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## CHAPTER 2

### Aligning HR with Strategy

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#### Chapter Learning Outcomes

After reading this chapter, you should be able to:

- Understand the importance of strategic HR planning.
- Identify the risks associated with not planning.
- Discuss approaches to linking strategy and HR, including the barriers to becoming a strategic partner.
- List the characteristics of an effective HR strategy.

#### Chapter Summary

Strategic HRM is a set of distinct but interrelated philosophies, policies, and practices with the goal of enabling the organization to achieve its strategy. HR strategy is embedded in theories of the resource-based view of the firm, the behavioural perspective, and the human capital approach. By involving HR in the discussion of strategic policies, an organization has a better chance of being effective in the implementation of these policies. There are various approaches to linking HRM strategies to organizational strategies. We can start with the corporate strategy that leads to the HR strategy, or start with the HR competencies that lead to business strategy, or use a blend of the interrelationship of the HR strategy and the corporate strategy. Aligning HR strategy with the corporate strategy and with other functional strategies is important.

#### Lecture Outline

Comments	Activity
<p>A. <i>What Is Strategic HRM?</i></p> <p><i>Strategic HRM</i> is a set of distinct but interrelated practices, policies, and philosophies whose goal is to enable the attainment of the organizational strategy.</p> <p>Strategic HRM is an umbrella that includes:</p> <ul style="list-style-type: none"> <li>• Overarching HR <i>philosophies</i>—Specify the values that inform the organization's policies and practices.</li> </ul>	<p><i>Discussion Questions:</i> What does strategy mean? How can HR be strategic? What does human capital mean?</p> <p><i>Case Study:</i> Have students review Exercise 2 on page 52 of the textbook regarding the Sabermetrics process used by the Oakland Athletics baseball team. (Watch the movie <i>Moneyball</i> for more input). How did the Oakland Athletics deviate from the normal hiring strategy? What risks were associated with adopting their new strategy? Were the Oakland</p>

<ul style="list-style-type: none"> <li>• <i>HR policies</i>—These direct and partially constrain the development of specific practices.</li> <li>• <i>HR practices</i>—For example, recruitment, selection, and appraisal.</li> </ul> <p><i>Note:</i> Historically HRM was called personnel management, where the focus was on its administration function and cost controls. A need for lower costs led HR departments to be outsourced. However, outsourcing reduced costs but created a disconnect with an organization's strategy and best practices. Eventually, employees were viewed as human capital who could contribute to competitive advantage.</p>	<p>Athletics successful? How did the Oakland Athletics align its HR practices, policies, and philosophies with its organizational strategy?</p>
<p><i>B. Theories of the Strategic Management of Human Resources</i></p> <p>In order to determine whether an organization's resources will contribute to competitive advantage, they must satisfy four criteria:</p> <ol style="list-style-type: none"> <li>1. valuable</li> <li>2. difficult to imitate</li> <li>3. rare</li> <li>4. non-substitutability</li> </ol> <p><i>Resource-Based View</i></p> <p>Michael Porter has argued strongly that the organization's employees can provide a firm with competitive advantage. If an organization manages its resources and capabilities, these distinct advantages will result in competitive advantage. Typical <i>resources</i> might include human resources, proprietary knowledge, and reputation, whereas typical <i>capabilities</i> might include organizational adaptability, flexibility, and speed of bringing new products to market. These resources and capabilities will result in superior performance and value creation for the organization.</p>	<p><i>Southwest Airlines—A Resource-Based View:</i> How did the culture of this airline provide a competitive advantage? How did employees of the airline contribute to this competitive advantage?</p> <p><i>Learning Activity: Panel Discussion</i> Students can benefit greatly by hearing industry HR professionals who are at the senior decision-making level of an organization address the following questions:</p> <ul style="list-style-type: none"> <li>• How do employees provide your organization with a competitive advantage?</li> <li>• How do HR programs within your organization represent an investment?</li> <li>• What emphasis does your organization place on training and development of existing staff?</li> <li>• How do HRM strategies within your organization assist with improved goal attainment?</li> </ul>

