plan for the worst*
   Think critically about the risks and pitfalls. Are you jeopardizing intellectual property or business secrets? If so, shy away from commercial providers of AI tools.
4. *Prepare for the best*
   Pinpoint the areas that can benefit most from the solution and provide adequate training on tools, including outlining company-wide policing on its use.
5. *Monitor performance*
   AI isn't a guaranteed success story. Regularly check in with staff to find out whether it is making their jobs easier or harder.

Uses of AI in HRM

The uses of artificial intelligence in human resource management include:

- *Text generation* – for example, summarizing documents, drafting policies, generating social media post ideas, producing interview guides, drafting role profiles.
- *HR analytics* – gathering and analysing data and information on people and HRM processes to guide decision-making. It is possible to use an AI tool to draft a policy on a specific subject incorporating previous policy.
- *Recruitment and selection* – matching candidates located in a database to job/person specifications and using natural language processing to predict which words in job advertisements will make the most impact on applicants. At Unilever the time to hire has been cut by 75 per cent with the help of AI.

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- *Talent management* – identifying eligibility for inclusion in a talent development programme (a talent pipeline) by providing information on performance histories.
- *Learning and development* – developing and operating performance support systems that provide on-the-job access to learning material in the shape of information about techniques, procedures, and knowledge and skill requirements with examples and advice on how they should be developed and applied. Preparation of training sessions and material.
- *Retention management* – using data-mining algorithms to identify potential leavers so that action can be taken as required to retain them.
- *Employee sentiment analysis* – analysing large amounts of text, for example emails, to identify employee attitudes, moods or sentiments.
- *Probabilistic matches* – machine learning can identify data that is likely to be associated with the same person but that appears in slightly different databases. This could feature at the individual level either as a positive thirst for information or as a worrisome set of concerns.
- *Workforce scheduling* – scheduling workers onto shifts and indicating where it is best to allocate workers with specific skills.
- *Payroll* – AI algorithms can be used to check initial payroll entries and calculations.
- *Employee queries and self-service problems* – setting up chatbots (bots) to answer queries from employees.

AI concerns

There are two major concerns about the use of AI: the impact on the future of work and the possibility that it can introduce new varieties of discrimination.

AI and the future of work

In general, as indicated by the CIPD (2019), AI technology tends to replace individual tasks rather than a whole work process from start to finish. But there are a number of ways in which it can affect the future of work as established in a survey conducted by the World Economic Forum (Rayner, 2023). This revealed that businesses expect artificial intelligence to be a net job creator in the coming five years. Nearly half (49 per cent) of companies expect adopting AI to

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create jobs, well ahead of the 23 per cent of respondents who expect it to displace jobs. Employment gains are expected by 73 per cent of companies in the automotive and aerospace industry. Only four of the 27 industries studied expect net job losses although these included major sections such as consumer goods, entertainments, media, and oil and gas.

AI and discrimination

AI can introduce bias and new forms of discrimination, especially if the data used in its development only represent partial segments of the population or reflect existing societal bias. An Institute for Employment Studies report (Reilly, 2018) noted that algorithms may be racist or sexist because their construction reflects the reality of the employment situation rather than the ideal. This report listed a number of other risks in using AI. With machine learning, it can be difficult to establish what the machine has learnt and how it reached its conclusions. Algorithms can mislead people (like satnavs sometimes) – this may happen when in recruitment the system gives unimportant features too much weight or where the system uses 'kill' questions that reject candidates on the basis of a single data item, for example a criminal record. Finally, AI cannot replicate human intuition and may not capture the subtle connections between people that drive human behaviour.

PRACTICAL IMPLICATIONS

- Develop the skills and abilities in HR required to advise on the development and application of digital and AI strategy with the aim of not only furthering the interests of the business but also providing a more satisfying employee experience.
- Take whatever steps are necessary to achieve digital transformation.
- Consult employees on the design and implementation of digital and AI technologies to reduce the risk of unintended consequences, and to provide training and practical support to use the technology effectively.
- As suggested by the CIPD (2019) pay close attention to the strategic and operational actions of other functions with regard to workplace technology, and be mindful of taking the opportunity to shape the application of technology from the very beginning of discussions around planning and implementation.

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- Use AI to free highly skilled employees for more valuable tasks.
- Ensure that sufficient account is taken of any complexities in work processes when introducing digital technology.
- Consider how AI will affect jobs and what support is required for individuals to carry out their changing job demands.

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International HRM 29

CHAPTER OBJECTIVES

International HRM strategy is concerned with HR practices in international companies, including their international units and subsidiaries. This chapter is set out under the following headings:

1 The basis of international HRM strategy
2 Resourcing strategy
3 International talent management
4 International performance management
5 International reward management
6 Managing expatriates
7 Practical implications

The basis of international HRM strategy

International HRM strategy describes the approach the company wants to adopt – now and in the future – to deciding how HR matters should be managed by international subsidiary companies and how expatriates should be managed.

For HRM in international subsidiaries or units, a decision has to be made about the extent to which, on the one hand, an organization should implement standardized policies and practices across the world (convergence) or, on the other hand, it should allow overseas subsidiaries to adopt their own practices or at least modify the policies and practices of the parent company to suit local requirements (divergence).

Festing and Eidems (2011: 163) reported that: 'In the course of increasing globalization, more and more MNEs are being forced to compete globally and simultaneously adapt their business strategies to changing local demands.' They also suggested that 'firms tend not to standardize a whole HRM system but rather focus on single practices' (p 165).

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It was argued by Reilly and Williams (2012: 30) that: 'What HR might need to do is more carefully decide what is common and global, versus what is different and local, against some well thought through criteria. This might mean, for instance, a common HR information system, but local resourcing, or one method of executive reward, yet multiple ways of aligning local pay with the market.' They concluded that: 'It is the essential processes, populations and tools that are the ones to control from the centre, not a crude imposition of one size fits all across the piece' (p 31).

Harris and Brewster (1999) listed the following factors affecting the degree of convergence:

- The existence of well-defined local norms.
- The extent to which an operating unit is embedded in the local environment.
- The strength of the flow of resources – finance, information and people – between the parent and the subsidiary.
- The orientation of the parent to control.
- The nature of the industry – the extent to which it is primarily a domestic industry at local level.
- The specific organizational competencies, including HRM, which are critical for achieving competitive advantage in a global environment.

