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Armstrong's Handbook of Strategic Human Resource Management

Improve business performance through strategic people management

Michael Armstrong

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Introduction

The first part of this book deals with the concept of strategic human resource management (SHRM) which is defined as the process of making decisions on the intentions of the organization concerning people. SHRM focuses on the need to ensure that the organization's goals are achieved through its human resources by means of the integration of HR strategies with the business strategy and with each other. It is based on the fundamental proposition that the human resources of an organization play a strategic role in its success.

SHRM is based on a number of theories supported by research that explain and justify the process of adopting a strategic approach to HRM. It is a construct in the sense of a subjective theory containing various conceptual elements. It provides an insight into the process of HR strategy formulation in organizations and the factors that affect it. As such the concept of SHRM is something that HR or people professionals, indeed anyone who manages people, need to know about.

A revised approach

However, a case can be made for adopting a revised approach to SHRM. This could be described under the heading of 'people management'. Increasingly, we have People Directors or Heads of People Management rather than HR Directors or Heads of HR. This change to 'people management' could be justified simply on the grounds that 'human resources' conveys the wrong message – that employees are factors of production who exist to be exploited by the business. It is interesting to note that the extensive New Profession Map produced by the Chartered Institute of Personnel and Development (CIPD) in 2018 refers throughout to 'the people profession' and mentions HR only once in passing. There is no reference at all to strategic HRM. The conclusion reached by the Institute for Employment Studies based on their case study research into SHRM (Brown, Hirsh and Reilly, 2019: 43) was that: 'We hope the term People Management leads to the wider use of the term People Strategy to cover the big picture of employment and workforce management.'

But there is more to this than simply a name change. There are deficiencies in the ways in which HRM is practised which need to be corrected. They have been pointed out by a number of commentators, including British writers such as Armstrong and Brown (2018), Delbridge and Keenoy (2010), Dundon, Cullinane and Wilkinson (2017), Dundon and Rafferty (2018), Guest (2017), Marchington (2008, 2015), Paauwe, Wright and Guest (2013), Sparrow (2017) and Thompson and Harley (2007). Doubts have also been expressed by American academics on how SHRM has evolved – Beer (2015), Beer, Boselie and Brewster (2015), Cascio (2015), Delery and Roumpi (2017) and Kaufman (2015). The thrust of all these criticisms has been that HRM as originally conceived has lost its way. Instead of adopting a multi-stakeholder approach as advocated by Michael Beer and his colleagues in 1984 in their seminal book on HRM, businesses are preoccupied with the interests of only one of the stakeholders – the owners or shareholders, what Marchington refers to as a 'vertical approach'.

However, this proposal is for a new approach not a radical change. The fundamental notion of SHRM – the focus on the achievement of strategic fit – is still relevant. The underpinning concepts of SHRM – the resource-based view, the behavioural perspective and AMO (Abilities, Motivation and Opportunities) theory – are still important. The elements of a people management system are still those present in an HR system. It is the way in which these elements are applied that needs to be amended, not the elements themselves. The proposed change is to build on the foundation provided by the SHRM concept, not to replace it.

Plan of the book

The book begins with an analysis of the two elements that combine to create SHRM: human resource management and strategic management. This is in line with the view expressed by Allen and Wright (2007: 88) that SHRM 'represents an intersection of the strategic management and human resource management (HRM) literatures'. A description of the concept of SHRM follows. In the next chapter the ways in which SHRM has evolved since its initiation in the 1980s are reviewed. This review covers the main features of SHRM, namely the emphasis on strategic fit, the choice between best practice and best fit, and its underpinning concepts and theories: the resource-based view, the human capital and behavioural perspectives and stakeholder theory. In the final chapter of this part it is suggested that while, conceptually, SHRM has much to offer, it is more of an academic construct than a description of what practitioners actually do and its approach needs to change.

The second part of the book explains how change can take place under the heading of people management. It begins with a definition of what is meant by this term. It continues with descriptions of the nature and practice of people strategy and how people strategies are developed and implemented. It concludes with an analysis of the strategic role of people professionals.

The third part covers the ways in which people strategies are developed in 16 key areas of people management.

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PART ONE
Strategic human resource management (SHRM)

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Human resource management 01

Introduction

Human resource management (HRM) is concerned with all aspects of how people are employed, managed and developed in organizations. The concept of HRM originated in the 1980s in the form of a philosophy on how people should be managed. It replaced the term personnel management. Boxall (2013: 13) explained that: 'Human resources include the knowledge, skills, networks and energies of people and, underpinning them, their physical and emotional health, intellectual capabilities, personalities and motivations.' HRM is delivered through the HR architecture of systems and structures, the HR function and, importantly, line managers.

The notion of referring to people as resources as if they were any other factor of production is often criticized. Osterby and Coster (1992: 31) argued that: 'The term "human resources" reduces people to the same category of value as materials, money and technology – all resources, and resources are only valuable to the extent they can be exploited or leveraged into economic value.' Revulsion to the term human resources has encouraged the use of 'people management' as an alternative but it has not been made clear how people management differs from HRM and a clarification will be undertaken in Chapter 6 of this book. However, in spite of its connotations, HRM is the term which is still most commonly used, although it generally refers to a set of practices – the HR system as described in a later section of this chapter – rather than the original philosophy.

This chapter starts with an analysis of the nature of HRM and then examines how HRM is delivered through the HR system. Consideration is then given to two aspects of HRM that affect the way HR strategy is developed, namely the impact HR has on performance and the ethical dimension of HRM. Finally a review of the state of HRM today is undertaken.

The nature of HRM

HRM as first conceived had a conceptual framework consisting of a philosophy underpinned by a number of theories drawn from the behavioural sciences and from the fields of strategic management, human capital management and industrial relations. The two basic models of HRM are those produced by Beer *et al* (1984) and Fombrun *et al* (1984).

HRM philosophy

HRM philosophy is based on 'the guiding principles that identify and characterize the value and treatment of employees covered within a particular HRM system' (Kepes and Delery, 2007: 390). The following explanation of the original HRM philosophy was made by Legge (1989: 25), whose analysis of a number of HRM models identified the following common themes:

> That human resource policies should be integrated with strategic business planning and used to reinforce an appropriate (or change an inappropriate) organizational culture, that human resources are valuable and a source of competitive advantage, that they may be tapped most effectively by mutually consistent policies that promote commitment and which, as a consequence, foster a willingness in employees to act flexibly in the interests of the 'adaptive organization's' pursuit of excellence.

Storey (2001: 7) noted that the beliefs of HRM included the assumptions that it is the human resource that gives competitive edge, that the aim should be to enhance employee commitment, that HR decisions are of strategic importance and that therefore HR policies should be integrated into the business strategy.

The HRM philosophy has been heavily criticized by some academics as being managerialist and manipulative. But as noted by Storey (2007: 6): 'In its generic broad and popular sense it [HRM] simply refers to any system of people management.' HRM practice today is no longer governed by the original philosophy, if it ever was.

Underpinning theories of HRM

The original notion of HRM had a strong theoretical base. Guest (1987: 505) commented that: 'Human resource management appears to lean heavily on theories of commitment and motivation and other ideas derived from the field of organizational behaviour.' Resource-based theory, expressed as 'the resource-based view', is also important. This theory states that competitive advantage is achieved if a firm's resources are valuable, rare and costly to imitate. It is claimed that HRM can play a major part in ensuring that the firm's human resources meet these criteria.

Models of HRM

Over the years a number of models have defined the philosophy of HRM. Of these, the 'Harvard framework' and the 'matching model' have been the most influential.

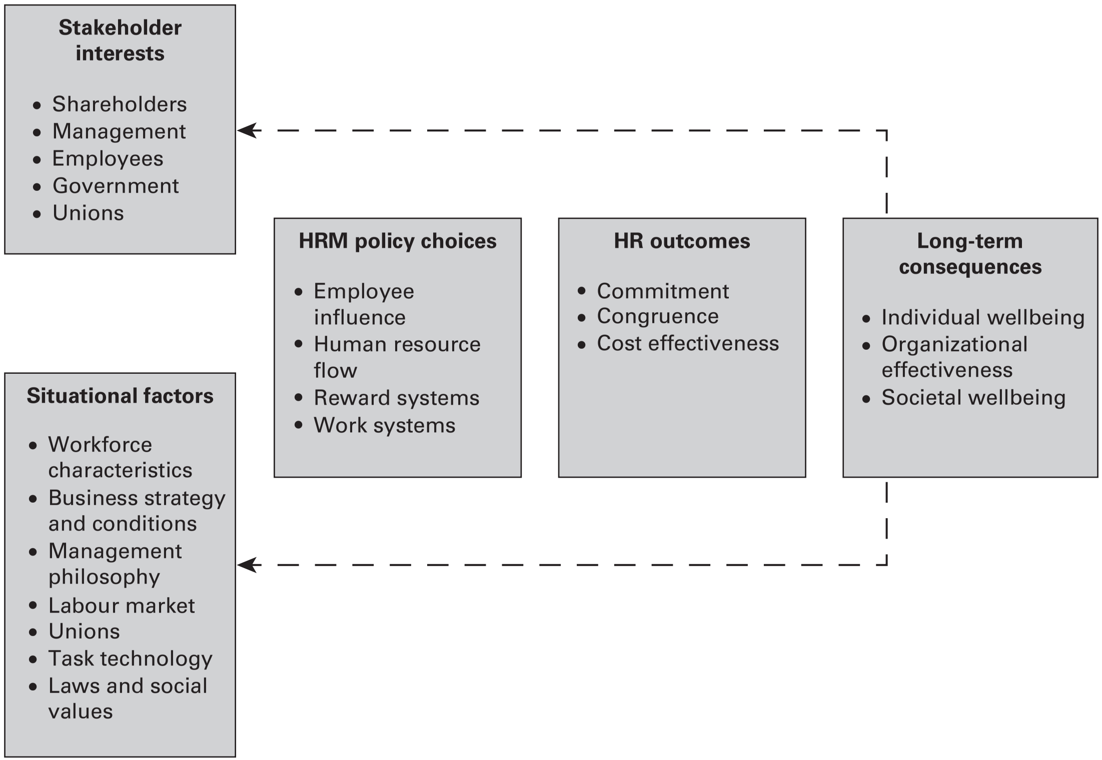
The Harvard model of HRM

Beer *et al* (1984) produced what has become known as the 'Harvard framework', as modelled in Figure 1.1. They started with the proposition that: 'Human resource management (HRM) involves all management decisions and actions that affect the nature of the relationship between the organization and employees – its human resources' (Beer *et al,* 1984: 1). They believed that: 'Today… many pressures are demanding a broader, more comprehensive and more strategic perspective with regard to the organization's human resources' (Beer *et al,* 1984: 4). They also stressed that it was necessary to adopt 'a longer-term perspective in managing people and consideration of people as a potential asset rather than merely a variable cost' (Beer *et al,* 1984: 6). Michael Beer and his colleagues suggested that HRM had two characteristic features: 1) line managers accept more responsibility for ensuring the alignment of competitive strategy (thus they were the first to underline the HRM tenet that it belongs to line managers and HR policies); 2) HR has the mission of setting policies that govern how HR activities are developed and implemented in ways that make them more mutually reinforcing. The importance of respecting the interests of all stakeholders – employees as well as owners – was recognized; although little attention has since been given to this aspect of the model.

The matching model of HRM

Fombrun *et al* (1984) proposed the 'matching model', sometimes called the 'Michigan framework', which indicated that HR systems and the organization structure should be managed in a way that is congruent with organizational strategy. This point was made in their classic statement that: 'The critical management task is to align the formal structure and human resource

Figure 1.1 The Harvard HRM framework



SOURCE Beer *et al* (1984)

systems so that they drive the strategic objectives of the organization' (Fombrun *et al*, 1984: 37). Thus they took an early step towards the concept of strategic HRM.

The HR system

HRM in organizations is delivered by the HR system. A system is a set of practices or activities that fit together and interact to achieve a purpose. In a properly functioning HR system, its different parts are interrelated and jointly supportive in order to enable HR goals to be achieved. The HR system operates within the framework provided by the HR architecture.

HR architecture

The HR architecture is a comprehensive representation of all that is involved in HR, not simply the structure of the HR function. As explained by Becker, Huselid and Ulrich (2001: 12): 'We use the term HR architecture to broadly describe the continuum from the HR professionals within the HR function, to the system of HR related policies and practices, through the competencies, motivation and associated behaviours of the firm's employees.' It was noted by Hird *et al* (2010: 25) that: 'this architecture is seen as a unique combination of the HR function's structure and delivery model, the HR practices and system, and the strategic employee behaviours that these create'.

Purcell (1999: 38) suggested that the focus should be on 'appropriate HR architecture and the processes that contribute to organizational performance'. Becker and Huselid (2006: 899) stated that: 'It is the fit between the HR architecture and the strategic capabilities and business processes that implement strategy that is the basis of HR's contribution to competitive advantage.'

Activities such as organization development, selection interviewing and testing, talent management, learning and development, performance management and total reward play an important part in the delivery of HR. But there is the danger that new and seemingly different techniques become 'flavours of the month', only to be quickly forgotten when they fail to perform. The effectiveness of HR depends on using techniques that are tried, tested and appropriate, not those that have been promoted vigorously as 'best practice' without sufficient supporting evidence.

Features of the HR system

Becker and Huselid (1998: 95) observed that: 'The HR system is first and foremost a vehicle to implement the firm's strategy.' Later (Becker and Huselid, 2006), they argued that it is the HR system that is the key HR asset. Boselie *et al* (2005: 73) noted that in its traditional form HR can be viewed as 'a collection of multiple discrete practices with no explicit or discernible link between them. The more strategically minded system approach views HR as an integrated and coherent bundle of mutually reinforcing practices'.

The components of the HR system

As illustrated in Figure 1.2, an HR system springs from an HR philosophy that describes the overarching values and guiding principles adopted in managing people. The HR activities carried out in the system can be divided into two broad categories: 1) transformational activities such as organization development and the formulation and implementation of HR strategies; 2) transactional activities that cover the main areas of HR service delivery – resourcing, learning and development, reward, employment relations and employee wellbeing.

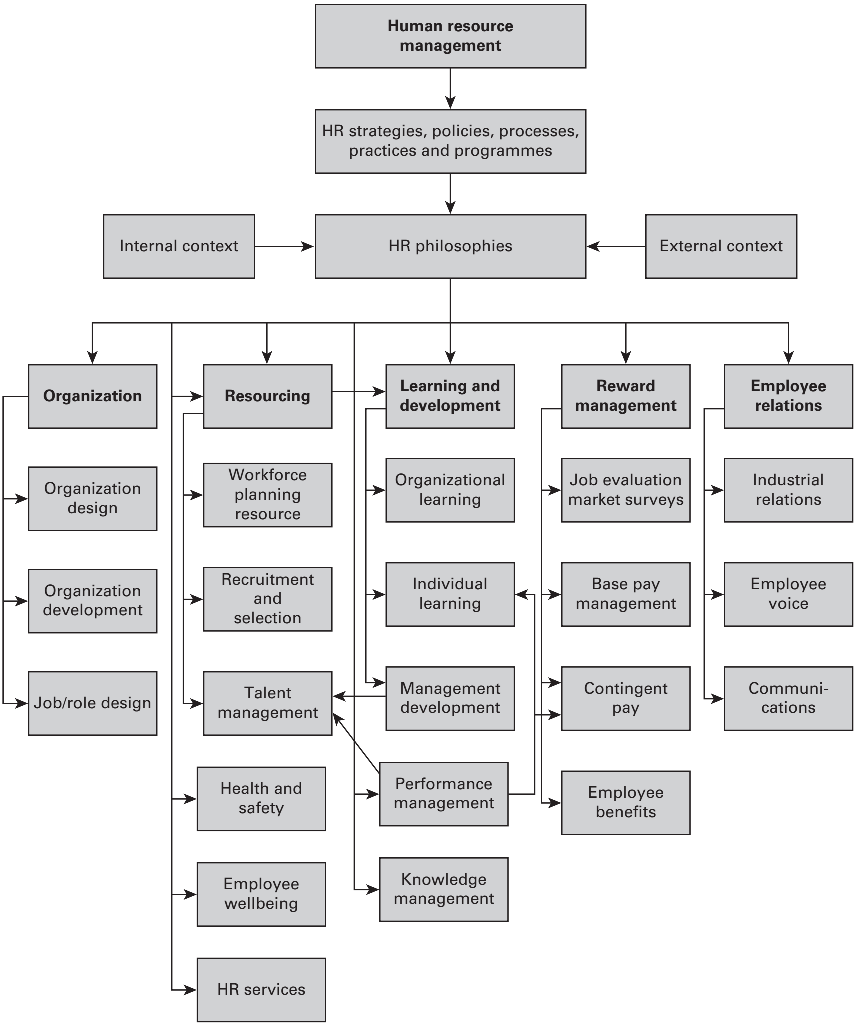
Taking account of the internal and external environments in which the organization operates, the system incorporates:

- *HR strategy*, which defines the direction that HR intends to take in each of its main areas of activity;
- *HR policies*, which set out what HR is there to do and provide guidelines defining how specific aspects of HR should be applied and implemented;
- *HR practices*, which consist of the HR activities involved in managing and developing people and in managing the employment relationship.

A strong HR system

Bowen and Ostroff (2004) advocated a 'strong' HR system to ensure the more effective implementation of HRM practices. Their model of HRM viewed HR practices as communications from the employer to employee and they suggested that 'when the HRM system is perceived as high in distinctiveness, consistency, and consensus, it will create a strong situation' (Bowen and Ostroff, 2004: 208). They argued that a strong HRM system can significantly affect firm performance by creating powerful,

Figure 1.2 The HRM System



focused organizational cultures that help to structure and direct employee behaviour and effort towards desired organizational goals. They also emphasized the important role of implementation in translating the intended HRM system into action. This point was later reinforced by Nishii and Wright (2008) who observed that there are gaps between intended and implemented HR systems and between implemented and perceived HR systems.

The impact of HRM on organizational performance

The message of the resource-based view is that HRM delivers added value and helps to achieve sustainable competitive advantage through the strategic development of the organization's human resources. Guest (1997: 269) argued that: 'The distinctive feature of HRM is its assumption that improved performance is achieved through the people in the organization.' If, therefore, appropriate HR policies and practices are introduced, it can also be assumed that HRM will impact on firm performance.

Much research has been carried out which has shown that there is a correlation between good HRM practice and organizational performance (often measured in financial terms). Notable examples in the UK are Guest *et al* (2000a), Patterson *et al* (1997), Purcell *et al* (2003), Thompson (2002) and West *et al* (2002). But Guest *et al* (2000b) observed that such research left uncertainties about cause and effect. And Ulrich (1997: 304) pointed out that: 'HR practices seem to matter; logic says it is so; survey findings confirm it. Direct relationships between performance and attention to HR practices are often fuzzy, however, and vary according to the population sampled and the measures used.' Guest (2011: 11) summed up his article on HRM and performance with the comment that: 'After hundreds of research studies we are still in no position to assert with any confidence that good HRM has an impact on organization performance.'

It was suggested by Peccei (2004) that wellbeing has a key role in enhancing organizational performance. Peccei *et al* (2013: 15) pleaded that any analysis of the link between HRM and performance should be more employee-centred and look explicitly at the effect that HR practices have on employee wellbeing.

As explained by Guzzo and Noonan (1994) and Rousseau (1995), HR practices communicate important goals and desired employee behaviours from the organization to the employee. They can be seen as 'signals' and are interpreted as such by individual employees (Den Hartog, Boselie and Paauwe, 2004). The signals of the HR system are, however, often not interpreted similarly or reacted to in the same way by each individual owing to differences in experience, values or preferences. Wright and Nishii (2007) explained that it is not the HR practices as intended by policy makers, but rather how employees experience the HR practices that will affect employee outcomes. Hence the growing attention to the concept of the employee experience (everything that people encounter, observe and feel during the course of their employment from its beginning and onwards). This involves analysing the nature of the experience and taking action to deal with any issues.

The AMO model as described below provides further guidance on the factors affecting the impact of HRM.

How the AMO model explains the impact of HRM

The AMO model (Boxall and Purcell, 2003) states that performance depends on the individual's ability, motivation and opportunity. It provides valuable information on the HRM practices that should be included in a high-performance work system (bundles of HR practices that improve employee performance by enhancing their engagement, motivation and skill). A meta-analysis by Jiang *et al* (2012) established that the three dimensions of HR practices linked to the AMO formula – skills, motivation and opportunity enhancement – could lead to improved financial performance. As emphasized later by Delery and Roumpi (2017: 3): 'The systems approach that emerged suggests that it is the appropriate combination of different HRM practices rather than individual practices that can ensure the enhancement of all three components of the AMO model and ultimately lead to high employee or workforce performance.' They also commented (Delery and Roumpi, 2017: 6) that:

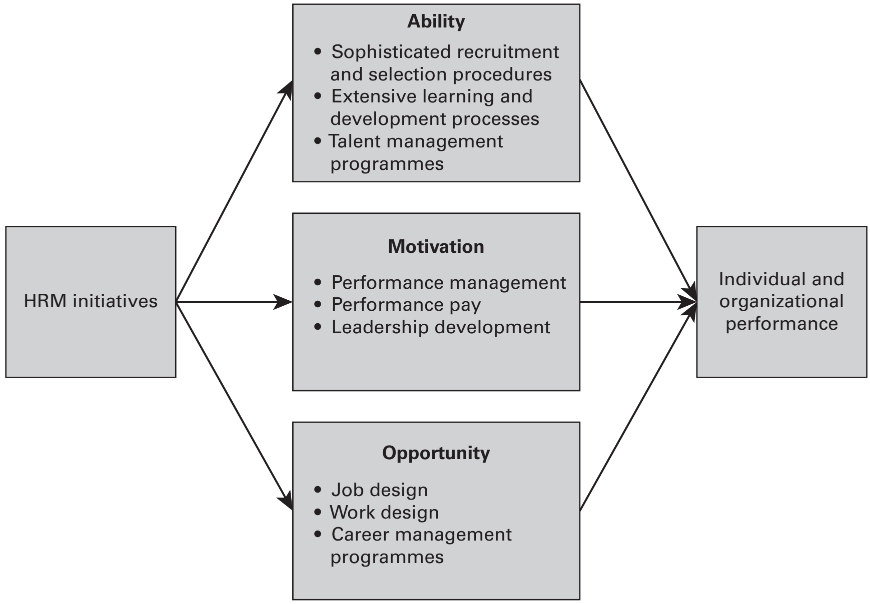
> Despite the lack of consensus regarding the HRM practices that are or should be included under the umbrella term high performance work practices (HPWPs), there is a common thread across the different proposed sets of practices: they address the aspects of the AMO model. In other words, HRM practices that combine as HPWPs can be viewed as ability-enhancing or skill-enhancing, motivation-enhancing and opportunity-enhancing or empowerment-enhancing.

The AMO model as a framework for performance-enhancing HRM practices is shown in Figure 1.3.

Summary: the impact of HRM

Any belief that HRM improves organizational performance is likely to be based on three propositions: 1) that HR practices can make a direct impact on employee characteristics such as engagement, commitment, motivation and skill; 2) if employees have these characteristics it is probable that organizational performance in terms of productivity, quality and the delivery

Figure 1.3 The AMO model as a framework for performance-enhancing HRM practices



of high levels of customer service will improve; and 3) if such aspects of organizational performance improve, the financial results achieved by the organization will improve. This can be described as the HR value chain.

The propositions highlight the existence of an intermediate factor between HRM and financial performance. This factor consists of the HRM outcomes in the shape of employee characteristics affected by HR practices. Therefore, HRM does not make a direct impact on financial performance.

The ethical dimension

HRM should have an ethical dimension, that of exercising concern for the interests (wellbeing) of employees, bearing in mind Schneider's (1987: 450) view that 'organizations are the people in them: … people make the place'. Beer *et al* (1984: 13) emphasized that: 'It is not enough to ask how well the management of human resources serves the interests of the enterprise. One should ask how well the enterprise's HRM policies serve the wellbeing of the *individual employee*' (original emphasis). Ulrich (1997: 5) argued that HR professionals should 'represent both employee needs and implement management agendas'. Boxall *et al* (2007: 5) contended that: 'While HRM does need to support commercial outcomes (often called "the business case"), it also exists to serve organizational needs for social legitimacy.'

But ethical behaviour on the part of employers may not be regarded as important and certainly does not necessarily happen. It was asserted by Winstanley and Woodall (2000: 6) that 'the ethical dimension of HR policy and practice has been almost ignored in recent texts on HRM, where the focus has shifted to "strategic fit" and "best practice" approaches'. Grant and Shields (2002) stated that the stress typically placed on the business case for HRM suggests a one-sided focus on organizational outcomes at the expense of employees.

The state of HRM

As a description of people management activities in organizations, the term HRM is in general use, even if it is applied diversely or only adopted as a label to describe traditional personnel management practices. There have been plenty of new interests and developments, including human capital management, engagement, talent management, competency-based HRM, e-HRM, high-performance work systems, and performance and reward management. But these have not been introduced under the banner of the HRM concept as originally defined.

As noted by Storey (2007: 6): 'In its generic broad and popular sense it [HRM] simply refers to any system of people management.' It is just what HR people and line managers do. A summary of what HRM means that focuses on what HRM *is* rather than on its philosophy was provided by Boxall *et al* (2007: 1).

> Human resource management (HRM), the management of work and people towards desired ends, is a fundamental activity in any organization in which human beings are employed. It is not something whose existence needs to be radically justified: HRM is an inevitable consequence of starting and growing an organization. While there are a myriad of variations in the ideologies, styles, and managerial resources engaged, HRM happens in some form or other. It is one thing to question the relative performance of particular models of HRM in particular contexts.... It is quite another thing to question the necessity of the HRM process itself, as if organizations cannot survive or grow without making a reasonable attempt at organizing work and managing people.

The practice of HRM can be diverse. Dyer and Holder (1988) concluded that HRM goals vary according to competitive choices, technologies, characteristics of employees (eg could be different for managers) and the state of the labour market. Boxall (2007: 48) observed that: 'Human resource management covers a vast array of activities and shows a huge range of variations across occupations, organizational levels, business units, firms, industries and societies.'

Emphasis is placed on the need for HR to be strategic and business-like and to add value, that is, to generate extra value (benefit to the business) by the expenditure of effort, time and money on HRM activities. The problem with this approach is that the needs and rights of employees as key stakeholders in the business can be neglected, even ignored.

Reservations about the practice of HRM today

A number of academics have expressed reservations about what is happening to HRM. A selection of comments is set out below.

Marchington (2008) made the accusation that HRM risks losing its direction and *raison-d'être*. He thought that it was becoming uni-dimensional and one-best-way-driven, elitist, overly focused on the needs (and short-term financial performance priorities and metrics) of investors and leaders, and mis-focused, by ignoring how HRM is (or is not) put into effect by line managers. He argued in favour of a future in which the HR function returns to its distinctive roots in people management and refocuses in three ways:

- increasingly playing the role of strategic problem solver and broker, attempting to balance the demands of different constituents and stakeholders, rather than 'providing the answers that leaders want to hear';
- paying greater attention to employee wellbeing as the route to high performance; and
- recognizing that what really matters is how line managers put HRM into effect.

He returned to the fray in 2015 (Marchington, 2015: 176).

> HRM has always been located at the interface of potentially conflicting forces within organizations. However, in its quest for legitimacy, HRM has tended primarily to look up the hierarchy and focus on narrow performance goals, so neglecting other long-standing values and stakeholders. Unless HRM reasserts its independence, it is likely to wither both in academic and practitioner circles.

David Guest (2017: 22) made a similar point:

> The mutual gains model suggests that HRM should benefit both individuals and organizations. However, the dominant models within HRM theory and research continue to focus largely on ways to improve performance, with employee concerns very much a secondary consideration.

Dundon *et al* (2017: 100) declared that many employers 'simply view workers as a disposable means to a profitable end'. And Dundon and Rafferty (2018: 377) argued that:

> HRM is at risk of intellectual and professional impoverishment because of a pro-market ontology rather than a more inclusive pro-business orientation. By pro-business, we mean a focus on longer-term sustainability of both organizations and people, rather than just immediate shareholder interests of profit-taking. As an approach, it embraces a fuller recognition of the interests of wider stakeholders beyond share-holders, including employees and community groups.

Sparrow (2017) deplored the prevalence in HRM practice of a top-down relationship between management and employees and stressed the need to make this relationship more of a horizontal one in which the link is provided by shared identities and values.

The views expressed above are those of some of the most distinguished HRM academics, researchers and commentators in the UK. They should be respected. They indicate that consideration should be given to what needs to be done to reshape HRM practice to take account of the problems to which they refer and also to reaffirm the multi-stakeholder perspective advocated by Michael Beer and his colleagues in 1984. This new approach could be defined under the heading of 'people management' as described in Chapter 6.

Key learning points

- Human resource management (HRM) is concerned with all aspects of how people are employed, managed and developed in organizations. HRM is delivered through the HR architecture of systems and structures, the HR function and, importantly, line management.
- Human resource management can be defined as a strategic, integrated and coherent approach to the employment, development and wellbeing of the people working in organizations.

- The main message of HRM philosophy is that human resource policies should be integrated with strategic business planning and used to reinforce an appropriate (or change an inappropriate) organizational culture.
- Resource-based theory expressed as 'the resource-based view' has had the greatest influence on the concept of HRM.
- The matching model and the Harvard framework have been the most influential models of HRM.
- HRM is delivered through the HR architecture of the HR system, the HR function and, importantly, line management.
- There are three propositions on the impact HRM makes on performance: 1) that HR practices can make a direct impact on employee characteristics such as engagement, commitment, motivation and skill; 2) if employees have these characteristics it is probable that organizational performance will improve; and 3) if such aspects of organizational performance improve, the financial results achieved by the organization will improve.
- HRM has an ethical dimension, that of exercising concern for the interests (wellbeing) of employees.
- As a description of people management activities in organizations, the term HRM is in common use even if it is applied diversely or only used as a label to describe traditional personnel management practices.

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Strategic management 02

Introduction

In this chapter strategic management is described as a way of managing a business that stresses the need to think and act strategically, that is, to be concerned with where the business is, where it should be going and how it is going to get there. It is essentially a mind-set. But it is also about getting things done – converting visions into reality. Strategic HRM (SHRM) adopts a strategic management approach when intentions are being defined on how HRM strategy should be developed in a manner that contributes to the achievement of an organization's goals, bearing in mind that these goals should be to meet the needs of all the organization's stakeholders, including employees as well as shareholders and management.

Strategic management defined

As stated by Boxall and Purcell (2016: 46): 'Strategic management is best defined as a process. It is a process of strategy making, of forming and, if the firm survives, reforming its strategy as the environment changes.' Strategic management was described by Johnson *et al* (2005: 6) as 'understanding the strategic position of an organization, making strategic choices for the future, and turning strategy into action'. The purpose of strategic management was expressed by Kanter (1984: 288) as being to 'elicit the present actions for the future and become action vehicles – integrating and institutionalizing mechanisms for change'.

The key strategic management activity identified by Thompson and Strickland (1996: 3) is: 'deciding what business the company will be in and forming a strategic vision of where the organization needs to be headed – in effect, infusing the organization with a sense of purpose, providing long-term direction, and establishing a clear mission to be accomplished'. Truss *et al* (2012: 49) emphasized the action-orientated nature of strategic management. They defined it as ‘the process that enables organizations to turn strategic intent into action’.

The focus is on identifying the organization’s mission and strategies, but attention is also given to the resource base required to make it succeed. Managers who think strategically will have a broad and long-term view of where they are going. But they will also be aware that they are responsible, first, for planning how to allocate resources to opportunities that contribute to the implementation of strategy, and second, for managing these opportunities in ways that will add value to the results achieved by the firm.

To summarize, strategic management deals with both ends and means. As an end, it describes a vision of what something will look like in the future. As a means, it shows how it is expected that the vision will be realized. To understand how strategic management functions, it is necessary to appreciate the meaning of strategy as discussed below.

The meaning of strategy

The classic definition of strategy was made by Chandler (1962: 13), who wrote that it was: ‘The determination of the long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out those goals.’ Boxall and Purcell (2016: 54) suggested that: ‘Strategies are the ways in which managers of firms understand their goals and develop resources – both human and non-human – to reach them. Some strategies may be formally planned but it is inevitable that much of a firm’s strategy emerges in a stream of action over time.’ A businessman’s view on strategy was made by Julian Richer (2017: 144), who defined it as simply the process of ‘identifying the direction we should be moving in’.

Characteristics of strategy

Strategy has three fundamental characteristics. First, it is forward looking. It is about deciding where you want to go and how you mean to get there. In this sense, a strategy is a declaration of intent: ‘This is what we want to do and this is how we intend to do it.’ Strategies define longer-term goals but they also cover how those goals will be attained. They guide purposeful action to deliver the required result. A good strategy is one that works, one that in Abell's (1993: 1) phrase, ensures that organizations adapt to changing demands and circumstances by 'mastering the present and pre-empting the future'. As Boxall (1996: 70) explained: 'Strategy should be understood as a framework of critical ends and means.'

The second characteristic of strategy is the recognition that the organizational capability of a firm (its capacity to function effectively) depends on its resource capability (the quality and quantity of its resources and their potential to deliver results). This is the resource-based view.

The third characteristic of strategy is that it aims to achieve strategic fit – the need when developing functional strategies such as HR to achieve congruence between them and the organization's business strategies within the context of its external and internal environment.

The content of strategy

Hambrisk and Fredrickson (2001) explained that a complete business strategy needs to cover five points:

1. Where the organization will be active – what type of products and services it will offer, what markets it will serve.
2. How it will operate – where it will operate or get its products and services.
3. How it will win – what its competitive advantage will be.
4. What its moves will be – how it will change and grow.
5. How it will be profitable – what business model it will follow, as discussed below.

Business model innovation

Strategy in the private sector is concerned with defining and developing the business model of an organization – a picture of the business that explains how it achieves competitive advantage and makes money. Business model innovation is the process followed by an organization to introduce a new business model or change an existing one in order to improve its performance.

Strategy in action

Examples of corporate strategies

The following are three examples of how strategies can be expressed formally. The first two were set out in the recent reports of the companies and, typically, are expressed in very broad terms. The third is an internal document developed by a charity. This expresses the strategy in the form of a balanced scorecard, a technique conceived by Kaplan and Norton (2001) for providing a balanced description of what an organization is intending to do, that is, its strategy, and for measuring its performance. A balanced scorecard, as in this example, consists of four related perspectives (see Figure 2.1).

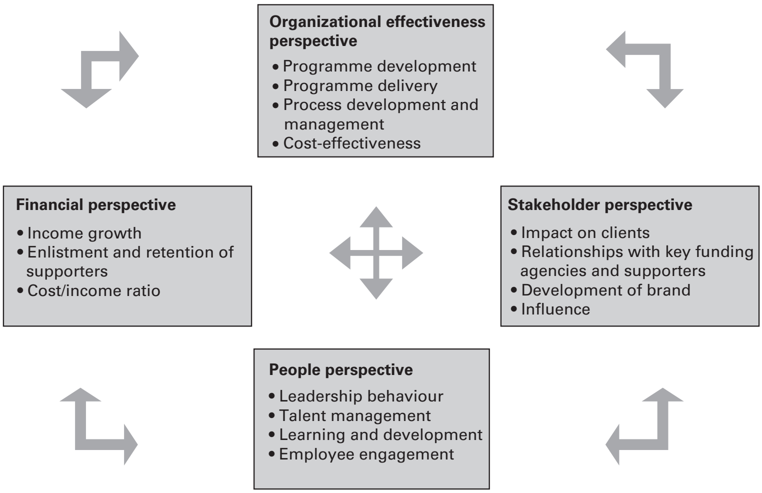
CASE STUDY GKN

GKN delivers innovative technologies that help our customers stay ahead in their markets and enable us to maintain our competitive edge, ensuring we remain in higher-value markets. We work with our customers to develop new technologies, driven by global trends such as fuel efficiency, the low-carbon agenda, electrification, urbanization and population growth, exceptional quality and customer service. At the same time, we aim to be an employer of choice with a high-performance culture, motivated people and outstanding leaders, always ensuring that safety is paramount in all our locations.

CASE STUDY W H Smith

- Develop new formats and channels in the UK and internationally.
- Manage our offer to reflect changing needs of our customer.
- Maximize returns from our space.
- Optimize efficiency.
- Focused use of cash.
- The right people and skills.
- Operating responsibly.

Figure 2.1 Balanced scorecard in an international charity



Developing strategy

Developing strategy is a matter of creating a sense of direction and purpose and ensuring strategic fit. It used to be regarded as a logical, step-by-step affair. This was described by Whittington (1993) as the classical approach – strategy formulation as a rational process of deliberate calculation. Conceptually this involves the following:

1. Define the mission and the business model that will be used to achieve that mission.
2. Set objectives.
3. Conduct internal and external scans to assess internal strengths and weaknesses and external opportunities and threats (a SWOT analysis) and to understand the political, economic, social, technological, legal and environmental factors affecting the organization (a PESTLE analysis).
4. Analyse existing strategies and the business model to determine their relevance in the light of the internal and external appraisal. This may include gap analysis, which will establish the extent to which environmental factors might lead to gaps between what could be achieved if no changes were made and what needs to be achieved. The analysis would also cover

resource capability, answering the question: 'Have we sufficient human or financial resources available now or which can readily be made available in the future to enable us to achieve our objectives?' It should also include an analysis of the interests and needs of the organization's stakeholders, its shareholders, management, employees, customers, suppliers and the community (techniques of stakeholder analysis are described in Chapter 8).

5. Define in the light of this analysis the distinctive capabilities of the organization.
6. Define the key strategic issues emerging from the previous analysis. These will be concerned with such matters as product-market scope, delivering value to customers, enhancing shareholder value, developing resource capability, the need to change the business model and, importantly, the wellbeing of employees.
7. Determine corporate and functional strategies for achieving goals and competitive advantage, taking into account the key strategic issues. These may include business strategies for growth or diversification, business model innovation, broad generic strategies for innovation, quality or cost leadership or specific corporate/functional strategies concerned with product-market scope, technological development, talent management or employee wellbeing.
8. Prepare integrated strategic plans for implementing strategies.
9. Implement the strategies.
10. Monitor implementation and revise existing strategies or develop new strategies as necessary.

But this model assumes that the development of corporate strategy is a logical, step-by-step affair, the outcome of which is a formal written statement that provides a definitive guide to the organization's intentions. Many people still believe and act as if this were the case, but it is a misrepresentation of reality. In practice the formulation of strategy may not be as rational and linear a process as some writers describe it or as some managers attempt to make it. There are limitations to the totally logical model of management that underpins the concept of strategic human resource management. In the words of Mabey *et al* (1998: 74): 'The reality is… that strategies may not always be easy to discern, that the processes of decision making may be implicit, incremental, negotiated and compromised.'

Sparrow *et al* (2010: 4) asserted succinctly that: 'Strategy is not rational and never has been.' Strategy formulation can best be described as 'problem solving in unstructured situations' (Digman, 1990: 53) and strategies will always be formed under conditions of partial ignorance. Quinn (1980: 9) stated that a strategy may simply be 'a widely held understanding resulting from a stream of decisions'. He believed that strategy formulation takes place by means of 'logical incrementalism', that is, it evolves in several steps rather than being conceived as a whole. Pettigrew and Whipp (1991: 26) observed that: 'strategy does not move forward in a direct linear way, nor through easily discernable sequential phases. Quite the reverse; the pattern is much more appropriately seen as continuous, iterative and uncertain.'

Another difficulty is that strategies can sometimes be based on the questionable assumption that the future will resemble the past. Some years ago, Heller (1972: 150) had a go at the cult of long-range planning: 'What goes wrong,' he wrote, 'is that sensible anticipation gets converted into foolish numbers: and their validity always hinges on large loose assumptions.' Faulkner and Johnson (1992: 17–18) said of long-term planning that:

> It was inclined to take a definitive view of the future, and to extrapolate trend lines for the key business variables in order to arrive at this view. Economic turbulence was insufficiently considered, and the reality that much strategy is formulated and implemented in the act of managing the enterprise was ignored. Precise forecasts ending with derived financials were constructed, the only weakness of which was that the future almost invariably turned out differently.

Strategy formulation is not necessarily a deterministic, rational and continuous process, as was emphasized by Mintzberg (1987). He noted that, rather than being consciously and systematically developed, strategy reorientation happens in what he called brief 'quantum loops'. A strategy, according to Mintzberg, can be deliberate – it can realize the intentions of senior management, for example to attack and conquer a new market. But this is not always the case. In theory, he says, strategy is a systematic process: first we think, then we act; we formulate then we implement. But we also 'act in order to think'. In practice, 'a realized strategy can emerge in response to an evolving situation' (Mintzberg, 1987: 68) and the strategic planner is often 'a pattern organizer, a learner if you like, who manages a process in which strategies and visions can emerge as well as be deliberately conceived' (Mintzberg, 1987: 73). This concept of 'emergent strategy' conveys the essence of how in practice organizations develop their business and HR strategies.

Boxall and Purcell (2003: 34) suggested that: 'it is better if we understand the strategies of firms as *sets of strategic choices* some of which may stem from planning exercises and set-piece debates in senior management, and some of which may emerge in a stream of action'.

Implementation of strategy

'Implementation entails converting the strategic plan into action and then into results' (Thompson and Strickland, 1996: 20). Dreaming up a strategy is fairly easy; getting it to work is hard. Kanter (1984: 305) noted that: 'Many companies, even very sophisticated ones, are much better at generating impressive plans on paper than they are at getting "ownership" of the plans so that they actually guide operational decisions.'

The changes taking place through strategy implementation impact on people. They involve employees in planning and putting them into effect. They are therefore the concern of the HR function as well as operational management. HR has a major role in ensuring that innovation or change is carried out effectively through people. HR needs to be involved in planning the change and in implementing it by developing and facilitating the introduction of appropriate HR strategies.

CASE STUDY Strategy in action

ARM's business model

ARM is involved in designing chips for mobile phones and a growing number of other small, low-powered devices, ranging from digital cameras to tablet computers. But it does not actually make any of the six billion or so chips based on its designs that are produced each year. Instead, its business model is to earn revenues from licensing its design technology to semiconductor manufacturers and from royalties paid each time an ARM-based chip is sold. This model means that ARM has never had to bear the costs of building and operating its own factories. At the same time, its customers are able to avoid having to design chips for their own products from scratch by outsourcing much of their research and development work to ARM. The business strategy is essentially about building a partnership of many hundreds of customers.

The continued success of the business depends on people working effectively together to produce innovative designs. HR activity in ARM is largely about connecting employees – spread across 30 far-flung sites – with each other, with their customers and with other external partners across different time zones, national boundaries and cultures. That means delivering effective communications and learning and development programmes, and acting with agility.

Key learning points

- The process of developing and implementing strategy is called strategic management.
- Strategic management deals with both ends and means. As an end, it describes a vision of what something will look like in the future. As a means, it shows how it is expected that the vision will be realized.
- Strategy is the approach selected to achieve specified aims in the future.
- Strategy has three fundamental characteristics: 1) it is forward looking; 2) it recognizes that the organizational capability of a firm (its capacity to function effectively) depends on its resource capability (the quality and quantity of its resources and their potential to deliver results); and 3) it aims to achieve strategic fit.
- A business strategy needs to cover five points:
  1. Where the organization will be active.
  2. How it will operate.
  3. How it will win.
  4. What its moves will be.
  5. How it will be profitable.
- Developing strategy is a matter of creating a sense of direction and purpose and ensuring strategic fit.
- In practice the formulation of strategy may not be a rational or linear process.
- Implementing strategy entails converting the strategic plan into action and then into results.

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The concept of strategic human resource management 03

Introduction

Strategic human resource management (SHRM) was described by Boxall (1996) as the interface between strategic management and HRM. From the former, SHRM derives its focus on providing a sense of purpose and long-term direction and, in the words of Truss *et al* (2012: 49), turning 'strategic intent into action'. From the latter, SHRM absorbs the HRM belief as expressed by Boxall and Purcell (2016: 28) that: 'Human resources belong to people but they are critical for the basic survival and relative success of organizations.'

The purpose of this chapter is to define the concept of SHRM, its characteristics and aims and the processes involved. The next chapter traces the evolution of SHRM in terms of its underpinning concepts and theories from its beginnings in the late 1970s to the present day. In Chapter 5, consideration is given to the realities of SHRM and the case for changing the approach to a revised version of HRM – people management.

Strategic human resource management defined

Strategic human resource management (SHRM) is defined as the process of ensuring that key issues of human resource management are dealt with strategically in order to support the achievement of organizational goals.

Dealing with HR issues strategically means deciding what needs to be done now and in the longer term through the integration of HR strategies with business strategy and with one another, and then ensuring that what needs to be done is done. SHRM can be regarded as a mind-set rather than a collection of prescribed techniques.