<p><i>Human Capital Theory</i></p> <p>Classical economists view the firm as having control over three types of resources in the production of goods and services: land, capital, and labour.</p> <p><i>Human capital</i> refers to the collective sum of the attributes, experience, knowledge, and commitment that employees choose to invest in their work. The textbook authors are suggesting an approach to HR planning that goes beyond the traditional approach to supply and demand. The authors call for an HR strategy that tailors human resource policies and practices to the organizational needs of the future.</p> <p>Human Capital ROI = <math>\frac{\text{TotalRev} - (\text{OpExp} - \text{TotalCompCosts})}{\text{Total Compensation Costs}}</math></p>	<p><i>Learning Activity:</i> Ask the students to generate a list of everything that constitutes human capital.  <i>Note:</i> Human capital is also synonymous with intellectual capital.</p>
<p><i>The Behavioural Perspective</i></p> <p>Different strategies require different behaviours from employees, which in turn are influenced by different HR practices. For each organization, an effective HR system is able to accurately identify the behaviours needed to implement a strategy, provides the opportunity for employees to exhibit those behaviours, ensures that they have the knowledge and skills to exhibit those behaviours, and motivates them to do so.</p>	<p><i>Learning Activity:</i>          From the chapter-opening vignette on Google, what behaviours does Google search for to help the company innovate?</p>
<p><i>C. The Importance of Strategic HR Planning</i></p> <p>There are two main reasons that strategic planning is so important:</p> <ol style="list-style-type: none"> <li>1. Employees help an organization achieve success because they are its <i>strategic resources</i>.</li> <li>2. The planning process itself results in <i>improved goal attainment</i>.</li> </ol>	<p><i>Learning Activity:</i> Think-Pair-Share—Individually, and then in partners, students are asked to consider why it is important to plan for human resources strategically. What are the advantages of planning? What are the risks of NOT planning?</p> <p><i>Note:</i> “HR Planning Today 2.1—Sears: The Behavioural Link to Profits” on page 37 of the textbook.</p>

<p><i>D. The Risks of Strategic HR Planning</i></p> <p>Some researchers point out costs to strategic HR planning:</p> <ul style="list-style-type: none"> <li>• Increased time and energy involved in making decisions.</li> <li>• Greater potential for information overload.</li> <li>• Impossible commitments to employees.</li> <li>• Overconcern with employee reactions that may be incompatible with industry conditions.</li> </ul>	<p><i>Learning Activity:</i> Large group discussion from previous Think-Pair-Share discussion (under section B). Is there a downside to strategic HR planning?</p> <p>Being out of touch with reality (see Consumer's Distributing example in the textbook). What other business examples can you think of where the business did not reflect current day reality? (e.g., Eaton's stores).</p> <p>See "HR Planning Today 2.2—HSBC Canada: Upfront Planning" on page 39 of the textbook.</p>
<p><i>E. Linking HR Processes to Strategy</i></p> <ol style="list-style-type: none"> <li>1. Start with organizational strategy and then create HR strategy. <ul style="list-style-type: none"> <li>• Corporate strategy drives HR strategy—Personnel needs are based on corporate plans.</li> <li>• Resources are made to "fit" the corporate and business strategies. HR follows the corporate strategy.</li> <li>• Employees are considered a means to an end, not part of the strategy formulation equation.</li> </ul> </li> <li>2. Start with HR competencies and then craft corporate strategies based on these competencies. <ul style="list-style-type: none"> <li>• This view argues that organizations cannot implement a strategy if it does not have the necessary human resources.</li> <li>• Tap into employee capabilities to develop new products and services.</li> </ul> </li> <li>3. Do a combination of both in a form of reciprocal relationship. <ul style="list-style-type: none"> <li>• HR strategy contributes to business-level strategy and vice versa.</li> <li>• Senior HR vice-presidents are asked to provide input to strategic plans based on HR strategy generates the strengths and weaknesses.</li> <li>• HR strategy generates business strategy, and business strategy determines HR strategy (<i>reciprocal interdependence</i>).</li> </ul> </li> </ol>	<p>The basic premise is that every HR policy and practice must directly support the organization's strategy and objectives.</p> <p><i>Discussion Question:</i> Is it easier to change HR to fit the strategy or change the strategy to fit HR?</p> <p>Review "HR Planning Today 2.3—HR Alignment with Two Strategies" on page 41 of the textbook. This comprehensive exhibit gives the student an idea how two different HR strategies can be used to support a business strategy. Each strategy is subdivided into the following categories: The Employee, HR Planning, Selection, Compensation, Training, Performance Evaluation, and Labour Relations.</p> <p>The first two strategies are polar extremes of how the corporate strategy and HR plans need to interact.</p> <p><i>Learning Activity:</i> If there is a panel discussion and/or a guest speaker who is a senior HR professional, he/she could be asked which of the three models is reflected by his/her organization.</p>

