Selecting HR Strategies to Increase Performance
An HR strategy’s effect on firm performance is always dependent on how well it fits with other factors. This fact leads to a simple yet powerful prediction for HR strategies that has been widely supported by research:

**Fit leads to better performance, and lack of fit creates inconsistencies that reduce performance.**

Fit refers to the compatibility between HR strategies and other important aspects of the organization.

The figure below: *Effective HR Strategy formulation & Implementation*, depicts the key factors that firms should consider in determining which HR strategies will have a positive impact on firm performance: organizational strategies, environment, organizational characteristics, and organizational capabilities.

As the figure shows, the relative contribution of an HR strategy to firm performance increases:

- The better the match between the HR strategy and the firm’s overall organizational strategies
- The more the HR strategy is attuned to the environment in which the firm is operating
- The more closely the HR strategy is molded to unique organizational features

- The better the HR strategy enables the firm to capitalize on its distinctive competencies
- The more the HR strategies are mutually consistent or reinforce one another
Fit with Organizational Strategies

A corporation may have multiple businesses that are very similar to or completely different from one another.

Corporate strategy refers to the mix of businesses a corporation decides to hold and the flow of resources among those businesses. The main strategic business decisions at the corporate level concern acquisition, divestment, diversification, and growth.

Business unit strategies refer to the formulation and implementation of strategies by firms that are relatively autonomous, even if they are part of a larger corporation. For instance, until fairly recently, AT&T as a corporate entity owned hundreds of largely independent firms, including perfume makers and Hostess Twinkies, each with its own business strategy. Similarly, diversified giant DuPont combines businesses such as drugs, agriculture, and chemicals under one roof. For companies that have distinct corporate and business unit strategies, it is important to examine each in terms of its fit with HR strategies.

Fit with the Environment

In addition to reinforcing overall organizational strategies, HR strategies should help the organization better exploit environmental opportunities or cope with the unique environmental forces that affect it.

- Degree of uncertainty & Volatility
- Magnitude of change
- Complexity

Fit with Organizational Characteristics

To be effective, HR strategies must be tailored to the organization’s personality. The features of an organization’s personality can be broken down into five major categories.

- The Production Process For Converting Inputs Into Output
- The Firm’s Market Posture
- The Firm’s Overall Managerial Philosophy
- The Firm’s Organizational Structure
- The Firm’s Organizational Culture

Fit with Organizational Capabilities

A firm’s organizational capabilities include its distinctive competencies, those characteristics (such as technical ability, management systems, and reputation) that give the firm a
competitive edge. For instance, Mercedes-Benz automobiles are widely regarded as superior because of the quality of their design and engineering. Wal-Mart’s phenomenal success has been due, at least in part, to its ability to track products from supplier to customer better than its competitors can.

The characteristics that give a firm a competitive edge.

HR strategies make a greater contribution to firm performance:
- they help the company exploit its specific advantages or strengths while avoiding weaknesses and
- they assist the firm in better utilizing its own unique blend of human resource skills and assets.

The following examples illustrate how one type of HR strategy—compensation strategy—may be aligned with organizational capabilities.

Recommendation:

1. Define the competencies that employees should have in order to be effective, recognizing that your organization will need to revisit and modify this list as your business and industry change.
2. Decide to whom the competencies should apply. Perhaps it is to all employees, or perhaps it is to some core subset of personnel who wield the greatest influence over your corporate culture.
3. Communicate the competencies well throughout the organization, integrating them into your array of talent management components, including recruitment, succession planning, learning and development, performance management, and the like.
4. Design your talent management competencies system so that there is some decision-making individual or group. Decide whether it’s wise, given the context of your organization, to allow individual functions or business units to adjust these competencies to meet their own needs.
The Challenges of Strategic HR Planning

In developing an effective HR strategy, the organization faces several important challenges.

The challenge from an HR perspective is to develop strategies that offer the firm a sustained competitive advantage. For instance, a company may develop programs that maximize present employees’ potential through carefully developed career ladders, while at the same time rewarding them generously with company stock with strings attached (for example, a provision that they will forfeit the stock if they quit before a certain date).

