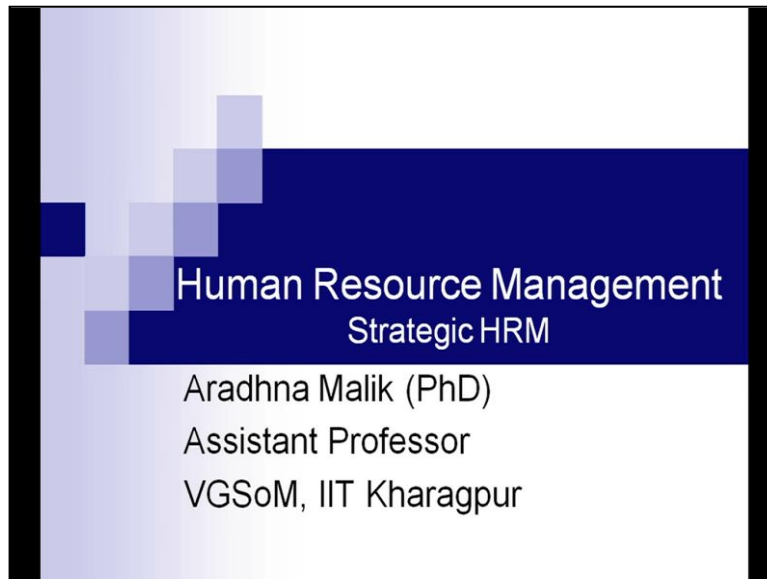


Principles of Human Resource Management
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Module No. #07
Lecture No. #24
Strategic Human Resource Management

Welcome back, to the class on, Human Resource Management. Today, we will talk about, in this lecture, we will talk about, Strategic Human Resource Management.

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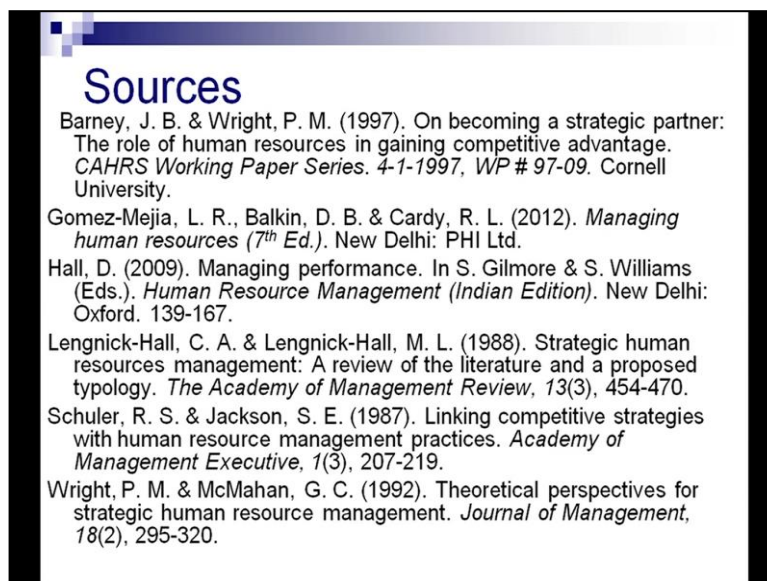


Human Resource Management
Strategic HRM

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So, let us get on with it.

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Sources

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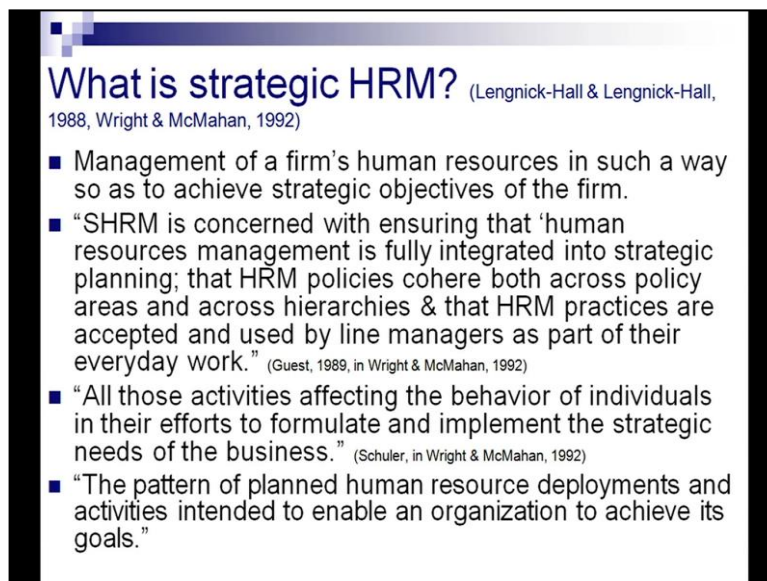
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Some sources. I have referred to a number of research papers, for this particular lecture. And, the details are, on the slide. You will get to see, the slides. And of course, i have refer to the book, by Gomez Mejia, Balkin, and Cardy. And, the book, by Schuler and Jackson. Sorry, there is a paper, by Schuler and Jackson.