There are many definitions of SHRM. One of the best known was by Wright and McMahan (1992: 298) who described it as: 'The pattern of planned human resource deployments and activities intended to enable an organization to achieve its goals.' They stated that the domain of strategic HRM consisted of 'the determinants of decisions about HR practices, the composition of human capital resource pool, the specification of the required human resource behaviours, and the effectiveness of these decisions given various business strategies and/or competitive situations' (p 298). They also noted that 'SHRM is ultimately the means through which human resources can serve as a competitive advantage' (p 312).

Other definitions include:

- 'An approach to management which encompasses those HR strategies designed to improve organizational performance and measures the impact of these strategies on organizational performance.' (Boxall, 2007: 1)
- 'The choice, alignment, and integration of an organization's HRM system so that its human capital resources most effectively contribute to strategic business objectives.' (Kaufman, 2015: 404)
- 'All those activities affecting the behaviour of individuals in their efforts to formulate and implement the strategic needs of the business.' (Schuler, 1992: 30)

The common factor in these definitions is that the purpose of SHRM is to further the objectives of the organization. As Fombrun *et al* (1984: 37) stated: 'The critical managerial task is to align the formal structure and human resource systems so that they drive the strategic objectives of the organization.'

Characteristics of SHRM

One of the earlier descriptions of SHRM was made by Hendry and Pettigrew (1986: 4) who suggested that it had four meanings:

1. the use of planning;

2 a coherent approach to the design and management of HR systems based on an employment policy and manpower strategy and often underpinned by a 'philosophy';
3 matching HRM activities and policies to some explicit business strategy;
4 seeing the people of the organization as a 'strategic resource' for the achievement of 'competitive advantage'.

Wright and McMahan's (1992: 298) explanation of the characteristics of SHRM as illustrated in Figure 3.1 stated that vertically, 'it entails the linking of human resource practices with the strategic management process of the organization', and horizontally, 'it emphasizes the coordination or congruence among the various human resource practices through a pattern of planned action'. They listed the following four theoretical models or groups of models that affect the operation of SHRM:

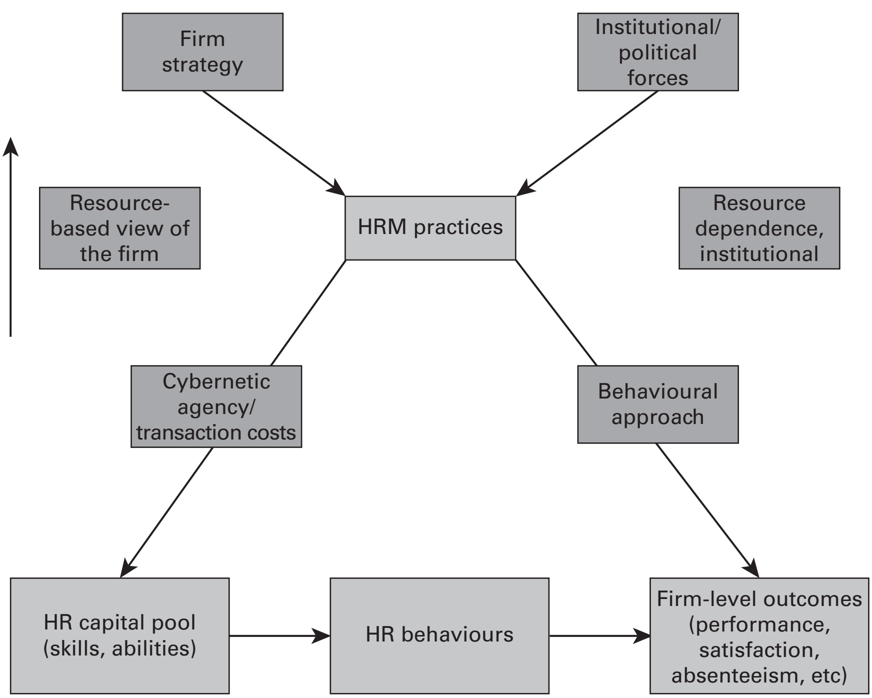
1 *The resource-based view of the firm* is that it is the range of resources in an organization, including its human resources, that produces its unique character and creates competitive advantage. It focuses on the relationships among strategy, HR practices and the HR capital and is therefore placed on the left side of the model.
2 *The behavioural approach* states that different strategy types require different types of employee role behaviours and that HR practices should be used to ensure those behaviours take place. It is concerned with how strategy, HR practices and HR behaviours are interrelated and is thus placed on the right side of the model.
3 *Cybernetic and agency/transaction cost models* examine the relationships among strategy, HR practices, and both the HR capital pool and HR behaviours and are therefore placed near the centre of the model. Cybernetic models describe organizations as input–throughput–output systems involved in transactions with their environment; inputs can be regarded as skills and abilities, throughput as behaviours, and outputs as performance and outcomes. Agency/transaction costs arise when one party requires services from another in the form of a transaction involving costs associated with negotiating, monitoring, evaluating and enforcing exchanges between the parties.
4 *Resource dependence and institutional theories* examine the effects of political and institutional factors on HR practices and are placed in the upper right corner of the model. Resource dependence theory indicates that HR strategies in organizations are strongly influenced by the need to

attract, retain and motivate high-quality people. Institutional theory is concerned with how organization structures and systems affect behaviour.

Becker *et al* (1997) observed that: 'The strategic HRM literature tends to emphasize the entire HRM *system* as the unit of analysis, in contrast to the traditional focus on individual policies or practices.' Schuler and Jackson (1987: 5) stated that it is fundamentally about 'systematically linking people with the firm'.

In essence, SHRM is conceptual. It is underpinned by a number of well-established theories. But it also deals with the practice of HRM by emphasizing the importance of 'strategic fit'. As indicated by Brown *et al* (2019: 4): 'The idea of strategic HRM implies that HRM policies are aligned in linear fashion with and driven by the business strategy; and the HRM strategy in turn translates the people aspects of that business strategy into a plan for action on the people aspects of the business and drives the HR activity designed to support that process.'

Figure 3.1 A conceptual model of theoretical frameworks for studying strategic human resource management



SOURCE Wright and McMahan (1992)

Strategic HRM and HRM

One of the characteristics of HRM is that it is strategic, so what's the difference between HRM and strategic HRM? An answer to this question was provided by Truss and Gratton (1994: 666) who wrote that: 'We should perhaps regard SHRM as an overarching concept that links the management and development of people within the organization to the business as a whole and its environment, while HRM could be viewed as an organizing activity that takes place under this umbrella.'

Strategic HRM and HRM strategy

What's the difference, if any, between SHRM and HRM strategy? The answer is that SHRM is an overall approach which provides guidance on how key issues of human resource management can be dealt with strategically in the sense that they support the achievement of corporate goals. But SHRM only becomes real when it produces actions and reactions that can be regarded as strategic, either in the form of overall or specific people strategies or strategic behaviour on the part of HR professionals working alongside line managers. SHRM provides the conceptual framework within which individual strategies are devised and implemented.

Aims of SHRM

The fundamental purpose of strategic HRM is to generate strategic capability by ensuring that the organization has the skilled, committed and well-motivated employees it needs to achieve sustained competitive advantage. It has two further aims: first, to achieve fit or integration – fitting or aligning HR strategies vertically with business strategies and integrating HR strategies with one another – and second, to provide a sense of direction in an often turbulent environment so that the business needs of the organization and the individual and collective needs of its employees can be met by the development and implementation of coherent and practical HR policies and programmes.

When considering the aims of SHRM, account ought to be taken but too often isn't of ethical considerations – the interests of all the stakeholders in the organization, employees in general as well as owners and management, and the responsibilities of the organization to the wider community. In Storey's (1989) terms, soft strategic HRM will place greater emphasis on the human relations aspect of people management, stressing continuous development, communication, involvement, security of employment, the quality of working life and work–life balance. On the other hand, hard strategic HRM will emphasize the yield to be obtained by investing in human resources in the interests of the business. SHRM should but often doesn't attempt to achieve a proper balance between the hard and soft elements. All organizations exist to achieve a purpose and they must ensure that they have the resources required to do so, and that they use them effectively. But they should also take into account the human factors contained in the concept of soft strategic HRM. In the words of Quinn Mills (1985), they should plan with people in mind, taking into account the needs and aspirations of all the members of the organization. The problem is that hard considerations in many businesses will come first, leaving soft ones some way behind.

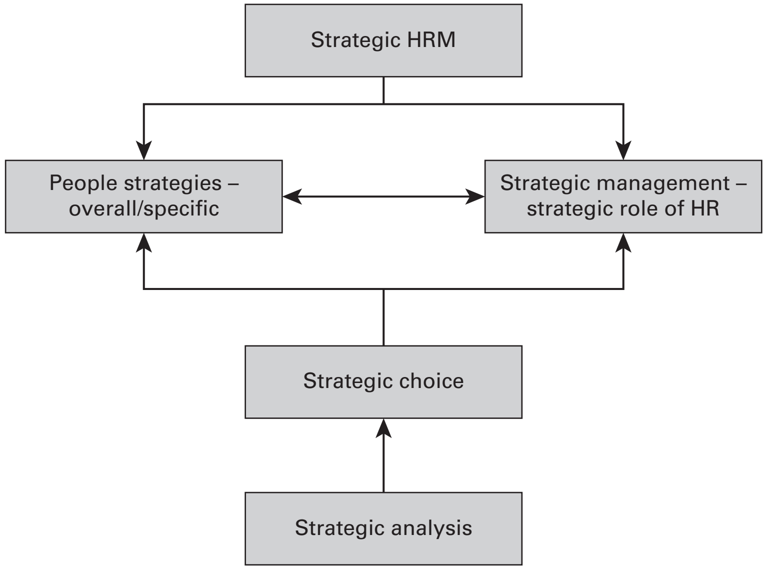
Organizations must also consider their responsibilities to society in general on the grounds that because they draw resources from society, they must give something back to society. The exercise of corporate social responsibility (CSR), defined by McWilliams *et al* (2006: 1) as 'actions that appear to further some social good beyond the interests of the firm and that which is required by law', may be regarded as outside the scope of human resource management. But because CSR relates to ethical actions in the interests of people, there is a strong link, and it is therefore an aspect of organizational behaviour that can legitimately be included in the strategic portfolio of HR specialists.

The process of SHRM

Strategic HRM provides the basis for developing and implementing approaches to people management which enable the organization to achieve its objectives and take into account the changing context in which the firm operates and its longer-term requirements.

As modelled in Figure 3.2, strategic HRM is about both people strategies and the strategic management activities of HR professionals. There is always choice about those strategies and the strategic role of HR, and this choice is based on strategic analysis as conducted in strategic reviews.

Figure 3.2 Strategic HRM model



Key learning points

- SHRM defined
    - Strategic human resource management (SHRM) is an approach to managing people that deals with how the organization's goals will be achieved through its human resources by means of integrated HR strategies, policies and practices. It is based on the fundamental proposition that the human resources of an organization play a strategic role in its success.
    - Strategic HRM is the interface between HRM and strategic management.
- SHRM described
    - In essence, SHRM is conceptual. It is underpinned by a number of well-established theories. But it also deals with the practice of HRM by emphasizing the importance of 'strategic fit' – the achievement of integration or 'fit' between HR and business strategies and between individual HR strategies, and by stressing the benefits of taking a longer-term view of where HR should be going and how it should get there.

- Aim of SHRM
  - The aim of strategic HRM is to generate organizational capability by ensuring that the organization has the skilled, engaged, committed and well-motivated employees it needs to achieve sustained competitive advantage.
- SHRM as a mind-set
  - SHRM is a mind-set which only becomes real when it produces actions and reactions that can be regarded as strategic, either in the form of overall or specific people strategies or strategic behaviour on the part of HR professionals working alongside line managers.

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The evolution of SHRM 04

Introduction

This chapter deals with how the notion of strategic HRM (SHRM) emerged in the 1980s and what has happened to it since. Initially, it covers the development of the important concept of strategic fit (vertical and horizontal integration). As Wright and McMahan (1992: 52) observed, strategic fit refers to the two dimensions that distinguish SHRM: 'First, vertically, it entails the linking of human resource management practices with the strategic management processes of the organization. Second, horizontally, it emphasizes the coordination or congruence among the various human resource management practices.' This idea is fundamental to SHRM. Schuler (1992:18) stated that:

> Strategic human resource management is largely about integration and adaptation. Its concern is to ensure that: (1) human resources (HR) management is fully integrated with the strategy and strategic needs of the firm (vertical fit); (2) HR policies cohere both across policy areas and across hierarchies (horizontal fit); and (3) HR practices are adjusted, accepted and used by line managers and employees as part of their everyday work.

Initially SHRM theorists focused on vertical fit, but the importance of horizontal fit (a 'configurational' approach involving both vertical and horizontal fit) was quickly recognized.

The idea of strategic fit is associated with the issue of what should be done about formulating HR strategies where the basic choice is between the principles of 'best fit' or 'best practice'. The development of views on this issue is covered in the second section of the chapter.

SHRM is influenced by a number of theories that support the principle of adopting a strategic approach to managing people (the resource-based view) or explain the factors that affect strategy and should be taken into account in formulating it (human capital and behavioural factors, AMO theory and stakeholder theory). These are described in the third section of this chapter.

As SHRM evolved, various preoccupations emerged. These are reviewed in the fourth section of the chapter and are concerned with the impact of SHRM on performance, an increased focus on implementation and the need for a multi-stakeholder approach.

The development of SHRM has not been linear. Different concepts have emerged concurrently and in some respects it could be characterized as a circular process. And while a convincing case for SHRM has been made by many commentators, doubts can be expressed about its reality – what does SHRM mean in practice? These doubts are explored in the next chapter.

Beginnings – focus on vertical integration or fit

The first suggestion that people resource planning and strategic planning should be linked came from Walker (1978). This was followed by Tichy *et al*, (1982: 47) who argued that: 'The fundamental strategic management problem is to keep the strategy, structure and human resource dimensions of the organization in direct alignment.' As noted by Wright *et al* (2001: 701), 'Walker's call signified the conception of the field of SHRM, but its birth came in the early 1980s with Tichy *et al*'s article devoted to extensively exploring the link between business strategy and HR.' Lengnick-Hall *et al* (2009) pointed out that early strategic HRM literature emphasized a contingency perspective in which the focal point was fit between HR policies and practices and various strategy elements (vertical fit or integration).

This view was expressed clearly by Dyer and Holder (1988: 3) who wrote that in strategic HRM: 'Strategies are business-driven and focus on organizational effectiveness; thus, in this perspective, people are viewed primarily as resources to be managed toward the achievement of strategic business goals.'

It was during this early period that the two seminal books on human resource management were published – Beer *et al* (1984) and Fombrun *et al* (1984). Both acknowledged the need to fit HR strategy to the business strategy, that is, vertical fit.

Recognizing the importance of horizontal as well as vertical fit

Baird and Meshoulam (1988) expanded the notion of fit to incorporate both vertical and horizontal components. Vertical fit is aligning a firm's HR practices with its strategy, whereas horizontal fit is aligning a firm's HR practices with one another, thus enabling them to mutually reinforce each other, a process that became known as 'bundling'. The significance of horizontal fit as a means of achieving high employee performance also emerged in the writings of Wright and McMahan (1992) and MacDuffie (1995). Research in US automotive assembly plants carried out by the latter established that innovative HR practices affect performance not individually but as interrelated elements in an internally consistent HR bundle. He explained the concept of bundling as follows: 'Implicit in the notion of a "bundle" is the idea that practices within bundles are interrelated and internally consistent, and that "more is better" with respect to the impact on performance, because of the overlapping and mutually reinforcing effect of multiple practices (MacDuffie, 1995: 197).

Dyer and Reeves (1995: 656–57) stated that: 'The logic in favour of bundling is straightforward... Since employee performance is a function of both ability and motivation, it makes sense to have practices aimed at enhancing both.'

Research in an international furniture firm in Holland by Paauwe *et al* (2013) established that an important contributory factor to the company's success was its pursuit of fit in strategic HR planning

Views on the development of HR strategy – 'best fit' or 'best practice'

The emergence of the notions of vertical and horizontal fit sparked a debate at about this time on the relative merits of what became known as 'best practice' and 'best fit'.

Perspectives on HRM

Delery and Doty (1996: 802–03) led the debate by identifying three HRM perspectives:

1 *The universalistic perspective* – some HR practices are better than others and all organizations should adopt these best practices. There is a universal relationship between individual 'best' practices and firm performance.

2 *The contingency perspective* – in order to be effective, an organization's HR policies must be consistent with other aspects of the organization. The primary contingency factor is the organization's strategy. This can be described as 'vertical fit'.

3 *The configurational perspective* – 'In order to be effective, an organization must develop an HR system that achieves both horizontal and vertical fit. Horizontal fit refers to the internal consistency of the organization's HR policies or practices, and vertical fit refers to the congruence of the HR system with other organizational characteristics such as firm strategy. An ideal configuration would be one with the highest degree of horizontal fit.'

An alternative way of presenting these perspectives was suggested by Guest (1997) who referred to fit as an ideal set of practices (a universalistic or best practice approach), fit as contingency (a best fit approach) and fit as bundles (a configurational approach).

The third configurational (bundle) approach was generally accepted but the choice between best practice or best fit was more controversial.

The best practice approach

This 'universalist' approach is based on the assumption that there is a set of best HRM practices and that adopting them will lead to superior organizational performance. They are universal in the sense that they are best in any situation.

The following well-known list of best practices was produced by Pfeffer (1994):

1 Employment security.

2 Selective hiring.

3 Self-managed teams.

4 High compensation contingent on performance.

5 Training to provide a skilled and motivated workforce.

6 Reduction of status differentials.

7 Sharing information.

The 'best practice' rubric was attacked by Cappelli and Crocker-Hefter (1996:7) who commented that the notion of a single set of best practices has been over-stated: 'There are examples in virtually every industry of highly successful firms that have very distinctive management practices. We argue that these distinctive human resource practices help to create unique competencies that differentiate products and services and, in turn, drive competitiveness.'

In accordance with contingency theory, which emphasizes the importance of interactions between organizations and their environments so that what organizations do is dependent on the context in which they operate, it is difficult to accept that there is any such thing as universal best practice. What works well in one organization will not necessarily work well in another because it may not fit its strategy, culture, management style, technology or working practices. However, a knowledge of what is assumed to be best practice can be used to inform decisions on what practices are most likely to fit the needs of the organization, as long as it is understood *why* a particular practice should be regarded as a best practice and what needs to be done to ensure that it will work in the context of the organization. Perhaps it is best to think of 'good practice' rather than 'best practice'.

The best fit approach

The best fit approach emphasizes that HR or people strategies should be related to the context of the organization, its circumstances and its type. There is a choice of models, namely: lifecycle, competitive strategy and strategic configuration.

The lifecycle model

The lifecycle model is based on the theory that the development of a firm takes place in four stages: start-up, growth, maturity and decline. This is in line with product lifecycle theory. The basic premise of this model was expressed by Baird and Meshoulam (1988: 117) as follows:

> Human resource management's effectiveness depends on its fit with the organization's stage of development. As the organization grows and develops, human resource management programmes, practices and procedures must change to meet its needs. Consistent with growth and development models it can be suggested that human resource management develops through a series of stages as the organization becomes more complex.

Best fit and competitive strategies

Three strategies aimed at achieving competitive advantage were identified by Porter (1985):

1. *Innovation* – being the unique producer.
2. *Quality* – delivering high quality goods and services to customers.
3. *Cost leadership* – the planned result of policies aimed at 'managing away expense'.

It was contended by Schuler and Jackson (1987) that to achieve the maximum effect it is necessary to match the role characteristics of people in an organization with the preferred one of these.

Strategic configuration

Another approach to best fit is the proposition that organizations will be more effective if they match one of the ideal types defined by theories such as those produced by Mintzberg (1979) and Miles and Snow (1978). This increased effectiveness is attributed to the internal consistency or fit between the patterns of relevant contextual, structural and strategic factors.

The typology of organizations produced by Mintzberg classified them into five categories: simple structure, machine bureaucracy, professional bureaucracy, divisionalized form, and adhocracy. Miles and Snow identified three types of what they called 'ideal' organizations:

1. *Prospectors*, which operate in an environment characterized by rapid and unpredictable changes.
2. *Defenders*, which operate in a more stable and predictable environment than prospectors and engage in more long-term planning.
3. *Analysers*, which are a combination of the prospector and defender types. They operate in stable environments, like defenders, and also in markets where new products are constantly required, like prospectors.

Comments on the concept of best fit

The best fit model seems to be more realistic than the best practice model. As Dyer and Holder (1988: 31) commented: 'The inescapable conclusion is that what is best depends.' It can therefore be claimed that best fit is more important than best practice.

But there are limitations to the concept of best fit. Paauwe (2004: 37) argued that: 'It is necessary to avoid falling into the trap of contingent determinism, ie acting as if the context absolutely determines the strategy. There is, or should be, room for making strategic choices.'

The difficulty of mechanistically matching HR policies and practices with strategy should be noted. It is not credible to claim that there are single contextual factors that determine HR strategy, and internal fit cannot therefore be complete. Boxall (2007: 61) contended that: 'It is clearly impossible to make *all* HR policies reflective of a chosen competitive or economic mission.'

Purcell (1999: 35) referred to the concept of 'idiosyncratic contingency' which 'shows that each firm has to make choices not just on business and operational strategies but on what type of HR system is best for its purposes'. He commented (p 37) that: 'The search for a contingency or matching model of HRM is also limited by the impossibility of modelling all the contingent variables, the difficulty of showing their interconnection, and the way in which changes in one variable have an impact on others, let alone the need to model idiosyncratic and path dependent contingencies.'

Youndt *et al* (1996) compared the universalistic (best practice) with contingency (best fit) perspectives of SHRM in a study of 97 manufacturing plants. The results supported the contingency approach. They found that an HR system focused on human capital enhancement in organizations pursuing a quality enhancement strategy improved multiple dimensions of operational performance. But the researchers argued that universalistic and contingency perspectives are not necessarily mutually exclusive, an assertion that Boxall and Purcell (2008) also made. In other words, it has been suggested that universal 'best practices' can provide a foundation for SHRM activities, but in order to achieve a higher level of performance, contingent factors should be considered.

Michie and Sheehan (2005) tested the universalistic (best practice) contingency (best fit), and configurational (pattern of HR practices) perspectives on a sample of UK manufacturing and service-sector firms. They found that the relationship between HR policies and practices and performance is dependent upon business strategy (the contingency perspective) and that companies pursuing an integrated approach to HR perform best.

Some support for the best practice viewpoint was provided by Ahmad and Schroeder (2003) who examined the relationship between HRM practices and operations management across a number of countries and industries. They found a relationship between Pfeffer's (1994) seven best HRM practices and organizational performance across three industries and four countries.

The concept of best practice should not be dismissed out of hand in favour of best fit. Stavrou *et al* (2010: 952, 973) suggested that both could be appropriate:

> There may be merit in both approaches where the debate is between general principles/bundles (training and development, staffing, compensation and benefits, communication and participation, and planning) and the manner in which they are carried out… It seems that the 'best fit' and 'best practice' approaches of the HR–performance relationship are not necessarily mutually exclusive. On the contrary, they may be combined to provide a more holistic picture of the subject.

Development of a conceptual framework for SHRM

SHRM is essentially conceptual. The notion of adopting a strategic approach to managing people has been underpinned by a number of theories that highlight the significance of SHRM and explain what it involves, as described below.

The resource-based view

The resource-based view (RBV) first appeared as an underpinning theory for SHRM at the same time as the initial descriptions of SHRM were being made. According to Delery and Roumpi (2017), the RBV arguably constitutes one of the most popular theoretical frameworks in the management literature. It indicates that it is the range of resources in an organization, including its human resources, that produces its unique character and creates competitive advantage. The RBV is founded on the ideas of Penrose (1959: 24–25), who wrote that the firm is 'an administrative organization and a collection of productive resources' and saw resources as 'a bundle of potential services'. It was expanded by Wernerfelt (1984: 172), who explained that strategy 'is a balance between the exploitation of existing resources and the development of new ones'. Resources were defined by Hunt (1991: 322) as 'anything that has an enabling capacity'.

The concept was developed by Barney (1991: 102), who stated that 'a firm is said to have a competitive advantage when it is implementing a value-creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy. This will happen if their resources are valuable, rare, inimitable and non-substitutable.' He noted later (Barney 1995: 49) that an environmental analysis of strengths, weaknesses, opportunities and threats (SWOT analysis) was only half the story: 'A complete understanding of sources of a firm's competitive advantage requires the analysis of a firm's internal strengths and weaknesses as well.' He wrote (p 60):

> Creating sustained competitive advantage depends on the unique resources and capabilities that a firm brings to competition in its environment. To discover these resources and capabilities, managers must look inside their firm for valuable, rare and costly-to-imitate resources, and then exploit these resources through their organization.

The following rationale for resource-based strategy was produced by Grant (1991: 13):

> The resources and capabilities of a firm are the central considerations in formulating its strategy: they are the primary constants upon which a firm can establish its identity and frame its strategy, and they are the primary sources of the firm's profitability. The key to a resource-based approach to strategy formulation is understanding the relationships between resources, capabilities, competitive advantage and profitability – in particular, an understanding of the mechanisms through which competitive advantage can be sustained over time. This requires the design of strategies which exploit to maximum effect each firm's unique characteristics.

Resource-based SHRM can produce what Boxall and Purcell (2016) refer to as 'human resource advantage'. The aim is to develop strategic capability. This means strategic fit between resources and opportunities, obtaining added value from the effective deployment of resources, and developing managers who can think and plan strategically in the sense that they understand the key strategic issues and ensure that what they do enables the strategic goals of the business to be achieved. In line with human capital theory, the resource-based view emphasizes that investment in people increases their value to the firm. It proposes that sustainable competitive advantage is attained when the firm has a human resource pool that cannot be imitated or substituted by its rivals.

Boxall (1996: 66) observed that the strategic goal emerging from the resource-based view was to 'create firms which are more intelligent and flexible than their competitors by hiring and developing more talented staff and by extending their skills base'. Resource-based strategy is therefore concerned with the enhancement of the human or intellectual capital of the firm.

The human capital perspective

Human capital theory is associated with the resource-based view. It states that the unique nature of human capital resources within the firm have the potential to generate sustainable competitive advantage (Nyberg *et al*, 2014; Ployhart *et al*, 2014). However, as pointed out by Delery and Roumpi (2017: 9), human capital is different from other types of resources in that it is owned by employees and can be transferred to other firms if they leave. Therefore it is critical for firms to use HRM systems to enhance existing levels of human capital, initially by attracting high-quality people and providing them with development opportunities, and then preventing the loss of their human capital investments to other firms by enhancing the commitment of employees to the firm and applying retention policies. As Wright *et al* (1994: 320) noted: 'Sustained competitive advantage is achieved only by the interaction between the human capital pool and the HR practices.'

Skaggs and Youndt (2004) investigated a sample of 234 service organizations and found strong empirical support to indicate that if fit is achieved between human capital and the organization's strategic positioning, the result is positive organizational performance.

The behavioural perspective

The behavioural perspective emerged in the late 1980s. Schuler and Jackson (1987) asserted that different strategy types (cost reduction, quality improvement, and innovation) require different types of employee role behaviours. They also argued that once the desired employee role behaviours have been identified to fit the strategy, HR practices should be used to ensure those behaviours take place. As described by Lepak and Shaw (2008), the behavioural perspective suggests that HRM practices affect firm performance by encouraging needed role behaviours that are aligned to the organization's strategy. It offered a new dimension to the practice of SHRM, one as much concerned about people as about profit. Paauwe *et al* (2013) referred to research (Bowen and Ostroff, 2004) which suggested that a coherent and consistent HR system sent messages to employees regarding desired behaviours.

Cabrera and Bonache (1999) conducted research that highlighted the need to align an organization's culture with its strategy. As they noted, a culture will be an asset for an organization if it encourages behaviours that support its intended strategy. They argued that a strong strategic culture can be created through two processes: planning HR practices that are aligned with the organization's strategy to promote the desired behavioural norms, and deliberately selecting candidates who share the desired values.

Dyer and Ericksen (2005) extended the behavioural perspective to argue that the future of HRM in terms of creating value lies in the ability of the HRM system to achieve workforce agility and flexibility. Technological changes often force organizations to be fluid, and the structures and processes emanating from the HRM system must follow suit. They stated (Dyer and Ericksen, 2005: 187) that: 'Agile enterprises require guiding principles that encourage the inflow and outflow of talent in ways that facilitate and only minimally disrupt internal fluidity.' Thus the behavioural perspective enhanced the resource-based view and the human capital movement to provide a conceptual framework for talent management.

The AMO model

The AMO model as expressed by Boxall and Purcell (2003) is associated with the behavioural perspective but is also linked to the preoccupation with the link between HRM and performance which started in the later 1990s. It states that performance depends on the individual's ability, motivation and opportunity. Employees must have the ability to perform well and the motivation to do so, while organizations must ensure that they are given the opportunity to perform.

Boxall and Purcell (2016: 155) formulated the AMO framework as P = *f*(A,M,O) and explained that:

> Individuals perform when they have:
>
> - the ability (A) to perform (they *can do* the job because they have the necessary knowledge, skills and aptitudes);
> - the motivation (M) to perform (they *will do* the job because they want to do it or feel they must do it); and
> - the opportunity (O) to perform (their work structure and environment provide the necessary support and avenues for expression).

They also noted that someone's ability, motivation and opportunity to perform would depend on two groups of factors: 1) the individual's experience, intelligence, health, personality etc; 2) the situational factors of HR policies and practices orientated to creating 'AMO' and related variables in the production system and the organizational context.

Stakeholder theory

Stakeholder theory as developed by Freeman (1984) states that a number of different groups are stakeholders in organizations, including shareholders, managers, employees, customers, government and the public at large. He quoted (Freeman, 1984: 31) the Stanford Research Institute's 1963 definition of stakeholders as 'those groups without whose support the organization would cease to exist'. Organizations must take account of these various interests when formulating and implementing HR strategy and policies.

Preoccupation with performance

A notable characteristic of the development of SHRM from the 1990s onwards was the quantity of research conducted to demonstrate that effective SHRM generates improved organizational performance. In the UK, studies such as those conducted by Birdi *et al* (2008), Carlson *et al* (2006), Guest *et al* (2000), Purcell *et al* (2003) and West *et al* (2002) have shown that good HRM practice and firm performance are correlated. In the United States, extensive research on the impact of HRM on performance was conducted by Arthur (1994), Combs *et al* (2006), Huselid (1995) and Ichniowski *et al* (1997). Lengnick-Hall *et al* (2009: 79) commented that:

> The most recent period of SHRM research is characterized by a number of established ideas and issues either further examined or tweaked, and a few new ideas or avenues that offer promise for enhancing our knowledge of this field. First, evidence continues to accumulate that there is a relationship between HR systems and organizational performance, although the causal sequence may be more reciprocal than direct.

Focus on implementation

SHRM commentators began in the 2000s to focus more on implementation issues (Barney, 2001, Bos-Nehles *et al*, 2006, Guest and Bos-Nehles, 2013). As Lengnick-Hall *et al* (2009: 79) observed:

> There is a growing recognition that intended SHRM practices may be different from realized SHRM practices and to simply rely upon what is stated rather than what is actually in place may lead to ineffective implementation as well as ambiguous results in studies of the relationship between HR practices and organizational performance. The construct of employee line-of-sight to strategic objectives provides more insight into the implementation process. If employees don't understand or know how to contribute to strategic objectives, they are unlikely to be effective in doing so.

A multi-stakeholder approach

Early researchers such as Schuler and Jackson (1987) and Becker *et al* (1997) concentrated largely on the business perspective, implying that the only stakeholders who matter are the shareholders. Delery (1998) commented on the failure in many SHRM studies to consider more than bottom-line performance. Kaufman (2015: 1487) noted that 'most strategic HRM studies place primary emphasis on organizational performance outcomes, including corporate financial performance'.

Recent developments have paid more attention to the arguments in favour of a multi-stakeholder approach, with a particular focus on employee wellbeing. Paauwe *et al* (2013: 75) observed that 'little attention has been paid to the meaning of performance from the perspective of other stakeholders', and proposed 'a multi-dimensional concept of performance taking different types of stakeholder into account'.

Beer (2015) has also revived attention to the multi-stakeholder approach that he and his colleagues advocated way back in 1984. He emphasized that strategic HRM, while it must be concerned with the vertical integration of HR strategies with business strategies, should also take account of the needs of employees. As Paul Sparrow (2017: 12) commented: 'People in organizations should be linked horizontally by shared identities and values.'

Beer *et al* (2015: 428) argued that the added value focus that existed in SHRM and performance research 'defined outcomes mainly in terms of economic value (productivity and efficiency), and neglected employee wellbeing and societal well-being'. Jiang (2018: 20) confirmed that the field of strategic HRM has traditionally focused its efforts on understanding the effect of HRM systems on unit and firm performance. However, he noted that there has been a growing interest in understanding the effects such systems have on employee outcomes, particularly outcomes related to employee wellbeing.

What is happening to SHRM

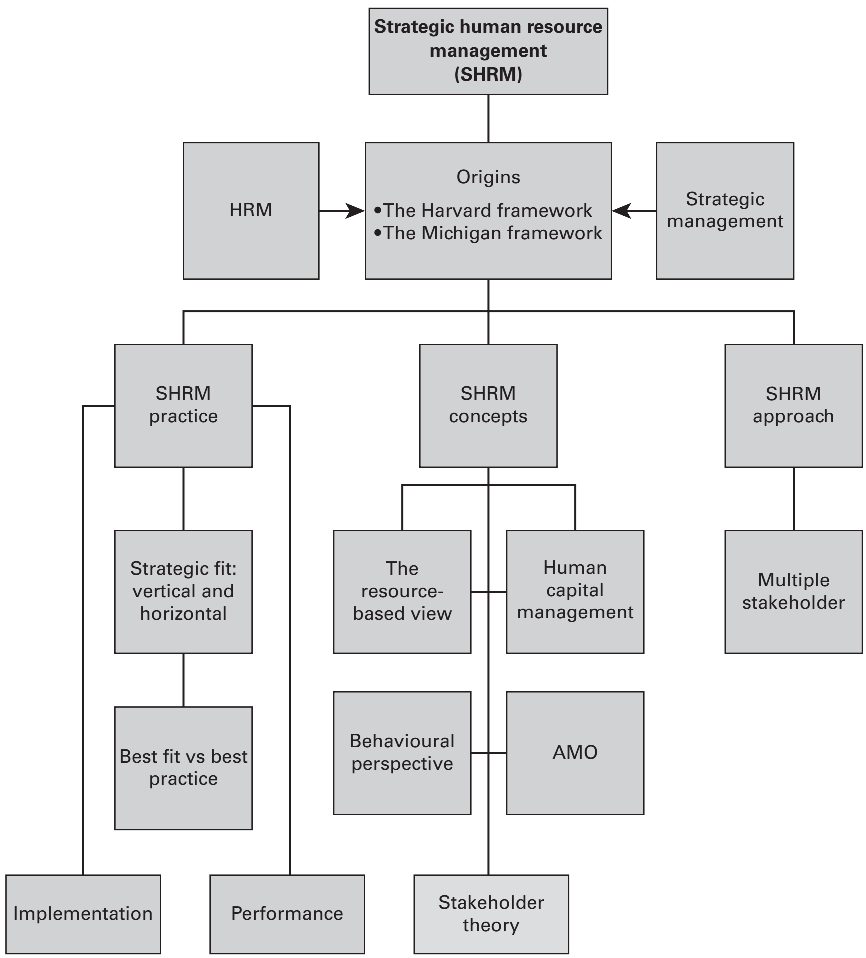
The following conclusions were reached by Kaufman (2015: 396) on what has happened to SHRM in the 30 years since Beer *et al* and Fombrun *et al* published their pioneering HRM books:

> SHRM's basic conceptualization has remained the same over the three decades. The central elements are: HRM as the people management component of organizations, a holistic systems view of individual HRM structures and practices, a strategic perspective on how the HRM system can best promote organizational objectives, HRM system alignment with organizational strategy and integration of practices within the system, and emphasis on the long-run benefits of a human capital/high-commitment HRM system.

But a literature review of SHRM by Delery and Roumpi (2017) led to the conclusion that the field is going in circles as it is evolving. They suggested that attempts to explain the 'black box' between HRM practices and firm performance have shown that human capital resources are at least partially the link between HRM practices and firm performance. But there is nothing new in this. SHRM researchers such as Barney and Wright (1998) noted this relationship from the very beginning. Delery and Roumpi argued that this brings the field full circle to the basic quest of specifying the HRM practices and their combinations that are associated with higher levels of organizational effectiveness.

A model of the evolution of SHRM is shown in Figure 4.1.

Figure 4.1 The evolution of strategic HRM



Key learning points

The evolution of SHRM has not been linear. Different concepts have often emerged concurrently and to a certain extent the process has been circular. The main concepts are:

- Vertical fit or integration – aligning HR practices with the business strategy.
- Internal fit – aligning a firm's HR practices with one another (ie, mutually reinforcing each other) to form bundles of mutually supporting practices.
- 'Best fit' v 'best practice' – a debate about which approach was most important. The consensus is that both have their uses.
- The resource-based view (RBV) – this indicates that it is the range of resources in an organization, including its human resources, that produces its unique character and creates competitive advantage. It provides a rationale for the enhancement of the human capital of the firm (the human capital perspective).
- The behavioural perspective – this suggests that HRM practices affect firm performance by encouraging needed role behaviours that are aligned to the organization's strategy.
- The AMO model – this states that performance depends on the individual's ability, motivation and opportunity.
- Preoccupation with performance – a huge quantity of research has been carried out in order to demonstrate that effective SHRM generates improved organizational performance.
- Focus on implementation – an increasing awareness of the critical nature of the effective implementation of HR strategies and of the problems of doing so.
- A multi-stakeholder approach – recent developments have focused more on the arguments in favour of a multi-stakeholder approach, with particular attention being paid to employee wellbeing.

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The reality of SHRM 05

Introduction

The reality of strategic HRM (SHRM) as it has evolved over the years is that it has remained over-concerned with the interests of the business and its shareholders. But it is also an academic construct that seems to leave practitioners cold. In this chapter the reality and limitations of the SHRM concept are discussed and a case is made for modifying the approach.

The reality of SHRM

The rationale for SHRM is the perceived advantage of having an agreed and understood basis for developing and implementing approaches to human resource management which takes into account the corporate plans and priorities of the organization and the changing context in which it operates. As Dyer and Holder (1988: 13) remarked, SHRM should provide 'unifying frameworks which are at once broad, contingency based and integrative'.

This is compelling stuff. But a literature review of SHRM by Armstrong and Brown (2018) left them the impression that it is more of an academic construct than a description of the reality of strategy formulation and implementation in organizations. Brown *et al* (2019: 43) commented following their research for the Institute for Employment Studies (IES) that: 'Maybe the proponents of strategic HRM had some very pertinent ideas but used jargon which got in the way of people management becoming genuinely more strategic.' The IES researchers were struck by the absence in current HR language of the term strategic human resource management. It is interesting to note that the CIPD's New Profession Map (CIPD, 2018) setting out its professional standards does not mention it.

Strategic HRM is a concept of some academic importance but less practical significance. It only becomes real when people management professionals and line managers jointly practise strategic management and together develop and implement people strategies which address the people and business requirements and issues facing their organization.

The limitations of SHRM

As emphasized by Armstrong and Brown (2018), a fundamental problem with SHRM is that it has been over-concerned with the interests of one set of stakeholders – meeting the needs of the shareholders and business leaders – and has been much less concerned with the interests of the other stakeholders, especially employees. This issue was raised by Kaye (1999) who asked the question: 'Does SHRM benefit employees as well as their organizations?' He observed that virtually all SHRM research takes the managerial/organizational perspective, with an emphasis on the consequences for organizational performance. This, he wrote, suggests that SHRM may be improving the bottom line of companies, but may also be hurting employees – especially when workers are viewed as commodities.

Cascio (2015: 424) argued that: 'In SHRM research, organizational performance is sometimes viewed only in terms of operational outcomes (productivity, quality, service, innovation) and financial outcomes (return on assets, return on equity, sales growth, overall financial performance).' Yet as Beer *et al* (1984) emphasized in their seminal work, performance has to be framed more broadly to include meeting corporate ethical and social responsibilities, including job satisfaction, industrial democracy and distributive justice. They advocated a multi-stakeholder approach to HRM, commenting:

> HRM policies are and indeed should be influenced by the interests of various stakeholders: shareholders, management, employees, community and government. Unless these policies are influenced by all stakeholders, the enterprise will fail to meet the needs of these stakeholders in the long run and it will fail as an institution. (Beer *et al*, 1984: 15)

In his 2015 article 'HRM at a crossroads', Michael Beer looked at what had happened to SHRM in the 30 years since he and his colleagues wrote *Managing Human Assets*. He commented on the pluralistic view expressed in that book, with its emphasis on the need to adopt a multi-stakeholder approach. He observed that this perspective has largely disappeared from HRM, with scholars focusing on proving that human assets are causal to financial performance, especially in the United States but not so much in Europe. He also argued that 'the field must reorient itself to producing useful, and I would add, usable (actionable) knowledge, if it is to remain relevant to practitioners' (Beer, 2015: 420).

Beer *et al* (2015: 427) reviewed the state of this perspective after 30 years. They stated that 'we need to take a wider, more contextual, more multilayered approach founded on the long-term needs of all relevant stakeholders'. They also argued that 'Fundamental to a multi-stakeholder approach must be the creation, maintenance, and development of a culture of trust among the different stakeholders. Considering HRM as a social system, in contrast to the dominant individual perspective, puts the relationships between stakeholders at the centre of our studies' (p 432).

SHRM: the assumptions and the reality

SHRM is based on three assumptions:

- HR strategies should be vertically integrated with the business strategy.
- HR strategies should be horizontally integrated with one another.
- HR strategies should take account of the interests of all the organization's stakeholders (the multi-stakeholder view).

As often described, SHRM focuses on the first of these assumptions, pays lip service to the second and to a large extent ignores the third. A different approach is required and this can be described under the heading 'people management'.

The case for people management

A case for adopting the term people management rather than strategic HRM was made by the Institute for Employment Studies based on their research (Brown *et al*, 2019: 43):

> Reflecting on the case study interviews the IES team was struck by the absence in current HR language of the term Strategic Human Resource Management. Indeed, although the function commonly calls itself HR, and often wants to be more strategic in its orientation, it tends not even to talk much about Human

> Resource Management. While the somewhat confusing mix of terms may not be helping academics to define and study the concept and HR functions to attract the recognition they seek, the perhaps less jargon-ridden and less alienating term 'People Management' does seem to be coming to the fore again and can apply both at strategic level and to management practice. We hope the term People Management leads to the wider use of the term People Strategy to cover the big picture of employment and workforce management as we have found it a useful term in reflecting on this research. Maybe the proponents of strategic HRM had some very pertinent ideas but used jargon which got in the way of people management becoming genuinely more strategic.

The idea of people strategy provides a broader view of the ways in which people should be managed in organizations than that of strategic HRM.

A definition is required of the difference between people management and human resource management (it should not just be a name change). This is done in the next chapter.

Key learning points

- Rationale for SHRM
    - The rationale for SHRM is the perceived advantage of having an agreed and understood basis for developing and implementing approaches to human resource management which takes into account the corporate plans and priorities of the organization and the changing context in which it operates.
- Problems with SHRM
    - A literature review of SHRM by Armstrong and Brown in 2018 left the impression that SHRM is more of a construct (in the sense of a subjective theory containing various conceptual elements) than a description of the reality of strategy formulation and implementation in organizations.
    - Strategic HRM is a concept of some academic importance but less practical significance. It is fundamentally conceptual.
    - A fundamental problem with SHRM is that it has been over-concerned with the interests of one set of stakeholders – meeting the needs of the shareholders and business leaders – and has been much less concerned with the interests of the other stakeholders.

- People management
  - *'People management'* is increasingly being used as an alternative to 'human resource management' but it should mean more than just a change to a more acceptable name.
  - The fundamental aim of people management is to ensure that the organization has the knowledgeable, skilled, engaged and productive people it needs. This is, of course, the same as the basic aim of human resource management. But the ways in which it is achieved are different.
  - People management aims to achieve a balance between the needs of employees and those of the other stakeholders. It pursues employment policies that are socially legitimate and produce benefits for both employees and employers.
  - Strategic people management is concerned with the ways in which people in an organization should be managed in order to satisfy the interests and needs of its stakeholders now and in the future.
  - The idea of strategic people management provides a much broader view of the ways in which people should be managed in organizations than that of strategic HRM.

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PART TWO
People strategy in general

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The concept of people management 06

Introduction

'People management' is increasingly being used as an alternative to 'human resource management'. But it is not a synonym; it should not simply be a change to a more acceptable name. A philosophy of people management is required, based on the principle that employees should be regarded as people rather than as exploitable resources. Rawls (1973: 183) wrote that: 'We must treat persons solely as ends and not in any way as means.' Employee wellbeing is important. Evidence produced by Peccei (2004), PricewaterhouseCoopers (2008), Guest (2017) and Krekel *et al* (2019) of the Saïd Business School has shown conclusively that attention to wellbeing has a major impact on organizational performance as a result of improvements to the employee experience and higher levels of engagement, motivation and job satisfaction.