Developing HR strategies that support the firm’s overall business strategy is a challenge for several reasons.

First, top management may not always be able to enunciate clearly the firm’s overall business strategy.

Note: Some managers are so busy putting out fires that they have no time to focus on the long term. Nonetheless, a successful HR strategy demands a vision tied to the long-term direction of the business. Thus, a major challenge of strategic HR planning is prodding people into stepping back and considering the big picture.

In many small companies, staffs are so absorbed in growing the business today that they seldom pause to look at the big picture for tomorrow. Also, strategic HR planning in small companies is often synonymous with the whims of the company owner or founder, who may not take the time to formalize his or her plans.

Second, there may be much uncertainty or disagreement concerning which HR strategies should be used to support the overall business strategy. In other words, it is seldom obvious how particular HR strategies will contribute to the achievement of organizational strategies.

Third, large corporations may have different business units, each with its own business strategies. Ideally, each unit should be able to formulate the HR strategy that fits its business strategy best. For instance, a division that produces high-tech equipment may decide to pay its engineering staff well above average to attract and retain the best people, whereas the consumer products division may decide to pay its engineers an average wage. Such differentials may cause problems if the engineers from the two divisions have contact with each other.

Thus, diverse HR strategies may spur feelings of inequity and resentment.

DEVELOPING HR STRATEGIES SUITED TO UNIQUE ORGANIZATIONAL FEATURES

No two firms are exactly alike. Firms differ in history, culture, leadership style, technology, and so on. The chances are high that any ambitious HR strategy or program that is not molded to organizational characteristics will fail.
And therein lies one of the central challenges in formulating HR strategies: creating a vision of the organization of the future that does not provoke a destructive clash with the organization of the present.

**COPING WITH THE ENVIRONMENT**

Just as no two firms are exactly alike; no two firms operate in an identical environment. Some must deal with rapid change, as in the computer industry; others operate in a relatively stable market, as in the market for food processors. Some face a virtually guaranteed demand for their products or services (for example, medical providers); others must deal with turbulent demand (for example, fashion designers). Even within a very narrowly defined industry, some firms may be competing in a market where customer service is the key (IBM’s traditional competitive advantage), whereas others are competing in a market driven by cost considerations (the competitive advantage offered by the many firms producing IBM clones). A major challenge in developing HR strategies is crafting strategies that will work in the firm’s unique environment to give it a sustainable competitive advantage.

**SECURING MANAGEMENT COMMITMENT**

HR strategies that originate in the HR department will have little chance of succeeding unless managers at all levels—including top executives—support them completely. To ensure managers’ commitment, HR professionals must work closely with them when formulating policies.

**TRANSLATING THE STRATEGIC PLAN INTO ACTION**

The acid test of any strategic plan is whether it makes a difference in practice. If the plan does not affect practice, employees and managers will regard it as all talk and no action.

Cynicism is practically guaranteed when a firm experiences frequent turnover at the top, with each new wave of high-level managers introducing their own freshly minted strategic plan.

Perhaps the greatest challenge in strategic HR planning lies not in the formulation of strategy, but rather in the development of an appropriate set of programs that will make the strategy work.

**COMBINING INTENDED AND EMERGENT STRATEGIES**

Debate continues over whether strategies are intended or emergent—that is, whether they are proactive, rational, deliberate plans designed to attain predetermined objectives (intended) or general “fuzzy” patterns collectively molded by the interplay of power, politics, improvisation, negotiation, and personalities within the organization (emergent).

Most people agree that organizations have intended and emergent strategies, that both are necessary, and that the challenge is to combine the best aspects of the two.
Intended strategies can provide a sense of purpose and a guide for the allocation of resources.

They are also useful for recognizing environmental opportunities and threats and for mobilizing top management to respond appropriately. On the downside, intended strategies may lead to a top-down strategic approach that squashes creativity and widespread involvement.