There are, however, some HRM practices in which the parent company will play a major part. Workforce planning and talent management for more senior staff may be centralized, as may be resourcing decisions that affect the deployment of staff from the parent company or from other countries (third country nationals). The remuneration of senior staff and expatriates will certainly be centralized. While performance management systems will be administered by subsidiaries, the centre may want to ensure that the processes involved conform to what is regarded as best practice within the organization, and provide the information required for talent management and staffing decisions. An international HR function may also be concerned with encouraging the actions required to promote multicultural working throughout the organization.

Resourcing strategy

International resourcing strategy is based on workforce planning processes, which assess how many people are needed in the company's international

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Table 29.1 Advantages and disadvantages of using PCNs and HCNs

Employment of:	Advantages	Disadvantages
Parent company nationals (PNCs)	• Facilitates control and coordination • Provides managers with international experience • Provides people with the best skills for the job • Promotes the dissemination of the MNC's policies and values	• Limits the promotional opportunities of HCNs • Expatriates may find it hard to adapt to the characteristics of the host country's culture and institutions • Expatriates may impose an inappropriate management style based on that of their parent company • The remuneration of PCNs and HNCs may differ • Lack of continuity • The host country may resent and even limit the deployment of foreigners
Home country nationals (HNCs)	• Familiar with local culture, institutions and legal requirements • No language barrier • Provides continuity • Morale improved as HNCs see career potential • Fits local government policy for employing nationals • Reduces employment costs	• Unfamiliar with parent company's practices and systems • Dissemination of HQ practices more difficult • May not have the immediate skills required • More difficult to exercise control from the centre

establishments (demand forecasting), set out the sources of people available (supply forecasting) and in the light of these forecasts, prepare action plans for recruitment, selection or assignment. Sparrow et al (2011: 42) emphasized that multinational companies (MNCs): 'increasingly demand highly-skilled, highly flexible, mobile employees who can deliver the required results, sometimes in difficult circumstances'.

Workforce planning for junior staff is more likely to be carried out by subsidiaries although the centre may require information on their plans.

On the basis of their research, Paik and Ando (2011: 3006) suggested that:

> To effectively integrate and coordinate activities of foreign affiliates, MNCs need to maintain a higher level of control at headquarters. MNC headquarters want

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> foreign affiliates to act as if they were the headquarters' agents. In this situation, MNCs are inclined to staff foreign affiliates with managers who understand and appreciate headquarters' directives.

However, they also noted that this policy may evolve to rely more on the local 'host' country staff as headquarters learns how better to integrate activities of foreign affiliates to achieve global efficiency. Cumulatively, headquarters will learn more about managing in the host country and local practices, and will build relationships with local suppliers and recruit more local employees.

Whichever orientation exists, an important strategic choice has to be made in staffing subsidiaries in an international firm between employing parent company or home company nationals or a combination of the two. Dowling et al (2008) listed the advantages and disadvantages of each approach as shown in Table 29.1.

Additionally or alternatively, a decision may be made to employ third country nationals (TCNs) in certain posts. These might be easier to obtain than home country nationals and could cost less. But as pointed out by Dowling et al, they might not want to return to their own countries after assignment, the host government may resent hiring of TCNs, and national animosities would have to be considered.

International talent management

Mellahi and Collings (2010: 143–4) defined international talent management as:

> The systematic identification of key positions which differentially contribute to the organization's sustainable competitive advantage on a global scale, the development of a talent pool of high performing incumbents to fill these roles which reflects the global scope of the multinational enterprise, the development of a differentiated human resource architecture to facilitate filling these positions with the best available incumbent and to ensure their continued commitment to the organization.

They suggested that enabling high-performing home country nationals to become senior managers improves the performance of an international business because: 1) it is able to respond effectively to the demands of local stakeholders; 2) it is legitimizing in the host country; and 3) it provides incentives for retaining and motivating talents.

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The conduct of international talent management involves basically the same methods as those used in a domestic setting, namely, a pipeline consisting of processes for:

1. *Talent planning* – defining what is meant by talent and establishing how many and what sorts of talented people are needed now and in the future.
2. *Talent pool definition* – on the basis of talent planning data deciding what sort of talent pool is required. This would consist of the resources of talent available to an organization in terms of numbers, competencies and skills. It would also include identifying pools of talent that possess the potential to move into higher-level or different roles. This replaces the traditional objective of succession planning with its short-term focus on finding replacements for managers who leave. The talent pool is filled mainly from within the organization with additions from outside as required. The pool is not managed rigidly. It can be expanded or contracted as demands for talent change, and new members can be included and existing members removed if they are no longer eligible.
3. *Identifying talent internally* – by reference to the definitions of the talent pool, using assessments of existing staff to decide who is qualified to be included in the talent pool.
4. *Recruiting talent* – bringing in talented people from outside the company to supplement internal talent and become additional members of the talent pool.
5. *Performance management* – talent is not fixed and therefore needs to be reviewed regularly though performance management, which also provides information on learning and development needs.
6. *Management development and career planning* – a continuous programme of developing the abilities of members of the talent pool and, so far as this is possible, planning their careers.
7. *Assignment or promotion* – talent pool members are assigned to positions in headquarters or, as expatriates, in foreign subsidiaries. Alternatively, they may be promoted within headquarters or a subsidiary. Although in a fully formed talent management system the talent pool is considered to be the major source for senior assignments or for promotions, people not actually in the pool may still be eligible. And if no one suitable is available in the pool it may be necessary to recruit externally. Those assigned or promoted will still be included in the talent pool.

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The global nature of MNCs makes talent management a particularly complex issue. Mellahi and Collings (2010) identified three reasons why global talent management often fails:

1 Subsidiary managers may believe that it is in their interests to keep their own best talent rather than bring them to the attention of headquarters or other subsidiaries.
2 Decision makers at the centre do not always have access to accurate information about the availability of talent elsewhere in the organization.
3 Even when information is available, the sheer volume, diversity and, possibly, unreliability of the data hinders the centre's ability to manage talent in subsidiaries effectively.

Sparrow et al (2011: 48) commented that: 'The coordination of international talent management strategies in highly decentralized MNCs is more problematic due to greater tensions between the short-term needs of the operating companies and the long-term strategic needs of the businesses.'

INTERNATIONAL TALENT MANAGEMENT AT HSBC

HSBC has created a system of talent pools that track and manage the careers of high potentials within the international firm. After those employees have been identified, they are assigned to regional or business unit talent pools, which are managed by local human resources and business unit leaders. They are then selected initially for new assignments within their region or business and may later be given positions that cross boundaries. Managers of the pools single out people to recommend for the group talent pool, which represents the most senior cadre of general managers and is administered centrally.

