

Developing and implementing HR strategies

There is an ever-present risk that the concept of strategic HRM can become somewhat nebulous – nice to have but hard to realize. The danger of creating a rhetoric/reality gap is acute. Broad and often bland statements of strategic intent can be readily produced. What is much more difficult is to turn them into realistic plans that are then implemented effectively. Strategic HRM is more about getting things done than thinking about them. It leads to the formulation of HR strategies that first define what an organization intends to do in order to attain defined goals in overall human resource management policy and in particular areas of HR process and practice, and secondly set out how they will be implemented.

Difficult though it may be, a strategic approach is desirable in order to give a sense of direction and purpose and as a basis for the development of relevant and coherent HR policies and practices.

This chapter starts by giving general consideration to the development process, setting out various propositions and describing the levels of strategic decision-making. Reference is also made to the existence of strategic options and choices. This provides the background against which the approaches to formulating and implementing HR strategies are described.

PROPOSITIONS ABOUT THE DEVELOPMENT PROCESS

The following propositions about the formulation of HR strategy have been drawn up by Boxall (1993) from the literature:

- the strategy formation process is complex, and excessively rationalistic models that advocate formalistic linkages between strategic planning and HR planning are not particularly helpful to our understanding of it;
- business strategy may be an important influence on HR strategy but it is only one of several factors;
- implicit (if not explicit) in the mix of factors that influence the shape of HR strategies is a set of historical compromises and trade-offs from stakeholders.

It is also necessary to stress that coherent and integrated HR strategies are only likely to be developed if the top team understands and acts upon the strategic imperatives associated with the employment, development and motivation of people. This will be achieved more effectively if there is an HR director who is playing an active and respected role as a business partner. A further consideration is that the effective implementation of HR strategies depends on the involvement, commitment and cooperation of line managers and staff generally. Finally, there is too often a wide gap between the rhetoric of strategic HRM and the reality of its impact, as Gratton *et al* (1999) emphasize. 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 abandoned or at least modified because of the short-term demands made on the business to increase shareholder value.

The development process as described below takes place at different levels and involves analysing options and making choices. A methodology is required for the process that can be conducted by means of a strategic review. The methodology can be applied in three different ways. One of the most important aims in the development programme will be to align the HR strategy to the organizational culture and the business strategy by achieving vertical integration or fit.

LEVELS OF STRATEGIC DECISION-MAKING

Ideally, the formulation of HR strategies is conceived as a process, which is closely aligned to the formulation of business strategies. HR strategy can influence as well as

be influenced by business strategy. In reality, however, HR strategies are more likely to flow from business strategies, which will be dominated by product/market and financial considerations. But there is still room for HR to make a useful, even essential contribution at the stage when business strategies are conceived, for example by focusing on resource issues. This contribution may be more significant if strategy formulation is an emergent or evolutionary process – HR strategic issues will then be dealt with as they arise during the course of formulating and implementing the corporate strategy.

A distinction is made by Purcell (1989) between:

- *'upstream' first-order decisions*, which are concerned with the long-term direction of the enterprise or the scope of its activities;
- *'downstream' second-order decisions*, which are concerned with internal operating procedures and how the firm is organized to achieve its goals;
- *'downstream' third-order decisions*, which are concerned with choices on human resource structures and approaches and are strategic in the sense that they establish the basic parameters of employee relations management in the firm.

It can indeed be argued that HR strategies, like other functional strategies such as product development, manufacturing and the introduction of new technology, will be developed within the context of the overall business strategy, but this need not imply that HR strategies come third in the pecking order. Observations made by Armstrong and Long (1994) during research into the strategy formulation processes of 10 large UK organizations suggested that there were only two levels of strategy formulation: 1) the corporate strategy relating to the vision and mission of the organization but often expressed in terms of marketing and financial objectives; 2) the specific strategies within the corporate strategy concerning product-market development, acquisitions and divestments, human resources, finance, new technology, organization, and such overall aspects of management as quality, flexibility, productivity, innovation and cost reduction.