A people management system that embraces the principle stated above will cover the same areas as an HRM system but will apply them differently.

People management defined

People management adopts a multi-stakeholder approach to managing the employment relationship. This recognizes the need to satisfy the interests of the owners (the shareholders) of a business or the requirements of those responsible for the operation of a public or voluntary sector organization. It also recognizes the interests of the management of the organization and the organization's responsibilities to its suppliers and the public at large (the community). Equally, however, it recognizes the interests of the people the organization employs and acts accordingly. People are not simply treated as resources – commodities or disposable factors of production who exist to be exploited at the behest of the owners and management.

People management aims to achieve a balance between the needs of employees and those of the other stakeholders. It pursues employment policies that are socially legitimate and produce benefits for both employees and employers. It avoids the temptation to look upwards and focus on the strategic (business) aims of the organization at the expense of the wellbeing of the people in the organization. It is concerned with the employee experience – everything that people encounter, observe and feel during the course of their employment from its beginning and onwards. Managing the employee experience is a 'bottom up' rather than a 'top down' process. The starting point is to gain understanding of how employees perceive their experience of working in the organization and, from that analysis, identify what needs to be done to deal with any issues and enhance that experience.

Comparison between HRM and people management

A comparison of the characteristics of HRM with those of people management is given in Table 6.1.

Strategic people management

Strategic people management is concerned with the development of approaches to the management of people in an organization that satisfy the interests and needs of all its stakeholders now and in the future. The differences between strategic human resource management and strategic people management are set out in Table 6.2.

The five strategic pillars are shown in Figure 6.1.

Table 6.1 Comparison between HRM and people management

	HRM (Resource-based view version)	**People management** (Organizations are the people in them… people make the place: Gerald Schneider)
Concept/ philosophy	Calvinism (focus on the values of order and regularity) Darwin (survival of the fittest)	Quakerism (emphasis on non-authoritarian fellowship) Rawls (treat people as ends, not means)
Ownership and priority	Shareholder/senior management driven Employees regarded as factors of production	Multi-stakeholder with employees as key Focus on employee wellbeing
Approach	Fads and flavours of the month	Evidence based
Employment relationship	Unitary perspective Legal employment contracts Compliance Derecognition Focus on managing diversity Formal joint consultation processes	Pluralist perspective Psychological contracts Voluntarism Partnership/mutual gains Focus on both inclusion and diversity Importance attached to all forms of employee voice
Work	Work intensification Mechanistic	Emphasis on job quality Flexible working
Learning and development	Systematic training Learning organization E-learning	Workplace/experiential/ self-managed/social learning Organizational learning Blended learning
Talent management	Buy in the best talent and win the talent war Exclusive approach Elitist meritocracy	Grow everyone's talents Inclusive approach Grow your own (talent on demand)
Performance emphasis	Financial Individual	Balanced scorecard Collective
Rewards and incentives	Financial emphasis Highly differentiated Individual performance pay and bonuses	Total reward and recognition More widely shared Profit sharing
Performance management	Results and pay focus Formal annual event	Strengths based and development focus Continuous dialogue and feedback

SOURCE Adapted from an unpublished paper by Dr Duncan Brown

Table 6.2 Comparison between strategic HRM and strategic people management

Strategic HRM	Strategic people management
Focus on strategic fit (vertical and horizontal integration) but the stress is largely on vertical fit – SHRM as a means of furthering the interests of the business and its owners (shareholders).	Recognizes the importance of strategic fit but the emphasis is on a multi-stakeholder approach – furthering the interests of the people working in the business as well as its owners.
Sees performance mainly in terms of financial results. Tendency to put profits before people.	Sees performance not only in financial terms but also as the capacity of the business to meet the needs of all its stakeholders, including the community.
Takes the laudable but somewhat unrealistic view that it is not only desirable but also feasible to develop and apply an interconnected set of overarching and comprehensive HR strategies that holistically drive business performance.	The focus is on a more realistic approach to the development *and* implementation of people strategies that work. It is these people strategies that count – abstract analyses of the meaning and implications of strategic HRM are immaterial.
'The idea of strategic HRM implies that organizations will have something one might recognize as an HR strategy, probably in the form of a written and a formally agreed document. This is assumed to be "aligned" in linear fashion with and driven by a formal business strategy; and it in turn translates the people aspects of that business strategy into some kind of plan for action on the people aspects of the business.' Institute for Employment Studies (Brown *et al*, 2019: 43)	'What we have seen in the case studies is something that, in today's more unpredictable and fast-changing environments, is more complex, layered, adaptive, interactional and multi-directional.' Institute for Employment Studies (Brown *et al*, 2019: 43) The IES has produced a model of strategic people management that represents this complexity (see Figure 6.1).

(*continued*)

Table 6.2 (Continued)

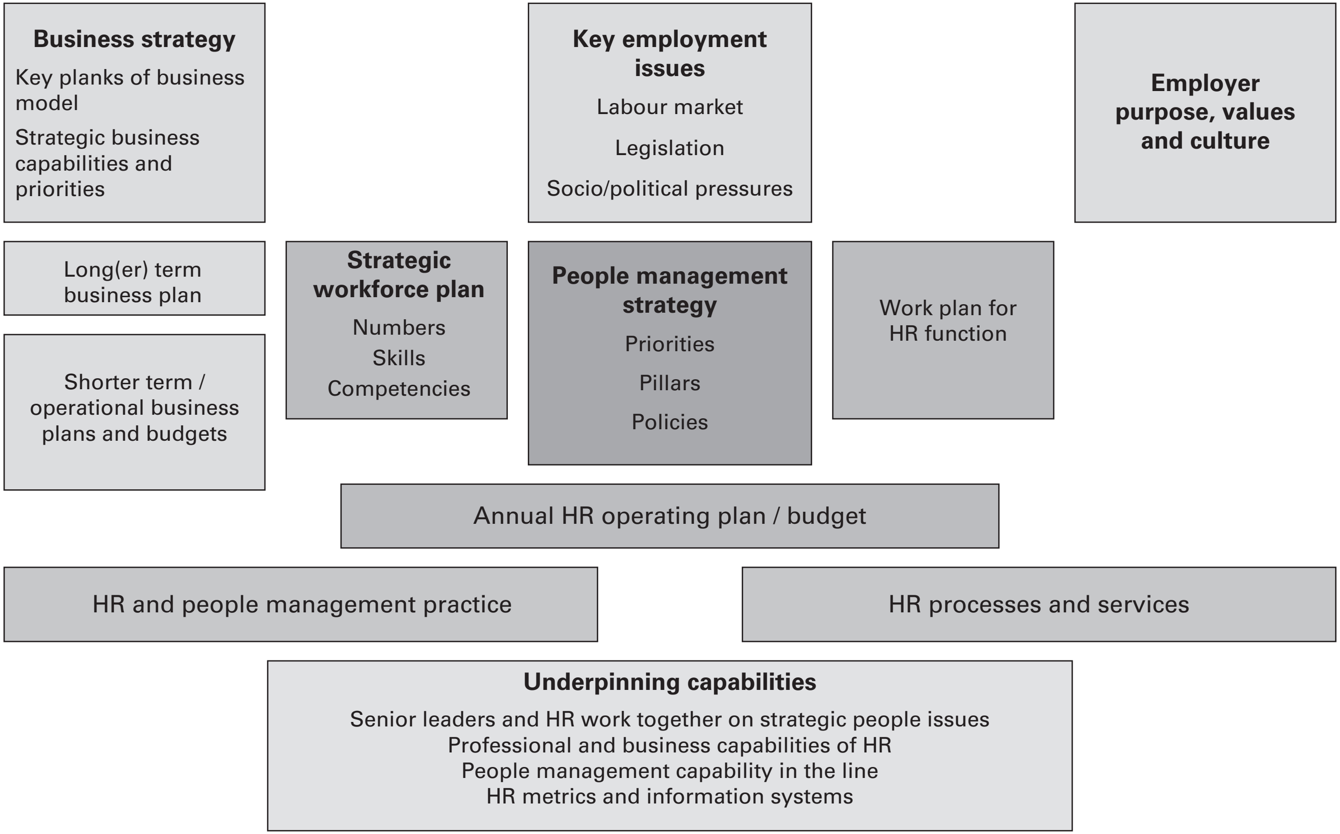
Strategic HRM	Strategic people management
The most important underpinning theory is the resource-based view. This is supported by human capital theory. Both these treat people as factors of production, which means that, potentially, they are there to be exploited.	The most important underpinning theories are behavioural theory and AMO theory. Both of these adopt a humanistic point of view.
Performance is seen in financial terms, the aim being to increase shareholder value.	Performance is seen in broader terms as success in meeting the needs of all stakeholders – employees as well shareholders, also suppliers and the community.
The conceptual focus on such things as the desirability of strategic fit distracts from the need to develop HR strategies that work.	The focus is more on the practicality of people strategies – what needs to be done to achieve effective implementation.

Conclusion

The concept of strategic people management is built on the ideas contained in the concept of strategic HRM. But it provides a broader view of the ways in which employees should be treated. The differences between these approaches were outlined in Table 6.1.

The main precepts of strategic people management are the needs for strategic fit, a multi-stakeholder approach and, as Walton (1974) proposed some time ago (although just as relevant today), the development of human capacities, growth and security, social integration, rights and representation, the social relevance of work, a safe and healthy working environment, work–life balance and adequate and fair rewards. But a fundamental characteristic of strategic people management is that it is about adopting a pragmatic approach to both the development and implementation of people strategies.

Figure 6.1 A model of strategic people management



SOURCE Brown, Hirsh and Reilly (2019)

Key learning points

- 'People management' is increasingly being used as an alternative to 'human resource management' but it should mean more than just a change to a more acceptable name.
- A philosophy of people management is required based on two interrelated principles. The first is that a multi-stakeholder approach should be adopted. The second is that employees should be regarded as people rather than as exploitable resources.
- The fundamental purpose of people management is to ensure that the organization has the knowledgeable, skilled, engaged and productive people it needs. This is, of course, the same as the basic purpose of human resource management. But the ways in which it is achieved are different.
- People management aims to achieve a balance between the needs of employees and those of the other stakeholders. It pursues employment policies that are socially legitimate and produce benefits for both employees and employers.
- Strategic people management is concerned with the ways in which people in an organization should be managed in order to satisfy the interests and needs of its stakeholders now and in the future.
- The idea of strategic people management provides a much broader view of the ways in which people should be managed in organizations than that of strategic HRM.

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The nature and practice of people strategy

07

Introduction

People strategy specifies what the organization intends to do about people management. The differences between strategic people management and strategic HRM were set out in Chapter 6. The differences between people strategy and the traditional approach to HR strategy broadly correspond with these. In essence, people strategy adopts the two guiding principles of strategic people management: 1) that a multi-stakeholder approach is needed which aims to balance the interests and needs of the two major stakeholders, owners (shareholders) and employees, as well as catering for the requirements of other stakeholders – customers, suppliers and the community; 2) that employees should be regarded as people rather than as disposable means to achieve profitable ends. In contrast, the traditional approach to HR strategy tended to focus more on meeting the needs of the business and supporting its aim to increase shareholder value (or in not-for-profit and government organizations, fulfilling their purpose).

People strategy as described in this chapter covers broadly the same areas of people management as HR strategy. Traditionally, commentators, including those quoted in this chapter, referred mainly to HR strategy. The shift to people strategy has taken place more recently, led by the Institute for Employment Studies as cited in Chapter 5. But the question may be posed: 'What's in a name?' Many strategies described as HR strategies, such as those in the case study organizations described later in this chapter, will adopt a people management approach. Strategies called people strategies will have characteristics that resemble traditional HR strategies. The answer to the question is that there is a difference, although this is one of perspective and emphasis rather than of content. People management recognizes that high levels of economic or operational performance need to be sustained. It was argued by Boxall

(2013: 59) that: 'HR strategy is part and parcel of a larger business model, and it fails if it does not serve the economic imperatives that are essential to that model.' But it is also recognized that organizations have obligations to all their stakeholders. The standards produced by the CIPD (2018) state that: 'Stakeholders and their interests are integral to the best interests of the organization and stakeholders include both employees and owners… Every organization is part of wider society and has a responsibility to respect its social contract as a corporate citizen and operate in a manner that is sustainable.' These concerns are the fundamental tenets of people strategy.

This chapter covers the nature and features of people strategy and approaches to its evaluation. It also includes four case studies produced by the Institute for Employment Studies.

The nature of people strategy

People strategy sets out what the organization wants to do about its people management policies and practices and how they should be integrated with the business strategy and each other. It should be based on the values that an organization believes govern its approach to people management. Strategic people management as described in the previous chapter provides a conceptual framework for people strategy, especially its emphasis on strategic fit.

People strategy is concerned with setting future directions, but it is not just a long-term plan. It should be immediately relevant. The dictum of Fombrun *et al* (1984) that business and managers must perform well in the present to succeed in the future should be borne in mind. Purcell (2001: 72) observed that: 'Strategy in HR, like in other areas, is about continuity and change, about appropriateness in the circumstances, but anticipating when the circumstances change. It is about taking strategic decisions.'

Paraphrasing Dyer and Reeves (1995: 656), people strategies can be described as internally consistent bundles of people management practices. In the words of Boxall (1996: 61), they provide 'a framework of critical ends and means'. People strategy was defined by Boxall and Purcell (2016: 26) as 'the critical set of economic and socio-political choices that managers make in building and managing a workforce'.

Research by the Institute for Employment Studies (Brown *et al*, 2019) established that people strategy has to balance explicit business alignment with the need in certain circumstances to keep flexible. The following was the key feature of the strategies in the organizations they examined:

> Prioritization seems to be the clear goal and requirement of people management strategies today. One HR director told us that extremely lengthy and over-ambitious HR strategies have bedevilled the function and given HR a bad reputation in the past for over-promising and under-delivering. Focus and delivery seem to be the new watchwords for people management. (Brown *et al*, 2019: 4–5)

People strategy should be distinguished from people policy. People strategy is purposeful and dynamic. It provides a sense of direction and constantly adjusts to meet changed circumstances. People policy is more about the here and now. It defines 'the way things are done around here'. It may evolve, but this is not necessarily the result of a strategic choice. It is when a deliberate decision is made to change a policy that a strategy for achieving this change may have to be formulated.

The features of people strategy

Because all organizations are different, all people strategies are different. Research into HR strategy conducted by Armstrong and Long (1994) and Armstrong and Baron (2002) revealed many variations. Some articulated strategies are simply very general declarations of intent or statements of the values that the organization has adopted for managing people. Others go into much more detail.

People strategy may not be deliberate. It was pointed out by Mintzberg (1987: 67) that: 'An organization can have a pattern (a realized strategy) without knowing it, let alone making it explicit.' As Mintzberg *et al* (1988) suggested, strategies can simply exist in the 'collective minds' of the people on whom they make an impact. The fact that they have not been articulated may not matter too much as long as people in the organization share the same perspective through their intentions and their actions.

Mintzberg's concept of 'emergent strategy' rings true, but Grant (1998) has argued that the Mintzberg approach, which downplays the role of systematic analysis and emphasizes the role of intuition and vision, fails to provide a clear basis for reasoned choices. However, Mintzberg (1987: 69) accepted that 'purely emergent strategy making precludes control'. He took the realistic position that there is no such thing as a purely deliberate strategy or a purely emergent one, and that 'deliberate and emergent strategy form the end points of a continuum along which the strategies which are crafted in the real world may be found'. Thompson and Strickland (1996: 20) noted that 'a company's actual strategy is partly planned and partly reactive to changing circumstances'.

Three types of people strategy can be identified: 1) broad statements of intent under various headings; 2) overall strategies concerned with high-performance working, high-commitment management or high-involvement management; 3) specific strategies relating to the different aspects of people management such as talent management, learning and development, and reward.

Broad statements of intent

People strategy may simply consist of a broad statement of intent, which provides the framework for more specific strategic plans in individual people management areas. Mintzberg (1987) referred to this approach as 'umbrella strategy' in which senior management sets out broad guidelines, leaving the specifics to people lower down in the organization.

The CIPD-sponsored research conducted by Armstrong and Baron (2002) found in the organizations they studied that the overall objectives of their HR strategy were typically to modify values, behaviours and attitudes. However, the paths taken to get there were quite different.

Research into the formulation of HRM strategy in a number of US companies by Wright *et al* (2004: 43) established that 'the core components of HR strategies seem to be building a performance culture, developing leadership capability, attracting and retaining the best talent, and providing state of the art HR systems, processes, and services'. The following are UK examples of broad strategic statements of intent.

EXAMPLE

UK examples of broad strategic statements of intent

AEGON

The Human Resources Integrated Approach aims to ensure that from whatever angle staff now look at the elements of pay management, performance, career development and reward, they are consistent and linked.

Boots

'The biggest challenge will be to maintain (our) competitive advantage and to do that we need to maintain and continue to attract very high calibre people. The key differentiator on anything any company does is fundamentally the people, and I think that people tend to forget that they are the most important asset. Money is easy to get hold of, good people are not. All we do in terms of training and manpower planning is directly linked to business improvement'. (Managing Director)

GlaxoSmithKline

We want GSK to be a place where the best people do their best work.

Lands' End

The overall HR strategy is based on the principle that staff who are enjoying themselves, are being supported and developed, and who feel fulfilled and respected at work, will provide the best service to customers.

Overall people management approaches

The second category of people strategy consists of the deliberate introduction of overall approaches to people management such as high-performance management, high-involvement management or high-commitment management as described below. There is some overlap between these approaches, especially the latter two.

High-performance management

High-performance management aims to make an impact on the performance of the organization through its people in such areas as productivity, quality, levels of customer service, growth, profits and, ultimately, the delivery of increased shareholder value. The objective is to achieve this by rigorous recruitment and selection procedures, extensive and relevant training and management development activities, incentive pay systems and performance management processes. As a bundle, these practices are often called high-performance work systems (HPWS).

High-involvement management

High-involvement management practices were described by Wood (2010: 410) as follows:

> High-involvement management includes first, practices such as teamworking, flexible job descriptions, and idea capturing schemes, which are means of ensuring greater flexibility, proactivity and collaboration; and second, practices that give workers the opportunities for the acquisition of skills and knowledge that are needed to ensure they have the capacities to work in an involved way. They include intensive training geared towards teamworking, functional flexibility and information sharing, particularly about the economics and market of the business.

The practices included in a high-involvement system have sometimes expanded beyond this original concept and included high-performance practices. For example, as defined by Benson *et al* (2006: 519): 'High-involvement work practices are a specific set of human resource practices that focus on employee decision-making, power, access to information, training and incentives.'

High-commitment management

One of the characteristics of the concept of HRM is the notion of mutuality, the belief expressed by Walton (1985) that organizations consist of people with shared interests – management and employees are interdependent and both benefit from this interdependency. According to Walton, this meant that organizations had to abandon their traditional emphasis on control and replace it with a commitment strategy, which involved giving employees broader responsibilities, encouraging them to contribute and helping them to achieve satisfaction from their work. This was the basis for the approach known as high-commitment management, described by Wood (1996: 41) as: 'A form of management which is aimed at eliciting a commitment so that behaviour is primarily self-regulated rather than controlled by sanctions and pressures external to the individual, and relations within the organization are based on high levels of trust.'

Specific people strategies

Specific people strategies set out what the organization intends to do in areas such as:

- *Organization design and development* – designing and modifying organization structures and planning and implementation of programmes designed to enhance the effectiveness with which an organization functions and responds to change.

- *Human capital management* – obtaining, analysing and reporting on data, which informs the direction of value-adding people management strategic, investment and operational decisions.
- *Knowledge management* – creating, acquiring, capturing, sharing and using knowledge to enhance learning and performance.
- *Corporate social responsibility* – a commitment to managing the business ethically in order to make a positive impact on society and the environment.
- *Diversity and inclusion* – acknowledging cultural and individual differences in the workplace, valuing the different qualities which people bring to their jobs and ensuring that people with different backgrounds are included as part of the organization on the same terms as everyone else.
- *Engagement* – the development and implementation of policies designed to increase the level of employees' engagement with their work and the organization.
- *Performance* – strategies for improving organizational and individual performance.
- *Resourcing* – attracting and retaining high-quality people.
- *Talent management* – how the organization ensures that it has the talented people it needs to achieve success.
- *Learning and development* – providing an environment in which employees are encouraged to learn and develop.
- *Reward management* – defining what the organization wants to do in the longer term to develop and implement reward policies, practices and processes which will further the achievement of its business goals and meet the needs of its stakeholders.
- *Employment relationships* – defining the intentions of the organization about what needs to be done and what needs to be changed in the ways in which the organization manages its relationships with employees and trade unions.
- *Employee wellbeing* – providing a framework for the introduction of policies and practices designed to increase the level of wellbeing among the employees of an organization. The strategy is concerned with the quality of working life of individual employees in terms of their experience of work and how they function there physically, psychologically and socially.

These strategies may be developed individually or, preferably, the people strategy includes specific and articulated plans to create 'bundles' of HR practices and develop a coherent HR system.

CASE STUDY The people strategy at Diageo

The three broad strands to the Organization and People Strategy at Diageo are:

1. Reward and recognition: use recognition and reward programmes to stimulate outstanding team and individual performance contributions.
2. Talent management: drive the attraction, retention and professional growth of a deep pool of diverse, talented employees.
3. Organizational effectiveness: ensure that the business adapts its organization to maximize employee contribution and deliver performance goals.

It provides direction to the company's talent, operational effectiveness and performance and reward agendas. The company's underlying thinking is that the people strategy is not for the human resource function to own but is the responsibility of the whole organization, hence the title 'Organization and People Strategy'.

Evaluating people strategy

A good strategy is one that works. People strategy should be evaluated by comparing achievements against goals. This is difficult where strategies are emergent rather than deliberate. In this case they can only be judged by reference to the degree to which the organization is successful in achieving its objectives through people, in so far as this judgement is possible. As Boxall and Purcell (2003: 28) observed, 'strategy is best discerned in behaviour'.

The criteria for deliberate strategies are the extent to which they:

- 'indicate something of genuine significance for the future of the firm' (Boxall and Purcell, 2003: 30);
- meet the needs of the business and its employees;
- are founded on detailed analysis and study, not just wishful thinking;
- can be turned into actionable programmes which anticipate implementation requirements and problems;
- are coherent and integrated, being composed of components which fit with and support each other.

The processes involved in developing and implementing people strategies are examined in Chapters 8 and 9 respectively.

People strategy in action

Detailed case studies of people management strategy in action were conducted by the Institute for Employment Studies in 2018 (Brown *et al*, 2019). The outcomes of these studies are set out below.

The Ministry of Housing, Communities and Local Government (MHCLG)

Strategic aim

The overall strategic aim of the MHCLG people strategy is 'to help create great places to live and work right across the community and to back communities to come together and thrive'.

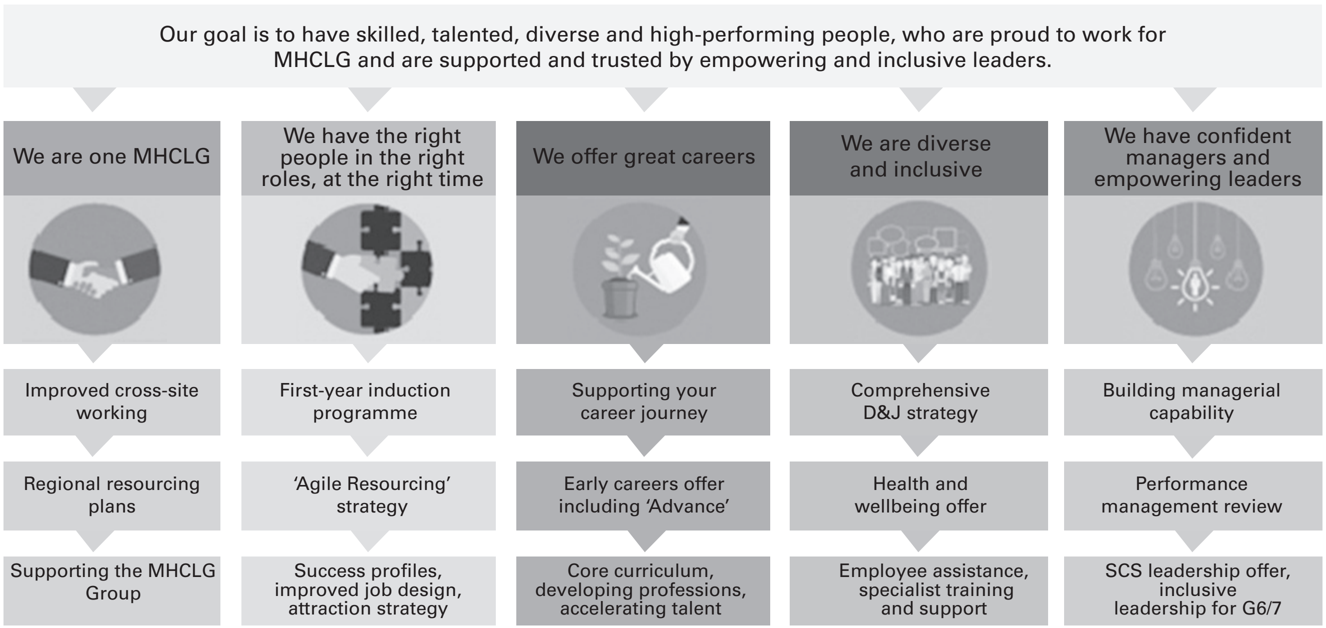
The People Plan

The People Plan of the MHCLG sits alongside a new and comprehensive Strategic Workforce Plan, based on a detailed analysis of workforce trends and needs, and guiding the growth in the department. It has also been informed by and aims to complement the overall Civil Service Workforce Plan which aims to create 'Brilliant Civil Service through high quality people management practices and standards'.

The overall goal of the People Plan is to ensure that the department has 'skilled, talented, diverse and talented people, who are proud to work for MHCLG and are supported and trusted by empowering and trusted leaders'.

All the policies and initiatives to support this are organized into five constituent priorities or pillars, each in turn with at least three priority initiatives and activities as illustrated in Figure 7.1. The pillars were selected as being most important in supporting and contributing to the business performance of the department: 'Driving towards our ambition on key people issues, for example diversity and inclusion… and ensuring that we have a tailored, excellent, clearly signalled support and development offer which will attract and retain talent and is among the best in the Civil Service.'

Figure 7.1 The five strategic pillars at MHCLG



Conclusions

The people management team at MHCLG remarked that what they had learned in developing and implementing the plan was more than the importance of the vertical alignment of HR priorities with the business strategy. In addition, they had learned that the plan had to be flexible and emerge from discussions with members of the department and their leaders. That flexibility and involvement had to operate around a core of continuing key areas and priorities.

The team noted that the People Plan had been invaluable because it helped them to focus activity and not respond to every short-term 'bright idea'.

The London School of Economics (LSE)

The LSE is one of the UK's top universities, ranked second in the world for social sciences (QS World University Rankings, 2018). It is as well known for the quality of its research as its impact on politics and society. It is a highly international institution with almost half of its 3,000 staff and two-thirds of its 12,000 students from overseas.

The HR strategy

Each department and function in LSE is subject to a review by the School's Senior Management Committee every five years of its purpose, activities and effectiveness. The last review led to the HR Division's 5–10-year strategic plan. This plan has six pillars, as illustrated in Figure 7.2, to coordinate and focus the division's activities. Each pillar is split further into two themes and subsidiary work streams which are specified and planned. Shorter-term priorities are set out in a rolling three-year Strategic Priorities paper which is an aggregated series of annual operational plans and current priorities that are reviewed and updated each year. This duality of approach, with long-term strategy and shorter-term annual plans, is critical to being able to deliver on their longer-term growth and development aims, while also being flexible and responsive and being seen to deliver on HR's key functions.

It is noteworthy that the first pillar in the Strategic Plan is 'Delivering operational effectiveness and infrastructure'. As observed by the Head of HR Policy and Employee Relations, unless routine HR systems and workflows are effective and efficient and the measures are in place to demonstrate this, and unless HR staff have the capability to support managers and staff effectively, then HR will not have the time nor the credibility to address a more strategic and influential agenda.

Figure 7.2 The six core pillars of HR activity at LSE

Delivering operational effectiveness and infrastructure	Building an excellent workforce	Enhancing reward, benefits and recognition	Strengthening employee engagement and wellbeing	Providing grounded HR policy, advice and support	Developing leadership and management capability
Continue to improve systems, workflows, and team structures to allow for greater efficiency and effectiveness	Support departments to recruit intelligently, attracting the very best applicants and providing a positive recruitment experience for candidates	Ensure that there are robust and increasingly nimble reward and recognition systems in place to promote both timely and appropriate means for excellence to be recognised	Support the school to increase employee engagement and develop greater opportunities for employee participation, with an increased focus upon staff wellbeing	Further develop a policy framework that promotes good practice in the workplace that remains cognisant of changes and modernization in the world of work	Develop and support career paths
Improving the quality of information and data that is available to the school to support greater evidence-based decision making on staffing matters	Contribute towards a development culture where all staff are encouraged to become the best they can be in their roles, and to be in a position to pursue the career opportunities available to them	Continue to develop reward and benefit strategies that enable LSE to differentiate itself from its immediate peers and that are reflective of LSE's unique character and position	Proactively pursue both operational and policy opportunities to improve equity, diversity and inclusion across the school	Provision of proactive and pragmatic HR advice and support through the HR partner model	Conduct a structured series of internally and externally run programmes designed to significantly enhance senior leadership capability

Development and implementation of the plan

An HR Advisory Group (HRAG) has been set up, formed of senior management representatives from all the major functions and departments across the School, as well as the Chief Operating Officer (COO) and Chief Financial Officer (CFO). This focuses on the HR annual work plan and advises and approves implementation proposals for HR policies and procedures and monitors their impact.

Clear metrics and measures of progress in implementing the strategic plan are in operation. Each pillar and theme has defined monitoring methods and mid-way (2.5 years) and end-point (five years) goals and targets. For example, the target for research staff is to have regular programmes on transferable skills and teaching effectiveness in place by the mid-point and 90 per cent take-through blended learning at the plan's end-point.

Conclusions

Indi Seehra, Director of Human Resources, and Louise Handley, Head of Policy and Employee Relations, point out that the challenges of an increasingly complex and unpredictable Higher Education environment, in which multiple performance goals and stakeholder agendas are having to be addressed, make the requirements for an HR Strategy even more essential and relevant now than in the past.

But they emphasize the need for strategy to be a process rather than just a plan, a process which links the macro and the micro, the longer-term human capital development objectives with shorter-term HR operational activity and service delivery needs, and which engages people to deliver on the plans – senior managers to shape and fund the activity, and staff to respond with higher levels of engagement and performance.

Anchor Homes

Anchor Homes, the care home division of Anchor Trust, is England's largest provider of residential care for older people. Anchor's workforce was over 9,000 people in 2018. Anchor Trust has recently merged with Hanover Housing Association to form Anchor Hanover.

The HR strategy and process

Rather than having a separate, written HR strategy, people issues are fully embedded in the main strands of the business plan. HR strategy is therefore, in effect, driven by the whole leadership team. This integrated approach to business and employment strategy creates an ownership of the people issues in the top team. The whole management population is involved in the people approach so everyone owns and has an opinion about the people strategy. Senior HR people see this broad and deep involvement of the management population in HR matters as a positive. Managers do not expect to have to find a way round the HR culture. HR needs to be genuinely close to the business and to understand it commercially, not just in HR terms. And the business needs to be genuinely people-focused in its strategy, investing in employees in this low-paying, low-margin sector for the long-term returns delivered by the high-quality care they provide.

The HR strategy and content

The Anchor strategic business plan has four main themes or 'planks':

1. Best customer service.
2. Best place to work.
3. Best run company.
4. Growth.

The HR management and employment strategy is woven through this business plan, which determines the areas of HR that need attention and HR priorities. These have included supporting greater organizational efficiency, enabling a performance-focused culture, ensuring a compelling yet affordable employee value proposition and improving people data and analytics.

Implementation and delivery in practice

With a large number of front-line and unit managers, spread across so many work locations, implementing this approach to business and employment strategy requires careful consideration of how the HR function can best support local managers in delivering the business plan.

The HR function has re-thought how it offers personalized support, which Jane Ashcroft, CEO Anchor Hanover, described as 'stripping out cost without stripping out value'. HR previously operated with a fairly traditional face-to-face control and support model. But now HR staff visits to care homes have largely been replaced by an HR telephone helpline for managers. It is important for the function to listen to managers in order to understand the issues they need support with and then to provide effective information and advice.

Revolution Bars

Revolution Bars currently manage an estate of 79 bars under two brands, Revolution and Revolución de Cuba. Retailers have been facing a difficult climate of rising costs and falling footfall on the high street and Revolution Bars is no exception; there are financial problems. But the company is surviving and as the chairman has put it: 'Revolution's 3,200 people, most of whom work in the bars, provide the outstanding customer experience that is at the heart of our strategy.'

The People Development Plan

The People Development Plan, which is updated annually, guides the budget, activities and outputs of the department. It is contained in a large, regularly updated spreadsheet, with a series of activity headings highlighting issues to address, and figures setting out the current state and improvement targets. Each activity in the People Development Plan has defined key outputs and targets, for example for recruitment, reducing average days to fill posts, costs-per-hire and first year turnover. Linked to it are quite sophisticated workforce plans, which run right down to people plans at the individual bar level. Current issues are:

- succession planning and talent management and refocusing of training and development;
- recruitment review;
- new reward and recognition strategy;
- improving quality of life/team engagement;
- developing and improving the appraisal process.

Characteristics of the plan

In a competitive, fast-moving and rapidly changing environment, the People Development Plan has to be very flexible and HR needs to be able to react rapidly to external events and internal changes. The People Development Director, Fiona Regan, and her team regularly undertake PESTLE and risk analyses on their activities and priorities, answering questions such as 'How will the minimum wage move next year?' 'What changes are likely to the apprenticeship levy?' 'What might happen if a Labour government gets elected?' 'How will Brexit impact our labour supply?'

The existence of the plan means that there is a much clearer overall direction for all people management initiatives aligned to the business strategy and the culture and values supporting its delivery. Increasingly, the people development strategy and HR initiatives are being adapted and used to shift the culture and behaviours in the company so as to better fit the current and future environment on the high street. The planning process has changed from a 'maintain' people plan focused on solving immediate problems to something much more transformational.

Advice for practitioners

The advice from the case study interviewees for other practitioners is summarized in Table 7.1.

Table 7.1 Advice to practitioners

	Highlighted points and tips for others	Quotes
Ministry of Housing, Communities and Local Government	• Attract and develop leaders who genuinely understand and 'get' people, culture/values and their importance to the organization and performance. • Be brave. For HR to be taken seriously it needs not just to listen and know its stuff but also to be 'able to speak truth to power'. • Be really strong on consultation and involvement, not just with leaders, but also right across staff levels and functions and locations. • Be strongly evidence based, with progress particularly on the HR operational side demonstrated through regular reporting and discussion of appropriate HR metrics. • Tailor the approach to suit your organization.	'The real value of the People Plan was in the discussion and process of developing it… our Leaders really "got" people and then the People Plan has been the programme of actions to deliver it.' Christine Hewitt Director of People Capability and Change

(*continued*)

Table 7.1 (Continued)

	Highlighted points and tips for others	Quotes
London School of Economics	• Get an HRM strategy but keep it close to immediate operational needs. • Recognize the need for the strategy to be a process rather than just a plan: a process which links the macro with the micro, the longer-term capital development objectives with the shorter-term HRM operational activity and service delivery needs. • Engage people to deliver the plans: senior managers to shape and fund the activity and staff to respond with higher levels of engagement and performance. • Shape and tailor your strategy to suit your own specific setting. • Recognize that how you develop and deliver the strategy is at least as important as the content. • Keep it within the 'sphere of the possible' and ensure that your strategies are realistic and grounded.	'Never make your HR strategy too strategic – operations need to be closely linked to strategy.' Indi Seehra Director of Human Resources
Anchor Homes	• Make sure that the HR agenda is not a specialist agenda worked on in a darkened room by HR professionals. Make sure business strategies and policies fully incorporate HR issues. • Focus on the priorities from both a customer and a workforce perspective. • Ensure that the HR function stays close to the business and listens to what managers say they want from HR. • Adopt a transparent management style and communicate with, listen to and involve staff. • Balance necessary control with giving people the chance to feel like individuals, use initiative and take responsibility for their work.	'Have a Board that understands the people agenda as well as finance. Make sure the Board scrutinizes progress, not just setting direction and agreeing procedures.' Jane Ashcroft CEO Anchor Hanover

(*continued*)

Table 7.1 (Continued)

	Highlighted points and tips for others	Quotes
Revolution Bars	• Be curious, get into and really understand every aspect of the organization. • Get a good understanding of the environment and the industry so that you can show how people development programmes will address the key challenges facing the business and how you are meeting them. • Ensure your people plan provides vertical alignment with business priorities and horizontal integration across all people management and development activities and staff. • Be curious, get into and understand every aspect of the organization's culture, as this is essential if you want to influence and change it. • Be approachable and honest, be accessible to staff at all levels, listen to the good and the bad, put procedures in place to do this and react to what you learn.	'HR Directors must always be connected to the realities of the organization. While you need to stay close to the executive and their priorities, you have to understand the behaviours and habits throughout the organization if you are going to influence cultural norms to support this type of transformational change and ensure that the overall objectives of the company are achieved.' Fiona Regan People Development Director

SOURCE Institute for Employment Studies, Brown *et al* (2019)

Key learning points

- People strategy specifies what the organization intends to do about people management generally or in particular areas to support the achievement of corporate goals and meet its obligations to its stakeholders. It sets out how its people management policies and practices should be integrated with the business strategy and with each other.

- People strategy should be distinguished from people policy. People strategy is purposeful and dynamic. It provides a sense of direction and constantly adjusts to meet changed circumstances. People policy is more about the here and now. Because all organizations are different, all people strategies are different.
- Three types of people strategy can be identified: 1) broad statements of intent under various headings; 2) overall HR strategies concerned with high-performance working, high-commitment management or high-involvement management; 3) specific strategies relating to the different aspects of people management such as talent management, learning and development, and reward.
- People strategy should be evaluated by comparing achievements against goals.

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Developing people strategy

08

Introduction

This chapter starts with a definition of the principles governing the development of people strategy. It is then suggested that an evidence-based approach is desirable but that there are limits to an entirely rationalistic one. A description of the process of formulating people strategy follows and the chapter concludes with recommendations from practitioners on how this should be done.

Development principles

There are three principles governing the development of people strategy:

1. *Strategic fit* – the strategy should further the interests of the organization and its employees and should be aligned with other people strategies, thus enabling them to reinforce each other.
2. *Multi-stakeholder approach* – the strategy should meet the needs of all the stakeholders of the organization.
3. *Focus on implementation* – the strategy should not be too hard to implement both by the people management function and, importantly, by line managers.

The evidence-based approach to developing people strategy

The concept of strategic people management is grounded on the belief that strategic fit is crucial. To achieve this it is necessary to base the development of people strategy on an understanding of the circumstances in which the development is taking place and an appreciation of the factors affecting the future direction to be taken. Perkins and Shortland (2006) have highlighted the merits of what they call 'informed premeditation'. An analytical approach is required and this means the use of evidence-based management supported by people analytics.

Pfeffer and Sutton (2006: 70) declared that evidence-based management 'features a willingness to put aside belief and conventional wisdom – the dangerous half-truths that many embrace – and replace these with an unrelenting commitment to gather the necessary facts to make more intelligent and informed decisions'. It has also been said (Rousseau and Barends 2011: 221) that: 'Blind faith has no place in professional practice. Human resource management needs to be evidence-based.'

Evidence-based people management uses the information obtained from the analysis and evaluation of data about people management practices in the organization and the analysis of the messages delivered by benchmarking and research. The purpose is to inform decisions on people management innovations and to ensure that such decisions are made by reference to the best available evidence. As observed by Reay *et al* (2009:13), the watchwords are 'evidence before action'.

Rousseau and Barends (2011: 223) stated that at its core, evidence-based people management combines four fundamental features into everyday management practice and decision making:

1. use of the best available scientific evidence from peer-reviewed sources;
2. systematic gathering of organizational facts, indicators and metrics to better act on the evidence;
3. practitioner judgement assisted by procedures, practices and frameworks that reduce bias, improve decision quality and create more valid learning over time;
4. ethical considerations weighing the short- and long-term impacts of decisions on stakeholders and society.

Evidence-based management becomes a way of thinking that people management professionals apply to any situation or issue by asking themselves:

- What are we trying to do here, what's important to this organization, how do we measure that?
- How are current people management practices helping or hindering what we are trying to do and what evidence do we have of this?

- How might people management changes improve the delivery of desired outcomes?
- How can we best implement improvements and how can we show ourselves that they are working?

The use of people analytics is an essential part of evidence-based people management. It applies data analysis to provide the basis for assessing the impact of people management practices and the contribution made by people to organizational performance in order to provide guidance on policy and practice. It is about 'data mining' – getting as much out of people data as possible and then going on to find links, correlations and, ideally, causation between different sets of the data. As Angrave *et al* (2016) put it: 'Much of the value of HR data is realized by using it to answer strategic questions about how people create value for the organization, so that value can be captured and leveraged.' A worldwide survey by the CIPD published in 2018 established that a strong people analytics culture leads to good business outcomes and that people analytics continues to be an evolving practice for the people management profession and its partners across the business. People analytics can be used to:

- measure levels of engagement;
- assess the quality of the employee experience;
- improve employee retention rates;
- reduce absenteeism;
- evaluate the effectiveness of different sources of recruits;
- evaluate the effectiveness of learning and development activities;
- investigate the effectiveness of performance management or performance-related pay in improving performance;
- measure the impact of organizational development interventions;
- reduce accident rates.

An analysis of possible people analytics and their use is given in Table 12.2.

In each area the analysis would investigate trends and, whenever possible, the interrelationships between different types of data and between the data and performance. This evidence could be used to reach conclusions about any action required or to evaluate the effectiveness of action already taken. Predictive analytics uses data to predict trends and therefore provide guidance on people strategy, and it is the most advanced form of people analytics.

Limits to an entirely rationalistic approach

The formulation of people strategy is not such a straightforward process as some people believe. There are limits to excessively rationalistic models of strategic planning. Hendry and Pettigrew (1990) observed that strategies could emerge from the actions and reactions of managers and others. Johnson (1987: 12) pointed out that:

> Strategic decisions are characterized by the political hurly-burly of organizational life with a high incidence of bargaining, a trading off of costs and benefits of one internal group against another, all within a notable lack of clarity in terms of environmental influences and objectives.

Anyone who, like the writer of this book, has sat for a number of years on an executive board and played a full part in business decisions knows that this is the way in which strategic decisions are typically made at the top level in an organization.

When considering approaches to the formulation of people strategy it is therefore necessary to emphasize the interactive (not unilinear) relationship between business strategy and people strategy. Boxall (1993) stressed that the strategy formation process is complex, and excessively rationalistic models that advocate formalistic linkages between strategic planning and people planning are not particularly helpful to our understanding of it.

Process is important. Following their research in 30 well-known UK companies, Tyson and Witcher (1994: 22) concluded that:

> The process of formulating HR strategy was often as important as the content of the strategy ultimately agreed. It was argued that by working through strategic issues and highlighting points of tension, new ideas emerged and a consensus over goals was found.

They also commented that: 'The different approaches to strategy formation reflect different ways to manage change and different ways to bring the people part of the business into line with business goals. In developing HR strategies, process may be as important as content' (Tyson and Witcher, 1994: 24).

Mintzberg (1987: 66) made it clear that strategic management is a learning process: 'Formulation and implementation merge into a fluid process of learning through which creative strategies evolve.'

Strategic options and choices

The process of developing people strategy involves generating strategic options and then making appropriate strategic choices. It was noted by Cappelli (1999: 8) that: 'The choice of practices that an employer pursues is heavily contingent on a number of factors at the organizational level, including their own business and production strategies, support of HR policies, and cooperative labour relations.' It is necessary to adopt a contingent approach in generating strategic HRM options and then making appropriate strategic choices. There is seldom if ever one right way forward.

Choices should relate to but also anticipate the critical needs of the business and the people in it. As described earlier, an analytical evidence-based approach is required. It should incorporate the experienced and collective judgement of top management about organizational requirements while also taking into account the needs and views of line managers and employees generally. The emerging strategy should anticipate the problems of implementation that may arise if line managers are not committed to the strategy and/or lack the skills and time to play their part. Strategy should always be formulated with implementation in mind.

The rhetoric/reality gap

There is too often a wide gap between the rhetoric of strategic people management and the reality of its impact. Gratton *et al* (1999) maintained that good intentions can too easily be subverted by the harsh realities of organizational life. For example, strategic objectives such as increasing commitment by providing more security and offering training to increase employability may have to be modified or even abandoned because of external pressures such as COVID-19.