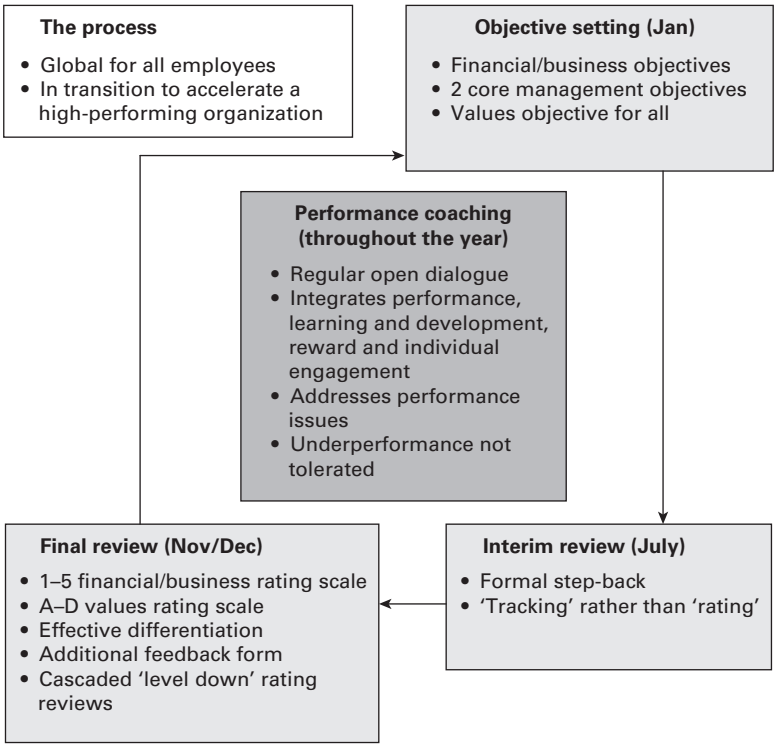
SOURCE Ready and Conger (2007)

International performance management

Performance management systems in subsidiaries covering home and third country nationals are the area of HRM where there is likely to be the most convergence. This means that a system based on the one used in the parent company, such as the one illustrated in Figure 29.1, is applied completely

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Figure 29.1 International performance management in an international bank



or partly worldwide. As Briscoe et al (2012: 347) observed: 'There are some valid reasons which suggest that… a standardized approach may be warranted for the sake of global integration, culture cohesiveness, fairness, mobility of global employees, and as a control mechanism.'

The trend towards convergence was confirmed by the Global HR Research Alliance research as reported by Stiles (2007: 39). This concluded that:

> In performance management we found little or no difference across the world. We witnessed a concerted effort on the part of group HR departments to maintain global standards supported by global competencies (at foundation, managerial, technical and leadership level), common evaluation processes and common approaches to rewards. It was difficult, therefore, to find many distinctive local practices.

The effectiveness of international performance management is affected generally by the complexity of international business and the distance separating headquarters and subsidiaries. The perceptions of the subsidiary and those of

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the parent company on what has been achieved may differ. The particular issues affecting international performance management are the increased difficulty in influencing and controlling line managers, cultural differences, the problem of achieving consistent rating results and variable levels of maturity among subsidiaries which affect relative performance.

International reward management

Traditionally, discussions of international reward strategies and practices covering rates of pay, pay progressions and employee benefits have tended to focus on an elite of expatriate workers, sourced from headquarter locations and rewarded in isolation from local country staff. Today a diverse and complex pattern is emerging, requiring a more strategic approach than simply copying the practices of other multinationals.

Baeten (2010) listed the following main concerns affecting global reward strategy:

- the extent of centralization or decentralization of reward policies and practices;
- balancing corporate and national cultures;
- global benchmarking of levels of pay.

The factors that are likely to impact on international reward strategy are the corporate culture of the multinational enterprise, expatriate and local labour markets, local cultural sensitivities, and legal and institutional factors. A choice has to be made between, on the one hand, seeking internal consistency by developing common reward policies in order to facilitate the movement of employees across borders and preserve internal equity and, on the other hand, responding to pressures to conform to local practices.

Briscoe et al (2012: 297) identified the following options for establishing a worldwide reward system:

- Create worldwide salary levels at HQ with differentials for each subsidiary according to their differing costs of living.
- Base pay on local levels (usually excluding executives and globally mobile employees).
- Establish a global base per position where there is a global market for particular occupations or for senior managers and global employees.

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- Set up two classifications – local and national – for pay. All local nationals above a certain level are placed on the headquarters scale. The others are paid on a local scale.

INTERNATIONAL REWARD STRATEGY AT GENERAL MOTORS

General Motors (GM) moves people round the globe frequently because its products are designed and built on global platforms. The international philosophy of GM was expressed in the mantras 'One GM, one global team' and 'Global perspective: local engagement'.

But different locations were using different level pay structures and job evaluation schemes. A 'leading change' programme involved compensation chiefs around the world. Under the banner of the phrase 'Global compensation takes the approach that what can be should be', the global team:

- analysed the various strategies, structures and practices in place around the world;
- used corporate governance to decide what needed to be global, regional or local;
- identified 'best practices' in compensation to establish a common philosophy, tools and structure for the salaried workforce;
- engaged key stakeholders in the process;
- provided tools, support and education;
- created with the help of Mercer Consultants more than 200 benchmarks in 30 job functions and then slotted them into global salary grades.

SOURCE Mercer Human Resource Consulting (2009)

Managing expatriates

The management of expatriates on international assignments is a major factor determining success or failure in a global business. Expatriates are expensive. They can be difficult to manage because of the problems associated with adapting to and working in unfamiliar environments and cultures, concerns about their development and careers, difficulties encountered when they re-enter their parent company after a foreign assignment and questions about how they should be remunerated.

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A strategy for managing expatriates can relate to the global assignment cycle described by Sparrow et al (2004: 145), the three phases of which are:

- *Pre-departure* – planning the assignment, selecting the individual, administering the relocation programme, and conducting preparatory training and development.
- *Assignment* – performance management, pay and benefits, family support and preparation for repatriation or reassignment.
- *Post-assignment* – retention by reintegrating returning international assignees into organizational career systems.

