

Universitat de València
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STRATEGIC HUMAN RESOURCE MANAGEMENT

TOPIC 2 THE STRATEGY PROCESS APPLIED TO HRM

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TOPIC 2. THE STRATEGY PROCESS APPLIED TO HRM

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- 2.5. The three dimensions of HR strategy development
- 2.6. Types of HR strategies
- 2.7. Strategic HR processes framework

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2.1. HRM 'BEST PRACTICES'

- Employment security
- Selectivity in recruiting
- High wages
- Incentive pay
- Employee ownership
- Information sharing
- Participation and empowerment
- Self-managed teams
- Training and skill development
- Cross-utilization and cross-training
- Symbolic egalitarianism
- Wage compression
- Promotion from within

Source: Pfeffer, J. (2005). 'Producing sustainable competitive advantage through the effective management of people'. *Academy of Management Executive*, 19(4): 95-106. Reprinted from *Academy of Management Executive*, 1995, 9(1): 55-72.

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2.1. HRM 'BEST PRACTICES'

Key concerns related to a 'best practices' (universalistic) approach in HRM

- Different **levels** of analysis (strategies, systems, tactics, policies, practices, methods, etc.)
- Different **units** of analysis (individual, team, division, organization)
- Time lag, reverse **causality**, and cause-effect circularity
- Influence of **contextual and environmental factors** (e.g., culture, industry, customers' needs, legal frameworks, etc.)
- Influence of corporate and competitive **strategies**
- Different types of **employees** (degrees of value and uniqueness)
- Different psychological profiles and employee **expectations**
- **Implementation** challenges (need of long-term orientation and culture change, tackling resistance to change, employee involvement, etc.)

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2.2. THE STRATEGY PROCESS

STAGES OF STRATEGY DEVELOPMENT

FORMULATION

- MISSION, VISION, VALUES: What is the meaning, role and purpose of our organization?
- GOALS: Where do we want to get to?
- EXTERNAL ANALYSIS: Where are we now? What are the current conditions? What are our current R&Cs*?
- INTERNAL ANALYSIS: Where are we now? What are the current conditions? What are our current R&Cs*?
- STRATEGY FORMULATION: What can we do to achieve our goals?

IMPLEMENTATION & CONTROL

- IMPLEMENTATION: What specific actions should we undertake to realize the strategy?
- CONTROL (REVIEW & ADJUSTMENT): If there are deviations: What are their causes? What should we do to improve?

*Resources & Capabilities.

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HR STRATEGY DEVELOPMENT: OVERVIEW

- Effective HR strategies aim at increasing firm performance
- HR strategies should fit with other aspects of the organization (also called contextual/contingency factors)

Source: Gómez-Mejía, Balkin & Cardy (2007, p. 28.; 2012, p. 56)

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2.3. HR STRATEGY DEVELOPMENT: (I) FIT WITH ORGANIZATIONAL STRATEGIES

Corporate Strategies

- Evolutionary
- Steady state

Competitive Strategies

Porter's Business Unit Strategies

- Cost leadership
- Differentiation
- Focus

Miles and Snow's Business Strategies

- Defender:** conservative business units (low risk-taking & innovation)
- Prospector:** innovative business units (high risk-taking & innovation)

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2.3. HR STRATEGY DEVELOPMENT: (I) FIT WITH ORGANIZATIONAL STRATEGIES

Corporate Strategies

- Evolutionary**
 - Focus on growth, entrepreneurship & risk taking.
 - Aggressive M&As* (incl. unrelated industries).
 - Key role of change management for firm survival.
 - External hiring, decentralization and flexibility.
- Steady State**
 - Focus on stability and internal, slow development.
 - Avoidance of M&As* (esp. in unrelated industries)
 - Efficiency, detailed work planning, internal career development, centralization, paternalistic attitude.

*M&As: mergers & acquisitions

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2.3. HR STRATEGY DEVELOPMENT: (I) FIT WITH ORGANIZATIONAL STRATEGIES

Porter's Business Unit Strategies

Business Strategy	Common Organizational Characteristics	HR Strategies
Overall Cost Leadership	<ul style="list-style-type: none"> Sustained capital investment and access to capital Intense supervision of labor Tight cost control requiring frequent, detailed control reports Low-cost distribution system Structured organization and responsibilities Products designed for ease in manufacture 	<ul style="list-style-type: none"> Efficient production Explicit job descriptions Detailed work planning Emphasis on technical qualifications and skills Emphasis on job-specific training Emphasis on job-based pay Use of performance appraisal as a control device
Differentiation	<ul style="list-style-type: none"> Strong marketing abilities Product engineering Strong capability in basic research Corporate reputation for quality or technological leadership Amenities to attract highly skilled labor, scientists, or creative people 	<ul style="list-style-type: none"> Emphasis on innovation and flexibility Broad job classes Loose work planning External recruitment Team-based training Emphasis on individual-based pay Use of performance appraisal as developmental tool
Focus	Combination of cost-leadership and differentiation strategy directed at a particular strategic target	Combination of HR strategies above

Source: Common organizational characteristics: Porter, M. E. (1980). Competitive Strategy, 40-41. New York: Free Press.
 Source: Gómez-Mejía, Balkin & Cardy (2007), p. 29.

