STRATEGIC ***HUMAN RESOURCE MANAGEMENT***

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PART 1

THE ORGANIZATION, THE ORGANIZATIONAL CONTEXT AND STRATEGY

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AN INTRODUCTION TO THE ORGANIZATION, ITS ENVIRONMENT AND HUMAN RESOURCE MANAGEMENT

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Chapter Overview

The concept of an 'organization' has changed remarkably over the last few decades, primarily as a result of changes to working practices, the advancement of technology and changing global practices and global economies. While an organization might be viewed as an entity, or a unit, it has by definition to interact with something else, be it customers, suppliers, shareholders, etc. Organizational structures have moved away from traditional forms to encompass more 'virtual' types and 'networked' forms, often resulting in highly complex configurational designs. It is important to understand how the organization interacts with its environment and how the environment acts upon the organization. In addition to this is the need for organizations to sustain themselves in arguably an increasingly competitive environment. The continuing adoption of the Ulrich Business Partner model (see Chapter 4) by Western organizations impacts upon the way that the human resource function operates in both an inward- and outward-facing manner. The drive for organizations to act more strategically enhances the focus upon strategic human resource management, which is the core emphasis of all the content presented in this textbook.

Learning Objectives

- **Explore the concept of an organization**
- **Examine different organizational structures**
- **Examine the role of HRM**
- **Explore models of HRM**
- **Examine the relationship between strategy, structure and culture**
- **Evaluate how organizations interact within their environment**
- **Explore the links between HR and strategy**

CASE STUDY 1.1

OXFAM

Oxfam is currently responding to emergencies in 30 countries, from the conflict in Darfur, Sudan, to the humanitarian crisis caused by waterlogging in Bangladesh. The demands of having to recruit people fast in a crisis situation and of sustaining long-term development work mean that HR is key to the success of Oxfam's programmes. Catherine Layton, the HR adviser in the employee relations team at Oxfam, explains how the charity manages its people around the globe.

Oxfam is a highly devolved organization, with HR, financial management and programme management led by eight regional management teams around the world, which span regions as large as South America or the Middle East, Eastern Europe and the Commonwealth of Independent States. Layton explains: 'There has been a deliberate strategy over the past five years to build up regional management and have fewer people based in Oxford.' This means that when an emergency occurs in Haiti, for example, it would be the responsibility of the team in the Central America, Mexico and the Caribbean region to take the lead in organizing the response.

Reporting lines for HR staff at Oxfam reflect the organization's devolved approach. Country-based HR staff report to HR managers in each region, who in turn are managed by their regional director, but also have a 'dotted' reporting line to the organization's head of international HR. Regional HR practices and initiatives are sometimes not 'rubber-stamped' by head office, but they are monitored and recorded. The organization has an international people strategy to set principles for HR management in every region; the process differs from Oxfam's HR strategy for other divisions, such as the trading or finance divisions in the UK.

This means that while regions will follow Oxfam's international people strategy, pay and benefits framework and other HR procedures, they ultimately decide how to implement policies and pay their staff within regional budgets. Layton says:

> In Afghanistan, for example, pay has been agreed regionally, using local labour market information, and the reward team here in Oxford are notified of the salary scales. If they wanted to increase salaries by x per cent in order for them to remain competitive in that country, they could contact our international reward person based here in Oxford for assistance.

In general, Layton says, this approach works well. 'If we find out that something has been agreed which goes against a policy, then that could be escalated to the HR director or reward manager, but that doesn't tend to be a major issue,' she says.

The role of the country programme manager (CPM) – the most senior management post in each country where Oxfam operates – is key to the charity's work. Layton notes that the make-up of the country manager workforce is closely studied and monitored by Oxfam, saying: 'If they are doing their job well it makes a massive difference to how our programmes work.' She estimates that just below half (48 per cent) of the country manager workforce is from Organization for Economic Cooperation and Development countries with the remaining 52 per cent from developing countries.

While CPMs may come from any country in the world, the organization endeavours to employ and develop local staff. 'We recruit locally where we can,' Layton says, 'because immediately that person can speak the language, can understand the culture and they may have useful

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connections in that country – that's our preferred way of working.' For example, after the earthquake in Pakistan in October 2005, the vast majority of the 500 staff recruited by Oxfam were Pakistani nationals, as is the CPM there. 'Some of these people were community workers, and we needed people from the community to do that work,' she says. However, work permits can cause problems in recruiting outside staff, particularly for junior roles. 'For certain levels of job you won't be able to get a work permit so there's no point in recruiting someone outside the country,' Layton says.

For some specialist roles, Layton acknowledges that there are countries where it is difficult to recruit people with certain skills. 'So in a country which doesn't have a proper education infrastructure, it's harder to get a qualified accountant or a senior finance manager, for example,' she says. However, Layton makes the distinction that the labour pool is from a global labour market rather than a Western one. 'There's international mobility but it's not all from Europe to Africa,' she says. 'For example, we may have an Ethiopian working for us in Zimbabwe, or a Zimbabwean who works in South Africa.'

In addition to regional and country-based staff, a team of emergency staff coordinated from the Oxford headquarters, known as humanitarian support personnel (HSP), are ready to be sent anywhere in the world at a moment's notice. Some of these professionals are human resources HSPs, who can be deployed, for example, to assist where a large number of local people need to be recruited in a very short space of time, preventing local HR staff from having to drop all of their ongoing HR work.

Because of the devolved nature of programmes and budgets at Oxfam, there are wide variations in HR practice around the globe. However, the organization has an international people strategy and policies covering pay, benefits, performance appraisal and the whole range of HR practices that apply in every region. In each country, decisions need to be taken on the extent to which Oxfam's policies may conflict with local employment laws. As an organization that is acutely conscious of the need to avoid being perceived as telling local people what to do, Oxfam's approach is that its principles will apply unless they are contradicted by local legislation, in which case local legislation will take precedent. 'It's a challenge, and one that you have to go about very carefully, you don't just want to muscle in and say this is the way it should be done, because then you don't actually achieve what you want to achieve,' Layton says.

