



NUST Institute of Management Sciences

THESIS REPORT

“STRATEGIC HUMAN RESOURCE MANAGEMENT & ITS IMPACT ON ORGANIZATIONAL EFFECTIVENESS”

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DEDICATION

*Dedicated to my father who never stopped believing
in my capabilities*

&

*Also to my mother who always raised the bar just a
little more at every achievement of mine!*

Acknowledgement

When I look back & think of the people who should be acknowledged, the list goes endless. Starting from my kindergarten teacher Madam Zarina, whose face I cannot recall but whose tiny pieces of advice still light my way sometimes, to my school, college & university teachers, I have been very fortunate whenever it came to academic ideals.

I must acknowledge Allah's countless blessings on me for letting me have such people in my life.

My parents, my teachers and friends...I have been truly blessed by all the fuel it needs to be able to do something like this.

I would like to take this chance to extend my special gratitude to my teacher & supervisor Mr. Naukhez Sarwar for his ever encouraging guidance & support.

Executive Summary

The relationship between HR and management is becoming more collaborative. HR executives are beginning to earn a seat at the management table. HR departments are becoming more consultative and involved in day-to-day line management activities. Nevertheless, there is still a long way to go if HR is to become a strategic partner at all levels. To do so, HR needs to build its own internal competencies to deal with organizational issues, educate itself on organizational missions and find ways to offer creative and innovative solutions to organization-wide issues.

Although many initiatives, such as downsizing, reorganizing, streamlining, and delegating HR authorities, were meant to improve HR's ability to focus on organizational issues, they have not taken hold as quickly or thoroughly as hoped. Therefore, HR is still doing most of the process work, and its ability to focus on alignment has been limited. However, as HR's role in organizational planning, activities, and decision-making advances -- and it is advancing -- so too will the alignment of human resources management with organization's mission accomplishment.

Strategic planning allows organizations to put down on paper where they are, where they want to go, and how they plan to get there. But the best planning in the world does nothing for an organization if it does not act on those plans. Strategic implementation of human resources management means performing activities that support organization mission accomplishment and measuring how well those activities contribute to achieving organization strategic goals. This study ends up on some points to ponder about an emerging implementation tool for SHRM named as High Performance Work System. This tool focuses on the Behavioural aspects of SHRM and proposes a people-focused implementation strategy.

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Introduction

CHAPTER 1: INTRODUCTION & RESEARCH DESIGN

Strategic HRM & Its Impact of Organizational Effectiveness

There is substantial advocacy for the concept of strategic role of HR management within research circles but the practitioners are still wary of its implementation and outcome. This study focuses on those research aspects of strategic HR management, that related directly to its practical implementation and the ‘how’ part of this phenomenon.

Strategic HR management is basically a term used for a special management arrangement in organizations for HR managers to have some say in overall organizational strategy making in order to bring up the HR perspective before the top brass for strategic decisions.

Research Design

This research is primarily a secondary research based on various articles published recently in international journals. Additionally, this secondary information was accentuated by the views of practitioners based and working in Pakistan. Some major research tools used in this regard are as follows:

1- Secondary Research:

This included a literature survey of management journals’ articles, papers and research reports. This also included some practitioners’ interviews published on internet and their arguments about the subject.

2- Primary Research:

This included some managers' interviews within Pakistan and their views on the implementation of strategic HR management.

Research Limitations

Like every other research, this one also had some glitches. The scope is not mainly focused on the implementation of strategic HR management in Pakistan. A significant portion of the base articles come with a western organizational context. Moreover, even the Pakistani practitioners look to the western academicians and practitioners for the implementation design. Not many Pakistani managers are aware of even the debate over whether to have a strategic role for HR management or not.

CHAPTER 2: STRATEGIC HRM & ITS IMPACT ASSESSMENT

Why is Impact Assessment Important?

In the competitive environment of today, companies are not willing to spare funds for any investment that lacks the promise of high returns. Human Resource Management (HRM) is one critical area that comes under the threat of this ‘promise of high return’. Superficially, everyone agrees that HRM is important and value-adding but when it comes to concrete figures in return, there comes a deep silence. Although there are approaches like Audit Approach and Analytical Approach to put numbers against vague estimates but HRM practitioners still continue to face regular tough times when it comes to proving the worth of their work. Other divisions like Production, Marketing and Finance might have readily available numbers to support their arguments but HR’s is the most sensitive yet most indefinable impact. In order for HRM to survive and prosper in any organization though, the practitioners need to come up with some explanation for their definite but immeasurable impact.

How to Assess this Impact?

The best way to judge HR’s performance is not numbers but the quality of its efforts and the impact on the workforce and its productivity. Only then can HR take credit for the numbers being produced at any division or department; be it Production or Marketing or Finance. Researchers and practitioners have all realized and agreed that this quality of HR deliverables is only possible through ‘alignment’ of HR practices with organizational policies and strategies. We call this phenomenon the ‘**Strategic Human Resource Management**’ which has very quickly convinced the executives around the globe of its importance for the effectiveness of HR practices and thus the effectiveness of the overall organization.

What is Alignment?

Human resources alignment means integrating decisions about people with decisions about the results an organization is trying to obtain. By integrating HRM into the organization planning process, emphasizing human resources (HR) activities that support broad organization mission goals, and building a strong relationship between HR and management, organizations are able to ensure that the management of human resources contributes to mission accomplishment, has substantial impact in the right direction and that managers are held accountable for their HRM decisions. This is especially important in light of the growing awareness and the recent push to align all organization activities, including HRM, toward achieving defined organization strategic goals and measuring progress toward those goals.

In addition to being a vital contributor to organizational mission accomplishment, HRM alignment is the ultimate level of HRM accountability, as demonstrated in the *Hierarchy of Accountability* (figure). While HRM accountability must begin with basic legal compliance, it ultimately encompasses all four levels of the pyramid, including demonstrating how HRM supports achievement of the organization's strategic goals.



The Scope of Alignment

Although some organization's HR departments have begun focusing on organizational activities that assist organizational decision-making, most are still emphasizing internal HR department efficiency efforts. While internal issues are important to the success of any HR program, HR departments also need to examine the "big picture" and find ways to impact the success of the organization as a whole.

Most organizations are in some way measuring the efficiency and/or effectiveness of the HR function. These measures, however, are generally output-oriented, focus on internal HR processes and activities, and are used to make improvements to HR-specific policies and procedures. As HR refocuses its activities to broader organizational issues, HRM measures also need to be expanded to gauge the impact HRM has on organization's goals and mission. Then, the measurement data can be used to inform organization-level decisions.

