

# **PART 2 The Human Resource Environment**

## **Chapter Two Strategic HR Management**



# Chapter Outline

- I. HR and Strategy Management
- II. The Role of HR in Strategy Formulation
- III. Selecting HR Strategies to Increase Firm Performance
- IV. LEADERSHIP: How HR can be a Strategic Partner
- V. Management Skills Builder: Issues and Discussions

# Learning Objectives

- 1. Discuss the role of the HR function in strategy formulation.
- 2. Describe the linkages between HR and strategy formulation.
- 3. Discuss the more popular typologies of generic strategies and the various HR practices associated with each.

- 4. Describe the different HR issues and practices associated with various directional strategies.
- 5. List the competencies the HR executive needs to become a strategic partner in the company.

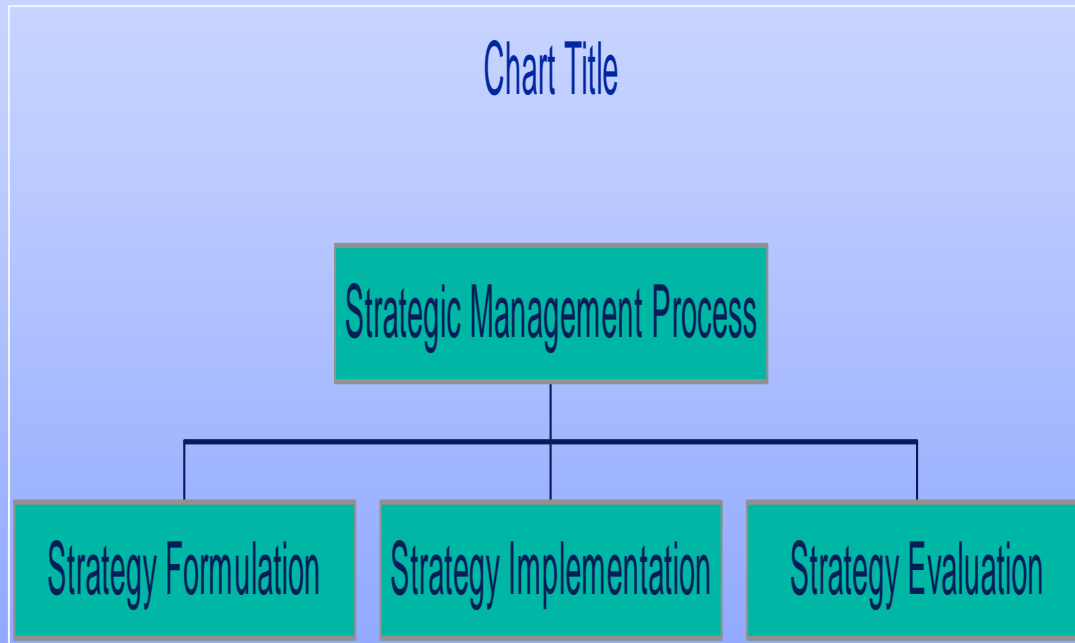


- **I HR AND STRTEGY MANAGEMENT**

# *Strategic HRM*

- Strategic HRM- is the pattern of planned HR *deployments and activities* intended to enable an organization to achieve its goals.