While Oxfam is best known for its emergency response work, much of the work undertaken by Oxfam is longer-term disaster prevention and development work. Asked which HR issues crop up most frequently, Layton says management training and development is an important priority. 'We want to grow our own staff and develop people so that they are able to progress from being a local project manager to a CPM, for example, but it is difficult to make people take time out for training when they are reluctant to take time out from programme work,' she says. A second ongoing issue is cross-cultural awareness: the difficulties for staff in trying to understand that differences in behaviour may be down to differences in culture.

For the future, Layton says that priorities include embedding a variety of global policies and procedures that have not yet filtered down across all regions. For example, Oxfam introduced a performance management system in 2000, setting out a common procedure for setting objectives and awarding performance ratings, which has yet to fully bed down in every country. Other plans for the future include the introduction of a global, web-based HR information system, which Layton anticipates will take some time to develop and implement.

Source: adapted from Welfare (2006)

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Questions

1. What would you anticipate are some of the difficulties for Oxfam when managing staff across different countries?
2. How much autonomy do you consider should the CPMs be given when deciding upon human resource management practices in their respective countries?

Introduction

This chapter starts by exploring the intricate links between organizational structure, strategy and culture and how all of these three aspects influence and are influenced by the HR function. Understanding the internal aspects is critical before expanding through to consider the external context. This chapter considers what an organization is, and how strategy, structure and culture fit together before considering the organizational environment. Furthermore, the role and function of HR are then considered in terms of both the internal (intra-organization) context and the external (extra-organizational) context. It could be argued that any consideration of strategic human resource management needs to consider the latter, as the business strategy and human resource strategy will need to be aligned. Chapter 1 simply introduces these concepts, with Chapter 2 (Strategic Approaches), Chapter 3 on HR and Strategic HRM and Chapter 4 on How the HR function adds value (within the business context) further developing these ideas. Chapters 11 and 12 explore the intricate nature of organizational culture (and national culture) and how this relates to the global and international context while Chapter 13 considers possible future trends in HR.

The concept of organization

The immediate context for human resource management is the organization. Buchanan and Huczynski define an organization as 'A social arrangement for achieving controlled performance in pursuit of collective goals' (2010: 8). They also point out the pervasive influence of organizations on our lives.

Mullins outlines the common factors that organizations share: 'interactions and efforts of people in order to achieve objectives channelled and co-ordinated through structure directed and controlled via management' (2010: 79). Sharing these broad common features are a large number of different organizational types and classifications, differentiated by such contingent factors as size, purpose, sector, and structure. As regards functions such as

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HRM, this also adds to the complexity in terms of the sheer variety of practice, with different organizations applying HRM in different ways.

Although in our mind's eye when we think of the term 'organization' we may picture an office building or factory, with a definite physical entity and designated departments and hierarchy, in practice the spectrum is much wider than that. Francesco and Gold (2005) suggest that globalization of the economy has led to what they term the 'boundaryless organization' (Ashkenas et al. 1995) with widespread use of project teams and networks that reduce the boundaries that typically separate functions and hierarchical levels, thus leading to greater flexibility. Others have suggested a blurring of boundaries between organizations, based on loosely coupled arrangements between suppliers, contractors and other providers and making use of a flexible workforce, with such flexibility extending to employment arrangements. These trends are further explored below.

Critique of the concept of an organization

If an organization does not have to rely on occupying a physical space, such as a corporate headquarters, is communication (through whatever medium) the key factor in determining the existence of an organization? To what extent are people even aware of fellow employees in large and diverse global organizations? This point is particularly relevant to technology-based companies.

PIT STOP: REFLECTIVE ACTIVITY 1.1

1. Think of any large organization that comes to mind, and this may be from any country. What defines the organization? To what extent does the product, the brand, the reputation, or any other relevant factor(s) define what the organization is?
2. Is this an organization that you would like to work for, and if so why?

What is HR?

It could be argued that HR has travelled a considerable distance since the 1970s, moving from personnel administration through to personnel management, through to human resource management and now, in some quarters 'people management'. Within this journey, it is possible to track the move from very much an administrative function (keeping personnel records, processing pay etc., often referred to as a 'transactional' approach to a transformational function, through to utilization of human resources for specific goals, such as profit maximization, shareholder value etc.). The degree to which HR functions are 'strategic' remains questionable, and may vary tremendously

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across industry sectors (public, private and not-for-profit), across countries and across sizes of companies.

When someone thinks of what HR actually does, recruitment and selection, arranging employment contracts, communicating employment terms and conditions and dismissal come to mind. However, the HR function may deal with a multitude of aspects, for example, dealing with promotion and career structures, job design, performance assessment, employee welfare, employment relations, management development and communication to employees. Chapters 5 to 10 address a range of functional HR aspects evident in many organizations.

While there are no universally accepted definitions of HRM, Storey defines HRM as 'a distinctive approach to employment management which seeks to achieve competitive advantage through the strategic development of a highly committed and capable workforce, using an integrated array of cultural, structural and personnel techniques' (1995: 5).

Boxall and Purcell (2003: 184) argue that HRM includes 'anything and everything associated with the management of the employment relationship in the firm'. If we accept that a HRM function has a range of offerings that it can contribute to an organization, the quality and added value of these offerings could be the acid test as to what offerings continue to be made, based on the logic that they only exist if they offer value (see Chapter 4).

As a starting point, an organization may wish to consider whether it actually wants a HR department or function. Robert Townsend (1970), the former CEO of Avis, likened the HR function (then known as 'personnel') to a cancerous growth, which had to be dealt with and if spotted in any small measure was to be removed for fear that it may grow back. While Townsend may have drawn attention to the functional aspect of HR, with an office, dedicated people, job descriptions etc., the question also remains as to who carries out the 'HR' work. Many aspects of the HR function could be outsourced, but with outsourcing comes a range of problems and challenges. To what extent could line management take up the jobs carried out by HR professionals? It could be argued that specialist expertise could then be 'bought in' where necessary.

Within the field of HR work there are specialist experts, such as compensation and remuneration experts, who may specialize in this area for the span of their career. In contrast, a HR generalist may work in a multitude of areas within their HR career (for example, start in recruitment and selection, then move to the training and development function, then work in job evaluation, and work their way through various HR managerial roles to become a senior HR professional).

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In order to gain an understanding of what HR is all about, it is necessary to explore the theory underpinning HR in order to provide greater meaning and understanding to the topic area.