And, i have also refer to this, to a paper in the book, by Gilmore and Williams. And so, all the resources, all the sources, that i have refer to, are here, on the first slide, that you will get. Okay.



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

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

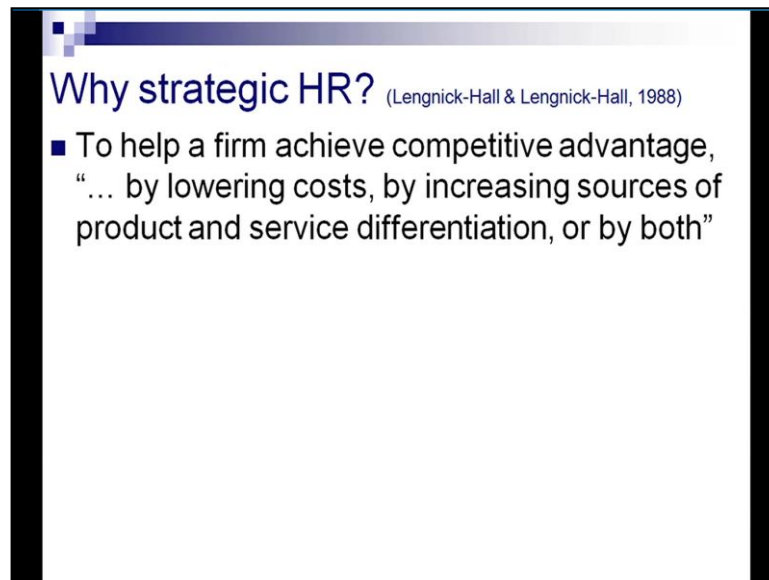
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What is strategic human resource management? Strategic human resource management, there are various definitions. The one, i will focus on, is the pattern of planned human resource deployments, the last one here. The pattern of planned human resource deployments and activities, intended to enable an organization, to achieve its goals.

Which is, nothing but, management of a firms. The first point, is the explanation. The strategic human resource management refers to, management of a firm's human resources, in such a way, so as to achieve, strategic objectives of the firm. Very simple. You know, all these definitions, encompass a whole lot of detail. But, very simply stating, strategic human resource management deals with, the achievement of the strategic objectives of an organization, by managing its human resources, in the most appropriate manner.

So, how do we get people, to do, what they need to do, in order to help the organization, achieve the objectives, that it has laid down, for its development, over the course of the next, 10, 15, 20, 30, 40 years. So, okay.

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Why strategic management. The reason, why we focus on strategic management, or, why we need human resources also, to be strategically planned. Is to help a firm, achieve competitive advantage, by lowering costs, by increasing sources of product, and service differentiation, or by both. What do, we mean, by the statement. Competitive advantage means, having an advantage, over the competitors, in the industry.

Now, when we talk about competitors, we are talking about other people, other organizations, who are offering the same product, or similar set of products and services, that we are offering. Who are selling, what we are selling, or something similar. When we talk about competitive advantage, we are talking, not about overtaking them, we are talking about, having something in our offering, that they do not have. That, gives us an edge over, what they provide.

What do we have, that others, do not have. Because of which, our buyers, our clients, prefer us over them. What do i have. What is so unique, in the range of products and services, that i am offering. That helps me, get an advantage over the others. What do i have. What additional benefit, can i offer to my clients. That is what, we mean by competitive advantage.

And, it is not just one thing, what is it, that i have, that i can sustain, over a long period of time, so as to stay ahead of the game. Okay.