# Strategic Management Process



# Strategy Formulation

## Mission

- reason for  
being

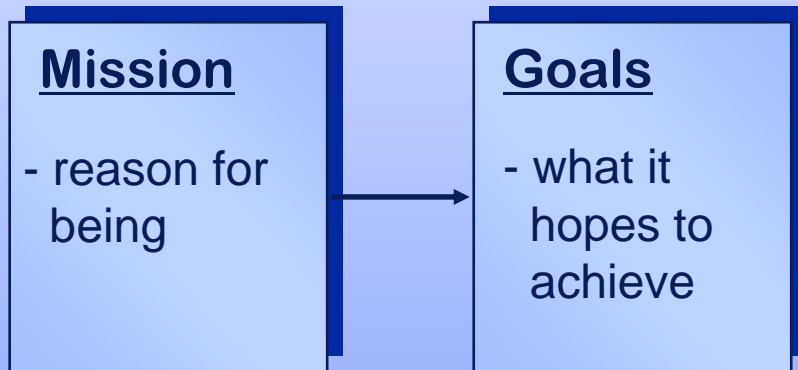


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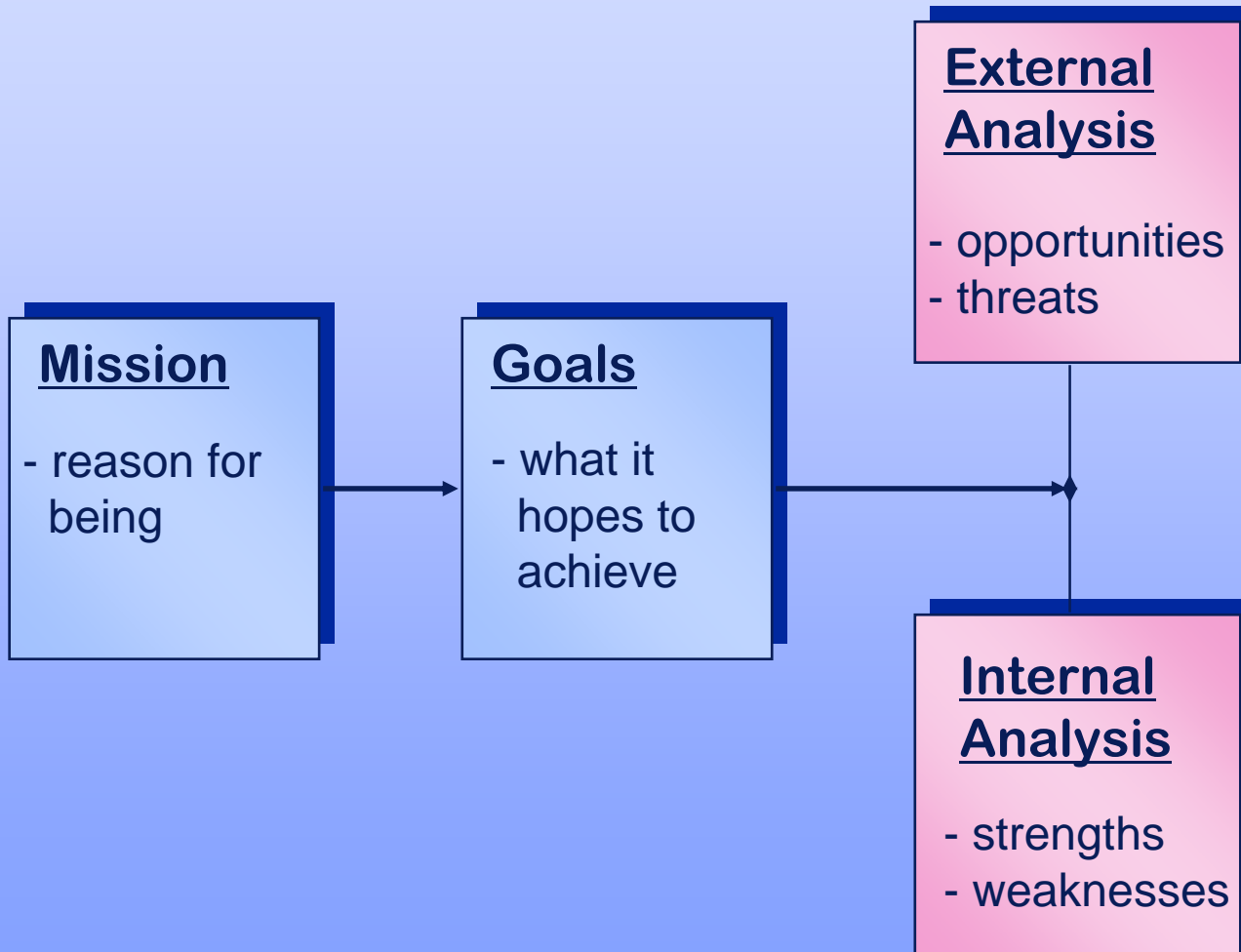