**Emergent strategies also have their advantages and disadvantages. Among their benefits:**

- They involve everyone in the organization, which fosters grassroots support;
- They develop gradually out of the organization’s experiences and, thus, can be less upsetting than intended strategies; and
- They are more pragmatic than intended strategies because they evolve to deal with specific problems or issues facing the firm. On the negative side, emergent strategies may lack strong leadership and fail to infuse the organization with a creative vision.

Combining intended and emergent strategies effectively requires that managers blend the benefits of formal planning (to provide strong guidance and direction in setting priorities) with the untidy realities of dispersed employees who, through their unplanned activities, formulate emergent strategies throughout the firm.

**ACCOMMODATING CHANGE**

Strategic HR plans must be flexible enough to accommodate change.

A firm with an inflexible strategic plan may find itself unable to respond to changes quickly because it is so committed to a particular course of action. This may lead the organization to continue devoting resources to an activity of questionable value simply because so much has been invested in it already.

The challenge is to create a strategic vision and develop the plans to achieve it while staying flexible enough to adapt to change.
WORK FLOWS

Work flows are the ways tasks are organized to meet production or service goals. Organizations face several choices in what they emphasize as they structure work flows. They can emphasize:

- Efficiency (getting work done at minimum cost) or innovation (encouraging creativity, exploration, and new ways of doing things, even though this may increase production costs)
- Control (establishing predetermined procedures) or flexibility (allowing room for exceptions and personal judgment)
- Explicit job descriptions (in which each job’s duties and requirements are carefully spelled out) or broad job classes (in which employees perform multiple tasks and are expected to fill different jobs as needed)
- Detailed work planning (in which processes, objectives, and schedules are laid out well in advance) or loose work planning (in which activities and schedules may be modified on relatively short notice, depending on changing needs)

STAFFING

Staffing encompasses the HR activities designed to secure the right employees at the right place at the right time. Organizations face several strategic HR choices in recruiting, selecting, and socializing employees—all part of the staffing process. These include:

- Promoting from within (internal recruitment) versus hiring from the outside (external recruitment)
- Empowering immediate supervisors to make hiring decisions versus centralizing these decisions in the HR department
- Emphasizing a good fit between the applicant and the firm versus hiring the most knowledgeable individual regardless of interpersonal considerations
- Hiring new workers informally or choosing a more formal and systematic approach to hiring
EMPLOYEE SEPARATIONS

Employee separations occur when employees leave the firm, either voluntarily or involuntarily.

Some strategic HR choices available to the firm for handling employee separations are:

- Use of voluntary inducements (such as early retirement packages) to downsize a workforce versus use of layoffs
- Imposing a hiring freeze to avoid laying off current employees versus recruiting employees as needed, even if doing so means laying off current employees
- Providing continuing support to terminated employees (perhaps by offering them assistance in securing another job) versus leaving laid-off employees to fend for themselves
- Making a commitment to rehire terminated employees if conditions improve versus avoiding any type of preferential hiring treatment for ex-employees

PERFORMANCE APPRAISAL

Managers assess how well employees are carrying out their assigned duties by conducting performance appraisals. Some strategic HR choices concerning employee appraisals are:

- Developing an appraisal system that is customized to the needs of various employee groups (for example, by designing a different appraisal form for each job family) versus using a standardized appraisal system throughout the organization
- Using the appraisal data as a developmental tool to help employees improve their performance versus using appraisals as a control mechanism to weed out low producers
- Designing the appraisal system with multiple objectives in mind (such as training, promotion, and selection decisions) versus designing it for a narrow purpose (such as pay decisions only)
- Developing an appraisal system that encourages the active participation of multiple employee groups (for example, supervisor, peers, and subordinates) versus developing one that asks solely for the input of each employee’s supervisor
TRAINING AND CAREER DEVELOPMENT

Training and career development activities are designed to help an organization meet its skill requirements and to help its employees realize their maximum potential. Some of the strategic HR choices pertaining to these activities are:

- Choosing whether to provide training to individuals or to teams of employees who may come from diverse areas of the firm
- Deciding whether to teach required skills on the job or rely on external sources for training
- Choosing whether to emphasize job-specific training or generic training
- Deciding whether to hire at a high wage people from outside the firm who already have the required talents ("buy skills") or to invest resources in training the firm’s own lower-wage employees in the necessary skills ("make skills")

COMPENSATION

Compensation is the payment that employees receive in exchange for their labor.