Competitive strategies (Schuler & Jackson, 1987)

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

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Competitive strategies. In order to attain, competitive advantage, we have some strategies. Some things, that we do, in order to, stay ahead of our competitors. One thing, that we can do is, taking a strategic initiative. Strategic initiative, is nothing but, the ability to capture control of strategic behavior, in the industries in which, a firm competes. Strategic initiative, is doing something, extra. Changing the game.

Doing something, that motivates others to do, what we are doing. So, i do something, differently from others, that is more beneficial to my clients, that the others are motivated, to follow. For example, when we were growing up, the concept of after sales service, was not very prevalent. Okay. So, you bought a washing machine, from a seller. And, if the washing machine, if there was some fault.

Then, you would go to somebody else, to get it fixed. Somebody, somewhere, decided that, if i sell the washing machine, i can also sell the service, after that washing machine. So, you buy. I will not take, the name of any brand. But, somebody decided that. Okay. A shop sells the washing machine. But, the shop also has people, trained in repairing the washing machines, that are either faulty, at the time of sale, or, have problems, after a period of selling, after use. Okay.

So, they started coming up with, the certified or authorized service agents. Somebody decided, that this was a strategy, they could use, to keep their clients. Now, washing machine, when we were growing up, it was a luxury. You know, you bought, one washing machine. You took, good care of it. And, you never, you did not need to buy another one, for the next 10, 15, 20 years.

But, what happened was, after using a washing machine, for a period of time, we were in a position to tell, our neighbors, and our friends, and our family members that, okay, this brand has worked well, for me. So, why do not you also go ahead, and buy it. So, the word of mouth theory, was in action, at that point of time. Okay.

So, when we talk about strategic initiative, we are talking about a behavior, a pattern, something that we do, that others do not. One company decided, that we are going to offer service. I will, if you buy this washing machine, you will, somebody from our organization, will come and repair it for you, free of cost, for a period of one year, or two years, and will only charge you for the additional parts, that may be required. So, that is a strategic initiative. Okay.

And then, the rest of the people, were forced to follow. And, they said, okay. Brand A is doing it, why cannot i do it. Then, brand B followed suit. And then, brand C followed suit. And then slowly, it became the industry norm. Okay. Competitive strategies, that can be used to gain, competitive advantage. Innovation strategy, used to develop, products or services, different from those of, competitors. Okay.

So, when we were growing up, let us just stick with the example, of a washing machine. We had a washing machine. And, cloths used to move around, in that machine. And then, you would take the clothes out. And then, you would hang them out to dry. And then, there was the concept of a dryer. So, you had a washing machine, and a dryer.

Two drum, separate, and you would find different places, to put them in. And then, somebody said, maybe, we can have a semiautomatic washing machine. Okay. So, you would have cloths were washed in one. And then, you would put them, in the other compartment to dry. So, you took them out, and you put them in the other compartment, to dry.

And, the drums were joined. So, instead of having two drums, rotating drums, in different places, two separate machines, that required two separate plugs, somebody, some innovator, decided to put, both the drums in the same frame, and have a same, have one plug, have one power source, hope to run both of these, together. Okay. So, that is innovation. Two things, that are required. Anybody, who uses a washing machine, can also use a dryer, because these two things, go hand in hand.

Similarly, with blenders. Okay. So, i mean, various things. You know, we used to have, the gas oven, the gas stove. And then, somebody said, okay, a cooking range would be helpful. Why because, both need gas to run. So, you build a bigger box. And then, you have an oven. And, that is fed by the same source of gas, or electricity, or whatever. So, you innovate, you add things that, you know, are going together. Alright. So, that is innovation strategy.

Enhancement strategy. Enhancing product, and or, service quality. So, in order to gain an advantage, over your competitors, you say, okay. We have your offering, the same product. But, we will offer you better service. And, how do we know, that this is better service. Maybe, we will, you know, whatever we repair, will last you longer. So, we assure you that, once the repair person comes to your house, you will not need repairs, for the next one year.

We will do, such a good job of, what we are doing, that whatever is repaired, will not break down, for the next one year. We will give you a guarantee, of that. So, that is enhancement strategy. You either make the product better, or like, i was looking through, some washing machines, the other day. And then, i saw the advertisement. I have forgot the brand. Even if i knew that, i could not share the details, here with you.