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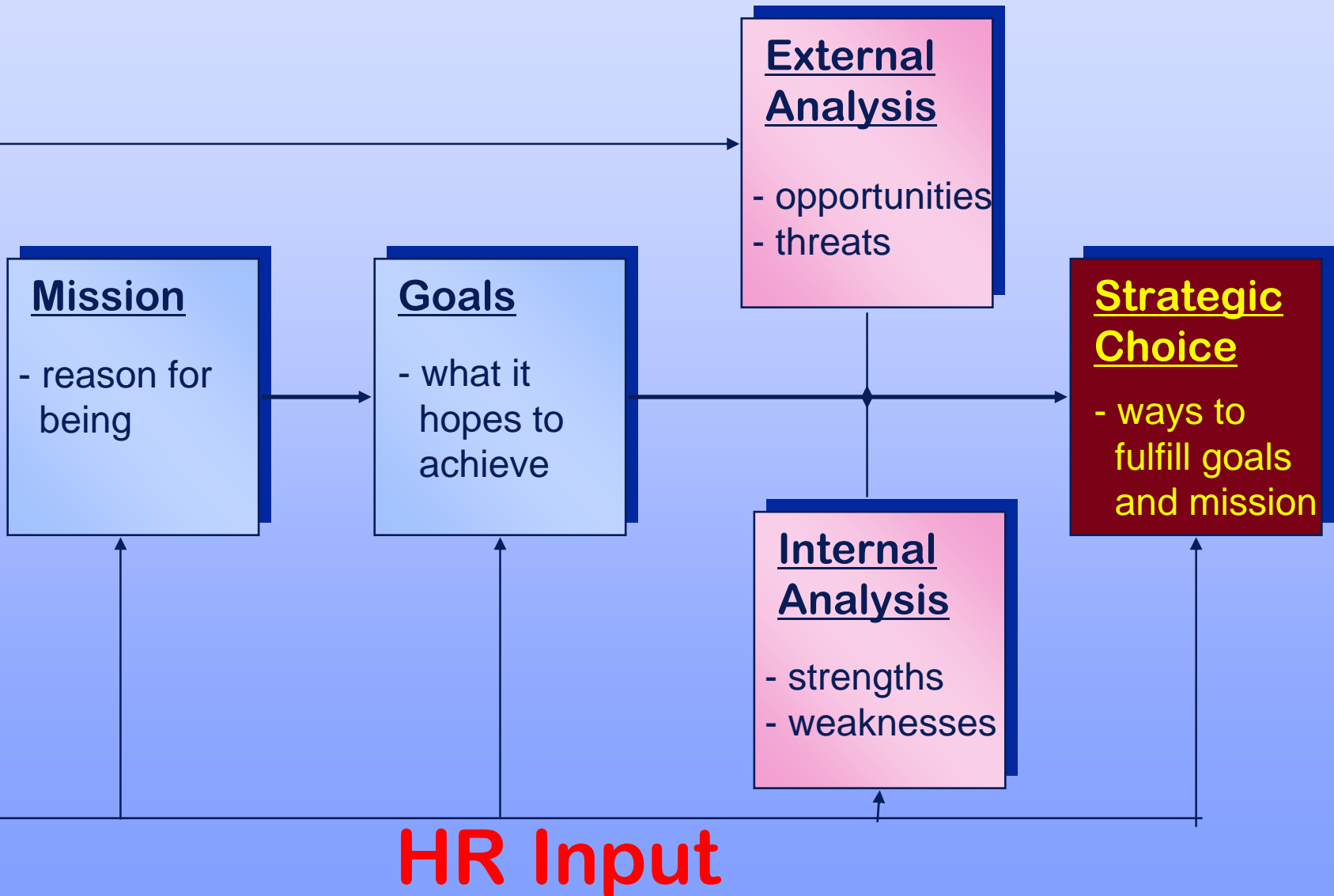
# Strategy Formulation



# Strategy Formulation



# Strategy Formulation



# Strategy

## —--Decisions about Competition

### 1. **Where** to compete?

In what market or markets (industries, products, etc.) will we compete?

### 2. **How** to compete?

On what criterion or differentiating characteristic(s) will we compete? Cost? Quality? Reliability? Delivery?

### 3. **With what** will we compete?

What resources will allow us to beat our competition?  
How will we acquire, develop, and deploy those resources to compete?

## II. The Role of HR in Strategy Formulation

Four levels of integration exist between the HR function and the strategic management function :

1. **Administrative Linkage**
2. **One-Way Linkage**
3. **Two-Way Linkage**
4. **Integrative Linkage**

# The Role of HR in Strategy Formulation

## Administrative Linkage

Strategic Planning

HR Function

This is the lowest level of integration, in which the HRM function's attention is focused on day-to-day activities. No input from the HRM function to the company's strategic plan is given.

