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Strategic Human Resource Management

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1 Organizational strategy refers to the overall positioning and competitive approach
2 of an organization in the marketplace. Strategic management is the deliberate effort to
3 align the organization's long-term direction with organizational strategy. Good strategic
4 management integrates organizational functions into a strategic plan so that all
5 organizational units operate in a coordinated fashion in support of the overall strategy.
6 *Strategic human resource management (SHRM)*, then, is the process by which an
7 organization's management integrates its human resource plans and programs with the
8 strategic plan of the organization. SHRM stands in contrast to traditional human resource
9 management (HRM), which contributes to an organization at the operational level. For
10 example, the traditional human resource (HR) concern of selecting job applicants who
11 display skills that are predictive of good job performance may only be implicitly related
12 to the strategic objectives of the organization.

13 A key feature of SHRM is the linkage formed between management and HR to
14 align the functions of HR with the direction of the organization. SHRM links human
15 resources vertically and horizontally as well as in present and future time frames. Vertical
16 linkages entail connecting HR practices with the strategic management process of the
17 organization, while horizontal linkages involve the coordination of various practices
18 within HR through a patterned or planned action. HR strategies are linked to
19 organizational plans, anticipated HR needs, and to HR programs that will be implemented
20 to meet those needs. SHRM involves multiple HR processes, such as recruiting, selection,
21 performance management, employee and career development, succession planning,
22 retirement, and termination. Each of these can be linked to an organization's strategic
23 objectives. For example, a planned business expansion into Eastern Europe could be

1 supported by strategic employee development (e.g., providing language and cultural
2 training to key employees to prepare them to meet business needs) or by strategic
3 recruitment and selection (e.g., hiring Eastern European employees prior to the
4 expansion).

5 STEPS IN SHRM

6 SHRM involves three steps: forecasting, strategy formulation, and
7 implementation. Forecasting is the attempt to predict future events that will impact the
8 organization and its needs through the analyses of the organization's internal and external
9 environments (e.g., mission statement, goals, labor markets, opportunities and threats).
10 HR strategy formulation – that is, strategic human resource planning (SHRP) – involves
11 the development of initiatives that are aligned with the organization's, mission statement,
12 strategic objectives, strengths and weaknesses, and opportunities and threats. Finally, HR
13 strategy implementation involves putting the HR plan into action with HR programs that
14 support the organization's overall strategy.

15 FORECASTING. Predictability and control increase the precision of forecasting.
16 Predictability is the degree to which one can estimate the occurrence of an event, and
17 control is the ability to orchestrate the likelihood of an event occurring. Greater control
18 implies greater predictability, although some events over which one has little or no
19 control are predictable. Predictability and control have important implications for how
20 forecasting should be approached. Forecasting is more effective when forecasting
21 techniques are compatible with levels of predictability and control. For simplicity, it is
22 appropriate to distinguish among four levels of predictability and control. The first
23 consists of events over which an organization has control—for example, closing outdated

1 plants and scheduling layoffs. The second level involves events over which the
2 organization has little control but which are nevertheless predictable. For example, in
3 some countries organizations can predict retirements with a high degree of certainty
4 because of government mandated retirement ages. The third level consists of events that
5 are probabilistic. Although they can be anticipated by extrapolating from historical
6 trends, they involve a low to moderate degree of certainty because extraneous factors
7 often alter previous patterns and because the limits to human rationality constrain the
8 degree to which such events can be predicted. An example would be predicting skill sets
9 that could have strategic implications. The fourth level involves events that are unknown,
10 unanticipated, or random. These can include, for example, the unexpected death of a
11 CEO or the introduction of new technologies that dramatically change labor
12 requirements.

13 To be most effective, forecasting techniques should be congruent with the degree
14 of uncertainty in a system. The greater the predictability and control of events, the more
15 specific predictions can be. Techniques that use productivity ratios (i.e., the ratio of labor
16 to output) to forecast labor demand are appropriate for predictable situations because they
17 are based on straightforward prediction equations and they forecast specific numbers of
18 workers for given conditions. However, in situations with less predictability and control,
19 it is not possible to make specific predictions, and therefore the most appropriate
20 forecasting techniques are those that provide general information. Forecasting in less
21 predictable situations might, for example, involve looking at historical cycles in
22 workforce demand and supply or at trends in demand for skills sets. Finally, in situations
23 where future events are unpredictable, planning for any particular outcome is unwise.