But, there was something, about a washing machine being, not being rusted. They said that, the bodies of such a quality, that it will not rust, you know. It will be in water, but nothing will happen to it. It is metallic, but it got a protective covering on it. So, nothing will happen to it. So, it is the same thing, we have just made the product better. So, that is one way of gaining advantage.

The third strategy, that you can use, in order to gain advantage, over your competitors is, cost reduction. You offer the same thing, for a lower price. Okay. So, you make something of the

same quality, but you reduce the price. Maybe, you reduce frills. Maybe, you reduce one thing, that is just for beautification. And, you bring the price down. As soon as the price goes down, people will want to buy it, especially, if the quality is the same.

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Strategic theories of HRM (Wright & McMahan, 1992)

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

Strategic theories of HRM. The first theory, that we will deal with, is the resource-based view of the firm. So, when we talk about, strategic human resources management, we talk about, various theories. The first theory, that we will be talking about, is the resource-based view of the firm. According to this theory, competitive advantage can only occur, in situations of firm resource heterogeneity, and firm resource in mobility.

When we talk about, firm resource heterogeneity, we are talking about, a wide pool of resources. We are talking about, a wide variety of resources, that we can pick and choose from. If we have a large, if we have a diverse variety of resources, to pick and choose from, we will be able to get an advantage, over our competitors. And, firm resource immobility, specifically deals with, the inability of competing firms, to obtain these specific resources, from other firms.

So, we offer our clients, our customers, a larger base of things, based on the larger pool of resources, we have. And, we have some resources, that only, we can have. Okay. For example, in government manufacturing companies, you have, you know, you have cookie-cut

governments. I mean, you have standardized cut governments. You go to some shops. And, you will see the same colored kurtas, hanging one after the other.

And then, you go to one shop. And, they have, hand embroidered kurtas. And, the embroidery is of, a specific kind. Okay. You will not get that, anywhere. So, that is something, that is very unique. And, so that embroidery, cannot be replicated. Okay. Or, you buy a car. And, there is hand painted, the hand-painted designs, on the car.

You have something, somebody sitting in your shop, who is painting these designs, or, who is creating car art, that cannot be replicated. So, that kind of thing, is there. Or, you have somebody, responding personally to the queries, of your customers. Of course, or something, that you have, cannot be replicated very easily, by your competitors. And, that gives you an advantage.

Given, resource heterogeneity, and resource immobility, and satisfaction of the requirements of value, rareness, imperfect imitability. So, something, that cannot be totally copied. And, non-substitutability. Something, that cannot be completely substituted, by something else. A firm's resources, can be a source of sustained competitive advantage.

When we talk about, resource-based theory, we say, our resources are our biggest assets. The more un-substitutable, our resources are, the lesser, the chances of somebody catching, up to us. So, diverse pool of resources, and non-substitutable resources, and very valuable resources, will help us, gain a competitive advantage.

And, the more, we develop the, you know, we develop these resources, in order to, strategically align the functions of the human resources department, with the strategic objectives of the company.

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Strategic theories of HRM (Contd.)

(Wright & McMahan, 1992)

■ *The behavioral perspective:*

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

The second theory is the behavioral perspective. So, in the first theory, we talked about the material resources, that we had. In this theory, we will talk about, the employee behavior, as the mediator between, strict strategy, and firm performance. This assumes that, the purpose of various employment practices, is to elicit and control, employee attitudes and behaviors.

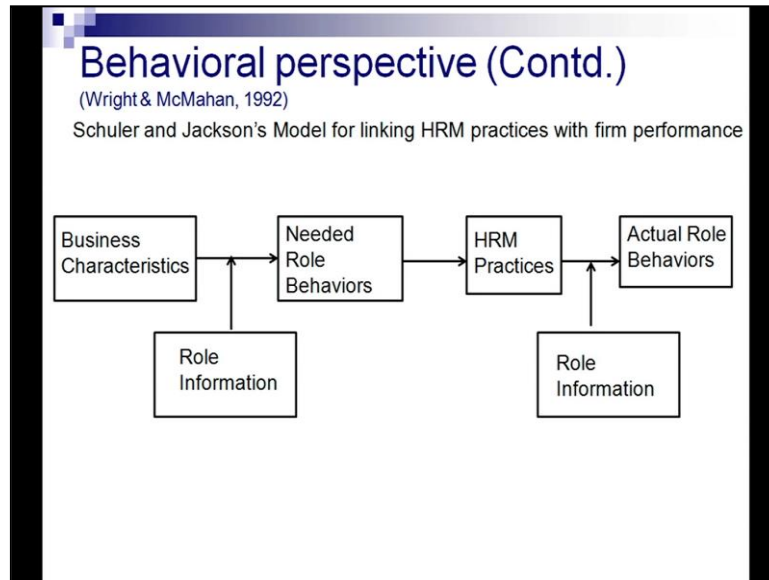
The specific attitudes and behaviors, that will be most effective for organizations, differ. Depending on various characteristics of the organizations, including the organizational strategy, in the context of strategic human resource management, these differences in role behaviors, required by organization strategy, required different HRM practices, to elicit and reinforce those behaviors.

