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STRATEGY AND HUMAN RESOURCES MANAGEMENT

Butler
Ferris
Napier

SOUTH-WESTERN SERIES IN
HUMAN **R**ESOURCES **M**ANAGEMENT

Consulting Editor
Gerald R. Ferris

Consulting Editor
Kendrith M. Rowland

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MANAGEMENT**

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EDITORS' INTRODUCTION TO THE HUMAN RESOURCES MANAGEMENT SERIES

The effective management of human resources has been of interest to organizational scientists and administrators for quite some time. But, perhaps due to productivity concerns and the contemporary quality of work life focus, human resources management issues have never been more prominent. As a result of this renewed interest, there is a greater need and demand for educating people about human resources management in organizations, which has manifested itself as expanded curriculum in this area in business schools and labor institutes, as well as in management education and development programs.

The South-Western Series in Human Resources Management is designed to provide substantive knowledge and information on important topics in the field to researchers, students, and practicing professionals who wish to more fully understand the implications of theory and research for the management of human resources. The topics for books in this series are carefully selected with a concern for traditionally important issues, new topics in the field, and new, innovative treatments of traditional topics. Thus, the series is open-ended with regard to both content and size, with no constraints on the number of volumes that will be included. The volumes in the series are all written by notable scholars, recognized throughout the field of human resources management.

Gerald R. Ferris
Kendrith M. Rowland
Series Consulting Editors

PREFACE

In writing this text we sought to create a volume that would recognize the separate and combined contributions of both human resources management and strategic management. This resulted in a volume that is theoretically demanding, but designed to fall into the interest area of both graduate students and academics. In many respects this work is much like a handbook because it includes literature reviews, theory development, and application chapters. Unlike traditional textbooks, but like many handbook chapters, original material has been included.

The volume has been written to be comprehensive. Referencing is extensive, and a special appendix has been included that provides a strategic human resources management bibliography by subject area. Chapters have been written so that they can stand alone, for those interested in narrow areas. The volume can also be used as a supplemental reading or as the principal text for a graduate course in strategic human resources management. The comprehensive nature of this volume will also make it a useful first source for academics interested in this area.

Hopefully, the student and academic will find this text worthy of a permanent space in their management library. It is designed, together with the subsequent volumes in the South-Western Series in Human Resources Management, to provide a comprehensive and scholarly treatment of an important subject area.

We have benefited from the comments and assistance of many during this project. We would like to thank Douglas T. Hall and Lloyd D. Baird of Boston University for reading several preliminary chapters. We are especially appreciative and indebted to Randall S. Schuller of New York University who was generous with his time and charitable with his comments. The research assistance and intellectual insights of K. Michele Kachmar, Texas A & M University, are highly valued; they enhanced the finished volume. The administrative and editorial support of Norma Taylor at Texas A & M University and Kathleen Anderson at Boise State University is deeply appreciated. The support of the faculty, staff, and administration at Boise State University, Texas A & M University, the University of Illinois, and the University of Washington is deeply appreciated. Any errors of commission or omission rest with the authors.

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Fata sua habent libelli (Thomas Mann, 1933).¹

In the past twenty years senior executives have become more strategic in their thinking. They have also become more aware that human-related considerations can be critically important to their firm's success. As competition became more global, and the pace of technological development accelerated, more sophisticated frameworks for managing this complexity were developed. The strategic management paradigm, which stressed longer-term planning through the examination of a set of environmental, public policy, industry-structure and organization factors, was one such framework. Sophisticated techniques for the staffing, training and development, performance and reward systems, and industrial relations functions were also introduced. Thus, while planning and strategy became "buzz words," analytic techniques for human resources management (HRM) also increased in popularity. Inspired by these events, academic research responded with sophisticated products that served the narrow needs of either strategy or HRM, but seldom both.

As managers and firms increasingly began to use these evolving paradigms, it became apparent that "carburetor adjustments" type approaches could only carry the firm so far and did not fully satisfy the requirements of a business environment that was becoming increasingly complex. To deal with this complexity, an integration was called for, but planning departments tended to be more comfortable operating in an isolated fashion. HRM departments were also happy with the amount of autonomy they were given, and preferred to operate in their own realm. Strategic plans often failed to account for important factors, either from a content or implementation perspective, that were related to HRM. This was also true of other areas, such as manufacturing, which eventually was able to force its way back into the front line of corporate-strategy formulation. However, it was at the implementation stage where it first became apparent that HRM was a critical factor.