<p><i>F. HR Becomes a Business Partner</i></p> <p>One of the most important points in this chapter is the concept of concurrent strategy formulation.</p> <p><i>Concurrent strategy formulation</i>—Strategy development based on environmental analysis is conducted at the same time that HRM.</p> <p>The HR senior management team moves from outsider status to insider status in terms of business decision making.</p> <p>HR managers must understand the language of business or the outcome expectations of non-profit organizations. This includes analyses presented by marketing, financial, and operational managers.</p> <p>Stress this very important HR role to the students. HR must be a full partner in the business to have full credibility. HR professionals must develop strong partnerships with line managers in the organization to best achieve business goals.</p>	<p><i>Learning Activity:</i> Ask the class to review “HR Planning Notebook 2.1—Are You A Strategic Partner” on page 47 of the textbook. The facilitator leads this debate to examine views on both sides. It is important to emphasize that both sets of reasons are current dilemmas within the HR profession.</p>
<p><i>G. Becoming More Strategic</i></p> <p>HR departments are restructuring in order to be able to do the basics right (payroll, safety training, and so on) while enhancing the performance of business units and supporting strategic moves.</p>	<p><i>Homework Assignment:</i> Review “HR Planning Notebook 2.2—A New Vision of HR” on page 48 of the textbook. Identify the unique attributes of the following services of a strategic HR department including: Corporate HR, Services Inc., Solutions Inc., and Organization Capability Consultants. What are the advantages of this structure? Would managers and employees of an organization prefer this model to the traditional functional structure? Which structure do you think HR professionals would prefer? And why?</p>
<p><i>H. HR Strategy Differentiation</i></p> <p>Firms with more than one business strategy are likely to have more than one approach to their HR strategy.</p> <p>The challenge is to treat employees across</p>	<p><i>Learning Activity:</i> How did Walmart differentiate itself from its competitors to achieve high efficiency at low cost?</p>

<p>divisions in an equitable fashion while motivating different behaviours that align with the divisions' strategies or functions.</p> <p>Equitable treatment of employees is important irrespective of their independent divisional strategies (e.g., General Electric's R&amp;D division is costly and supports innovation, while the manufacturing division relies on low costs, but all employees receive the same benefits).</p>	
<p><b>I. Characteristics of an Effective HRM Strategy</b></p> <p>The purpose of HR strategy is to capitalize on the distinctive competencies of the organization and to add value through the effective use of human resources.</p> <p>Effective HRM strategies include:</p> <ul style="list-style-type: none"> <li>• <i>External fit</i>—Fitting HR strategy to organizational strategy.</li> <li>• <i>Internal fit</i>—Linking the various HR programs to other functional areas and to each other.</li> <li>• <i>Focus on results</i>—Strategy implementation must be tracked and measured to determine if the goals have been reached.</li> </ul>	<p><i>Learning Activity:</i> Ask the students to review the strategic HRM chain to determine whether they can think of any other activities that need to be incorporated into the chain. Use the following example:</p> <div style="text-align: center;"> <p>HR Program (Training for Knowledge/Sales Skills)</p> <p>↓</p> <p>Employee Competencies (Product Knowledge &amp; Sales Skills)</p> <p>↓</p> <p>Organizational Strategy (Differentiation Strategy)</p> <p>↓</p> <p>Organizational Outcome (Growth in Sales)</p> </div>