So, we are talking about, the behavior of the employees. We are talking about, the diversity of skills and behaviors, and diversity of dealing with issues, that we bring to the table, as employees of an organization. Strategic human resource management, is more a function of, how well, we bank on, and how well, we use the behaviors, how well, we elicit, how well, we takeout, bring out those behaviors, that are beneficial to the organization.

And, how well, we use these behaviors, towards the productivity of the organization. We are not aiming at, making everybody, behave the same way. We are not aiming at, you know, standardizing, the way in which, our employees behave. We are banking on, or, we are making the maximum use of, the different behaviors, the different attitudes, the different ways of dealing with, different situations, our employees bring to the table.

And, that is our biggest strength. And, that helps us align our strategic goals, with the strategic goals of the organization.

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Behavioral perspective. Now, this is Schuler and Jackson's model, for linking HRM practices, excuse me, with the firm performance. You have, business characteristics, role information. So, the information regarding the role, that employees are needs to play. And, you mesh this, or, you add this to the business characteristics.

And, the employees are told about, the needed role behaviors, that feed into the human resource practices. Then, more role information goes in. And, the actual role behaviors, are the output. And, these role behaviors, then help the organization, achieve its objectives.

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

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

Some employee role behaviors, for competitive strategies are, predictability versus creativity and innovation. We need to have people, who are very predictable, who are used to predictable inputs. And, we also need people, who are creative and innovative. Okay. So, the range is discussed here. And, this is based on a paper, seminal paper, by Schuler and Jackson. Short-term versus long-term focus.

Some people, you know, so, how do they plan for their work. Cooperation and interdependence versus independence and autonomy. Some people need, are more cooperative, more team oriented. Some people, are more autonomous. They are more independent, in their thought and action. Concern for quality and quantity is another behavior, that helps the HR strategies, align with the strategies of the organization.

Risk-taking ability and orientation. Some people are risk-takers. Some people are very cautious. We need, both kinds of people, in the organization. Concern for process. How many people, you know, some people are very, give due consideration to the processes, that are followed in the organization. Some people do not. Avoiding versus assuming responsibility. Some people, like to avoid, responsibility.

Some people, like to take on the responsibility, of more and more things, and do, what they take on the responsibility for. Flexibility to change. There are some people, who are resistant to change. There are some people, who are very flexible. We need, both kinds of people, in

the organization. Because, people, who are resistant to change, will be more cautious. And, they will ensure that, due process is followed.

And, people, who are more willing, or open to change, or more flexible to change, will help the organization, move in the new direction. So, both kinds of employees, are very important. Preference for stability versus tolerance of ambiguity and unpredictability. There are people, who want to know, what is happening, when it is happening.

They need, very definitive, very clear focus. And, they need to be sure of everything, that is happening. And, that is good. Because, that helps, keep processes in check. There are, other people, were more tolerant of, and open to ambiguity. And, these people are good. Because, they are risk takers, they are innovators, they are more willing to explore, the new directions, that the organization can move in. Range of skill application is another one. Job involvement and engagement.

How involved, how engaged, you are, in your job. And, this range, this whole list of behaviors, that has been compiled by Schuler and Jackson, helps us understand the behaviors, that are required for us, to develop competitive strategies, through the human resource function, that can help the organization, achieve its HR objectives. Or, sorry, its strategic objectives, by becoming, you know, by gaining competitive advantage in, among its competitors.

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Strategic theories of HRM (Contd.)

