

**HUMAN RESOURCE MANAGEMENT – LECTURE 2**

**CHAPTER 2 – MAKING HUMAN RESOURCE MANAGEMENT STRATEGIC**

**LESSON 2**  
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**Learning Objective 1 - How is strategy formulated?**

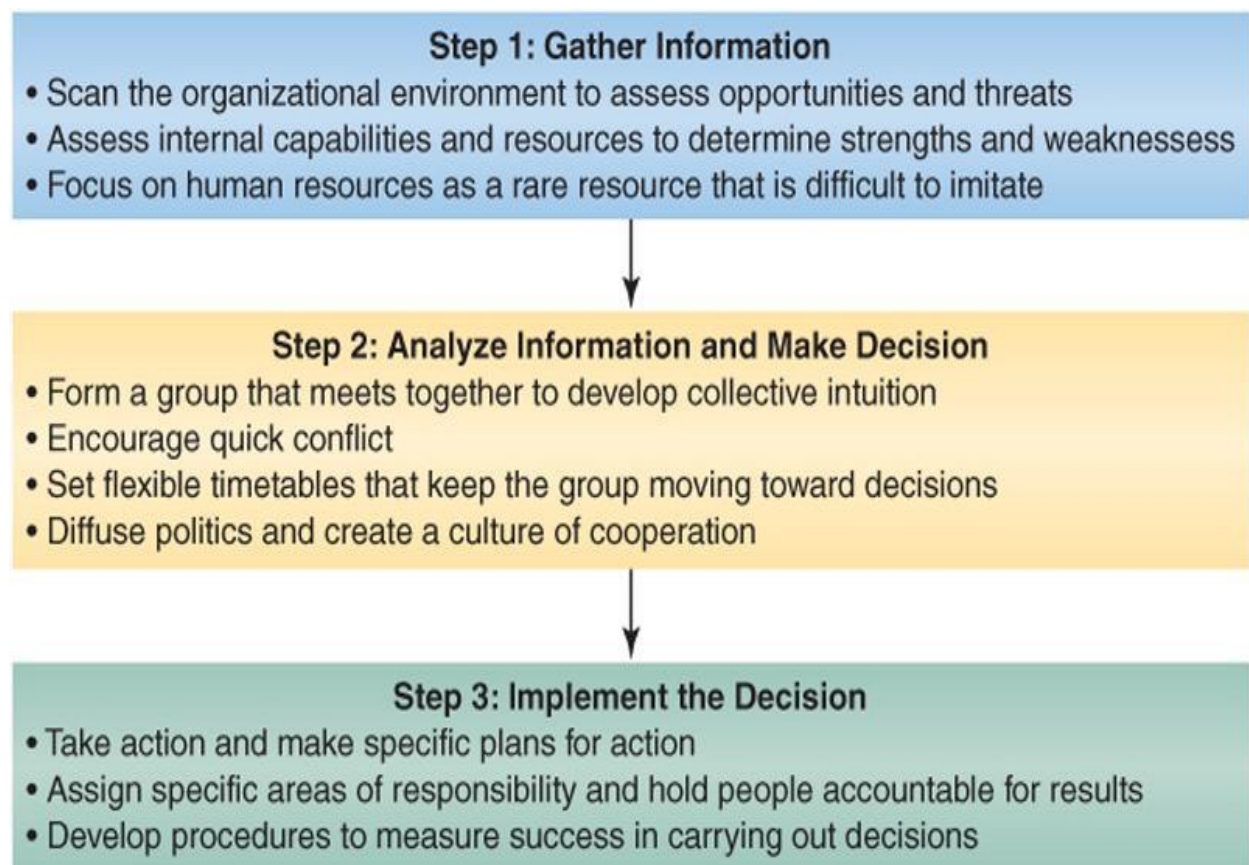
Describe strategy. According to research, a clear strategy for outperforming competitors and a highly effective workforce that executes that goal are crucial components for long-term prosperity. A set of coordinated decisions and actions can be thought of as a strategy. But strategy is more than just making choices; it's also about acting on those choices.

