



HRM and ER: A Strategic Perspective

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Key Learning Outcomes

At the end of this chapter, you should be able to:

- *Define the terms strategy, HRM and strategic HRM*
- *Describe the dominant approaches to strategy*
- *Identify the key goals of HRM*
- *Examine and analyse the relationship between strategy and HRM*
- *Analyse the key forces impacting an industry*

Introduction

This chapter begins by explaining the key terms of strategy, HRM and strategic HR. It highlights that the study of strategic management offers numerous conceptualizations of the term *strategy* and that the study of strategic human resource management and employment relations (SHRM & ER) must adopt a pluralist approach and place heavy emphasis on developing a contextual understanding of how people management, strategy and context interact to shape the multiple goals of SHRM&ER. This is followed by the commonly understood goals of HRM. As noted earlier, a descriptive understanding is a precondition to analyzing how to manage people and work in organisations. Based on description, we can seek to generate guiding principles from specific learnings. This approach requires collective learning experiences from a diverse set of circumstances and involves developing a thick description of what people and managers do at a workplace. Based on

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such an approach we can seek some answers into the *what*, *why* and *how* of managing people in organisations.

Strategy

To begin with, a commonsense understanding of strategy in a business context, according to Cascio and Boudreau (2012: 2) is when a business can answer the following questions: “Why should customers buy from your company, as opposed to others? What do you do better than anyone else? What do you offer that is valuable, rare and difficult to imitate?” Adopting a more conventional planning approach, De Wit and Meyer (1998), note strategy is a firm’s intention to achieve its objectives through well-defined plans in a way that firms are able to achieve alignment or fit between its goals, resources and the wider business environment. Quite apart from the design and planning schools of strategy, Leopold and Harris (2009: 27) suggest “Strategies are outcomes of human interpretations, conflicts, confusions, guesses, and rationalisations rather than clear pictures unambiguously traced out on a corporate engineer’s drawing board.” Others (Grant 2010: 58) note “My key assumption is that the firm operates in the interests of the owners through maximising their returns (profits), which implies maximising the value of the firm.” Whereas, Leopold and Harris (2009: 15) also state: “To see work organisations as negotiated orders is to recognise that they involve continuously emergent patterns of activity and understanding that arise from the interplay of individual and group interests, ideas, initiatives and reactions – these interests and differences reflecting patterns of power and inequality applying in the society and the economy of which the organisation is a part.”

Key Approaches

What does the above tell us about strategy? One thing is clear that there are several conceptualisations and each serves the theoretical emphasis it takes. For instance, Grant’s view is more unitarist than the latter statement by Leopold and Harris, which is consistent with a pluralist ideology. For instance, if one were to use a Marxist frame, then organisations are purposive entities and they exist for generating a surplus through efficient allocation of resources. Boxall and Purcell (2011) bring an important consideration that organisations do not exist in a vacuum—they are embedded in the wider business, social and institutional environment in which they compete with other organisations to sell their products and services. This applies both to for-profit and not-for-profit firms, who in today’s free market environment compete for all types of resources—financial and non-financial. Hence, they have to differentiate and offer a customer value proposition that helps fill a market gap or indeed creates, a thus far unexplored market. While this may ensure survival in the short to medium term, the journey for achieving sustained competitive advantage is often hard and requires a viable business model. By achieving financial viability, firms can begin to embark on achieving sustained competitive

advantage through continued refining of their business model and strengthening their core value proposition, especially if they see competitive rivalry and intensity is beginning to offer similar or better value proposition in the same strategic milieu (Boxall and Purcell 2011; Malik and Rowley 2015).

Reviewing the voluminous terrain of strategy literature is not the focus here, instead, a flavour of common classifications of strategy literature that are evident in the literature on HRM& ER is offered. Briefly, one popular classification of strategic management offered by Whittington (1993) classifies strategy approaches into two groups: an outside-in approach, under which, strategy is largely determined by external environment; and the second, an inside-out approach challenges the underlying assumptions and the dominance of external environment and industry structure. This latter view focuses on the human, technological, social and managerial characteristics of organisations, or what some scholars have termed as ‘core competences’ of a firm (popularised by Prahalad and Hamel 1990) for achieving competitive advantage. The focus is on acquiring competencies, capabilities and resources that are *valuable, rare, inimitable, and organized* in such a way that creates barriers for competitors to replicate a firm’s customer/core value proposition (Barney 1991), as per this approach. This approach is also referred to as ‘resource-based view’ (RBV) of the firm or the ‘stretch’ view of strategy. This school of thought is covered in detail in chapter “[SHRM&ER: The Resource-Based View](#)”.