Models of HRM

Although the term 'human resources' had been used before then, human resource management as a distinctive term emerged in the early 1980s. Conceptually HRM could be differentiated from the 'old' personnel management, even if the degree and extent of its application have been somewhat variable. The work of Beer and colleagues at Harvard (Beer et al. 1984) and that of Fombrun et al. (1984) at Michigan University can be seen as central to this conceptualization.

One of the key differentiating factors of HRM propounded in such models was that it was linked to the strategic goals of the organization and provided a vital input into achieving competitive advantage. This can be contrasted with characterizations of personnel management, which could be viewed as being rather removed from the needs of the business, largely administrative and tasked with ensuring the compliance of policies and procedures. To this extent it could be argued that the 'strategic' in strategic human resource management is somewhat redundant, since a key attribute of HRM itself is its strategic nature. The addition of the 'S' in the term, as for example in this book title, does however serve both to highlight that the focus will be on these strategic aspects rather than the operational, and that in practice HRM may be applied to functions and activities that have very little link to strategic considerations.

The key models of HRM are concerned with strategic issues, however those sometimes termed 'hard' models, such as Fombrun et al.'s matching model illustrated in Figure 1.1, typically have a stronger focus on ensuring that the HRM strategy 'fits' and is driven by the overall corporate strategy (Fombrun et al. 1984).

This model introduced the concept of strategic human resource management by which HRM policies are inextricably linked to the 'formulation and implementation of strategic corporate and/or business objectives' (Fombrun et al. 1984: 34). It emphasizes a 'tight fit' or vertical integration between HR strategy and business strategy and the use of a set of HR policies and practices that are integrated with each other and with the goals of the organization. Two key assumptions underlie the model: that the most effective way of managing people will vary from one organization to the other and be dependent upon the organizational context; and the assumption of unitarism, i.e. working together for common goals. The 'hard' tag comes partly from the fact that if

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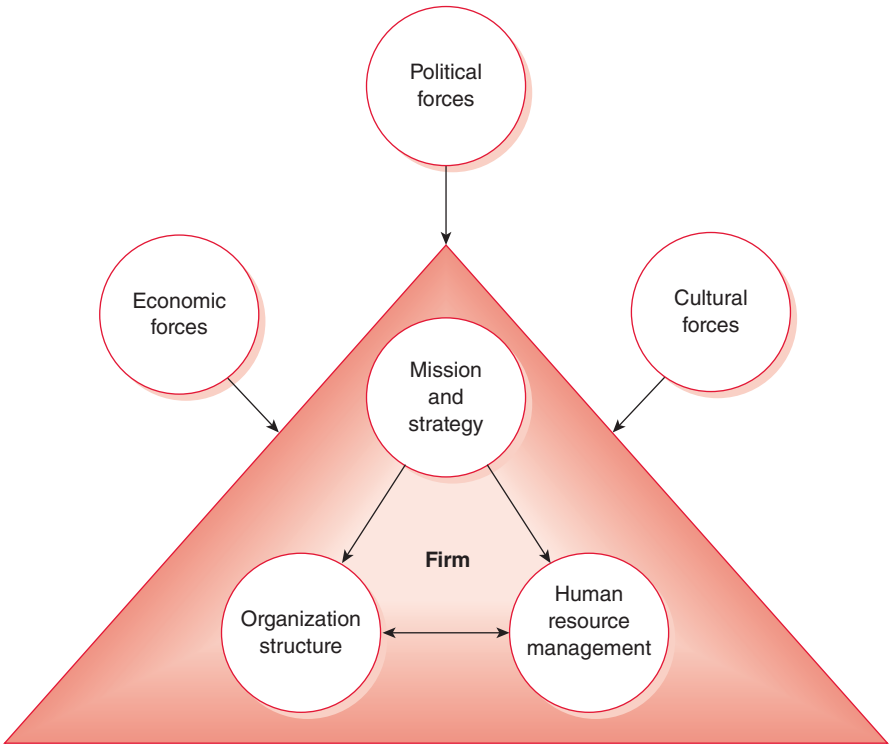

Figure 1.1 The matching model of HRM

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the strategy required in a competitive environment denotes tight performance measures or cost-cutting, then these will be reflected in the approach adopted by HR. A differentiation or quality enhancement strategy however would result in an approach to HR that mirrors the high commitment approach of the 'soft' models.

Beer et al.'s Harvard framework depicted in Figure 1.2 can be seen as such a 'softer' model. It recognizes that there are a variety of 'stakeholders' in the organization. The model shows the legitimate interests of different groups, and assumes that the creation of HRM strategies will have to reflect these interests and fuse them as much as possible into the HR strategy and ultimately the business strategy. A key feature of the Harvard framework is its treatment of HRM as an entire system, with the various sub-elements of HRM combining to accomplish the stated outcomes, including high commitment. Although the link to organizational strategy is made, as well as being mediated by a recognition of differing interest groups as outlined above, the

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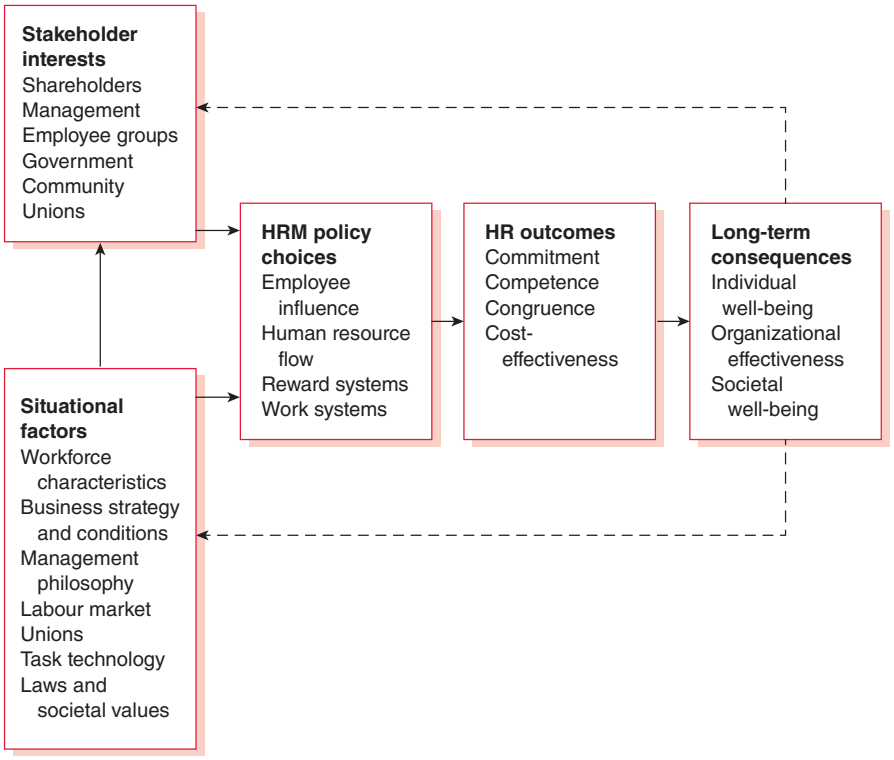