STRATEGIC OPTIONS AND CHOICES

The process of developing HR strategies involves generating strategic HRM options and then making appropriate strategic choices. It has been noted by Cappelli (1999) 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 co-operative labour relations.' The

process of developing HR strategies involves the adoption of 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. They should be founded on detailed analysis and study, not just wishful thinking, and should incorporate the experienced and collective judgement of top management about the organizational requirements while also taking into account the needs of line managers and employees generally. The emerging strategies 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, and the strategies should be capable of being turned into actionable programmes.

APPROACHES TO HR STRATEGY DEVELOPMENT

The starting point of HR strategy development is the alignment of HR strategy to the business strategy and the organizational culture – the achievement of vertical integration. This provides the necessary framework for the three approaches to the development of HR strategies that have been identified by Delery and Doty (1996) as the ‘universalistic’, the ‘contingency’ and the ‘configurational’. Richardson and Thompson (1999) redefined the first two approaches as best practice and best fit, and retained the word ‘configurational’, meaning the use of ‘bundles’, as the third approach.

Aligning HR strategy

A fundamental requirement in developing HR strategy is that it should be aligned to the business strategy (vertical integration) and should fit the organizational culture. Everything else flows from this process of alignment.

Integration with the business strategy

The key business issues that may impact on HR strategies include:

- intentions concerning growth or retrenchment, acquisitions, mergers, divestments, diversification, product/market development;
- proposals on increasing competitive advantage through innovation leading to product/service differentiation, productivity gains, improved quality/customer service, cost reduction (downsizing);

- the felt need to develop a more positive, performance-oriented culture and any other culture management imperatives associated with changes in the philosophies of the organization in such areas as gaining commitment, mutuality, communications, involvement, devolution and teamworking.

Business strategies may be influenced by HR factors, although not excessively so. HR strategies are concerned with making business strategies work. But the business strategy must take into account key HR opportunities and constraints.

Wright and Snell (1998) suggest that seeking fit requires knowledge of the skills and behaviour needed to implement the strategy, knowledge of the HRM practices necessary to elicit those skills and behaviours, and the ability quickly to implement the desired system of HRM practices.

A framework for aligning HR and business strategies is provided by a competitive strategy approach that relates the different HR strategies to the firm's competitive strategies, including those listed by Porter (1985). An illustration of how this might be expressed is given in Table 9.1.

Culture fit

HR strategies need to be congruent with the existing culture of the organization, or designed to produce cultural change in specified directions. This will be a necessary factor in the formulation stage but could be a vital factor when it comes to implementation. In effect, if what is proposed is in line with 'the way we do things around here', then it will be more readily accepted. However, in the more likely event that it changes 'the way we do things around here', then careful attention has to be given to the real problems that may occur in the process of trying to embed the new initiative in the organization.

The best practice approach

This approach is based on the assumption that there is a set of best HRM practices and that adopting them will inevitably lead to superior organizational performance. Four definitions of best practice are given in Table 9.2.

The 'best practice' rubric has been attacked by a number of commentators. Cappelli and Crocker-Heftler (1996) comment that the notion of a single set of best practices has been overstated: 'There are examples in virtually every industry of firms that have very distinctive management practices... Distinctive human resource practices shape the core competencies that determine how firms compete.'

Purcell (1999) has also criticized the best practice or universalist view by pointing out the inconsistency between a belief in best practice and the resource-based view