The Integrative Linkage-Top Management & HR Management

The relationship between HR and management is becoming more collaborative. HR executives are beginning to earn a seat at the management table. HR departments are becoming more consultative and involved in day-to-day line management activities. Nevertheless, there is still a long way to go if HR is to become a strategic partner at all levels. To do so, HR needs to build its own internal competencies to deal with organizational issues, educate itself on organizational missions and find ways to offer creative and innovative solutions to organization-wide issues.

Although many initiatives, such as downsizing, reorganizing, streamlining, and delegating HR authorities, were meant to improve HR's ability to focus on organizational issues, they have not taken hold as quickly or thoroughly as hoped. Therefore, HR is still doing most of the process work, and its ability to focus on alignment has been limited. However, as HR's role in organizational planning, activities, and decision-making advances -- and it is advancing -- so too will the alignment of human resources management with organization's mission accomplishment.

Why Align?

Why the sudden emphasis on aligning HRM activities with organization mission accomplishment? Basically, it comes down to demonstrating the value of human resources management to the organization. In the past, one of HR's primary roles has been to ensure compliance with laws, rules, and regulations. Although this is still, and will always be, a necessary function, many recent developments have led to a strong emphasis on results.

Ideal HR Management should now look to make its organization work better, cost less, and get results. It must change the focus of HR from just compliance toward results, including downsizing the HR function, delegating HR authorities to line managers, calling for HR to demonstrate its business value, and enhancing customer service. Through these initiatives, management of human resources would become more responsive to mission-related needs because it would take place at the line level, and the HR staff would be able to expend more of its energy on broader organizational issues.

The purpose of any executive team/committee in an organization is to ensure effectiveness, accountability, service delivery, decision-making, and internal management, thereby improving confidence in the stakeholders' investment. This is achieved by demonstrating organizational results through strategic planning and performance measures. Although the primary focus of the top management or executive committee is on programmatic functions, organizations are also required to describe how administrative resources, such as HR, are being used to achieve strategic goals. Therefore, the human resources function is increasingly being aligned to the organization strategic plan, which requires HR to show how it is supporting mission accomplishment.

The progressive organizations all over the globe have recognized that it is not just financial and technological capital that provide companies with the competitive edge, but people, or human capital. Without attracting and retaining the right people, in the right jobs, with the right skills and training, an organization cannot succeed. Therefore, people have been recognized as companies' most important asset. A huge

percentage of organizations' budgets is spent on human resources -- salaries, benefits, training, work life programs, etc. Nowhere else do you make that substantial an investment and not measure the return.

Not only do human resources provide the competitive edge, but several recent studies have confirmed that the quality and innovation of HR practices impact business results. These studies were able to draw a correlation between increased **quality of HR practices** and increased **business success**. This business success is obviously an indication of **organizational effectiveness**. Among other benefits, HR alignment with mission accomplishment increases HR's ability to anticipate its customers' needs, increases the organization's ability to implement strategic business goals, and provides decision-makers with critical resource allocation information.

Finally, HR alignment is a vital process to advance organization accountability. By defining, maintaining, and assessing HRM goals and measures, communicating them throughout the organization, and using the information to make management decisions, organizations are able to ensure that the management of human resources contributes to mission accomplishment and that managers are held accountable for their HRM decisions in support of mission accomplishment.

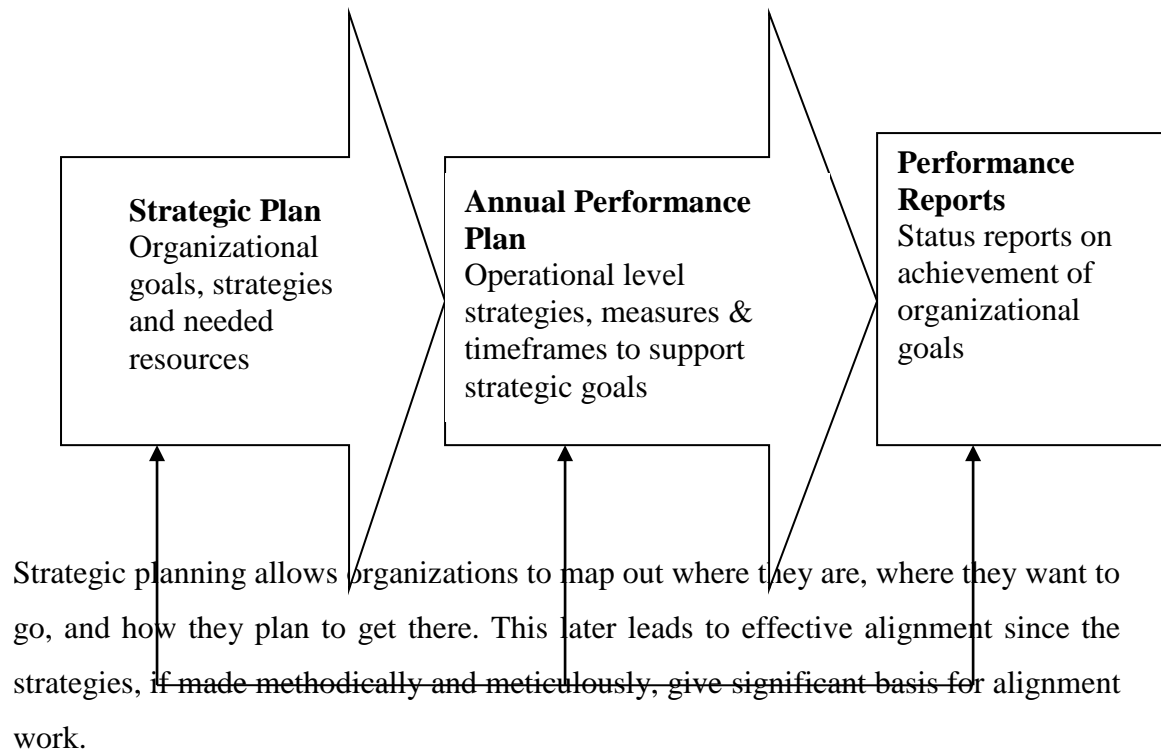
Strategic Planning

You got to be careful if you don't know where you're going, because you might not get there. - Yogi Berra

Before we indulge into a study of alignment process, we must first look at its origin i.e. Strategic Planning of the organization.