# The Role of HR in Strategy Formulation

Administrative  
Linkage



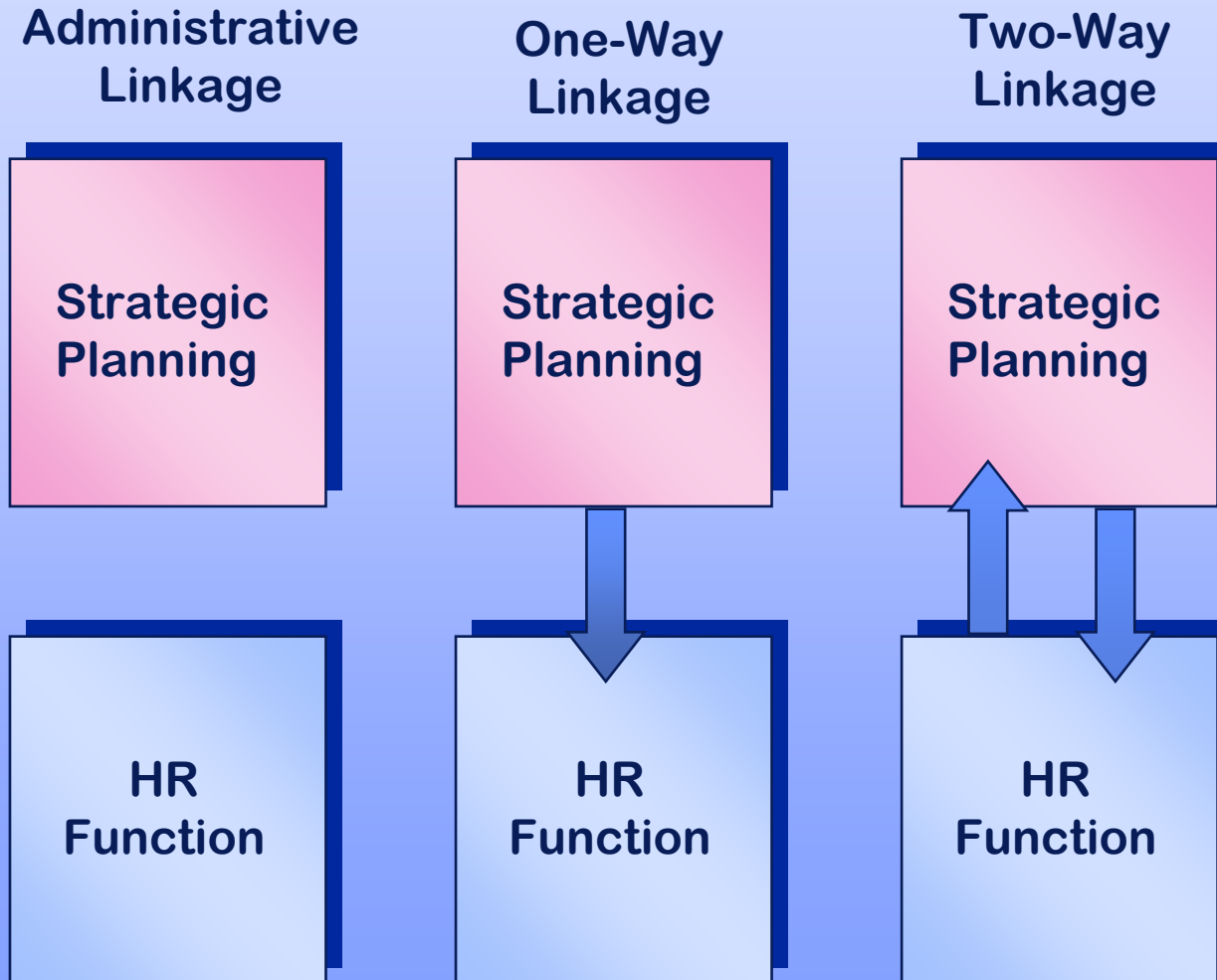
One-Way  
Linkage



The firm's strategic business planning function develops the plan and then informs the HRM function of the plan. HRM then helps in the implementation.