There are actually two types of human resource management in corporations. One is competitive business strategy, which places an emphasis on decisions and activities regarding how to meet customer needs. The second focuses on decisions and actions related to managing people within the organization and is known as human resource strategy. To ensure high organizational performance, these two categories of strategy must cooperate.

Figure 2.1: The Process of Formulating a Strategy Examining the common components of strategy formulation can help you better grasp how these two types of strategy differ and are similar to one another. Information collection is the initial step in the creation of a strategy (see figure 2.1). Assessments of the internal and external environments and capabilities are frequently part of information collecting. After pertinent data has been acquired, it is examined, and choices are made. A strategic plan is created by the decisions taken, which must then be put into action.

Information collection before the creation of a strategy?

Effective strategic leaders are avid knowledge seekers. In an effort to comprehend their internal resources and skills, they continuously scan their external environment.



The evaluation of the external environment.

All the natural and man-made elements that exist outside of an organization's walls make up the external environment.

- The organization's resilience in comparison to the outside world.

- The opportunities that may exist under potentially favorable conditions.
  
- Threats are defined as additional factors that create unfavorable circumstances and undesirable elements in the organization's external environment.
- Although opportunities are typically easier to manage than threats, developing a successful strategy requires a comprehensive understanding of both. If the students are unaware that these words spell SWOT, this would be a good opportunity to introduce them to it.

Understanding these patterns might be useful when choosing what products and services to offer in the context of the external business environment. Knowledge may also help people make decisions about whether to prioritize cutting costs or offering products with higher features. The plan for human resources must also take into account significant developments occurring outside the firm.

Organizations require data on demographic and cultural shifts in order to estimate the future availability of individuals with specific capabilities.

Given how hard it is to find high-caliber staff, human resource management is crucial. You might bring up a recent Task Force on Workforce Development report that found that many workers lacked the necessary skills. Not only are there a lack of technological and computer skills, but also of more generic abilities like communication and critical thinking. This shortage does not only affect Americans. A number of other nations, including the United Kingdom, France, and Germany, have also uncovered similar problems. Effective personnel recruitment and retention strategies are thus

sources of internal strength that can give a company a competitive edge. Human resource practices must also offer something that is challenging to duplicate and cannot be replaced in order to be actual strengths.

#### Making Decisions after Information Analysis

The process of developing a plan then moves on to gathering information, information analysis, and decision-making. The benefit of investing time and effort into information gathering is minimal unless it is used to inform excellent judgments that are subsequently carried out.

Four phases can be used to make decisions effectively, according to research. Figure 2.2 provides an illustration of these steps.

The first phase, developing collective intuition, is accomplished when a group meets frequently to discuss the obtained knowledge.

The second step is inciting confrontation. Although it may seem odd, experiencing debate over how to proceed is crucial for making sound decisions. In the absence of conflict, significant dangers and vulnerabilities are frequently disregarded.

Maintaining a suitable tempo is the third phase in effective decision making. Too frequently, decision makers perceive their work to be so daunting that they become immobilized. The optimal strategy is to establish a flexible timeframe that provides direction for advancing the decision but does not drive the group to reach a conclusion prematurely.

The ultimate objective is to diffuse politics. When members of the decision-making team prioritize making themselves appear good at the expense of others, poor decisions occur. To avoid this issue, the team should establish a shared objective that fosters cooperation rather than rivalry. Each member of the team should have a distinct area of responsibility in which he or she can offer professional feedback. The most effective method for formulating a company's strategy is for a group of decision-makers

to thoroughly study the data gathered by examining the organization's external environment and internal capabilities. The committee then determines the optimal method for providing goods and services. Gathering and evaluating information is crucial to understanding how to compete with other organizations. In addition to planning for the development of a high-quality workforce, good decision making entails the formulation of such strategies.



### **Learning Objective 2 – What is a Common Competitive Business Strategy?**

Prior to this, we emphasized that the competitive business strategy and human resource strategy must operate in tandem to achieve high organizational effectiveness. Large corporations, for instance, have strategies that influence their decisions regarding

the types of enterprises they will pursue. Some organizations are comprised of very similar business divisions; Whirlpool Corporation, for instance, concentrates solely on manufacturing and marketing home appliances. Other corporations comprise business entities that are vastly distinct from one another. General Electric's business units are highly diverse, with some producing tiny appliances, others providing financial services, and others producing polymers. Strategy at the corporate level entails decisions regarding company kinds.