Formulating people strategy

Research conducted by Wright *et al* (2004) identified two approaches that can be adopted to HR strategy formulation. The 'inside-out' approach begins with the status quo HR function (in terms of skills, processes, technologies and so on) and then attempts (with varying degrees of success) to identify linkages to the business (usually through focusing on 'people issues'), making minor adjustments to HR activities along the way.

The preferred 'outside-in' starts with the customer, competitor and other issues the business faces. The HR strategy then derives directly from these challenges to 'create real solutions and add real value' (Wright *et al*, 2004: 37). They made the point that 'the most advanced linkage was the "integrative" linkage in which the senior HR executive was part of the top management team, and was able to sit at the table and contribute during development of the business strategy' (p 37). Their recommendations on adopting an outside-in approach were (pp 45–46):

1 Develop a formal process for involving line executives in the development of HR strategy.
2 Have formal mechanisms for tracking developments in the external environment as part of the process.
3 Begin with the assumption that everything the current HR function is doing is either wrong or does not exist.
4 Identify the key business and people metrics that will determine or indicate the success of the business, then constantly track and communicate those metrics to the entire internal HR community.
5 Based on the business issues and metrics, develop the HR strategy that will maximally drive performance on those metrics.
6 Remember that the HR strategy is a process, not a document, intervention, or event. Any strategy is a pattern in a stream of decisions, and as business and people issues change or obstacles appear, the pattern (strategy) will also have to change.

CASE STUDY Formulating HRM strategy at Boots

The Director of HR explained that:

> I start with the top line, the four or five things which are the strategic platform for the company. I get my managers together to look at the implications. We then pull it together so that it is all derived from the original strategic platforms and then work top-down and bottom-up to get the amalgam of what we can achieve. This then feeds into the final operating plan so we can agree budgets.

The formulation of people strategy involves the following steps:

1. Scan the internal and external environment and analyse the implications.
2. Conduct a stakeholder analysis.
3. Analyse the effectiveness of existing people strategies and the implications for the future.
4. Conduct a diagnostic review, drawing on the outcomes of steps 1 to 3.
5. Consider how vertical integration or fit can be achieved, ie linking the HR strategy to the business strategy.
6. Consider how horizontal integration can be achieved, ie linking different HR practices together so that they are mutually supportive and therefore complement and reinforce each other (bundling).
7. Set out the HR strategy.

Step 1 Scan the internal and external environments

The analytical frameworks set out in Tables 8.1 and 8.2 can be used for this purpose.

Table 8.1 Analysis of the internal environment

Question	Response	Implications for HR strategy
1 What are the key objectives of our business strategy?		
2 What are the main drivers of success in our business?		
3 What are the core values of the organization?		
4 What evidence is there that these values are used in the everyday life of the organization?		
5 What are the implications of the type of business we are in on our HR strategy?		
6 What characteristics do we look for in our people?		
7 What do the people we want, want?		
8 What is our employee value proposition and does it help to attract and retain high-quality people?		

(*continued*)

Table 8.1 (Continued)

Question	Response	Implications for HR strategy
9 What are we doing about developing the talented people we need?		
10 How engaged are our people? (as established by employee surveys)		

Table 8.2 Analysis of the external environment

External factor	Impact on HR policy and practice
Competitive pressures	
Business/economic trends	
Globalization	
Employment and demographic trends	
Legislation/regulations	
Availability of key skills	
Market rates of pay	

Step 2 Conduct a stakeholder analysis

Stakeholders are the people or bodies who have a legitimate interest in an organization. They can include shareholders (owners), management, employees, suppliers, customers and the community or public at large. Account should be taken of their various interests when formulating and implementing people strategy and policies. This is done through stakeholder analysis, the process of identifying the stakeholders and establishing what their concerns are.

Stakeholder analysis provides answers to the following questions:

1. Who are the people who are likely to have legitimate interests in or concerns about what we are proposing to do?
2. What are those interests and concerns?
3. To what extent does our proposed course of action meet or conflict with these interests and concerns?
4. In the light of the answer to question 3, do we need to modify the proposal?
5. How should we take account of these interests and concerns in our plans for implementing the proposal?

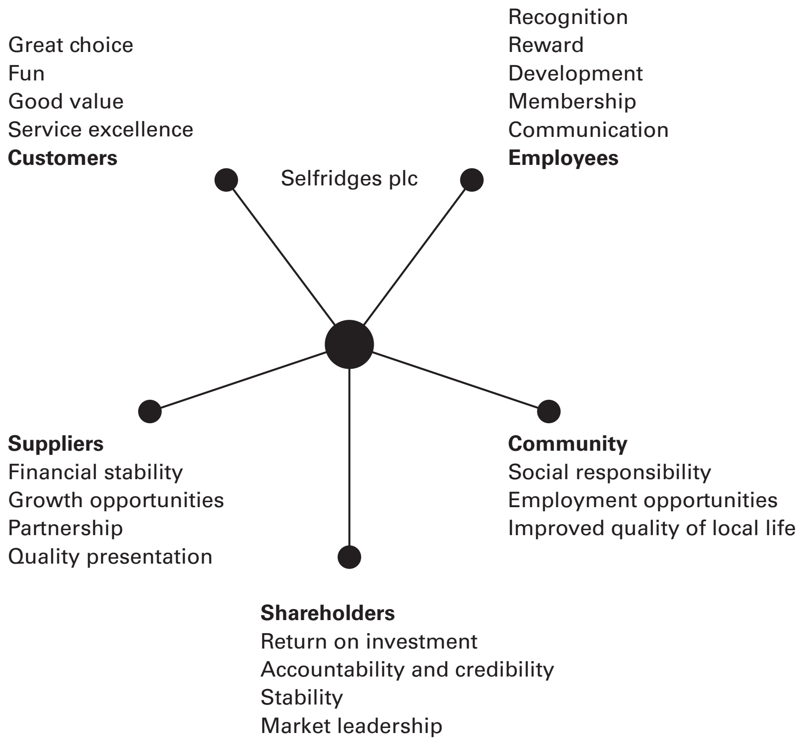
A stakeholder matrix as illustrated in Table 8.3 can be used.

An example of another approach to stakeholder analysis is given in Figure 8.1.

Table 8.3 Stakeholder analysis matrix

Proposal:			
Stakeholder	**Interests/concerns**	**Potential impact**	**Action**
Senior management			
Line management			
Employees			
Trade union(s)			
Shareholders (owners)			
Customers			
Suppliers			
The community			

Figure 8.1 The Selfridges stakeholder value model



Step 3 Analyse the effectiveness of existing people strategies

Table 8.4 Analysis of effectiveness of existing people management strategies

To what extent does HR strategy:	Wholly	Partly	Not at all	If partly or not at all, what needs to be done about it?
1 Support the achievement of business goals?				
2 Promote the wellbeing of all employees?				
3 Contribute to enhancing the levels of employee engagement?				
4 Enable the organization to recruit and retain the talented people it needs?				
5 Enable the organization to develop the talented people it needs?				
6 Focus on improving organizational performance?				
7 Focus on improving individual performance?				
8 Ensure that people are rewarded according to their contribution?				
9 Contribute to the creation of a positive employee-relations climate?				

Step 4 Conduct a diagnostic review

To draw the threads of the analyses in steps 1 to 3 together, the diagnostic framework shown in Table 8.5 can be used.

Step 5 Integrate business and people strategy

It is not enough to simply list a set of strategic priorities. It is also necessary to see that they are integrated with the business strategy. In doing this, account should be taken of the fact that strategies for change have also to be integrated with changes in the external and internal environments. Fit may

Table 8.5 Diagnostic framework

Issues identified by analysis	Reasons for issues	Proposals to deal with issues	Actions required to implement the proposals

exist at a point in time, but circumstances will change and fit no longer exists. An excessive pursuit of 'fit' with the status quo will inhibit the flexibility of approach, which is essential in turbulent conditions. This is the 'temporal' factor in achieving fit identified by Gratton *et al* (1999). An additional factor which will make the achievement of good vertical fit difficult is that the business strategy may not be clearly defined – it could be in an emergent or evolutionary state. This would mean that there could be little or nothing with which to fit the people strategy.

The process of integration should start with an analysis of the business model. As defined by Magretta (2002: 87), business models 'are at heart stories – stories that explain how enterprises work... They answer the fundamental questions every manager needs to ask: How do we make money in this business? What is the underlying economic logic that explains how we can deliver value to customers at an appropriate cost?' She explained that a business model 'focuses attention on how all the elements in a system fit into a working whole' (Magretta, 2002: 90). It is essential for those responsible for formulating people strategy to understand the business model and how it affects people management.

It is also essential to remember that business models develop and change – the process of 'business model innovation'. The role of the people management function in dealing with business model change was spelt out by Sparrow *et al* (2010: 14–15) as follows:

> A central task for HR directors is to identify how they as a leader, and how their function's own delivery model, structure, and the people processes it manages, add value during periods of business model change. In order for organizations

> to make their models work, they have to understand the potentially deep implications they have for people management. People management experts have to make sure that those engineering the new business models are working on assumptions that can reasonably be executed.

Within the context of the business model analysis, a more detailed analysis of the business strategy should be conducted, using a framework such as that illustrated in Table 8.6 to identify any specific people management areas that need to be developed to support the achievement of the business strategy.

Table 8.6 HR implications of business strategy and business drivers

	Content	Possible HR supporting activities	What needs to be done about it?
Business strategy	• Growth – revenue/profit • Maximize shareholder value • Growth through acquisitions/mergers • Product development • Market development • Cost leadership	• Workforce planning • Talent management • Skills development • Targeted recruitment • Retention policies • Leadership development • Other	
Business driver	• Attract and retain talented people (more talented than those employed by competitors) • Innovation • Maximize added value • Productivity • Customer service • Quality • Satisfy stakeholders – investors, shareholders, employees, elected representatives	• Enhance engagement • Talent management • Performance management • Reward management • High-performance working* • Smart working* • Agile working* • Other	

*Described in Chapter 15

Step 6 Achieving horizontal integration (bundling)

Horizontal integration or fit takes place when the various people strategies cohere and are mutually supporting. It can be attained by the process of 'bundling', which is carried out by first identifying appropriate people management approaches, second by assessing how the items in the bundle can be linked together so that they reinforce one another and finally by drawing up programmes for the development of these practices, paying particular attention to the links between them.

Bundling can take place in a number of ways. For example, competency frameworks could be devised which are used to specify recruitment standards, identify learning and development needs and play an important part in assessment and development centres. They could also be incorporated into performance management processes in which the aims are primarily developmental and competencies are used as criteria for reviewing behaviour. Job evaluation could be based on levels of competency, and competency-based pay systems could be introduced. Grade structures could define career ladders in terms of competency requirements (career family structures) and thus provide the basis for learning and development programmes. They can serve the dual purpose of defining career paths and pay progression opportunities. Total reward policies 'bundle' various elements of financial and non-financial rewards together. A high-performance work system bundles a number of people management practices together, as does talent management.

Step 7 Set out the people strategy

The outcomes of steps 1 to 6 form the basis for deciding on the strategy. How this is done will vary according to the circumstances of the organization, but the following are the typical areas that might be covered in a formal strategy:

- *A definition of guiding principles* – the values that have been adopted in formulating the strategy.
- *A statement of intent* – the people management initiatives that it is proposed should be taken.
- *A rationale* – the reasons why the proposals are being made. The rationale should make out the case for the proposals, indicating how

they will meet the needs of both the business and the people it employs. The costs and the benefits should be spelt out.

- *An implementation plan* – how, when and by whom the people strategy initiatives will be implemented. The plan should indicate what steps will need to be taken and should take account of resource constraints and the need for communications, involvement and training. The priorities attached to each element of the strategy should be indicated and a timetable for implementation drawn up. The plan should state who will be responsible for the development and implementation of the strategy.

A flow chart for the development of a specific people strategy (reward management) is shown in Figure 23.1 (p 250).

Recommendations from practitioners

Senior practitioners in the case study organizations examined by the Institute for Employment Studies (Brown, Hirsh and Reilly, 2019) made the following recommendations on the approach to adopt when developing people strategy:

- Be really strong on consultation and involvement, not just with leaders, but also right across staff levels and functions and locations.
- Be strongly evidence based, with progress particularly on the HR operational side demonstrated through regular reporting and discussion of appropriate HR metrics.
- Shape and tailor your strategy to suit your own specific setting.
- Keep it within the 'sphere of the possible' and ensure that your strategies are realistic and grounded.
- Focus on the priorities from both a customer and a workforce perspective.
- Ensure that the HR function stays close to the business and listens to what managers say they want from HR.
- Get a good understanding of the environment and the industry so that you can show how people development programmes will address the key challenges facing the business and how you are meeting them.
- Be curious, get into and understand every aspect of the organization's culture – this is essential if you want to influence and change it.

CASE STUDY Strategic review of human resource management in UNICEF

UNICEF's total staff complement is 8,594, drawn from 178 nationalities located at Headquarters (New York and Geneva) and in eight Regional Offices.

Purpose of the strategic review

'How well is UNICEF managing and enhancing its human resource capacity to reach its strategic objectives?'

Key questions

The review will address the following key questions:

1. Does UNICEF have clear and workable HR policies relevant to the strategic goals of the organization? What impact is UNICEF HR policy and practice having on the achievement of UNICEF strategic goals?
2. How well suited are UNICEF HRM policy, process, employment contracts and budgeting to the long-term maintenance of a skilled UNICEF workforce?
3. Are the accountabilities for HRM clear, understood and fulfilled?
4. What progress has been made in the implementation of the Brasilia strategy and what factors underlie UNICEF achievements and failings in improving HRM?
5. To what extent do UNICEF staff have the appropriate competencies to meet the organization's strategic goals?
6. To what extent do managers in UNICEF have the competencies to effectively manage resources (human and financial) to achieve the organization's goals and motivate their teams?
7. To what extent do UNICEF management culture, management structures and HR systems encourage or constrain effective HRM?
8. To what extent do UNICEF (non-financial) rewards, incentives and sanctions encourage managers to be effective in their management of human resources?
9. To what extent is UNICEF HRM helped or constrained by the HR regulations and procedures of the United Nations system, and to what extent is it free to be creative in generating its own HRM solutions?

10 Does UNICEF have the appropriate HR expertise to support the realization of its strategic goals, both in Division of Human Resources (DHR) and across the organization?

11 To what extent do UNICEF levels of investment in HR personnel and systems encourage or constrain effective HRM?

12 How efficiently and cost-effectively deployed are the staff resources within the DHR, and other HR-related posts globally?

Key learning points

- There are three development principles governing the development of people strategy:
  1. *Strategic fit* – the strategy should further the interests of the organization and its employees and should be aligned with other people strategies, thus enabling them to reinforce each other.
  2. *Multi-stakeholder approach* – the strategy should meet the needs of all the stakeholders of the organization.
  3. *Focus on implementation* – the strategy should not be too hard to implement both by the people management function and, importantly, by line managers.
- The concept of strategic people management is grounded on the belief that strategic fit is crucial. To achieve this it is necessary to base decisions on an understanding of the circumstances in which they have to be made and an appreciation of the factors affecting the future direction to be taken.
- An analytical approach to strategic people management is required and this means the use of evidence-based management and people analytics.
- The formulation of people strategy is not such a straightforward process as some people believe. The considerations which affect how it takes place are:
  - the limits of an entirely rationalistic approach;
  - the existence of strategic options and choices;
  - the rhetoric/reality gap.

- These limitations need to be taken into account when formulating people strategy but they do not preclude it. There is everything to be said for thinking ahead about what needs to be done and for planning the changes required.
- Two approaches that can be adopted to strategy formulation were identified by Wright *et al* (2004): the inside-out approach and the preferred outside-in approach.
- The formulation of people strategy involves the following steps:

  1. Scan the internal and external environment and analyse the implications.
  2. Analyse the effectiveness of existing people strategies and the implications for people strategy.
  3. Conduct a stakeholder analysis.
  4. Conduct a diagnostic review, drawing on the outcomes of steps 1 to 3.
  5. Consider how vertical integration or fit can be achieved, ie linking the people strategy to the business strategy.
  6. Consider how horizontal integration can be achieved, ie linking different people management practices together so that they are mutually supportive and therefore complement and reinforce each other (bundling).
  7. Set out the people strategy.

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Implementing people strategy 09

Introduction

The challenge of people strategy is putting it into effect: what counts is what works. As Gratton (2000: 30) commented: 'There is no great strategy, only great execution.' Strategies cannot be left as generalized aspirations or abstractions. But implementation is not always easy: intent does not necessarily lead to action.

Too often, strategists act like Charles Dickens' character Mr Pecksmith, who was compared by Dickens (*Martin Chuzzlewit*, 1843, 2004: 23) to 'a direction-post which is always telling the way to a place and never goes there'. It is necessary to avoid saying, in effect: 'We need to get from here to there but we don't know or care how.'

This chapter starts with an examination of the problems raised by implementation and continues with descriptions of the approach to implementation and the processes involved. It concludes with analyses of the role of line managers and people management specialists.

Implementation problems: the say–do gap

Organizations sometimes say they are going to do something and then don't do it. This is the 'say–do gap' which can easily occur when people strategy is involved. Fombrun *et al* (1984: 26) noted that new HR strategy initiatives often yield only modest results and lack staying power because in many companies 'much time and thought had gone into analysing and planning strategy yet very little time into its implementation'. Guest (1999) suggested that the impact of HR practices on attitudes and behaviour is likely to depend more on employee perception and evaluation of these practices than on the intended HR practices or policies themselves.

Wright and Nishii (2013) commented that HR strategies are not always implemented and if they are, may be implemented in ways that differ from the original intention. As pointed out by Khilji and Wang (2006), it is necessary to distinguish between 'intended HRM' which refers to HR practices formulated by policy makers, and 'implemented HRM', which refers to HR practices as operationalized in organizations.

Lengnick-Hall *et al* (2009: 79) observed that:

> There is a growing recognition that intended SHRM practices may be different from realized SHRM practices and to simply rely upon what is stated rather than what is actually in place may lead to ineffective implementation as well as ambiguous results in studies of the relationship between HR practices and organizational performance. The construct of employee line-of-sight to strategic objectives provides more insight into the implementation process. If employees don't understand or know how to contribute to strategic objectives, they are unlikely to be effective in doing so.

Research by Guest and Conway (2011: 1700) led to the conclusion that: 'There are three elements in a logical model of HR effectiveness. HR practices must be present, they must be effective and they must be effectively implemented.'

Gratton (1999: 202) noted 'the disjunction between rhetoric and reality in the area of human resource management, between HRM theory and HRM practice, between what the HR function says it is doing and how that practice is perceived by employees, and between what senior management believes to be the role of the HR function, and the role it actually plays'. The factors identified by Gratton which contribute to creating this gap were:

- Complex or ambiguous initiatives that may not be understood by employees or will be perceived differently by them, especially in large, diverse organizations.
- It is more difficult to gain acceptance of non-routine initiatives.
- The initiative is seen as a threat.
- Inconsistencies between corporate strategies and values.
- The extent to which senior management is trusted.
- The perceived fairness of the initiative.

To which could be added failure to take account of the strategic needs of the business (which may be difficult because they are changing too rapidly or no one really understands them); inadequate assessment of the environmental and cultural factors, including internal politics, that affect the content of the strategies; the development of ill-conceived, unmanageable and irrelevant initiatives, possibly because they are current fads or because there has been a poorly digested analysis of 'best practice' which does not fit the organization's requirements; and, importantly, failure to involve stakeholders, in the shape of managers and employees, in the formulation of strategy. These problems are compounded when insufficient attention is paid to practical implementation problems, particularly where line managers are concerned, and there is a need for supporting systems. The role of line managers is vital.

López-Cotarelo (2018) conducted a case study in a large UK-based fashion retailer and found that the important contribution made by line managers to the effective implementation of people management systems was achieved by exerting their cognitive and political abilities to bring about decisions that are well suited to their local situations.

The findings from research in a London hospital, conducted by Woodrow and Guest (2014) on the implementation of an anti-bullying policy, revealed that while the policy reflected best practice, implementation was uneven, resulting in persisting high levels of bullying which negatively affected staff wellbeing and performance. The results indicated that it is misleading to look just at HR practices, and that even 'best HR practices' are unsuccessful unless implemented effectively. The following explanation was given by Woodrow and Guest (2014: 50) for failures in implementing the policy:

> Poor quality or non-existent policy implementation was attributed to a number of factors by interviewees… These attributions fell into two broad categories. The first concerned difficulties which managers faced when attempting to implement policy, particularly where they lacked either the confidence or the time to do so… The second broad set of factors to which interviewees attributed poor management of bullying concerned management competency. Several participants, including those with management responsibility, felt that a lack of training in either conflict resolution or general leadership skills led to failures in policy implementation.

Nisshi *et al* (2008) carried out research in a US supermarket chain to investigate how employees reacted to HR innovations. They established that to achieve a satisfactory reaction, organizations should 'communicate the intentions of HR practices in an unambiguous and salient manner, both through formal organizational communications and also more indirectly through line managers' (Nishii *et al*, 2008: 41).

Research by Trevor (2011: 201) into the implementation of pay strategy in seven large consumer goods British companies led to the following conclusions:

> All firms encounter significant difficulties when attempting to implement strategic pay systems with the result that in the majority of cases, what is realized operationally as pay practice is neither what was desired nor intended strategically. As a result of the *gap* between intended policy and achieved practice, between the espoused and the realized, pay within a number of the case companies does not fulfil the strategic objectives of motivating managerial, professional and technical employees to work harder. It does not engender commitment or loyalty as outcomes, nor does it equip management with the behavioural 'lever' promised by standard theory. Despite the best efforts of leading companies, and the rhetoric of their espoused pay practice, pay practice is operationally non-strategic.

A model by Jonathan Trevor of the gap between strategy and execution is shown in Figure 9.1.

The implementation process

A model for the implementation of people (HR) strategy was produced by Guest and Bos-Nehles (2013: 80–81). They identified four stages, each one being a necessary requirement for any that follow:

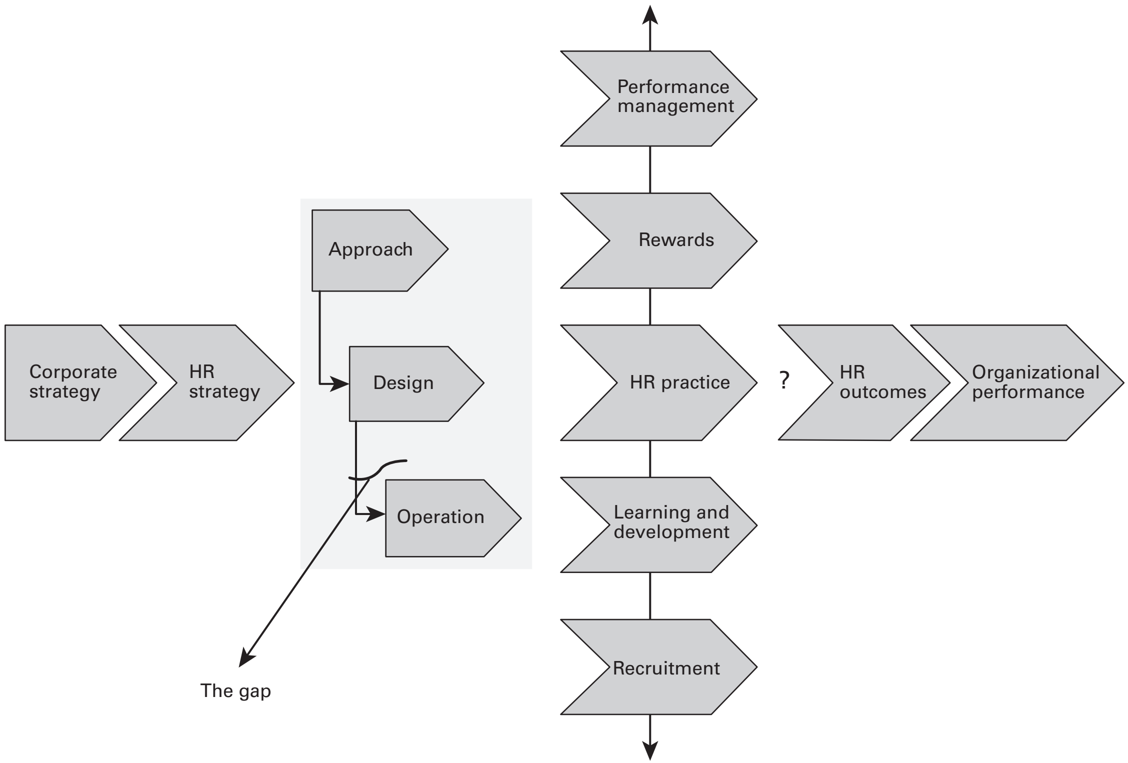
1. decision to introduce HR practices (HR managers and senior executives);
2. quality of HR practices (HR managers);
3. implementation of HR practices (line managers);
4. quality of implementation (line managers).

Implementation involving these stages is more likely to be effective if the following steps are taken.

1 *Formulate practical strategies*

A practical strategy is one that can be put into effect without too much difficulty. People strategy should take into account all the barriers that create the say–do gap. Particularly careful thought has to be given to the practical issues involved in implementing them. It is necessary to consider the role of

Figure 9.1 The gap between strategy and execution



SOURCE Adapted from Jonathan Trevor (2011) line managers in delivering people strategy as well as that of people management specialists. The aims should be to 1) keep it simple; 2) spell out *how* the strategy is to be implemented as well as *what* is to be implemented; 3) ensure that support is given to line managers in the shape of advice, guidance and training.

2 Involve

Involve as many line managers and other employees as possible in formulating the strategy – people support what they help to create. Everyone can be involved by conducting an employee survey asking for reactions to a proposed policy or practice. The survey should be followed up by discussions on its implications for HR strategy and practice. This can be done through formal consultation processes or through workshops and focus groups whose members are representative of the different constituencies in the organization and who can be encouraged to pass on what they have been doing to their colleagues. Involvement can make use of the analytical tools described in Chapter 8. The questions can be answered individually and then discussed by a group to gain greater understanding and as much consensus as possible.

3 Communicate

It is essential to communicate details of the strategy to line managers and employees. The communication should explain what is proposed, why it has been proposed (indicating the benefits both to the organization and employees), how it will work, who will be affected and the timetable for introduction. As far as possible it should be by word of mouth to individuals or through team briefing or briefing group arrangements involving everyone in an organization, level by level, in face-to-face meetings to present, receive and discuss information.

4 Build skills

New strategies may require the use of new skills or the development of existing ones. This applies to employees generally as well as line managers, who should be trained in what they have to do to implement the strategy. Skills can be built through formal off-the-job training courses, but there is much to be said for coaching and mentoring.

5 Monitor and evaluate

The introduction of people strategy should be monitored in order to evaluate its effectiveness. Corrective action in the shape of modifications to the strategy or training can then be taken.

6 Manage change

The implementation of people strategy involves change, which can be hard to introduce and may be resisted. The problems of implementing strategic change were summed up by Lawler and Mohrman (2003: 24) as follows:

> Most strategies, like most mergers, fail not because of poor thinking, but because of poor implementation. Implementation failures usually involve the failure to acknowledge and build the needed skills and organizational capabilities, to gain support of the workforce, and to support the organizational changes and learning required to behave in new ways. In short, execution failures are often the result of poor human capital management. This opens the door for HR to add important value if it can deliver change strategies, plans and thinking that aid in the development and execution of business strategy.

Implementing change can indeed be difficult. Research by Carnall (1991) in 93 organizations identified the following explanations for failures to implement change effectively:

- Implementation took more time than originally allowed.
- Major problems that had not been identified beforehand emerged during implementation.
- Coordination of implementation activities was not effective enough.
- Competing activities and other crises distracted management from implementing the change decision.
- The capabilities of the employees involved were not sufficient.
- Training and instruction to lower-level employees was inadequate.
- Uncontrollable factors in the external environment had an adverse effect on implementation.

The following suggestions on how to minimize such problems were put forward by Nadler and Tushman (1980):

- *Motivate* in order to achieve changes in behaviour by individuals.

- *Manage the transition* by making organizational arrangements designed to ensure that control is maintained during and after the transition and by developing and communicating a clear image of the future.
- *Shape the political dynamics of change* so that power centres develop that support the change rather than block it.
- *Build in stability* of structures and processes to serve as anchors for people to hold on to – organizations and individuals can only stand so much uncertainty and turbulence, hence the emphasis by Quinn (1980) on the need for an incremental approach.

As reported by Surowiecki (2013: 44), Professor Michael Roberto of Bryant University suggested that: ‘Anytime you’re trying to change the ways you do things, small wins are important. Small wins help you build support both internally and externally, and they make it easier for people to buy in.’

The role of the people management function in facilitating change was described by Vere and Butler (2007: 34) as follows:

- The issue needs to be on the strategic business agenda and managers must see how action will improve business results: that is, there needs to be a sound business case for the initiative. HR managers need to be able to demonstrate the return on the planned investment.
- The change needs to have the active backing of those at the top of the organization, so it is for the HR Director to gain the commitment of the top team and engage them in a practical way in taking the work forward.
- HR needs to engage managers in the design of change from the outset (or, if this is a business-driven change, HR needs to be involved at the outset).
- The programme needs to be framed in the language of the business to have real meaning and achieve ‘buy in’ for all parties; if there is too much HR jargon, this will be a turn-off.
- Project and people management skills are crucial to ensure the programme is well planned and resourced and risks are assessed and managed.
- As in all change programmes, the importance of communication is paramount, to explain, engage and commit people to the programme.
- In this respect the crucial role that HR can play is to ensure that employees are fully engaged in the design and implementation of the change.
- HR needs to draw on others’ experience and learning.

The role of line managers in implementing HR strategy

Implementing and enacting policies is the task of line managers. As Purcell *et al* (2003: x) stressed, it is front-line managers who 'bring policies to life'.

It is necessary first to involve line managers in the development of people strategy – bearing in mind that things done with line managers are much more likely to work than things done to line managers. Second, ensure that the people policies they are expected to put into practice are manageable with the resources they have available, including their time. Third, provide managers with the training, supporting processes and on-the-spot guidance they need.

Jonathon Trevor (2011) established through his research into the implementation of reward strategy that, too often, line managers compromised, even sabotaged, the implementation of strategies because they were not convinced that they were necessary or lacked the skills or motivation to put them into practice. It could be said that the people management function may propose but line managers dispose – line managers can bring people policies to life but they can also put them to death.

People management professionals have an important role to play in providing support and guidance to managers. Their overall strategic role is analysed in Chapter 10.

CASE STUDY Implementing people strategy: change management at the Children's Trust

A few years ago the Children's Trust was facing a chronic skills shortage, high staff turnover and loss of morale. There was a culture of avoidance when it came to tackling difficult HR issues such as poor performance or sickness absence. There was also a 'can't do' attitude, because people were constantly under pressure as a result of staff shortages. Following the change programme summarized below, which was planned and managed by the new head of HR, the Trust has won awards from both *Charity Times* and *Nursing Times* for being a great place to work, based on the views of its staff. The change programme consisted of a series of sensible, well-planned HR interventions, spearheaded by the head of HR and implemented gradually over 18 months with the full backing of the board.

The main features of the change programme were:

- HR issues were put on the senior team's agenda which met more often and considered issues such as recruitment and retention.
- A development programme for senior managers was delivered by an external consultancy to help them improve their skills and confidence; it included a training needs analysis, psychometric testing and 360-degree appraisal.
- Everything was done in a low-key, non-threatening way that emphasized development opportunities rather than the need for change.
- Nurses and carers were asked what they liked about working for the Trust and said that they had time to build relationships and really care for the children, that there was high-quality training on offer – and that 'everyone smiles around here'.
- These personal testimonials were used to devise new recruitment campaigns for nurses and, as a result, the number of job applications soon increased, helped by a recruitment video filmed at the Trust.
- Pay scales for carers were reviewed and the time it would take them to reach higher rates shortened.
- The Trust's NVQ course in health and social care was developed and it became an accredited centre, able to issue its own awards.
- New job descriptions were produced with five to seven headings detailing their accountabilities, plus a series of behavioural competencies.
- A new performance management system was implemented.
- Better sick pay was provided, combined with tools to help managers handle absence more effectively, with the result that it fell 10% in the first year and 12% in the next year.
- A fast-track nursing training programme was developed to build a cavalry of cross-trained nurses that would allow the Trust to react quickly to changing circumstances.

Key learning points

- The ultimate challenge of people strategy is putting it to work.
- Organizations sometimes say they are going to do something and then don't do it. This is the 'say–do gap' which can easily occur when people strategy is involved.

- The factors that contribute to creating this gap are:
  - Complex or ambiguous initiatives that may not be understood by employees or will be perceived differently by them, especially in large, diverse organizations.
  - It is more difficult to gain acceptance of non-routine initiatives.
  - The initiative is seen as a threat.
  - Inconsistencies between corporate strategies and values.
  - The extent to which senior management is trusted.
  - The perceived fairness of the initiative.
  - Failure to take account of the strategic needs of the business.
  - Inadequate assessment of the environmental and cultural factors that affect the content of the strategies.
  - The development of ill-conceived, unmanageable and irrelevant initiatives.
  - Insufficient attention being paid to practical implementation problems, particularly where line managers are concerned and there is a need for supporting systems.
- To provide for the effective delivery of people strategy it necessary to:
  - formulate practical strategies;
  - involve people;
  - communicate;
  - build skills;
  - monitor and evaluate.
- The implementation of people strategy involves change, which can be hard to introduce and may be resisted.
- The role of the people management function in facilitating change is to:
  - produce a sound business case;
  - gain the commitment of top management;
  - engage managers in the design of change from the outset;
  - frame the programme in the language of the business;
  - deploy effective project and people management skills;
  - ensure that employees are fully engaged in design and implementation.

- To provide for the effective delivery of people strategy it necessary to:
  - formulate practical strategies;
  - involve people;
  - communicate;
  - build skills;
  - monitor and evaluate.
- People strategies have to be converted into policies and practices and these have to be implemented by line managers.
- The people management function has to adopt a partnership approach with line managers when implementing the strategy. Partnership involves working with line managers using a joint approach to dealing with issues, solving problems and, importantly, introducing new HR policies and practices.

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The strategic role of people professionals 10

Introduction

People strategy is put into effect through the strategic behaviour of people management specialists working with their line management colleagues to ensure that the business or operational goals of the organization are achieved and its values are put into practice. This chapter starts with an examination of the strategic and partnership roles of people professionals. It continues with a review of the strategic business partner model. It concludes with analyses of the strategic roles of people directors, heads of people management functions, people business partners and people advisers or assistants.

People professionals: their basic strategic role

The strategic role of people professionals is to understand the strategic mission of the organization and support the achievement of that mission by developing and helping to implement appropriate people strategies. This is a demanding task, and Brown *et al* (2019: 56) emphasized that to meet it required the following capabilities:

> a real understanding of the business and ability to work closely with senior leaders; the ability to identify and prioritize people issues; understand the timeframes on which they need to be addressed; and help managers to see practical

> solutions. This sometimes means challenging the views of senior people and reminding them of the importance of taking a customer and employee perspective, not just seeing the business from their own point of view.

The work of people professionals can be divided into two main activity areas: transactional, and transformational or strategic. Transactional activities consist of the service delivery aspects of people management – recruitment, training and dealing with people issues, legal compliance and employee services. People management strategic activities involve the development and implementation of forward-looking people strategies such as talent management and performance management that are integrated with one another and aligned to business objectives. Importantly, strategic people professionals work with their line management colleagues in the continuous formulation and execution of the business strategy. But people professionals must not pursue business objectives at the expense of ethical considerations.

It is necessary to get the correct balance between strategic and transactional activities. In its anxiety to enhance the standing of the people profession, the Chartered Institute of Personnel and Development (the CIPD) sometimes gives the impression that the only thing that counts is 'being strategic'. Forget about the boring transactional stuff. Rosabeth Moss Kanter (1984: 294) thought that '"strategic" is clearly an overused word'. Alvesson (2009: 57) noted that 'HR people are redefining themselves "from being administrators and managers to becoming "strategists"'. He felt that: 'Sometimes one gets the impression that there is very little "non-strategic" HRM going on.'

People management must get its transactional service delivery activities right – that's what it's there to do, day-by-day, and its reputation with line managers largely depends on this. As an HR specialist commented to Caldwell (2004: 203): 'My credibility depends on running an extremely efficient and cost effective administrative machine…. If I don't get that right, and consistently, then you can forget about any big ideas.' Another person interviewed during Caldwell's research referred to HR people as 'reactive pragmatists', a realistic view in many organizations. Syrett (2006: 63) commented that: 'Whatever strategic aspirations senior HR practitioners have, they will amount to nothing if the function they represent cannot deliver the essential transactional services their internal line clients require.'

But the credibility of people professionals, especially at the highest level, also depends on their ability to make a strategic contribution which ensures that the organization has the quality of skilled and engaged people it needs. Sparrow *et al* (2010: 88) observed that: 'HR must be fully responsive to the strategy and business model of the business. HR is not a rule to itself. It is not "HR for HR", but HR (as broadly defined across the competing stakeholders whom HR has to satisfy) for the business.' The strategic nature of people management has been expressed in the strategic business partner model as described later in this chapter.

The partnership role of people professionals

Members of the people management function have to adopt a partnership approach with line managers when formulating and implementing people strategy. This is a necessary component of the role besides the more obvious activities of communicating the strategy, setting up and managing involvement programmes, coaching and training, monitoring implementation, evaluating the effectiveness of the strategy and proposing any remedial action required.

Partnership means working with line managers using a joint approach to dealing with issues, solving problems and, importantly, introducing new people management policies and practices. Traditionally, many people specialists have tended to lay down the law to their line manager clients: 'This is the policy, this is what you have to do about it, this is how I am going to help you.' In a partnership mode, they will still explain what the policy is and what the responsibilities of the manager are in implementing it, and they will still provide guidance and advice. But in adopting a partnership approach the HR professional will be more concerned with understanding the particular preoccupations and concerns of individual managers and working alongside them to produce a joint agreement on how to proceed based on that understanding. It will be a matter of agreeing rather than prescribing.

When acting as partners, people professionals should demonstrate to line managers that they understand the situation in which the latter operate and the pressures they face. People specialists need to be appreciated as colleagues who understand the business and will listen to managers when they make suggestions or express doubts about a new policy. They will discuss possible approaches and agree modifications to fit particular circumstances as long as these do not fundamentally affect the policy. They will work alongside line managers when the new policy is being introduced, not as prescriptive trainer but as, in effect, a coach. To do this they need the communications and political skills that emerged from the research conducted by the Institute for Employment Studies (Brown *et al*, 2019) as being critical to the effective formulation and delivery of people management strategies.

An HR specialist interviewed by Pritchard (2010: 182) gave the following advice on partnership:

> I think the way you change their [the business clients'] behaviours in the longer term is by getting to be a trusted advisor, and the way to become a trusted advisor is to know your individual, to know your client and to know how to hook the individual, right?

The strategic business partner model

The strategic business partner model operationalizes the concept of the partnership role carried out by people professionals. In 1985, Tyson, anticipating Dave Ulrich by 12 years, described them as business managers who have the capacity to identify business opportunities, to see the broad picture and to understand how their role can help to achieve the company's business objectives. They integrate their activities closely with top management and ensure that they serve a long-term strategic purpose. They anticipate needs, act flexibly and are proactive.

The notion of strategic partner was introduced by Dyer and Holder (1988: 31–32), not by Ulrich as is generally assumed. They described the role as follows.

The recommended role for the HR function is that of 'strategic partner'. This role typically has four aspects:

1. Top HR executives cooperate with their line counterparts in formulating HR strategies.
2. Top HR executives fully participate in all business strategy sessions as equals to chief financial officers and other top executives thus permitting early evaluation of proposals from an HR perspective.
3. HR executives work closely with line managers on an ongoing basis to ensure that all components of the business strategies are adequately implemented.
4. The HR function itself is managed strategically.

Ulrich and Lake (1990: 95–96) popularized the idea of the HR strategic business partner. They argued that:

> To ensure that management practices become a means for gaining a sustained competitive advantage, human resource professionals need to become strategic business

partners and gear their activities to improving business performance. To do this they require a good working knowledge of the organization and its strategies. In assessing the role of human resources in an organization, management needs to determine the extent to which these professionals meet the following criteria:

1. Spend time with customers and clients – diagnosing, discussing and responding to needs.
2. Actively participate in business planning meetings and offer informed insights on strategic, technological and financial capabilities.
3. Understand business conditions.
4. Demonstrate competence in business knowledge particularly customer relations, delivery of world-class management practices and management of change.

Ulrich (1997: 5) made an important addition to this list when he wrote that HR professionals should 'represent both employee needs and implement management agendas'. In other words, they should adopt a multi-stakeholder approach.

Schuler and Jackson (2007: xiv) commented later that: 'Today, human resource professionals are being challenged to learn more about the business, its strategy, its environment, its customers, and its competitors.'

The notion of strategic business partner was taken up enthusiastically within the HR profession and its professional body in the UK – the CIPD – which explained in 2007 that the task of strategic business partners was to work closely with business leaders, influencing strategy and steering its implementation.

The term 'strategic business partner' has been shortened in common parlance to 'business partner'. Conceptually, business partners work closely with line managers and are often embedded in a business unit or a line function. They are there to gain understanding of the strategies and activities of their unit or function and appreciate the role they can play as partners to the line managers with whom they work in ensuring that business goals are achieved. Business partners help those line managers to achieve their objectives through their people.

However, the concept does not always work, especially when it is installed as a fashionable approach without considering how well it will match the way in which the business operates. Another problem is that the qualities required by HR business partners are demanding and people with those qualities may be hard to find. As quoted by Stephens (2015: 36), Stuart Woollard, Director of King's College London's HRM learning centre, claimed that: 'The implicit promise of an HR business partner role is to contribute to the value of an organization through facilitating more effective human capital management.' In reality, he says: 'Business partners have become part of a dominant HR structure that remains reactive, procedurally focused and transaction-orientated.' Stephens noted that the CIPD showed that the credibility of the business partner concept was fragile when its 2013 research found that a misalignment existed between what business partners thought were the priorities for the business and those reported by business leaders.

People management strategic roles

The strategic roles of people directors, heads of people management functions, strategic business partners and advisers or assistants are summarized below.

The strategic role of people directors

The strategic role of people directors is to promote the achievement of the organization's goals and values by 1) developing and implementing people strategies that are integrated with the business strategy and are coherent and mutually supportive; 2) ensuring that a strategic approach is adopted which provides that people management activities support the business and add value; 3) taking into account the ethical dimension of people management. To carry out this role people directors need to:

- understand the strategic goals of the organization;
- appreciate the business or operational imperatives and performance drivers relative to these goals;
- in a commercial business, understand the business model of the organization (how it makes money), play a part in business model innovation and comprehend how sustainable competitive advantage can be obtained through the people employed in the organization and know how people management practices can contribute to the achievement of strategic goals;
- in a public or not-for-profit organization, appreciate its aims and purpose and how it provides the services it is required to offer;
- be aware of the critical factors governing organizational success so that they can encourage and contribute to the development of initiatives designed to improve overall organizational performance such as smart working;

- contribute to the development of the business or corporate strategy on an 'outside-in' basis (Wright, Snell and Jacobsen, 2004), starting from an analysis of the customer, competitor, business or operational issues the organization faces; the people strategy then derives directly from these challenges to create solutions, add value and ensure that the organization has the distinctive people required to make an impact;
- contribute to the development for the organization of a clear vision and a set of integrated values;
- ensure that senior management understands the people implications of its corporate or business strategy;
- see the big picture, including the broader context (the environment and the business, economic, social, legal and governmental factors that affect it) in which the organization operates;
- think in longer terms of where people management should go and how to get there;
- understand the kinds of employee behaviour required to execute the corporate strategy successfully;
- believe in and practise evidence-based management;
- be capable of making a powerful business case for any proposals on the development of people strategies;
- fully embrace ethical considerations when developing and implementing people strategy.

The strategic role of heads of people management functions

The strategic role of heads of people management functions is fundamentally the same for their function as that of people directors for the whole organization. They promote the achievement of the organization's goals by developing and implementing functional strategies that are aligned with the corporate strategy and integrated with the strategies for other people management functions, and adopt a strategic approach in the sense of ensuring that people management activities support the organization, add value and are ethical. To carry out this role, heads of people functions should:

- understand the strategic goals of the organization as they affect their function;
- appreciate the imperatives and performance drivers relative to these goals;

- help senior management to understand the implications of its strategy for the people management function;
- know how people management practices in the function can contribute to the achievement of the strategic goals;
- ensure that their activities provide added value for the organization;
- be aware of the broader context (the competitive environment and the business, economic, social, legal factors that affect it) in which the function operates;
- think in terms of the bigger and longer-term picture of where people strategies for the function should go and how to get there;
- believe in and practise evidence-based management;
- be capable of making a powerful business case for any proposals on the development of people strategies for the function;
- fully embrace ethical considerations when developing and implementing people strategy for their function.