Organization-wide Planning

To some organizations, strategic planning is a way of life. To others, it is an exercise. To almost all, it is a requirement. With various industry and organization specific variations, the basic three step strategic planning process remains as follows:



The strategic planning process varies from organization to organization though. On one end of the spectrum are the organizations which have very collaborative processes involving senior management, line supervisors and employees, and stakeholders throughout the entire process. On the other end are the organizations which develop plans at the top management level with little input from the line or stakeholders or that plan functionally, having each program department submit its own goals and strategies with little to no collaboration among departments.

HRM Integration in Organization Strategic Plans

So far, so good but the management of organization human resources is an integral part of how an organization is going to achieve its mission goals. Without people, there is no one to do the work. Therefore, integrating HRM into the organization's strategic plan is the first step in aligning it with the mission.

Considering that an organization's mission cannot be achieved without its people, the alignment factor is an important one. Human resources management, however, is not yet recognized as a critical contributor to organization mission accomplishment. It is

clear that though there are some exceptions, full HRM integration into organization strategic plans has not yet been widely realized.

The human resources issues addressed in organization plans provide insight into what aspects of human resources management are most important to organization management. In reviewing the plans, it becomes clear that diversity, recruitment, retention, employee development, and workforce quality are the major areas of interest. Although these could be looked at as process or output programs, when they are designed and implemented well, they lead to the ultimate result: the right people, with the right skills, in the right positions to carry out the organization mission.

Organization HRM Strategic Measures

Defining practical, meaningful measures that assess the effectiveness of organization human resources management and its support of mission accomplishment is a topic that organizations have been struggling with. It is easy to measure a process -- how long does it take to complete an action? It is easy to measure productivity -- how many actions were completed in any given time frame?

But how do you measure the outcome of human resources management? How does an organization know if it has the right people, with the right skills, in the right positions to carry out the organization mission? Have any organizations found a way to do this? To help answer these questions, we can look to see if organizations are including HRM measures in their strategic plans, and what types of measures they have identified. Later, we can measure the improvement keeping baseline indicators such as retention rate, absentee rates, productivity and operational goals achievement etc.

HR Involvement in Organization Strategic Planning

Now that we have seen what types of goals, objectives, strategies, measures, and other forms of HRM integration are present in organization strategic plans, we should look

briefly at how these were developed. The legitimacy and ultimate value of these pieces of the plan will depend substantially on where they came from.

Historically, members of the HR community have remarked on the difficulty they have had “getting to the table” with top organization management. Rather than being involved in organization planning from the beginning, HR is commonly consulted after decisions have been made in order to help implement any major changes. Considering the invaluable perspective HR has on how decisions will impact organization resources, HR professionals have been frustrated that they are not involved sooner in the planning process.

They do play a role in the overall organization strategic planning process. This role, however, varies from a peripheral consultant who reviews and comments on preliminary products to an integrated team member who actively helps to identify not only HRM organization strategic goals and objectives, but programmatic goals as well. Two or three of the responding organizations fall in the former category, a handful in the latter, and the rest somewhere in between. Later, we will discuss how some HR officials are able to elevate themselves to organization strategic partner, while most are still struggling to achieve this.

When it comes to defining actual HRM goals, strategies, and measures, the roles also vary. In general, organization-wide HRM related goals, strategies, and measures are identified by the organization leader or other senior managers with HR collaboration. They decide what is most important to the organization based on the challenges the organization will face in years to come. Some use a more elaborate collaborative approach that involves organization management, HR officials, and other stakeholders. Then there are the organizations that use the functional strategic planning approach where the HR department is tasked with coming up with the goals, strategies, and measures itself. In these cases, HR generally uses some type of feedback from customers i.e. line managers and employees to identify what is important to the organization and should be included in the plan.

Implementation of Strategic Planning

Well done is better than well said - Benjamin Franklin

Strategic planning allows organizations to put down on paper where they are, where they want to go, and how they plan to get there. But the best planning in the world does nothing for an organization if it does not act on those plans. Strategic implementation of human resources management means performing activities that support organization mission accomplishment and measuring how well those activities contribute to achieving organization strategic goals.

Strategic HRM Activities

When we talk about HRM activities, we tend to focus on what the HR department, itself, is doing even though we recognize that supervisors would bear the responsibility of HR decisions in an ideal world. After all, many business executives advocate deregulation and delegation and the downsizing and outsourcing of HR department activities so that human resources management could take place at the line level, making it more responsive to mission-related needs. Consequently, the HR staff would be able to devote more time to broader organizational issues (transformational HRM), thereby improving its contribution to mission accomplishment.

Unfortunately, deregulation and delegation have not taken hold as quickly or thoroughly as was hoped. HR is still doing most of the HR-related work and is the nerve center for HRM activities and not the strategic alignment ones. That is why the focus of this section is on the HR department and what it does to support mission accomplishment.

So what should be HR's contributions toward mission accomplishment? Although most line managers cannot describe precisely which HR activities support specific organization strategic goals, they recognize that they could not accomplish their mission without HR's help. Ironically, the areas most often mentioned by managers as HR's most valued contributions are also the areas they feel need the most improvement: recruitment and staffing, employee development, and employee relations. They would like to see HR become more involved and innovative in these

areas, but they also admit that it would be extremely difficult for them to get their jobs done without the help HR already provides.

Areas to be Focused for Strategic Alignment

Clearly, staffing, development, and employee relations are important HR activities that make a difference to organization goal accomplishment. However, there are other areas in which HR departments contribute to and align with mission accomplishment, such as the few described below.

Reorganizations: Because of all of the downsizing, streamlining, and budget cuts that have been occurring in recent years, many organizations and sub-components have had to redefine their missions and restructure the program areas that support those missions. Human resources staff can and should play key roles in these redesign efforts. This would not only make these more effective but also reduce chances of their failure.

Workforce Planning: In this time of budget cuts and high competitiveness, workforce planning becomes extremely important to increasing organizations' overall ability to achieve their missions. It is not just hiring and staffing that needs alignment, it is the whole process behind internal or external hiring decisions that needs to be aligned and then closely monitored for proper implementation.