### Exercises

#### 1. *The HR Function at Corning, Inc.*

Ask students to search the school's electronic library database for the article by M.C. Brush and D.H. Ruse, "Driving Strategic Success through Human Capital Planning: How Corning Links Business and HR Strategy to Improve the Value and Impact of Its HR Function," *Human Resource Planning*, Vol. 28, No. 1 (2005), pp. 49–61.

1. Discuss why Corning has chosen this approach and labelled it "HCP."
  - a. HCP stands for Human Capital Planning
  - b. HCP allows the HR department to remain active in the strategic planning of the organization
  - c. HCP has the potential to transform the organization because it adds value to the organization through the HR department

- d. HCP used to determine human capital implications for Corning's strategy and to build capabilities by investing resources
- 2. Do you consider it effective?
  - a. Corning had a long history as 150+-year-old firm with a mature product life cycle that had utilized the key competencies of innovation, intellectual capital, and competitive advantage.
  - b. The boom of the late 1990s left Corning in an un-competitive position that threatened its viability.
  - c. Corning had no choice but to evolve into HCP so that it could reclaim its competitive positioning.
  - d. HCP allowed Corning to manage its HC portfolio (intangible assets) comparable to the manner in which it managed its tangible assets.
  - e. Long-term value of HCP has not been determined; however, in the short-term, HCP has helped Corning improve its insight, speed, and quality of making HC portfolio decisions.
- 3. Does it share any features with the behavioural perspective, the resource-based view, or even the balanced scorecard?
  - 1) *The Behavioural Perspective*
    - a) HCP had different strategies that focused on diverse employee behaviours and actions that were required for critical initiatives.
    - b) These employee behaviours are influenced by different HR practices.
    - c) The HCP accurately identified the behaviours needed to execute the necessary strategy.
    - d) The HCP also identified the strategy needed according to its employees' talent pool.
  - 2) *The Resource-Based View*
    - a) HCP focuses on Corning's employees as one of the main resources it must manage to realize a competitive advantage.
    - b) HCP would allow Corning to reclaim its capability of adapting to changes in customers' needs and also being flexible to make the innovative changes to the organization. Identifying these capabilities allowed HCP to bring products to market sooner than its competitors.
    - c) Corning employees were able to provide superior performance because of their skills, enabling the company to beat its competitors through superior service and the development of unique products.
  - 3) *The Balanced Scorecard*—R.S. Kaplan and D.P. Norton, "The Balanced Scorecard—Measures That Drive Performance," *Harvard Business Review*, Vol. 70, No. 1 (1992), pp. 71–80.
    - a) The balanced scorecard is a performance tool that helps measure whether organizations have aligned their visions and strategies with their operational functions. In the case of Corning's HCP, the balanced scorecard focuses on the same strategic-operational relationship; that is, between Corning's strategy and HCP.

- b) There are four main sections that are measured within the balanced scorecard: Financial, Customer, Internal Business Processes, and Learning and Growth. Corning's HC Performance Framework has the following elements (Alignment, Capability, Engagement, and Accountability), which are comparable to the four sections of the balanced scorecard.
- c) The idea behind the balanced scorecard is that those elements that can be measured and tracked can also be managed objectively.

## 2. *Oakland Athletics*

Traditionally, Major League Baseball scouts chose players for their future potential, and selection decisions were made on gut instinct. Bill James studied baseball statistics for three decades and developed a method called Sabermetrics (based on rigorous statistical analysis) to determine a player's true value to the team. Sabermetrics is a process that analyzes past performance statistics (such as batting averages, earned run averages, bunting, stealing, getting on base, etc.) and links these to winning scores. These findings were not accepted until Billy Beane of the Oakland Athletics put Sabermetrics into practice. Watch the biographical sports movie *Moneyball* (2011) and learn about this approach.