(Wright & McMahan, 1992)

■ *Cybernetic Systems:*

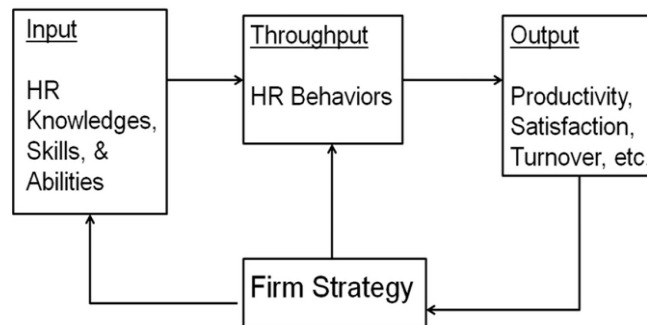
- "... organizations consist of the patterned activities of individuals aimed at some common output or outcome. These activities can be characterized as consisting of the energetic input into the system (i.e. inputs of people, money, technology, etc.), the transformation of energies within the system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

Another theory is the theory of cybernetic systems. So, we feel, we say that, the organizations are open systems. And, there is an output, there is an input, involved.

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Cybernetic model of HR Systems

(Wright & McMahan, 1992)



There is, some kind of process involved. And, there is, some kind of output. So, and this input output loop, input process, output loop, is completed in and through feedback, that comes in from time to time. And, that helps us revise, this input, throughput, output, loop. Okay.

The cybernetic model, has been shown here. It is described, very well in this paper, by Wright and McMahan. And, the input involves, the HR knowledge, skills, and abilities. Throughput is HR behaviors, that help us follow, due process. And, the output is productivity, satisfaction, turnover, profits, etcetera.

Now, they in turn give, you know, they feed into the firm's strategy. And, there is constant input, constant feedback, going into each of these stages, in and through the evaluation of the firm strategy, re-visitation of the firm's strategy. And, that completes the loop. So, it is more of a machine like, a kind of design, you know.

So, and again, if we see things, if we are able to objectively list, what we bring to the table, how we do things, in terms of input, throughput, and output, and we are able to objectively list, whatever the organization is doing. Then, it becomes very easy, or it becomes, it facilitates, our calculation of things like, compensation, reward systems, maintenance of records, etcetera.

So, this is another model, that explains, how strategic human resources management can help, with the achievement of strategic objectives of the organization. More clear, we are, the more objective, we are, in maintaining our records, and doing things, in a systematic, in a system like manner, the more profits, we can, or, the clearer, it becomes, to align the strategic objectives with the organization, with what is required to go into, achieving those strategic objectives.

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Cybernetic model (Contd).

(Wright & McMahan, 1992)

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

Okay. So, inputs, of course, like i told you, they are the competencies of individual's. Throughput, is the behaviors of those individuals, in the organizational system. And, the output consists of, both performance and affective outcomes. Affect, relates to emotions, relates to engagement, relates to commitment, etcetera. Okay.

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Cybernetic model (Contd).

(Wright & McMahan, 1992)

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


Responsibilities of strategic human resource management, in the cybernetic model, is competence management. Competence management is, those things, that the organization does, to ensure that, the individuals in the organization, have the skills required, to execute a given organizational strategy. So, what needs to go in. In this, we have four different ways, in which, we can manage competencies. The first is competence acquisition.

We engage, or we acquire, competencies. This refers to the activities, such as training and selection, that seek to ensure, that the individuals in the organization, have the required competencies. Competence utilization deals with activities, that seek to utilize latent skills, or skills that had been deemed unnecessary, under a previous strategy.

So, getting the competence, getting the skills. And then, utilizing those skills. Retaining competence retention deals with, retaining those skills, and competencies in the organization. And, competence displacement consists of activities, aimed at eliminating competencies, that are no longer necessary, for the organizational strategy.

Retaining those skills, and then you know, understanding, what needs to go out of the system. What do we have, that is no longer required, but that is being paid for. And, replacing or modifying those competencies, or the eliminating those competencies. Okay.