Linking Performance Management to Mission Accomplishment: When managers and employees are interviewed, they almost always cite the performance management system as a way they are held accountable for meeting organization goals. So, does this mean performance management systems are aligned with organization strategic goals? In most organizations, the answer is "not yet" -- at least not fully. Recently published research has identified over a dozen organizations and organization subcomponents that have started to formulate systematic approaches to aligning performance management to strategic goals. Most are starting by linking top management performance plans and contracts to organization goals and rating and rewarding executives based on achievement of those goals. Many of these organizations are planning to cascade the alignment down to the employee level.

However, in most cases, aligning performance management systems with organizational missions and goals is still a “work in progress.”

HR Self-Assessment: A handful of organization and sub-component HR departments are actually assessing how well their programs align with organization mission accomplishment as part of recently established HR self-assessment programs. These assessment programs focus on the compliance of HR activities with law as well as how effectively HR programs are achieving their objectives in support of mission accomplishment. Because these assessment programs are fairly new or are in the process of being revamped, it is too soon to tell the success they will have in measuring HR’s impact on organizational mission accomplishment.

HRM Measurement: In the end, HR can only determine its value to the organization by measuring it. Some progressive organizations have defined HR output measures in organization strategic plans, annual performance plans, and/or HR strategic plans. This is an encouraging trend, but we need to look further at whether these measures are actually being tracked and used for decision-making. The best measures in the world are meaningless if not used.

HRM measures in the strategic and annual performance plans are usually tracked by the HR department and forwarded to the planning department for distribution and sharing of the information. However, according to most researchers, most organizations look at available data without really evaluating how the information can be used to enhance goal attainment.

HR staffs find that measures from HR strategic plans tend to be more useful than those in the organization strategic or annual plans, at least at the functional level. As discussed earlier, HR strategic plan measures tend to focus on internal HR programs, policies, and processes, and can therefore point to deficiencies in these areas. HR officials can then use this information to make improvements to the problem areas. From an organizational perspective, however, the measures are generally not very helpful in determining achievement of HR goals because they are process oriented rather than outcome oriented.

Post-Alignment HRM Performance Measurement

It is needless to say that like every other department, HR has to prove its worth, in fact, more than any others since it has a ‘cost center’ image attached to its name. Some interesting HRM Performance Measurement approaches areas follows:

Benchmarking is a systematic process of measuring an organization’s products, services, and practices against those of a like organization that is a recognized leader in the studied area. Many HR departments around the world are using this practice to identify ways to improve service and align with business results. The practice can also help gauge HR alignment through decision support categories such as resource planning, organizational planning and strategic HR planning.

The Balanced Scorecard is a framework many organizations are using to translate strategy into operational terms by measuring a full range of perspectives: financial, customer, internal, and learning and growth. Many researchers advocate the use of this type of balanced set of results to evaluate organization performance. The scorecard is generally used at the business unit level. To date, most organizations are in the beginning stages of implementing balanced measurement approaches.

Activity Based Costing (ABC) is a method of cost management that determines the true cost, including overhead, for a service or product. Finding the true cost allows organizations to discover cost improvement opportunities, prepare and actualize strategic and operational plans, and improve strategic decision-making. This cost management methodology involves identifying activities, determining activity costs, determining cost drivers, collecting activity data, and calculating the service cost. ABC is being explored by a number of organizations to determine HR costs and then ways to reduce these while trying keep the quality of the HR deliverables constant.

Strategic Relationships

The lynchpin that holds all of this planning and implementation together is the relationship between HR executives and staffs and organization management. In the

past, there was often much contention between the two groups because of HR's role as "gatekeeper," enforcing the laws, rules, and regulations. Now, with the role of the human resources staff shifting toward achieving organizational results, HR and management need to work together to further HRM's ability to have an impact on organization decisions and achievement of goals. This might be a good stage to take a look at how well these relationships have been fostered thus far.

Corporate HR and Top Organization Management

The relationship between corporate HR and top organization management varies greatly by organization. Organizations where HR has strong working relationships with management are the ones in which HR is a full member of the organization decision-making body.

Most other organization HR executives have not been so fortunate. They are generally brought into the organization decision-making process during the implementation phase rather than being consulted in the beginning on how decisions may impact organization human resources or vice versa.

For some organizations, it has been a hard road "getting to the table." For others, it has been more of a natural transition. In exploring how to elevate HR's role to management partner, organizations where this has been achieved attribute their success to a combination of the following factors:

Reporting relationships - In organizations where there is a direct reporting relationship between the head of HR and the head of the organization, HR generally has a more visible role in organization decision-making.

Management advocates - In organizations where there is a strong HR advocate in senior management, HR enjoys more involvement in the organization decision-making.

Credibility - HR representatives who are formerly line managers or have worked in other capacities within the same organization tend to earn more credibility from the

other managers. Such individuals know first hand, what the actual concerns are and how HR decisions will impact these and can speak the same operational or factory floor language.

Culture - In some organizations, the recognition that its people are its most important asset has traditionally been part of the culture. Therefore, it is natural for the HR leader to have a voice in organization decisions.

Value - In all cases, HR has to bring value to the discussion in order to be considered a member of the management team. If HR representatives have little or nothing to offer, they will not be able to keep their seat at the table for long.

Because HR executives have little control over organization reporting relationships, management advocacy, executive appointments, and organization culture, they need to focus their efforts on providing value to organization business discussions. This is the only thing that they have full control over. But what kind of value can HR bring to the organization decision-making table? Once the process has begins, it would be the output and experience of the past strategic HR moves. This is more or less like an egg and chicken tale, where organizations have to take the first strategic step of giving HR its due place in strategic decisions in order to see the fruit of it. For the first round however, HR can present summarized human facts and the forecasted picture of next few years as it perceives it keeping the top management's immediate concerns in mind. This, if done well, would add great value to the ordinarily HR-ignorant strategic decisions.

Other corporate functions have no problem demonstrating their value. The Chief Financial Departmentr has the money. The Chief Information Departmentr has the technology. Without money and technology, an organization is severely hindered. But HR has the people, and without the people, the organization has no one to do the work. So why has HR not been able to capitalize on this strength? There are two main reasons:

First, HR has not historically had the statistics or data that can excite management and show how HRM influences organization success. Second, HR has focused on internal

operations (traditional & transactional HR processes) rather than activities that impact the entire organization. To address these shortcomings, HR needs to ask itself what are the HRM concerns that will gain management's attention, and does HR have the data that can help address or at least inform to address those concerns?