Figure 1.2 The map of the HRM territory

Source: Copyright © 1985, John Wiley & Sons.

focus is also arguably more on *horizontal* alignment or integration as opposed to vertical (Marchington and Wilkinson 2012).

Guest (1989, 1997) discusses six key components including an HR strategy, a set of HR policies, a set of HR outcomes, behavioural outcomes, performance outcomes and financial outcomes. Guest acknowledges that the context in which HR operates may have a significant impact upon the effectiveness of HR.

There is a range of other prominent models (such as the Warwick Model of HRM) which is not addressed within this chapter. Ulrich's Business Partner model is explored in Chapter 4.

All of these models have one thing in common – they are trying to provide a useful conceptual model to address how HR operates in relation to the salient issues with which it interacts. All of these models provide useful additions to the formulation of key questions that we have to ask when understanding what the HR function is, what it does and how we can evaluate the HR function's contribution (within its particular context).

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The strategy, structure and culture debate

Definitions of organizational *structure* include reference to the fact that it involves the coordination of activities to achieve organizational goals. These goals are likely to be determined by the *strategy* of the organization, indicating a clear link between strategy and structure. It has therefore been suggested that if the management of the organization make significant changes to its strategy, this is likely to have implications for the structure. The third part of the triumvirate is organizational *culture*, and the link(s) between culture and strategy and structure will be explored below.

The organizational strategy

In its most simple format, a strategy is simply a plan. Typically, this plan is where the organization would like to go (the products or services it would like provide in a particular context). A range of terms is used within academic literature – corporate strategy, business strategy, strategy of the firm, and many more. This chapter will consider strategy in the generic sense of the word. French et al. (2011: 667) define organizational strategy as 'the process of positioning the organization in its competitive environment and implementing actions to compete successfully'.

Robbins et al. (2010: 442) make reference to Miles and Snow and other authors on strategic types. A typical approach is to categorize firms as to whether they primarily have an innovation, cost minimization or imitation strategy and then suggest suitable structural types to match (see Table 1.1).

An innovation strategy focuses on exploring new opportunities and creating new products or services. A cost minimization strategy seeks to tightly control costs and keeping prices low. Organizations taking an imitation strategy fall

Table 1.1 The relationship between strategy and structure

Strategy	Suggested structure
Innovation	Organic, loose structure: decentralized, low specialization, low formalization
Cost minimization	Mechanistic, tight control: centralized, high work specialization, high formalization
Imitation	Mechanistic and organic, mix of loose and tight properties: tight control over established activities, looser controls over new undertakings

Source: adapted from Robbins et al. (2010: 443).

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somewhere in between these two. They move into new products or markets only after the innovator firms have proved them to be viable.

To support the strategy, an organization will usually have strategic objectives set out in order to assist it to achieve its overall plan. These objectives should be definable and measurable in order to ascertain later on whether they have been met. For an explanation of various strategic models and approaches, see Chapters 2 and 3.

A strategy by itself is not enough and therefore needs to be supported by a range of activities that may include the following: vision, mission, strategic plans, goals/objectives, and taken in the context of organizational culture, as demonstrated in case study 1.2.

CASE STUDY 1.2

SPECTRE (Special Executive for Counter-intelligence, Terrorism, Revenge and Extortion*)

Vision:	Global domination
Mission:	To eliminate all opposition forever
Strategy:	To reduce, and then eliminate all opposition by 2020
Goals/objectives:	To reduce and exterminate Western opposition completely by 2017, Eastern opposition by 2019 and eliminate the rest of the world opposition by 2020.
Values and culture:	Values based on power and domination. Extreme adoption of the Deal and Kennedy (1982) 'Work hard/play hard' culture, with the mantra of 'Failure is not an option'.

*Loosely based upon Ian Fleming's fictional global terrorist organization

Questions

1. If you were an agent of SPECTRE, to what extent would the strategy, vision, mission, goals and culture assist you in your day-to-day work?
2. Both with regards to SPECTRE and any organization, what happens when employees' views don't necessarily reflect what the organization states as its strategy, vision, mission, goals and culture?

Organizational structure

Mintzberg (1979: 2) provides a useful definition: 'The structure of an organization can be defined simply as the sum total of the ways in which it divides its labour into distinct tasks and then achieves coordination among them.'

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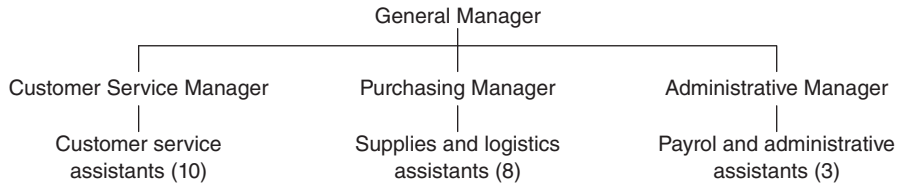

Figure 1.3 Functional Structure

Similarly, Buchanan and Huczynski (2010: 453) define structure as 'The formal system of task and reporting relationships that control, co-ordinate and motivate employees to work together to achieve organizational goals.'

Traditional forms of structure

Organizational charts typically provide an indication of the organizational structure, demonstrating the various formal relationships and reporting patterns within an organization. One of the more popular forms is the functional structure (see Figure 1.3).

There are numerous other organizational designs, such as product/service, matrix, geographical, or possibly, combinations of these.