This movement toward inclusion, popularly labeled strategic human resources management (SHRM), involved linking HRM to firm-level outcomes with financial and strategic importance. Thus, it became necessary to understand HRM in terms of a broader set of conditions. The evolution, from record

¹ (Translation—Books have their own fate.)

keeper to full strategic participant, reveals an increased appreciation of how HRM policies can be used to bring both profit and an enhanced competitive position to the firm. This time-trace also reveals that academics in the HRM area have begun developing a more macro perspective. This expansion of perspective has not diminished research in the main content areas of staffing, training and development, performance and reward systems, and industrial relations. However, it has intensified research efforts examining how decisions in these content areas affect the performance and competitive position of the entire organization.

Strategic management evolved in a similar fashion. Beginning as an isolated planning function, with a restricted set of responsibilities, it gradually expanded. Again, research developed showing how strategic conduct was linked to firm performance. The focus of interest gradually moved beyond formulation issues, to also include factors affecting the implementation of strategy. Prescriptions were offered suggesting human resources management and planning as ways of ensuring successful implementation. Gradually, academic research came to recognize that strategic human resources management and strategic human resources planning (SHRP) should be fully incorporated into the strategic planning process of the firm. In this way, issues related to HRM and strategy could be approached in an integrated fashion.

EVOLVING RELATIONSHIP OF HRM AND STRATEGY

This book takes the position that when deciding on the conduct of the firm both HRM and strategy, and their interrelationship, must be considered. The book unfolds much like a four-part card, with each fold representing the gradual development of these fields. (See Figure 1-1.) The first fold, depicted in Figure 1-2, represents the fields of HRM and strategy in their developmental stages. Each operates in isolation and attempts to make an independent and separate contribution to the firm.

As the HRM and planning groups began to develop ties, the relationship became one better described by the second fold, which is depicted in Figure 1-3. Direct links between the HRM and planning groups were developed. The HRM group began to provide important information, and the planning group became the actual formulator of strategy, rather than simply a provider of planning reports. It was during this phase that the value of HRM to successful implementation began to be noticed.

The third fold depicts the fullness of the HRM-strategy relationship. (See Figure 1-4.) It shows the HRM group providing direct input for both the formulation and implementation efforts, although implementation links are more likely to be established first. Areas of HRM responsibility are actively managed to maximize the HRM contribution during strategy formulation and to ensure successful implementation. At this point the firm can be accurately described as having a functioning SHRM process.

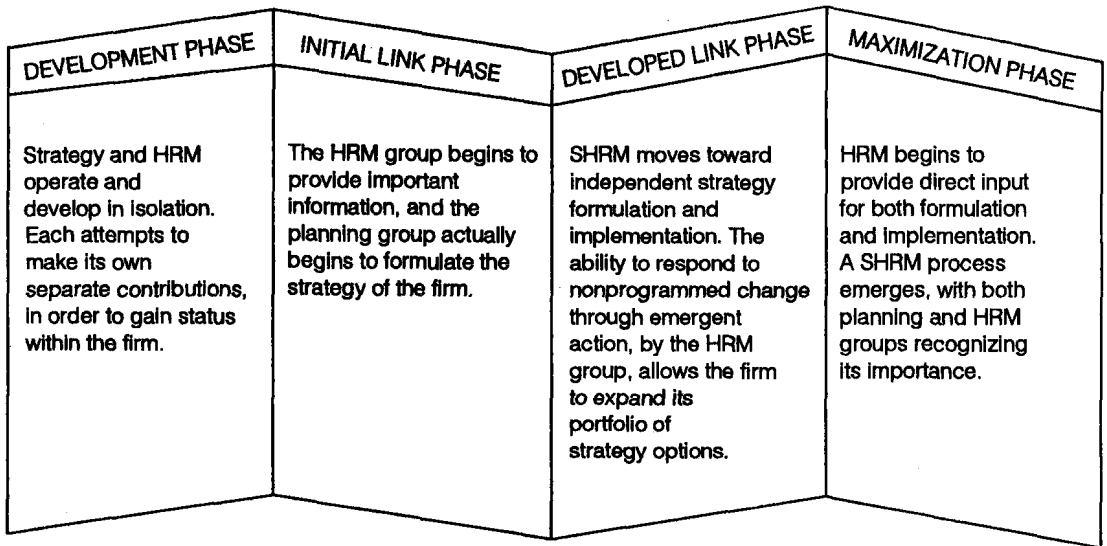


FIGURE 1-1. Evolution of Strategic Human Resources Management.