The HR Department and Line Management

Now that we have explored the relationship between HR executives and top organization managers, we need to look at how the HR department interacts with its line managers and if there has been any movement toward a more cooperative, consultative relationship. HR's role is changing, but is HR changing with it? There is a recent push for HR delegating, downsizing, and outsourcing so that it could start concentrating on broader organizational issues rather than transactional processes. As we have seen, this is beginning to occur at the corporate level, but what about the line level?

The problem is that while delegation to managers has not taken hold very quickly, HR departments have already been downsized. Therefore, HR is still expected to do the transactional work it did before, while also focusing on broader organizational issues, and doing all of this with an average of 20 percent less staff. It is not hard to understand why HR departments are struggling to redefine their role to strategic partner.

HR as Consultant: Most organization managers acknowledge that their HR department has become more consultative. Rather than telling a manager he/she can or cannot do something, HR professionals are more helpful in finding solutions to HR issues.

HR as Contributor to Mission Accomplishment: These same managers also recognize the importance of the HR department's contribution to strategic success and accomplishment. There is so much that HR does for managers in terms of recruitment and staffing, employee development, and employee relations that managers would have difficulty doing it on their own. However, HR does have its limitations, particularly the size of the staff in relation to the amount of work it has to do, its

knowledge of the mission, and skill gaps resulting from downsizing of the department generally across many major corporations.

HR as Strategic Partner: Few, if any, organization managers feel that their HR department is a true strategic partner. Few HR departments are included in business planning from the beginning, generally being brought in to implement a decision that has already been made. For HR to become more involved in line-level decision-making, managers would like the department to:

- have greater knowledge of the organizational mission, and
- get more involved and innovative in broad, organizational HR issues that impact most on the organization, such as recruitment and workforce and succession planning.

HR has made some headway, but clearly has some distance to go in being involved in line management decision-making. Now let's look at the other side of the coin -- how managers are involved in making decisions about HR programs.

Most line HR departments involve managers at least at an informal level, generally through satisfaction surveys or informal discussions. A few have HR/management councils that get together periodically to discuss human resources issues. This is as close as organizations get to real integration of managers into the HR program decision-making process. Generally, managers do not feel that they have a large impact on the direction of HR programs and therefore feel little ownership for them.

Accountability

With the developing relationship between HR and management, both at the top and line levels, accountability should become a shared responsibility. Managers are making more and more HRM decisions while the HR staff is becoming more involved in broader organizational issues. This means that both the HR staff and managers are ultimately accountable for effective, legally compliant HRM.

Is this shared accountability being accepted at both ends? Organizations usually agree that HRM accountability is shared between the HR staff and managers. It is a widely accepted saying that 'every manager has to be an HR manager'. Managers are

accountable for the business results achieved through good human resources management, the HR staff is accountable for HR compliance, and both are accountable for the overall effectiveness of the organization HRM program. However, the other half still feels that the ultimate accountability falls on the HR staff. They are the ones responsible if actions are found non-compliant and little attention is given to whether managers' HRM decisions are an effective use of resources.

On the Way to Strategic Effectiveness

Even if you're on the right track, you'll get run over if you just sit there.

-Will Rogers

Strategic alignment of human resources management has come farther than we expected to find when we embarked on this study. There is definitely a trend toward integrating HR into the business planning process, measuring aspects of human resources management and its contribution to the organizational bottom line, and establishing a collaborative working environment between HR and management. Nevertheless, there are several indications that human resources management is not yet recognized as a critical contributor to organization mission accomplishment. HRM alignment is still evolving, and there are several steps organizations can take to help it along.

Integrating human resources management into the business planning process

Although many more organizations than expected include HR representatives in the organization planning process and integrate human resources goals, objectives, and strategies into organization strategic plans, most are still struggling in this area. Organization executives need to recognize the value that HR can impart to discussions about organization activities, priorities, and goals. In turn, HR leaders need to understand organization mission needs and be able to contribute substantive, creative solutions to meet these needs. Once these realizations occur, HR will no longer be segregated out as a support function but will become an integral, contributing factor to organization planning and success.

Focus on organizational activities that assist in organization decision-making

Because of recent downsize, streamline, and improved customer service, HR's recent improvement efforts have focused on the efficiency and effectiveness of traditional HR programs and processes. These are important endeavors. However, in response to the call to measure performance and demonstrate value, it is time to start concentrating efforts outside of the traditional realm of HR and on to broader organizational issues. When HR demonstrates that it can have an impact on organization direction, then it will gain credibility with organization executives and earn a seat at the table. To generate that type of impact, HR needs to develop strategies based on actual business needs, which will require involving management in the planning process. In addition, it must address organization-wide concerns about the workforce capabilities of the future, such as workforce planning, succession planning, training needs assessments, skill gap analyses, etc.

Measure HRM outcomes

HR's role is evolving. Therefore, HRM measures need to evolve as well. As HR becomes more involved in broader organizational activities, HRM measures should evaluate the impact these activities have on the organization as a whole. At this point, measures typically focus on outputs and processes and are generally internalized to the HR function or department. The data are used mostly to make improvements to HR-specific policies and procedures. While this kind of measurement is important, measures should also focus on organizational outcomes. Information from these measures should then be used to inform organization-wide decisions and find solutions to organization-wide concerns.

Advance the collaborative working environment between HR and management

To facilitate all of the changes recommended above, HR has to have a strong, collaborative working relationship with top organization and line management. Since there is no tradition in most organizations of HR as strategic partner, much depends on personal relationships established by HR officials with top managers and key line managers. Meanwhile, HR and organization management need each other more than ever. Authorities are being delegated to line managers, HR staffs are being

downsized, and top organization management is being asked to show how its resources are being used to support mission accomplishment. HR must be able to make the case that everyone in the organization, from the organization leader down to the HR function, must share accountability for ensuring that the use of human resources not only complies with Federal laws, rules, and regulations, but adds to the success of the organization.

This shared accountability is beginning to occur. HR management is beginning to earn a seat at the table. HR line departments are becoming more consultative and involved in day to day management activities. Nevertheless, there is still a long way to go in becoming strategic partners, particularly in countries like Pakistan. First, HR needs to build its own internal competencies to deal with organizational issues, change, and strategizing. Further, it needs to educate itself on organization and program missions in order to understand what is important for these and be able to offer creative and innovative alternatives and solutions to organization-wide issues. Finally, it must continually assert the absolute criticality of effective HRM to organizational success.