Some of the strategic HR choices related to pay are:

- Providing employees with a fixed salary and benefits package that changes little from year to year (and, therefore, involves minimal risk) versus paying employees a variable amount subject to change
- Paying employees on the basis of the job they hold versus paying them for their individual contributions to the firm
- Rewarding employees for the time they have spent with the firm versus rewarding them for performance
- Centralizing pay decisions in a single location (such as the HR department) versus empowering the supervisor or work team to make pay decisions
Employee and labor relations refer to the interaction between workers (either as individuals or as represented by a union) and management.

Some of the strategic HR choices facing the firm in these areas are:

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<th>EMPLOYEE RIGHTS</th>
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<td>■ Relying on “top-down” communication channels from managers to subordinates versus encouraging “bottom-up” feedback from employees to managers</td>
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<td>■ Actively trying to avoid or suppress union-organizing activity versus accepting unions as representatives of employees’ interests</td>
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<td>■ Adopting an adversarial approach to dealing with employees versus responding to employees’ needs so that the incentive for unionization is removed (enlightened management)</td>
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Employee rights concern the relationship between the organization and individual employees. Some of the strategic choices that the firm needs to make in this area are:

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<td>■ Emphasizing discipline as the mechanism for controlling employee behavior versus proactively encouraging appropriate behavior in the first place</td>
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<td>■ Developing policies that emphasize protecting the employer’s interests versus policies that emphasize protecting the employees’ interests</td>
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<td>■ Relying on informal ethical standards versus developing explicit standards and procedures to enforce those standards</td>
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INTERNATIONAL MANAGEMENT

Firms that operate outside domestic boundaries face a set of strategic HR options regarding how to manage human resources on a global basis.

Some of the key strategic HR choices involved in international management are:

- Creating a common company culture to reduce intercountry cultural differences versus allowing foreign subsidiaries to adapt to the local culture
- Sending expatriates (domestic employees) abroad to manage foreign subsidiaries versus hiring local people to manage them
- Establishing a repatriation agreement with each employee going abroad (carefully stipulating what the expatriate can expect upon return in terms of career advancement, compensation, and the like) versus avoiding any type of commitment to expatriates
- Establishing company policies that must be followed in all subsidiaries versus decentralizing policy formulation so that each local office can develop its own policies

A QUESTION OF ETHICS

Experts in career development note that in today’s increasingly chaotic business and economic environment, individual employees need to prepare themselves for job and career changes. Does an employer have an ethical duty to help employees prepare for the change that is almost certain to come?
Choosing Consistent and Appropriate HR Tactics to Implement HR Strategies

In a recent CEO survey by HBR, Robert Kaplan, the Conference Board, and the Journal of Change Management identify strategy execution as one of their respondents’ top challenges. In fact, many agree that executing a strategy is more important than formulating that strategy initially.

Interesting findings include:

- 66% of HR organisations develop strategic plans that are not linked to the enterprise strategy
- 95% of employees in most organisations do not understand their organisation’s strategy

Even the best-laid strategic HR plans may fail when specific HR programs are poorly chosen or implemented.

In addition to fitting with each of the four factors just described (organizational strategy, environment, organizational characteristics, and organizational capabilities), a firm’s HR strategies are more likely to be effective if they reinforce one another rather than work at cross-purposes.

For instance, many organizations are currently trying to improve their performance by structuring work in teams. However, these same organizations often continue to use a traditional performance appraisal system in which each employee is evaluated individually.