The maximization of the benefits possible from establishing this linkage between HRM and strategy requires one further stage of development. This fourth fold is depicted in Figure 1-5. What it shows is how the development of

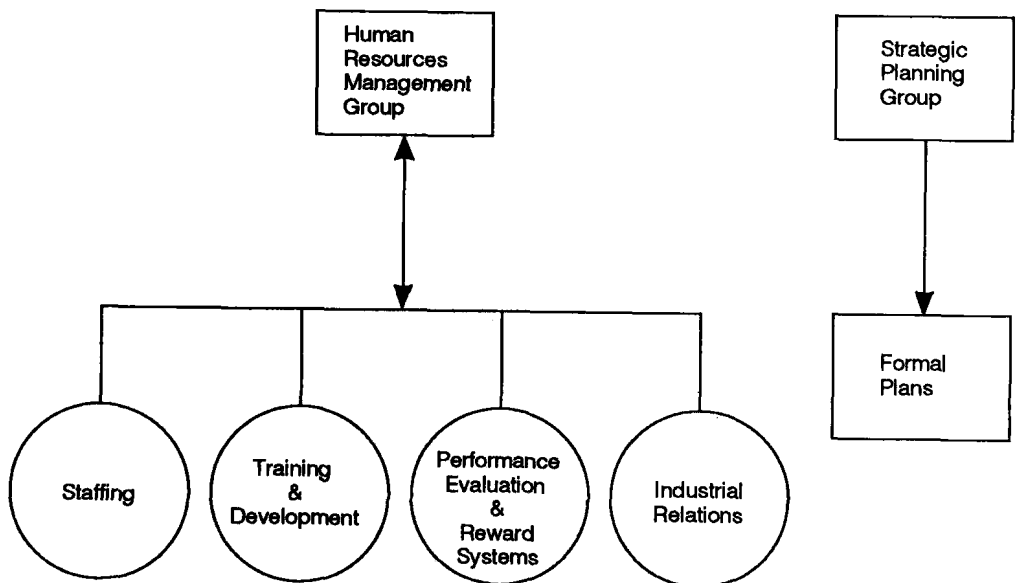


FIGURE 1-2. HRM and planning during their developmental phases.

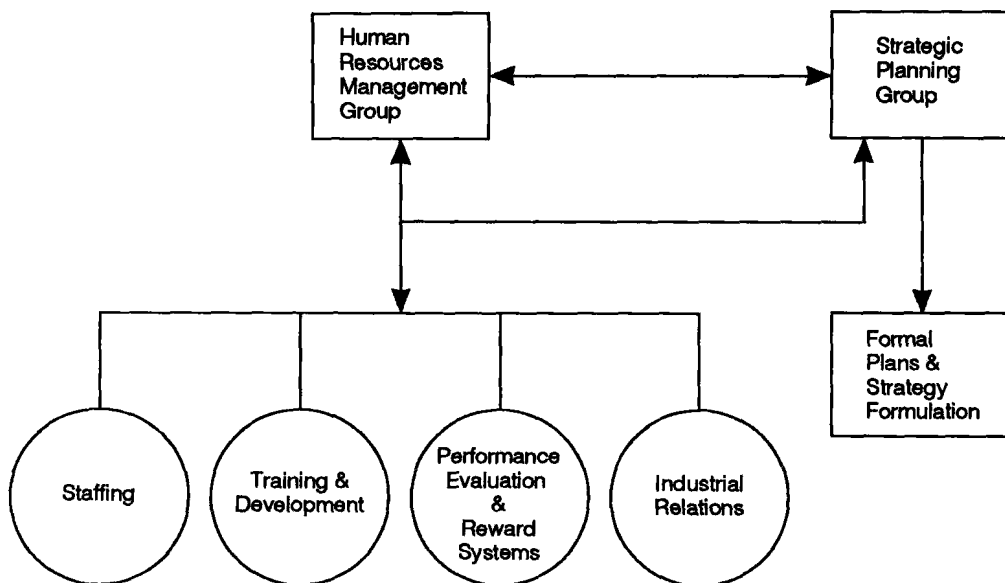


FIGURE 1-3. Direct links develop between HRM group and the corporate-level planning group.

a SHRM posture facilitates the ability of the firm to cope with organizational and environmental contingencies. Three contemporary contingencies, related to mergers and acquisitions, international operations, and corporate entrepreneurial behavior are used to highlight behavior in this maximization phase. However, these are not meant to be an exhaustive list, but rather major illustrations relating to areas of current importance. The full development of a SHRM capability is designed to develop organizational capabilities that ensure the firm is capable of responding to future, unidentified contingencies. As unplanned-for events occur, this ability to respond in a nonprogrammed manner is important and produces behavior that actually becomes part of the strategy of the firm.