All of this looks so easy on paper. Do this, do that, and you will be aligned with the mission and able to demonstrate your contribution toward it. Obviously, it is not that easy. Both private and public sector have been struggling with this issue -- and that works to our advantage. There is a wealth of information out there that can help -- hundreds of articles, books, and studies have been written, numerous tools have been created, and many organizations have already tested a number of approaches. We can learn from all of these successes and failures, since ours is a market where there is an untapped need for this alignment. In Pakistan, there is hardly any organization that has even begun thinking about HRM strategically. This gives a huge and untouched battle field open to the ones that can dare to compete in terms internal efficiency instead of fancy advertisements and flashy brand names.

But the only way to begin is to begin. For any organization of any sector, to start on this path, the general rules of the game remain the same. Good relationships and networking with the senior management will assist HR department find its true place

among decision makers. From that point onwards, the determinant of success would be the value addition to organizational strategies.

It's kind of fun to do the impossible. -Walt Disney

EVOLUTION OF STRATEGIC HRM

CHAPTER 3: EVOLUTION OF STRATEGIC HUMAN RESOURCE MANAGEMENT

The need for strategic HRM has never been greater. Many strategic blunders could have been avoided had competent HRM professionals played a part in the strategy

formulation and decision process. This is not all though, the need for strategic HRM goes deeper than this. There is a direct link between employee motivation and behaviour, the creation of value for customers and increasing shareholder value. There is a clear strategic need which should be led by HRM. Once strategies have been set up, there is another role that only HRM can fulfill, which is to create HR strategies, policies and procedures which work towards the implementation of the corporate strategies and fulfillment of the corporate vision.

Strategic HRM is a hot issue, which has generated some wisdom, much agreement on the need and a great deal of flimflam on the implementation. Many of the books on SHRM, and there have not been many, have argued convincingly about the *why* but floundered badly over the *how*.

MYTHS OF STRATEGIC HRM

There are eight myths which hamper progress to effective strategic HRM:

Myth 1: if the top HR manager is on the board, this is enough to ensure that HRM is strategic.

Myth 2: if HRM is allowed to be proactive when new corporate strategies are considered, this automatically means that all HRM activities will become strategic.

Myth 3: Doing things right automatically means that we are doing the right things: therefore, it is enough to apply good professional practice.

Myth 4: Because new HR policies and procedures take a lot of time and effort to implement, they will have a long shelf life.

Myth 5: Evaluation and performance measurement is too difficult and expensive for HR activities, and HRM does not need to be subject to such disciplines.

Myth 6: In any case it is not possible to evaluate the results of many HRM activities which should be treated as acts of faith.

Myth 7: Every action we take in HRM is with the concern for the interest of the organization, which means we are strategic.

Myth 8: Line management knows that HRM is a valuable value-adding strategic partner which plays an irreplaceable role in the management of the organization.

The successful organizations will be those that are able to quickly turn strategy into action: to manage processes intelligently and efficiently: to maximize employee contribution and commitment; and to create the conditions for seamless change.

MODELS OF HRM

The matching model of HRM

One of the first explicit statements of the HRM concept was made by the Michigan School (Fombrun et al, 1984). They held that HR systems and the organization structure should be managed in a way that is congruent with organizational strategy (hence the name ‘matching model’). They further explained that there is a human resource cycle, which consists of four generic processes or functions that are performed in all organizations. These are:

- Selection — matching available human resources to jobs;
- Appraisal (performance management);
- Rewards — ‘the reward system is one of the most under-utilized and mishandled managerial tools for driving organizational performance’; it must reward short- as well as long-term achievements
- Development — developing high-quality employees.

The Harvard framework

The other founding fathers of HRM were the Harvard school of Beer et al (1984) who developed what Boxall calls the ‘Harvard framework’. This framework is based on the belief that the problems of historical personnel management can only be solved:

When general managers develop a viewpoint of how they wish to see employees involved in and developed by the enterprise, and of what HRM policies and practices may achieve those goals. Without either a central philosophy or a strategic vision – which can be provided only by general managers – HRM is likely to remain a set of independent activities, each guided by its own practice tradition.

Beer and his colleagues believed that ‘today, many pressures are demanding a broader, more comprehensive and more strategic perspective with regard to the organization’s human resources’. These pressures have created a need for: ‘A longer-term perspective in managing people and consideration of people as potential assets rather than merely a variable cost’. They were the first to underline the HRM tenet that it belongs to line managers. They also stated that: ‘human resource management involves all management decisions and action that affect the nature of the relationship between the organization and its employees — its human resources’.

The Harvard school suggested that HRM had two characteristic features: 1) line managers accept more responsibility for ensuring the alignment of competitive strategy and personnel policies; 2) personnel has the mission of setting policies that govern how personnel activities are developed and implemented in ways that make them more mutually reinforcing.

According to Boxall the advantages of this model are that it:

1. Incorporates recognition of a range of stakeholder interests;
2. Recognizes the importance of ‘trade-offs’, either explicitly or implicitly, between the interests of owners and those of employees as well as between various interest groups;
3. Widens the context of HRM to include ‘employee influence’, the organization of work and the associated question of supervisory style;
4. Acknowledges a broad range of contextual influences on management’s choice of strategy, suggesting a meshing of both product market and sociocultural logics;
5. Emphasizes strategic choice — it is not driven by situational or environmental determinism.

EVOLUTION OF THE PERSONNEL FUNCTION

For years, Personnel function has struggled to reinvent itself, get closer to the customer and add value to the business. We are now supposed to be in the era of HR as a strategic business partner. The trouble is the expectations of internal customers and of personnel specialists themselves about what HR can and should contribute may not have kept pace with the rhetoric. In many cases, HR professionals are still perceived as primarily concerned with ‘tea and sympathy’ issues, or expected to be ‘fixers’ of line management problems.

According to a research carried out in the mid-1990s, HR practitioners and line managers perceive the need to move on from ‘traditional’ roles, but the emerging roles are still being developed. The distinctions appear to be broadly as follows:

Traditional	Emerging
Reactive	Proactive
Employee advocate	Business partner
Task focus	Task and enablement focus
Operational issues	Strategic issues
Qualitative measures	Quantitative measures
Stability	Constant change
How? (tactical)	Why? (strategic)
Functional integrity	Multifunctional
People as expenses	People as assets

The Welfare Model (After Tyson and Fell, 1986)

To some extent this can be understood in terms of the evolution of the Personnel function throughout the twentieth century. In the early days of large organizations and organized labour, the function of pay clerk was often carried out by the same person who meted out ‘tea and sympathy’ as the notion of employee welfare caught on. Usually held by a woman, such post was regarded as useful tool for management but postholder was not expected to contribute to the strategy development.