Good business strategy is crucial, but a different type of strategy is most important for human resource operations on a daily basis.

This second form of strategy is business-level strategy, which focuses on the manner in which the organization will compete with other businesses that offer comparable goods and services. Each business unit of a corporation with many business units may have its own business-level strategy. Due to the fact that each unit produces a distinct type of good or service to satisfy a unique set of client wants, the strategies for the various units may be similar or quite different. In any case, strategic human resource approaches add the most value within business units. The focus of this essay is consequently on competitive strategy at the business level.

There are two **strategies** pursued at the business level.

**1. Cost leadership approach** Organizations aspire to become low-cost manufacturers of goods and services. Their objective is to establish efficient production processes that allow them to sell at a lower price than their competitors.

It is simple to comprehend that a firm employs a Cost leadership strategy when its decisions and actions are centered on producing value through cost reduction. The objective of a business seeking cost leadership is to achieve exceptional efficiency. The organization can produce value by producing goods and services at a cheaper cost due to its efficiency.

## 2. Differentiation technique

Organizations employing this strategy aim to develop products and services that are superior to those offered by competitors.

Their objective is to generate distinctive value for which clients are prepared to pay a premium.

A business employing this strategy focuses on providing superior products or services than its competitors, for which customers are ready to pay a premium. The company may differentiate its products or services in a variety of ways.

For instance, the product itself may be unique, such as when a pharmaceutical company has an exclusive medicine.

A marketing strategy is an additional means of distinguishing goods and services. Most advertising is designed to convince consumers that a brand's goods or services are distinct from those of its competitors. Excellent customer service is an additional differentiating factor. Customers are frequently willing to spend more for a product if they believe the company would assist them in the event of a problem.

## **COMBINATION STRATEGY**

The topic of whether a company can simultaneously pursue cost leadership and differentiation is intriguing. Organizations that attempt to pursue both strategies frequently fail at both; they become mired in the middle with no true competitive advantage. Their drive to add distinctive features results in a cost structure that prevents them from producing

goods and services at the lowest possible price. However, their concentration on affordability prevents them from developing truly great features.

### **Learning Objective 3 – What are Basic Approaches to Human Resource Strategy?**

The discussion of competitive strategy demonstrates that successful firms create value for clients by providing services that rival organizations cannot match. These firms' sustained success is contingent on their owning qualities that rivals cannot easily replicate. One form of potential capability is tangible resources, like as technology and equipment, which are frequently simple to replicate by competitors.

Human resource methods increase capability in part by encouraging workers to assume specific responsibilities. A role is a series of behaviors that define a person in a specific context. An organization's cues or signals have a significant influence on the roles of its employees.

The same features that make human resource practices challenging to replicate can also make their outcomes challenging to comprehend and forecast. However, research has discovered recurring characteristics of effective human resource management. Researchers have taken two fundamental approaches to human resource patterns:

The universalistic strategy tries to discover a set of human resource strategies that are advantageous to all enterprises. Therefore, the objective of universalistic research is to identify the optimal method for managing human resources. Human resource practices are most effective when they are grouped into internally consistent clusters, according to a significant conclusion of universalistic research.

#### **Example:**

- Using a computer knowledge exam to choose personnel is more advantageous when linked with a remuneration scheme that rewards those who utilize computer abilities to perform their duties.
- An innovative training program is most effective when integrated with appraisal and compensation systems that quantify and reward the behaviors taught during training.

Human resource bundles are sets of human resource practices that are internally coherent and mutually supportive. Many hiring and employee motivation strategies naturally cluster into two groups. One set of human resource practices is based on a control strategy, with a primary emphasis on standardization and efficiency. The second bundle is built on a strategy of commitment; the fundamental objective of the practices in this bundle is to empower employees and foster a strong sense of loyalty and commitment.