PRACTICAL IMPLICATIONS

- Identify in overseas subsidiaries the cultural climate and other circumstances that might affect convergence and divergence decisions.
- Decide in principle on the extent to which HR policies and practices should converge or diverge between subsidiary companies or international units and the parent company.
- In the light of the decision on convergence or divergence, review the application of each of the major aspects of HR strategy throughout the international organization.
- Provide guidance to international subsidiaries and units on how parent company policies and practice should be implemented.
- Monitor the implementation to ensure that as far as possible it is consistent with the international company's policies and practice.

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Conclusions

CHAPTER OBJECTIVES

These conclusions address three questions concerning SHRM:

1 What is happening to SHRM?
2 What is the future of SHRM?
3 Practical implications

What is happening to SHRM?

In his 2015 article 'HRM at a Crossroads', Michael Beer looked at what had happened to SHRM in the 30 years since he and his colleagues wrote *Managing Human Assets*. He commented on the pluralistic view expressed in that book with its emphasis on the need to adopt a multi-stakeholder approach. He observed that this perspective has largely disappeared from HRM with scholars focusing on proving that human assets are causal to financial performance, especially in the United States but not so much in Europe. He also argued that 'the field must reorient itself to producing useful, and I would add, usable (actionable) knowledge, if it is to remain relevant to practitioners' (p 420).

Michael Beer's last comment is crucial. The foundation of the SHRM concept is provided by a host of theories. These influence the development of HR strategy that takes place in the ever-changing context within which HR exists and affects how it operates. And this context is subject to the incessant changes that influence the directions in which HRM is likely to go as described below.

Another perspective on the development of SHRM was provided in a literature review by Delery and Roumpi (2017). Their conclusion was that the field is going in circles as it is evolving. They suggested that attempts to explain the 'black box' between HRM practices and firm performance have

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shown that human capital resources are at least partially the link between them. But there is nothing new in this. SHRM researchers such as Barney and Wright (1998) have noted this relationship from the very beginning. Delery and Roumpi argue that this brings the field back to the basic quest of specifying the HRM practices and their combinations that are associated with higher levels of organizational effectiveness.

What is the future of SHRM?

As Boxall and Purcell (2022: 326) emphasized: 'One thing that must be accepted about the future is that it is uncertain… we should expect the unexpected.' The prospects for SHRM are bound up with the prospects for HRM, which in turn are influenced by changes in the context – the internal and external environments of organizations. These cannot be predicted precisely with any confidence but it is possible to identify the most likely trends, namely:

1. Substantial changes in the future of work as a result of digital and technological transformation, including the impact of AI.
2. Changes in the nature of work arising from the 'permacrisis' of the 2020s, defined by the Collins dictionary as 'an extended period of and insecurity, especially one resulting from a of catastrophic'.
3. The likelihood of further 'environmental disruptions' for which specific preparations are either impossible or severely limited.
4. Internal changes to organization structures and processes.
5. Diversifying employment relationships.
6. Much more emphasis on skills development.
7. Increasing pressures to deal with equality, diversity and inclusion (EDI) issues.
8. Sustainability and responsible business.
9. Developments in HR practices and techniques.
10. Changes in the roles of the HR function and HR professionals.

Digital transformation

Digital transformation is gathering pace. It happens when organizations successfully take advantage of the opportunities offered by digital technology.

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The OECD (2023) estimated that as a result of AI, 14 per cent of jobs could be automated and 32 per cent could change significantly over the period of the next 15–20 years. This means that employees will have to acquire the understanding and skills needed to adapt to their new circumstances.

Reference was also made by the OECD to the increase of what it terms in 'algorithmic management'. This is the use of AI to either support or automate management decisions – such as deciding who should receive a bonus, training or promotion – or other managerial tasks such as monitoring workers. AI is being increasingly used to select CVs that have the best fit with a job description while respecting diversity criteria, it can optimize the assignment of tasks or training to workers based on their characteristics and preferences, and it can monitor large numbers of workers at any time and location.

Changes in the nature of work

The context of the 'permacrises' of the 2020s (Covid-19, etc) has been instrumental in making significant differences to the nature of work, with particular reference to the increase in home and hybrid working, the pressure for more flexible working and the growth of the gig economy. These developments may have slowed down recently but they are still factors to be taken account of in the future.

Environmental disruptions

Environmental disruptions are largely unforeseeable and therefore unanticipated events by definition, But they will happen again in the future and although they cannot be prepared for specifically, the ability of an organization and its people to respond with agility and resilience to new challenges needs to be developed.

Changes to organizations

Covid-19 and other crises have forced organizations to operate more flexibly and this trend will continue into the future. Changes to traditional ways of working have been accelerated by digital transformation. There is a move away from traditional models of leadership and team structures. More use will be made of different work teams and other groups for specific problems, who will be disbanded when the problems have been solved. There will be less dependence on hierarchical decision-making structures.

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Diversified working relationships

The CIPD (2022) noted that a diversity of employment relationships has become a prominent trend influencing the world of work. Changing expectations mean that employees want a more personalized, flexible employment relationship with their employer. Technological factors influencing where and how people can work could mean a rise in portfolio working or working for multiple employers becoming the new norm.

Skills development

Learning and development strategies for the future are placing much more emphasis on skills development in areas such as soft skills and digital transformation. In the former area, companies are increasingly asking their workforce to deliver value through skills such as leadership, communicating, ability to think and act creatively, solve problems, build consensus, manage difficult conversations and work effectively in teams. The competency industry has largely disappeared.

Equality, diversity and inclusion (EDI) issues

The growing importance of developing an EDI strategy was emphasized by the CIPD (2022). This means overcoming prejudice, bias (including unconscious and micro-aggressions) and changing entrenched negative attitudes. As advised by the CIPD, to progress EDI, organizations should take a systemic approach, including developing an inclusive culture, inclusive approaches to employment policies and practices, to personal behaviours, and by managing EDI issues in ways that also support business contexts.

Sustainability and responsible business

HR professionals will be well placed in future to coordinate their organization's response to the requirements of the ESG framework (see Chapter 19). CIPD (2020: 31) stated that: 'People professionals could have a wider remit in the future, considering social responsibility, responsible business and sustainability… They could also be under pressure to protect corporate reputation, especially when it comes to employee attraction – although regulatory and investor interest will also be a key motivator to address sustainability.'

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Developments in HR practices and techniques

Changes and developments in HR practices and techniques are happening all the time. And they will go on developing. Perhaps the three main areas in which development will take place are resourcing, learning and development, and reward.

Resourcing

Skills shortages will continue in many areas, especially in the UK since Brexit. Organizations have had to adopt more sophisticated approaches to recruitment and talent management strategy and practices. In both these areas the use of digital HR, especially AI, is increasing rapidly.