While these major themes, or folds, represent the broad general developments between these fields, the single, and most important, underlying premise is that HRM is important and that it relates directly to the success of the firm. Existing theoretical and normative literature is used to support this point, but original-theory extension and development are also attempted in some areas. The role of HRM is depicted in dynamic terms, and SHRM is viewed as a natural outcome of this dynamism. The strategy-HRM impact is presented as one that extends beyond formalizing and implementing strategy, to the culture that underlies behavior within the firm. The existing state of knowledge is accepted and provides the basic foundation, while the focus of the book is on continuing the theoretical development of these fields.

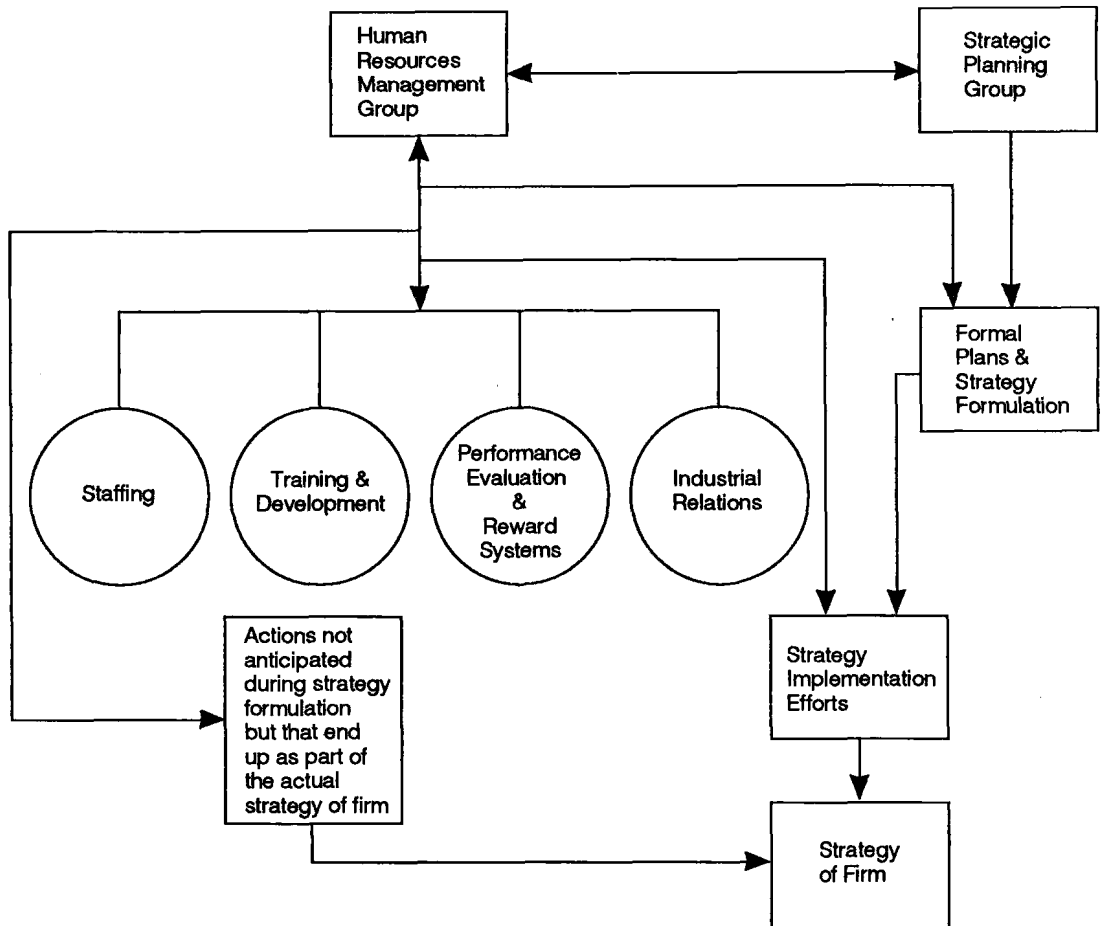


FIGURE 1-4. Completed linkages required for an effective SHRM process.