The objective of the contingency approach to human resource strategy is to connect people management practices with competitive business strategies. Because this book takes a strategic approach to human resource management, we highlight the contingency approach. Organizations with a cost leadership strategy prioritize efficiency improvements. The majority of employees are generalists who work in a variety of positions. The contingency strategy aims to align human resource practices with competitive business initiatives. The greatest human resource practices for firms pursuing a particular competitive strategy may not necessarily be the best practices for organizations pursuing an alternative strategy. Organizations strictly regulate work processes and specify employee responsibilities with precision. Employees' behavior is specified in detail, and human resource methods prioritize lowering labor costs. A cost leadership strategy with an emphasis on tightly controlled procedures makes sense for a business that has a clear understanding of what it desires of its employees. This condition typically occurs when consumer

wants are well-known and rarely alter. Mass manufacturing of standardized goods or services at the lowest possible cost is the result.

## Strategic Human Resource Differences

### Internal Versus External Orientation

In addition to differing in their competitive strategies, firms also vary in the amount to which they develop the talents of their employees. An organization with an internal labor orientation strives to develop its own talent and retain workers for extended durations. A company with an external labor focus, on the other hand, wants to acquire talent. In many situations, these firms hire individuals who already possess the required talents and retain them for only a short time. Multiple businesses and industries, including sales, manufacturing, technology, food, and legal firms, have been identified as having internal and external orientations. The fundamental distinctions between the two orientations are outlined in Table 2.3.

<b>Table 2.3</b>		<i>Differences in Labor Orientation</i>	
<b>Internal</b>		<b>External</b>	
Hiring of people early in their careers		Hiring of people who have already developed skills	
Extensive orientation for new employees		Limited orientation of company policies	
Focus on internal promotions		Focus on bringing in new talent	
Ongoing training opportunities		Limited training opportunities	
Development of skills valuable only to the specific organization		Development of skills valuable to many organizations	
Bias against laying off employees		Acceptance of employee layoffs	
Employees contribute because of loyalty		Employees contribute because of money	
People identify closely with the organization		People identify closely with a profession	

### Learning Objective 4 - What Are Common Human Resource Strategies?

The contingency method outlines two strategic decisions behind a company's human resource strategy: whether to prioritize cost leadership or differentiation, and whether to develop or acquire talent. As shown in Figure 2.3, the four possible outcomes are combined into a grid describing four distinct human resource strategies. On the basis of the matrix, we may refer to these four HR methods as internal/cost, external/cost, internal/differentiation, and external/differentiation. The strategies shall be referred to in this book as the Loyal Soldier HR strategy, the Bargain Laborer HR strategy, the Committed Expert HR strategy, and the Free Agent HR strategy for convenience of reference.

Figure 2.3 Strategic Framework for Human Resources.



***External/Cost HR Strategy: The Bargain Laborer***

- This strategy focuses on acquiring low-wage-demanding personnel.
- Organizations employing this method design work such that supervisors can closely monitor employee efforts.

- Each employee is assigned clearly defined, easily-learned tasks. People are recruited and hired to execute simple jobs that do not necessitate the development of specialized abilities.
- There is little focus on satisfying the long-term needs of employees. This human resource strategy does not give promotion and advancement opportunities for employees.

***Internal/Differentiation HR Strategy: The Committed Expert***

This strategy's major purpose is to recruit and retain people with expertise in completing certain activities. Using this strategy, organizations organize work so that employees have a considerable level of latitude to innovate and enhance methods of performing tasks. People are selected and hired based on their compatibility with the corporate culture and their capacity to become subject matter experts. These organizations recruit individuals early in their careers and provide them with specialized training in sectors such as accountancy or sales.

- The fundamental purpose of this strategy is to recruit and retain people with specialized skill sets.
- Organizations implementing this strategy design work such that employees have a considerable level of latitude to innovate and enhance methods of performing tasks.
- People are recruited and hired based on their probable compatibility with the organization's culture and their capacity for becoming subject matter experts.
- These firms hire individuals early in their careers and provide them with specialized training in sectors such as accountancy and sales.

***External/Differentiation HR Strategy: The Free Agent***

- Performance reviews are intended to strike a balance between collaboration and competitiveness among employees.

- Careers typically consist of multiple promotions into comparable positions with growing responsibilities.
- Employees undergo extensive training that facilitates the growth of their competence.
- Compensation is often substantial and includes an attractive benefits package that helps retain staff.
- Short-term compensation is substantial.
- Individual pay is based on performance.
- The avoidance of benefits and long-term compensation.