The strategic role of PM business partners

The strategic role of people management (PM) business partners is to promote the achievement of the business or operational goals of the organizational unit or function in which they work. To carry out this role they should:

- understand the organization and its environment;
- understand the goals of their part of the organization and its plans to attain them;
- ensure that their activities provide added value for the unit or function;
- build relationships founded on trust with their line management clients;
- provide support to the strategic activities of their colleagues;
- align their activities with business or operational requirements;
- believe in and practise evidence-based management;
- be proactive, anticipating requirements, identifying problems and producing innovative and evidence-based solutions to them;
- see the broad picture and rise above the day-to-day detail;
- fully take into account ethical considerations when performing their business partner role.

The strategic contribution of PM advisers or assistants

The role of people management advisers or assistants is primarily that of delivering effective services within their function or as a member of a PM service centre. While they will not be responsible for the formulation of people strategies, they may contribute to them within their own speciality. They will need to understand the goals of the departments or managers for whom they provide services in order to ensure that these services support the achievement of those goals. They should also fully take into account ethical considerations when performing their role.

CASE STUDY The strategic role of HR at Smiths Industries

The HR Director of Smiths Industries commented on the strategic role of HR as follows:

> I do not believe that you can have stand-alone HR strategies. You have to develop strategies that are an integral part of the business objectives. I don't see HR standing alone in an ivory tower. Everything we do has to have a value-added benefit for the business. If it doesn't have a positive benefit for the business, we don't do it. If you can make a business case, then it will be supported.
>
> There are issues where it is appropriate for the HR director to lead, but in the main we try to go for an integrated approach. If we are reorganizing a business to respond to a particular market situation, then we would be developing strategies to help the managing director of that business to get to where he or she needs to be.

Key learning points

- The work of people professionals is divided into two main areas: transactional activities and strategic activities.
- The credibility of people professionals, especially at the highest level, also depends on their ability to make a strategic contribution which ensures that the organization has the quality of skilled and engaged people it needs. But PM must also get its transactional service delivery activities right.

- Human resource professionals need to become strategic business partners concerned with improving business performance. But they should not pursue business objectives at the expense of ethical considerations.
- The strategic role of people directors is to promote the achievement of the organization's goals and values by 1) developing and implementing people strategies that are integrated with the business strategy and are coherent and mutually supportive; 2) adopting a strategic approach in the sense of ensuring that people activities support the business and add value is adopted throughout the people management function; 3) taking into account the ethical dimension of people management.
- The strategic role of heads of people functions is fundamentally the same for their function as that of people directors for the whole organization.
- The strategic role of people business partners is to promote the achievement of the business or operational goals of the organizational unit or function in which they work.
- The role of people advisers or assistants is primarily that of delivering effective PM services within their function or as a member of a PM service centre. While they will not be responsible for the formulation of people strategies, they may contribute to them within their own speciality.

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PART THREE
Specific people strategies

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Organization development strategy

11

Introduction

Organization development strategy is concerned with what needs to be done to improve how well the business functions. This chapter starts with a definition of organization development and a brief description of the processes involved. It continues with an examination of the purpose and content of an organization development strategy and concludes with a discussion of an important aspect of strategic organization development – the management of culture change.

Organization development defined

Organization development (OD) is a systematic approach to improving organizational capability, that is, the capacity of an organization to function effectively in order to achieve desired results. It is concerned with process – how things get done. An early definition by Beer (1980: 10) stated that organization development operates as 'a system wide process of data collection, diagnosis, action planning, intervention and evaluation'. The CIPD (Chartered Institute of Personnel and Development, 2010: 1) defined organization development as a 'planned and systematic approach to enabling sustained organization performance through the involvement of its people'.

The original version of organization development, or 'OD' as it was known, was based on behavioural science concepts relating to the study of human behaviour. It was practised through what were called 'interventions'. During the 1980s and 1990s a number of other approaches were developed. More attention was paid to culture change activities and organization-wide processes such as high-performance working and total quality management (TQM). Further changes occurred in the following decade during which a more strategic focus was adopted and business-orientated activities such as smart working came to the fore.

Organization development activities

There is a wide range of organization development activities, as shown in Table 11.1.

Table 11.1 Organization development activities

Organization development activity	Brief description	Objective
Business model innovation	The process followed by an organization to develop a new business model or change an existing one	To obtain insight into the business issues facing the organization, leading to plans for practical interventions that address those issues
Change management	The process of planning and introducing change systematically, taking into account the likelihood of it being resisted	To achieve the smooth implementation of change
Culture change	The process of changing the organization's culture in the shape of its values, norms and beliefs	To improve the ability of an organization to achieve its goals by making effective use of the resources available to it and to ensure that the organization's core values are put into practice
Engagement, enhancement of	The development of improved levels of job and organizational engagement	To ensure that people are committed to their work and the organization and motivated to achieve high levels of performance
High-performance working	Developing work system processes, practices and policies to enable employees to perform to their full potential	To impact on the performance of the organization through its people in such areas as productivity, quality, levels of customer service, growth and profits

(*continued*)

Table 11.1 (Continued)

Organization development activity	**Brief description**	**Objective**
Knowledge management	Storing and sharing the wisdom, understanding and expertise accumulated in an organization about its processes, techniques and operations	To get knowledge from those who have it to those who need it in order to improve organizational effectiveness
Lean*	A process improvement methodology, which focuses on continuous improvement, reducing waste and ensuring the flow of production	To deliver value to customers
Organizational learning	The acquisition and development of knowledge, understanding, insights, techniques and practices	To facilitate performance improvement and major changes in strategic direction
Organization design	The process of deciding how organizations should be structured in terms of the ways in which the responsibility for carrying out the overall task is allocated to individuals and groups of people and how the relationships between them function	To ensure that people work effectively together to achieve the overall purpose of the organization
Performance management	A systematic process involving the agreement of performance expectations and the review of how those expectations have been met	To improve organizational performance by developing the performance of individuals and teams

(*continued*)

Table 11.1 (Continued)

Organization development activity	Brief description	Objective
Smart working*	An approach to organizing work through a combination of flexibility, autonomy and collaboration, in parallel with optimizing tools and working environments for employees	To drive greater efficiency and effectiveness in achieving job outcomes
Team building	Using interactive skills training techniques to improve the ways in which people in teams work together	To increase group cohesion, mutual support and cooperation
Total reward	The combination of financial and non-financial rewards available to employees. It involves integrating the various aspects of reward	To blend the financial and non-financial elements of reward into a cohesive whole so that together they make a more powerful and longer-lasting impact on job satisfaction and performance

* Covered in more detail in Chapter 15

Organization development strategy

The strategic nature of organization development is based on the role it can play in the implementation of business strategy. For example, business model innovation as a strategy could result in the need for new organization processes. This would involve organization development and change management activities.

Organization development strategy sets out intentions on how the organization is going to cope with new demands arising from system-wide change, the management of culture change and the need to improve organizational processes involving people, such as teamwork and communications. These intentions will be converted into actions on structure design, systems development and, possibly, OD-type interventions.

Formulating and implementing organization development strategy

The formulation and implementation of organization development strategy can take place through the process of integrated strategic change as conceived by Worley *et al* (1996). The steps required are:

1. Carry out strategic analysis, a review of the organization's strategic orientation (its strategic intentions within its competitive environment) and a diagnosis of the organization's readiness for change.
2. Develop strategic capability – the ability to implement the strategic plan quickly and effectively.
3. Integrate individuals and groups throughout the organization into the processes of analysis, planning and implementation to maintain the firm's strategic focus, direct attention and resources to the organization's key competencies, improve coordination and integration within the organization and create higher levels of shared ownership and commitment.
4. Create the strategy, gain commitment and support for it and plan its implementation.
5. Implement the strategic change plan, drawing on knowledge of motivation, group dynamics and change processes, dealing with issues such as alignment, adaptability, teamwork and organizational and individual learning.
6. Allocate resources, provide feedback and solve problems as they arise.

Culture change

The implementation of organization development strategy can involve a cultural change programme. The aim of such a programme is to ensure that people are aware of what the change involves for them and will act accordingly. The change programme may be wide-ranging, aimed at the development of a strong and pervasive culture that will keep organization members pulling in the same direction. This could take the form of transformational change involving fundamental and comprehensive alterations in structures, processes and behaviours which have a dramatic effect on the ways in which the organization functions. Or it may focus on a specific issue, for example in a bank, ensuring that all its operations, especially those in its foreign exchange trading function, conform to the values of integrity and fair dealing which have been espoused by top management. But because cultural values and norms are often deeply embedded, a change programme can present considerable difficulties. To mitigate these problems the following steps need to be taken:

1. *Analysis* – an analysis of the existing culture. This could make use of a diagnostic tool such as the *Organizational Culture Inventory* devised by Cooke and Lafferty (1989).
2. *Diagnosis* – a review of the analysis to identify any cultural issues or problems.
3. *Definition of the desired culture* – this might take the form of a statement of core values as produced by Johnson and Johnson.

CASE STUDY Statement of core values by Johnson and Johnson

- We believe our first responsibility is to the doctors, nurses and patients, to mothers and all others who use our products and services.
- Our suppliers and distributors must have an opportunity to make a fair profit.
- We must respect the dignity of our employees and recognize their merit.
- We must maintain in good order the property we are privileged to use, protecting the environment and natural resources.

SOURCE Aguilar and Bhambri (1983)

4. *Plan the action required* – this could include communicating the details of the change, covering how people will be affected and the part they are expected to play in implementing it, and briefing and educational programmes.
5. *Implement* – this is where HR can play a major part.
6. *Monitor* – review how well the change has been or is being implemented and take corrective action if it is not going according to plan.

A successful change programme is more likely to be achieved if top management demonstrates its commitment to the change, plays a major part in implementing it, and is seen to be acting in accordance with the values associated with the change. Involving managers and other employees in each of the six steps set out above is very desirable.

People professionals help by acting as change agents to facilitate the change. A change agent was defined by Caldwell (2001: 139–40) as 'an individual or team responsible for initiating, sponsoring, managing and implementing a specific change initiative or complete change programme'. Alfes *et al* (2010) noted that change agents establish what is required, involve people in planning and managing change, advise on how change should be implemented and communicate to people the implications of change.

Ulrich (1997: 7) observed that HR professionals should be 'as explicit about culture change as they are today about the requirements for a successful training program or hiring strategy'. He later emphasized that: 'HR should become an agent of continuous transformation, shaping processes and a culture that together improve an organization's capacity for change' (Ulrich, 1998: 125).

CASE STUDY Managing culture change in Cisco

The management of Cisco, the global technology giant, with over 12,000 employees working in 62 countries, wanted to steer the company towards a more collaborative leadership culture, fully embracing the company's own virtual communications technology. The strategic aim was to ensure that leaders exhibited the essential behaviours for a globally connected business. This heralded a move away from autocratic leadership towards collaborative leadership, from functions and silos in isolated country branches to cross-departmental, global team working.

Leaders who once ran a small team in a single office could now find themselves leading a team of remote workers dispersed around the globe. It was necessary to ensure that leaders could still lead in this new kind of environment.

Leaders were given the freedom to translate organizational change as they saw fit within their regions, but they had to demonstrate that they were viable and in touch.

HR's role in this development was to guide and support business leaders, but the process is continually evolving.

Key learning points

- Organization development is a systematic approach to improving organizational capability, ie the capacity of an organization to function effectively in order to achieve desired results.
- The strategic nature of organization development is based on the role it can play in the implementation.
- Organization development strategy is concerned with mapping out intentions on how the organization is going to cope with new demands, on system-wide change in fields such as reward and performance management, on how change should be managed, on what needs to be done to improve organizational processes involving people, such as teamwork, communications and participation.
- The implementation of an organization development strategy may involve a culture change management programme.

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Human capital management strategy 12

Introduction

Human capital management (HCM) is concerned with obtaining, analysing and reporting on data which inform the direction of people management strategy. An HCM strategy is closely associated with strategic HRM. Manocha (2005: 29) suggested that it can also provide 'evidence of a robust people strategy mapped to the business strategy'.

The defining characteristic of HCM is the use of people analytics (metrics) to guide an approach to managing people who are regarded as assets rather than costs. It emphasizes that competitive advantage is achieved by strategic investments in those assets through employee engagement and retention, talent management, and learning and development programmes. HCM is a bridge between people and business strategy. It provides the basis for 'evidence-based people management', that is, the process of ensuring that decisions and proposals on the development and application of people strategies and practices are backed up with hard data derived from research, benchmarking, and the analysis and evaluation of the organizational context and management activities.

The Accounting for People Task Force Report (DTI, 2003: 3) stated that HCM involves 'the systematic analysis, measurement and evaluation of how people policies and practices create value'. HCM was defined as 'an approach to people management that treats it as a high level strategic issue rather than an operational matter "to be left to the HR people"' (DTI, 2003: 7). The Task Force Report expressed the view that HCM had been under-exploited as a way of gaining competitive edge.

Scarborough and Elias (2002: 3) defined human capital as 'something that employees bring to the organization but is also developed through training and experience within the organization'. Nalbantian *et al* (2004; 75) described human capital as 'the accumulated stock of skills, experience and knowledge that resides in an organization's workforce and drives productive labour' and suggest that human capital management involves 'putting into place the metrics to measure the value of these attributes and using that knowledge to effectively manage the organization'.

HCM is sometimes defined more broadly without the emphasis on measurement, and this approach makes it almost indistinguishable from strategic HRM. Chatzkel (2004: 139) claimed that: 'Human capital management is an integrated effort to manage and develop human capabilities to achieve significantly higher levels of performance.' Kearns (2004: 14) asserted that 'everything done in the name of HRM is done in the name of value'. He described HCM as: 'The total development of human potential expressed as organizational value.' He emphasized that it is about creating value through people and that it is 'a people development philosophy, but the only development that means anything is that which is translated into value' (Kearns, 2004: 205).

Aims of human capital management

The four fundamental aims of HCM are to develop and use people analytics which:

- determine the impact of people on the business and their contribution to value;
- demonstrate that people management practices produce value for money in terms, for example, of return on investment;
- provide guidance on future people and business strategies;
- provide data that will inform strategies and practices designed to improve the effectiveness of people management in the organization.

As Manocha (2005: 28) observed: 'Essentially, it [HCM] is a discipline that enables organizations to identify how their people contribute to and drive business performance.'

The role of human capital management strategy

Human capital management strategy was defined by Nalbantian *et al* (2004:79) as 'a blueprint for securing, managing and motivating the workforce needed to support the organization's strategic goals. To be effective, the management practices that influence the workforce should be consistent with one another and mutually reinforcing'. The whole area of human capital management presents both an opportunity and a challenge – an opportunity to recognize people as assets that contribute directly to organizational performance, and a challenge to develop the skills needed to identify, analyse and communicate that contribution and ensure it is recognized in business decision making. By developing strategies to generate better and more accurate information in the form of HR analytics and communicating this information both internally and externally, organizations will not only improve their business decision making but also enable stakeholders to make more accurate assessments about the long-term future performance of the organization. There is evidence of a growing demand, from the investment community in particular, for better information to explain intangible value. Many organizations are beginning to understand that in an increasingly knowledge-intensive environment, the key to good management lies in understanding the levers that can be manipulated to change employee behaviour and develop commitment and engagement. This, in turn, encourages individuals to deliver discretionary behaviour or willingly share their knowledge and skills to achieve organizational goals.

Human capital management strategy involves planning the use of people metrics which help management and people professionals to understand factors that will have a direct impact on employees. It can also help executives to understand and identify areas in which there are issues regarding the effective management of staff and to design management development programmes to address these.

The link between HCM and business strategy

HCM and business strategy are closely linked and an HCM approach provides guidance on both people and business strategy. For example:

- 'By linking good HR practice and strategic management to human capital measurement firms are able to make a number of better informed decisions that will help to ensure long-term business success.' (Scarborough and Elias, 2002: 17)
- 'If HR people can demonstrate they can articulate the worth and contribution of the organization's people by linking the human capital strategy to the overall business strategy, they will not only prove invaluable but play a part in improving management practices.' (Manocha, 2005: 28)

- The HCM proposition 'emphasizes the connections and value flows between strategy, statistical analysis and the key stakeholders – employees, customers and investors'. (Donkin, 2005: 3)

The issue is to determine what this link is and how to make it work. A proposition that HCM informs people strategy, which in turn informs business strategy, tells us nothing about what is involved in practice. If we are not careful we are saying no more than that all business strategic plans for innovation, growth and price/cost leadership depend on people for their implementation. This is not a particularly profound or revealing statement and is in the same category as the discredited cliché 'Our people are our greatest asset'. We must try to be more specific, otherwise we are only doing things – more training, succession planning, performance management, performance-related pay and so on – in the hope rather than the expectation that they will improve business results.

One way of being more specific is to use HCM assessments of the impact of people management practices on performance to justify these practices and improve the likelihood that they will work. The future of HCM as a strategic management process largely depends on getting this done.

A second way of specifying the link is to explore in more detail the people implications of business strategy and, conversely, the business implications of people strategy. This can be done by analysing the elements of the business strategy and the business drivers and deciding on the people management supporting activities and supporting data required in the form of people analytics, as illustrated in Table 12.1.

A third, and potentially the most productive, way of linking people and business strategy is to relate business results to people management practices to determine how they can best contribute to improving performance.

Developing a human capital management strategy

The programme for introducing human capital management is illustrated in Figure 12.1.

Table 12.1 Analysis of business strategy and business drivers

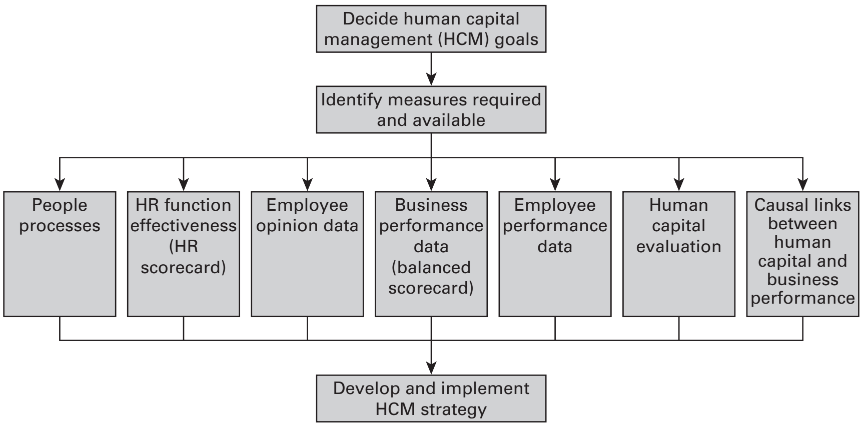
	Content of Business Strategy	HR Supporting Activities	Supporting Data Required
Business strategy	• Growth – revenue/ profit • Maximize shareholder value • Growth through acquisitions/ mergers • Growth in production/ servicing facilities • Product development • Market development • Price/cost leadership	• Human resource planning • Talent management • Skills development • Targeted recruitment • Retention policies • Leadership development	• Workforce composition • Attrition rates • Skills audit • Outcome of recruitment campaigns • Learning and development activity levels • Outcome of leadership surveys
Business drivers	• Innovation • Maximize added value • Productivity • Customer service • Quality • Satisfy stakeholders – investors, shareholders, employees, elected representatives	• Talent management • Skills development • Total reward management • Performance management • Develop high-performance/ smart/agile working • Enhance motivation, engagement and commitment • Leadership development	• Balanced scorecard data • Added value ratios (eg added value per employee, added value per £ of employment cost) • Productivity ratios (eg sales revenue per employee, units produced or serviced per employee)

(*continued*)

Table 12.1 (Continued)

	Content of Business Strategy	HR Supporting Activities	Supporting Data Required
			• Outcomes of general employee opinion survey and other surveys covering engagement and commitment, leadership, reward management and performance management • Analysis of competence level assessments • Analysis of performance management assessments • Analysis of customer surveys • Analysis of outcomes of total quality programmes • Return on investment from training activities • Internal promotion rate • Succession planning coverage

Figure 12.1 Developing an HCM strategy



Aims

The development programme starts with a definition of the aims of the HCM strategy, for example, to:

- obtain, analyse and report on data which inform the direction of people strategies and processes;
- inform the development of business strategy;
- use measurements to prove that superior people strategies and processes deliver superior results;
- reinforce the belief that people strategies and processes create value through people;
- determine the impact of people on business results;
- assess the value of the organization's human capital;
- improve the effectiveness of the PM function;
- provide data on the performance of the organization's human capital for the Operating and Financial Report;
- demonstrate that people processes provide value for money.

People analytics development

The programme continues with the identification of possible people analytics and how they can be used as set out in Table 12.2.

Table 12.2 Possible people analytics and their use

Possible analytics	Possible use – analysis leading to action
Workforce composition – gender, race, age, full-time, part-time	• Analyse the extent of diversity • Assess the implications of a preponderance of employees in different age groups, eg extent of losses through retirement • Assess the extent to which the organization is relaying on part-time staff
Length of service distribution	• Indicate level of success in retaining employees • Indicate preponderance of long- or short-serving employees • Enable analyses of performance of more experienced employees to be assessed
Skills analysis/assessment – graduates, professionally/ technically qualified, skilled workers	• Assess skill levels against requirements • Indicate where steps have to be taken to deal with shortfalls
Attrition – employee turnover rates for different categories of management and employees	• Indicate areas where steps have to be taken to increase retention rates • Provide a basis for assessing levels of commitment
Attrition – cost of	• Support business case for taking steps to reduce attrition
Absenteeism/sickness rates	• Identify problems and need for more effective attendance management policies
Average number of vacancies as a percentage of total workforce	• Identify potential shortfall problem areas
Total payroll costs (pay and benefits)	• Provide data for productivity analysis
Compa-ratio – actual rates of pay as a percentage of policy rates	• Enable control to be exercised over management of pay structure
Percentage of employees in different categories of contingent pay or payment-by-result schemes	• Demonstrate the extent to which the organization believes that pay should be related to contribution

(*continued*)

Table 12.2 (Continued)

Possible analytics	Possible use – analysis leading to action
Total pay review increases for different categories of employees as a percentage of pay	• Compare actual with budgeted payroll increase costs • Benchmark pay increases
Average bonuses or contingent pay awards as a percentage of base pay for different categories of managers and employees	• Analyse cost of contingent pay • Compare actual and budgeted increases • Benchmark increases
Outcome of equal pay reviews	• Reveal pay gap between male and female employees
Personal development plans completed as a percentage of employees	• Indicate level of learning and development activity
Training hours per employee	• Indicate actual amount of training activity (note that this does not reveal the quality of training achieved or its impact)
Percentage of managers taking part in formal management development programmes	• Indicate level of learning and development activity
Internal promotion rate (percentage of promotions filled from within)	• Indicate extent to which talent management programmes are successful
Succession planning coverage (percentage of managerial jobs for which successors have been identified)	• Indicate extent to which talent management programmes are successful
Percentage of employees taking part in formal performance reviews	• Indicate level of performance management activity
Distribution of performance ratings by category of staff and department	• Indicate inconsistencies, questionable distributions and trends in assessments
Accident severity and frequency rates	• Assess health and safety programmes

(*continued*)

Table 12.2 (Continued)

Possible analytics	Possible use – analysis leading to action
Cost savings/revenue increases resulting from employee suggestion schemes	• Measure the value created by employees
Measures of impact of PM practices	• Evaluation of effectiveness

The analysis of possible analytics leads to the development of a strategy for introducing and using them. It is often best to start with information that is readily available and extend the range of data as experience is gained. And it is important to remember that it is the quality of the information that counts, not the quantity.

CASE STUDY Use of HCM measures in Standard Chartered Bank

Standard Chartered Bank began at the strategic level when it came to designing HCM measures. Their starting point for the development of metrics was the identification of people levers for the achievement of business strategy. Next, the Bank set out a series of questions designed to inform progress against these people levers. The Bank has avoided reporting on data that are readily available but do not address the strategic business questions that had been identified.

Key learning points

- Human capital management (HCM) is concerned with obtaining, analysing and reporting on data (HR analytics) which inform the direction of value-adding people management.
- HCM involves the systematic analysis, measurement and evaluation of how people policies and practices create value.

- The four fundamental objectives of HCM are:
  1. To determine the impact of people on the business and their contribution to value.
  2. To demonstrate that HR practices produce value for money in terms, for example, of return on investment.
  3. To provide guidance on future HR and business strategies.
  4. To provide data which will inform strategies and practices designed to improve the effectiveness of people management in the organization.
- By developing strategies to generate better and more accurate information on human capital and communicating this information both internally and externally, organizations will not only improve their business decision making but also enable stakeholders to make more accurate assessments about the long-term future performance of the organization.
- A human capital management strategy that includes the systematic collection and analysis of human capital data in the shape of HR metrics can help managers to begin to understand factors that will have a direct impact on the people they manage.
- HCM assessments of the impact of HR practices on performance can be used to justify these practices and improve the likelihood that they will work.
- The development programme starts with a definition of the aims of the HCM strategy, for example, to:
  - obtain, analyse and report on data which inform the direction of HR strategies and processes;
  - inform the development of business strategy;
  - use measurements to prove that superior HRM strategies and processes deliver superior results;
  - reinforce the belief that HRM strategies and processes create value through people;
  - determine the impact of people on business results;
  - assess the value of the organization's human capital;
  - improve the effectiveness of HR;

- provide data on the performance of the organization's human capital for the Operating and Financial Report;
- demonstrate that HR processes provide value for money.

- The programme continues with the identification of possible HR analytics and how they can be used.

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Knowledge management strategy

13

Introduction

The purpose of knowledge management strategy is to capture an organization's collective expertise and distribute it to where it can be best used. It ensures that knowledge is shared by linking people with people and by linking them to information so that they learn from experiences. This is in accordance with the resource-based view of the firm which, as argued by Grant (1991), suggests that the source of competitive advantage lies within the firm (ie in its people and their knowledge), not in how it positions itself in the market. A successful company is a knowledge-creating company.

This chapter covers the process of knowledge management, the sources of knowledge, approaches to developing knowledge management strategy, the issues involved in developing a strategy, and its components.

The process of knowledge management

Knowledge management was defined by Scarborough *et al* (1999: 1) as 'any process or practice of creating, acquiring, capturing, sharing and using knowledge, wherever it resides, to enhance learning and performance in organizations'. They suggested that it focuses on the development of firm-specific knowledge and skills that are the result of organizational learning processes. Knowledge management is concerned with both stocks and flows of knowledge. Stocks include expertise and encoded knowledge in computer systems. Flows represent the ways in which knowledge is transferred from people to people or from people to a knowledge database.

The purpose of knowledge management is to transfer knowledge from those who have it to those who need it in order to improve organizational effectiveness. It is concerned with storing and sharing the wisdom and understanding accumulated in an organization about its processes, techniques and operations. It treats knowledge as a vital resource. It can be argued that in the information age, knowledge rather than physical assets or financial resources is the key to competitiveness.

Knowledge management is as much concerned with people and how they acquire, exchange and disseminate knowledge as it is about information technology, if not more so. That is why it has become an important strategic people management area. Scarborough *et al* (1999: 59) believe that people professionals should have 'the ability to analyse the different types of knowledge deployed by the organization. … (and) to relate such knowledge to issues of organizational design, career patterns and employment security'.

The concept of knowledge management is closely associated with intellectual capital theory in that it refers to the notions of human, social and organizational or structural capital. It is also linked to the concept of organizational learning.

Sources and types of knowledge

Strategies for knowledge management should be founded on an understanding of the sources and types of knowledge to be found in organizations.

Knowledge can be stored in databanks and found in presentations, reports, libraries, policy documents and manuals. It can be moved around the organization through information systems and by methods such as meetings, workshops, courses, 'master classes', written publications, disks, e-mails and social media. An intranet provides an effective medium for communicating knowledge.

As argued by Nonaka (1991) and Nonaka and Takeuchi (1995), knowledge is either explicit or tacit. Explicit knowledge can be codified – it is recorded and available and is held in databases, in corporate intranets and intellectual property portfolios. Tacit knowledge exists in people's minds. It is difficult to articulate in writing and is acquired through personal experience. Hansen *et al* (1999) suggested that it includes scientific or technological expertise, operational know-how, insights about an industry and business judgement. The main challenge in knowledge management is how to turn tacit knowledge into explicit knowledge.

Approaches to the development of knowledge management strategies

Two approaches to knowledge management have been identified by Hansen *et al* (1999):

1. *The codification strategy* – knowledge is carefully codified and stored in databases where it can be accessed and used easily by anyone in the organization. Knowledge is explicit and a 'people-to-document' approach is used. This strategy is therefore document driven. Knowledge is extracted from the person who developed it, made independent of that person and re-used for various purposes. It will be stored in some form of electronic repository for people to use and allows many people to search for and retrieve codified knowledge without having to contact the person who originally developed it. This strategy relies largely on information technology to manage databases and also on the use of the intranet.
2. *The personalization strategy* – knowledge is closely tied to the person who has developed it and is shared mainly through direct person-to-person contacts. This is a 'person-to-person' approach which is concerned with tacit knowledge. The exchange is achieved by creating networks and encouraging face-to-face communication between individuals and teams by means of informal conferences, 'communities of practice' (groups of people bound together by shared expertise who meet together to share knowledge), workshops, brainstorming and one-to-one sessions.

The research conducted by Hansen *et al* established that companies which use knowledge effectively pursue one strategy predominantly and use the second strategy to support the first. Those who try to excel at both strategies risk failing at both.

Strategic knowledge management issues

The following issues need to be addressed in developing knowledge management processes.

The pace of change

How can the strategy ensure that knowledge management processes keep up with the pace of change and identify what knowledge needs to be captured and shared?

Relating knowledge management strategy to business strategy

Hansen *et al* (1999: 109) contended that it is not knowledge *per se* but the way it is applied to strategic objectives that is the critical ingredient in competitiveness: 'A company's knowledge management strategy should reflect its competitive strategy: how it creates value for customers, how that value supports an economic model, and how the company's people deliver on the value and the economics.'

Technology and people

Technology is central to organizations adopting a codification strategy. But for those following a broader and potentially more productive personalization strategy, IT assumes more of a supportive role. As Hansen *et al* (1999: 113) commented: 'In the codification model, managers need to implement a system that is much like a traditional library – it must contain a large cache of documents and include search engines that allow people to find and use the documents they need. In the personalization model, it's more important to have a system that allows people to find other people.'

Scarborough *et al* (1999: 35) suggested that 'technology should be viewed more as a means of communication and less as a means of storing knowledge'. Knowledge management is more about people than technology. As research by Davenport (1996) established, managers get two-thirds of their information from face-to-face or telephone conversations (the latter would now be mainly e-mails and enterprise social networks and social media). There is a limit to how much tacit knowledge can be codified. In organizations relying more on tacit than explicit knowledge, a person-to-person approach works best, and IT can only support this process; it cannot replace it.

The significance of process and social capital and culture

A preoccupation with technology may mean that too little attention is paid to the processes (social, technological and organizational) through which knowledge combines and interacts in different ways (Blackler, 1995). The key process is the interactions between people. This is the social capital of an organization, that is, the 'network of relationships [that] constitute a valuable resource for the conduct of social affairs' (Nahpiet and Ghoshal, 1998).

Social networks can be particularly important to ensure that knowledge is shared. What is also required is another aspect of social capital: trust. People will not be willing to share knowledge with those whom they do not trust.

The culture of the company may inhibit knowledge sharing. The norm may be for people to keep knowledge to themselves as much as they can because 'knowledge is power'. An open culture will encourage people to share their ideas and knowledge.

Components of a knowledge management strategy

A knowledge management strategy could be concerned with organizational people management processes that help to develop an open culture. This will be one in which the values and norms emphasize the importance of sharing knowledge and facilitate knowledge sharing through networks. It might aim to encourage the development of communities of practice, defined by Wenger and Snyder (2000: 139) as 'groups of people informally bound together by shared expertise and a passion for joint enterprise'. The strategy could refer to methods of motivating people to share knowledge and rewarding those who do so. The development of processes of organizational and individual learning, including the use of seminars and symposia that will generate and assist in disseminating knowledge, could also be part of the strategy.

CASE STUDY The communities of practice approach at ABB

Engineering company ABB has made a considerable commitment to developing face-to-face communities among its service engineers.

The engineers always had an informal network whereby they telephoned each other for advice on technical problems, which was generally on a one-to-one basis. However, the company's senior management wanted to share knowledge more systematically and use it to add value.

Accordingly, they divided the engineers into three regional groups, each of which met for a day every month. Half of the time at these meetings was spent listening to ideas and updates about the company from their manager, and the other half involved running through reports prepared by the engineers. But after 12 months it was established that most participants were not completing their reports and that the meetings had become a top-down process.

The engineers then made a number of proposals, which were accepted. They minimized the reporting requirements so that a one-line e-mail would be acceptable; they elected the coordinator of each community from their own number; the agenda of meetings was driven much more by the needs of the engineers themselves; and the coordinators of the three groups met regularly to share experiences and ideas.

Key learning points

- Knowledge management involves transforming knowledge resources within organizations by identifying relevant information and then disseminating it so that learning can take place.
- Knowledge management is 'any process or practice of creating, acquiring, capturing, sharing and using knowledge, wherever it resides, to enhance learning and performance in organizations' (Scarborough *et al*, 1999).
- The purpose of knowledge management is to transfer knowledge from those who have it to those who need it in order to improve organizational effectiveness. Knowledge can be stored in databanks and found in presentations, reports, libraries, policy documents and manuals. Knowledge is either explicit or tacit.
- Knowledge management strategy aims to capture an organization's collective expertise and distribute it to where it can be best used. It ensures that knowledge is shared by linking people with people and by linking them to information so that they learn from documented experiences.
- Two approaches to knowledge management are: the codification strategy and the personalization strategy.
- The pace of change, relating knowledge management strategy to business strategy, technology and people, and the significance of process and social capital and culture are issues that need to be addressed.
- A knowledge management strategy could be concerned with organizational people management processes which help to develop an open culture. It might aim to encourage the development of communities of practice.

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Corporate social responsibility strategy 14

Introduction

Corporate social responsibility (CSR) strategy is concerned with planning how to ensure that the organization conducts its business in an ethical way, taking account of the social, environmental and economic impact of its operations and going beyond compliance. As Windsor (2006: 99) commented: 'Ethical managers engage in impartial moral reflection beyond the law.'

Wood (1991: 695) reflected that: 'The basic idea of corporate social responsibility is that business and society are interwoven rather than distinct entities; therefore, society has certain expectations for appropriate business behaviour and outcomes.' CSR is largely a strategic matter that impinges strongly on the behaviour of organizations as it affects their stakeholders. Strategic people management has an important contribution to make. This chapter covers:

- the rationale for CSR;
- the role of strategic CSR;
- the scope of CSR activities;
- the role of the people management function in CSR;
- how to develop a CSR strategy.

Corporate social responsibility defined

As defined by McWilliams *et al* (2006: 1), CSR refers to the actions taken by businesses 'that further some social good beyond the interests of the firm and that which is required by law'. CSR was described by

Husted and Salazar (2006) as being concerned with 'the impact of business behaviour on society'. Porter and Kramer (2006: 83) argued that to advance CSR: 'we must root it in a broad understanding of the interrelationship between a corporation and society while at the same time anchoring it in the strategies and activities of specific companies'. They see CSR as a process of integrating business and society.

The rationale for CSR

The philosophy of CSR is largely based on stakeholder theory, which was originated by Freeman (1984). This proposes that managers should tailor their policies to satisfy a number of constituents, not just shareholders. Stakeholding is based on the idea that a company is responsible not just to its shareholders but to a plurality of groups. The inclusion of such groups assumes that they all have an interest in the operation of the company. Investors, employees, suppliers and customers come into this category.

The rationale for CSR as defined by Hillman and Keim (2001) is based on two propositions: first, there is a moral imperative for businesses to 'do the right thing' without regard to how such decisions affect firm performance (the social issues argument), and second, firms can achieve competitive advantage (achieving and sustaining better results than business rivals, thus placing the firm in a competitive position) by tying CSR activities to primary stakeholders (the stakeholders argument). Their research in 500 firms implied that investing in stakeholder management may be complementary to shareholder value creation and could indeed provide a basis for competitive advantage as important resources and capabilities are created that differentiate a firm from its competitors (the resource-based view). The arguments identified by Porter and Kramer (2006) which support CSR are:

1. *The moral appeal* – companies have a duty to be good citizens.
2. *Sustainability* – an emphasis on environmental and community stewardship. As expressed by the World Business Council for Sustainable Social Development (2006: 1), this involves 'meeting the needs of the present without compromising the ability of future generations to meet their own needs'.
3. *Licence to operate* – every company needs tacit or explicit permission from government, communities and other stakeholders to do business.

4 *Reputation* – CSR initiatives can be justified because they improve a company's image, strengthen its brand, enliven morale and even raise the value of its stock.

Much research has been conducted on the impact of CSR. Russo and Fouts (1997) found that there was a positive relationship between environmental performance and that CSR results in an improvement in firm performance. Waddock and Graves (1997) established that CSR results in an improvement in firm performance. But McWilliams and Siegel (2000) discovered only a neutral relationship between CSR and profitability.

The opposing view was expressed forcibly by marketing expert Theodore Levitt. In a *Harvard Business Review* article, 'The dangers of social responsibility' (Levitt, 1958: 44), he contended that: 'The essence of free market enterprise is to go after profit in any way that is consistent with its own survival as an economic system.' Milton Friedman (1970), the Chicago monetarist, expressed the same sentiment. His view was that the social responsibility of business is to maximize profits within the bounds of the law. He argued that the mere existence of CSR was an agency problem within the firm in that it was a misuse of the resources entrusted to managers by owners which could be better used on value-added internal projects or returned to the shareholders.

But it can be argued, as do Moran and Ghoshal (1996), that what is good for society does not necessarily have to be bad for the firm, and what is good for the firm does not necessarily have to come at a cost to society. This notion may support a slightly cynical view that there is room for enlightened self-interest – doing well by doing good.

Strategic CSR defined

CSR can be an integral element of a firm's business and corporate-level differentiation strategies. Therefore, it should be considered as a form of strategic investment. Even when it is not directly tied to a product feature or production process, CSR can be viewed as a form of reputation building or maintenance. Baron (2001) pointed out that CSR is what a firm does when its business and marketing strategy is concerned with the public good. And Husted and Salazar (2006: 83) commented that: 'There are additional benefits that the firm extracts from a given level of social output… precisely because the firm has designed a strategy so as to appropriate such benefits.'

Strategic CSR is about deciding initially on the extent to which the firm should be involved in social issues and then creating a corporate social agenda – deciding what social issues to focus on. Porter and Kramer (2006: 85) thought that: 'It is through strategic CSR that the company will make the greatest social impact and reap the greatest business benefits.' They also stressed that: 'Strategy is always about making choices, and success in corporate social responsibility is no different. It is about choosing which social issues to focus on… organizations that make the right choices and build focused, proactive and integrated social initiatives in concert with their core strategies will increasingly distance themselves from the pack' (Porter and Kramer, 2006: 91). McWilliams and Siegel (2001) suggested that CSR activities should be included in strategy formulation and that the level of resources devoted to CSR be determined through cost/benefit analysis.

CSR strategy needs to be integrated with the business strategy but it is also closely associated with people strategy. This is because it is concerned with ethical behaviour both outside and within the firm – with society generally and with the internal community. In the latter case, this means creating a working environment where personal and employment rights are upheld and HR policies and practices provide for the fair and ethical treatment of employees.

CSR activities

CSR activities as listed by McWilliams *et al* (2006) include incorporating social characteristics or features into products and manufacturing processes, adopting progressive human resource management practices, achieving higher levels of environmental performance through recycling and pollution abatement, and advancing the goals of community organizations.

Business in the Community (2007) surveyed the CSR activities of 120 leading British companies and summarized them under four headings:

1. *Community* – skills and education, employability and social exclusion were frequently identified as key risks and opportunities. Other major activities were support for local community initiatives and being a responsible and safe neighbour.
2. *Environment* – most companies reported climate change and resource-use as key issues for their business. Eighty-five per cent of them managed their impacts through an environmental management system.

3 *Marketplace* – the issues most frequently mentioned by companies were research and development, procurement and supply chain, responsible selling, responsible marketing and product safety. There was a rising focus on fair treatment of customers, providing appropriate product information and labelling, and on the impacts of products on customer health.

4 *Workplace* – this was the strongest management performing area as most companies have established employment management frameworks that can cater for workplace issues as they emerge. Companies recognized the crucial role of employees in achieving responsible business practices. Increasing emphasis was placed on internal communications and training to raise awareness and understanding of why it is relevant to them and valuable for the business. Attention was being paid to health and wellbeing issues as well as the traditional safety agenda. More work was being done on diversity, both to ensure the business attracts a diverse workforce and to communicate the business case for diversity internally.

Business in the Community also reported a growing emphasis on responsible business as a source of competitive advantage when firms move beyond minimizing risk to creating opportunities.

CASE STUDY First Choice Homes Oldham – the live well programme

By involving colleagues in setting up a health and wellbeing programme, First Choice Oldham created an action plan that has led to healthier, happier and better-motivated staff with improved physical and mental wellbeing. Priorities were set using sickness statistics, health and wellbeing information from a colleague survey and general health information from the Borough of Oldham.

Staff can now access health and lifestyle assessments, a health kiosk, and help to stop smoking, and as a result awareness of cancer risk and mental health has been raised.

Employee engagement has increased as healthier employees demonstrate higher levels of commitment, and sickness absence has been reduced.

SOURCE Business in the Community (2007)

Developing a CSR strategy

The basis for developing a CSR strategy is provided by the Competency Framework of the CSR Academy (2006), which is made up of six characteristics:

1 *Understanding society* – understanding how business operates in the broader context and knowing the social and environmental impact that the business has on society.

2 *Building capacity* – building the capacity of others to help manage the business effectively. For example, suppliers understand the business's approach to the environment and employees can apply social and environmental concerns in their day-to-day roles.

3 *Questioning business as usual* – individuals continually questioning the business in relation to a more sustainable future and being open to improving the quality of life and the environment.

4 *Stakeholder relations* – understanding who the key stakeholders are and the risks and opportunities they present. Working with them through consultation and taking their views into account.

5 *Strategic view* – ensuring that social and environmental views are included in the business strategy, as they are integral to the way the business operates.

6 *Harnessing diversity* – respecting that people are different, which is reflected in fair and transparent business practices.

To develop and implement a CSR strategy based on these principles it is necessary to:

- understand the business and social environment in which the firm operates;
- understand the business and HR strategies and how the CSR strategy should be aligned to them;
- know who the stakeholders are (including top management) and find out their views and expectations on CSR;
- identify the areas in which CSR activities might take place by reference to their relevance in the business context of the organization and an evaluation of their significance to stakeholders;
- prioritize as necessary on the basis of an assessment of the relevance and significance of CSR to the organization and its stakeholders and the practicalities of introducing the activity or practice;

- draw up the strategy and make the case for it to top management and the stakeholders;
- obtain approval for the CSR strategy from top management and key stakeholders;
- communicate information on the whys and wherefores of the strategy comprehensively and regularly;
- provide training to employees on the skills they need to use in implementing the CSR strategy;
- measure and evaluate the effectiveness of CSR.

Role of the people management function

The CIPD (2003:5) stated that: 'The way a company treats its employees will contribute directly to the picture of a company that is willing to accept its wider responsibilities'. The CIPD (2009: 2) also expressed the view that: 'HR has a key role in making CSR work. CSR without HR runs the risk of being dismissed as PR or shallow 'window-dressing'. And CSR is an opportunity for the people management (PM) function to demonstrate a strategic focus and act as a business partner.

The arguments for people management or HR specialists taking the CSR agenda seriously were summarized by the CIPD (2003, 2009) as follows:

- Companies are increasingly required to take account of the impact of their activities on society.
- The credibility of CSR is dependent on delivery, not on rhetoric, and HR is responsible for many of the key systems and processes (eg recruitment, training, communications) on which effective delivery depends.
- HR people have relevant knowledge and skills in relation to CSR, eg organizational learning and culture change.
- Managing trust and risk raises fundamental issues about how people are managed.
- CSR offers the PM community opportunities to demonstrate its strategic focus.
- PM policy and practice on the way an organization treats its employees, including what it does about diversity, employee representation and development, will contribute to the picture of a company that is willing to accept its wider responsibilities.

- PM already works at communicating and implementing ideas, policies, and cultural and behavioural change across organizations. Its role in influencing attitudes and links with line managers and the top team means it is ideally placed to do the same with CSR.

Key learning points

Corporate social responsibility (CSR) strategy is concerned with planning how to ensure that the organization conducts its business in an ethical way, taking account of the social, environmental and economic impact of how it operates and going beyond compliance.