Clerks of works

As the Personnel role evolved it gradually became a more active tool of management. Managing people was certainly line management's responsibility but staff roles such as Personnel could provide useful specialist support on a range of issues such as pay and conditions, employee welfare, recruitment and selection etc. there were largely maintenance roles through which the status quo was enshrined in personnel policies and procedures. The role of Personnel was often thought of as the company policemen or clerks of works.

The industrial relations expert

By the mid 1970s and the period of industrial unrest in the UK, the function of personnel was beginning to attract specialists in employee relations, many of them men, who took on responsibility for leading negotiations with unions and staff groups. As fixers of company problems such as major restructurings and redundancy programs, personnel professionals earned the right to be taken seriously as members of management.

Personnel as a Profession

The more personnel became the specialist repository of information about employees, including the senior management, the more it needed to be consulted about any and every issue related to employees. Over time, the job of managing people started slipping away from line management, who would frequently refer to the Personnel for everything. Personnel began to be seen as a power in the land, even if the Personnel director was not on the board.

In Roffey Park research carried out in 200 organizations between 1994-1996, the number of junior personnel professionals fell by 35 percent. This was because the function was not perceived to be adding much value. HR professionals considered the function to be under threat. Typically, the lack of value addition was seen more in change management/ implementation with HR forced into a reactive role. Personnel

professional grappled with the difficulties of balancing pragmatic solutions with professionalism.

Interestingly, the recent Roffey Park/ Personnel Today survey (1999) of nearly 200 HR professionals found that the HR picture after all is not all that bleak and there is still hope. These respondents of the survey believe and see the influence of HR as strong and the function to be growing in size. Even so, the function does not appear to be focused on strategic matters which are in fact, the need of the time.

Day by day companies are increasingly relying on intangibles as their source of competitive advantage. However in a highly competitive world it becomes difficult and challenging for companies when these intangibles are measured in conventional accounting system as costs. And this challenge becomes even more evident when companies consider people as their most important asset yet regard them as overhead. Reason for such way of thinking is that HR costs are easy to observe, while HR value creation is not.

However, it is about time when line managers and HR professional should come out of conventional thinking and think of HR as a strategic asset because of the associated increase in the importance of intangible assets. For that they need to think in terms of a value creating process that combines the HR function and the HR system to produce strategically focused employee performance.

Strategy implementation and management systems are the key elements of intangible assets, and therefore HR is a strategic asset as it can play a critical role in these dimensions.

Choosing the right strategy is not as important as execution of that strategy, as its success is dependent on how it is carried out. Along with that employee strategic focus is another factor on which success is dependent. (Making HR a Strategic Asset Brian E. Becker, Mark A. Huselid & Dave Ulrich, 2001)

A new concept of strategy map has been linked with the HR architecture in order to solve problem being faced by senior line managers and senior HR professionals i.e.

lack of framework to bridge the indirect line of sight between HR and firm performance. (Making HR a Strategic Asset Brian E. Becker, Mark A. Huselid & Dave Ulrich, 2001)

The HR Architecture now has several important features that differentiate it from the traditional HR focus. These include:

- The motivation, competencies and structure of the HR Function are guided by a “top down” analysis of its strategic contribution.
- The measure of HR’s strategic value lies in its contribution to goals identified by line managers through the development of a strategy map
- Both HR professionals and line managers will be able to measure HR’s contribution to financial performance beyond simply its effect on cost control.

In order to enable an organization to both measure HR’s strategic impact as well as manage HR as a strategic asset seven steps are introduced to make HR a strategic asset along with the HR scorecard.

Difference between HRM and SHRM

There is basic and simple difference between HRM and SHRM. HRM considers people as a competitive asset to be led, motivated, deployed and developed, together with the firm's other resources, in ways that contribute directly to the attainment of the firm's strategic objectives while, Strategically, HRM means that human resource policies and activities are linked more closely to business strategy. This needs, for example, more effective planning of manpower needs and the integration of manpower planning into the business planning process (Laurence Handy *et al*, 1989 *Beyond the Personnel Function: The Strategic Management of Human Resources*). As the world is changing rapidly and firms have to respond quickly to technological innovations and competition requires that personnel management needs to play a more proactive and enabling role to create the conditions that allow change to happen. In this context, line managers need to be able to ask the right questions of HRM specialists when they are faced with HRM problems.

The aim of Strategic human resource management is to help create and support an organization that is able and wants to constantly evolve and adapt to its changing environment in order to survive. Therefore, It must be an integrative, not a specialized function and the full involvement of top management is essential in promoting SHRM. In addition to that, the HR personnel need to build a credible image, in the eyes of top management and line managers, as key figures in the attainment of successful results.

LITERATURE REVIEW

CHAPTER 4: ANALYSIS OF LITERATURE ON STRATEGIC HRM

STRATEGIC HRM

When we look at historical background of Strategic HRM it goes back to 1980's when Hendry and Pettigrew (1986) suggested that the Strategic HRM has four meanings

1. the use of planning

2. a coherent approach to the design and management of personnel systems based on an employment policy and workforce strategy and often underpinned by the 'philosophy';
3. matching HRM activities and policies to some explicit business strategy
4. seeing the people of the organization as a 'strategic resource' for the achievement of 'competitive advantage'

Critical concerns of HRM, such as choice of executive leadership and formation of positive patterns of labour relations, are strategic in any firm. Strategic HRM focuses on actions that differentiate the firm from its competitors.

Different authors have different views about Strategic HRM. According to authors Strategic management is usually understood as the formulation, implementation and evaluation of cross-functional decisions that enable an organization to achieve its objectives.

Typically, strategic HRM bridges business strategy and HRM and focuses on the integration of HR with the business and its environment. Shaun Tyson defines HR strategy as 'the intentions of the corporation, both explicit and covert, towards the management of its employees, expressed through philosophies, policies and practices.'

The rationale of Strategic HRM is to develop approaches to people management. The fundamental aim of strategic HRM is to produce strategic capability by ensuring that the organization has the skilled, committed and well-motivated employees it needs to achieve sustained competitive advantage and to provide a sense of direction in the turbulent environment so that needs of organization, individuals and collective needs of employees can be met by the development and implementation of practical HRM policies and programmes. As Dyer and Holder remark, strategic HRM should provide 'unifying frameworks which are at once broad, contingency based and integrative'.

