

Introducing Human Resource Management

Eighth Edition

Caroline Hook & Andrew Jenkins



Pearson

Introducing Human Resource Management

Human resource strategy and planning

Objectives

By the end of this chapter you will be able to:

- describe what strategy is, including the different levels of strategy and how corporate strategy affects HR strategy
- explain the concept of strategy formulation
- explain the need for human resource strategies in organisations
- describe the stages involved in human resource planning
- identify and describe the issues that have an impact on human resource supply and demand forecasts
- use appropriate techniques to produce accurate forecast supply and demand figures for an organisation's human resources
- describe the skills shortages encountered by employers, their causes and possible solutions
- comment on the use of IT systems in relation to an organisation's human resource strategy.

Chapter 1 introduced you to the concept of human resource management (HRM) and established that a key characteristic of the HRM approach is the involvement of the people management function at a strategic level. We will now examine the different levels at which strategy can be formulated and the generic types of strategy that are encountered, and comment on the links between the formulation of business strategy and consideration of human resource issues. It should be remembered, however, that we will be looking at the ideal situation or models of how corporate/business strategy and HR considerations interact. What we describe is not always found in reality. Indeed, the specific circumstances in which a business is operating might call for a different approach. You will find that we sometimes refer to contingency approaches, which means that there is no one right way to manage human resources in an organisation.

After providing an overview of corporate/business and human resource strategies, we examine the activities that underpin the development of HR strategies, namely the techniques involved in human resource planning and the factors that have a major impact on planning decisions. This chapter ends with a discussion of the role of IT in supporting strategic human resource management (SHRM) endeavours.

Strategy

Essentially, strategy is about the long-term direction of an organisation (Johnson *et al.*, 2017). However, there are many different definitions of what strategy is and how strategy develops in organisations. Essentially, there are two different approaches to strategic development: the prescriptive and the emergent approach (Lynch, 2015). The prescriptive approach is the 'classical' approach to strategic development where strategic development is linear and rational and the main elements of strategy are determined in advance. The emergent approach is where strategy emerges over time and cannot, therefore, be summarised usefully in a plan. Lynch (2015) comments that the prescriptive approach works perfectly well where growth is continuous, linear and predictable but is much less suited to conditions involving rapid change.

In the 'classical' approach to strategic development, strategy is defined as a plan of action for the future. The three common questions used to give a simple explanation of the strategic process are: Where are we now? Where do we want to be? How do we get there? A strategic plan should have a long-term focus with business plans usually being developed around a three to five-year time frame. However, for mega-projects, such as a major piece of infrastructure or a mega-event, such as the Olympic Games, the time horizon is substantially longer. The aim of designing and following a strategic plan is to create competitive advantage, and all efforts in the formulation and implementation processes should be directed towards this. As far as organisations are concerned, strategy can be formulated and implemented at different levels, and there are recognised generic forms of strategy that organisations or sub-divisions of organisations might adopt.

● Levels of strategy

The levels at which strategy is formulated and implemented are most frequently identified as corporate, business and functional (Johnson *et al.*, 2017).

Corporate and business strategies

Corporate strategy is concerned with the overall direction that an organisation will follow. For large corporations, this is a question of which business activities they will choose to be engaged in. These organisations would then develop separate business level strategies for their strategic business units, or divisions, each of which might be engaged in producing very different products or services.

Corporate-level issues concern the geographical scope of the organisation, the diversity of products and services, acquisition of new businesses and how resources are allocated between the different parts of the organisation (Johnson *et al.*, 2017). Typical business-level issues concern innovation, scale and response to competitors (Johnson *et al.*, 2017).

Functional strategy

Functional strategies concern the delivery of corporate and business strategies in terms of resources, processes and people (Johnson *et al.*, 2017). The functions represented in an organisation depend on the type of business, its size and structure, but may include production, marketing, sales, logistics, procurement, finance, research and development, and human resources. Each of these functional areas needs to be following strategic plans that are consistent with the corporate and business plans adopted by their organisations. The strategic plans followed by all these functional departments must be integrated, however, to ensure the success of the organisation; they are interdependent and cannot be formulated without reference to each other. Indeed, it can be stated incontrovertibly that human resources are an integral part of every one of the above-named functions.