- The philosophy of CSR is largely based on stakeholder theory, which was originated by Freeman (1984). This states that managers should tailor their policies to satisfy a number of constituents, not just shareholders.
- The rationale for CSR as defined by Hillman and Keim (2001) is based on two propositions: first, there is a moral imperative for businesses to 'do the right thing' without regard to how such decisions affect firm performance (the social issues argument), and second, firms can achieve competitive advantage by tying CSR activities to primary stakeholders (the stakeholders argument).
- CSR can be an integral element of a firm's business and corporate-level differentiation strategies. Therefore, it should be considered as a form of strategic investment.
- McWilliams and Siegel (2001) suggest that CSR activities be included in strategy formulation and that the level of resources devoted to CSR be determined through cost/benefit analysis.
- CSR activities as listed by McWilliams *et al* (2006) include incorporating social characteristics or features into products and manufacturing processes, adopting progressive human resource management practices, achieving higher levels of environmental performance through recycling and pollution abatement, and advancing the goals of community organizations.
- The way a company treats its employees will contribute directly to the picture of a company that is willing to accept its wider responsibilities. The people management function has a key role in making CSR work (CIPD, 2003; 2009: 2).

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Organizational performance strategy 15

Introduction

Developing and implementing a strategy for the management of organizational performance is the continuing responsibility of top management who plan, organize, monitor and control activities and provide leadership to achieve strategic goals and satisfy the needs and requirements of stakeholders. Individual performance management systems as covered in Chapter 16 play an important part. But they function within the context of what is done to manage organizational performance.

Top management will devise and implement the corporate strategy for improving organizational performance. But the people management (PM) function in its strategic role has an important part to play by being involved in both the formulation and implementation of the strategy. It is people who implement the corporate plan. To carry out this role it is necessary for members of the PM function, especially the more senior ones, to understand what is involved. This is strategic people management in action – people strategies affecting performance (and they all do) must be integrated with the business strategy.

Any strategy for improving organizational performance inevitably focuses on individual performance through practices like high-performance work systems as described in this chapter. But it is also necessary to consider more specifically how people management strategies and practices, including performance management systems, can impact on individual performance either separately or, better, when 'bundled' together through the process of horizontal integration. This is dealt with in Chapter 16.

This chapter covers:

- the process of managing performance;
- the strategic approach to managing organizational performance;
- the development of organizational capability;
- developing a high-performance culture;
- how PM strategies support the business performance strategy.

The process of managing organizational performance

As Gheorghe and Hack (2007) observed: 'Actively managing performance is simply running a business – running the entire business as one entity. It's a continuous cycle of planning, executing, measuring results and planning the next actions. In the context of a larger strategic initiative, that means continuous improvement.' They noted that the management of organizational performance is a strategic approach that takes place on a number of dimensions. It has to take account of the needs of multiple stakeholders, and makes use of business performance management systems.

The dimensions of managing organizational performance

Sink and Tuttle (1990) stated that managing organizational performance includes five dimensions:

1. creating visions for the future;
2. planning – determining the present organizational state, and developing strategies to improve that state;
3. designing, developing and implementing improvement interventions;
4. designing, redesigning, developing and implementing measurement and evaluation systems;
5. putting support systems in place to reinforce progress.

How organizational performance is managed

The management of organizational performance as described in the rest of this chapter is based on the practice of strategic performance management supported by the use of a business performance management system. It is concerned with developing organizational capability through such processes as high-performance work systems, lean working, agile working, quality management and the supporting people management activities of talent management, learning and development, and the enhancement of engagement and motivation.

The strategic approach to managing organizational performance

A strategic approach to managing organizational performance means taking a broad and longer-term view of where the business is going and then managing performance in ways that ensure this strategic thrust is maintained. The objective is to provide a sense of direction in a 'VUCA' environment, (one characterized by volatility, uncertainty, complexity and ambiguity) so that the business needs of the organization and individual needs can be met by the development and implementation of integrated systems for managing and developing performance.

Organizational performance management systems are strategic in the sense that they are aligned to the business strategy of the organization and support the achievement of its strategic goals. They focus on developing work systems and the working environment as well as developing individuals. To create the systems and make them function effectively it is necessary to ensure that the strategy is understood, including, as Kaplan and Norton (2000) put it: 'The crucial but perplexing processes through which intangible assets will be converted into tangible outcomes.' They originated the concept of the balanced scorecard to ensure that all aspects of the performance of a business could be understood and measured from four related perspectives: the customer, internal processes, innovation and learning, and finance. The notion of mapping strategy was also initiated by them.

Strategy maps show the cause-and-effect links by which specific improvements create desired outcomes. They describe the elements of the organization's systems and their interrelationships and therefore provide a route map for systems improvement leading to performance improvement. They also give employees a clear line of sight into how their jobs are linked to the overall objectives of the organization and provide a visual representation of a company's critical goals and the relationships between them that drive organizational performance. Bourne *et al* (2003) call them 'success maps' that act as diagrams showing the logic of how the goals of the organization interact to deliver overall performance. An example of a strategy map is given in Figure 15.1.

This map shows an overall objective to improve profitability as measured by return on capital employed. In the next line the map indicates that the main contributors to increased profitability are increases to the gross margin (the difference between the value of sales and the cost of sales), improvements to operational capability and better cost management. At the next level down, the objective is to increase sales turnover in order to increase the gross margin. How this is to be achieved is set out in the next group of goals and their interconnections, comprising increases in customer satisfaction and sales force effectiveness, innovations in product/

Figure 15.1 A strategy map

market development and marketing, and improvements in customer service and quality levels. The key objective of improving operational capability is underpinned by developments in high-performance working and the contribution of the organization's human capital. The latter is supported by human resource management goals in the fields of performance management, talent management, employee engagement, and learning and development.

The overall objective of increasing profitability in this example addresses the concerns of only one section of the stakeholders of an organization – the investors. This need would probably be given precedence by many quoted companies. But there are other goals, which relate to their other stakeholders, for example those related to corporate social responsibility. These could be catered for in separate strategy maps. Better still, they could be linked to their commercial goals. Public and voluntary sector organizations will certainly have goals, which relate to all their stakeholders as well as their overall purpose. A stakeholder approach to the strategic management of performance is required.

Organizational performance strategy is based on the resource-based view that it is the strategic development of the organization's rare, hard to imitate and hard to substitute human resources that produces its unique character and creates competitive advantage. The strategic goal will be to 'create firms which are more intelligent and flexible than their competitors' (Boxall, 1996) by developing more talented staff and by extending their skills base.

CASE STUDY A strategic approach to the management of organizational performance as described by Johnson & Johnson

As we embarked on developing an integrated performance and development process into the organization, we knew that driving change and an enhanced process requires a cultural shift within an organization. The best performance management becomes a continuous process and is not a one-time event; it takes time and effort and a dedication to developing people. We also knew that from a business standpoint it was critical to build and develop the talent pipeline of the organization to meet the aggressive business goals and dynamically changing marketplace.

Implementing strategic organizational performance management

Strategic organizational performance management starts with a definition of the areas of activity and achievement, which are most important to the organization. These could be called organizational key result areas. They might include all or a selection of the following:

- Financial (profitability, shareholder value, cost control etc).
- Market share.
- Sales.
- Productivity.
- Quality.
- People management.
- Customer service.
- Innovation.
- Corporate social responsibility.

In each of these areas, strategic goals are set to which individual goals can be aligned as described in Chapter 16. Alignment is a key aspect of a performance management system for individuals.

Organizational capability

Organizational capability is the capacity of an organization to function effectively. It is about the ability of an organization to identify its critical success factors, guarantee high levels of performance for each of these factors, achieve its purpose, deliver results and meet the needs of its stakeholders. The development of organizational capability is concerned with the organization as a system, in line with the belief expressed by Coens and Jenkins (2002) that to 'focus on the overall "system" of the organization yields better results than [simply] trying to get individual employees to improve their performance'.

The aim is to improve organizational processes such as the formulation and implementation of strategy and the achievement of high quality and levels of customer service, facilitating the management of change, and obtaining better performance from people, getting them to work well together.

This has to take place in a situation where organizations are increasingly embracing a new management culture based on inclusion, involvement and participation, rather than on the traditional command, control and compliance paradigm. Flaherty (1999) claimed that this paradigm 'cannot bring about the conditions and competence necessary to successfully meet the challenges of endless innovation; relentless downsizing, re-engineering, and multicultural working holistically'. A new management paradigm requires the development of a high-performance work culture through management practices that value and support achievement, growth and learning. It also calls for facilitative behaviours that focus on employee empowerment, learning and development. In other words, it needs performance management.

Developing a high-performance culture

High-performance cultures are ones in which the improvement of performance levels is a way of life. The characteristics of such cultures are:

- Management defines what it requires in the shape of performance improvements, sets goals for success and monitors performance to ensure that the goals are achieved.
- People know what's expected of them – they understand their goals and accountabilities.
- People feel that their job is worth doing, and there is a strong fit between the job and their capabilities.
- There is strong leadership from the top, which engenders a shared belief in the importance of continuing improvement.
- There is a focus on promoting positive attitudes that result in an engaged, committed and motivated workforce.
- Work practices such as 'lean' are adopted and there is an emphasis on agility and flexibility.
- There is a climate of trust and teamwork, aimed at delivering a distinctive service to the customer.
- A clear line of sight exists between the strategic aims of the organization and those of its departments and its staff at all levels.

Organizations develop high-performance cultures through the systems of work they adopt, but these systems are managed and operated by people.

Ultimately, therefore, high-performance working is about improving performance through people. But this process can be facilitated through such methods as high-performance work systems, smart working, agile working, lean manufacturing and organization restructuring, as described below.

High-performance work systems

A high-performance work system (HPWS) was defined by Dundon and Rafferty (2018: 384) as one 'that includes a bundle of innovative HR practices and work processes that are mutually reinforcing, and which correlate to performance improvements at both the individual employee and organizational levels'. The components of such a system could consist of strategies for:

- enhancing engagement;
- talent management;
- learning and development, with special consideration being given to leadership development;
- financial and non-financial rewards;
- the development and use of individual performance management systems.

Examples of high-performance work systems in action are given in Table 15.1.

Table 15.1 High-performance work systems in action

Organization	High-performance working ingredients
Halo Foods	• A strategy that maintains competitiveness by increasing added value through the efforts and enhanced capability of all staff. • The integration of technical advance with people development. • Continuing reliance on teamworking and effective leadership, with innovation and self and team management skills.
Land Registry	• Organizational changes to streamline processes, raise skill levels and release talents. • Managers who could see that the problems were as much cultural as organizational. • Recruitment of people whose attitudes and aptitudes match the needs of high-performance work practices.

(*continued*)

Table 15.1 (Continued)

Organization	High-performance working ingredients
Meritor Heavy Vehicle Braking Systems	• Skill enhancement, particularly of management and self-management skills using competence frameworks. • Teamworking skills and experience used on improvement projects. • Linking learning, involvement and performance management.
Orangebox	• A strategy that relies on constant reinvention of operational capability. • Engagement and development of existing talent and initiative in productivity improvement. • Increasing use of cross-departmental projects to tackle wider opportunities.
PerkinElmer	• A vision and values worked through by managers and supervisors. • Engagement of everyone in the organization and establishment of a continuous improvement culture. • Learning as a basis for change.
United Welsh Housing Association	• Linking of better employment relations with better performance. • Using staff experience to improve customer service. • Focusing management development on the cascading of a partnership culture.

Developing a high-performance work system

The steps required are described below. The more line managers and other employees can be involved at every stage, the better.

1 *Analyse the business strategy*

- What is the business model?
- Where is the business going (what innovations to the model are planned)?
- What are the strengths and weaknesses of the business?
- What threats and opportunities face the business?
- What are the implications of the above on the type of people required by the business, now and in the future?
- To what extent do we – can we – obtain competitive advantage through people?

2. *Define the desired performance culture of the business and the objectives of the exercise* – refer to the characteristics of an effective performance culture set out earlier (p 185) and produce a list of desirable characteristics that is aligned to the culture and context of the business, and a statement of the objectives of developing an HPWS.
3. *Analyse the existing arrangements* – start from the headings defined at stage 2 and analyse against each heading:
   - what is happening now in the form of practices, attitudes and behaviours (what do you want people to do differently?);
   - what should be happening;
   - what people feel about it (the more involvement in this analysis from all stakeholders, the better).
4. *Identify the gaps between what is and what should be* – clarify specific practices where there is considerable room for improvement.
5. *Draw up a list of practices that need to be introduced or improved* – at this stage only a broad definition should be produced of what ideally needs to be done.
6. *Establish links* – identify the practices that can be linked together in 'bundles' in order to complement and support one another.
7. *Assess practicality* – the ideal list of practices, or preferably, bundles of practices, should be subjected to a reality check:
   - Is it worth doing? – what's the business case in terms of added value? What contribution will it make to supporting the achievement of the organization's strategic goals?
   - Can it be done?
   - Who does it?
   - Have we the resources to do it?
   - How do we manage the change?
8. *Prioritize* – in the light of the assessment of practicalities, decide on the priorities that should be given to introducing new or improved practices. Adopt a realistic approach. There will be a limit on how much can be done at once or at any future time. Priorities should be established by assessing:
   - the added value the practice will create;
   - the availability of the resources required;

- anticipated problems in introducing the practice, including resistance to change by stakeholders (too much should not be made of this – change can be managed, but there is much to be said for achieving some quick wins);
- the extent to which they can form bundles of mutually supporting practices.

9 *Define project objectives* – develop the broad statement of objectives produced at stage 2 and define *what* is to be achieved, why and how.

10 *Get buy-in* – this should start at the top with the chief executive and members of the senior management team, but so far as possible it should extend to all the other stakeholders (best to involve them at earlier stages and communicate intentions in full).

11 *Plan the implementation* – this is where things become difficult. Deciding what needs to be done is fairly easy; getting it done is the hard part. The implementation plan needs to cover:

- who takes the lead – this must come from the top of the organization; nothing will work without it;
- who manages the project and who else is involved;
- the timetable for development and introduction;
- the resources (people and money required);
- how the change programme will be managed, including communication and further consultation;
- the success criteria for the project.

12 *Implement* – too often, 80 per cent of the time spent on introducing an HPWS is spent on planning and only 20 per cent on implementation. It should be the other way round. Whoever is responsible for implementation must have considerable project and change management skills.

Smart working

As defined by the CIPD (2008: 4), smart working is 'An approach to organizing work that aims to drive greater efficiency and effectiveness in achieving job outcomes through a combination of flexibility, autonomy and collaboration, in parallel with optimizing tools and working environments for employees'. The characteristics of smart working are:

- self-management – a high degree of autonomy and a philosophy of empowerment;

- the use of virtual teams or work groups;
- focus on outcome-based indicators of performance;
- high-performance working;
- flexibility in work locations and hours;
- use of more advanced communications technology;
- hot-desking and working from home;
- ways of working that are underpinned by or drive high-trust working relationships;
- alignment of smart working with business objectives.

Typical smart working arrangements identified by CIPD research include flexible working, high-performance working, 'lean manufacturing' and designing jobs in which there is a higher degree of freedom to act.

Agile working

Agile working is an approach to running a business that enables it to respond rapidly to change, new demands and increasing complexity. A report by the Economist Intelligence Unit (2009) stated that the characteristics of an 'agile' business were a high-performance culture, flexibility of management practices and resources, and organizational structures that support collaboration, rapid decision making and execution. Nearly 90 per cent of senior executives surveyed across the world by the Economist Intelligence Unit believe that organizational agility (ability to anticipate and address the forces affecting the business) is critical for business success.

CASE STUDY Agile working in Deloitte

Agile working in Deloitte, the professional services firm, is based on three principles:

1. *Outcomes, not inputs, matter*: the focus had to be shifted from the visibility of an individual in the office to the actual outputs of their work.
2. *Mutual trust*: an underlying assumption that the majority of employees are motivated, ambitious and there to do a good job.
3. *Two-way open communication* between the manager, other team members and the individual.

Research conducted by the CIPD (2014) found that the main methods organizations use to achieve agility are:

- flexible working;
- providing the skills required to meet new demands through the use of multiskilling and rapid retraining;
- workforce planning to ensure that the supply of people matches requirements;
- improving leadership and management capability; and
- organization restructuring.

Lean manufacturing

Lean manufacturing or lean production, often known simply as 'Lean', is a process improvement methodology developed by Toyota in Japan. Lean focuses on reducing waste and ensuring the flow of production in order to deliver value to customers. It concentrates initially on the design of the process so that waste can be minimized during manufacture. It then examines operations to identify opportunities to improve the flow of production, remove wasteful practices and engage in continuous improvement. Various tools are available, such as 'Five Ss', a workplace methodology involving sorting, straightening, systematic cleaning, standardizing and sustaining. Reference to these enables a dialogue to take place with employees on how work should be done.

But as noted by the CIPD (2008: 11), the success of lean depends not so much on the tools as on its approach to work. Lean is implemented by communities of people who carry out and supervise the work and may include stakeholders such as customers. Lean team members are encouraged to think flexibly and be adaptable to change. They have a sense of ownership of what they do and achieve.

Organization restructuring

Organization restructuring is about enabling people to work effectively together. It means deciding how the responsibility for carrying out the overall task is allocated to individuals and groups of people, how the relationships between them take place, and job design. There is no ideal structure, but in any organization that depends on innovation and the ability to cope with change and turbulence, the best outcomes are likely to be achieved when the structure is informal, with flat, lean and flexible horizontal processes. Roles are flexible and enriched with more autonomy, and teams are self-managed.

How people strategies enhance organizational performance

1. People strategies generally enhance organizational performance first by making a significant contribution to the development of a high-performance culture through such methods as high-performance, smart, or agile working. They may be involved in organization restructuring exercises and the operation of organization development programmes. Marsh *et al* (2010) suggested that organization design and organization development need to be merged into one HR capability, with organization design taking precedence.
2. Specifically, people strategies help to ensure that skilled, motivated and engaged people are available to implement corporate plans for improving organizational performance. These strategies, as considered elsewhere in this book, include those for managing individual performance, resourcing (workforce planning), talent management, learning and development, developing a positive employment relationship and looking after employee wellbeing.

Key learning points

- The management of organizational performance is the continuing responsibility of top management.
- HR in its strategic role has an important part to play by being involved in both the formulation and implementation of the strategy.
- Actively managing performance is simply running a business.
- A strategic approach to managing organizational performance means taking a broad and longer-term view of where the business is going and then managing performance in ways that ensure this strategic thrust is maintained.
- Strategic organizational performance management starts with a definition of the areas of activity and achievement which are most important to the organization.

- Organizational capability is the capacity of an organization to function effectively. The aim is to increase organizational capability by obtaining better performance from people, getting them to work well together, improving organizational processes such as the formulation and implementation of strategy and the achievement of high quality and levels of customer service, and facilitating the management of change.
- High-performance working is about improving performance through people. This can be done by the development and implementation of a high-performance culture through such methods as high-performance work systems and lean working and by increasing the agility with which the organization responds to challenges and manages change.
- People strategies enhance organizational performance first by making a significant contribution to the development of a high-performance culture through such methods as high-performance, smart, or agile working.

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Individual performance strategy

16

Introduction

A strategy is required to indicate what an organization wants to do about managing individual performance. The strategy has first to take account of the meaning of performance and the factors that affect it, and next decide on how a new performance management system can be designed and implemented or an existing one improved. As explained in the first section of the chapter, in doing this, systems factors (how the organization functions) and a number of factors related to other aspects of people strategy such as engagement, resourcing, and learning and development have to be considered. But in practice, a performance management system as described in the second section of this chapter often has limitations, and in the final section of the chapter the consequential need for a typical system to be reinvented to a greater or lesser degree is discussed.

Performance and the factors that affect it

There are different views on what performance is and there are a number of factors that affect it, as considered below. To manage performance it is necessary to appreciate these views and understand the factors.

The meaning of performance

Performance could just mean outputs – the results obtained. Or it could mean behaviour – how the results were obtained. Or it could be both results and behaviour.

Performance as outputs

Kane (1996) argued that performance 'is something that the person leaves behind and that exists apart from the purpose'. Bernadin *et al* (1995) were concerned that: 'Performance should be defined as the outcomes of work because they provide the strongest linkage to the strategic goals of the organization, customer satisfaction, and economic contributions.'

Performance as behaviour

Campbell (1990) explained that: 'Performance is behaviour and should be distinguished from the outcomes because they can be contaminated by systems factors.' Aguinis (2005) was positive that: 'performance is about behaviour or what employees do, and not about what employees produce or the outcomes of their work'.

Campbell *et al* (1993) focused on the measurement of performance, which they defined as behaviour or action relevant to the attainment of the organization's goals that can be scaled, that is, measured. They suggested that performance is multidimensional and that each dimension is characterized by a category of similar behaviour or actions. The components consist of: 1) job-specific task proficiency; 2) non-job-specific proficiency (eg organizational citizenship behaviour); 3) written and oral communication proficiency; 4) demonstration of effort; 5) maintenance of personal discipline; 6) facilitation of peer and team performance; 7) supervision/leadership; and (8) management/administration.

Borman and Motowidlo (1993) suggested the notion of contextual performance, which covers non-job-specific behaviours such as cooperation, dedication, enthusiasm and persistence and is differentiated from task performance covering job-specific behaviours. As Fletcher (2001) mentioned, contextual performance deals with attributes that go beyond task competence and which foster behaviours that enhance the climate and effectiveness of the organization.

Performance as both outcomes and behaviour

It can be argued that a more comprehensive view of performance is achieved if it is defined as embracing both behaviour and outcomes. When people are said to be performing well, it does not solely refer to what results they deliver; it is also concerned with how they deliver them. Brumbach (1988) explained that:

> Performance means both behaviours and results. Behaviours emanate from the performer and transform performance from abstraction to action. Not just the instruments for results, behaviours are also outcomes in their own

right – the product of mental and physical effort applied to tasks – and can be judged apart from results.

Defining performance like this leads to the conclusion that when managing the performance of individuals and teams, both outputs (results) and inputs (behaviour) need to be considered. This is the generally accepted 'mixed model' of performance management, which is concerned with both the 'what' and the 'how'.

Levels of individual performance are affected by a number of influences and factors as discussed below.

Factors affecting individual performance

There are five factors affecting individual performance:

1. *The individual*, who needs the right levels of knowledge and skills, motivation, and engagement to perform effectively.
2. *The individual's job*, which has to be designed to provide the opportunity to use and develop skills and give an appropriate degree of autonomy in carrying out the work.
3. *The individual's manager*, who has to provide leadership and support and act as a coach and mentor as required.
4. *The individual's work group*, whose members will exercise a strong positive or negative influence on the attitudes, behaviour and performance of the individual.
5. *The organization*, which has to provide a powerful, cohering vision and operate a work system that facilitates high performance.

Performance management systems

A performance management system is a process designed to formalize the conduct of the five activities believed to be necessary to achieve performance improvements: 1) agreeing goals for individuals; 2) aligning those goals with the strategic goals of the organization; 3) planning performance to achieve the goals; 4) reviewing and assessing progress; 5) developing the capabilities of individuals.

The nature of a performance management system is described below, but this is an idealized concept of how one *ought* to work rather than a realistic picture of how, too often, it *does* work.

The defining features of an ideal performance management system are that it operates in accordance with a set of principles and is a continuous process.

Principles of performance management

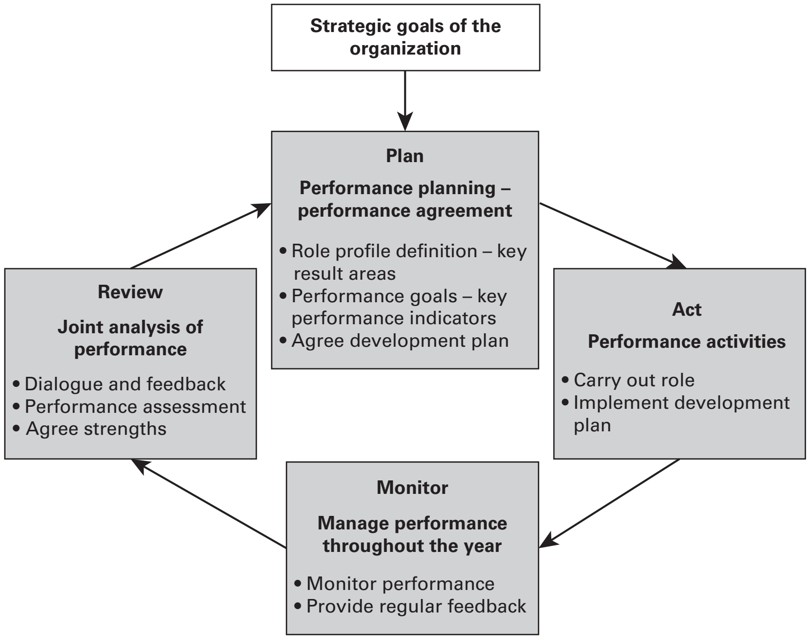
The overarching principles governing effective performance management were defined as follows by Egan (1995: 36):

> Most employees want direction, freedom to get their work done, and encouragement not control. The performance management system should be a control system only by exception. The solution is to make it a collaborative development system in two ways. First, the entire performance management process – coaching, counselling, feedback, tracking, recognition, and so forth – should encourage development. Ideally, team members grow and develop through these interactions. Second, when managers and team members ask what they need to be able to do to do bigger and better things, they move to strategic development.

Performance management as a continuous process

A performance management system as modelled in Figure 16.1 flows from the organization's goals and then operates as a continuous and self-renewing cycle.

Figure 16.1 The performance management cycle



Limitations of the model

Like all models, the performance management system as described above has its limitations. It is normative in that it seems to prescribe a norm or standard pattern as best practice by presenting an ideal picture of what a performance management system should look like and how it should work. But how it works will be related to the context in which it operates. Fletcher (1998) noted the evolution in many organizations of a number of separate but linked processes applied in different ways according to the needs of local circumstances and staff levels. Some organizations reject the concept of a bureaucratic, centrally controlled and uniform system of performance management, which is implied by the model, and instead accept that, within an overall policy framework, different approaches may be appropriate in different parts of the organization and for different people.

One problem with the model as presented here is that it can encourage an over-elaborate approach. Systems designers may be tempted to cover every aspect of the model in detail and turn what should be a natural and straightforward management process into a bureaucratic nightmare, with complex procedures and intricate paper- or computer-based forms. Managers don't like this and won't do it properly, if at all. Employees generally regard it as yet another control mechanism imposed from above.

When developing a performance management system, the watchwords are 'keep it simple'. Terms such as role profile, key result areas or key performance indicators make perfect sense as explanations of how the system works. But to the managers and employees who have to run the system they can appear to be impenetrable jargon – prime examples of managerese or HR speak. Such terms should be avoided or at least minimized in communications about the scheme or during training.

Another problem with the model is the suggestion that there is a smooth transition from the organization's strategic goals to individual goals. But this is much more difficult than it sounds. Strategic goals at organizational level may not always translate easily into individual goals because organizational goals are not defined well enough or are too remote from the work of individual employees. Many commentators have extolled the virtue of alignment; few have made practical suggestions about how it can be achieved. It can also be argued that strategic goals will inevitably be determined by top management without consulting employees, and that simply 'cascading' goals downwards contradicts the performance management principle that people should be involved in agreeing their own objectives. The answer to this concern is that, although at individual level account should be taken of overarching goals, individuals can usefully take part in discussions on how they can further the achievement of those goals.

Thereafter, the model indicates a steady progression through the stages of performance management, each of them linked together. This is both logical and desirable but in reality it may be difficult to achieve. The natural tendency of managers is to compartmentalize these activities, if they carry them out at all. They do not always appreciate how they are connected and what they should do to ensure that the cycle does work smoothly.

Performance management is applied in many different ways according to the context in which it is used. These ways will not necessarily conform to those prescribed by the model. The contextual factors include the type of operation and the organization's structure. Importantly, they also include the organization's culture, as expressed in its philosophy or norms (explicit or implicit) on how people should be managed, and the prevailing management style, for example the degree to which it is controlling or participative. As Stoskopf (2002) put it: 'A [performance management] system with the most academically correct competencies or performance measures may fail if it does not fit with the company's culture or workforce.' Pulakos, Mueller-Hanson and O'Leary (2008) summed this up as follows:

> Performance management is often referred to as the 'Achilles heel' of HRM. All modern organizations face the challenge of how best to manage performance. That is, they must determine the best ways to set goals, evaluate work and distribute rewards in such a way that performance can be improved over time. While all firms face similar challenges, the way a firm responds to these challenges will depend on where the firm is located and the context within which it is operating. Differences in culture, technology or simply tradition make it difficult to directly apply techniques that have worked in one setting to a different setting.

CASE STUDY The performance management system at DHL

DHL is a global market leader in the international express and logistics industry, with 45,000 staff in Europe.

DHL's annual performance management process begins in August when the core elements of the scheme are designed at the top level. Following this, in mid-November, based on the aims decided upon in August, targets are set for the year by a panel of senior staff. Once devised, these targets are cascaded down the organization into individual personal objectives following discussions between line managers and HR.

The cascading process is designed to ensure that targets are refined and altered to align with each individual's actual job. Further discussions then take place to decide what each target means for employees in practice and their implications for competencies. Around the same time, attainment levels and scoring based on the previous year's performance take place to determine bonus levels and salary rises. Following this, with targets already set, around the middle of January, an outline for recording performance targets for personal and financial performance for the coming year is designed, and in mid-February the company's financial results become known. This makes it possible to determine the pot available for bonus payments and salary increases relating to the previous year. Bonuses are paid in either March or April while salary reviews takes place in April.

The initial stage of establishing overall objectives and the target-setting framework sets the tone for the year. From year to year, conditions change, with the priorities of senior management reflecting the current state of affairs. As a result, each year there are a number of overarching themes, such as serving customers, for example, or health and safety. These core individual key objectives (IKOs) are strictly adhered to, although local managers can determine how to manage their attainment. In contrast, more flexibility exists for other objectives, with managers at lower levels able to alter them to align with their particular needs. There is further flexibility in the system with regard to its timing.

The reality of performance management systems

Performance management systems are easy to conceive but hard to deliver. Duncan Brown (2010) remarked that:

> The problems [of performance management] are… not of ambition or intent, but rather practice and delivery. Low rates of coverage and even more frequently low quality conversations and non-existent follow-up are commonplace, in the wake of uncommitted directors, incompetent line managers, uncomprehending employees and hectoring HR with their still complex and bureaucratic HR processes.

The many-faceted nature of performance was commented on as follows by Cascio (2010): 'It is an exercise in observation and judgement, it is a feedback process, it is an organizational intervention. It is a measurement process as well as an intensely emotional process. Above all, it is an inexact, human process.'

As a human process, performance management can promise more than it achieves. Coens and Jenkins (2002) delivered the following judgement:

> Throughout our work lives, most of us have struggled with performance appraisal. No matter how many times we redesign it, retrain the supervisors, or give it a new name, it never comes out right. Again and again, we see supervisors procrastinate or just go through the motions, with little taken to heart. And the supervisors who do take it to heart and give it their best mostly meet disappointment.

Shields (2007) argued that: 'Ill-chosen, badly designed or poorly implemented performance management schemes can communicate entirely the wrong messages as to what the organization expects from its employees.'

The belief that employees were more demotivated than motivated by performance management was expressed by 23 per cent of the respondents to the 2014 e-reward performance management survey – a disturbingly high proportion.

The fundamental problem is that in a typical system the performance review takes place once a year. Lip service may be paid to the need to make it a continuous process but line managers and individuals still see it as a yearly event and it can too easily become a dishonest, annual ritual.

This problem is compounded by the fact that performance reviews or appraisals are often expected to fulfil numerous functions, including performance improvement, feedback, coaching, goal setting, skill development, the assessment of potential, pay determination and the identification of under-performers. No performance appraisal system can meet all these ends. Peter Reilly (2015) commented that 'all singing, all dancing performance appraisal… requires managers to review a wide range of content (reward, training needs, business alignment, etc) and use of multiple processes (eg personal development planning, performance ranking, potential assessment etc), but also to apply different modes of management – appreciation, evaluation and coaching – which can be very tough on them to deliver'. It is no wonder that line managers do not live up to the expectations of people management specialists or that the perfunctory training in performance management provided by most organizations fails to produce the multi-skilled, multi-tasking paragon the system demands.

The problem may be the result of an inappropriate or over-engineered system but the most typical reason is that line managers do not have the skills or the inclination to manage the system properly. The skills required are considerable and it is all too easy for managers to go through the motions without really believing that what they are doing is worthwhile. This is why attention must be given to involving them in developing the scheme, briefing them thoroughly on the nature and importance of performance management, emphasizing that managing performance is an important part of their job and that they will be judged on how well they do it, providing them with training and individual coaching, and monitoring how well they carry out their performance management duties.

Dealing with the issues – reinventing performance management

A number of companies have recently introduced radical changes to their performance management systems. They have come to realize that traditional performance management is broken. As proposed by Buckingham and Goodall (2015), it has to be reinvented. This particularly applies to the annual performance review meeting.

The focus is now on continuous coaching and development rather than one annual and stressful review. Accenture has scrapped annual appraisals for its 300,000 plus workforce and instead instituted a 'continuous feedback' culture. Expedia has introduced a 'Passport to Performance' system of regular performance and development conversations that are more coaching orientated.

Reinvention as explained above may be desirable but there is a fundamental question that should be answered: 'To what extent is there any need for the sort of formal and elaborate performance management system described earlier in this chapter at all?' Clearly it is essential to have some sort of process for clarifying objectives, providing feedback on performance, reviewing performance and identifying development needs. But does it need to be so elaborate?

The Institute for Employment Studies published in 2014 the results of interesting research by Dilys Robinson of how managers who had achieved high levels of engagement in their teams went about it. Here is what four of those managers told her about how they managed performance:

- 'So, the key for me is just one-to-one time, and they know what they're aiming for, and we talk about it regularly. So it never really gets to the situation where there's like a really great big formal sit-down to say let's review everything you've done.'

- 'I think it's regular dialogue… at least once a fortnight for an extended period of time, just one to one and just about them and the work they're doing and what's going on… just so that I understand what they're doing and so I can give a bit of a steer or give them a bit of coaching if they need some coaching; help them if they want some help and support.'
- 'Every week I have a one-to-one session with people who work for me. And it's half an hour; it's the opportunity to talk things over with people. I say to people it's your time with me. But, to be honest, it's not just that; it's me getting to talk to them.'
- 'This organization has a very structured performance management framework, as you would imagine from a big company. I try and avoid using it unless I have to, I would rather try and develop the personal relationship with someone, to understand their issue and try and improve their performance by working with them, rather than going through procedural ways of managing performance.'

Perhaps the best strategy to deal with the annual performance review issue, indeed the whole problem of making performance management work, is to appoint and develop managers who can act like this, rather than compel them to conform to the bureaucratic requirements of a typical performance management system. These managers are managing performance, not operating a system. They are constantly communicating with their team members, they clarify what has to be done and take swift action to deal with under-performance, they praise when praise is due and they coach their staff. To get this sort of manager is a matter of selection, development through coaching and mentoring, and constant encouragement. It would take a lot of time and effort but it would be time well spent.

Key learning points

- Performance management strategy defines the intentions of the organization on what it wants to do about performance management.
- A more comprehensive view of performance is achieved if it is defined as embracing both behaviour and outcomes.
- There are five factors affecting individual performance: 1) the individual; 2) the individual's job; 3) the individual's manager; 4) the individual's work group; 5) the organization.

- An individual performance strategy can focus on the development of a high-performance work system.
- A performance management system is a process designed to formalize the conduct of the five activities believed to be necessary to achieve performance improvements: 1) agreeing goals for individuals; 2) aligning those goals with the strategic goals of the organization; 3) planning performance to achieve the goals; 4) reviewing and assessing progress; 5) developing the capabilities of individuals.
- A performance management system flows from the organization's goals and then operates as a continuous and self-renewing cycle.
- Performance management systems are easy to conceive but hard to deliver.
- The fundamental problem is that in a typical system the performance review takes place once a year. Lip service may be paid to the need to make it a continuous process, but line managers and individuals still see it as a yearly event and it can too easily become a dishonest, annual ritual.
- A number of companies have recently introduced radical changes to their performance management systems.
- The focus is now on continuous coaching and development rather than one annual and stressful review.
- But perhaps a new radical approach should be adopted which relies more on selecting and developing managers who can manage individual performance effectively as one of their normal activities rather than reluctantly having to use a bureaucratic system.

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Digital strategy for people management 17

Introduction

Digital strategy (sometimes called e-HRM strategy) is concerned with developing the use of digital technologies in the form of computer hardware and software and such web-based applications as cloud technologies, social media, chatbots and smart phones to help deliver people management services for management and employees. It also involves strategies for the use of artificial intelligence (AI).

Purpose of a digital strategy

Basically, digital people management deals with the transactional activity of maintaining the organization's employee database. But it can do much more than that and this will be the aim of a digital strategy. Marler and Fisher (2013: 20) stated that: 'Organizational goals for e-HRM investments include cost reduction through streamlining HRM operations, improved effectiveness through providing better delivery of HRM services and transformation of the HRM function to a strategic business partner.' Ulrich (2019: xix) broadened the agenda when he suggested that: 'Currently in most firms, technology is used to deliver administrative efficiency (phase 1), upgrade and innovate HR practices (phase 2), and deliver information (phase 3). Increasingly, technology should encourage belonging through social and emotional connections among employees in an organization and among employees and stakeholders outside an organization.'

Components of a digital strategy

A digital strategy will determine what the organization intends to do about any of the following:

- *Human resource information system (HRIS)* – This is a computer-based system for administering HR processes and procedures. It enables the management of information by providing for the storage, processing and analysis of people data.
- *Cloud computing* – This is a web-based platform that provides on-demand shared computing resources and information.
- *Social media* – These use digital technologies that allow people to connect with each other to create and share information. They are used extensively in recruitment and for internal employee communications, including giving a 'voice' to employees.
- *Chatbots or bots* – These are text-based applications that carry out a 'natural language' conversation by accessing a database of predetermined phrases. They can be used to provide answers to queries from employees about conditions of employment or any other people management issue that affects them. They can also personalize learning by tailoring it to the needs of individual learners by answering questions and providing feedback.
- *Smartphones* – Users of smartphones were 68% of the total population in 2018 and this penetration is increasing steadily – the forecast usage in 2022 is 79%. People can easily be reached through their smartphones by employers. This facilitates two-way communications and can be used to deliver learning material, sometimes through specially developed apps (learning on the move). Smartphones can also be used for recruitment purposes.
- *Artificial Intelligence (AI)* – This uses computers to engage in human-like thought processes, such as learning, reasoning and self-correction. AI can analyse data ('data mining') and handle questions by looking up an answer in a data set. Its main applications are:
  - *People analytics* – gathering and analysing data and information on people processes to guide decision making.
  - *Recruitment and selection* – matching candidates located in a database to job/person specifications; using natural language processing to predict which words in job advertisements will make the most impact on candidates.
  - *Talent management* – identifying eligibility for inclusion in a talent development programme (a talent pipeline) by providing information on performance histories.
  - *Learning and development* – developing and operating performance support systems that provide on-the-job access to learning material.

- ○ *Retention management* – using data-mining algorithms to identify potential leavers so that action can be taken as required to retain them.
- ○ *Employee sentiment analysis* – analysing large amounts of text, for example e-mails, to identify employee attitudes, moods or sentiments.
- ○ *Workforce scheduling* – scheduling workers onto shifts and indicating where it is best to allocate workers with specific skills.
- ○ *Payroll* – AI algorithms can be used to check initial payroll entries and calculations.

Key learning points

- E-PM or e-HRM uses computer hardware and software, cloud technologies, bots, social media, smart phones and artificial intelligence (AI) to help deliver people management services.
- A strategy is required on how these technologies should be used.
- The goals for e-PM include cost reduction through streamlining PM services, improving the delivery of those services and generally supporting the strategic activities of the PM function.
- An e-PM strategy will determine how the organization intends to use some or all of the following:
  - human resource information systems (HRIS);
  - cloud computing;
  - social media;
  - chatbots (bots);
  - smartphones;
  - artificial intelligence.

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Employee engagement strategy

18

Introduction

Employee engagement takes place when people are committed to their work and the organization and are motivated to achieve high levels of performance. According to the CIPD (2012: 13): 'Engagement has become for practitioners an umbrella concept for capturing the various means by which employers can elicit additional or discretionary effort from employees – a willingness on the part of staff to work beyond contract. It has become a new management mantra.' As David Guest (2014: 231) remarked: 'One of the attractions of engagement is that it is clearly a good thing. Managers are attracted to the concept because they like the idea of having engaged employees and dislike the prospect of having disengaged employees.'

A strategic approach to enhancing employee engagement is required because organizations need to be clear about what they are proposing to do to deal with this important factor affecting the behaviour of their employees, taking account of information about employee engagement levels and trends.

Before examining the nature and contents of an engagement strategy, it is necessary to answer three questions: 1) What is engagement? 2) Why is engagement important? 3) What are the factors affecting engagement?

What is employee engagement?

Kahn (1990: 894) originated the notion of employee engagement, defining it as 'the harnessing of organization members' selves to their work roles; in engagement, people employ and express themselves physically, cognitively, and emotionally during role performances'. There have been dozens of definitions since the explosion of interest in the concept during the 2000s. Harter *et al*

(2002: 269) stated that engagement was 'the individual's involvement and satisfaction with as well as enthusiasm for work'. A later definition was produced by Macey *et al* (2009: 7) who defined engagement as 'an individual's purpose and focused energy, evident to others in the display of personal initiative, adaptability, effort and persistence directed towards organizational goals'.

The term 'engagement' can be used in a specific job-related way to describe what takes place when people are interested in and positive, even excited, about their jobs, exercise discretionary behaviour in choosing to do more than is expected of them – 'going the extra mile' – and are motivated to achieve high levels of performance. It is sometimes described as job or work engagement. Truss *et al* (2006: ix) stated that: 'Put simply, engagement means feeling positive about your job.' They went on to explain that: 'The engaged employee is the passionate employee, the employee who is totally immersed in his or her work, energetic, committed and completely dedicated' (Truss *et al*, 2006: 1).

Engagement can also be described as attachment to or identification with the organization. The Conference Board (2006) defined employee engagement as the heightened connection that employees feel for their organization. Robinson *et al* (2004: 9) emphasized the organizational aspect of engagement when they referred to it as 'a positive attitude held by the employee towards the organization and its values'. This concept of organizational engagement resembles the traditional notion of commitment.

Perhaps the most illuminating approach to the definition of engagement is to recognize that it involves both job and organizational engagement, as suggested by Saks (2006) and Balain and Sparrow (2009).

Why is engagement important?

Truss *et al* (2014: 1) noted 'the potential for employee engagement to raise levels of corporate performance and profitability'. Evidence for this had been provided by Gallup (2006) who examined over 23,000 business units and compared top quartile and bottom quartile financial performance with engagement scores. They found that:

- Those with engagement scores in the bottom quartile averaged 31–51 per cent more employee turnover, 51 per cent more inventory shrinkage and 62 per cent more accidents.
- Those with engagement scores in the top quartile averaged 12 per cent higher customer advocacy, 18 per cent higher productivity and 12 per cent higher profitability.

Other studies have also indicated that higher levels of engagement produce a range of organizational benefits, for example:

- higher productivity/performance – engaged employees perform 20 per cent better than the average (Conference Board, 2006);
- lower staff turnover – engaged employees are 87 per cent less likely to leave (Corporate Leadership Council, 2004);
- better attendance – engaged employees have lower sick leave (CIPD 2007).

What are the factors that influence employee engagement?

Research cited by IDS (2007) identified two key elements that have to be present if genuine engagement is to exist. The first is the rational aspect that relates to an employee's understanding of their role, where it fits in the wider organization and how it aligns with business objectives. The second is the emotional aspect, which has to do with how the person feels about the organization, whether their work gives them a sense of personal accomplishment and how they relate to their manager.

Crawford *et al* (2014: 59–62) listed the following drivers of employee engagement:

- *Job challenge* – this takes place when the scope of jobs is broad and job responsibility is high. It enhances engagement because it creates potential for accomplishment and personal growth.
- *Autonomy* – the freedom, independence and discretion allowed to employees in scheduling their work and determining the procedures for carrying it out. It provides a sense of ownership and control over work outcomes.
- *Variety* – jobs which allow individuals to perform many different activities or use many different skills.
- *Feedback* – providing employees with direct and clear information about the effectiveness of their performance.
- *Fit* – the existence of compatibility between an individual and a work environment (eg job, organization, manager, co-workers) that allows individuals to behave in a manner consistent with how they see or want to see themselves.

- *Opportunities for development* – these make work meaningful because they provide pathways for employee growth and fulfilment.
- *Rewards and recognition* – these represent both direct and indirect returns on the personal investment of the time of employees in carrying out their work.

By exercising leadership, line managers can make an important contribution in all these areas.