See Figure 1.4 for an example of a basic matrix structure.

A more complex design may incorporate both a geographical and functional design (see Figure 1.5).

While the design of the organizational structure is important, formal reporting structures are required, based upon job roles, span of control, authority and

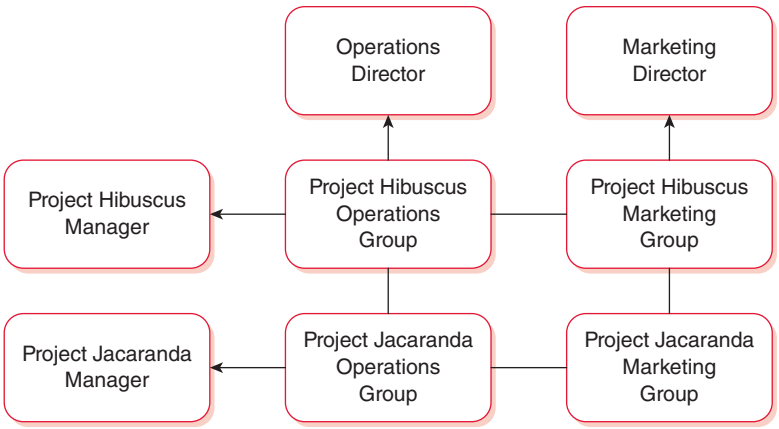

Figure 1.4 Matrix structure

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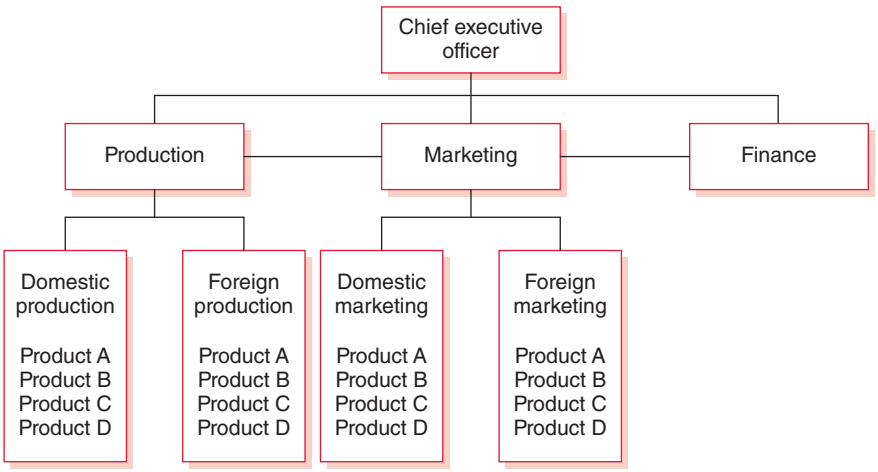

Figure 1.5 A complex structure

responsibility. The degree to which managerial control exists may be based upon the employment contract, job descriptions, HR policies and procedures etc.

Mintzberg (1980) extends thinking beyond structural aspects by considering work constellations, flow of informal communication, flow of formal authority, flow of regulated activity, and the flow of an ad hoc decision process (see Mintzberg 1980). The usefulness of Mintzberg's model is found when applied beyond the simplistic formal/informal structure argument.

CASE STUDY 1.3

Alfred Chandler

Chandler was a business historian who observed that the organizational structures of organizations such as General Motors, Du Pont and Standard Oil were driven by the changing demands and pressures of the marketplace. This saw moves from rigid functional organizational forms to more loosely coupled divisional structures and Chandler was influential in the decentralization of companies in the 1960s and 1970s.

Chandler defined strategy as 'the determination of the long-term goals and objectives of an enterprise and the adoption of courses of action and the allocation of resources necessary for

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carrying out those goals' (Crainer and Dearlove 2003: 32). He argued that organizations, having identified their strategy, could then determine the most appropriate organizational structure in order to achieve this.

Various authors have questioned Chandler's view that structure follows strategy. Thus Tom Peters has argued that it is the structure of an organization that will determine, over time, the choice of markets it chooses to attack. Others have suggested the link between strategy and structure is more complex than Chandler suggests.

Gary Hamel has offered a more positive view of Chandler's thesis, however:

> Of course, strategy and structure are inextricably intertwined. Chandler's point was that new challenges give rise to new structures. The challenges of size and complexity, coupled with advances in communications and techniques of management control produced divisionalization and decentralization. These same forces, several generations on, are now driving us towards new structural solutions – the federated organization, the multi-company coalition, and the virtual company. Few historians are prescient. Chandler was. (Crainer and Dearlove 2003: 32)

Question

1. To what extent is looking for the 'ideal' organizational structure a waste of time? Is it possible to have several suitable structural designs?

PIT STOP: REFLECTIVE ACTIVITY 1.2

The debate about whether strategy precedes structure (or vice-versa) has been in existence for over half a century. Perhaps this is analogous to the chicken and egg debate, and may prove to be a rather futile discussion. However, consider the extent to which an organization decides its strategy from its internal capability (the resources that it has in order to achieve goals), or the extent to which it scans the external environment, then marries up the internal requirements in order to meet this. It could be argued that an internally driven organization is contingent upon structural configurations, while an externally driven organization is contingent upon strategic planning.

Argue the case for:

1. Strategy preceding structure.
2. Structure preceding strategy.

Modern forms of structure

The continuum of organizational structures depicted by Morgan (1989) raises questions as to what constitutes 'the organization' or where an organization

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begins or ends. The combination of outsourcing and subcontracting of activities with new electronic communication methods (information communication technologies or ICTs) gives rise to the possibility of organizations with very little in terms of physical presence and has also given rise to the term 'the virtual organization'.

Writers such as Castells (2001) explore these trends, suggesting a 'new economy' in tandem with new technologies has important implications for the structuring of organizations. He characterizes the new economy as being knowledge-based, global and networked and suggests that organizations too are affected by similar trends. Networked organizations will be decentralized and make use of subcontractors, freelancers and a variety of other flexible and non-standard types of workers. In any particular such organization, a worker will be connected to the network of that specific organization, but is also likely to be part of other networks and other organizations (based on Castells 2001; Mullins 2010).