1 When forecasting is not possible, a diversity (or variation) strategy is the best approach.
2 As financial analysts have known for years, a diverse investment portfolio is the best
3 hedge against losing money due to the uncertainty of the stock market. Similarly, SHRM
4 activities that focus on variation are the best insurance against uncertain futures. A
5 diverse HR portfolio increases the probability that one of the variants may prove useful
6 for unexpected contingencies. Examples of HR programs that foster variation include
7 allowing employees to choose a certain proportion of their yearly training courses;
8 randomly selecting job applicants from a generous short-list of those who meet basic
9 qualifications; formalizing structures that encourage frequent informal interaction;
10 instituting more lenient performance management policies that do not punish employees
11 who work in non-traditional ways and who think unconventionally.

12 HR STRATEGY FORMULATION. The HR strategy formulation phase is a
13 complex process that involves making decisions about HR activities based on forecasts,
14 organizational strategy, and the anticipated effects of HR programs on strategic
15 objectives. An important process in SHRP is *linking* HR functions to other processes in
16 the organization. The goal of linking is to establish a closer relationship between
17 management and HR, and therefore increasing the likelihood of developing HR policies
18 that are congruent with the organization's strategic objectives. Linkage is related to the
19 amount of contact among the organization's strategic planners, the HR department, and
20 the managers who will be responsible for executing the plans. Linkages can range from
21 minimal (groups working independently) to full integration (groups working
22 interdependently), but they are typically blended. For instance, information pertaining to
23 hiring may flow both ways, whereas information regarding funding of projects might be

1 handed down from the top management to HR. The appropriate degree of linkage
2 depends on the business climate, organizational needs, and corporate strategy; however,
3 *some* linkage between HR and management is generally necessary. A disconnect between
4 planners and managers can easily derail the planning and implementation processes

5 The probability of successful SHRP can be enhanced by starting with a simple
6 plan (for example, forecasting the number of anticipated hires needed the following year
7 based on typical levels of attrition at a given site). As leaders gain experience using
8 simple forecasting models, and as those models provide useful data that integrates with
9 and helps guide strategic business planning, the level of sophistication of the SHRP may
10 increase. In some cases, however, it may never progress beyond a basic attrition-based
11 replacement model; that may be all that's required under the circumstances. In other
12 cases, complex algorithms based on multiple data sources may generate the needed (and
13 useful) data. The point for HR to keep in mind is to use only what works and is needed—
14 not more, and not less.

15 IMPLEMENTATION. Strategy implementation involves the integration of the
16 larger organizational strategy into the HR functions of the organization, and it is arguably
17 as – or more – complex than strategy formulation. Employee recruitment and selection,
18 training and development, performance management, and labor and employee relations
19 may all have to be altered by HR in order to integrate with the organizational strategy.
20 Unlike the formulation process, implementation is an organizational intervention; and
21 organizational interventions require assistance – at the very least, cooperation – from
22 members of the organization.

1 Unfortunately, resistance to the planning process and to the strategic HR plan is a
2 common outcome of planning, and therefore it must be managed appropriately.
3 Resistance on the part of any group can be detrimental for strategy implementation.
4 Resistance may stem from internal organizational politics, and it may influence the
5 accuracy of the data that managers provide in the forecasting and planning stages. For
6 example, managers interested in protecting turf or enhancing their unit's power may
7 inflate their estimate of the number of new employees they need. In other cases,
8 managers may just not respond to requests from HR for planning because of heavy
9 workloads, competing business priorities, and uncertainty about future needs. Managers
10 may view the outcome of SHRP as being of little value—because they view it as
11 providing insufficient information to guide policy or business decisions (e.g., number of
12 hires is given for a region, rather than an individual location or country; the types of
13 skills, experience or education required are not described) or because they view it as so
14 detailed that implementing it would be too burdensome (e.g., a plan calling for Master's
15 level chemical engineers, with at least at a 3.27 grade point average, who have worked in
16 the USA doing polymer chemistry to be split evenly across 5 sites in south-east Asia). In
17 these cases, calls to implement the plan will probably be resisted or simply ignored.