The appraisal system needs to be overhauled to make it consistent with the emphasis on team performance.
HR Best (Tactics) Practices

- Offer high employment security as this indicates that the firm is committed to the employee’s welfare
- Develop a good selection program that can screen the best applicants
- Offer wages that are highly competitive as this helps reduce employee turnover and helps in the attraction of high quality employees
- Recognize employees by providing monetary and non-monetary rewards
- Make employees part-owners of the firm by providing them with stock in the firm
- Communicate effectively with employees so that they are kept informed of major issues confronting the organization and any major initiatives
- Encourage employee involvement so that there is strong “buy-in” of human resource practices and important managerial initiatives
- Encourage team work so that employees are more willing to collaborate with each other
- Invest in training programs to improve employee skills
- Provide opportunities for learning at work so that employees are “stretched” in the use of their skills
- Give a higher priority to internal candidates for promotion as this enhances employee motivation by providing future career opportunities
The HR Department and Managers: An Important Partnership

All managers—regardless of their functional area, their position in the hierarchy, and the size of the firm for which they work—must deal effectively with HR issues because these issues are at the heart of being a good manager. The role of a company’s human resources department is to support, not to supplant, managers’ HR responsibilities. For instance, the HR department may develop a form to help managers measure the performance of subordinates, but it is the managers who conduct the actual evaluation. Stated another way, the HR department is primarily responsible for helping the firm meet its business objectives by designing HR programs, but managers must carry out these programs. This means that every manager is a human resource manager.

According to CIPD, there is a lack of measurable indicators for people management and leadership behaviours. Where individuals are promoted into managerial roles because they are good performers, rather than for their people management and leadership potential, adopt a hands-on style instead of coaching their team through tasks.

Scrutiny of managers increases at times of underperformance or crisis, and senior managers tend to adopt a command-and-control style in that situation rather than coach middle and front-line managers through it. The need for frequent reporting on performance against (quarterly) targets takes time away from developing staff.

Increasingly demanding performance targets do not always take into consideration the human and technological resource capacity, as well as the limited opportunities in the external environment. Resource constraints make it difficult for managers to remain flexible to staff needs, while some cost-cutting solutions only add more processes to manage (for example managing contractors).

Failure to allow time for forward planning reduces opportunities to seek bottom-up feedback. It also causes managers to operate primarily in the firefighting mode and apply directive management styles.

Faced with competing priorities, individuals are likely to focus on those aspects of their role that are directly linked to their individual performance in order to avoid sanctions.

• If specific individual targets do not ‘add up’ to the common goal, employees pursue activities that support their personal performance and career goals over other priorities that can improve the performance of the team as a whole.

• Respondents highlight that judgements on how appropriate their decision is can be subjective and prefer to ‘err on the side of caution’.

• A company’s overall vision is not always clearly translated into specific objectives for individuals, resulting in competing priorities in cross-functional teams.

• Organisations fail to benefit from workforce diversity by continuing to use unduly subjective methods of selecting and rewarding staff.

• By aiming to eliminate undesired behaviours, organisations can create frameworks that restrict the scope for discretion and unconventional judgement. For example, organisations introduce people management systems aimed at fairness of outcomes (for example, pay and reward), but the mechanisms to ensure that managers apply the procedure fairly and consistently are ineffective or absent.

• Managers are limited in the range of instruments they can use to motivate a diverse workforce. In the absence of robust behavioural indicators, achievement of operational targets is the main objective factor that differentiates individual performance.
Companies can take certain steps to foster an effective partnership between managers and the HR department.

Specifically, companies should:

- Analyze the people side of productivity rather than depend solely on technical solutions to problems. This requires that managers be trained in certain HR skills and that they value human resources as a key element in organizational performance.

- View HR professionals as internal consultants who can provide valuable advice and support that improve the management of operations.

- Instill a shared sense of common fate in the firm rather than a win/lose perspective among individual departments and units.

- Require some managerial experience as part of the training of HR professionals. This requirement should make HR staff more sensitive to and cognizant of the problems managers face.