Within the outside-in approach, the structure–conduct–performance (SCP) paradigm is a dominant school of thought, wherein, in a given industry structure, the performance of a firm is depends on how the buyers and sellers in an industry behave. This view that led to the popularization and development of the industry dynamics approach and Porter’s competitive forces model (Porter 1985, 1996). Institutions too, have a significant influence on strategy. This approach to strategy is often labelled as the ‘market-based’ view of strategy and sometimes also referred to as the external-fit view of strategy. In line with this approach to strategy, the role of managers is to develop a better understanding the competitive dynamics of the product markets that their firm wishes to operate in, analyze and understand the industry structure, and the internal and external environmental factors that are affecting it. The logic in this approach is premised on the quality of rationality and analysis undertaken by managers in informing its strategic choices for achieving competitive advantage.

One of the key contributors of the *outside-in* approach, Michael Porter, who developed the *Five Forces* model, offers a useful framework for analysing industry structure and dynamics. In analysing the wider environment, this framework is often used in conjunction with some of the popular environmental analysis tools such as the PESTL (political, economic, social, technological and legal) framework. A further understanding of the internal and external factors affecting an organisation can utilize the SWOT (strengths, weaknesses, opportunities and threats) analysis tool. Porter, in his *Five Forces* model (1985) highlights the influence of five forces on competitive dynamics in any industry. These forces are: the bargaining power of buyers, bargaining power of suppliers, threat of new entrants, threat of substitutes and rivalry among existing players. The impact of environmental forces on a firm’s business cannot be understated.

Application Examples

Take the case of the global movie rentals industry, where Netflix changed the competitive dynamics through its investment in disruptive technologies. This affected, in a relatively short period of time, the structure, conduct and performance of the movie rental industry. One of the applications from the above set of analytical frameworks is that firms exercise choices based on their analysis and then as Porter suggests, determine their basis for competing in an industry e.g. whether they compete on the basis of *cost leadership* or *differentiation*. These two generic decision points define the *competitive strategy* a firm may generally pursue. Because of the chosen competitive strategy, the allocation of resources and the way these resources are organized is a major decision and is difficult to reverse such decisions without cost implications. Applying the concept of generic competitive strategies to the Australian retail shopping experience, one can see discernible differences in the way the shopping experience is organized for example in Big W and Kmart versus David Jones and Myers. While the former appears to follow a cost-leadership strategy, the latter group is clearly focusing on differentiation in the products as well as the personalized service that one receives at David Jones and Myers. There are likely to be distinctive differences in the hiring and rewarding approaches in each of the above two retail outlet examples. It is likely that the latter group will employ a variable pay structure with some team-based rewards for staff to provide effective customer solutions than a standard industry award for rewarding them.

A related next step is the supporting functional activities that follow from the choice of a firm's business and competitive strategies. Boxall and Purcell (2011) note three distinctive levels of strategy: business strategy- which determine the business an organisation wishes to be in; competitive strategy- which determines the basis of competing in the chosen sphere of business; and finally the entire value chain of functional strategies—such as human resources, marketing, finance, technology and so on and how these functional strategies need to achieve fit with the chosen business and competitive strategy. This latter focus on functional strategies is a key focus of strategic HRM and ER. Before engaging with this issue further, it is pertinent to define HRM and map its relationship with strategy.

Defining HRM

In line with the above observation, Boxall et al. (2007) classified the wider study of HRM into three sub-fields. The first sub-field of *micro-HRM* focuses on the functional aspects of HRM (e.g. the employment lifecycle such as on HR practices of HR planning, recruitment and selection, induction and socialisation, training and development, performance management, rewards and remuneration, managing employment relationships). *International HRM* sub-field deals with the management of people in global and multinational enterprises. Issues of local responsiveness or integration of the parent firm's global best-practices at its subsidiary locations, better coordination and control are among the key areas of emphasis in managing people