Storey (2009: 90) argues that in recent years many organizations have been seeking a greater degree of agility and flexibility, which has resulted in a greater reliance on market and market-like forms and the mechanisms in which work activities and contributions are brought together and coordinated becoming looser and more variegated. He suggests that alternatives to the classic form of organization are still emerging and points to the process-oriented company, network organization, joint ventures and strategic alliances, the boundaryless organization and the virtual organization.

In terms of the possible implications for human resource management of such developments a positive picture can be painted, in that many of the resulting challenges of such trends will require a greater degree of strategic thinking about human resource issues. As a counter argument, such structural developments could be seen as running counter to a strategic approach to human resource management, given the flexible nature of employment relationships and the primacy of short-term financial goals.

In 1982, Peters and Waterman utilized the McKinsey model in order to demonstrate the components that make organizations successful. Seven aspects (the seven S's) were highlighted: strategy, structure, staff (employees), shared values (primarily organizational culture), systems, skills and style (primarily leadership). Within this model, shared values were central, highlighting the importance of culture to business success.

Organizational culture

Within an organization, what drives employees to work in particular ways, make certain types of decisions, maintain working relationships etc.? The norms (or standards of behaviour) within organizations determine to some

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extent what is permissible in terms of behaviours and attitudes within organizations. (See Chapter 11 for an in-depth explanation of organizational culture.) For the purposes of this chapter, organizational culture will be considered simply as 'how things are done' and to some extent 'why things are done' in a particular organization.

When visiting an organization known for its traditional and professional client relationships, based in the exclusive area of Mayfair in London, you may expect to see employees wearing expensive suits, well-groomed and attentive in their appearance. However, when you visit, you come across staff wearing jeans and T-shirts. When it is explained that there is a 'dress down Fridays' code, it becomes apparent why employees have dressed in this manner. The impact of organizational culture cannot be underestimated. However, more importantly, what role does HR play in dealing with strategy, structure and culture?

Understanding the eternal triangle

It could be argued that HR needs to play a critical role in decisions made around organizational direction, organizational design, organizational policies procedure and practice, and importantly, shaping and developing organizational culture (though a range of methods, including human resource development, management development etc.). The authors argue that HR should undertake a strategic role in managing the relationship between these three vital aspects (see Figure 1.6).

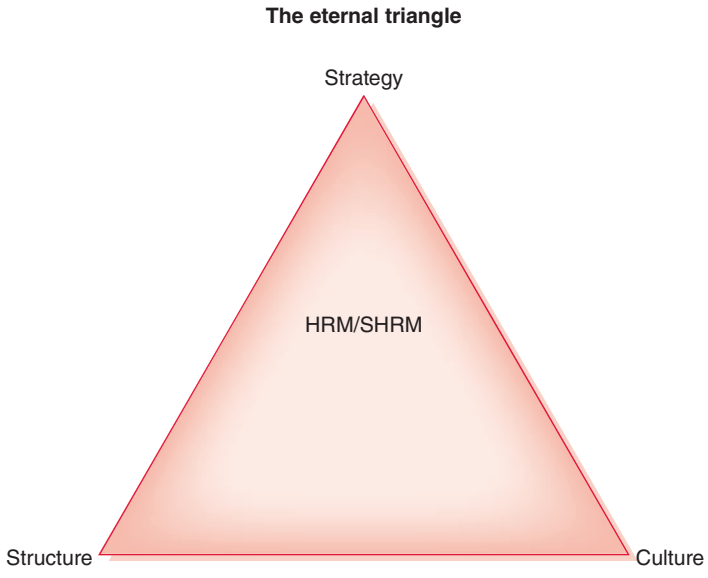

Figure 1.6 The relationship between strategy, structure, culture and HR

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Part of the difficulty in applying Figure 1.6 to practice is due to the complexity and involvement of the HR function and HR-related activities and whether decisions are driven from within or responding to external forces. The HR function can adopt a 'business' (strategic) type approach where the focus is primarily external, and resources are utilized, bought in where necessary, and the overall aim is driven by commercial reasoning. Alternatively, the HR function can utilize internal resources and make decisions on strategy based purely upon internal capability, not looking outside for additional resources (perhaps more of a HR-level response).

The environment

While an organization will have its own environment in terms of buildings and facilities, to what extent is there a clear organizational boundary? With increasingly complex technologies it could be argued that organizational boundaries are not always clear. Every organization has to interface with some aspect of customer, supplier, etc.

Within this chapter, the industry context includes the arena in which an organization operates within a competitive or supply capacity. Some organizations may trade locally (within a few kilometres) in terms of suppliers and customers, while other organizations may trade around the world and have supply chains from many countries, operating at a national and local level in many countries. In relation to Figure 1.7, the environment considers both the global/international context and the industry context.

Figure 1.7 SHRM, the organization and its environment

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The organization and environment fit: structural emphasis

Various studies have shown a link between the structure and management of an organization and the external environment within which the firm operates, specifically in relation to the degree of uncertainty and change in the environment.

Burns and Stalker (1961) studied a number of UK firms in different industries and their settings. They characterized these settings or environments into five types, ranging from stable to unpredictable. Two main types of structure and management practice were also identified: the mechanistic and the organic. The mechanistic structure was one with a high degree of task specialization and formalization, tight specification of individual responsibility and authority, centralized decision-making and formal rules and procedures. It can be likened to Weber's bureaucratic structure. The organic structure possessed little task specialization, a low degree of formalization, delegated decision-making and a high degree of individual responsibility.

Neither form of organizational structure was viewed as being better than the other; what was suggested is that either could be the most appropriate and efficient depending on the circumstances. Thus in their study, for a textile mill facing a stable and predictable environment, the mechanistic structure was found to be most suitable, while for an electronics firm operating in an unpredictable and rapidly changing environment, the organic structure suited best.

Linking HR to organizational strategy

The subject matter of this book is strategic human resource management or, to put it another way, the strategic management of human resources. This is examined both as an academic field of study and as an applied discipline that takes place in organizations and that managers attempt to implement. Storey (2009) points to both the value of linking theory and practice and the relative lack of such connectivity in reality and thus the need for this application. Legge (2005) also reminds us of the frequent gap between rhetoric and reality when it comes to HRM.

