Abstract: Human Resources being the valuable, rare, inimitable and non-substitutable resources are emerging as the building blocks of competitive advantage for all companies. Strategic Human Resource Management which aims at integrating Human Resource Management with the strategies and strategic needs of the organization is the way forward to gain a competitive edge in the dynamic business environment. The various HR functions have to be seen and implemented from a strategic perspective to ensure success. It is thus imperative for companies to identify the various benefits of Strategic Human Resource Management and tame the various barriers hindering its effective implementation.

1. Introduction

Human Resources are undoubtedly the most prized resources of any organization. Given the fact that they are the only active resources in the company, they play an instrumental role in achieving efficiency and effectiveness targets by putting the passive resources such as machinery, capital, land etc. to adequate use. Besides, labor costs constitute a major chunk of the total operating expenses of a company. The HR function has undergone a complete transformation. From a reactive and formalized approach of Personnel Management; to the more flexible and proactive approach of Human Resource Management; to the very strategic oriented approach of Strategic Human Resource Management, the HR function has evolved to a great extent.

Personnel Management
- Deals with the People dimension in Management.
- Refers to the philosophy, policies, procedures and practices related to the management of people within the organization to achieve the organizational goals.
- Four basic functions: Acquiring, developing, motivating and retaining human resources.
- Short term, reactive and bureaucratic.
- Command and control centered.
- Focus on compliance and cost minimization.
- Pluralistic and low trust in employee relations perspective.

Human Resource Management
- Employees are not just people but valuable resources that help in accomplishment of organizational goals.
- Long term, pro active and strategic.
- Adaptability and flexibility.
- High commitment centered.
- Focus on maximum utilization of human resources.
- High trust in employee relations perspective.
- Policies, practices and systems that influence employees’ behaviors, attitudes and performance.

Strategic Human Resource Management (SHRM)
- Focuses on organization’s human resources (people) as primary source of firm’s competitive advantage.
- HR programs, policies and practices to achieve an edge above the competitors.
- Vertical (HR strategy and Business strategy) and horizontal fit (between all HR activities).
- Role of HR as a strategic partner.

SHRM refers to the process of developing practices, programs and policies that help achieve organizational objectives. Essentially, these should be aligned with the strategies of the organization.

SHRM involves that:

- Full integration of Human Resource Management with the strategy and strategic needs of the firm.
- Human resource policies cohere both across hierarchies and policy areas.
- Human resource architecture of the firm comprising of the systems, practices, competencies etc. results in its above average financial performance.
- Increased line participation in the HR function.

In this context, four roles of HR executives are relevant:

- HR should define the organization’s architecture i.e. structure, systems, shared values etc.
- HR should be responsible for conducting an organizational audit to identify the necessary changes in the organizational structure for strategy implementation.
- Role of HR as a strategic partner to come up with best practices for strategy implementation.
- HR must take stock of its own work and set priorities.

Thus, Strategic human resource management is to ensure that human resource management is fully integrated into strategic planning, that HRM policies cohere both across policy areas and across hierarchies and that HRM policies are accepted and used by line managers as part of their every day work.

Strategic HRM is thus very different from the Traditional HRM as can be seen from the points of difference tabulated

### Table: Traditional HRM vs. Strategic HRM

<table>
<thead>
<tr>
<th>Point of distinction</th>
<th>Traditional HRM</th>
<th>Strategic HRM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Focus</td>
<td>Employee Relations</td>
<td>Partnerships with internal and external customers</td>
</tr>
<tr>
<td>Role of HR</td>
<td>Transactional change follower and respondent</td>
<td>Transformational change leader and influencer</td>
</tr>
<tr>
<td>Initiatives</td>
<td>Slow, reactive, fragmented</td>
<td>Fast, proactive and integrated</td>
</tr>
<tr>
<td>Time horizon</td>
<td>Short-term</td>
<td>Short, medium and long (as required)</td>
</tr>
<tr>
<td>Control</td>
<td>Bureaucratic-roles, policies, procedures</td>
<td>Organic-flexible, whatever is necessary to succeed</td>
</tr>
<tr>
<td>Job design</td>
<td>Tight division of labor, independence, specialization</td>
<td>Broad, flexible, cross-training teams</td>
</tr>
<tr>
<td>Key investments</td>
<td>Capital, products</td>
<td>People, knowledge</td>
</tr>
<tr>
<td>Responsibility for HR</td>
<td>Cost centre</td>
<td>Investment centre</td>
</tr>
<tr>
<td></td>
<td>Staff specialists</td>
<td>Line managers</td>
</tr>
</tbody>
</table>

The process of SHRM comprises the following phases:

**Figure 2: Traditional HRM vs. Strategic HRM**

**Figure 3: Phases in SHRM process**

### Levels of Integration

Four levels of integration seem to exist between the HRM function and the Strategic management function. These are:

