Chapter 2
Aligning HR with Strategy
After reading this chapter, you should be able to:

• Understand the importance of strategic HR planning

• Identify the risks associated with not planning
After reading this chapter, you should be able to:

• Discuss approaches to linking strategy and HR, including the barriers to becoming a strategic partner

• List the characteristics of an effective HR strategy
Human resources management (HRM) is an umbrella term that encompasses:

- Overarching HR philosophies
- Formal HR policies
- Specific HR practices
Strategic HRM

• Interrelated philosophies, policies, and practices that facilitate the attainment of organizational strategy
• HRM started out as personnel management, an administrative function oriented to cost control.
• Many organizations realized the connection between human capital and organizational performance.
• HRM developed as a response to the demand that HR could make strategic contributions.
This theory suggests that the management of resources and capabilities will lead to competitive advantage, resulting in superior performance and value creation.
• Typical **resources** might include:
  a) Human resources
  b) Proprietary knowledge
  c) Reputation

• Typical **capabilities** might include:
  a) Adaptability
  b) Flexibility
  c) Speed of bringing new products to market
• The contingency perspective blends both the human capital and behavioural theories.

• It refers to the need to modify HR strategies relative to its business and organizational strategies.
Human capital

• The collective sum of employees’ attributes, experience, knowledge, and commitment invested in the organization
Classical economists view the firm as having control over three types of resources in the production of goods and services, including:

1. Land
2. Labour (or human capital)
3. Capital
Human capital also includes:

- Knowledge
- Education
- Vocational qualifications
- Professional certifications
- Work-related experience
- Competence of an organization’s employees
• The value added of human capital investments or the human capital return on investment (ROI) can be calculated:

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\frac{\text{Total revenue} - (\text{operating expenses} - \text{total compensation costs})}{\text{Total compensation costs}}
\]
The Behavioural Perspective

- This theory suggests that different HR strategies are required to influence the diverse behaviours of employees.
- HR’s role is to reinforce certain behaviours via the HR practices such as recruitment, selection, training, compensation, and performance.
There are two main reasons strategic planning is so important:

1. Employees help an organization achieve success because they are its strategic resources.

2. The planning process itself results in improved goal attainment.
• Human resources can deteriorate if skills and knowledge become obsolete.
• Investment in employees’ skills increases the value of the organization’s human capital.
• The “value” of this human capital must be captured within the strategic HR plan.
Human assets offer organizations a competitive advantage:

- An organization that manages its human resources strategically is more likely to survive and profit
- Human assets must be managed and matched to the organizational strategy
Improved Goal Attainment

- Strategy formulation is important to the attainment of organizational goals.
- Aligns all HR functional strategies with overall strategy
- Focuses employees on important missions and goals of the organization
- Developing HR practices that support the strategy lead to improved strategy implementation.
Is there a downside to strategic HR planning?

- Time and energy in making decisions
- Information overload potential
- Impossible commitments to employees
- Overconcern with employee reactions
The Risks

- Potential job losses
- Myopia developed from commitment to one strategy
- Inability to see and adapt to changes developing in environment
“An organization that fails to plan, plans to fail.”
Aligning HR strategy with business strategy can be done in one of three ways:

1. Start with organizational strategy and then create HR strategy.
2. Start with HR competencies and then craft corporate strategies based on these competencies.
3. Do a combination of both in a form of reciprocal relationship.
A traditional view that supports the notion that HRM programs flow from corporate strategy.
The HR needs are derived subsequent to the inception of the corporate plan.
For example, a low-cost strategy needs to be aligned with low-cost labour, like McDonald’s or Walmart.
A more current view assumes that an organization cannot implement a strategy if it does not have the necessary human capital.

Small businesses are more in tune with this approach because the impact of human capital has a greater effect.
• This is also known as a “skills determine strategy.”
• Drawbacks include over-reliance on employee capabilities and not enough environmental analysis or changing HR practices
HR Becomes a Business Partner

- Requires **concurrent strategy formulation**
- HR professionals play a more strategic role, moving from outsider to insider status.
- HR managers apply their financial, forecasting, and entrepreneurial skills to assist in developing the strategy.
- HR manager is a partner and problem solver
• There is a reciprocal interdependency between HR strategy and business strategy.
• Both strategies influence each other.
• Changes to one type of strategy will require changes to the other type.
• HR should build its strategy by acknowledging the main issues facing the business.
• Although most HR professionals recognize their need to be involved in strategic issues, most non-HR managers do not see the importance of HR professionals as a strategic partner.

• The main reason is that “people issues” are an HR issue rather than a strategic one.
Characteristics of an Effective HRM Strategy

- **External fit**
  - Fit HR and organizational strategies

- **Internal fit**
  - Link HR programs to other functional areas.

- **Focus on results**
  - Results must be measured and tracked.
HR Program Linkages

HR Program
↓
Employee Competencies
↓
Organizational Strategy
↓
Organizational Outcome