Table 9.1 Linking HR and competitive strategies

Competitive Strategy	HR Strategy		
	Resourcing	HR Development	Reward
Achieve competitive advantage through innovation	Recruit and retain high quality people with innovative skills and a good track record in innovation.	Develop strategic capability and provide encouragement and facilities for enhancing innovative skills and enhancing the intellectual capital of the organization.	Provide financial incentives and rewards and recognition for successful innovations.
Achieve competitive advantage through quality	Use sophisticated selection procedures to recruit people who are likely to deliver quality and high levels of customer service.	Encourage the development of a learning organization, develop and implement knowledge management processes, support total quality and customer care initiatives with focused training.	Link rewards to quality performance and the achievement of high standards of customer service.
Achieve competitive advantage through cost-leadership	Develop core/periphery employment structures; recruit people who are likely to add value; if unavoidable, plan and manage downsizing humanely	Provide training designed to improve productivity; inaugurate just-in-time training that is closely linked to immediate business needs and can generate measurable improvements in cost-effectiveness.	Review all reward practices to ensure that they provide value for money and do not lead to unnecessary expenditure.
Achieve competitive advantage by employing people who are better than those employed by competitors	Use sophisticated recruitment and selection procedures based on a rigorous analysis of the special capabilities required by the organization.	Develop organizational learning processes; encourage self-managed learning through the use of personal development plans as part of a performance management process.	Develop performance management processes which enable both financial and non-financial rewards to be related to competence and skills; ensure that pay levels are competitive.

Table 9.2 HRM best practices

Guest (1999a)	Patterson <i>et al</i> (1997)	Pfeffer (1994)	US Department of Labor (1993)
<ul style="list-style-type: none"> ● Selection and the careful use of selection tests to identify those with potential to make a contribution ● Training, and in particular a recognition that training is an on-going activity ● Job design to ensure flexibility, commitment and motivation, including steps to ensure that employees have the responsibility and autonomy fully to use their knowledge and skills. ● Communication to ensure that a two-way process keeps everyone fully informed ● Employee share ownership programmes to increase employees' awareness of the implications of their actions, for the financial performance of the firm. 	<ul style="list-style-type: none"> ● Sophisticated selection and recruitment processes ● Sophisticated induction programmes ● Sophisticated training ● Coherent appraisal systems ● Flexibility of workforce skills ● Job variety on shop floor ● Use of formal teams ● Frequent and comprehensive communication to workforce ● Use of quality improvement teams ● Harmonized terms and conditions ● Basic pay higher than competition ● Use of incentive schemes 	<ul style="list-style-type: none"> ● Employment security ● Selective hiring ● Self-managed teams ● High compensation contingent on performance ● Training to provide a skilled and motivated workforce ● Reduction of status differentials ● Sharing information 	<ul style="list-style-type: none"> ● Careful and extensive systems for recruitment, selection and training ● Formal systems for sharing information with employees ● Clear job design ● High-level participation processes ● Monitoring of attitudes ● Performance appraisals ● Properly functioning grievance procedures ● Promotion and compensation schemes that provide for the recognition and reward of high-performing employees

which focuses on the intangible assets, including HR, that allow the firm to do better than its competitors. He asks how can 'the universalism of best practice be squared with the view that only some resources and routines are important and valuable by being rare and imperfectly imitable?' The danger, as Legge (1995) points out, is that of 'mechanistically matching strategy with HRM policies and practices'.

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. As Becker *et al* (1997) remark, 'Organizational high-performance work systems are highly idiosyncratic and must be tailored carefully to each firm's individual situation to achieve optimum results.' But knowledge of best practice can inform decisions on what practices are most likely to fit the needs of the organization as long as it is understood *why* it is best practice. And Becker and Gerhart (1996) argue that the idea of best practice might be more appropriate for identifying the principles underlying the choice of practices, as opposed to the practices themselves.

The best fit approach

The best fit approach emphasizes the importance of ensuring that HR strategies are appropriate to the circumstances of the organization, including its culture, operational processes and external environment. HR strategies have to take account of the particular needs of both the organization and its people. For the reasons given above, it is accepted by most commentators that 'best fit' is more important than 'best practice'. There can be no universal prescriptions for HRM policies and practices. It all depends. This is not to say that 'good practice', or 'leading edge practice' ie practice that does well in one successful environment, should be ignored. 'Benchmarking' (comparing what the organization does with what is done elsewhere) is a valuable way of identifying areas for innovation or development that are practised to good effect elsewhere by leading companies. But having learnt about what works and, ideally, what does not work in comparable organizations, it is up to the firm to decide what may be relevant in general terms and what lessons can be learnt that can be adapted to fit its particular strategic and operational requirements. The starting point should be an analysis of the business needs of the firm within its context (culture, structure, technology and processes). This may indicate clearly what has to be done. Thereafter, it may be useful to pick and mix various 'best practice' ingredients, and develop an approach that applies those that are appropriate in a way that is aligned to the identified business needs.