18 Strong relationships with business leaders, a good understanding of the business,
19 and a willingness to modify plans where necessary are helpful in implementing strategic
20 HR plans. Given the possibility of pushback from business leaders and lack of utilization
21 of SHRM processes and plans, HR must take an active role in ensuring that the SHRM
22 process is relatively painless and provides truly useful data to assist in business planning.
23 Understanding what information business leaders need, what is actionable, and what is

1 realistic are keys to making SHRM work. A strategic HR plan that is not, or cannot be,
2 implemented is of no use to the organization.

3 COSTS AND BENEFITS INHERENT IN SHRM

4 If the success of any type of strategic planning is measured by the accuracy with
5 which actual plans and forecasts come to pass, then the success rate of strategic planning
6 is rather dismal. In most situations, managers and HR professionals cannot accurately
7 forecast how the environment will change in the future and what specific HR capabilities
8 will be needed to perform effectively in future environments. Planning involves
9 assumptions about the environment and about the future. As environments become more
10 complex, uncertainty increases and assumptions are more tenuous, and most
11 organizations typically operate in complex social, political, and economic environments.

12 Fortunately for practitioners, empirical studies show a positive relationship
13 between the use of SHRM and bottom-line outcomes, such as stock share price and
14 employee productivity. In contrast, there does not appear to be a relationship between
15 competent performance of technical HR duties and organizational performance. This
16 underscores the importance of *strategic*, rather than technical, human resource
17 management. These successes of strategic planning may be due to a number of factors.
18 One is that organizations may be tailoring their planning processes to uncertainty
19 levels—planning more generally in more uncertain environments, which in turn produces
20 adaptive outcomes (not all of which can be predicted). In addition, the planning *process*
21 may be just as important, if not more important, than the plan itself. Organizations that
22 engage in strategic HR planning are likely to have processes that require frequent
23 interaction among executives, managers, and HR professionals. This means that the right

1 people are talking about the right things at the right time. Plans themselves inevitably
2 need updating and modification as circumstances dictate. Processes that modify and
3 update plans help to ensure that plans stay relevant and useful.

4 RECENT DEVELOPMENTS

5 Globalization, technology, and diversity are recent developments that have had a
6 significant impact on the process and use of SHRM. Globalization has brought with it
7 increased competition and uncertainty, making future planning critical but increasingly
8 difficult. The movement of people between countries has increased because of free trade
9 agreements and visa programs. No longer is an organization limited to local hiring
10 programs. Organizations can (and often should) consider regional, or even global, talent
11 pools. Multinational organizations must plan not only for the needs of one country, but
12 must consider the cumulative impact of events in all countries in which they operate.
13 Recent discussions of off-shoring highlight the need to think about a company's talent
14 management and planning in global terms.

15 Technology has enabled instant, electronic collection of SHRM data and
16 development of complex models to better predict human capital needs. However, it has
17 also given rise to new forms of work (e.g., telecommuting, globally-distributed teams,
18 24-hour operations) and new skills (e.g., computer literacy) that have added a layer of
19 complexity to the SHRM process. The increasing importance of skilled human resources
20 in information-age economies and diversity of employee populations are increasingly
21 important issues in planning. Skilled employees are as important as capital and
22 technology in high-tech and sophisticated service organizations. Acquiring, developing,

1 and retaining high-talent employees cannot be done by seat-of-the-pants methods that use
2 little or no planning and which do not integrate HR programs with strategic plans.

3 Diversity has become important because of equal opportunity and affirmative
4 action laws, which are no longer limited to the US but are becoming widespread
5 internationally (e.g., Brazil, South Africa, India, Canada, Malaysia). In addition,
6 matching employee demographics to the demographic make-up of the regions in which
7 the company does business is now a critical ingredient of successfully competing in a
8 global marketplace. Diversity of thought, style, and experience is also a growing
9 consideration in the planning and implementation processes based on the premise that
10 greater diversity leads to greater innovation, productivity, and company value.

11 CONCLUDING REMARKS

12 Organizations now operate in an increasingly global, technologically
13 sophisticated, and interdependent world, which has intensified competition among
14 organizations. This, in turn, increases the importance of human resources and makes
15 viable SHRM processes all the more critical to organizational survival and effectiveness.
16 Without processes to explore organizational needs, create and modify plans to meet those
17 needs, and align human resource management practices with the strategic objectives,
18 organizations will increasingly be at a competitive disadvantage.

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