- Actively involve top corporate and divisional managers in formulating, implementing, and reviewing all HR plans and strategies in close collaboration with the HR department.

- Require senior HR executives to participate on an equal basis with other key managers from the various functional areas (marketing, finance) in charting the enterprise’s strategic direction.
Companies should also periodically conduct an HR audit to evaluate how effectively they are using their human resources. The audit, deals with a broad set of questions, including:

- Is the turnover rate exceptionally low or high?
- Are the people quitting good employees who are frustrated in their present job, or are they marginal performers?
- Is the firm receiving a high return on the money it spends on recruitment, training, and pay-for-performance plans?
- Is the firm complying with government regulations?
- How well is the company managing employee diversity?
- Is the HR department providing the services that line managers need?
- Are HRM policies and procedures helping the firm accomplish its long-term goals?
HR programs that look good on paper may turn out to be disasters when implemented because they conflict too much with company realities. To avoid this kind of unpleasant surprise, it is important to ask the following questions before implementing a new HR program.

**Are the HR Programs Effective Tools for Implementing HR Strategies?**
- Are the proposed HR programs the most appropriate ones for implementing the firm’s HR strategies?
- Has an analysis been done of how each of the past, current, or planned HR programs contributes to or hinders the successful implementation of the firm’s HR strategies?
- Can the proposed HR programs be easily changed or modified to meet new strategic considerations without violating either a “psychological” or a legal contract with employees?

**How Will the HR Programs Be Communicated?**
- Are the proposed HR programs well understood by those who will implement them (for example, line supervisors and employees)?
- Does top management understand how the proposed programs are intended to affect the firm’s strategic objectives?

**Do the HR Programs Meet Resource Constraints?**
- Does the organization have the capacity to implement the proposed HR programs? In other words, are the HR programs realistic?
- Are the proposed programs going to be introduced at a rate that can be easily absorbed, or will the timing and extent of changes lead to widespread confusion and strong employee resistance?

**Who Will Put the HR Programs in Motion?**
- Is the HR department playing the role of an internal consultant to assist employees and managers responsible for carrying out the proposed HR programs?
- Is top management visibly and emphatically committed to the proposed programs?

The HR audit addresses these and other important issues systematically so that effective programs can be maintained and ineffective programs corrected or eliminated.
Summary and Conclusions

Planning and Implementing Strategic HR Policies

When done correctly, strategic HR planning provides many direct and indirect benefits for a company. These include the encouragement of proactive (rather than reactive) behavior, explicit communication of company goals, stimulation of critical thinking and ongoing examination of assumptions, identification of gaps between the company’s current situation and its future vision, the encouragement of line managers’ participation in the strategic planning process, the identification of HR constraints and opportunities, and the creation of common bonds within the organization.

In developing an effective HR strategy, an organization faces several challenges. These include putting in place a strategy that creates and maintains a competitive advantage for the company and reinforces the overall business strategy, avoiding excessive concentration on day-to-day problems, developing strategies suited to unique organizational features, coping with the environment in which the business operates, securing management commitment, translating the strategic plan into action, combining intended and emergent strategies, and accommodating change.

A firm’s strategic HR choices are the options available to it in designing its human resources systems. Firms must make strategic choices in many HR areas, including work flows, staffing, employee separations, performance appraisal, training and career development, compensation, employee rights, employee and labor relations, and international management.

Selecting HR Strategies to Increase Firm Performance

To be effective, HR strategies must fit with overall organizational strategies, the environment in which the firm is operating, unique organizational characteristics, and organizational capabilities. HR strategies should also be mutually consistent and reinforce one another.

The HR Department and Managers: An Important Partnership

Responsibility for the effective use of human resources lies primarily with managers. Hence, all managers are personnel managers. HR professionals’ role is to act as internal consultants or experts, assisting managers to do their jobs better.

Over the past three decades, the size of the typical HR department has increased considerably. This increase reflects both the growth and complexity of government regulations and a greater awareness that HR issues are important to the achievement of business objectives.