Defining strategic human resource management (SHRM) is not straightforward. Just as there are a number of competing definitions of human resource management itself, so this is also the case with SHRM. As Collings and Wood (2009: 1) point out: 'since its emergence HRM has been dogged by the still largely unresolved ambiguity surrounding its definition'. (These issues will be further explored in Chapter 3.) Broadly speaking however SHRM can be viewed as being about attempts to link HR practice to an explicit HR strategy, which is in turn linked to the strategy of the organization. As Greer (1995) suggests, HR strategies focus on the alignment of the organization's HR practices, policies and programmes with corporate and strategic business unit plans.

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An example may serve to both illustrate this conceptual link, and question the extent of its application in practice.

Consider an organization's recruitment and selection (R&S). Assuming that this approach was not solely ad hoc and that the organization in question purported to some sort of good practice in this area, then traditionally the approach adopted would be a systematic and psychometric one based around person–job fit, i.e. predicting the best candidate(s) based on predicted subsequent job performance.

A *strategic* approach however would consider how best human resource practices, in this case R&S, could best support the particular organizational strategy, for example in response to particular environmental pressures to maintain leading edge competitive positions (Sparrow and Pettigrew 1988). Millmore et al. (2007) point to research by Bowen et al. (1991) showing examples where R&S is directed at organizational and not specific job requirements, while Beaumont and Hunter (1992) found examples of R&S being used strategically to engender the more flexible workforce that the organizational strategy required.

Kew and Stredwick (2010) first set out a two-way model of the relationship between the environment and HR. One way of analysing the external environment is by the use of a political, economic, sociological and technical (PEST) or political, economic, sociological and technical, legal and environmental (PESTLE) analysis. Each categorization – political, economic, social or technological – and changes in these, will influence HR. Examples would be changes in the law, or economic fluctuations. We are also reminded that the arrow is two-way, in that HR will also attempt to exert some influence on the environment. An example of this would be the professional body, the Chartered Institute of Personnel and Development (CIPD), attempting to influence government policy of proposed changes in employment law. This is illustrated in Figure 1.8.

Figure 1.8 The relationship between the environment and HR

In addition to this relationship to the external environment, rather than HR practices being ad hoc and purely focused on day-to-day problem-solving, SHRM attempts to relate what the HR function does to an explicit HR strategy (Figure 1.9).

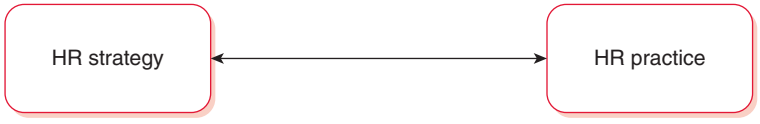

Figure 1.9 HR practice and HR strategy

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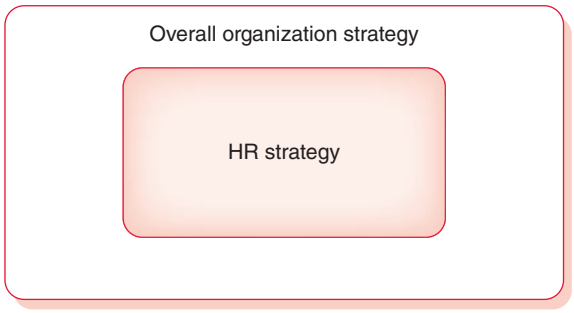

Figure 1.10 HR strategy and organizational strategy

The next stage is to relate the HR strategy to the overall organizational strategy, as depicted in Figure 1.10. In this, HR strategy is integrated into the organization's overall strategy.

Torrington et al. (2005) provide a useful diagrammatic representation of the potential relationships between organizational strategy and HR strategy, ranging from separation, in which the activities of HR are removed from that of the organizational strategy, if such a thing exists at all, through to increased levels of fit or integration as shown in Figure 1.11.

Figure 1.11 Different levels of integration between HR strategy and organizational strategy
Adapted from Torrington et al. (2005)

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The second example, that of fit, mirrors that of the Michigan model (see Figure 1.1) in which recognition is given to the importance of human resources in achieving the organizational strategy. However, the direction of influence is rather one way, with HR responding to organizational strategic imperatives as determined by the market. This approach depends on a traditional classical approach to strategy formulation as a logical, top-down process. Of course the directional arrow could be matched by a dotted arrow the other way, with HR having at least some input into strategic decisions at board level.

The third example, that of a holistic model, views people as a key resource for the achievement of competitive advantage rather than just something downstream of organizational strategy. Human resource strategy then becomes of prime importance, particularly in situations where it is recognized that people (employees) form the key resource for a particular organization. Such thinking can be found in the work of Boxall (1996, 1998) and the idea of the resource-based firm, with such conceptions of strategy being broader than merely reflecting positioning in the marketplace.

As Millmore et al. (2007) point out, the latter part of the twentieth century saw a burgeoning interest in strategic management, concerned with how organizations could best utilize their resources strategically in pursuit of organizational goals. As such it is not surprising that the focus also fell on what is sometimes termed by some to be an organization's key resource, their employees. Arguably however this focus is still somewhat limited, with even today little direct reference being made in the mainstream strategic management literature to human resources and which has seen the literature on strategic human resource management being somewhat separate, if parallel, to that of strategy in general. This may reflect the HR function's ongoing battle to be considered as truly central to organizational success.

Farnham (2010) however questions the assumption that historically business strategies simply defined the nature of competition in the marketplace leaving personnel management/HR's input to be operational and pragmatic. Thomason (1991) argues that the resourcing and utilization of human resources in organizations have been approached in a variety of ways at different times. He argues that at each stage in the development of HRM some relationship did exist between the business strategies adopted and HR's responses to the external labour market, even if the link between the HR strategy and business strategy was not always made explicit.

Farnham (2010) argues that organizations need overall strategies to survive and prosper in a competitive environment. For firms in the private sector, such organizational strategies are likely to be couched in terms of how best to tackle their competitors. The strategies of public sector organizations currently are more likely to be expressed in terms of maximizing revenues and reducing costs at a time of cuts in government spending. However, for any organization,

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the strategy adopted will not just be a result of taking into account the opportunities and threats offered by the external environment in general, and the marketplace specifically; it will also be an outcome of the strengths and weaknesses of the organization's own resources, including human resources.

