

# Human Resource Management

## Chapter 2

### Making Human Resource Management Strategic

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# Learning objectives

1. Describe the strategy formulation process.
2. Describe two generic competitive business strategies that organizations use.
3. Explain the universalistic and contingency approaches to human resource strategy, including key characteristics of the commitment strategy.

# Learning objectives

4. Describe four human resource strategies that organizations commonly use.
5. Explain how human resource strategies and competitive business strategies are aligned.

# What is Strategy?

- **Strategy** can be viewed as a set of coordinated choices and actions.

# What is Strategy?

From a Human resource management perspective, there are actually two types of strategy

1. **competitive business strategy**, which focuses on choices and actions about how to serve the needs of customers
2. **human resource strategy**, which focuses on choices and actions concerning the management of people within the organization

# Strategy Formulation Process

## Step 1: Gather Information

- Scan the organizational environment to assess opportunities and threats
- Assess internal capabilities and resources to determine strengths and weaknesses
- Focus on human resources as a rare resource that is difficult to imitate



## Step 2: Analyze Information and Make Decision

- Form a group that meets together to develop collective intuition
- Encourage quick conflict
- Set flexible timetables that keep the group moving toward decisions
- Diffuse politics and create a culture of cooperation



## Step 3: Implement the Decision

- Take action and make specific plans for action
- Assign specific areas of responsibility and hold people accountable for results
- Develop procedures to measure success in carrying out decisions

# Strategy formation begins with Information gathering?

- A business needs to be constantly scanning its external and internal environment.
  - One method is to look at:
    - Strengths
    - Weakness
    - Opportunities
    - Threats

# Assessing the External Environment

- Understanding of external business environment helps a business determine what goods and services to provide.
- Guide choices about whether to focus on lowering costs or on providing goods with superior features.

# Assessing the External Environment

- Understanding broad changes outside the organization is critical for human resource strategy as well.
- Organizations need information about demographic and cultural changes to forecast how many workers with particular skills will be available in the future.

# Assessing Internal Capabilities

- Strategy formulation also requires assessment of an organization's internal resources and capabilities. It strengths.
- Human resource practices can represent a critical internal strength for organizations. Such as;
  - ability to attract and keep high-quality employees

# Assessing Internal Capabilities

- Conversely, lack of effective human resource management can represent a major weakness.
- Gathering information about human resource capabilities is therefore a vital part of an effective assessment of organizational strengths and weaknesses.

# Effective Decision Making



Source: Information from Kathleen M. Eisenhardt, "Strategy as Strategic Decision Making," Sloan Management Review, 40 (1999): 65–72.

# BUSINESS STRATEGIES

- There are two **strategies** pursued at the business level.
  - **Cost leadership strategy**
    - Organizations seek to become low-cost producers of goods and services.
    - Their goal is to develop efficient production methods that enable them to sell at a lower price than competitors

# BUSINESS STRATEGIES

- **Differentiation strategy**
  - Organizations using this strategy seek to produce goods and services that are somehow superior to the goods and services provided by competitors.
  - Their goal is to create unique value for which customers are willing to pay a higher price

# HUMAN RESOURCE STRATEGY

- Two basic approaches to human resource strategy
  - The **universalistic approach** seeks to identify a set of human resource practices that is beneficial for all organizations.
  - This approach has identified a bundle of practices, labeled the commitment strategy, that appear to be generally beneficial.

# HUMAN RESOURCE STRATEGY

- Two basic approaches to human resource strategy

Cont....

- Practices in the commitment bundle communicate the message that management cares about employees.
- The commitment strategy also helps ensure that employees have the training and freedom to pursue important job tasks.

# HUMAN RESOURCE STRATEGY

The **contingency approach** seeks to align human resource practices with competitive business strategies.

- This approach focuses on cost leadership versus a focus on differentiation.
- Organizations mainly concerned with reducing costs emphasize processes and general roles.

# HUMAN RESOURCE STRATEGY

Cont...The **contingency approach** seeks to align human resource practices with competitive business strategies.

- They carefully prescribe appropriate behaviors for performing work.
- Another difference is whether the organization has an internal or an external labor orientation.
- Organizations with an internal labor orientation seek long-term relationships with employees, while organizations with an external labor orientation seek flexibility and do not make long-term commitments to employees.