● The strategy formulation process

Strategy involves gathering and processing information in order to make long-term decisions. There is a need to focus on relevant information, but it is also important to be as comprehensive as possible in order that you do not miss something that could have an impact. Since planning implies forecasting future actions, there is always the potential for developments that you may not have foreseen. This means that planning becomes an ongoing process and that a strategic plan developed for 2018 to 2023 cannot be followed slavishly until 2023, but probably will need to be adjusted on an ongoing basis to account for unforeseen developments.

What do you think?

What information would senior managers of an Italian mid-market restaurant chain need in order to formulate a strategic plan?

In relation to the What do you think? question above, you may have considered a variety of factors and included changes that businesses in general are facing. Your list may include some or all of the following:

- **The product life cycle:** is the product or service a new one with room for development and an expanding potential market? How frequently do customers eat out at a mid-market restaurant? Is the product mature and not likely to attract many more customers? How likely are customers to look for an alternative to the product or service?
- **Changing consumer tastes:** how are these likely to affect the demand for the product? Are there changes in customer expectations that organisations need to respond to?
- **Expansion of the business into other countries:** are there opportunities to set up business overseas? What adaptations to products or services are needed?
- **The economy:** what are the prospects for the UK and world economy? How might changes in the economy affect demand for the product or service?

- **The competition:** what are the threats from competitors and the opportunities to compete? What advantage do we have over our competitors? What do we need to do to ensure we are more successful than our competitors (e.g. offer products and services that cost less or are better in terms of quality)?
- **Technological developments:** how will new technology affect the design of products, work processes and costs?
- **Legislation:** what legislation is being considered and what are the implications for costs, work processes and product standards?

These are just some of the factors that affect business planning and you may be able to identify many more. Information about all of these factors will influence what managers see as opportunities and threats and will, therefore, affect the strategic choices made and formulation of the strategic plan.

Identifying these issues, and collecting relevant information concerning them, is referred to as 'environmental scanning', and the acronym PEST or its alternative forms of PESTEL or PESTLE are commonly used as a reminder of the issues that businesses need to take into consideration when formulating their strategies. The initials in PEST stand for political, economic, social and technological issues while the E and L in variations of the basic acronym variously stand for environmental and legal issues (Martin and Thompson, 2014).



Activity 5.1

For an organisation of your choice, and in relation to its home market (i.e. the location of its corporate headquarters, e.g. UK), assess the principal political, economic, social, technological, environmental and legal issues currently affecting the firm.

In summary, then, a strategic approach implies a long-term view, encompassing information from all relevant perspectives, and focusing on the ultimate goal of corporate success through achieving and exploiting a position of competitive advantage. Furthermore, a strategic approach requires the integration of activities, processes and people throughout an organisation, aligned to the organisation's goals.

● Generic types of corporate and business strategy

There are a number of recognised generic types of strategies that companies may choose to follow. These include growth, stability and retrenchment (Millmore *et al.*, 2007). There are a number of ways of pursuing each of these strategies. Growth can be achieved, for example, through the development of new products and services, by acquiring a larger share of the market for existing products and services in domestic or overseas markets, through mergers and acquisitions or through another means of growth such as franchising or management contracts. The strategic directions of growth, stability and retrenchment are normally associated with the life cycle stages of products and markets and the idea behind the BCG matrix put forward by the Boston Consulting Group (BCG) in the 1970s is that large corporations would aim to have a balanced portfolio of businesses that have products that are stable and products that are growing (see Lynch, 2015).

The work of the strategy guru Michael Porter (1980) is frequently cited in discussions of business-level strategies. Porter's generic strategies, as cited in Evans (2013), are cost leadership, differentiation and focus. One or a combination of these can be adopted in order to achieve the chosen corporate strategy. In adopting a strategy based on cost, companies will attempt to improve efficiency by reducing staffing, production and other costs. A strategy of differentiation means emphasising the distinctiveness of the firm's products or services, for example having products or services that offer features that other products and services do not offer. A focus strategy entails concentrating on a particular segment rather than the whole industry. Innovation as a strategic direction can also provide a major focus. Indeed, it could be claimed that all business strategies need an element of innovation.