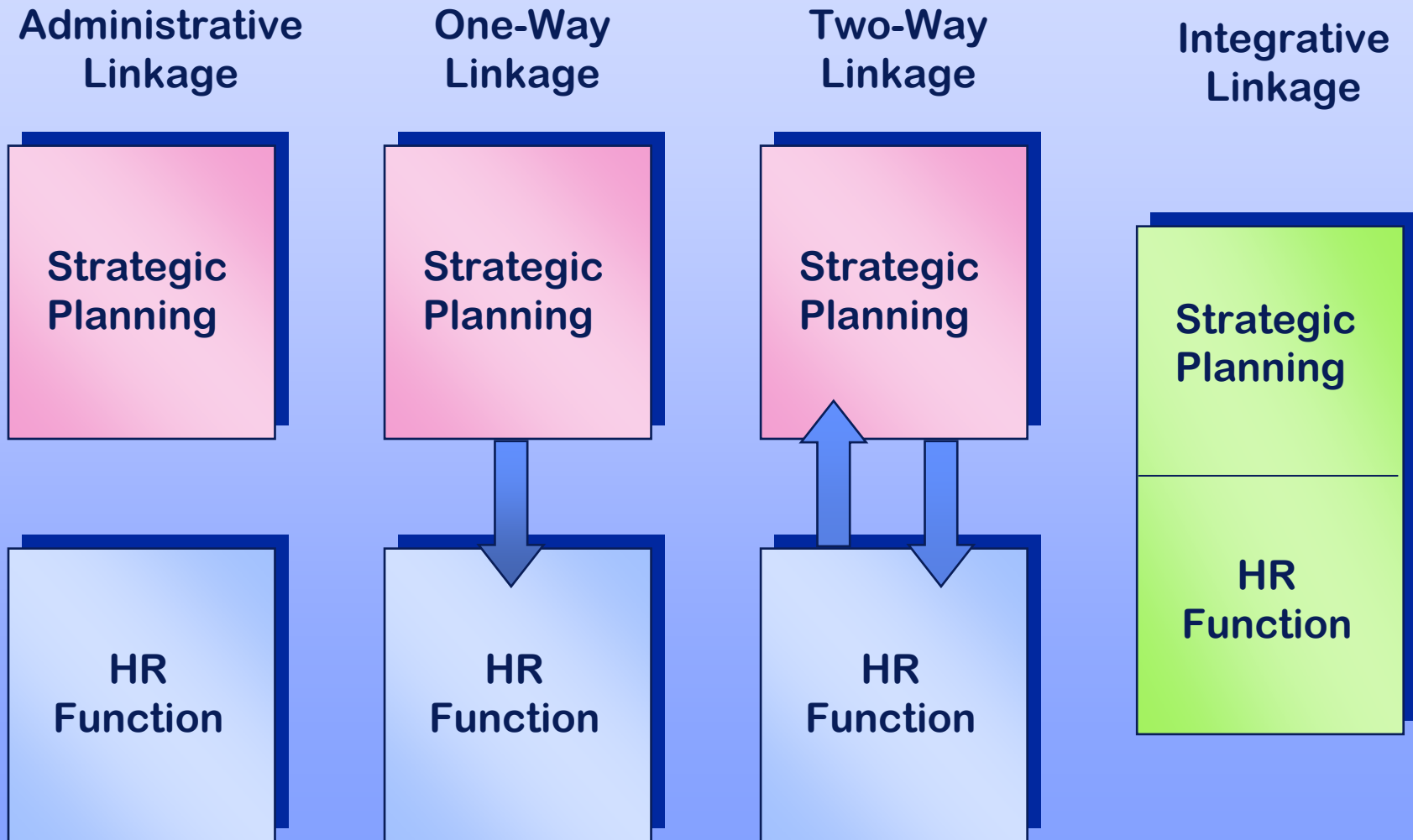


# The Role of HR in Strategy Formulation



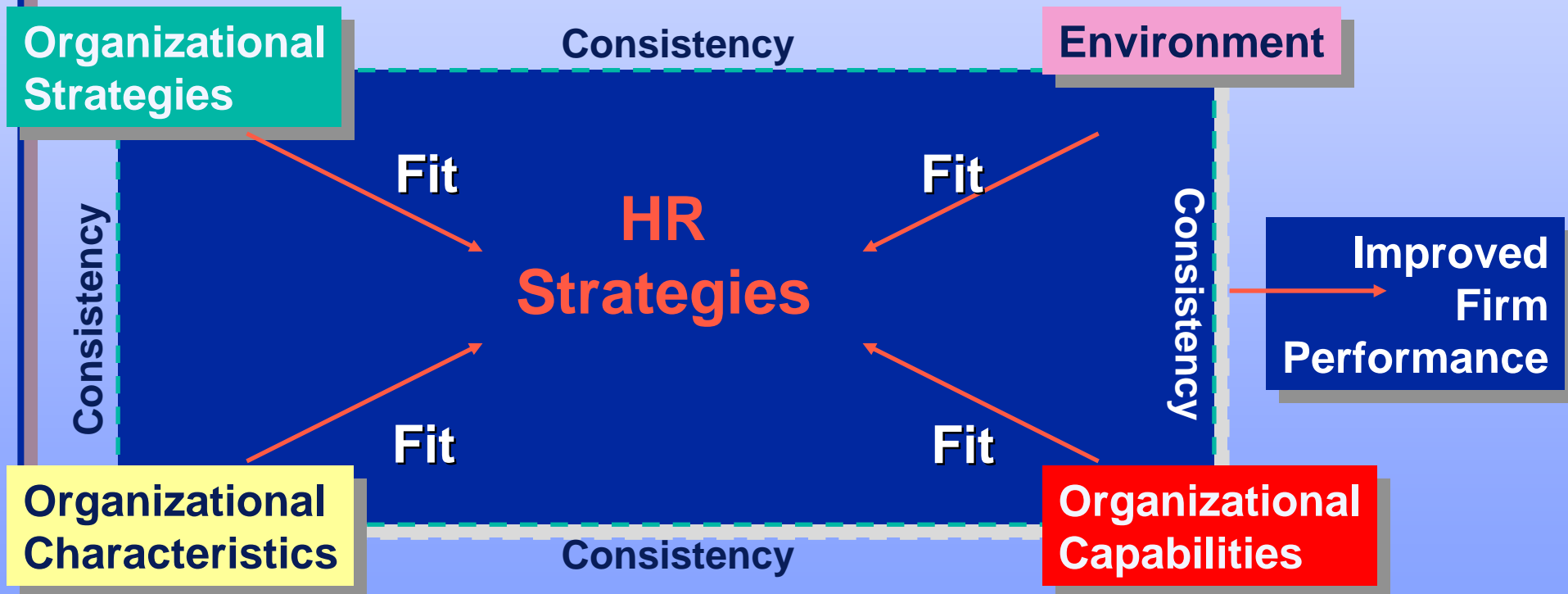
The HRM function is expected to provide input to potential strategic choices and then help implement the chosen option.