But there are problems with the best fit approach, as stated by Purcell (1999):

Meanwhile, 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.

In Purcell's view, organizations should be less concerned with best fit and best practice and much more sensitive to processes of organizational change so that they can 'avoid being trapped in the logic of rational choice'.

The configurational approach (bundling)

As Richardson and Thompson (1999) comment, 'A strategy's success turns on combining "vertical" or external fit and "horizontal" or internal fit.' They conclude that a firm with bundles of HR practices should have a higher level of performance, provided it also achieves high levels of fit with its competitive strategy. Emphasis is given to the importance of 'bundling' – the development and implementation of several HR practices together so that they are interrelated and therefore complement and reinforce each other. This is the process of horizontal integration, which is also referred to as the adoption of a 'configurational mode' (Delery and Doty, 1996) or the use of 'complementarities' (MacDuffie, 1995), who 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.

Dyer and Reeves (1995) note 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.' Thus there are several ways in which employees can acquire needed skills (such as careful selection and training) and multiple incentives to enhance motivation (different forms of financial and non-financial rewards). A study by Dyer and Reeves (1995) of various models listing HR practices which create a link between HRM and business performance found that the activities appearing in most of the models were involvement, careful selection, extensive training and contingent compensation.

The aim of bundling is to achieve coherence, which is one of the four 'meanings' of strategic HRM defined by Hendry and Pettigrew (1986). Coherence exists when a

mutually reinforcing set of HR policies and practices have been developed that jointly contribute to the attainment of the organization's strategies for matching resources to organizational needs, improving performance and quality and, in commercial enterprises, achieving competitive advantage.

The process of bundling HR strategies (horizontal integration or fit) is an important aspect of the concept of strategic HRM. In a sense, strategic HRM is holistic; it is concerned with the organization as a total entity and addresses what needs to be done across the organization as a whole in order to enable it to achieve its corporate strategic objectives. It is not interested in isolated programmes and techniques, or in the *ad hoc* development of HR practices.

In their discussion of the four policy areas of HRM (employee influence, human resource management flow, reward systems and work systems) Beer *et al* (1984) suggested that this framework can stimulate managers to plan how to accomplish the major HRM tasks 'in a unified, coherent manner rather than in a disjointed approach based on some combination of past practice, accident and ad hoc response to outside pressures'.

The problem with the bundling approach is that of deciding which is the best way to relate different practices together. There is no evidence that one bundle is generally better than another, although the use of performance management practices and competence frameworks are two ways that are typically adopted to provide for coherence across a range of HR activities. *Pace* the findings of MacDuffie, there is no conclusive proof that in the UK bundling has actually improved performance.

METHODOLOGY FOR STRATEGY DEVELOPMENT

A methodology for formulating HR strategies was developed by Dyer and Holder (1998) as follows:

1. *Assess feasibility* – from an HR point of view, feasibility depends on whether the numbers and types of key people required to make the proposal succeed can be obtained on a timely basis and at a reasonable cost, and whether the behavioural expectations assumed by the strategy are realistic (eg retention rates and productivity levels).
2. *Determine desirability* – examine the implications of strategy in terms of sacrosanct HR policies (eg, a strategy of rapid retrenchment would have to be called into question by a company with a full employment policy).

3. *Determine goals* – these indicate the main issues to be worked on and they derive primarily from the content of the business strategy. For example, a strategy to become a lower-cost producer would require the reduction of labour costs. This in turn translates into two types of HR goals: higher performance standards (contribution) and reduced headcounts (composition).
4. *Decide means of achieving goals* – the general rule is that the closer the external and internal fit, the better the strategy, consistent with the need to adapt flexibly to change. External fit refers to the degree of consistency between HR goals on the one hand and the exigencies of the underlying business strategy and relevant environmental conditions on the other. Internal fit measures the extent to which HR means follow from the HR goals and other relevant environmental conditions, as well as the degree of coherence or synergy among the various HR means.