Learning and development (L&D)

The future of learning and development will be strongly influenced by the use of digital HR and AI. Apart from those innovations, the future is likely to consist of the further development of existing trends. These include: greater emphasis on skills development:, self-managed learning and learning in the flow of work: more reliance on line managers taking responsibility for employee development with encouragement, guidance and help from L&D professionals; and less reliance on formal training interventions other than technical and compliance training. Immersive training, which places individuals in an interactive learning environment, either physically or virtually, to replicate possible scenarios or to teach particular skills or techniques, is becoming more popular. A key benefit of immersive training is that it can replicate real-world scenarios, which are interactive and allow learners to develop their skills in a psychologically safe environment. This creates an engaging learning experience, rather than allowing merely passive observation.

Reward

As suggested by Armstrong and Brown (2023), the future for reward management will be:

- collective security and wellbeing rather than on maximizing the value of an individual's total rewards;
- internally fair pay policies associated with higher levels of employee trust and engagement;
- focus on the low-paid, rather than just the already highly paid, in organizations, addressing low pay levels and precarious contract terms;

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- recognizing the value of investing in pay and career progression for all employees, not just the senior and well educated.

HR function and HR professionals

The CIPD (2020: 35) believes that members of the HR function have to be capable of 'navigating the inequalities that arise between having a multi-tiered workforce (that is, part-time, zero-hours contracts and employees working for multiple organizations) and hybrid working teams (that is, home/remote workers and office/operational workers) and ensure that all workers continue to have purposeful, quality work'. The CIPD also noted (p 35) that:

> The remit of HR appears to be growing and shifting in line with external drivers. The profession has to juggle higher employee/employer expectations and manage multiple tensions and divides across the workplace as we enter a difficult period across the labour market – all while developing and defining a clear purpose that serves all stakeholders.

A senior HR professional quoted by the CIPD (2020: 15) thinks that: 'HR in the future will be completely different. Say goodbye to the [large] number of HR jobs we experience today. Say hello to the HR chatbot who will replace all but the most complex of HR tasks. HR systems are already well advanced and need little human interaction.'

PRACTICAL IMPLICATIONS

The overarching message presented in this handbook is the value of employers and HR leaders undertaking a strategic, systematic review of their HRM and employment practices, especially because of the pressures put on them by the series of recent shocks and crises. In particular, they should:

- Be aware that recent external developments have been unprecedented and hugely influential on employment management policies and practices pursued by UK employers across all sectors of the economy.
- Have a clear HR strategy to guide and inform their responses to these external developments.
- Be market aware and sensitive in their HR strategy, but not market-dependent.

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- Be broad minded in their thinking, going beyond immediate issues to consider wider employment and economic developments
- Read widely, keep in touch with academics, network professionally and visit employers they admire.
- Look beyond the developing complexity and problems in the external environment to observe patterns and pathways, spot and exploit opportunities and be as innovative and differentiated as possible.
- Take account of external conditions and trends but balance any actions with the internal strategies, needs and culture of their organization.

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AUTHOR INDEX

Alfes, K 168
Alvesson, M 136, 177
Ando, N 317
Appelbaum, E 78
Areal, N 30
Armstrong, M 88, 89, 90, 200, 283

Bailey, T 77
Baird, L 17, 19, 52
Balain, S 266–267, 270
Barney, J 10, 20, 63, 64, 65, 66, 68, 69, 70, 172, 173, 328
Baron, A 88, 89
Basset-Jones, N 12
Batt, R 78
Becker, B E 18, 34, 35, 186
Beer, M 18, 19, 135, 163, 327
Benson, G S 93
Bersin, J 150–151
Birdi, K 11, 278
Blackler, F 221
Blumburg, M 77
Bonache, J 12
Boselie, P 13, 177, 265
Bos-Nehles, A C 20, 76, 130, 176
Bowen, D E 35, 41, 176
Boxall, P 6, 7, 25, 26, 33, 34, 43, 45, 47, 57, 58, 64, 66, 68, 70, 71, 75, 76, 78, 85, 105, 114, 173, 175, 285, 290, 328
Brewster, C 316
Brown, D 7, 86, 91, 94, 98, 118, 137, 200, 299, 331
Buckingham, M 200
Butler, L 140

Cabrera, E F 12
Caldwell, R 136, 168
Campbell, J P 77
Cappelli, P 19, 58, 106, 264, 267, 268
Carlson, D S 11
Carnall, C 129
Carvalho, A 30
Chandler, A D 44
Chatzkel, J L 208
Cheese, P 86–87
Coens, T 184, 200, 203–04
Collings, D G 265, 267, 268, 318, 320
Combs, J 11
Connelly, B L 178
Conway, N 124, 176
Cooke, R 167
Coster, C 34
Crocker-Heffer, A 19, 58
Cullinane, N 289

Davenport, T H 221
Delery, J E 18, 56, 57, 327–28
Den Hartog, D N 178
Dickens, C 124
Doty, H D 56, 57
Dougherty, T 75
Dreyer, G 75
Dries, N 265
Duncan, R B 110
Dundon, T 25–26, 204
Dutton, J E 31, 110
Dyer, L 12, 19, 55, 57, 85, 138

Eidems, J 315
Einhorn, H J 177
Eisenhard, K M 66
Elias, J 208, 209
Eredi, C 26, 29
Ericksen, J 12

Festing, M 315
Flaherty, J 184–185
Fombrun, C J 7, 18, 20, 86, 124
Fredrickson, J W 45–46
Freedman, R E 44–45
Friedman, M 227

Gallardo-Gallardo, E 264
Gartner, B 157
Gerhart, S 34
Gheorghe, C 180
Ghoshal, S 221, 227
Goodall, A 200
Grant, R M 64, 88, 217
Gratton, L A 6, 55, 106, 123, 124, 125, 154
Graves, S B 227
Guest, D E 11, 20, 57, 124, 125–126, 130, 175, 176, 178, 290

Hack, J 180
Halpin, A W 201
Hambrick, D C 45–46
Hamel, G 67

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Hansen, M T 218–219, 220
Harris, H 316
Herriot, P 290
Hillman, A 226
Hogarth, R M 177
Holbeche, L 30
Holder, G W 57, 138
Huselid, M A 11, 115, 186