Porter (1998) suggests that organizations have three basic strategic options in order to gain competitive advantage: cost reduction, quality enhancement, and innovation. Yet as Porter (1998) points out, competitive advantage depends not only on conditions in product or service markets but also on the availability of factors of production. Thomason (1991) suggests a number of shifts in predominant business strategy over time since the Industrial Revolution, each placing different demands on HR in terms of labour acquisition and utilization. Returning to Porter's classification, an organizational strategy of differentiation (quality enhancement) for example will depend on the availability of a core of skilled workforce in the labour market. In periods where skills are job-specific and non-transferrable between organizations and industries, then internal labour markets will be developed. Other conceptions of strategy, such as the resource-based view, place much greater importance on internal factors of the organization, including human resources.

This chapter has considered the nature of organizations in terms of strategy, structure and culture and the relative placement of HR within these, extending to the place of strategic HRM too. Figure 1.7 demonstrates the complex interrelationships between the key factors discussed within this chapter.

PIT STOP: REFLECTIVE ACTIVITY 1.3

1. To what extent is there a difference between HRM and Strategic HRM (SHRM)? What are the critical differentiating points between HRM and SHRM? Discuss.

CASE STUDY 1.4

Low-Cost Airlines

Southwest Airlines, based in Dallas Texas, the largest airline in the United States based on domestic passengers carried, can be seen as one of the first low-cost airlines and providing a business model for others such as easyJet and Ryanair. Their competitive strategy combines high employee and aircraft productivity with low costs resulting from reducing aircraft turnaround time.

Michael Porter (2011) contrasts this strategy with that of full-service airlines. These are based around the aim of getting passengers from almost any point to another, reaching numerous destinations and providing connecting flights via a hub-and-spoke system centred on major

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airports. They provide a full range of service, including first and business class. And, to accommodate passengers who want to change planes, they coordinate the timetables and offer check-in and transfer of luggage. They also provide full-service meals.

In contrast, Southwest Airlines concentrate on short-haul, low-cost, point-to-point service between medium-sized cities and secondary airports in large cities. They offer frequent departures and low fares and tailor their activities around this. They do not offer meals, assigned seats, interline baggage checking or premium classes of service. Automated ticketing at the gate allows the airline to avoid the commission charged by travel agents. Fast turnaround of aircraft of only 15 minutes make the most economical use of aircraft and their planes flying longer and providing more frequent departures than rivals, again reducing costs. A modern fleet of standardized aircraft also boosts the efficiency of maintenance.

Questions

1. Within the context of cost-cutting, what could motivate employees working for low-cost airlines, such as those described above?
2. How would these airlines formulate a strategic HR approach?

Globalization and internationalization

Chapter 12 provides a detailed explanation as to how HRM and SHRM adjusts to global and international contexts. While organizations may wish for a one size fits all HR toolbox, this may not be particularly appropriate in some contexts. Similarly, HR policies, procedure and practices may vary significantly across countries and within multinational organizations.

CASE STUDY 1.5

Oracle

In Europe, the Middle East and Africa, Oracle has 14,000 employees in 32 countries, whose needs are met by an HR department of around 140 people. For the past four years, the HR department has been devolving certain HR functions to the line, using its own Oracle HR system.

'We started with pay slips on the Web, instead of having hard copy pay slips,' says Vance Kearney, European HR director. 'Then we enabled employees to access and update their own data, and since then we have introduced more and more Internet-based processes.' The full range of HR activities now available on the Internet includes:

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(Continued)

- employee data
- pay slips
- salary reviews
- flexible benefits
- management of purchasing of products and services bought from internal departments of the company.

'It has given us far more flexibility,' says Kearney. 'And it has ended the linear relationship between the number of people in the HR department and the number of people in the organization as a whole. We could probably increase overall staffing levels by 50 per cent without adding more HR people.'

To work effectively, stresses Kearney, a devolved HR system needs to be thought through in detail before implementation starts. It will need to be updated and added to over the years, but getting the system right in the first instance is essential if the organic process is to work properly.

'You need to work out what needs to be different and what needs to be standardized,' he warns:

> It doesn't make sense to have 32 different systems to do one thing. But there will be a slight difference in the way that things are done in each country. For instance, when we started, we had 32 different telephone systems in operation, and now we have one global system. That is a process that can be standardized.

Other functions need more careful handling as well. Kearney cites the example of updating records – a simple process in the UK, but in Switzerland, where citizens are taxed according to the canton in which they live, the line manager must inform the tax authorities if an employee has moved from one canton to another.

As far as the role of HR is concerned, Kearney says staff at all levels have benefited. 'Admin staff have been trained in dealing with people, rather than keyboards – they come in when there are specific problems to be dealt with,' he says:

> Before this system was set up, we couldn't answer a simple question like 'What is the staff turnover across the company?' because each country had a different way of deciding what this meant. It only took one computer to blow up in Kazakhstan for the whole thing to be out. Now we have one system which works across the world.

Adapted from O'Reilly, S. (*Global HR*, 2001, RBI).

Questions

1. To what extent does standardization of processes devalue the way in which employees work within their local environment and organizational culture?
2. Can a 'one size fits all' apply to all of the functions that HR carries out? If not, why not?

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Conclusion

There may be little doubt that HR is facing huge challenges and will continue to do so. Some of the debates around organizational structure, culture and strategy may transcend traditional (US and UK) academic models. Perhaps the HR function needs to be 'more strategic', but where and exactly how HR adds value will depend upon demonstrating this added value at strategic, tactical and operational levels.

'The future workforce will be placed all over the world, with people from different cultural and economic backgrounds working together in virtual teams ... The future of HR lies outside the HR Department' (Lettink 2012). The PwC *Managing Tomorrow's People* report (2011) proposes that the future people management will present one of the greatest challenges and that as a consequence, the role of the HR function will have to undergo fundamental change.

Truss et al. (2012: 295) argue that 'we can be reasonably certain that in the foreseeable future organizations will continue to grapple with how best to manage their HR'.

The CIPD *Next Generation HR Report* (2010) argues that HR need to be insight driven, whereby HR have a deep understanding of what goes on inside the organization and what makes the organization successful, and in doing so, also have a real share and voice within organizations. For a discussion around the key debates surrounding the future of HR, see Chapter 13 in this volume.

Further Reading

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