But many different routes may be followed when formulating HR strategies – there is no one right way. On the basis of their research in 30 well-known companies, Tyson and Witcher (1994) 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) also noted from their research 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.’

Although HR strategies can and will emerge over a period of time, there is much to be said for adopting a systematic approach by conducting a strategic review.

CONDUCTING A STRATEGIC REVIEW

A strategic review systematically assesses strategy requirements in the light of an analysis of present and future business and people needs. Such a review provides answers to three basic questions:

1. Where are we now?
2. Where do we want to be in one, two or three years’ time?
3. How are we going to get there?

The stages of a strategic review are illustrated in Figure 9.1.

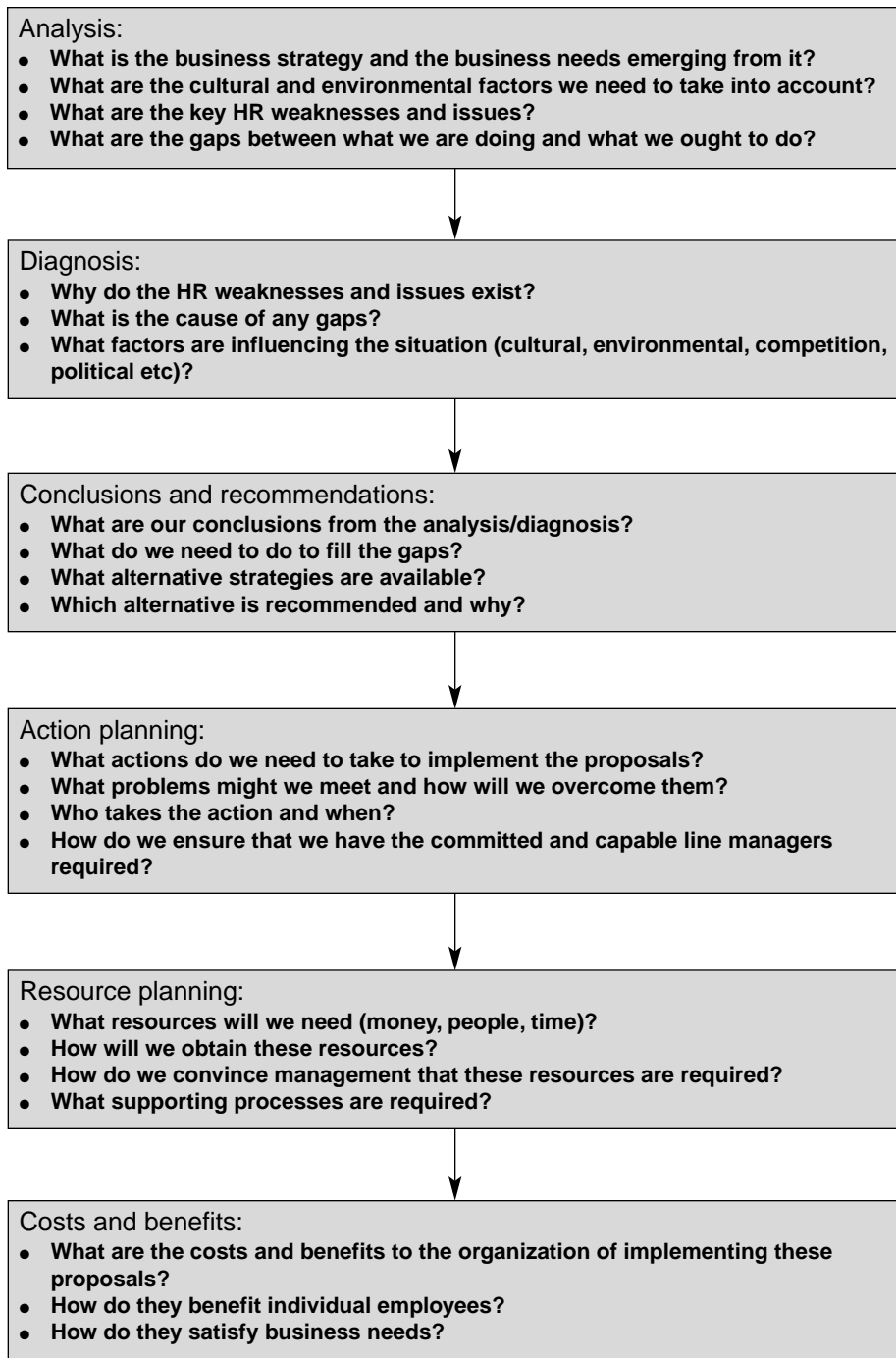


Figure 9.1 Strategic review sequence

SETTING OUT THE STRATEGY

A strategic review can provide the basis for setting out the strategy. There is no standard model for doing this, but the following headings are typical.

1. *Basis*
 - business needs in terms of the key elements of the business strategy;
 - analysis of business and environmental factors (SWOT/PESTLE);
 - cultural factors – possible helps or hindrances to implementation.
2. *Content* – details of the proposed HR strategy.
3. *Rationale* – the business case for the strategy against the background of business needs and environmental/cultural factors.
4. *Implementation plan*
 - action programme;
 - responsibility for each stage;
 - resources required;
 - proposed arrangements for communication, consultation, involvement and training;
 - project management arrangements.
5. *Costs and benefits analysis* – an assessment of the resource implications of the plan (costs, people and facilities) and the benefits that will accrue, for the organization as a whole, for line managers and for individual employees (so far as possible these benefits should be quantified in value-added terms).

IMPLEMENTING HR STRATEGIES

Getting HR strategies into action is not easy even if they have been developed by means of a systematic review and set out within a clear framework. Because strategies tend to be expressed as abstractions, they must be translated into programmes with clearly stated objectives and deliverables. The term 'strategic HRM' has been devalued in some quarters, sometimes to mean no more than a few generalized ideas about HR policies, at other times to describe a short-term plan, for example, to increase the retention rate of graduates. It must be emphasized that HR strategies are not just *ad hoc* programmes, policies, or plans concerning HR issues that the HR department happens to feel are important. Piecemeal initiatives do not constitute strategy.