Ichniowski, C 11
Iles, P 266

Jackson, S E 12, 18, 52, 139
Jenkins, M 184, 200, 203–04
Johnson, G 43, 46

Kahn, W A 30–31
Kamoche, K 20, 64
Kanter, R M 43, 47, 136
Kaufman, B E 5, 6, 79
Kearns, P 208
Keenoy, T 34
Keep, E 246
Keim, G 226
Kessler, S 286
Khilji, E 20, 123
Kim, S 26, 29, 31
Kinnie, N 67
Kochan, T A 289
Kramer, M R 225, 226
Krekel, C 299–300

Lafferty, J 167
Lake, D 138
Lawler, E E 128–129
Legge, K 25
Lengnick-Hall, M L 11, 17, 20, 124
Leonard-Barton, D 66
Lepak, D P 11, 35
Levitt, T 227
Long, P 88, 90
López-Cotarelo, J 125

MacDuffie, J P 19, 55
Magretta, J 113–114
Malik, S 277
Martin, J A 66
McDonnell, A 267
McMahan, G 5–6, 10, 17, 19, 55
McWilliams, A 225, 227, 228
Mellahi, K 268, 318, 320
Meshoulam, I 17, 19, 52
Meyers, M C 47, 88
Michaels, E G 263
Michie, J 56
Miles, R E 52, 247
Minbashian, A 265
Mintzberg, H T 46, 88, 89, 105, 110
Mohrman, S A 128–129
Moran, P 227
Morgan, J 149
Murlis, H 200, 283
Murphy, K R 200–201

Nadler, D A 129
Nahapiet, J 221
Nalbantian, R 208
Nelson, R 68
Nishii, L H 20, 124, 126, 176, 178, 295
Nonaka, I 218
Nyberg, A J 20

Osterby, B 34
Osterman, P 289
Ostroff, C 35, 41, 176

Paauwe, J 12, 13, 19, 57, 176, 180
Paik, Y 317
Pascale, R 246
Paraskevas, A 31
Penrose, E 10, 68
Perkins, S J 103
Pfeffer, J 13, 58
Plaskoff, J 149
Ployhart, R E 20
Porter, M E 11, 52, 65, 172, 225, 226, 227–28
Prahalad, C 67
Pringle, C D 77
Pritchard, K 137–138
Pritchard, R D 77
Pulakos, E D 199–200
Purcell, J 6, 7, 11, 25, 26, 33, 34, 43, 45, 47, 57, 58, 64, 66, 68, 71, 75, 76, 78, 80, 85, 88, 89, 90, 105, 130, 173, 177, 328

Quinn Mills, D 247, 249

Rafferty, A 26, 204
Reeves, T 19, 55, 85
Reilly, P 313, 316
Richardson, R 55
Richer, J 45
Robinson, D 201–202
Rothwell, S 250
Roumpi, D 63, 327–328

Salancik, G R 13
Scarbrough, H 208, 209, 217
Schneider, B 86
Schuler, R S 6, 12, 18, 52, 139
Schumpeter, J 26
Shaw, J D 11
Sheehan, M 56
Shields, J 200

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Shih, H A 186
Snell, S A 35, 67
Snow, C C 52, 247
Snyder, W M 219
Sparrow, P R 19, 114, 136, 266–267, 270, 317, 320, 324
Stavrou, E T 59
Stephens, C 139, 140
Stiles, P 321
Stoskopf, G A 199
Storey, J 33–34, 94, 175
Strickland, A J 43, 47

Takeuchi, H 218
Tansley, C 265
Teece, D 65, 66, 173
Thompson, A A 43, 47
Thompson, M 55
Thunnissen, M 265
Tichy, N 17
Tietze, J 265
Tonkin, K 31
Townley, B 246
Trevor, J 126, 130
Truss, C 6, 13, 34, 44, 66–67, 85
Tushman, M L 129
Tyson, S 105, 138

Ulrich, D 138–139, 168, 176, 305–306
Undy, R 286

Vardi, S 264, 265
Vere, D 140
Vroom, V 77

Walker, J 17
Walton, R E 93, 290, 302
Wang, X 20, 123
Wenger, E 219
Wernerfelt, B 10, 68
West, M A 11
Whittington, R 46, 47, 105
Williams, T A 30, 316
Winer, B J 201
Witcher, M 105
Wood, S 92–93
Woodrow, C 125–126, 175
Worley, C 166
Wright, P M 5–6, 10, 17, 19, 20, 55, 64, 67, 109, 124, 141, 178, 328

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SUBJECT INDEX

ability, defined 76
Agile 30
agile working 189–190
agility 30
alignment
  horizontal alignment 10, 55–56
  of HR policies with business plan 7
  of HRM system with organizational strategy 6
  vertical alignment/fit 10, 51–55
AMO (ability, motivation and opportunity) model
  the AMO framework and SHRM 1, 76
  antecedents and development 77–79
  defined 75
  description 10
  practical implications 107
artificial intelligence (AI)
  components of 310
  defined 309–310
  strategy 310–311
  uses in HRM 311–312

behavioural perspective of strategic HRM 108
belief structure 37–38
best fit
  argument for 57
  and best practice 59
  defined 19, 57
  limitations to the concept 58
  and strategic alignment 51
best practice
  approach 58
  case against 58–59
  defined 19
  Pfeffer's list of best practices 58
  problems with the concept 59
  and strategic alignment 51
big idea 89–90
black box problem of the link between HRM and performance 177
Brexit 26, 175, 331
bundling
  argument for 19, 55
  defined 19
  of HR strategies 94
  notion 55–56
  process of 55
business and HR strategies 19
Business in the Community 228, 229
business model 113–114
business model innovation
  defined 114
  and strategy 46
business partner role of HR specialists 138–140
business perspective 18
business strategy and SHRM 52

causal ambiguity 66, 177
causality, reversed 177
change agent 168
change management
  process of 128–129
  role of HR in managing change 140
Chartered Institute of Personnel and Development (CIPD) 52, 68, 85, 94, 136, 139, 140, 155, 159, 160, 188, 189, 190, 230–231, 249, 275, 276, 293, 295, 309–310, 312, 330, 332
communities of practice 219
competitive advantage
  achievement of 11
  defined 65
  drivers of 11
  and HR practices 67
  and human resources 67
  practical implications of competitive advantage perspective 108
  and the resource-based view 64
  and SHRM 11
  strategies for achieving 172
  and strategy 65
  sustained competitive advantage 65, 67, 172–173
competitive strategies model of vertical integration 52
competitive strategy 65
configurational perspective of strategic HRM 56
context diagram 28–29
context of SHRM
  and causation 177
  nature of 25
  responses to contextual issues 27–29
  significance of 25–26
contingency perspective of strategic HRM 17, 56
contingency theory 57, 58
contingent determinism 57
convergence 316
core competencies 67