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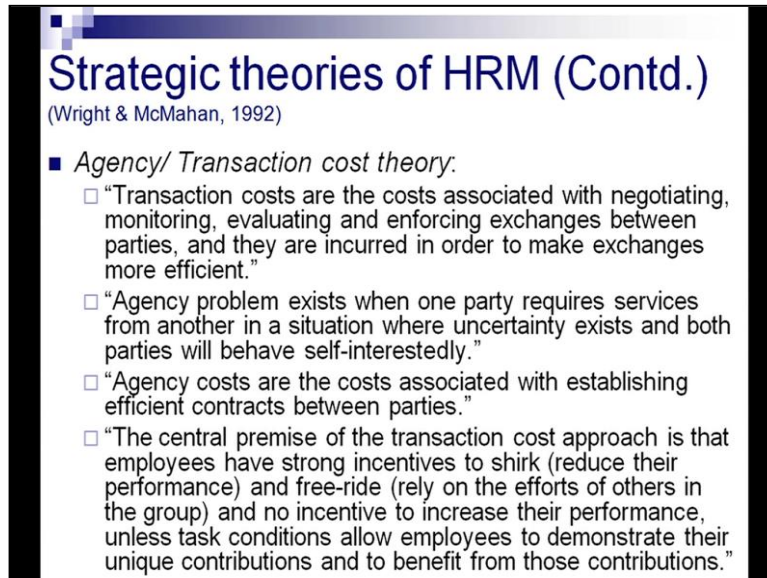
Responsibilities of SHRM (Contd.)
(Wright & McMahan, 1992)

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

The other responsibility of, strategic human resource management is, behavior management, which is concerned with ensuring that, once individuals with the required skills are in the organization, they act in ways, that support the organizational strategy. So, controlling behavior, monitoring behavior, performance appraisals, pay systems, etcetera. (coughing) excuse me, and behavioral coordination.

Behavioral coordination deals with, appraisal and organizational development activities, that seek to coordinate behavior across, individuals to support the organizational strategy. So, one is control, the other is coordinate. Managing the inter-relationships, between the behaviors of different activity, different employees. Okay.

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Strategic theories of HRM (Contd.)
(Wright & McMahan, 1992)

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

Then, the fourth theory here is, the agency or transaction cost theory. Transaction costs are the costs, associated with, negotiating, monitoring, evaluating, and enforcing exchanges between parties. And, they are incurred, in order to make exchanges, more efficient. Agency costs are the costs, associated with establishing, efficient contract between the parties.

And, i will just read out the last paragraph. Because, i feel that, this is very important for you, to understand it. The central premise, of the transaction cost approach is, that the employees have strong incentives to shirk, or reduce their performance, and freeride, which is rely on the efforts of others in the group, and no incentive, to increase their performance, unless task conditions allow employees to demonstrate their unique contributions, and to benefit, from these contributions.

So, we have a tendency, to give away, or reduce our performance, and rely on the efforts of others, in the group. And unless, we have a specific incentive, to increase our performance, and demonstrate, what we can do. And unless, we are able to see, how our contributions are effective, we do not want to do anything.

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

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

Okay. The competitive strategy of a firm, is dependent upon, various things. Economic conditions, industry structure, distinct competence, competitive advantage, and product and market scope. So, various things, that determine, the competitive strategy of a firm.

Non strategic models of HRM
(Wright & McMahan, 1992)

- “Determinants of HRM practices that are not the result of rational strategic decision making processes, but rather derive from institutional & political forces in the firm.”
- Resource dependence/ power models:
 - “Assumes that all organizations depend on a flow of valuable resources into the organization in order to continue functioning. The ability to exercise control over any of these valued resources provides an individual or group with an important source of power. To the extent that the valued resource is scarce, the power of the entity that controls that resource increases.”



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Non strategic models of HRM (Contd.)

(Wright & McMahan, 1992)

- *Institutionalism or Institutional perspective:*
 - “Many structures programs & practices in organizations attain legitimacy through the social construction of reality.”
 - Premises:
 - “What many view as rationally derived organizational structures & practices may only appear to be so
 - Structures may serve some functional goal, although they had not been designed for that particular purpose.”

Human resource strategy is dependent upon

(Lengnick-Hall & Lengnick-Hall, 1988)

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

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We will not deal with, non-strategic models, of a human resource management. But, i will just tell you, what human resource strategy is, dependent upon. Human resource strategy is dependent upon, primarily the labor market, the skills and values, that people bring it to the table. The economic conditions and the culture, in which, the organization operates.

And, these are some of the models, some of the things, that explain, how the strategic human resources, need to be. Or, how strategy in the human resources function, can be used to align, human resources functions, with the rest of the organization.

In the next class, we will be dealing with the, non-strategic models of HRM, and the challenges to strategic HRM. So, thank you, for listening to me. And, i look forward, to talking to you, in the next lecture.