The problem, as noted by Gratton *et al* (1999), is that too often there is a gap between what the strategy states will be achieved and what actually happens to it. As they put it:

One principal strand that has run through this entire book is 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 *et al* that contributed to creating this gap include:

- the tendency of employees in diverse organizations only to accept initiatives they perceive to be relevant to their own areas;
- the tendency of long-serving employees to cling to the *status quo*;
- complex or ambiguous initiatives 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;
- employees will be hostile to initiatives if they are believed to be in conflict with the organization's identity, eg downsizing in a culture of 'job-for-life';
- 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;
- the extent to which existing processes could help to embed the initiative;
- a bureaucratic culture that leads to inertia.

Barriers to the implementation of HR strategies

Each of the factors listed by Gratton *et al* can create barriers to the successful implementation of HR strategies. Other major barriers include failure to understand the strategic needs of the business, inadequate assessment of the environmental and cultural factors that affect the content of the strategies, and the development of ill-conceived and irrelevant initiatives, possibly because they are current fads or because there has been a poorly digested analysis of best practice that does not fit the organization's requirements. These problems are compounded when insufficient attention is paid to practical implementation problems, the important role of line managers in implementing strategies, and the need to have established supporting processes for the initiative (eg, performance management to support performance pay).

Overcoming the barriers

To overcome these barriers it is necessary to:

- conduct a rigorous preliminary analysis of needs and requirements;
- formulate the strategy;
- enlist support for the strategy;
- assess barriers and deal with them;
- prepare action plans;
- project-manage implementation;
- follow up and evaluate progress so that remedial action can be taken as necessary.