- Administrative linkage - It represents the scenario where there is no HR department and some other figurehead (such as the Finance or Accounts executive) looks after the HR function of the firm. The HR unit is relegated here to a paper-processing role. In such conditions there is no real linkage between business strategy and HRM.
- One-way linkage - The HRM comes into play only at the implementation stage of the strategy.
Approaches to Integration

There are three main approaches for integration of HR strategy with the overall company strategies:

- **Best Practices Approach (Universalistic Approach)**
  
  Based on the premise that there is a set of “best HRM practices” and adopting them will lead to superior organizational performance irrespective of the type of business strategy followed. Jeffrey Pfeffer has listed 7 best HR practices of successful organizations:
  
  ➢ Employment security
  ➢ Selective hiring
  ➢ Team monitoring
  ➢ High pay
  ➢ Extensive training
  ➢ Reduction in status differentials
  ➢ Information sharing

- **Best-fit Approach (Contingency Approach)**
  
  Based on the belief that HR strategies should be consistent with business strategies, match the firm’s stage of development, take account of organization’s dynamics and ‘fit’ with the strategic thrust of the company.

- **Bundling Approach (Configuration Approach)**
  
  Bundling means developing and implementing several HR practices together as a system so that they are complementary, inter-related and reinforcing creating benefits of “synergy”.

3. SHRM and various HR Functions

Recruitment and Selection

Recruitment is a positive process of searching for prospective employees and stimulating them to apply for the jobs in the organization.

Selection is the process of choosing the most suitable candidate for a job from among the available applicants. While recruitment is a positive process, selection is a negative process.

The following are the strategic issues involved in recruitment and selection:

![Figure 4: Strategic issues in recruitment and selection]

- **Recruitment**
  
  - Hiring of Permanent vs. Temporary employees
  - Internal vs. External sources of recruitment
  - In-house vs. Outsourcers methods of recruitment

- **Selection**
  
  - Reliability of selection method
  - Validity of selection method (Criterion and Content validity)
  - Interviewing (Structured vs. Unstructured, Group vs. Individual, Stress Interviews etc.)
  - Selection Tests (Cognitive Aptitude Test, Achievement Test, Intelligence Test, Interest Test, Personality Test etc.)
  - Reference and Background checks

Human Resource Planning

It is the process of analyzing and identifying the need for and availability of human resources so that the organization can meet its objectives. It involves the following stages:

- Environmental scanning
- Demand forecasting
- Supply forecasting
- Gap Analysis (Surplus or Deficit)
- Action programming
- Control and evaluation
Training and Development

Training refers to the act of increasing knowledge and skill of an employee for doing a particular job. Development refers to the learning opportunities designed to help employees grow.

There are two keys of developing successful training programs:

- Planning and strategizing the training
  - Needs assessment (Organization, Task and Person)
  - Define objectives for the training activities
  - Design and delivery of training
  - Evaluation of training
- Linkage of training with performance management and compensation management systems

Various special forms of training have been developed to factor in the changes in the business environment such as:

- Team Training
- Diversity Training
  - Awareness building training
  - Country specific training
- Cross-cultural training
  - Cross-cultural awareness training
  - Culture/country specific training
- Multi-skilling
- E-learning
- Blended Learning

Performance Management

Performance management is a continuous process of managing and developing the performance of individuals and teams to achieve organizational goals.

Strategic issues in designing a Performance Appraisal System

- How system will be used
  - Employee development
  - Rewards and compensation
  - Motivation
  - Legal compliance
  - Facilitating Human Resource Planning
- Who evaluates
  - Supervisor
  - Peers
  - Customers
  - Subordinates
  - Self
- What to evaluate
  - Traits
  - Behavior
  - Results
  - How to evaluate
    - Absolute terms
    - Relative terms
  - Means of evaluation
    - Traditional methods (Graphic rating, checklist etc.)
    - Modern methods (360 degree, BARS, MBO etc.)

Compensation Management

Managing the total rewards given to employees in return for their services to attract, motivate and retain them is compensation management.

There are various strategic issues in Compensation management. These are:

- Compensation relative to the market (Lead/Lag/Market policy)
- Balance between fixed and variable components of compensation
- Individual vs. team-based pay
- Appropriate mix of financial and non-financial components
- Developing an overall cost-effective program that results in high performance

Strategic Compensation systems need to be designed to keep in sync with the changes in the competitive environment. These include:

- Merit Pay (based on employee performance)
- Skill-based Pay
- Competency-based Pay
- Variable Compensation
- Team-based Pay
- Broad Banding
- Profit Sharing
- Employee Stock Option Plans (ESPP, Restricted Stock Plan, ESOS, Phantom stock etc.)

Industrial Relations

The term Industrial Relations refers to the relationship between the employers and the employees in the context of the day-to-day working environment.