# The Role of HR in Strategy Formulation

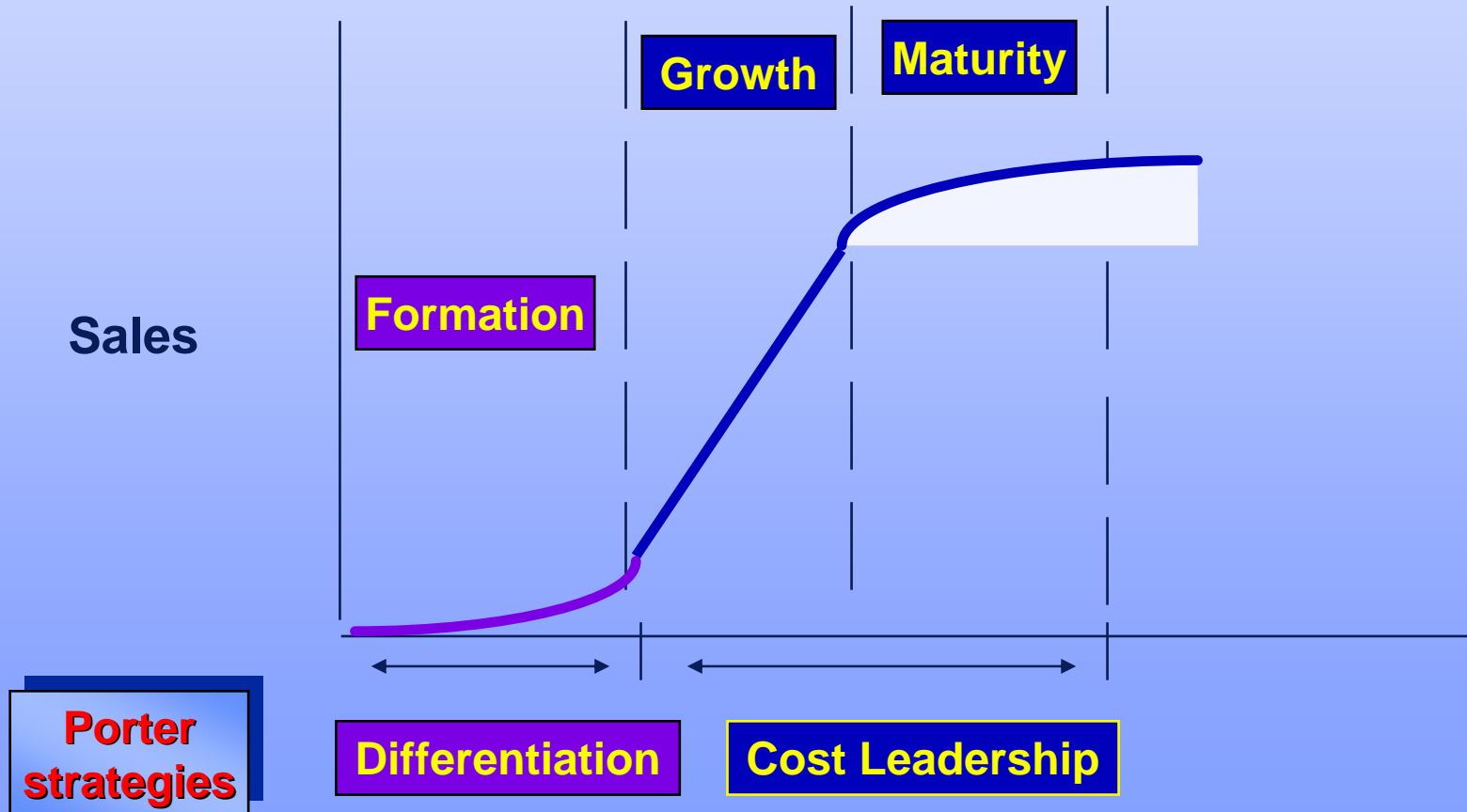


- No HR Strategy is “good” or “bad” in and of itself.
- *Fit* refers to the consistency or compatibility between HR strategies and other important aspects of the organization.

# III. Selecting HR Strategies to Increase Firm Performance



# Product Life Cycle and Operating Strategies



# Selected HR Strategies That Fit Porter's Three Major Types of Business Strategies

Business Strategy	Common Organizational Characteristics	HR Strategies
<b>Overall cost leadership</b>	<ul style="list-style-type: none"><li>• Sustained capital investment and access to capital</li><li>• Intense supervision of labor</li><li>• Tight cost control requiring frequent, detailed control reports</li><li>• Low-cost distribution system</li><li>• Structured organization and responsibilities</li><li>• Products designed for ease in manufacture</li></ul>	<ul style="list-style-type: none"><li>• Efficient production</li><li>• Explicit <b>job descriptions</b></li><li>• Detailed work planning</li><li>• Emphasis on technical <b>qualifications and skills</b></li><li>• Emphasis on job-specific <b>training</b></li><li>• Emphasis on job-based <b>pay</b></li><li>• Use of performance appraisal as a <b>control device</b></li></ul>

## Selected HR Strategies That Fit Porter's Three Major Types of Business Strategies (cont.)

Business Strategy	Common Organizational Characteristics	HR Strategies
<b>Differ-entiation</b>	<ul style="list-style-type: none"><li>• Strong marketing abilities</li><li>• Product engineering</li><li>• Strong capability in basic research</li><li>• Corporate reputation for quality or technological leadership</li><li>• Amenities to attract highly skilled labor, scientists, or creative people.</li></ul>	<ul style="list-style-type: none"><li>• Emphasis on innovation and flexibility</li><li>• Broad job classes</li><li>• Loose work planning</li><li>• External recruitment</li><li>• Team-based training</li><li>• Emphasis on individual-based pay</li><li>• Use of performance appraisal as <b>development tool</b></li></ul>

## Selected HR Strategies That Fit Porter's Three Major Types of Business Strategies (cont.)

Business Strategy	Common Organizational Characteristics	HR Strategies