The nature and content of employee engagement strategy

Employee engagement strategy is concerned with what needs to be done about enhancing engagement, bearing in mind the factors affecting levels of engagement. When developing the strategy the first step is to establish what is happening now and, in the light of that, determine what should happen in each of those areas. This means measuring levels of engagement in order to identify trends, successes and failures and analyse any gaps between what is wanted and what is happening. This can be done through published surveys such as those operated by Gallup that enable benchmarking to take place against the levels of engagement achieved in other organizations. Alternatively, organizations can create their own surveys to suit their circumstances. These are typically conducted annually, but 'pulse' surveys carried out more frequently enable the organization to keep up to date with trends. The strategy can be developed in the light of this information. It will be concerned with what needs to done to provide a better work environment, improve job design, offer opportunities for personal growth and ensure that performance management is effective. In each of these areas, strategies, policies and practices can be developed for the organization by the people management function, but ultimately, the most important ingredient for enhanced engagement is the leadership provided by line managers.

Leadership

A leadership strategy is required that focuses on how line managers can take the lead in increasing levels of engagement. The competencies they need to do so are set out in Table 18.1.

Table 18.1 Employee engagement management competency framework

Competency	Description
Autonomy and empowerment	Trusts and involves employees
Development	Helps to develop employees' careers
Feedback, praise and recognition	Gives positive feedback and praise and rewards good work
Individual interest	Shows concern for employees
Availability	There when needed
Personal manner	Positive approach, leads by example
Ethics	Treats employees fairly
Reviewing and guiding	Helps and advises employees
Clarifying expectations	Sets clear goals and defines what is expected
Managing time and resources	Ensures resources are available to meet workload
Following processes and procedures	Understands and explains processes and procedures

SOURCE Adapted from Lewis, Donaldson-Feilder and Tharani (2012: 9)

These competencies need to be developed through learning programmes that enable managers to understand how they are expected to act and develop the skills they need to use. The programmes can include formal training (especially for potential managers or those in their first leadership role), but more impact will be made by blending various learning methods such as coaching, mentoring and e-learning. A blended approach ensures that managers are helped to learn for themselves within a framework and with guidance. This is the best form of learning.

The performance of managers in applying these competencies should be reviewed and assessed.

The work environment

The work environment impacts on engagement by influencing how people regard their roles and carry them out. The strategy should aim to create an environment which is enabling, supportive and inspirational. An enabling environment will establish the conditions which encourage high performance and effective discretionary behaviour. These include work processes, equipment and facilities, and the physical conditions in which people work. A supportive environment will be one in which proper attention is paid to achieving a satisfactory work–life balance, emotional demands are not excessive, care is taken to provide healthy and safe working conditions, job security is a major consideration and personal needs are taken into consideration. An inspirational environment is one in which effective leadership is provided by managers, the work is challenging, feedback to employees ensures that their contribution is recognized and rewarded, and there is plenty of scope for career development.

Job design

The strategy should be to encourage, guide and as necessary train line managers on how to increase job engagement by designing or modifying jobs which meet the requirement to provide, as far as possible, challenge, autonomy and variety.

Opportunities for personal growth

The engagement strategy should consider what steps are required to ensure that people have the opportunity and are given the encouragement to learn and grow in their roles and develop their future careers.

Performance management

The performance management activities of role definition, performance and personal development planning, joint involvement in monitoring performance, and feedback can all enhance engagement.

CASE STUDY Enhancing engagement at Telefónica O2 UK

The seven-point People Promise outlines O2's commitment to creating the best possible employee experience.

It promises its people *a warm welcome*, providing a full induction programme and welcome day for all new starters.

People are given *the opportunity to get on*. Everyone forms a personal development plan with their manager and talks through their career goals at least twice a year. People can learn new skills by applying for a matched contribution Learning Scheme or by using the online academies which offer training on a broad range of subjects.

O2 wants to create a workplace where people trust their senior managers and their line manager. It invests heavily in the leadership skills of its managers, affirming *your manager will be there for you*.

O2 people are *trusted to do a great job*. They're encouraged to suggest new ways of doing things in adviser forums, manager forums, skip-level meetings and Ignite, an online system enabling advisers to capture customer insights and share their own.

O2 wants to be *a great place to work*. In the current economic climate, it is focusing even harder on looking after its people and improving its total reward offering by introducing new flexible benefits and a broad range of discounts with high street retailers. Vielife, an online health and wellbeing programme, helps people manage their sleep, nutrition, stress and physical activity. And O2 Confidential offers free 24-hour advice on issues including benefits, debt, housing, and other financial matters.

O2 people should feel *part of something special*. For example, people are encouraged to volunteer for charities and may be afforded time out for their chosen projects. And they can apply for awards or refer friends and family under the It's Your Community programme, which gives grants of up to £1,000 to community projects all over the UK.

O2 says *thanks for a job well done*, praising its people and giving them recognition for their work. A new scheme will highlight outstanding individual and team contributions to strategic goals, offering people high street vouchers and the chance to attend a glittering annual ceremony.

Key learning points

- Engagement happens when people are committed to their work and the organization and motivated to achieve high levels of performance.
- Engaged people at work are positive, interested in, even excited about their jobs and are prepared to put discretionary effort into their work beyond the minimum to get it done.
- Job engagement can be distinguished from organizational engagement.

- A considerable amount of research has indicated that higher levels of engagement produce a range of organizational benefits.
- There is a close link between high levels of engagement and positive discretionary behaviour.
- The factors affecting engagement are the quality of leadership, the work environment, the work itself, management, opportunities for personal growth, opportunities to contribute and commitment to the organization.
- When developing engagement strategies, the first step is to establish what is happening now and, in the light of that, determine what strategies are required in each of the areas described above.

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Resourcing strategy

19

Introduction

Resourcing is what organizations do to ensure they have the people they need. Resourcing strategy is concerned with identifying how many and what sort of employees are required and making plans to obtain and retain them and to employ them efficiently. Strategic resourcing is a key part of the strategic people management process, which is fundamentally about matching people to the strategic and operational needs of the organization. It is concerned not only with obtaining and keeping the number and quality of employees required but also with selecting and promoting people who 'fit' the culture and the strategic requirements of the organization. This chapter covers:

- the rationale for strategic resourcing;
- the strategic approach to resourcing;
- the process of integrating business and resourcing strategies;
- the components of employee resourcing strategy.

The rationale for strategic resourcing

A rationale for developing a strategic resourcing flows from the suggestion by Keep (1989: 122) that HRM should make a significant effort towards: 'obtaining the right basic material in the form of a workforce endowed with the appropriate qualities, skills, knowledge and potential for future training. The selection and recruitment of workers best suited to meeting the needs of the organization ought to form a core activity upon which most other HRM policies geared towards development and motivation could be built'.

The concept that the strategic capability of a firm depends on its resource capability in the shape of people (the resource-based view) provides the rationale for resourcing strategy. The aim of this strategy is therefore to ensure that a firm achieves competitive advantage by employing more capable people than its rivals. These people will have a wider and deeper range of skills and will behave in ways that will maximize their contribution. The organization attracts such people by being 'the employer of choice'. It retains them by providing better opportunities and rewards than others and by developing a positive employment relationship that increases commitment and creates mutual trust. Furthermore, the organization deploys its people in ways that maximize the added value they supply.

The strategic approach to resourcing

People management places emphasis on finding people whose attitudes and behaviour are likely to be congruent with what management believes to be appropriate and conducive to success. In the words of Townley (1989: 92), organizations are concentrating more on 'the attitudinal and behavioural characteristics of employees'. This tendency has its dangers. Innovative and adaptive organizations need non-conformists, even mavericks, who can 'buck the system'. If managers recruit people 'in their own image' there is the risk of staffing the organization with conformist clones and of perpetuating a dysfunctional culture – one that may have been successful in the past but is no longer appropriate in the face of new challenges (as Pascale, 1990, put it: 'nothing fails like success').

The people management approach to resourcing therefore emphasizes that matching resources to organizational requirements does not simply mean maintaining the status quo and perpetuating a moribund culture. It can mean radical changes in thinking about the skills and behaviours required in the future to achieve sustainable growth and cultural change.

Integrating business and resourcing strategies

The philosophy behind the strategic people management approach to resourcing is that it is people who implement the strategic plan. As Quinn Mills (1985) observed, the process is one of 'planning with people in mind'.

The integration of business and resourcing strategies is based on an understanding of the direction in which the organization is going and the determination of:

- the numbers of people required to meet business needs;
- the skills and behaviour required to support the achievement of business strategies;
- the impact of organizational restructuring as a result of rationalization, decentralization, delayering, acquisitions, mergers, product or market development, or the introduction of new technology – eg cellular manufacturing;
- plans for changing the culture of the organization in such areas as ability to deliver, performance standards, quality, customer service, teamworking and flexibility, which indicate the need for people with different attitudes, beliefs and personal characteristics;
- plans for introducing a high-performance work system or for creating a leaner or more agile organization;
- plans for improving the employee experience – everything that people encounter, observe and feel during the course of their employment from its beginning and onwards;
- plans for increasing flexibility in the use of people.

These factors will be strongly influenced by the type of business strategies adopted by the organization and the sort of business it is in, which may be expressed in such terms as Miles and Snow's (1978) typology of defender, prospector and analyser organizations.

Resourcing strategies exist to provide the people and skills required to support the business strategy, but they should also contribute to the formulation of that strategy. People directors have an obligation to point out to their colleagues the opportunities and constraints relating to people that will affect the achievement of strategic plans. In mergers or acquisitions, for example, the ability of management within the company to handle the new situation and the quality of management in the new business will be important considerations.

The components of employee resourcing strategy

The components of employee resourcing strategy are:

- *Workforce planning* – assessing future business needs and deciding on the numbers and types of people required.

- *Developing* the organization's employee value proposition and its employer brand following an analysis of the employee experience.
- *Resourcing plans* – preparing plans for finding people from within the organization and/or for learning and development programmes to help people learn new skills. If needs cannot be satisfied from within the organization, longer-term plans have to be made for ensuring that recruitment and selection procedures will satisfy them.
- *Retention strategy* – preparing plans for retaining the people the organization needs.
- *Flexibility strategy* – planning for increased flexibility in the use of people resources to enable the organization to make the best use of them and adapt swiftly to changing circumstances.
- *Talent management strategy* – ensuring that the organization has the talented people it requires to provide for management succession and meet present and future business needs (see Chapter 20).

CASE STUDY Recruitment and retention strategy at Buckingham County Council

Attracting and retaining high-quality staff is considered key to the corporate strategy of Buckingham County Council which employs around 14,000 people. Developing and executing a resourcing and people strategy is one of the most important things the Council does to improve performance.

Resourcing and people strategy

The resourcing strategy complements and reinforces the people strategy, which has five targets:

- being the best employer;
- bringing in additional talent;
- developing existing talent;
- championing diversity;
- transforming the organization.

The people dashboard

A people strategy dashboard has been created to ensure that human resources are managed more effectively. This extends the people strategy targets and is used to monitor progress in achieving them.

Improving recruitment and selection

This involved:

- strengthening the employer brand;
- developing a better recruitment website;
- developing a talent bank to ensure that vacancies were filled quickly;
- streamlining processes to reduce the time to fill vacancies;
- the development of a competency framework used for competency-based selection.

Retaining talent

A holistic approach to retaining talent is adopted. This involves paying attention to every aspect of the employment relationship and setting a best-employer target. A staff survey is used to measure employee engagement.

Total reward strategy

A total reward approach is adopted, including the use of total reward statements.

Talent management

A talent management toolkit is used to identify and develop potential high performers at every level in the organization.

Key learning points

- Resourcing is what organizations do to ensure that they have the people they need.
- Resourcing strategy is concerned with identifying how many and what sort of people are required and making plans to obtain and retain them and to employ them efficiently.

- The concept that the strategic capability of a firm depends on its resource capability in the shape of people (the resource-based view) provides the rationale for resourcing strategy. Resourcing strategies exist to provide the people and skills required to support the business strategy, but they should also contribute to the formulation of that strategy.
- Workforce planning determines the human resources required by the organization to achieve its strategic goals and prepares and implements programmes for satisfying those requirements. Although the notion of workforce planning is well established in the HRM vocabulary, it does not seem to be embedded as a key HR activity.
- Resourcing strategies shows the way forward through the analysis of business strategies and demographic trends. This is converted into action plans based on the outcome of a number of interrelated planning activities.
- Resourcing strategy is concerned with shaping what the organization has to offer to people who join and stay with the organization. This can be done by developing and articulating an employee value proposition. The employee value proposition can be expressed as an employer brand that defines what is special, even unique, about an organization, which will attract people to join it and encourage those already there to stay.

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Talent management strategy

20

Introduction

Talent management is a comprehensive and integrated set of activities which ensure that the organization attracts, retains, motivates and develops the talented people it needs now and in the future. The term talent management may refer simply to management succession planning and management development activities, although this notion does not really add anything to these familiar processes except a new (but admittedly quite evocative) name. It is better to regard talent management as a more comprehensive and integrated bundle of activities, the aim of which is to secure the flow of talent in an organization, bearing in mind that talent is a major corporate resource.

The following somewhat elitist definition of talent management was produced by Collings and Mellahi (2009: 304):

> Those activities and processes that involve the systematic identification of key positions which differentially contribute to the organization's sustainable competitive advantage, the development of a talent pool of high potential and high performing incumbents to fill these roles, and the development of a differentiated human resource architecture to facilitate filling these positions with competent incumbents and to ensure their continued commitment to the organization.

The concept of talent management was based on an initiative by McKinsey & Company who coined the phrase 'the war for talent' in 1997. A book on this subject by Michaels *et al* (2001) identified five imperatives that companies need to act on if they are going to win the war for managerial talent. These are:

1. Creating a winning employee value proposition that will make your company uniquely attractive to talent.
2. Moving beyond recruiting hype to build a long-term recruiting strategy.
3. Using job experience, coaching and mentoring to cultivate the potential in managers.
4. Strengthening your talent pool by investing in A players, developing B players and acting decisively on C players.
5. Central to this approach is a pervasive mind-set – a deep conviction shared by leaders throughout the company that competitive advantage comes from having better talent at all levels.

The McKinsey prescription has often been misinterpreted to mean that talent management is only about obtaining, identifying and nurturing high flyers. But this ignores the fifth point made in the above list.

Pfeffer (2001: 252) had the following doubts about the notion of the war for talent, which he thinks is the wrong metaphor for organizational success:

> Fighting the war for talent itself can cause problems. Companies that adopt a talent war mind-set often wind up venerating outsiders and downplaying the talent already in the company. They frequently set up competitive zero-sum dynamics that make internal learning and knowledge transfer difficult, activate the self-fulfilling prophesy in the wrong direction (those labelled as less able become less able), and create an attitude of arrogance instead of an attitude of wisdom. For all these reasons, fighting the war for talent may be hazardous to an organization's health and detrimental to doing the things that will make it successful.

As suggested by Younger *et al* (2007), approaches to talent management include emphasizing 'growth from within', regarding talent development as a key element of the business strategy, being clear about the competencies and qualities that matter, maintaining well-defined career paths, taking management development, coaching and mentoring seriously, and demanding high performance. A policy of 'talent on demand' can be adopted as advocated by Cappelli (2008), which means that talented people are available as required to meet emerging needs for senior managers or other key staff.

There are many versions of talent management but in one way or another its components can cover such traditional people management activities as workforce planning, recruitment, managing employee retention, performance management, potential assessment, leadership and management development, succession planning and career planning. The difference is that talent management is a wider-reaching approach which 'joins up' these practices.

If you are going to manage talent you have to understand what is meant by talent, that is, who the talented people you are going to manage are. Before considering talent management strategy in detail, it is therefore necessary to examine the meaning of talent.

What is talent?

Talented people could be described broadly as those who have the skills and ability to do something well. But it is necessary to be more specific about which talented people will be the concern of talent management. An elitist definition states that talent is a quality possessed by people with exceptional ability who are going to go far.

A less elitist and more embracing definition would be that talent is what any able person has who does well in their role and has growth potential. This is broadly in line with the view expressed by the CIPD (2007: 8): 'Talent consists of those individuals who can make a difference to organizational performance, either through their immediate contribution or in the longer term by demonstrating the highest levels of potential.'

These two approaches could be described as exclusive or inclusive. The CIPD (2007: 8) established from their research that: 'On the one hand there was an exclusive approach, in which talent is viewed on the basis of those destined for the top positions. On the other hand there was an inclusive approach, in which talent is defined as all the employees who work for the organization. The reality is that most organizations had a hybrid approach to talent, in which both exclusivity and inclusivity are accommodated and indeed driven by the changing needs of the workforce' (and, they could have added, the organization).

In the light of this, three views about talent management strategy have emerged. The first is based on the belief that everyone has talent and it is not just about the favoured few. It is necessary to maximize the performance of the workforce as a whole in order to maximize the performance of the organization. Thorne and Pellant (2007: 9) wrote that: 'No organization should focus all its attention on development of only part of its human capital. What is important is recognizing the needs of different individuals within its community.'

The second view is that organizations should focus on the best. The argument is that it is not helpful to confuse talent management with overall employee development – both are important, but talent management should be concerned with those who are particularly talented and have considerable potential.

The third view is that while talent management may concentrate on obtaining, identifying and developing people with high potential, this should not be at the expense of the development needs of people generally. This pragmatic approach has much to commend it.

Strategic talent management

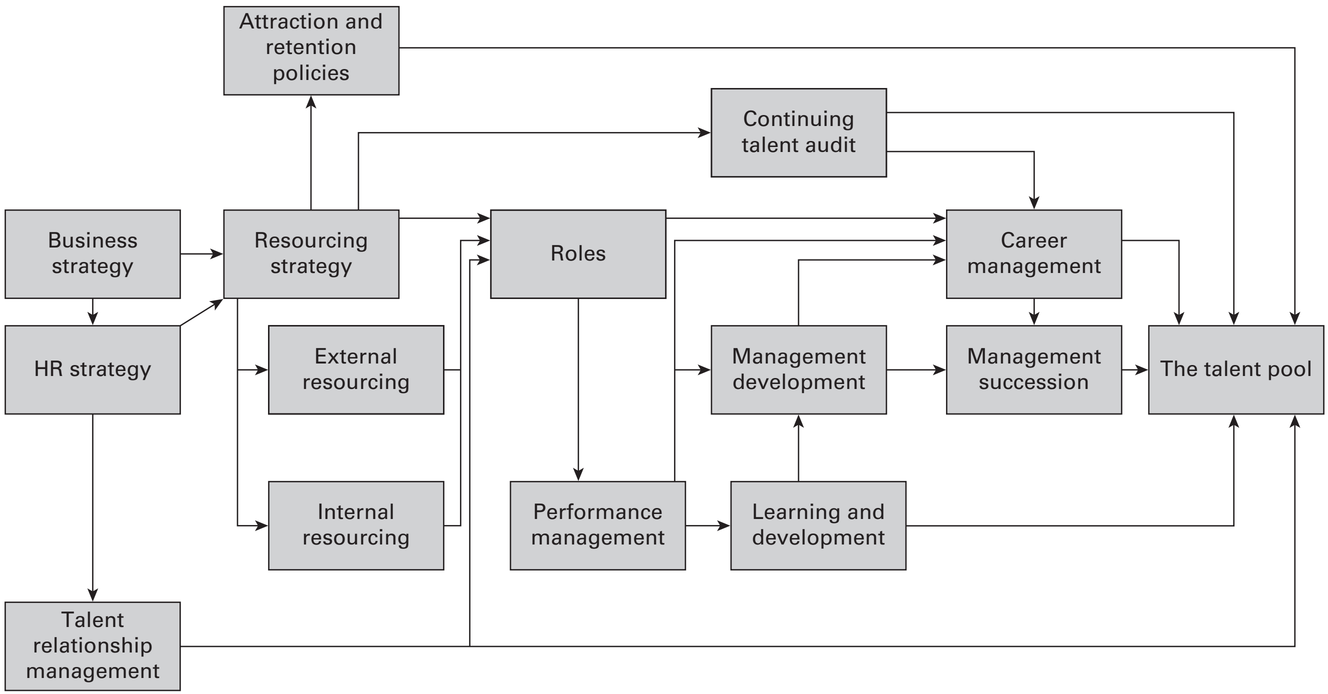
Talent management is a strategic management process because, in the words of Johnson, Scholes and Whittington (2005: 6), it involves 'understanding the strategic position of an organization, making strategic choices for the future, and turning strategy into action'. Talent management concentrates on understanding and satisfying the requirements of the business to achieve organizational capability, growth and competitive advantage. It aligns its policies with the organization's strategic intent – its competitive strategy and operational goals.

Talent management strategy is a declaration of intent on how the objective of acquiring and nurturing talent wherever it is and wherever it is needed should be achieved. It is governed by the views of the organization on what is meant by talent and therefore with whom the strategy should be concerned. Talent management strategy is expressed in the form of a 'bundle' of interrelated talent management processes that constitute the talent pipeline.

Talent management strategy deals with each aspect of a 'talent pipeline' as shown in Figure 20.1.

The development and implementation of a talent management strategy requires high-quality management and leadership from the top and from the people management function. In some organizations a senior position of head or director of talent management has been established to ensure the delivery of the strategy.

Figure 20.1 The talent management pipeline



CASE STUDY Talent management strategy at BAE Systems

At BAE Systems there are five mandated core business management processes to support the delivery of corporate strategy and foster high performance. Talent management is seen within a business performance context. An annual Integrated Business Review Planning process is used by individual businesses to establish and plan for the delivery of objectives in line with corporate strategy, supported by quarterly business reviews, customer reviews and data from employee surveys. Project performance is assessed by Contract Reviews. Performance is reviewed throughout the year by the Performance Management System. A Performance Centred leadership framework is used to integrate management, resourcing and people development, focusing on the traditional outcomes of performance (financial, project and behavioural), reward and development. There is behavioural performance feedback and a performance potential rating (called Spectrum). Line leaders and functional directors ensure the framework is implemented. HR's role is one of assisting in development interventions and providing some oversight and governance of the processes.

SOURCE Sparrow *et al* (2015)

Key learning points

- Talent management is the process of identifying, developing, recruiting, retaining and deploying talented people.
- Talent management is a strategic management process because, in the words of Johnson *et al* (2005: 6), it involves 'understanding the strategic position of an organization, making strategic choices for the future, and turning strategy into action'.
- Talented people are those who have the skills and ability to do something well.
- Talent management takes the form of a 'bundle' of interrelated talent management processes that constitute the talent pipeline.
- A talent management strategy consists of a declaration of intent on how the processes in the talent pipeline should mesh together with an overall objective – to acquire and nurture talent wherever it is and wherever it is needed.

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Diversity and inclusion strategy

21

Introduction

Diversity and inclusion strategy is about improving the ways in which an organization handles the management of people from BAME (black, Asian and minority ethnic) and LGBT (lesbian, gay, bi-sexual and transgender) groups. Diversity refers to the differences between people – 'the mix'. Inclusion is the deliberate act of welcoming diversity and creating an environment where different kinds of people can thrive and succeed. Diversity is what you have. Inclusion is what you do about it. But you need to pay attention to both diversity and inclusion.

Managing diversity involves ensuring, through recruitment, talent management, and learning and development policies and practices, that the right sort of mix exists in the organization and that the skills and abilities of typically underrepresented or marginalized groups are actively appreciated. Managing inclusion means ensuring that members of each part of that mix feel that they are treated the same in such terms as the work they do, the rewards they get for doing that work and the opportunity to learn and develop.

The following are the definitions produced by the CIPD (2019: 2):

- *Diversity* refers to demographic differences of a group.
- *Inclusion* is the extent to which everyone at work, regardless of their background, identity or circumstance, feels valued, accepted and supported to succeed at work.

Diversity and inclusion strategy

The CIPD (2019: 20) confirmed that the strategy should be concerned with both diversity and inclusion:

> A core part of organizational inclusion is the presence of policies and commitment to diversity which needs to recognize that some groups typically face higher levels of discrimination at work or barriers to inclusion. This means that a two-pronged approach needs to be taken. Policies might need to be adapted or targeted for the needs of a particular group, recognizing the unique needs of individuals.

The purpose of the strategy should be to ensure that cultural and individual differences in the workplace are acknowledged, the different qualities which people bring to their jobs are valued and people with different backgrounds are included as part of the organization on the same terms as everyone else. It should:

- acknowledge cultural and individual differences in the workplace and the need to value the different qualities which people bring to their jobs;
- focus on fairness so that merit, competence and potential are the basis for recruitment, promotion and development decisions and for reviews and assessments of performance;
- ensure that everyone is alert to the influence of conscious and unconscious biases when dealing with people;
- pursue steps to achieve inclusion so that people with different backgrounds and characteristics feel part of the same organization and are not treated differently because of their background or characteristics;
- generally promote to everyone the organization's commitment to managing diversity and inclusion and how it is proposed to put that commitment into effect;
- provide guidance, advice and, as necessary, training to managers and team leaders on how to achieve inclusion and avoid bias.

Key learning points

- Diversity refers to the differences between people – 'the mix'. Inclusion is the deliberate act of welcoming diversity and creating an environment where different kinds of people can thrive and succeed.

- Managing diversity involves ensuring that the right sort of mix exists in the organization and that the skills and abilities of typically underrepresented or marginalized groups are actively valued. Managing inclusion means ensuring that members of each part of that mix feel that they are treated the same in terms of the work they do, the rewards they get for doing that work and the opportunity to learn and develop.
- The purpose of the strategy should be to ensure that cultural and individual differences in the workplace are acknowledged, the different qualities which people bring to their jobs are valued and people with different backgrounds are included as part of the organization on the same terms as everyone else.

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Learning and development strategy 22

Introduction

Strategic learning and development takes a broad and longer-term view about how to ensure that the organization has the knowledgeable, skilled and engaged workforce it needs. Learning and development strategy supports the achievement of the strategic aims of the organization. It does this by creating a learning culture and through strategies for organizational and individual learning, as described later in this chapter. But it also defines how the organization intends to provide employees with the opportunity to grow and develop, thus enhancing their engagement with their jobs and the organization. The chapter covers:

- the meaning, aims and philosophy of strategic learning and development;
- the elements of learning and development;
- how to develop a learning culture;
- the nature of organizational learning strategies;
- the nature of individual learning strategies.

The aim of strategic learning and development

The aim of strategic learning and development is to produce a coherent and comprehensive framework for developing people through the creation of a learning culture and the formulation of organizational and individual learning strategies. It is about developing the intellectual capital required by the organization, as well as ensuring that the right quality of people are available to meet present and future needs. The main thrust of strategic learning and development is to provide an environment in which people are encouraged to learn and develop. Strategic learning and development is business-led but it also takes into account individual aspirations and needs.

Strategic learning and development is associated with strategic people management. Both are concerned with investing in people and developing the organization's human capital. Keep (1989: 112) observed that:

> One of the primary objectives of HRM is the creation of conditions whereby the latent potential of employees will be realized and their commitment to the causes of the organization secured. This latent potential is taken to include, not merely the capacity to acquire and utilize new skills and knowledge, but also a hitherto untapped wealth of ideas about how the organization's operations might be better ordered.

Strategic learning and development philosophy

The philosophy underpinning strategic learning and development is that:

- its plans and programmes should be integrated with and support the achievement of business and people management strategies;
- it is performance-related – designed to achieve specified improvements in corporate, functional, team and individual performance;
- everyone in the organization should be encouraged and given the opportunity to learn – to develop their skills and knowledge to the maximum of their capacity;
- the framework for individual learning is provided by personal development plans that focus on self-managed learning and are supported by coaching, mentoring and formal training;
- the organization needs to invest in learning and development by providing appropriate learning opportunities and facilities, but the prime responsibility for learning and development rests with individuals, who should be given the guidance and support of their managers and, as necessary, members of the learning and development or people management department.

This involves creating a learning culture, the characteristics of which are self-managed learning not instruction, long-term capacity-building not short-term fixes, and empowerment not supervision.

CASE STUDY People development strategy at AstraZeneca

A key strategic business objective of AstraZeneca is: *To ensure a well-motivated organization in which people are respected, enjoy their jobs and obtain fulfilment.*

1. Our people development strategy applies to all employees, not just to managers or people of high potential. It relates to the continuing development of ability and contribution in each person's current job and, if considered to have the potential to advance further, towards subsequent jobs.
2. People development strategies are vital to the business but it is important that they support the key business strategies. The appropriate resources must be available to meet the key priorities for people development. Expenditure on education, training and development is regarded as a necessary and calculated investment yielding considerable pay-off in terms of enhanced business performance. Managers have a clear responsibility to develop their subordinates. Performance management, which is the key management process that brings together the setting of personal work targets and development plans, is the preferred integrated approach by which employees' learning and development are managed continually in relation to all work activities.
3. All employees must have a personal development plan jointly agreed with their manager, and this plan must be progressed and regularly reviewed and updated. It should be derived from the accountabilities of the jobholder and their personal targets for the coming period, plus any anticipated future needs. The plan should cover coaching and on-the-job and off-the-job training.
4. All employees are to be encouraged continually to develop their skills and experience, both for their own benefit and that of the business, through the improved contribution that will result, thus maintaining and extending the business's competitive advantage.
5. Career planning will be a joint activity between the individual and the manager, with employees having a major responsibility for their own career management, including personal development.

6 The development of individuals must take into account that AstraZeneca is a complex, globally managed business. Particular emphasis should be placed on the need for good business understanding and teamwork across the business worldwide. The nature of the business requires special attention in the areas of organization development activities, team building, project management and cross-cultural management skills.

7 People development activities will be regularly audited to ensure that appropriate, cost-effective investment is made in all parts of the organization to support current business activities.

Strategy for creating a learning culture

A fundamental objective of strategic learning and development is to create a learning culture. A learning culture is one in which learning is recognized by top management, line managers and employees generally as an essential organizational process to which they are committed and in which they engage continuously. It is described by Reynolds (2004: 21) as a 'growth medium' that will 'encourage employees to commit to a range of positive discretionary behaviours, including learning' and that has the following characteristics: empowerment not supervision, self-managed learning not instruction, and long-term capacity-building not short-term fixes. Discretionary learning as defined by Sloman (1999) happens when individuals actively seek to acquire the knowledge and skills that promote the organization's objectives.

The steps required to create a learning culture proposed by Reynolds (2004: 12–20) are:

- Develop and share the vision – belief in a desired and emerging future.
- Empower employees – provide 'supported autonomy'; freedom for employees to manage their work within certain boundaries (policies and expected behaviours) but with support available as required. Adopt a facilitative style of management in which responsibility for decision making is ceded as far as possible to employees.
- Provide employees with a supportive learning environment where learning capabilities can be discovered and applied, eg peer networks, supportive policies and systems, and protected time for learning.

- Use coaching techniques to draw out the talents of others by encouraging employees to identify options and seek their own solutions to problems.
- Guide employees through their work challenges and provide them with time, resources and, crucially, feedback.
- Recognize the importance of managers acting as role models.
- Encourage networks – communities of practice.
- Align systems to vision – get rid of bureaucratic systems that produce problems rather than facilitate work.

Organizational learning strategy

Organizations can be regarded as continuous learning systems, and organizational learning has been defined by Marsick (1994: 28) as a process of 'co-ordinated systems change, with mechanisms built in for individuals and groups to access, build and use organizational memory, structure and culture to develop long-term organizational capacity'.

Organizational learning strategy aims to develop a firm's resource-based capability. This is in accordance with one of the basic principles of human resource management, namely that it is necessary to invest in people in order to develop the human capital required by the organization and to increase its stock of knowledge and skills.

Five principles of organizational learning have been defined by Harrison (1997):

1. The need for a powerful and cohering vision of the organization to be communicated and maintained across the workforce in order to promote awareness of the need for strategic thinking at all levels.
2. The need to develop strategy in the context of a vision that is not only powerful but also open-ended and unambiguous. This will encourage a search for a wide rather than a narrow range of strategic options, will promote lateral thinking and will orient the knowledge-creating activities of employees.
3. Within the framework of vision and goals, frequent dialogue, communication and conversations are major facilitators of organizational learning.
4. It is essential to challenge people continuously to re-examine what they take for granted.

5 It is essential to develop a climate that is conducive to learning and innovation.

Individual learning strategy

The individual learning strategy of an organization is driven by its people requirements, which are expressed in terms of the sort of skills and behaviours that are required.

As Sloman (1999: 17) emphasized:

> Interventions and activities, which are intended to improve knowledge and skills, will increasingly focus on the learner. And he or she will be encouraged to take more responsibility for his or her learning. Efforts will be made to develop a climate, which supports effective and appropriate learning.

An individual learning strategy should take account of these points. It will be based on:

- a systematic programme for identifying learning needs;
- an understanding of how people learn – people learn for themselves but they also learn from other people and they tend to learn better from experience than from what they have been told;
- a belief that most learning happens in the workplace and this therefore needs to be encouraged;
- the use of training in its complementary role of accelerating learning;
- the combination of different approaches to learning (experience supplemented by training) so that they complement and support one another.

CASE STUDY Measuring the contribution of learning to business performance at Lyreco Ltd (UK)

Lyreco UK is part of a large family-owned office supplies group operating extensively in Europe, Canada and Asia.

Metrics are a central part of all management processes at Lyreco and these inform the learning investment and planning processes. In field sales, measures include sales turnover, margin and new business, while in customer service the performance and productivity metrics include costs per line, abandoned call rate, average call time and average wait time. Monthly performance results in all areas are scrutinized to identify areas for attention, and the learning and development team run learning sessions and activities aimed at helping people to improve their performance. When sales margin was identified as an area for attention, over 150 people attended focused workshops and subsequent performance results were tracked to measure improvements. Similarly, warehouse supervisors with the highest staff turnover attended learning programmes and, as a consequence, staff turnover was at lowest-ever levels.

Key learning points

- Strategic learning and development aims to produce a coherent and comprehensive framework for developing people through the creation of a learning culture and the formulation of organizational and individual learning strategies.
- It is driven by the organization's people requirements, which are expressed in terms of the sort of skills and behaviours they need.
- The strategy will be based on an understanding of how people learn. It will indicate how learning needs should be identified and set out the intentions of the organization on how those learning needs will be met, through workplace learning (including coaching and mentoring), formal training courses or programmes, or a combination of the two in the shape of blended learning.

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Reward strategy 23

Introduction

Reward strategy is concerned with the policies and practices required to ensure that the value of people and the contribution they make to achieving organizational, departmental and team goals is recognized and rewarded. It is about planning and executing the design and implementation of reward systems (interrelated reward processes, practices and procedures) that aim to satisfy the needs of both the organization and its stakeholders and to operate fairly, equitably and consistently. These systems will include arrangements for assessing the value of jobs through job evaluation and market pricing, the design and management of grade and pay structures, performance management processes, schemes for rewarding and reorganizing people according to their individual performance or contribution and/or team or organizational performance, and the provision of employee benefits.

This chapter covers:

- the meaning of reward strategy;
- the reasons for having a reward strategy;
- the characteristics of reward strategy;
- the basis of reward strategy;
- the content of reward strategy;
- the guiding principles that should govern reward strategy;
- how to develop reward strategy;
- what makes an effective reward strategy;
- the significance of line manager capability;
- the problem of the reward strategy concept.

Reward strategy defined

Reward strategy defines what an organization wants to do in the longer term to address critical reward issues and to develop and implement reward policies, practices and processes that will further the achievement of its business goals and meet the needs of its stakeholders. It starts from where the reward practices of the business are now and goes on to describe what they should become.

Reward strategy provides a sense of purpose and direction, a pathway that links the needs of the business and its people with the reward policies and practices of the organization and thereby communicates and explains these practices. It constitutes a framework for developing and putting into effect reward policies, practices and processes that ensure that people are rewarded for doing the things that increase the likelihood of the organization's business goals being achieved.

Reward strategy is underpinned by a reward philosophy. It is concerned not only with what should be done but how it should be done; with implementation as well as planning. It is based on an understanding of the culture of the organization and an appreciation of its needs and those of its people within the context in which the organization operates. This provides the basis upon which cultural fit is achieved and needs *are* satisfied.

Why have a reward strategy?

In the words of Duncan Brown (2001: 44), 'Reward strategy is ultimately a way of thinking that you can apply to any reward issue arising in your organization, to see how you can create value from it.' There are four arguments for developing reward strategies:

1. You must have some idea where you are going, or how do you know how to get there, and how do you know that you have arrived (if you ever do)?
2. Pay costs in most organizations are by far the largest item of expense – they can be 60% and often much more in labour-intensive organizations – so doesn't it make sense to think about how they should be managed and invested in for the longer term?
3. There can be a positive relationship between rewards, in the broadest sense, and performance, so shouldn't we think about how we can strengthen that link?
4. As Cox and Purcell (1998: 65) wrote: 'The real benefit in reward strategies lies in complex linkages with other human resource management policies

and practices.' This is a good reason for developing a reward strategic framework that indicates how reward processes will be linked to other people management processes so that they are coherent and mutually supportive.

Characteristics of reward strategy

Armstrong and Murlis (2004: 33) pointed out that: 'Reward strategy will be characterized by diversity and conditioned both by the legacy of the past and the realities of the future.' All reward strategies are different, just as all organizations are different. Of course, similar aspects of reward will be covered in the strategies of different organizations, but they will be treated differently in accordance with variations between organizations in their contexts, strategies and cultures.

Reward strategists may have a clear idea of what needs to be done, but they have to take account of the views of top management and be prepared to persuade them with convincing arguments that action needs to be taken. They have to take particular account of financial considerations – the concept of 'affordability' looms large in the minds of chief executives and financial directors, who will need to be convinced that an investment in rewards will pay off. They also have to convince employees and their representatives that the reward strategy will meet their needs as well as business needs.

The basis of reward strategy

Reward strategy should be based on a detailed analysis of the present arrangements for reward, which would include a statement of their strengths and weaknesses. This could take the form of a 'gap analysis', which compares what it is believed should be happening with what is actually happening and indicates which 'gaps' need to be filled. A format for the analysis is shown in Table 23.1.

A diagnosis should be made of the reasons for any gaps or problems so that decisions can be made on what needs to be done to overcome them.

Table 23.1 Reward strategy gap analysis

What should be happening	What is happening	What needs to be done
1 A total reward approach is adopted that emphasizes the significance of both financial and non-financial rewards.		
2 Reward policies and practices are developed within the framework of a well-articulated strategy that is designed to support the achievement of business objectives and meet the needs of stakeholders.		
3 A job evaluation scheme is used that properly reflects the values of the organization, is up to date with regard to the jobs it covers, and is non-discriminatory.		
4 Equal-pay issues are given serious attention. This includes the conduct of equal-pay reviews that lead to action.		
5 Market rates are tracked carefully so that a competitive pay structure exists that contributes to the attraction and retention of high quality people.		
6 Grade and pay structures are based on job evaluation and market rate analysis, are appropriate to the characteristics and needs of the organization and its employees, facilitate the management of relativities, provide scope for rewarding contribution, clarify reward and career opportunities, are constructed logically, operate transparently, and are easy to manage and maintain.		
7 Contingent pay schemes reward contribution fairly and consistently, support the motivation of staff and the development of a performance culture, deliver the right messages about the values of the organization, contain a clear 'line of sight' between contribution and reward, and are cost-effective.		

(*continued*)

Table 23.1 (Continued)

What should be happening	What is happening	What needs to be done
8 Performance management processes contribute to performance improvement, people development and the management of expectations; they operate effectively throughout the organization and are supported by line managers and staff.		
9 Employee benefits and pension schemes meet the needs of stakeholders and are cost-effective.		
10 A flexible benefits approach is adopted.		
11 Reward management procedures exist that ensure that reward processes are managed effectively and that costs are controlled.		
12 Appropriate use is made of computers (software and spreadsheets) to assist in the process of reward management.		
13 Reward management aims and arrangements are transparent and communicated well to staff.		
14 Surveys are used to assess the opinions of staff about reward, and action is taken on the outcomes.		
15 An appropriate amount of responsibility for reward is devolved to line managers.		
16 Line managers are capable of carrying out their devolved responsibilities well.		
17 Steps are taken to train line managers and provide them with support and guidance as required.		
18 HR has the knowledge and skills to provide the required reward management advice and services, and to guide and support line managers.		

(*continued*)

Table 23.1 (Continued)

What should be happening	What is happening	What needs to be done
19 Overall, reward management developments are conscious of the need to achieve affordability and to demonstrate that they are cost-effective.		
20 Steps are taken to evaluate the effectiveness of reward management processes and to ensure that they reflect changing needs.		

The content of reward strategy

Reward strategy may be a broad-brush affair, simply indicating the general direction in which it is thought reward management should go. Additionally, or alternatively, reward strategy may set out a list of specific intentions dealing with particular aspects of reward management.

Broad-brush reward strategy

A broad-brush reward strategy may commit the organization to the pursuit of a total rewards policy. The basic aim might be to achieve an appropriate balance between financial and non-financial rewards. A further aim could be to use other approaches to the development of the employment relationship and the work environment, which will enhance commitment and engagement and provide more opportunities for the contribution of people to be valued and recognized.

Examples of other broad strategic aims include: 1) introducing a more integrated approach to reward management – encouraging continuous personal development and spelling out career opportunities; 2) developing a more flexible approach to reward that includes the reduction of artificial barriers as a result of over-emphasis on grading and promotion; 3) generally rewarding people according to their contribution; 4) supporting the development of a performance culture and building levels of competence; and 5) clarifying what behaviours will be rewarded and why.

Specific reward initiatives

The selection of reward initiatives and the priorities attached to them will be based on an analysis of the present circumstances of the organization and an assessment of the needs of the business and its employees. The following are examples of possible specific reward initiatives, one or more of which might feature in a reward strategy:

- the development of a total reward approach in which each aspect of reward, namely base pay, contingent pay, employee benefits and non-financial rewards (which include intrinsic rewards from the work itself), are linked together and treated as an integrated and coherent whole;
- the replacement of present methods of contingent pay with a pay for contribution scheme;
- the introduction of a new grade and pay structure, eg a broad-graded or career family structure;
- the replacement of an existing decayed job evaluation scheme with a scheme that more clearly reflects organizational values and is less bureaucratic;
- the improvement of performance management processes so that they provide better support for the development of a performance culture and more clearly identify development needs;
- the introduction of a formal recognition scheme;
- the development of a flexible benefits system;
- the conduct of equal pay reviews with the objective of ensuring that work of equal value is paid equally;
- communication programmes designed to inform everyone of the reward policies and practices of the organization;
- training, coaching and guidance programmes designed to increase the ability of line managers to play their part in managing reward.

CASE STUDY Reward Strategy at BT

Reward strategy at BT (British Telecom) is a fairly broad-brush affair simply indicating the general direction in which it is thought reward management for the 90,000 staff at BT should go, with an emphasis on adopting a more holistic, total reward approach. It is summarized as follows: Use the full range of rewards (salary, bonus, benefits and recognition) to recruit and retain the best people, and to encourage and reward achievement where actions and behaviours are consistent with the BT values.

Guiding principles

BT's reward strategy is underpinned by a set of guiding principles defining the approach the organization takes to dealing with reward. These guiding principles are the basis for reward policies and provide guidelines for the actions contained in the reward strategy. They express the reward philosophy of the organization – its values and beliefs about how people should be rewarded. The six guiding principles governing the design of the reward system at BT are as follows:

- business linkage;
- clarity and transparency;
- market competitiveness;
- performance differentiation;
- choice and flexibility;
- equal pay.

The three principal elements driving individual reward are:

1. The individual's performance and contribution in the role – what does it mean to have high individual performance?
2. The competitiveness of the individual's existing salary, together with the actual (and anticipated) salary movement in relevant local markets – how does salary align to the external market?
3. The company's business results and ability to pay – can the company afford to invest money in terms of additional reward?
4. Underpinning these pillars are the principles of clarity (a 'focus on roles'), equal pay and choice.

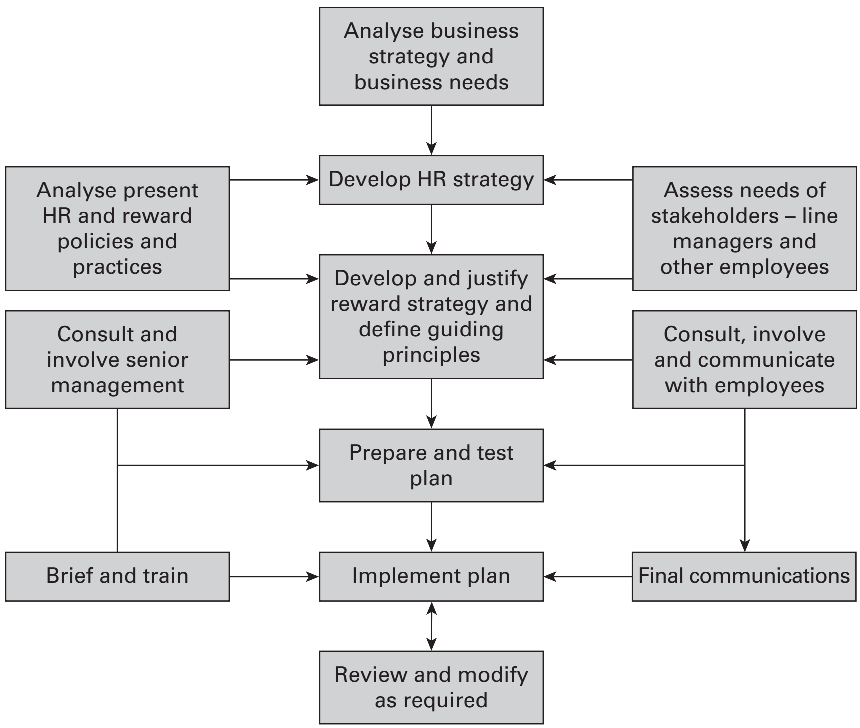
Developing reward strategy

The formulation of reward strategy can be described as a process for developing and defining a sense of direction. There are four key development phases:

1 The diagnosis phase, when reward goals are agreed, current policies and practices assessed against them, options for improvement considered and any changes agreed.
2 The detailed design phase, when improvements and changes are detailed and any changes tested (pilot testing is important).
3 The final testing and preparation phase.
4 The implementation phase, followed by ongoing review and modification.