Organizational Commitment is the core of Strategic Industrial Relations because:

- Committed workers will be highly motivated and give superior performance.
- Committed workers exercise responsible autonomy or self-control.
- Committed workers are more likely to stay with the organization
Committed workers are not likely to become involved in any type of collective activity that might reduce the quality or quantity of their contribution to the organization.

New initiatives for Strategic Industrial Relations:
- Education and Retraining
- Research and Development
- A voice in Strategic Decision-Making and Ownership
- Capital Investment and Pension Plans
- Social Dialogue

Employee Separation

Employee separation has become a critical issue for all organizations and has to be dealt effectively. Managing employee separation is crucial for the success of any business.

Exit Interviews can provide an insight into the real reasons for employee separation and valuable employee feedback on the company and its practices as a whole.

Employee separation can arise on account of:
- Layoffs
- Retrenchment
- Dismissal
- VRS (Golden handshake)
- Resignation

4. Human Resources as a Source of Competitive Advantage

Sustainable Competitive Advantage is defined as “an advantage over competitors that cannot easily be imitated and that gives the firm an edge over its competitors and enables it to achieve higher levels of profitability over a period of time” (Richard Lynch, 2006).

For a resource to be a source of Sustainable Competitive Advantage it must possess the following characteristics:

- Valuable
- Rare
- Inimitable
- Non-substitutable

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Figure 5: Characteristics of sustainable competitive advantage

HR adds Value to the firm

The knowledge and skills possessed by the employees as well as the HR system of recruitment, selection, training and development add value to the firm giving it an edge over its competitors.

HR is a Rare Resource

The knowledge-skill base required to manage the emerging complexities in the nature of jobs is in short supply and thus a rare resource for a company.

HR cannot be Imitated

The investment in human capital in the form of various HR programs cannot be easily duplicated or imitated and thus is a durable source of competitive advantage for the company.

HR cannot be Substituted

While low skill jobs might offer replacement of human capital with machines, but managerial, professional and technical personnel cannot easily be substituted because the systems required to support and sustain them are simply not substitutable.

Thus, Human Resources being Valuable, Rare, Non-imitable and Non-substitutable are building blocks of Competitive Advantage for an organization.
5. Benefits of Strategic Human Resource Management

SHRM is a winning proposition in today’s competitive times. The following are some of its benefits:

- It creates organizational capability by ensuring that the company has a pool of engaged, skilled, committed and motivated employees who can provide a competitive edge.
- It elevates the status of HRM in the organization vis-a-vis the other functional areas.
- HR managers, being strategic partners play an instrumental role in the success of Mergers and Acquisitions by facilitating cultural integrations.
- HR managers work in close proximity with the line managers to ensure achievement of organizational objectives.
- SHRM provides direction especially during turbulent times so that individual and business needs can be met by coherence of HR and strategic policies and programs.
- Strategic HRM customizes HR practices to suit the specific requirements of the various corporate level and Business level strategies adopted by the company.
- Identifying and analyzing external opportunities and threats that may be crucial to the company’s success and supplying information about the company’s internal strengths and weaknesses.
- SHRM supplies competitive intelligence that may be useful in the strategic planning process.
- It contributes towards meeting the customers’ expectations effectively by building a motivated and competitive workforce.

6. Barriers to Strategic Human Resource Management

Though SHRM looks essential and convincing, several barriers hinder the organization to take a strategic orientation of their HR functions. Some of these are:

- Tendency of most organizations to adopt a short-term mentality and focus on current performance.
- Inability of HR leaders to think strategically beyond their area of operation.
- Most senior managers lack appreciation for the value of HR and its ability to contribute to the organization from a strategic perspective.
- Some functional managers see themselves as HR managers concerned more with the technical aspects of their areas of responsibility than the human aspects.
- Difficulty in quantification of the outcomes and benefits of the HR programs.
- Non-proprietary nature of human resources that hinders investment in them by companies.
- Probable disconnect between the HR team and the employees by assuming greater strategic role in the organization.
- Failure to understand the strategic needs of business, environmental threats and opportunities, competitors’ moves etc.
- Resistance to change in the organization.
- Time, money and resource constraints.

7. Conclusion

Human Resources are definitely the building blocks of competitive advantage for any organization. Given that they are valuable, rare, inimitable and non-substitutable; the workforce has tremendous potential to give a sustainable edge to the company over its competitors. Strategic Human Resource Management which has evolved from the traditional variants of Personnel management and Human resource management is indeed the way forward as it ensures that there is not just a horizontal but also a vertical fit of the organizational goals. Strategic orientation has to be adapted in various HR functions such as recruitment, selection, training, industrial relations etc.

It is thus imperative for companies to recognize the various benefits of strategically managing their human resources and removing barriers in the successful implementation of Strategic Human Resource Management in order to establish their dominance over their competitors in the dynamic business arena.

References


Web Sources