Unions are uncommon.

Performance evaluation emphasizes outcomes and results. Training is uncommon. Typically, short-term remuneration is high, which is important if an organization wants to attract individuals with exceptional skills. Pay is directly tied to individual performance outcomes. The elimination of benefits and long-term remuneration packages that bind employees to the firm. Unionization is uncommon in these organizations.

### **Learning Objective 5 - How Do Human Resource Strategies Align with Competitive Business Strategies?**

#### ***Alignment of HR and Business Competitive Strategies***

- Businesses are likely to have human resource practices that align with their competitive business strategy.
- Businesses whose human resource strategies align with their competitive business plans perform better.
- According to research, firms with a cost leadership competitive strategy perform exceptionally well when they use a Loyal Soldier HR strategy.

- Organizations with a differentiated competitive strategy that employ a Committed Expert strategy do very well.

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### ***Research Supporting the Contingency Perspective***

A comparatively recent development is the strategic approach to human resource management. Since the contingency perspective has only been studied by scholars for the past decade or two, there are still many things we do not fully comprehend. However, preliminary evidence suggests that businesses are most effective when they employ a strategic approach to people management. The research on the contingency perspective offers three distinct perspectives.

1. Numerous businesses have human resource plans that complement their competitive strategy.
2. Organizations are more effective when their human resource practices are broadly adapted to their competitive strategies.
3. Organizations with a cost leadership or differentiation strategy perform better when their human resource strategy is complementary.

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**SELF EVALUATION TESTS/QUIZZES**

True or False

1. Demographic and cultural trends include population growth, the age distribution of the population, the percentage of women in the workforce, and changes in the relative sizes of ethnic groups
2. Good human resource management is critical because high-quality employees are relatively rare.
3. Strategy formulation is best done by a group of decision makers working together to carefully analyze the information obtained from assessing the organization's external environment and internal capabilities.
4. Profitability is not important part of organizational effectiveness and a factor you would certainly want to consider in choosing an investment
5. Selective hiring, extensive training, and pay linked to performance provide employees opportunities to excel, which lead to deeper commitment to the organization.
6. Efforts are made to satisfy the needs of employees and build a strong bond that reduces the likelihood of employee turnover.
7. Even if an organization's products are lower-priced than competing products, customers will not purchase them if their quality is unacceptable.
8. The commitment strategy bundle of human resources is beneficial because these practices treat employees as a critical resource
9. Extensive training also improves employee skills
10. Free Agent HR strategies are quite common for information technology firms.

Answer Key for True or False

1. True
2. True
3. True
4. False
5. True
6. True
7. True
8. True
9. True
10. True

Identification

- \_\_\_\_\_ 1. Positive elements that define areas in which an organization has high internal capability.
- \_\_\_\_\_ 2. Strategy that focuses on different ways of managing employees of an organization.
- \_\_\_\_\_ 3. Negative elements of an organization's external environment.
- \_\_\_\_\_ 4. A competitive strategy that concerns the different businesses and diversity of products and services that an organization produces.
- \_\_\_\_\_ 5. A business-level strategy that seeks to produce goods and services inexpensively.
- \_\_\_\_\_ 6. A human resource perspective that seeks to identify methods of managing people that are effective for all organizations.
- \_\_\_\_\_ 7. A human resource bundle that builds strong attachment to the organization and emphasizes worker empowerment.
- \_\_\_\_\_ 8. Strategy that focuses on different ways to provide goods and services that meet customer needs.
- \_\_\_\_\_ 9. A human resource strategy that combines emphasis on long-term employees with a focus on producing unique goods and services
- \_\_\_\_\_ 10. A human resource strategy that combines emphasis on longterm employees with a focus on reducing costs

Answer Key for Identification

1. Strengths
2. Human Resource Strategy
3. Threats
4. Corporate Level-Strategy
5. Cost Leadership Strategy
6. Universalistic Approach
7. Commitment Strategy
8. Competitive Business Strategy
9. Committed Expert HR Strategy
10. Loyal Soldier HR Strategy