globally. Finally, the last sub-field of HRM research adopts a strategic approach to HRM (or SHRM for short). This approach focuses on linkages between HRM practices with business strategy by designing an integrated set of high performance work practices or systems (HPWP/Ss) for creating and realising value through an organisation's human capital pool and human capital management processes. Although the above three sub-fields are quite distinct in their emphasis at a practice level, the overarching goals which they aim to serve bears significant overlaps. Boxall and Purcell (2011) for example, identified several goals of HRM: economic goals, which focus on achieving a cost-effective HR resource model, one which offers enough organisational flexibility and creates human resource advantage through appropriate investment in skills and practices; socio-political goals, which focuses on maintaining social legitimacy in its actions especially as organisations operate in a social context; and the managerial prerogative in the form of power managers can exercise over labour. The above set of goals can be thought to exist on a continuum from a unitarist to a pluralist approach. Legge (1995), for instance noted the distinction between 'hard' HRM approaches focusing on the efficiency goals versus 'soft' HRM approaches, focusing on the humane side of managing human resources. Strategic approaches to HRM should attempt to balance the needs of diverse set of stakeholders and not focus on one stakeholder i.e. the shareholders.

HRM and Strategy

The literature on SHRM focuses on linking a firm's business and competitive strategy with its HRM practices. While this may seem like a logical step to achieve alignment and fit, an organisation's decision to pursue a given competitive strategy or the process of strategy making is far from simple; it involves exercising choices by managers. In most cases, these choices have constraints, as resources are limited and organisations being political entities, have to balance the multiple and often competing interests of its internal and external stakeholders. It is in this backdrop of strategic decision-making and negotiation that strategies are shaped at different levels. This presents challenges for some of the more prescriptive schools of strategic HRM thought.

Depending on the strategic choices (Child 1972, 1997) that managers exercise, the paths which a firm may embark upon may vary. Typically, managers collect information about the environment and its structural conditions. They then evaluate and learn from it and further use such learning to inform their ability to refine choices (Child 1997). These choices then need to be actioned and subsequently the outcomes, at some stage, needs to be evaluated (Child 1997). For example, some firms may choose to grow organically whereas others may decide to take a growth path of diversification through mergers and acquisitions or enter in joint-venture partnerships and so on. Depending on the choices made, the implications for SHRM will also vary. To be strategic, HRM has to embrace both a bottom-up and top-down communication approach: or in other words, inform and be informed by strategy. While former assumes a much more proactive role HR leaders, wherein HR receives membership at the executive table, the latter, however assumes a more reactive role

for the HRM function, wherein it is more of an implementer of the choices made by the senior management or what some refer to as, *the dominant coalition*. Of importance is maintaining a right balance between proactive and reactive approaches to achieve strategic integration and fit. Broadly, in terms of strategic choices that traverse the field of strategic HRM are covered in the chapters on *best-practice versus best-fit view of SHRM*, *resource-based view of firm as applied to SHRM*, *strategic employment relations* and the impact of *institutional perspectives in shaping SHRM*.

Critical Reflections

What appears from the preceding discussion is that the nature of conceptualization varies based on the theoretical background and worldviews that are examined. While consensus may not always be possible or desirable, what is critical to remember is that organizations are purposive entities and they must organize work and activities in ways that are productive and sustainable. Overtime, we have seen some prescriptions regarding the optimal ways of organizing work and motivating people to carry out the productive tasks on a sustainable basis. The approaches will vary depending on the nature of product and labour markets and where such goods and services are produced and consumed. There are some guiding principles and tested approaches that seem to work in certain contexts more effectively than others. Often firms that are more successful organize their production function and work that is different to their competitors. This idea reinforces the notion of a differentiation view of strategy in a manager's decision choice menu.

Illustrations and Skills Sandpit–Industry Analysis and Market Concentration

Several examples from the low-cost and legacy airline carriers that can be seen as variants of a cost-leadership or differentiation strategy. The key point for managers is to make a choice based on their analysis of the competitive forces affecting a particular industry. By virtue of industry evolution, technological changes and the market positioning in some industries is more attractive than others. This was borne out in the consulting firm, AT Kearney's CR3 curve. AT Kearney studied the combined market share of three largest companies (CR3) in an industry. In their analysis, they found that an 'S' curve (typical of organizational life cycle curve, which goes through the stages of growth, fragmentation and shakeout, plateau and decline) could be plotted for all industries that are especially in the maturity and/or decline stage. Industries such as defence, beauty care, beverages and tobacco industries, for example, had a CR3 of as high as 70% whereas the banks and airline industry had a CR3 of between 20–30%. This analysis simply highlights the intensity of competition and rivalry that is present in the latter group of industries and that the profitability in the latter group as a result, is very low.