OUTLINE OF THE TEXT

Chapter Two examines the evolution of HRM from record keeping to SHRM and argues for a more macro perspective. A model, detailing the requirements related to an effective SHRM function, is presented. Each of the model's components is briefly reviewed with respect to the strategic contributions possible from HRM functions related to staffing, training and development, performance and reward systems, and industrial relations.

Chapter Three attempts to expand the notion of strategy beyond its classical definitions and adopts the concept of strategy including both planned and unplanned actions. A general discussion of the strategic planning process, especially as it relates to exploiting environmental changes, is used to develop an expanded strategic model, which is later used as groundwork for the logic

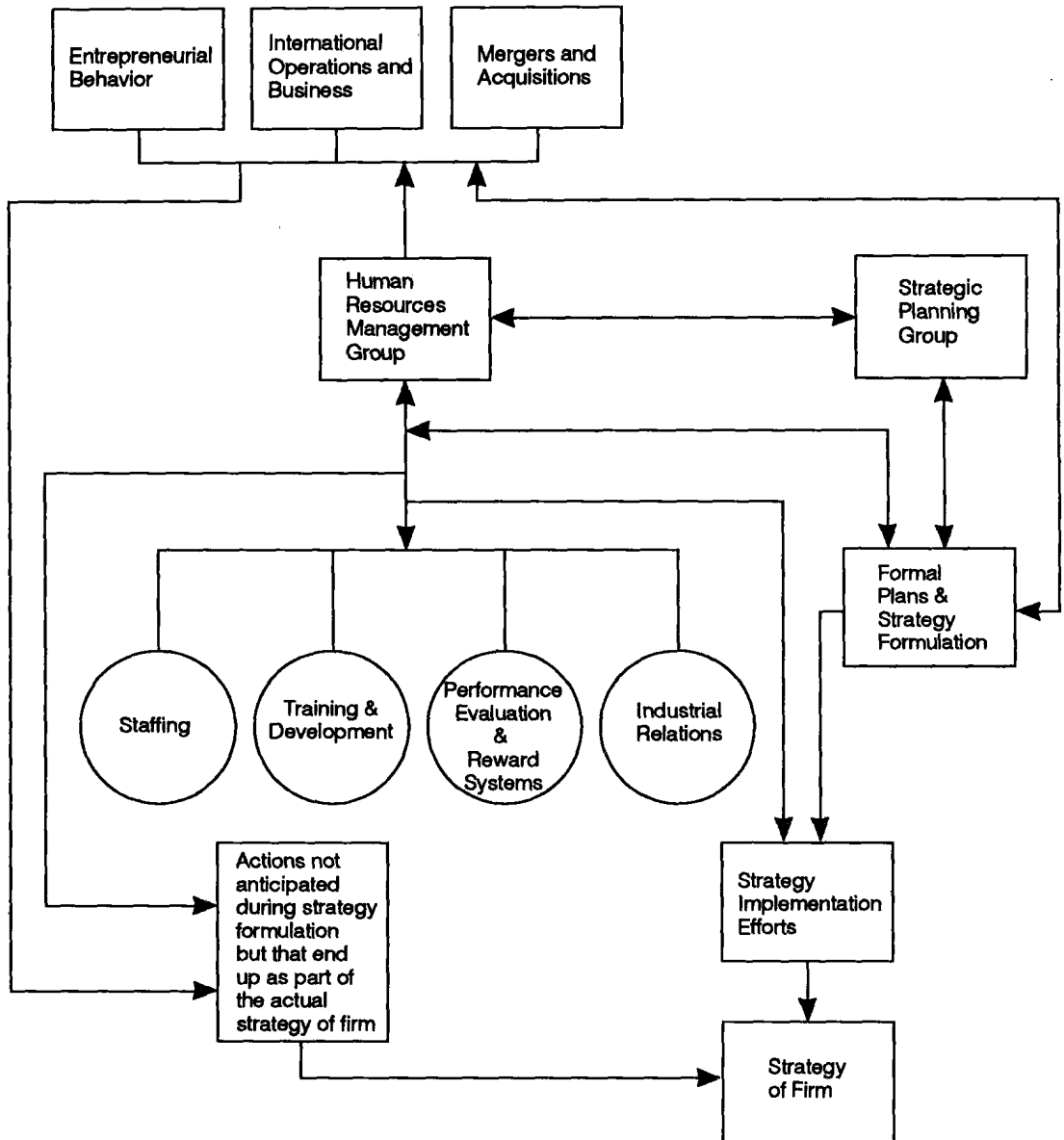


FIGURE 1-5. Synergistic benefits incorporated into a fully operationalized SHRM process.

behind the inclusion of HRM as a “mainstream” component in the strategy-making process of the firm.