# Strategic Human Resource Differences

**Table 2.2**

*Strategic Human Resource Differences*

| <b>Cost Strategy</b>                       | <b>Differentiation Strategy</b>                       |
|--|---|
| Emphasis on group contribution             | Emphasis on individual contribution                   |
| Focus on improving processes               | Focus on outcomes and results                         |
| Development of general employee skills     | Development of specific employee skills               |
| Cooperation among employees                | Moderate competition among employees                  |
| Efficiency culture                         | Innovation culture                                    |
| Clearly prescribed tasks                   | Flexible task assignments                             |
| Rules and procedures that standardize work | Few rules and procedures; exceptions to rules allowed |

# Four Human Resource Strategies

There are four human resource strategies commonly used by organizations.

- **Loyal Soldier**
- **Bargain Laborer**
- **Committed Expert**
- **Free Agent**

# Strategic Framework for HR



# The Loyal Soldier Strategy

- The Loyal Soldier label emphasizes hiring and retaining loyal employees who do whatever the company asks of them.
- Organizations with this strategy design work so that employees have broad roles and perform a variety of different tasks.
- People are recruited and hired because they fit the organization culture and because of their potential to become loyal employees.
- Efforts are made to satisfy the needs of employees and build a strong bond that reduces the likelihood of employee turnover.

# The Loyal Soldier Strategy

- Organizations hire people early in their careers and provide them with extensive training in a number of different skills.
- Careers often include a number of very different positions, with promotions often made into positions that are not closely related to previous experiences.
- Performance appraisals are designed to facilitate cooperation rather than competition.
- Compensation includes long-term incentives and benefits and is often linked to the overall performance of the organization.
- Unions, frequently help build feelings of unity.

# Bargain Laborer HR strategy

- The emphasis of this strategy is obtaining employees who do not demand high wages.
- Organizations with this strategy design work so that managers can tightly control employee efforts.
- Each employee is given clearly defined tasks that can be learned easily. People are recruited and hired to perform simple tasks that do not require clearly developed skills.
- Little attention is paid to meeting the long-term needs of employees. Organizations with this human resource strategy don't provide careers with clear paths for promotion and advancement.

# Bargain Laborer HR strategy

- Performance appraisal focuses on day-to-day feedback and rarely incorporates formal measures.
- Training is mostly limited to on-the-job techniques that teach specific methods for completing particular tasks.
- Compensation is frequently based on hours worked, and benefits and long-term incentives are minimal.
- The lack of consistency among employees tends to make unions somewhat rare.

# Committed Expert HR strategy

- The primary objective of this strategy is to hire and retain employees who specialize in performing certain tasks.
- Organizations using this strategy design work so that employees have a great deal of freedom to innovate and to improve methods of completing tasks.
- People are recruited and hired because of their potential fit with the organizational culture, as well as their aptitude for becoming experts in particular areas.
- These organizations hire people early in their careers and train them to be experts in specific fields, such as accounting or sales.

# Committed Expert HR strategy

- Performance appraisals are designed to balance cooperation and competition among employees.
- Careers generally include numerous promotions into similar jobs with increasing responsibility.
- Employees receive long-term training that helps them develop strong expertise.
- Compensation is relatively high and usually includes a good benefits package that ties employees to the organization.

# Free Agent HR Strategy

- The main emphasis associated with this strategy is hiring people who have critical skills but who are not necessarily expected to remain with the organization for a long period of time.
- Work is designed so that employees have extensive responsibility within specific areas and substantial freedom to decide how to go about their work.
- Long-term commitments are avoided, and no efforts are made to encourage strong attachments between employees and the organization.
- People are recruited because they already have the skills and experience that they need to perform specific jobs.
- They are not led to expect long-term careers in the organization. Higher-level positions are frequently given to people from outside the organization.

# Free Agent HR Strategy

- Emphasis is on hiring people who have critical skills but not expected to remain with the organization.
- Employees have extensive responsibility within a specific area and substantial freedom to decide how to go about their work.
- Long-term commitments are avoided and no efforts are made to encourage strong attachment to the organization.
- Performance Appraisal focuses on outcomes and results.
- Training is rare.

# Free Agent HR Strategy

- Short-term compensation is high.
- Pay is linked to individual performance.
- Benefits and long-term compensation are avoided.
- Unions are rare.

# ALIGNMENT OF HR AND COMPETITIVE BUSINESS STRATEGIES

- Organizations are likely to have human resource practices that fit with their competitive business strategies.
- Organizations whose human resource strategies match their competitive strategies do indeed perform better.
- Research suggests that organizations with a cost leadership competitive strategy excel when they follow a Loyal Soldier HR strategy.
- Organizations with a differentiation competitive strategy excel when they use a Committed Expert strategy.