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corporate social responsibility (CSR) activities 228–229
defined 225
philosophy of 226
rationale for 226–227
role of the HR function 239–240
strategic CSR, role of 227–228
and strategic HRM 226
Covid-19 26, 29, 157, 175, 302, 329
creative incrementalism 105
culture *see* organization culture
culture change 167–168

diagnostics 115
digital HRM
applications of 306–309
defined 38, 305
strategy 306
digital transformation 309
diversity
defined 293
strategy 294–296
dynamic capabilities 65–66

employee engagement
defined 157
enhancement of 157–159
strategy 94
employee experience
defined 39
and the employee life cycle 150
index 151, 153
management of 151
meaning of 149
stages of 152, 153
strategy 153–154
employee life cycle
actions 152
defined 39
and the employee experience 150
employee performance and horizontal fit 19
employee resourcing *see* resourcing
employee surveys 117
employee value proposition
categories of (Mercer) 156
defined 155
and resourcing strategy 252–253
employee wellbeing
case for 299–300
defined 40
factors affecting 300–302
and the multi-stakeholder approach 19
strategy 302–303
employer brand 253
defined 151, 155
development of 155
employment law compliance 39
employment relations climate 288–289
employment relationship defined 285–286
employment relations strategy 286–288
engagement *see* employee engagement
environmental scans 114–115
environmental sustainability 173
equality
defined 293
strategy 293–294
equality, diversity and inclusion (EDI) defined 40
ESG (environmental, social and governance) framework
and corporate social responsibility 173–174
ESG criteria 233–234
ESG reporting 234–240
responsibility for ESG 239–240
significance of 234
and stakeholders 235–236
strategy 235
expatriates, management of 323–324
expectancy theory and performance 178
external fit defined 19

financial performance 171
flexibility strategy 260

guiding principles 37–38

Harvard framework of HRM 18
heterogeneity 63, 68
high-commitment management 93
high-engagement strategy 94
high-involvement management 92–93
high performance culture, development of 185
high-performance management 92
high-performance work systems
defined 92
development of 186–188
and individual performance 204
horizontal alignment or fit
defined 10, 55
recognizing the importance of 19
significance of 55
horizontal integration *see* horizontal alignment
HR analytics
defined 38
development 213–215
and HR strategy development 115
HR architecture 34–35
HR function
impact of HR on performance 175–180
strategic role of 135–136
transactional activities 135–136
transformational activities 136

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HRM *see* human resource management
HR policies 41, 87
HR practices 39–41
HR procedures 38–39, 41
HR processes 38–39, 41
HR professionals
  partnership role of 137–140
  strategic role of 141–144
HR strategy
  as an action vehicle 86
  approaches to 88
  basis of 86
  bundling of 94
  and business strategy 19
  the case for 89
  defined 86, 87
  development of 103–121
  embedding 123
  features of 86
  implementation of 20, 123–132
  nature of 85
  overall HR strategy 92
  and people and organization strategy 86
  planned and emergent strategy 104–105
  and plans 87
  and policy 87
  specific 97–100
  and strategic HRM 13–14, 86
  strategic intent, statements of 89–92
  types of 89
HR strategy development
  approach to 109
  considerations affecting 104
  environmental scans 114–115
  nature of 103
  programmes 110–118
  recommendations by practitioners 118
  rhetoric/reality gap 106, 109
  strategy formulation 104–105
HR strategy implementation
  approach to 126–130
  Guest and Bos-Nehles model 130
  problem of the say/do gap 123–126
  role of line managers 130
HR system
  components of 36
  purpose of 37
  a 'strong' system 35
human capital advantage 71
human capital and the resource-based view 136
human capital management
  analytics 213–215
  defined 38, 207–208
  strategy 208–215
human capital theory and the resource-based view 10, 64
human resource advantage 71
human resource management
  defined 33
  delivery of 34
  hard and soft models 33–34
  impact on performance 175, 176
  and strategic HRM 6
  system 6
  and talent management 266
human resource practices 67
human resources 34
human resources defined 64, 67
human resource strategy *see* HR strategy

idiosyncratic contingency 57
inclusion
  defined 293
  strategy 294–295
individual performance
  and high-performance work systems 204
  and performance leadership 201–202
  strategy 196–197
institutional theory 13
integration of HR and business strategies 19
internal fit 19
international HRM
  basis of 315
  defined 40
  international performance management 320–322
  international reward management 322–323
  international talent management 318–320
  managing expatriates 323–324
  resourcing strategy 316–318
  strategy 315–316

job-based hiring 245

knowledge management
  defined 38
  process of 217–218
  purpose of 218
  sources and types of knowledge 218–219
  strategy 219–221

lean manufacturing 190
learning and development
  defined 39
  formulating L&D strategy 278–279
  individual learning strategy 276–277
  organizational learning strategy 276
  strategy 275–176
learning culture
  characteristics of 276
  creation of 276
life-cycle model of vertical integration 52

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line managers
and employee engagement 159
and HR strategy 88
and HR strategy implementation 130

management succession planning and talent management 266–267
Mercer 156, 157
Michigan framework of HRM 18
motivation, defined 76
multi-stakeholder
perspective 11
practical implications of multi-stakeholder perspective 108
significance of 18
mutual gains
achievement of 290
concept 289
strategy 289–290
mutuality 93, 290

organizational agility 30
organizational capability 184–185
organizational culture and SHRM 12
organizational performance
impact of HR on organizational performance 175–180
management of 180–185
nature of 171
role of HR in managing organizational performance 174
organizational resilience 30–31
organizational restructuring 190–191
organizational strategy and the HRM system 6
organization development
activities 164–165
defined 163
strategy 166–167
organization strategy 86–87

path dependence 66, 173
people analytics *see* HR analytics
people management 34
performance
defined 195–196
and expectancy theory 178
factors affecting individual performance 196
individual performance strategy 196–197
organizational 171–191
perspective on 11
and SHRM 11
performance leadership 201–202
performance management
as a continuous process 197
cycle 197
defined 40, 195–196
international 320–322
limitations of the performance management system model 198–200
systems 197–201
performance pay 202–203
PESTLE
analysis 115
categories 25
plans and HR strategies 87
policy and HR strategy 87
policy-practice gap 7
productivity 172

resilience 30–31
resource-based view
antecedents and development 68
and competitive advantage 65
criticisms of 68–70
defined 10, 63
described 64
features of 65–67
and heterogeneity 63
message of 175
practical implications 107
rationale for 64
what it offers 70–71
resource capability 246
resource dependence theory 13, 66–67
resources 68
resourcing
bundling resourcing strategies and activities 248
components of resourcing strategy 248
defined 39, 245
integrating business and resourcing strategies 247
plans 253–255
strategic resourcing 245–246
workforce planning 249–252
retention strategy 256–259
reversed causality 177
reward management defined 281
reward strategy
defined 281–282
features of 282–283
rhetoric/reality gap 106, 109

say/do gap 123–124
skills-based hiring 245
skills development 202
smart working 188–189
social capital 221
social capital advantage 71
social networks 221
social sustainability 173
stakeholder analysis 116