Chapter Four presents a profit-generation theory of HRM and strategy. The attempt is made to extend HRM beyond its traditional bounds and relate

it, theoretically, to strategy. The manner by which this relationship brings profit to the firm is discussed, using concepts from economics that are related to market imperfections. It is the constancy of these imperfections, or opportunities, that allows firms to exploit markets and gain above-normal returns on an ongoing basis. Ways for HRM to assist in this exploitation, as a tool for both formulation and implementation, are introduced. In this way HRM can support the constant need for strategic initiatives as well as the ongoing, and more formal, planning needs of the firm.

Chapter Five looks at the anatomy of strategic planning to show where and how HRM fits into the process. The ways that planning can be used to achieve strategic advantage, enhance environmental-coping capabilities, and extract profit through entrepreneurial behavior are discussed. SHRP, as a process, is tied to the corporate planning process using a multistage model that includes phases related to justification, objective setting, program development and implementation. The SHRP process is then related to the environmental, organizational and industry market-structure analysis, which is necessary for a comprehensive planning effort. This is followed by a discussion of ways to develop and maintain a SHRP effort.

Chapter Six is the first of the four content chapters which relate to the traditional activities of the HRM group. This chapter discusses strategic staffing. The increased importance of staffing is related to the changing nature of competition. The role of staffing in strategy formulation and implementation is outlined and related to both its deliberate and emergent components. The strategic implications associated with various staffing options are discussed.

Chapter Seven reviews performance evaluation as it relates to strategy formulation and implementation. The chapter examines reasons for making performance evaluation part of the strategic management process, and explores how the "mechanics" of evaluation, such as who to evaluate, criteria for evaluation and impacts on management performance can contribute to strategy.

Chapter Eight examines the nature of the link between performance and reward systems and strategy. After providing a brief review of some basic compensation concepts, this chapter examines ways in which policies related to performance and reward systems can be directed toward supporting the strategic posture of the firm. A model that develops the links between the firm's performance and reward systems and strategy is presented. Examples of how firms have affected this linkage are presented.

Chapter Nine incorporates training and development into the strategic time frame of the firm. This is accomplished by depicting development efforts as moving along a time line that includes activities related to training, the use of assessment centers, targeted development, mentoring and career planning. This time line is viewed as running parallel to one defining the firm with respect to its organizational life cycle. This allows for a contingency-type relationship to be deduced, which suggests certain development efforts as appropriate during different stages of the life cycle.

Chapter Ten reviews research and proposes ways the industrial relations process can be incorporated into strategic management. The chapter considers issues that may inhibit union involvement in strategy formulation or evaluation, as well as factors that encourage its inclusion. Finally, the chapter briefly examines how unions have begun using strategic planning.

Chapter Eleven examines the first of the three contemporary contingencies. This relates to corporate entrepreneurship and the impact that HRM has on the ability of the firm to maintain its entrepreneurial posture. A brief examination of how entrepreneurial behavior occurs is related to the natural tendencies of firms to become more bureaucratic as they grow in size and age. HRM is posited as having the appropriate tools to re-create, or maintain, an entrepreneurial posture. The impact that HRM policies can have on the culture of the organization is one way this is manifested.

Chapter Twelve examines HRM as it relates to the increased globalization of business. The chapter reviews research in the personnel area as well as more recent efforts to uncover how the link between international business and HRM affects the firm's strategy, and ultimately its performance.

Chapter Thirteen looks at the role of HRM in the mergers-and-acquisition process. An extensive review of the literature is used to outline ways in which the HRM group can help plan for and facilitate implementation of a successful merger or acquisition. Conceptual frameworks are offered as guides, which relate human resources practices to merger or acquisition outcomes. Reasons for considering HRM options, as early in the merger or acquisition process as possible, are outlined.

Chapter Fourteen summarizes and points toward the future by outlining future research needs in the field.

Finally, an appendix containing a detailed bibliography of the literature relating to SHRM is included. This is prompted by the desire to extend the value of the volume beyond what is written on its pages. While there seem to be many sources for identifying the literature of strategy, a reasonably comprehensive, and topic-orientated source of SHRM material is lacking. This bibliography is designed to facilitate course construction, reading lists, and/or research efforts. The hope is that it will inspire work in this area, and accelerate the rate of theoretical development.