<b>Focus</b>	<ul style="list-style-type: none"><li>• Combination of cost-leadership and differentiation strategy directed at a particular strategic target.</li></ul>	<ul style="list-style-type: none"><li>• <b>Combination of HR strategies above.</b></li></ul>



- **Competing by Meeting Stakeholders Needs:  
A Cost Strategy That May Cost Children  
Their Health**
- In Columbia, the cut flower industry is booming at the expense of child labor. In order to keep costs low, farms employ children at illegal pay rates, for long hours, and under conditions that include the inhalation of pesticides. The employment “contracts” for these children do not include health benefits. As the word leaks out to the marketplace, pressure is being placed on the worst offenders to change their strategies.

# Selected HR Strategies That Fit Miles and Snow's Two Major Types of Business Strategies

Strategic HR Area	Defender Strategy	Prospector Strategy
<b>Work flows</b>	<ul style="list-style-type: none"><li>• Efficient production</li><li>• Control emphasis</li><li>• Explicit job descriptions</li><li>• Detailed work planning</li></ul>	<ul style="list-style-type: none"><li>• Innovation</li><li>• Flexibility</li><li>• Broad job classes</li><li>• Loose work planning</li></ul>

# Miles and Snow Defender Strategy -- **RECRUITING**

- Internal recruitment
- HR makes selection decision
- Emphasis on qualifications and skills
- Formal hiring and socialization process

# Miles and Snow Prospector Strategy -- RECRUITING

- External recruitment
- Supervisor makes selection decision
- Emphasis on applicant fit with culture
- Informal hiring and socialization process of new employees

# Miles and Snow Defender Strategy -- Compensation

- Fixed pay
- Job-based pay
- Seniority-based pay
- Centralized pay decisions



# Miles and Snow

## Prospector Strategy -- Compensation

- Variable pay
- Individual-based pay
- Performance-based pay
- Decentralized pay decisions





In a recent national survey of HR executives in more than 400 companies, most respondents reported that the priorities of top management at their firms are to counter competition, cut costs, and improve performance.