Concept Integration with Cases and Learning Activities

There is evidence of application of the *Competitive Forces* model in the *HR Planning at Dorian LPG* case study. The dominant focus of the case is HR planning in times of an organization witnessing high growth in an industry that is highly capital intensive. Like the airlines industry, the case aptly illustrates how such an analysis can inform managerial thinking and decisions. To further explore the concept, attempt the learning activity at the end of the chapter entitled *Analysing the Fast-Food Industry*.

Conclusion

Although subject matter expertise and underpinning theories are important for informing practice, such knowledge can be developed by contextualizing the learning through use of real life examples and case studies from the real world. In line with our pedagogical choice of case-based learning stated earlier, the application of various strategic HRM & ER concepts and how they apply to a number of industry and national contexts, this book offers a wide selection of case studies from the manufacturing to services sectors, from both domestic and international settings. Further, the level of analysis varies from an industry through organisational to group and individual levels. Attention has also been paid to include cases from industry sectors that implement a range of HRM practices in service sector from the lower end of the service complexity continuum to high-end complex services. Such differentiation in the choice of case studies included in this collection allows us to understand the complexities at play in shaping strategic HRM & ER decisions and practices in diverse settings.

Glossary

HRM focuses on making decisions that relate to developing and implementing policies and practices for managing work and employment relationships for effectively and efficiently achieving the goals of an organisation while also keeping in mind the needs of the employees.

Pluralist approach acknowledges there is conflict in a workplace context and that both actors in the employment relationship- the employer and employee are seen as seeking to maximise their interests. The overarching ideology of this approach is to engage and progressively manage and deal with conflict rather than ignoring or avoiding it.

Strategy can be defined as an organisation's concerted effort to align the achievement of its goals in a given environment, often through differentiation.

Strategic choice is the extent to which a firm has leeway in making decisions from a strategic perspective

Strategic HRM is a sub-field of HRM that adopts an integrated and holistic approach to developing differentiated HRM policy choices and practices that can provide a firm with a distinctive source of sustained competitive advantage

Strategic ER is a strategic approach to employment relations (ER) that adopts a pluralist approach over a longer-term in a more thoughtful and consistent manner to manage the key workforce and employment relationship demands placed by a range of stakeholders.

Unitary approach focuses on promoting a common and unified set of values and ways of behaving in an organisational context for achieving its business goals. The overarching ideology of this approach is that goals can and must be achieved through employee commitment and there is little or no scope for challenging this line of thinking. Often those who challenge are offered learning interventions or are considered exhibiting inappropriate values and behaviours and may face disciplinary action.

Key Questions and Learning Activities

Question. 1 Discuss how an organisation's competitive strategy might impact its functional HR strategy?

Question. 2 What are the key challenges in adopting a strategic approach to HRM?

Question. 3 Is Porter's industry analysis sufficient for exercising strategic choices? Why? Why not?

Learning Activity 1: Analysing the Fast-Food Industry

At some stage of our life, we would have bought a burger from McDonalds, KFC or a pizza from Dominos or Pizza Hutt. As Michael Porter noted, "The essence of formulating competitive strategy is relating a company to its environment. Though the relevant environment is very broad, encompassing social as well as economic forces, the key aspect of the firm's environment is the industry or industries in which it competes. Industry structure has a strong influence in defining the competitive rules of the game as well as strategies potentially available to the firm."

Based on the above example, your task is analyse the fast-food industry in a country of your choice. You may find it useful to read the short summary of the five forces model by Porter (2008) in analysing the industry dynamics that are critical to your understanding of the intensity of competition, overall profitability in a given industry, and thus crucial in formulating and implementing strategic choices. Using the above framework and based on your own personal knowledge and experience, the task is to:

1. Begin by a specific definition of the fast-food industry in a geography of your choice. Explain the rationale of your choice.

2. Evaluate the strength of the five forces individually for the fast-food industry.
3. What are the key HR considerations for operating in such an industry?
4. Make a judgement about how attractive an industry like this would be to invest \$5 million.

Defining what an industry is vital for your analysis. As such, it is wise to look at an industry from a *demand-based* perspective than a *supply-based* perspective. You may like to start by analysing each of the key forces and its sub-considerations in the provided space below for answering the allocated questions.

Porter's five Forces Model

1. Barriers to entry	2. Bargaining power of suppliers
3. Intensity of rivalry	4. Bargaining power of customers/buyers
5. Threat of substitutes	

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