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2.3. HR STRATEGY DEVELOPMENT: (I) FIT WITH ORGANIZATIONAL STRATEGIES

Miles & Snow's Business Strategies

Strategic HR Area	Defender Strategy	Prospector Strategy
Work Flows	<ul style="list-style-type: none"> Efficient production Control emphasis Explicit job descriptions Detailed work planning 	<ul style="list-style-type: none"> Innovation Flexibility Broad job classes Loose work planning
Staffing	<ul style="list-style-type: none"> Internal recruitment HR department makes selection decision Emphasis on technical qualifications and skills Formal hiring and socialization process 	<ul style="list-style-type: none"> External recruitment Coworkers help make selection decision Emphasis on fit of applicant with culture Informal hiring and socialization process of new employees
Employee Separations	<ul style="list-style-type: none"> Voluntary inducements to leave Hiring freeze Continuing concern for terminated employee Preferential rehiring policy 	<ul style="list-style-type: none"> Layoffs Recruit as needed Individual on his or her own No preferential treatment for laid-off workers
Performance Appraisal	<ul style="list-style-type: none"> Uniform appraisal procedures Used as control device Narrow focus High dependence on superior 	<ul style="list-style-type: none"> Customized appraisals Used as developmental tool Multipurpose appraisals Multiple inputs for appraisals
Training	<ul style="list-style-type: none"> Individual training On-the-job training Job-specific training "Make" skills 	<ul style="list-style-type: none"> Team-based or cross-functional training External training Generic training emphasizing flexibility "Buy" skills
Compensation	<ul style="list-style-type: none"> Fixed pay Job-based pay Seniority-based pay Centralized pay decisions 	<ul style="list-style-type: none"> Variable pay Individual-based pay Performance-based pay Decentralized pay decisions

Source: Gómez-Mejía, Balkin & Cardy (2007, p. 31; 2012, p. 58)
 Further reading: Miles, R.E. & Snow, S. (1984). 'Designing strategic human resources systems' *Organizational Dynamics*, 13(1): 36-52.

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2.4. HR STRATEGY DEVELOPMENT: (II) FIT WITH ENVIRONMENT, ORG. CHARACT. & ORG. CAPABIL.

Fit with the environment: key factors (STEEPLE)

<p>SOCIO-CULTURAL FACTORS</p> <ul style="list-style-type: none"> Social atmosphere Demographic & educational variables Cultural traditions Social mobility & changes in lifestyles, etc. 	<p>POLITICAL FACTORS</p> <ul style="list-style-type: none"> Political system & stability Role of trade unions National security & immigration policies Government support for national industries Gov't. involvement in business activity, etc.
<p>TECHNOLOGICAL FACTORS</p> <ul style="list-style-type: none"> R&D spending (public & private) Technology development of the country Technological innovation IT development & e-readiness, etc. 	<p>LEGAL FACTORS</p> <ul style="list-style-type: none"> Specific industry regulations Consumer protection regulations Labour regulations HR-related government incentives, etc.
<p>ENVIRONMENTAL & ETHICAL FACTORS</p> <ul style="list-style-type: none"> Pollution and emissions regulations Recycling policies and regulations Society concern for environ. & ethical issues Industry cases of unethical behaviour, etc. 	<p>ECONOMIC FACTORS</p> <ul style="list-style-type: none"> Phase of economic cycle & GDP evolution Unemployment and inflation rates Monetary policy: int. rates, money supply, etc. Fiscal policy: tax system, gov't. spending... Infrastructures (communication, transport)...

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2.4. HR STRATEGY DEVELOPMENT: (II) FIT WITH ENVIRONMENT, ORG. CHARACT. & ORG. CAPABIL.

Fit with the environment: key dimensions

- Degree of uncertainty:** availability of accurate information to make appropriate decisions.
- Volatility:** how often the environment changes.
- Magnitude of change:** how drastic changes are.
- Complexity:** how many different elements affect the firm.