Yet only 12% of these HR executives said that their department had a major responsibility for improving productivity, quality, and customer service in their companies.



# Discussion 1



What do you think are some of the reasons for this gap between top management's priorities and the responsibility of the HR department?

How do you think an HR department can gain top management's support for its programs and goals?



## IV. LEADERSHIP: How HR can be a Strategic Partner

- Understand styles of leadership
- Display appropriate leadership
- Demonstrate leadership at all levels of performance – team, individual, unit or organization

# KNOWLEDGE OF BUSINESS

## How HR can be a Strategic Partner

HR must understand...

- ◆ internal / external customers
- ◆ key business disciplines
- ◆ business structure, vision, values, goals, strategies, finances
- ◆ competitors, products, technology and sources of competitive advantage

# STRATEGIC THINKING

## How HR can be a Strategic Partner

- Understand strategic business planning
- Apply a systematic HR planning process
- Integrate HR systems to build capability and competitive advantage for the firm
- Develop and integrate department strategies within corporate framework

# PROCESS SKILLS

## How HR can be a Strategic Partner

- Know management processes
- Know process skills: consulting, problem solving, evaluation and communication
- Understand organizational development
- Facilitate and manage change
- Manage under uncertainty and instability



# **V.Management Skills Builder:**

## **Issues and Discussions**



# **Management Skills Builder: Discussion 2**

# Case Summary

3M's competitive business strategy is based on innovation. 3M requires that at least 25% of its annual sales come from products introduced over the previous 5 years.

To implement this strategy, What types of HR policies might 3M adopt to Spur product innovation?

# Suggested keys

- ✦ the creation of a special fund that allows employees to start new projects or follow up on ideas.
- ✦ “release time” program, in which workers are given time off during the day to pursue their own interests,
- ✦ give credit for the creation of new products that management would not have thought of by itself.



- ❖ 3M's appraisal process encourages risk taking.
- ❖ Innovation culture: A senior manager at 3M says, "If you are threatened with dismissal after working on a project that fails, you will never try again."



# Discussion 3



# Case Summary

- Frost, Inc. is a manufacturer of overhead conveyor trolleys, used primarily in the auto industry with sales of \$20 million. Frost is located in Grand Rapids, Michigan. Concerned about depending too heavily on one cyclical industry, Frost's president made several attempts to diversify the business.
- The attempts to move into manufacturing lawn mower components and material handling systems, such as floor conveyors and hoists, failed. The engineers did not know how to design unfamiliar components, production people did not know how to make them, and sales people did not know how to sell them.

- The president diagnosed the problem as inflexibility (“We have single-purpose machines and single-purpose people, including single-purpose managers.”).
- He decided that automating production was the key to flexibility. Twenty-six old-fashioned screw machines on the factory floor were replaced with 11 computer numerically controlled machines and 18 robots. He decided to build an automated store and retrieval inventory-control system and to completely automate the front office to reduce indirect labor costs. He did not plan to approve additional hires as a result of the automation.



# Questions



1. What directional strategy was Frost pursuing?
- 2 .What HR practices should be in place to support this strategy?
3. What types of information should the HR function provide to support the new strategy?



- Suggested keys

1. Frost initially pursued a concentration strategy and then changed to an external-growth strategy—*diversification*.

2. In order to successfully pursue a strategy of diversification, people with the needed skills must be *hired or developed*. Therefore, as the company moved into a new area, engineers with experience in lawn mower components, etc., would need to be hired, or current employees would need to be provided with training.



- While automation may resolve some production problems, it does not solve the design-engineering issues. Additionally, even with automated lines, people must be available who have the skills to monitor production activity and who can maintain and repair the equipment. Once again, HR could provide the human side of the automation process so that planning for the change process would include all necessary elements for a successful corporate culture change.

- In this case, the CEO had decided that no new hiring would take place. Therefore, the emphasis should be on the provision of training for new skills. To support the engineers and production people in this development effort, a skill-based compensation program along with profit-sharing would be useful.



## End of Chapter Question 1



- Why is it important for a company to make its human resources into a competitive advantage? How can HR contribute to doing so?



## End of Chapter Question 2



- Many believe that top managers care little about human resources compared to such areas as marketing, finance, production, and engineering. What might account for this perception, and what would you do to change it?