Identify the key competencies/capabilities of players whom Billy Beane sought for.

- Key skill was to find hitters with superior skills at getting on base

Did they support the competing strategy of Oakland Athletics?

- Yes, using statistics to find players has become the norm and is directly related to winning teams who are realizing their competitive strategies

## Case: Linking HR Practices to Performance

Adapted from P. Haynes and G. Fryer. 2000. "Human Resources, Service Quality and Performance: A Case Study," *International Journal of Contemporary Hospitality Management*, Vol. 12, No. 4 (2000), pp. 240–248.

Five Star, a luxury hotel in Auckland, New Zealand, was established in the early 1980s, renovated in the mid-1990s, and basically had not changed since. Competition was increasing as three more luxury hotels had opened in the area. The owners reacted by trying to upgrade the hotel and improve the customer service. In the hotel sector, customer service is the only differentiator from other hotels.

They created a vision statement that included a strategy for achieving their vision:

*Five Star is to be recognized as the **finest five-star property** in Auckland and a business leader in the hospitality industry. We will achieve this vision by recruiting and*



*developing **customer-focused employees** who provide the highest level of guest service and by proving the **highest amenity level** of any hotel in Auckland.*

*By improving customer service, the owners hope to increase customer satisfaction and impact financial performance—the value chain [shown on page 53 of the textbook].*

1. Develop a list of the competencies (skills, knowledge, and attitudes) that employees of this hotel need to demonstrate in order to become excellent at customer service.
  - a. Skills—Social, psychological, and emotional intelligence skills are required to deliver excellent customer service; also leadership, empowerment, and decision-making skills to “push down power and influence” to departmental levels.
  - b. Knowledge—The types of services that customer want and expect; determine the customer’s perceptions of quality service; what types and level of service are Five Star’s competitors offering.
  - c. Attitudes—Change attitudes to accept the challenge of empowerment, leadership, and decision-making relative to the oversupervised and control models previously applied; participatory culture needs to be cultivated.
2. Design the HRM selection, orientation, training, performance management, and incentive compensation program that will develop these competencies.
  - a. Selection—Use of psychological testing and outside consultants to determine whether there is a “life fit” with Five Star’s vision and the competencies of the potential manager.
  - b. Orientation—Focus is on employees becoming empowered and then promoted rather than just hiring new employees; this means that retention and turnover would increase and decrease respectively.
  - c. Training—To understand the “People Values” that focused on: training and renewal, career development, staff satisfaction, communication and consultation, and business focus.
  - d. Performance Management—Performance indicators related to employees include: employee satisfaction, staff training, occupational health and safety, and staff turnover; and performance reviews occurred every three months.
  - e. Incentive Compensation Program—High performing employees receive a premium and are paid more than their contracts stipulate; typically wages were above the averages for local labour.

### **Additional Suggested Exercises**

- a) Working in groups of three, students should identify at least *two* different employers that they are either currently working for, have worked for in the past, or would like to work for in the future. From their own experience and/or Internet research, students need to identify these employers’ business strategies. If possible, students should contact someone in the Human Resource Department for this employer to determine the major HR practices that are in place within the employer. The group of three students should

then compare and contrast the two different employers' business strategies and HR practices.

- b) Some students are interested in working for the not-for-profit sector. Students with this interest form a discussion group to discuss the following question: Does strategic HRM make any sense for the public sector? If so, what are some of the organizational strategies that are employed? If not, why not?
- c) Ask students to go the *HR Reporter* website at [www.hrreporter.com/hr\\_strategies](http://www.hrreporter.com/hr_strategies) to obtain and review three articles on strategic HRM.
- d) Review the Required Professional Capabilities (RPCs). Reflect on the competencies that HR professionals must possess in order to be strategic in their organizations.