● Human resource strategies

Human resource strategies arise from the adoption of a strategic approach to managing people which is aligned with the business strategy and which is reflected in a set of HR policy initiatives specifically designed to achieve the organisation's strategic goals. This implies that an appropriate HR strategy, linked to the corporate strategy, provides the 'best fit' between the overall business strategy (also termed corporate strategy) and the HR strategy (discussed in detail by Marchington and Wilkinson, 2005, pp. 106–13). Ideally, however, human resource considerations should inform and shape the business strategy (CIPD, 2017a). The costs of the HR strategies and the probability of their success should have been a factor in the decision to pursue the particular business strategy in the first place.

HR strategies reflect the philosophy of senior management with regard to the treatment of human resources and addresses various activities related to their management. The underlying premise of this is that the HR function supports corporate goals by developing and implementing HR practices that develop employees' knowledge, skills and abilities in order to create sustainable value for the organisation (CIPD, 2017a). The most tangible aspect of strategic HRM is, therefore, the set of HR policies and processes in existence in an organisation. These normally would address the various aspects of people management such as recruitment, diversity and talent management, development, reward and employment relations. Rather than being able to identify the human resource strategy of an organisation, you will encounter an organisation's recruitment strategy, talent management strategy, diversity strategy or its reward strategy, either explicitly addressed as a strategy or reflected in the organisation's policies and processes. For many organisations, the main focus of their HR strategies is to acquire, develop and maintain an engaged workforce, and this is discussed in Chapters 2, 6 and 8.

Given that the business environment is constantly changing, different issues may assume critical strategic importance. One example of this, which is examined later in this chapter (see the discussion of skills shortages) and elsewhere in the book, is the issue of talent management. Because of increased competition for skilled employees in a wide range of positions, many organisations around the world have developed a talent management strategy or talent management processes (Wooldridge, 2006; Ready and Conger, 2007; Vaiman and Collings, 2013;

CIPD, 2018a). The need to acquire and/or retain highly competent employees is still important during an economic downturn or recession, as the organisation needs to ensure that it has the necessary human resources when opportunities arise (Murphy, 2009).

It is widely recognised that strategic human resource management (SHRM) is a complex subject. Theoretical interpretations of SHRM and its relationship to strategy and planning are constantly evolving. However, it is certainly the case the SHRM is about long-term resourcing issues in relation to an organisation's goals and the nature of work (CIPD, 2017a).

Because there are so many important aspects of HR strategy, it is essential that these various strategies are coherent and support each other as well as being aligned with the overall business (or corporate) strategy. In order for an organisation to achieve its goals, its people need to understand what is expected of them and how their efforts contribute to the organisation's success. Also, of necessity, operating in a strategic manner means dealing with change since strategy involves planning for the future and adjusting to a turbulent business environment.

Strategic HRM can encompass a number of individual HR strategies, for example:

- to deliver fair and equitable reward
- to improve employee performance
- to streamline organisational structure (CIPD, 2017a).

These strategies, by themselves, do not constitute strategic HRM. Rather, 'strategic HRM is the overall framework that determines the shape and delivery of the individual strategies, systematically linking people with organisations by integrating HRM strategies into corporate strategies to deliver organisational value' (CIPD, 2017a).

The discussion of strategic HRM and HR strategies so far has emphasised the role of the HR practitioner as a business partner, one of the roles in HR described by Ulrich (CIPD, 2010). However, in many organisations, HR responsibilities have been devolved to line managers at all levels in an organisation. This is recognised as a basic element of the HRM approach (Storey, 2007). Hutchinson and Purcell (2003) emphasise that front-line managers, defined as line managers with no managerial staff reporting to them, play a crucial role in ensuring that HR strategies are carried out effectively, and ongoing research into aspects of people management continues to affirm the key role that line managers play. You can find examples of this in the research reports on employee engagement published by the CIPD (for example, the report on developing managers for engagement and wellbeing, 2017) and the government. Furthermore, the CIPD Factsheet (2017b) on the role of line managers in HR, states that these managers need to be carefully selected and supported by strong organisational values to clearly show what behaviour is acceptable and what behaviour is not tolerated. Line managers should have clear job responsibilities, they should have access to relevant training and they should receive regular feedback (CIPD, 2017b).

Due to the important role that line managers play in an organisation's HR strategy, strategic HR practitioners need to incorporate the view of line managers into the HR strategy planning process, nurture the relationship between the HR function and line managers and ensure that line managers are actively engaged with the HR