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stakeholder approach to SHRM 18
stakeholders
  defined 11
  and ESG 235
  and HR issues 7
  and the HR system 37
  support for 172
stakeholder theory 37, 226
strategic alignment
  and best fit or best practice 57
  defined 10, 51
  perspectives on 56
  practical implications 107
strategic business partner role of HR specialists 138–140
strategic capability 70, 246
strategic configuration model of vertical integration 52
strategic fit 10
strategic goals 199
strategic human resource management (SHRM)
  aims of 7–8
  and the AMO framework 76
  behavioural perspective 11–12
  competitive advantage perspective 11
  components of 9–13
  concept of 5–6
  defined 1, 5–6, 38
  evolution of 17–22
  and HR strategy 13–14
  and HRM 6, 9
  and institutional theory 13
  levels of 7
  as a mind-set 6
  model of 8
  multi-stakeholder approach 11
  performance perspective 11
  perspectives on 10–12
  practical implications of SHRM concepts 107–108
  process of 8–9
  systems perspective 12
strategic integration 51
strategic intent
  defined 7–8
  and SHRM 6
  statements of 89–92
strategic management
  defined 9–10, 43–44
  and strategic HRM 6, 44
strategic resourcing 245–246
strategy
  as behaviour 105
  and business model innovation 46
  characteristics of 45
  content of 45–46
  defined 44–45
  development of 46–47
  emergent strategy 104–105
  formulation of 105
  implementation of 47
  meaning of 44–45
  as practice 47
  and the resource-based view 65
strategy maps 181–182
sustainability 173, 225
sustainability frameworks (ESG) 234–235
sustainability standards (ESG) 234–235
sustained competitive advantage 11, 65, 67, 172–173, 265
SWOT analysis 115

talent
  developing talent 271
  exclusive perspective 265
  identifying talent 271
  inclusive perspective 265
  meaning of 265
talent management
  defined 263–264
  and HRM 266
  international 318–320
  and management succession planning 266–267
  strategy 268
  system 269–271
talent on demand 267
talent pipeline 269
talent pool 269
trade union recognition strategy 291
transactional people management activities 135–136
trust, strategy for building 290–291

unexpected interruptions, preparing for 29–31
universalism 57
universalistic perspective of strategic HRM 56

values, organizational 37, 86
vertical integration or fit
  achievement of 52–55
  defined 51–52
  described 10
  models of 52
  and SHRM 19
  VUCA environment 26

wellbeing *see* employee wellbeing
workforce plan 7
workforce planning
  and business planning 249
  defined 249
  'hard' and 'soft' workforce planning 249–250
working environment, improvement of 159–160

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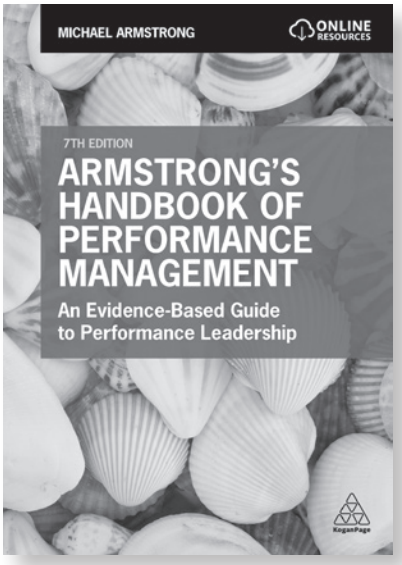
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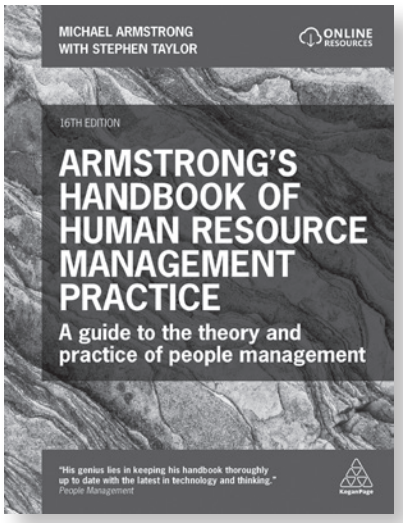
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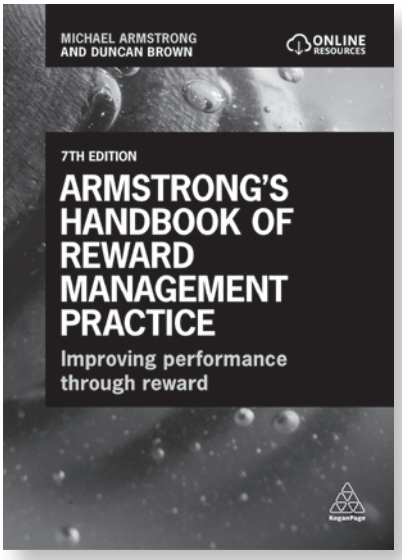
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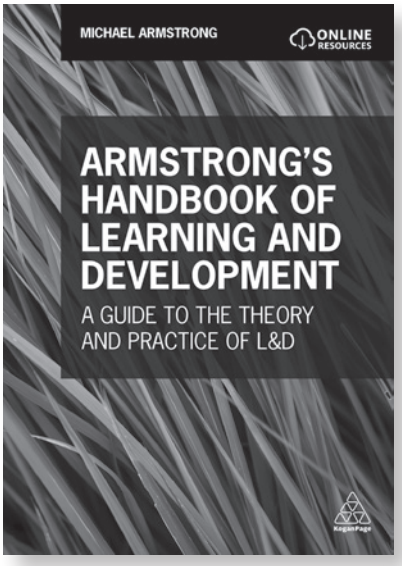
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