A step-by-step model for doing this is illustrated in Figure 23.1. This incorporates ample provision for consultation, involvement and communication with stakeholders, who include senior managers as the ultimate decision makers as well as employees and line managers.

Figure 23.1 A model of the reward strategy development process



In practice, however, the formulation of reward strategy is seldom as logical and linear a process as this. Reward strategies evolve; they have to respond to changes in organizational requirements that are happening all the time. They need to track emerging trends in reward management and their views may be modified accordingly, as long as they do not leap too hastily on the latest bandwagon.

It may be helpful to record reward strategies formally as a basis for planning and communication. But this should be regarded as no more than a piece of paper that can be torn up when the needs of the organization change – as they will – not a tablet of stone.

CASE STUDY DSG International: aligning reward with the business plan

In a difficult economic environment, DSG simplified their complex mix of reward arrangements to establish a close alignment between rewards and the five components of a new business turnaround plan, primarily through the redesign of executive incentive plans. The change was designed to enhance the perception of line-of-sight between individual performance, group performance and reward. It illustrates the vital role of communications to explain the 'why' of reward change, what it means for the business and how each component of reward links to a business plan.

Effective reward strategies

An effective reward strategy is one that provides clear guidance on development planning and implementation and that achieves its objectives when implemented. Duncan Brown (2001: 14–15) has suggested that effective reward strategies have three components:

1. They have to have clearly defined goals and a well-defined link to business objectives.
2. There have to be well-designed pay and reward programmes, tailored to the needs of the organization and its people, and consistent and integrated with one another.

3 Perhaps most important and most neglected, there needs to be effective and supportive people management and reward processes in place.

Reward strategy and line management capability

The people management (PM) function can initiate new reward policies and practices but it is the line manager that has the main responsibility for implementing them. The trend is, rightly, to devolve more responsibility for managing reward to line managers. Some will have the ability to respond to the challenge and opportunity; others will be incapable of carrying out this responsibility without close guidance from PM; some may not be able to cope. Managers may not always do what PM expects them to do, and if compelled to, they may be half-hearted about it. This puts the onus on HR and reward specialists to develop line management capability, to initiate processes that can readily be implemented by line managers, to promote understanding by communicating what is happening, why it is happening and how it will affect everyone, to provide guidance and help where required, and to provide formal training as necessary.

The problem with the concept of reward strategy

To what extent can pay be strategic? This question was posed by Trevor (2009: 21) who noted that pay is seen as 'a means of aligning a company's most strategic asset – their employees – to the strategic direction of the organization' and that strategic pay theory is predicated on the notion of strategic choice. But he claimed that rationalism is limited and pointed out that pay systems tend to be selected for their legitimacy (best practice as advocated by institutions such as the CIPD and by management consultants) rather than for purely economic reasons.

His research into the pay policies and practice of three large consumer goods organizations revealed a gap between intended and actual practice – intent does not necessarily lead to action. 'Irrespective of the strategic desire or the saliency of the design, ineffectual execution results in ineffectual pay practice which then reacts negatively upon the pay outcomes experienced as a result… Attempting to use strategic pay systems such as incentive pay, results often in unintended consequences and negative outcomes that destroy value rather than create it' (Trevor, 2009: 34). The main implications of the findings from this research were that: 'Theory is out of step with reality and may represent a largely unattainable ideal in practice… an alternative approach for the use of pay systems in support of strategy is required: one that acknowledges the relative limits on the ability of companies to manage pay strategically' (p 37). As Wright and Nishii (2006: 11) commented: 'Not all intended HR practices are actually implemented and those that are may often be implemented in ways that differ from the original intention.'

A similar point was made by Armstrong and Brown (2006: 1–2) when they described 'the new reality' of strategic reward management as follows:

> When mostly North American concepts of strategic HRM and reward first entered into management thinking and practice in the UK we were both some of their most ardent advocates, writing and advising individual employers on the benefits of aligning their reward systems so as to drive business performance. We helped to articulate strategic plans and visions, and to design the pay and reward changes that would secure better alignment and performance.
>
> Some twenty years later, we are a little older and a little wiser as a result of these experiences. We remain passionate proponents of a strategic approach to reward management. But in conducting and observing this work we have seen some of the risks as well as the opportunities in pursuing the reward strategy path: of an over-focus on planning at the expense of process and practice; on design rather than delivery; on the boardroom and the HR function rather than on first and front-line managers and employees; and on concept rather than communications.
>
> At times there has been a tendency to over-ambition and optimism in terms of what could and couldn't be achieved by changing pay and reward arrangements, and how quickly real change could be delivered and business results secured. At times the focus on internal business fit led to narrow-minded reward determinism, and a lack of attention to the increasingly important external influences and constraints on reward, from the shifting tax and wider legislative, economic and social environment. And sometimes the focus on designs and desires meant that the requirements and skills of line and reward managers were insufficiently diagnosed and developed.

Key learning points

- Reward strategy is concerned with the policies and practices required to ensure that the value of people and the contribution they make to achieving organizational, departmental and team goals is recognized and rewarded.
- It is about planning and executing the design and implementation of reward systems (interrelated reward processes, practices and procedures) that aim to satisfy the needs of both the organization and its stakeholders and to operate fairly, equitably and consistently. Reward strategy is a declaration of intent.
- It defines what an organization wants to do in the longer term to address critical reward issues and to develop and implement reward policies, practices and processes that will further the achievement of its business goals and meet the needs of its stakeholders.
- It starts from where the reward practices of the business are now and goes on to describe what they should become.
- There are four arguments for developing reward strategy:
    1. Reward strategy provides a sense of purpose and direction.
    2. Pay costs in most organizations are by far the largest item of expense and reward strategy can help to manage them properly.
    3. The relationship between rewards and performance will be strengthened.
    4. A reward strategic framework will indicate how reward processes will be linked to HR processes so that they are coherent and mutually supportive.
- Reward strategists have to:
    - take account of the views of top management and be prepared to persuade them with convincing arguments that action needs to be taken;
    - take particular account of financial considerations;
    - convince employees and their representatives that the reward strategy will meet their needs as well as business needs.

- Reward strategy should be based on a detailed analysis of the present arrangements for reward, which would include a statement of their strengths and weaknesses.
- Reward strategy may be a broad-brush affair, simply indicating the general direction in which it is thought reward management should go. Additionally, or alternatively, reward strategy may set out a list of specific intentions dealing with particular aspects of reward management.
- Guiding principles define the approach an organization takes to dealing with reward. They are the basis for reward policies and provide guidelines for the actions contained in the reward strategy. They express the reward philosophy of the organization – its values and beliefs about how people should be rewarded.
- An effective reward strategy is one that provides clear guidance on development planning and implementation and achieves its objectives when implemented.
- HR can initiate new reward policies and practices but it is the line manager that has the main responsibility for implementing them. The trend is, rightly, to devolve more responsibility for managing reward to line managers.
- There are limitations to the impact of reward strategy. Intent does not necessarily lead to action.

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Employment relationships strategy

24

Introduction

Employment relationships strategy defines the intentions of the organization about what needs to be done and what needs to be changed in the ways in which the organization handles relationships with employees and their trade unions, if any. This is an area of people management where a strategic approach is particularly appropriate. Organizations need to have a clear idea of the route they want to follow in developing a cooperative and productive employment relations climate.

The foundation for the strategy is provided by the employment relationship, which describes how employers and employees work together and relate to one another. Because it is a fundamental aspect of employee relations, the nature of the employment relationship is examined in the first section of this chapter. Against this background, the next section deals with the characteristics and concerns of employment relations. The next sections cover two of the main aspects of employee relations: partnership and giving employees a voice. Finally the chapter deals with trade union recognition strategy.

The employment relationship

As defined by Boxall (2013: 5), the employment relationship is 'the primary vehicle for "marrying" the needs of individuals and organizations'. As he suggests: 'Organizations have simultaneous needs for commitment and flexibility, while individuals have enduring needs for security and community' (p 8).

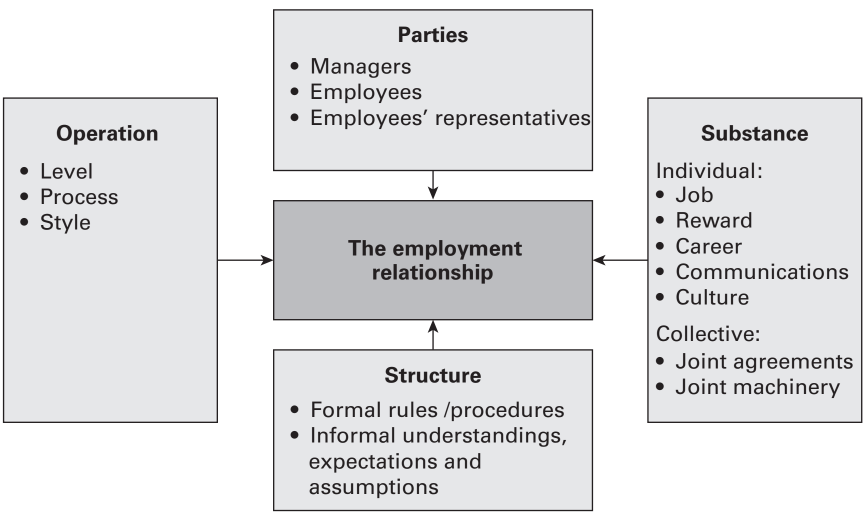
The employment relationship can also be described as being a largely informal and constant process that happens whenever an employer has dealings with an employee, and vice versa. Underpinning the employment relationship is the psychological contract, which expresses certain assumptions and expectations about what managers and employees have to offer and are willing to deliver.

The dimensions of the employment relationship as described by Kessler and Undy (1996) are shown in Figure 24.1.

The dynamic nature of the employment relationship increases the difficulty of developing a strategy to manage it. The problem is compounded by the influence of a multiplicity of factors – the culture of the organization, the prevailing management style, the values (espoused and practised) of top management, the existence or non-existence of a climate of trust, day-to-day interactions between employees and line managers, and the HR policies and practices of the business.

Strategies for managing the employment relationship will therefore focus on establishing overall intentions about how a constructive and cooperative employment relations climate can be developed and what approaches are adopted to achieving mutuality and trust.

Figure 24.1 Dimensions of the employment relationship



A strategy for creating a constructive and positive employment relations climate

The employment relations climate of an organization consists of the perceptions of management, employees and their representatives about the ways in which employment relations are conducted and how the various parties (managers, employees and trade unions) behave when dealing with one another. An employment relations climate may be created by the management style adopted by management or by the behaviour of the trade unions or employee representatives (cooperative, hostile, militant etc) or by the two interacting with one another. It can be good, bad or indifferent according to perceptions about the extent to which:

- management and employees trust one another;
- management treats employees fairly and with consideration;
- management is open about its actions and intentions – employment relations policies and procedures are transparent;
- harmonious relationships are generally maintained on a day-to-day basis;
- conflict, when it does arise, is resolved without resort to industrial action and resolution is achieved by integrative processes that result in a 'win–win' solution;
- employees are generally committed to the interests of the organization and, equally, management treat them as stakeholders whose interests should be protected as far as possible.

A strategy for improving the climate may involve developing fair employment relations policies and procedures and making plans to implement them consistently. Line managers and team leaders, who are largely responsible for the day-to-day conduct of employment relations, need to be educated and trained on the approaches they should adopt. Transparency can be achieved by communicating policies to employees, and commitment increased by involvement and participation processes. Importantly, as discussed below, the organization can address its obligations to the employees as stakeholders and formulate strategies for mutual gains and building trust.

A strategy for achieving mutual gains

The concept of mutual gains was originated by Kochan and Osterman (1994) who argued that rather than being blockages to productivity improvements, worker representatives, in collaboration with management and underpinned with institutional supports, could engage in joint problem solving to improve both firm performance and returns for workers. Management and workers are still held to maintain their own separate interests, but ultimately seek to satisfy such contiguous interests through cooperation. They suggested that: 'Employees must commit their energies to meeting the economic objectives of the enterprise. In return, owners (stakeholders) must share the economic returns with employees and invest those returns in ways that promote the long-run economic security of the workforce' (Kochan and Osterman, 1994: 46).

As described by Cullinane *et al* (2014: 810), the idea of mutual gains 'outlines that whilst management and workers' interests may diverge, there is ample opportunity, through problem-solving arrangements, to create shared benefits for both parties'. They also observed that: 'Mutual gains rotates on an assumption that, in the process of problem-solving, both sides exchange information to advance interests that are deemed beneficial to both parties, with the subsequent generation of options and finally, the choosing of those that offer the highest joint returns' (Cullinane *et al*, 2014: 819).

Boxall (2013: 5) set out three conditions under which the quality of employment relationships may facilitate the achievement of mutual gains: a) capability match – fit between employer's need for a competent workforce and employees' need for a conducive work environment; b) commitment match – fit between employer's need for employees' commitment and employees' need for job security and fair treatment from the employer; and c) contribution match – the extent to which the employer and employees perceive that their respective needs are being met.

The concept of mutual gains is associated with the notion of mutuality as formulated by Walton (1985). Mutuality was defined by Guest and Peccei (2001: 212) as 'the idea of focusing on the shared interests and shared goals of two or more interdependent parties while recognizing that they have other potentially differing interests'. But the term mutual gains is used more nowadays, perhaps because it conveys more clearly the outcomes of mutuality by defining what happens when the principle of mutuality is applied, for example, as a basis for negotiation.

A strategy for building trust

Trust is a firm belief that a person may be relied on. A climate of trust is an essential ingredient in a positive employment relationship. It has been suggested by Herriot *et al* (1988) that trust should be regarded as social capital – the fund of goodwill in any social group that enables people within it to collaborate with one another.

A strategy for building trust must focus on how it can be created and maintained by managerial behaviour and by the development of better mutual understanding of expectations – employers of employees, and employees of employers. The sort of behaviour by managers that should be fostered by the strategy is being honest with people, keeping their word (delivering the deal) and practising what they preach. Managements that espouse values ('people are our greatest asset') and then proceed to ignore them will be low-trust organizations. More specifically, trust will be developed if management acts fairly, equitably and consistently, if a policy of transparency is implemented, if intentions and the reasons for proposals or decisions are communicated both to employees generally and to individuals, if there is full involvement in developing reward processes and if mutual expectations are agreed through performance management.

The nature of employment relations strategy

Like all other aspects of people strategy, employment relations strategy takes account of the business strategy and aims to support it. Support will exist if employee relations operate in a spirit of mutual gains and partnership, and if this results in high levels of trust, cooperation and, ultimately, productivity.

Approaches to employment relations strategy

There are four approaches to employment relations strategy:

1 Adversarial: the organization decides what it wants to do and employees are expected to fit in. Employees only exercise power by refusing to cooperate.

2 Traditional: a good day-to-day working relationship, but management proposes and the workforce reacts through its elected representatives.
3 Partnership: the organization involves employees in the drawing up and execution of the organization's policies, but retains the right to manage.
4 Power sharing: employees are involved in both day-to-day and strategic decision making.

Adversarial approaches are much less common today in most organizations. The traditional approach is still the most typical, but more interest is being expressed in partnership as discussed later in this chapter. Power sharing is rare.

The concerns of employment relations strategy

Overall, employment relations strategy is concerned with building stable and cooperative relationships with employees that minimize conflict. More specifically the strategy covers matters such as:

- the achievement of increased levels of commitment through involvement or participation – giving employees a voice;
- developing a 'partnership' with trade unions, recognizing that employees are stakeholders and that it is to the advantage of both parties to work together – this could be described as a unitary strategy, the aim of which is to increase mutual commitment (a unitary approach is based on the belief that management and employees share the same concerns and it is therefore in both their interests to work together);
- changing forms of recognition, including single union recognition, or derecognition;
- changes in the form and content of procedural agreements which define the rules that regulate relationships between management;
- new bargaining structures, including decentralization or single-table bargaining (negotiations are conducted simultaneously between management and more than one trade union).

Partnership agreement strategy

A partnership agreement strategy aims to get management and a trade union to collaborate to their mutual advantage and to achieve a climate of more cooperative and therefore less adversarial industrial relations. Management may offer job security linked to productivity and the union may agree to more flexible working.

The perceived benefits of partnership agreements are that management and unions will work together in a spirit of cooperation and mutuality, which is clearly preferable to an adversarial relationship. Provision is made for change to be introduced through discussion and agreement rather than by coercion or power.

Employee voice strategy

The term 'employee voice' refers to the say employees have in matters of concern to them in their organization. It describes a forum of two-way dialogue that allows employees to influence events at work and includes the processes of involvement, participation, upward problem solving and upward communication. An employee voice strategy will indicate what voice arrangements are to be made, if any.

The voice strategy appropriate for an organization depends upon the values and attitudes of management and, if they exist, trade unions, and the current climate of employee relations. Strategic planning should be based on a review of the existing forms of voice, which would include discussions with stakeholders (line managers, employees and trade union representatives) on the effectiveness of existing arrangements and any improvements required. In the light of these discussions, new or revised approaches can be developed but it is necessary to brief and train those involved in the part they should play.

CASE STUDY Employee relations at Capgemini UK

Capgemini UK is part of a global IT services company providing management consulting, outsourcing and professional services, with 112,000 employees across the world and 9,000 employees in the UK.

Capgemini's principal consultative mechanism is the 'forum', which includes both union and non-union representatives. The forum approach was established in 1999 using the works council model adopted by Capgemini in the Netherlands. This is seen as a problem-solving model encouraging two-way communication, as opposed to the more adversarial approach characteristic of consultation in

France. Local forums have been established covering individual business areas; the UK National Works Council (NWC) is made up of nominated representatives from each of the local forums and an international works council operates from the global company headquarters in Paris.

Trade union recognition strategy

An organization may have to decide on a strategy for recognizing or derecognizing a trade union. An employer fully recognizes a union for the purposes of collective bargaining when pay and conditions of employment are jointly agreed between management and trade unions. Unions can be derecognized, although this is happening less frequently.

Employers in the private sector are in a strong position now to choose whether they recognize a union or not, which union they want to recognize and the terms on which they would grant recognition, for example a single union agreement.

When setting up on greenfield sites, employers may refuse to recognize unions. Alternatively, they can hold 'beauty contests' to select the union they prefer to work with, one that will be prepared to reach an agreement in line with what management wants.

An organization deciding whether or not to recognize or derecognize a union should take some or all of the following factors into account:

- the perceived value or lack of value of having a process for regulating collective bargaining;
- if there is an existing union, the extent to which management has freedom to manage; for example to change working arrangements and introduce flexible working or multiskilling;
- the history of relationships with the existing union;
- the proportion of employees who are union members and the degree to which they believe they need the protection their union provides;
- any preferences as to a particular union, because of its reputation or the extent to which it is believed a satisfactory relationship can be maintained;
- if derecognition is contemplated, the extent to which the perceived advantages of not having a union outweigh the disadvantages of upsetting the status quo.

Key learning points

- Employment relations strategy defines the intentions of the organization about what needs to be done and what needs to be changed in the ways in which the organization handles relationships with employees and, if any, their trade unions.
- The employment relationship is a largely informal and constant process that happens whenever an employer has dealings with an employee, and vice versa.
- Strategies for managing the employment relationship will focus on establishing overall intentions about how a constructive and cooperative employment relations climate can be developed and what approaches are adopted to achieving mutuality and trust.
- Overall, employment relations strategy is concerned with developing the employment relationship as discussed earlier in this chapter in order to build stable and cooperative relationships with employees that minimize conflict.
- A strategy should be developed to achieve mutual gains through the employment relationship.
- A partnership agreement strategy aims to get management and a trade union to collaborate to their mutual advantage and to achieve a climate of more cooperative and therefore less adversarial industrial relations.
- An employee voice strategy will indicate what voice arrangements are to be made, if any. These can take the form of representative participation (collective representation through trade unions or staff associations or joint consultation) and/or upward communication through established channels (consultative committees, grievance procedures, 'speak-up' programmes etc) or informally.
- An organization may have to decide on a strategy for recognizing or derecognizing a trade union.

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Employee wellbeing strategy

25

Introduction

Employee wellbeing has been defined by Warr (1987) as 'the overall quality of an individual's subjective experience and functioning at work'. The wellbeing of employees depends on the quality of working life provided by their employers – the work environment and the feelings of satisfaction and happiness arising from the work itself. This chapter initially covers the case for having a wellbeing strategy and then deals with the features of such a strategy.

The case for a wellbeing strategy

Employers have a duty of care. This means adopting a socially responsible approach to looking after their people by creating a good work environment. As Brown *et al* (2019: 5–6) contended: 'Employers seem to be becoming more, not less, focused on the wellbeing of their employees, recognizing that high performance in a service and knowledge-based economy generally can't be programmed and regulated into people; that they have to be engaged, supported and enabled by leaders and HR professionals to deliver it.'

The moral case for caring about wellbeing is strong but there is also a business case. Sir Cary Cooper (CIPD, 2019: 2) reported that academic and practitioner evidence demonstrates that employee health, wellbeing and engagement are important for organizational success. He observed that:

> Compassionate leadership is a far from fluffy concept. It is supported by a hard business case showing desired outcomes such as improved relationships as well as higher motivation and job satisfaction levels, all of which can lead to enhanced performance and productivity. Not surprisingly, there is also a strong

> association with better health and wellbeing because a compassionate culture is one which engenders trust and openness, and where people feel more confident to discuss any health issues and receive the support they need. Employers who are intent on creating a healthy workplace could therefore benefit from considering how to integrate compassion as part of their wellbeing strategy.

In a meta-analysis, Peccei (2004) suggested that wellbeing had a key role in enhancing organizational performance. An assessment of 55 wellness programmes throughout industry by PricewaterhouseCoopers (2008) found that on average the interventions resulted in a 45 per cent reduction in sickness absence, 18 per cent reduction in staff turnover, 16 per cent reduction in accidents/injuries, an increase in employee job satisfaction of 14 per cent, an 8 per cent increase in productivity and a drop of 8 per cent in health and employer liability claims.

Krekel *et al* (2019) of the Saïd Business School surveyed the evidence in a meta-analysis of 339 independent research studies, including the wellbeing of 1,882,131 employees and the performance of 82,248 business units, originating from 230 independent organizations across 49 industries in the Gallup database. A significant and strong positive correlation was established between employees' satisfaction with their company and employee productivity and customer loyalty, and a strong negative correlation with staff turnover. Ultimately, higher wellbeing at work is positively correlated with more business-unit-level profitability.

Features of an employee wellbeing strategy

The CIPD (2019: 9) noted that:

> Building and integrating a health and wellbeing strategy for the organization that is contingent on its specific requirements is how employers can avoid the pitfall of developing a 'menu' of initiatives that are not joined up or closely linked to the needs of employees.

The purpose of an employee wellbeing strategy is to provide a framework for the introduction of policies and practice designed to increase the level of wellbeing among the employees of an organization. The following case for developing and implementing a wellbeing strategy was made by Professor Sir Cary Cooper and Ian Hesketh.

As Cooper and Hesketh (2019: 1) observed: 'Stress at work is rising year on year with long working hours seemingly becoming the norm. This is not only having a detrimental effect on employee health, happiness and productivity, but also impacting on the organization's bottom line. Human resources (HR) professionals are uniquely placed to manage this modern workplace crisis by implementing a wellbeing strategy.'

Guest (2017: 30–31) suggested five sets of practices that might be included in a wellbeing strategy:

1 *Investment in employees* – enhancing competence through training and development and providing a sense of an attractive career future leading to a feeling of security and the development of self-efficacy, an important antecedent of wellbeing.
2 *Engaging work* – the provision of opportunities for autonomy, control, skill use and variety at work through the core HR practice of job design.
3 *The creation of a positive social and physical environment* – prioritizing employee health and safety, providing opportunities for social interaction at work, avoiding bullying and harassment, promoting equal opportunities and diversity, ensuring fair rewards, often linked to high basic pay rather than incentive schemes, and providing employment security, including steps to maintain employability.
4 *Enhancing the role of voice* – extensive two-way communication, opportunities for individual expression of voice, including attitude surveys, and relevant forms of collective representation.
5 *The provision of organizational support* – participative, supportive management, an organization climate that facilitates employee involvement, participative and developmental rather than judgemental and potentially punitive performance management and family-friendly and flexible working arrangements.

The strategy should be evidence based. Pulse surveys (ie ones taking place on a quarterly, monthly or even weekly basis rather than the more typical annual survey) should be conducted, possibly through an enterprise social network (a social network operated within an organization that functions in the same way as social networks such as Facebook). The surveys would measure the reactions of employees to key aspects of wellbeing: the work environment, their jobs, relationships with their managers and work–life balance. People analytics should be used to analyse the causes of any sickness absence to identify the incidence of stress and to examine indicators of employee dissatisfaction such as absenteeism and disputes.

The evidence should indicate any areas in which prioritized action is required. Consideration should be given to possible developments in consultation with employees at meetings and/or through the enterprise social network. When decisions have been agreed, the work of developing policy and practices such as those set out in Table 25.1 can begin. Account should be taken not only of the form and contents of the policy or practice but also of how it is to be implemented.

Proposals should be discussed with those affected by them and managers and employees enlisted to support their detailed development and implementation. A change management programme may have to be drawn up with provision for communications, further involvement and any training required for those concerned. The implementation plan may be phased or test runs could be carried out. The whole implementation process should be carefully monitored to ensure that it is going according to plan.

The wellbeing strategy should be aware of the implications of research conducted by Alfes *et al* (2012: 422) which found that employees who perceive people management practices positively experience higher levels of wellbeing. This shows the advisability of reviewing all the key people management policies and practices that may affect wellbeing, including learning and development, performance management and reward, to identify any areas where changes may enhance it. Account should be taken of the internal and external factors listed below.

Factors affecting wellbeing

The internal factors that affect wellbeing and possible actions to deal with them are set down in Table 25.1.

Table 25.1 Wellbeing factors and actions

Wellbeing factor	Description	Possible actions
The work environment	Physical and mental wellbeing resulting from the system of work, working conditions, and health and safety considerations.	Provide a good work environment in terms of working conditions and take account of the need to provide a healthy and safe system of work, including minimizing stress and paying attention to ergonomic considerations in the design of equipment and work stations. Provide amenities such as subsidized restaurants, sports and social clubs, gyms and childcare facilities.
Job design and demands	The extent to which the jobs people have match their abilities and allow individuals to control their work (self-determination) and use their skills and abilities. The physical and mental demands involved in meeting job requirements, especially when work intensification has taken place.	Review job design practices to ensure that the principles of good design are being met. Review job demands to ensure that they are not excessive and therefore negatively affect work–life balance and lead to undue stress and even burnout. Review working conditions and ergonomic factors to ensure that they provide for the physical wellbeing of employees.
Relationships with line managers	How people are treated at work by their managers can strongly affect wellbeing. Research by Pfeffer and Sutton (2006) found that 60–75% of the employees in the organization surveyed reported that the worst or most stressful aspect of their job was their immediate supervisor. Line managers are in regular contact with the employees they are responsible for, so they are in a good position to identify the early signs of stress. A line manager can have a significant influence on employee attitudes and behaviours.	Select people as managers who are likely to have the leadership qualities to create and maintain good working relationships with their team members. Make responsibility for employee health and wellbeing an important part of the line manager's role so that they help to ensure employees feel valued, content and able to discuss any concerns before they reach a crisis point (NICE, 2009). Provide training and coaching in approaches to managing stress, including the leadership skills needed and the skills required to plan tasks and design jobs.

(*continued*)

Table 25.1 (Continued)

Wellbeing factor	Description	Possible actions
Relationships with colleagues	The quality of social relationships and the extent to which negative behaviour such as bullying and harassment exist.	Provide facilities for socializing at work. Introduce robust bullying and harassment policies and ensure that they function effectively.
Work–life balance	The achievement of a satisfying equilibrium between work and non-work (eg family) activities. A survey by Eurofound (2013) established that poor ratings of work–life balance were the strongest predictor of stress.	Introduce family-friendly policies providing for a reasonable degree of flexibility. Minimize excessive job demands.
Financial wellbeing	Financial wellbeing is defined by the CIPD (2017) as 'a state of both emotional and physical wellbeing, produced by a set of conditions and abilities. It includes making the most of an adequate income to enjoy a reasonable quality of life and having the skills and capabilities to manage money well, both on a daily basis and for the future'.	Pay people fairly. Provide counselling for employees with financial worries.
Stress	Stress at work is a major factor. It can be caused by problems in any of the areas set out above.	Take action as required in any of the areas set out above. Introduce an Employee Assistance programme (EAP) to provide counselling and advice.

External factors affecting employee wellbeing include the pressure on organizations from the government, regulatory authorities and the media to behave responsibly in the way they treat their people. But there is also a need for organizations to take account of the pressures their employees have to face outside the organization; these include maintaining a reasonable balance between life and work, taking care of children and dependants, health issues and financial problems.

Key learning points

- Employee wellbeing has been defined by Warr (1987) as 'the overall quality of an individual's subjective experience and functioning at work'.
- The wellbeing of employees depends on the quality of working life provided by their employers – the work environment and the feelings of satisfaction and happiness arising from the work itself.
- The moral case for caring about wellbeing is strong but there is also a strong business case.
- The purpose of an employee wellbeing strategy is to provide a framework for the introduction of policies and practices designed to increase the level of wellbeing among the employees of an organization. The strategy should be evidence based.
- Factors affecting wellbeing:
  - the work environment;
  - job design and demands;
  - relationships with line managers;
  - relationships with colleagues;
  - financial wellbeing;
  - stress.

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International people management strategy 26

Introduction

International people management strategy deals with the development and implementation of the policies and practices adopted for the management of employees in multinational companies (MNCs). Its aim is to ensure that the organization attracts, deploys, develops and engages the quality of people it requires to achieve its international goals.

International PM is more complex than people management in one country. Managing at a distance across international boundaries and in diverse environments is demanding. It is necessary to understand the different local contexts. This means that sensitivity to different cultures and different ways of doing business and managing people is required. As Ulrich (1998: 126) commented, faced with globalization, organizations must 'increase their ability to learn and collaborate and to manage diversity, complexity, and ambiguity'.

This chapter starts with a definition of strategic international people management (SIPM) and continues with examinations of the issues involved and the approach to dealing with those issues. Particular aspects of SIPM concerned with resourcing, talent management, performance management, reward management and the management of expatriates are described in the final sections of the chapter.

Strategic international people management defined

The aims of strategic international people management are to ensure that HR strategies, policies and practices are developed and implemented that will help the enterprise to operate profitably in a number of different countries and ensure that each unit can function effectively within its context – its culture and the legal, political and economic factors that affect it. The research conducted by Brewster *et al* (2005: 949) identified three processes that constitute global people management: 1) management and employer branding; 2) global leadership through international assignments; and 3) managing an international workforce and evaluation of the contribution of people management professionals. They found that organizations such as Rolls Royce had set up centres of excellence operating on a global basis and observed that global people professionals are acting as the guardians of the organization's global culture.

Sparrow and Braun (2007: 173) advised that: 'It is the utilization of organizational capabilities worldwide that provides multinational companies with competitive advantage.' In doing this, the organization has to bear in mind the point made by Pucik (2007: 203) that: 'The global firm must manage the contradictions of global integration, local responsiveness and worldwide coordination.'

International strategic people management issues

The fundamental strategic people management issue for MNCs is how to cope with 'complex cultural, geographical and constitutional pressures' (Sparrow and Braun, 2007: 187). They have to 'enhance the ability of specific functions to perform globally' (Sparrow and Braun, 2007: 188). The specific issues that affect international as distinct from domestic people management are the impact of globalization, the influence of environmental and cultural differences and the extent to which HRM policy and practice should vary in different countries (convergence or divergence). The last issue is of particular concern when framing international people strategies.

Convergence and divergence

According to Brewster *et al* (2002), the effectiveness of global people management depends on the ability to judge the extent to which an organization should implement similar practices across the world or adapt them to suit local conditions. This is a strategic decision. The dilemma facing all MNCs is that of achieving a balance between international consistency and local autonomy. They have to decide on the extent to which their people policies should either 'converge' worldwide to be basically the same in each location, or 'diverge' to be differentiated in response to local requirements.

Brewster (2004) thought that convergence may be increasing as a result of the power of the markets, the importance of cost, quality and productivity pressures, the emergence of transaction cost economies, the development of like-minded international cadres, and benchmarking 'best practice'.

But Brewster, Sparrow and Harris (2005) suggested that it is quite possible for some parts of an HR system to converge while other parts diverge. However, there is a choice. The factors that affect it include the extent to which the unit is operating mainly at a local level, the strength of local norms and the degree to which financial, managerial, technical and people resources flow from the parent company to the subsidiary. A further factor is that some international companies are much more prone to the exercise of central control than others, whatever the local circumstances.

Stiles (2007) noted that common practices across borders may be appropriate: 'Organizations seek what works and for HR in MNCs, the range of options is limited to a few common practices that are believed to secure high performance.'

International people management strategies

International people management strategies are primarily concerned with resourcing, talent management, performance management, reward management and the management of expatriates. In each of these areas except that of managing expatriates, the strategy will be affected by decisions on the direction the company wants to go in the light of overall considerations relating to convergence or divergence.

There are, however, a number of people management practices in which the parent company will play a major part. Workforce planning and talent management for more senior staff may be centralized, as may be resourcing decisions which affect the deployment of staff from the parent company or from other countries (third country nationals). The remuneration of senior staff and expatriates will certainly be centralized. While performance management systems will be administered by subsidiaries, the centre may want to ensure that the processes involved conform to what is regarded as best practice within the organization and provide the information required for talent management and staffing decisions. An international people management function may also be concerned with encouraging the actions required to promote multicultural working throughout the organization.

Resourcing strategy

International resourcing strategy is based on workforce planning processes which assess how many people are needed throughout the MNC (demand forecasting), set out the sources of people available (supply forecasting) and, in the light of these forecasts, prepare action plans for recruitment, selection or assignment.

Workforce planning may be carried out by the parent company PM function, although it will focus mainly on managers, professional and technical staff throughout the global organization and is linked to talent management. Workforce planning for junior staff and operatives is more likely to be carried out by subsidiaries, although the centre may require information on their plans.

By reference to workforce plans, resourcing in an international organization means making policy decisions on how the staffing requirements of headquarters and the foreign subsidiaries can be met, especially for managers, professionals and technical staff. Sparrow, Scullion and Farndale (2011: 42) emphasized that MNCs 'increasingly demand highly-skilled, highly flexible, mobile employees who can deliver the required results, sometimes in difficult circumstances'.

Additionally or alternatively, a decision may be made to employ third country nationals (TCNs) in certain posts. These might be easier to obtain than home country nationals and could cost less. But as pointed out by Dowling, Festing and Engle (2008), they might not want to return to their own countries after assignment, the host government may resent the hiring of TCNs and national animosities would have to be considered.

International talent management

Mellahi and Collings (2010: 143–44) defined international talent management as:

> The systematic identification of key positions which differentially contribute to the organization's sustainable competitive advantage on a global scale, the development of a talent pool of high performing incumbents to fill these roles which reflects the global scope of the multinational enterprise, the development of a differentiated human resource architecture to facilitate filling these positions with the best available incumbent and to ensure their continued commitment to the organization.

They suggested that enabling high-performing home country nationals to become senior managers improves the performance of an international business because it is able to respond effectively to the demands of local stakeholders and provides incentives for retaining and motivating local talent.

The conduct of international talent management involves basically the same methods as those used in a domestic setting as described in Chapter 20, namely, a pipeline consisting of processes for:

- talent planning;
- talent pool definition;
- identifying talent;
- recruiting talent;
- performance management;
- management development and career planning;
- assignment or promotion.

The global nature of multinational firms makes talent management a particularly complex issue. Mellahi and Collings (2010) identified three reasons why global talent management often fails:

1. Subsidiary managers may believe that it is their interests to keep their own best talent rather than bring them to the attention of headquarters or other subsidiaries.
2. Decision makers at the centre do not always have access to accurate information about the availability of talent elsewhere in the organization.
3. Even when information is available, the sheer volume, diversity and, possibly, unreliability of the data hinder the centre's ability to manage talent in subsidiaries effectively.

Sparrow *et al* (2011: 48) commented that: 'The coordination of international talent management strategies in highly decentralized MNCs is more problematic due to greater tensions between the short-term needs of the operating companies and the long-term strategic needs of the business.'

CASE STUDY International talent management at HSBC

HSBC has created a system of talent pools that track and manage the careers of high potentials within the international firm. After those employees have been identified, they are assigned to regional or business unit talent pools, which are managed by local human resources and business unit leaders. They are then selected initially for new assignments within their region or business and may later be given positions that cross boundaries. Managers of the pools single out people to recommend for the group talent pool, which represents the most senior cadre of general managers and is administered centrally.

International performance management

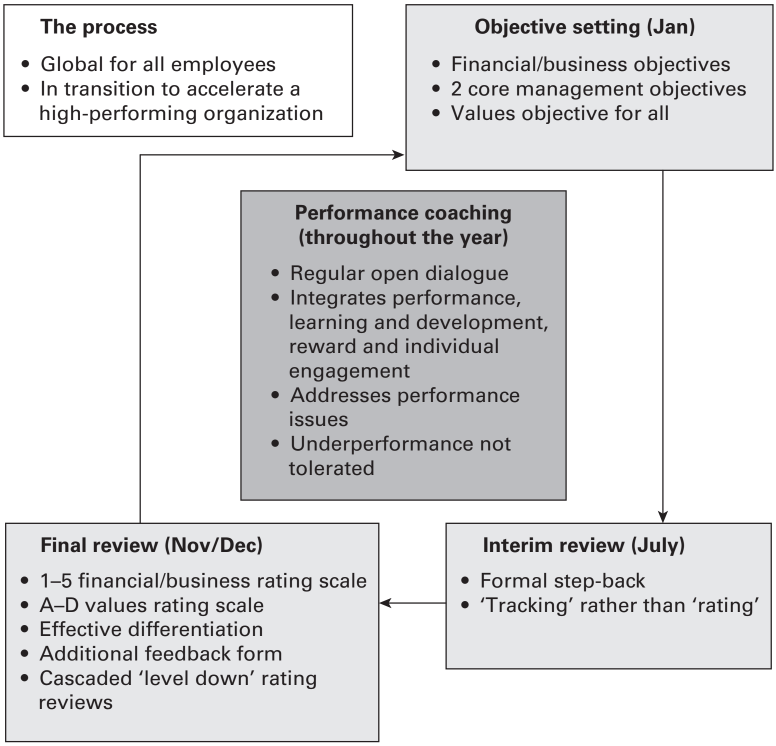
Performance management systems in subsidiaries covering home and third country nationals are the area of people management where there is likely to be the most convergence. This means that a system based on the one used in the parent company is applied completely or partly worldwide. As Briscoe *et al* (2012: 347) observed: 'There are some valid reasons which suggest that… a standardized approach may be warranted for the sake of global integration, culture cohesiveness, fairness, mobility of global employees, and as a control mechanism.'

The trend towards convergence was confirmed by the Global HR Research Alliance research as reported by Stiles (2007: 39), which concluded that:

> In performance management we found little or no difference across the world. We witnessed a concerted effort on the part of group HR departments to maintain global standards supported by global competencies (at foundation, managerial, technical and leadership level), common evaluation processes and common approaches to rewards. It was difficult, therefore, to find many distinctive local practices.

The effectiveness of international performance management is limited by the sheer complexity of international business and the distance separating headquarters and subsidiaries. Briscoe and Claus (2008) noted that a challenge is provided by 'the major differences that arise between host national perceptions and those of the home office regarding what was being accomplished and the circumstances under which it was being achieved'.

Figure 26.1 International performance management at Standard Chartered



The particular issues affecting international performance management are the increased difficulty in influencing and controlling line managers, cultural differences, the problem of achieving consistent rating results, and variable levels of maturity among subsidiaries which affect relative performance.

International reward management

International reward management involves the management of all aspects of rewards in organizations operating worldwide or at least in a number of countries. Traditionally, discussions of international reward strategies and practices have tended to focus on an elite of expatriate workers, sourced from headquarter locations and rewarded in isolation from local country staff. Today a diverse and complex pattern is emerging, requiring a more strategic approach than simply copying the practices of other multinationals.

International reward strategy is concerned with the development of an integrated approach to building reward policies and practices across international boundaries. It should be integrated in the sense that it takes into account the business goals and drivers of the parent company while at the same time fitting the strategy to the different contexts and cultures across the globe. The issue of the extent to which the reward strategy should be centralized or decentralized (convergence or divergence) needs to be addressed.

Baeten and Leuven (2010) listed the following main concerns affecting global reward strategy:

- the extent of centralization or decentralization of reward policies and practices;
- balancing corporate and national cultures;
- global benchmarking of levels of pay.

The factors that are likely to impact on international reward strategy are the corporate culture of the multinational enterprise, expatriate and local labour markets, local cultural sensitivities, and legal and institutional factors. A choice has to be made between on the one hand seeking internal consistency by developing common reward policies in order to facilitate the movement of employees across borders and preserve internal equity, and on the other hand, responding to pressures to conform to local practices.

Briscoe *et al* (2012: 297) identified the following options for establishing a worldwide reward system:

- Create worldwide salary levels at HQ with differentials for each subsidiary according to their differing costs of living.
- Base pay on local levels (usually excluding executives and globally mobile employees).
- Establish a global base per position where there is a global market for particular occupations or for senior managers and global employees.
- Set up two classifications – local and national – for pay. All local nationals above a certain level are placed on the headquarters scale. The others are paid on a local scale.

Managing expatriates

The management of expatriates on international assignments is a major factor determining success or failure in a global business. Expatriates are expensive. They can be difficult to manage because of the problems associated with adapting to and working in unfamiliar environments and cultures, concerns about their development and careers, difficulties encountered when they re-enter their parent company after a foreign assignment and questions about how they should be remunerated.

A strategy for managing expatriates can relate to the global assignment cycle described by Sparrow *et al* (2004: 145), the three phases of which are:

- *Pre-departure* – planning the assignment, selecting the individual, administering the relocation programme and conducting preparatory training and development.
- *Assignment* – performance management, pay and benefits, family support and preparation for repatriation or reassignment.
- *Post-assignment* – retention by reintegrating returning international assignees into organizational career systems.

Key learning points

- Strategic international people management (SIPM) is the process of planning how best to develop and implement policies and practices for managing people across international boundaries by multinational companies.
- The fundamental strategic people management issue for multinational companies is how to cope with complex cultural, geographical and constitutional pressures.
- The specific issues that affect international as distinct from domestic people management are the impact of globalization, the influence of environmental and cultural differences, the extent to which operations should be centralized or decentralized, and the extent to which PM policy and practice should vary in different countries (convergence or divergence). The last two issues are of particular concern when framing international PM strategies.
- The dilemma facing all multinational corporations is that of achieving a balance between international consistency and local autonomy. They have to decide on the extent to which their people policies should either 'converge' worldwide to be basically the same in each location, or 'diverge' to be differentiated in response to local requirements.

- International PM strategies are primarily concerned with resourcing, talent management, performance management, reward management and the management of expatriates. In each of these areas except that of managing expatriates, the strategy will determine the direction the company wants to go in the light of overall considerations relating to convergence or divergence.
- International resourcing is based on workforce planning processes which assess how many people are needed throughout the MNC (demand forecasting), set out the sources of people available (supply forecasting) and, in the light of these forecasts, prepare action plans for recruitment, selection or assignment.
- The conduct of international talent management involves basically the same methods as those used in a domestic setting, namely, a pipeline consisting of processes for talent planning, talent pool definition, identifying talent internally, recruiting talent, performance management, management development and career planning, assignment or promotion.
- The effectiveness of international performance management is affected overall by the sheer complexity of international business and the distance separating headquarters and subsidiaries. The particular issues affecting international performance management are the increased difficulty in influencing and controlling line managers, cultural differences, the problem of achieving consistent rating results, and variable levels of maturity among subsidiaries which affect relative performance.
- International reward strategy is concerned with the development of an integrated approach to building reward policies and practices across international boundaries.
- The factors that are likely to impact on international reward strategy are the corporate culture of the multinational enterprise, expatriate and local labour markets, local cultural sensitivities, and legal and institutional factors.
- The management of expatriates on international assignments is a major factor determining success or failure in a global business.

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