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General increase of environmental **turbulence**

Source: Gómez-Mejía, Balkin & Cardy (2007, p. 31; 2012, p. 59-60).

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2.4. HR STRATEGY DEVELOPMENT: (II) FIT WITH ENVIRONMENT, ORG. CHARACT. & ORG. CAPABIL.

Fit with the environment: implications for HR strategies

Environmental Dimension	Low	High
Degree of Uncertainty	<ul style="list-style-type: none"> ■ Detailed work planning ■ Job-specific training ■ Fixed pay ■ High dependence on superior 	<ul style="list-style-type: none"> ■ Loose work planning ■ Generic training ■ Variable pay ■ Multiple inputs for appraisals
Volatility	<ul style="list-style-type: none"> ■ Control emphasis ■ Efficient production ■ Job-specific training ■ Fixed pay 	<ul style="list-style-type: none"> ■ Flexibility ■ Innovation ■ Generic training ■ Variable pay
Magnitude of Change	<ul style="list-style-type: none"> ■ Explicit job descriptions ■ Formal hiring and socialization of new employees ■ "Make" skills ■ Uniform appraisal procedures 	<ul style="list-style-type: none"> ■ Broad job classes ■ Informal hiring and socialization of new employees ■ "Buy" skills ■ Customized appraisals
Complexity	<ul style="list-style-type: none"> ■ Control emphasis ■ Internal recruitment ■ Centralized pay decisions ■ High dependence on superior 	<ul style="list-style-type: none"> ■ Flexibility ■ External recruitment ■ Decentralized pay decisions ■ Multiple inputs for appraisals

Source: Gómez-Mejía, Balkin & Cardy (2007, p. 33; 2012, p. 60).

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2.4. HR STRATEGY DEVELOPMENT: (II) FIT WITH ENVIRONMENT, ORG. CHARACT. & ORG. CAPABIL.

Fit with organizational characteristics

- **Production process & technical system:** routine vs. nonroutine, degree of automatization.
- **Firm's financial possibilities.**
- **Firm's market posture:** product innovation destined for wide market segment vs. low growth and limited innovation.
- **Firm's overall managerial philosophy:** autocratic style (seniority-based pay, centralization, key technical role of HR dept.) vs. participative style (egalitarianism, variable pay, supervisors' role in HRM).
- **Firm's organizational structure:** high formalization (functional areas, direct control, narrow job descriptions) vs. low formalization (cross-functional teams, broader job classes, informal socialization).
- **Firm's organizational culture:** high vs. low entrepreneurial climate, high vs. low moral commitment.

Source: Gómez-Mejía, Balkin & Cardy (2007, p. 33; 2012, p. 61).

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2.4. HR STRATEGY DEVELOPMENT: (II) FIT WITH ENVIRONMENT, ORG. CHARACT. & ORG. CAPABIL.

Fit with organizational capabilities

- **Distinctive Competencies:**
 - Characteristics that give the firm a competitive edge, making them a key **basis for achieving competitive advantage** (e.g., technical ability, management systems, customer service, reputation, etc.).
- **HR strategies should help the firm:**
 - Exploit its competencies.
 - Optimize its HR skills.

Source: Gómez-Mejía, Balkin & Cardy (2007, p. 33; 2012, pp. 61-62).

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2.5. THE THREE DIMENSIONS OF HR STRATEGY DEVELOPMENT

- **Rational dimension:** focus on economic goals, financial performance and cost-benefit analysis of HR practices.
- **Organizational dimension:** focus on constraints and needs of organizational structure, and specifically optimizing the fit among HR practices, and also between HR strategy and other functions (marketing, operations, etc.) and with overall business strategy.
- **Political dimension:** focus on actual feasibility of HR decisions. Importance of constraints and needs posed by diverse (often conflicting) expectations and priorities from different (internal and external) stakeholders.

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2.6. TYPES OF HR STRATEGIES

- **Ways of motivating employees**
 - **Commitment** strategy (employee involvement, trust, participation, empowerment, intrinsic motivation, etc.)
 - **Control** strategy (direct supervision, high centralization, extrinsic motivation, etc.)

Further reading: Arthur, J.B. (1994). Effects of human resource systems on manufacturing performance and turnover. *Academy of Management Journal*, 37(3): 670-687.
- **Ways of developing capabilities**
 - **Internalization** of capability development ('make' HR systems)
 - **Externalization** of capability development ('buy' HR systems)

Further reading: Delery, J.E. & Doty, D.H. (1996). Modes of theorizing in strategic human resource management: Tests of universalistic, contingency, and configurational performance predictions. *Academy of Management Journal*, 39(4): 802-835.

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