Some researchers distinguish between hard and soft HRM. Hard HRM reflects a contingency approach based on the assessment of the best way to manage people in order to achieve business goals in the light of contextual factors. Soft HRM focuses on a high-commitment-high-performance approach to the management of people. One

of the key elements of soft HRM is the internal integration of HR policy goals with each other.

Strategic HRM should attempt to achieve a proper balance between the hard and soft elements. In the words of Quinn Mills, Management should plan with people in mind, taking into account the needs and aspirations of all the members of the organization. *The problem is that hard considerations in many businesses will come first, leaving soft ones some way behind.*

Purcell considers HRM policy goals to have six common elements:

- Careful recruitment and selection
- Extensive use of systems of communication
- Teamwork with flexible job design
- Emphasis on training and learning
- Involvement in decision making
- Performance appraisal with tight links to contingent pay

Human Resource Strategy in itself may not be effective, integrating Corporate Strategy and HR matters into an Organization and People Strategy may prove more successful. It is also believed by some researchers that technical HRM focuses on building a company's performance, while strategic HRM creates competitive advantage by building HR systems which cannot be imitated. Strategic HRM thus has a clear focus on implementing strategic change and growing the skill base to ensure that the organization can compete effectively in future. SHR departments are future-oriented and operate in a manner consistent with the overall business plan in their organizations.

This suggests that facilitating organizational learning both for implementing change and helping develop strategy is a key element of strategic HR. The question that arises now is how organizations can achieve consistently superior performance via HR strategy.

Views have been taken from people having different opinions and experiences employed in one of the best organizations, gave way to some compelling insights and

best practices. It is based on some of the most commonly asked and important questions like: What's the strategic vision for HR in today's large organizations? How can HR proactively help drive business results and business transformation? What are best practices in global talent management, self-service HR systems, and outsourcing? Who is the customer for HR? How can HR and IT work together to further the corporation's business goals?

People who participated in discussions were all of the view that traditional HR tasks and mission has changed and now in order to be a catalyst for strategic change, HR needs to focus on creating a work environment that promotes continues learning. It also highlights some of the key challenges HR can face in today's rapidly changing environment: in order to attain competitive advantage through HRM, it has to be aligned with organization business level strategy and for that company needs to hire people different from yesterday who can adjust into new changing culture and needs to make sure that this change is communicated in the entire organization.

Talent planning and developmental programs are key strategic lever points and further talks about the structure of such programs. It further includes people opinions on relationship between HR and IT and how it can offer better leveraged to offer proactive leadership and drive business results enterprise-wide. Along with that outsourcing as changing HR's role overtime has also been one of the key elements of discussion. Further it summaries people opinion on IT enabled and self-service HR systems current state and future potential.

BENEFITS OF SHRM

Translating business strategies into HR practices helps a business in many ways. The business can adapt to change because the time from the conception to the execution of a strategy is shortened. Also, the business can better meet customer demands because its customer service strategies have been translated into specific policies and

practices. Moreover, the business can achieve financial performance through its more effective execution of strategy.

In brief, a strategic perspective of HRM that requires simultaneous consideration of both external (business strategy) and internal (consistency) requirement leads to superior performance of the firm. This performance advantage is achieved by:

- Marshalling resources that support the business strategy and implementing the chosen strategy, efficiently and effectively
- Utilizing the full potential of the human resources to the firm's advantage
- Leveraging other resources such as physical assets and capital to complement and augment the human resources based advantage.

Why is it desirable to integrate human resources management and strategic choice despite the difficulties? First, integration provides a broader range of solutions for solving complex organizational problems. Second, integration ensures that human, financial, and technological resources are given consideration in setting goals and assessing implementation capabilities. Third, through integration organizations must explicitly consider the individuals who comprise them and must implement policies. Four common characteristics of strategic human resource management models were based on a literature review and interaction with managers.

Rarely are human resources seen as a strategic capacity from which competitive choices should be derived. When human resources are used to determine strategic direction, the approach is unidirectional from human resource problems to strategic solutions, rather than interactive. Consequently, the potential contribution that human resources might make to the competitive position of the firm is unnecessarily limited.

Traditional models focus on matching people to strategy, but not on matching strategy to people. This assumes that people are more adaptable than strategy. It also implies that cause and effect relationships are unidirectional. When firms occasionally attempt to match strategy to people, the causal direction is merely reversed. The process does not become more multidirectional. Means-ends reversal is a likely consequence of this characteristic.

Fourth, most strategic human resource management models emphasize fit, or congruence, and do not recognize the need for lack of fit during organization transitions and when organizations have multiple and varying goals. The whole issue of fit deserves reassessment. Research has shown that achieving fit is not always desirable.

Approaches that focus on responding to environmental change or matching human resources to existing conditions suffer from an excessive concern with developing fit and presume fixed goals and directions. The fit should be considered the opposite end of the continuum from flexibility, and that firms explicitly choose a position along the continuum to coincide with their assessment of upcoming competitive conditions.

Historically, change management was only referred to merger and acquisitions however today it also includes divestitures and global sourcing initiatives. However, no matter what kind of change occurs, HR is likely to be effected. "Change events have a fairly broad impact from an HR standpoint,"- Kompare.

Whether it's restructuring, outsourcing or going global, HR will take on different roles apart from being just involved in administration and communication, which is different from previous years. "As the HR function has evolved over time, it has become strategic," says Kompare.

New role of HR has added various responsibilities in its job description. Now HR has to take a leadership role with regard to implementation aspects, to communicate the strategy to every employee and making sure everyone works in same direction and along with that it also has to look at its own growth and change.

With the increase in importance of HR role, its administrative functions are mostly outsourced by most of the companies while retaining its strategic role. Along with that HR now faces severe challenges than before i.e. extensive communication and coordination within organization.

APPROACHES TO STRATEGIC HRM

According to Michael Armstrong there are five approaches to strategic HRM:

1. The resource-based approach

This approach basically focuses on the human resource capital of the firm and its development. Different writers gave their views for the management and development of human resource and their importance for getting competitive advantage.

According to Barney this approach deals with the aim of achieving fit between resources and opportunities present in the organization. Resources mean the human resource present in the organization like managers and other staff that can think and plan strategically and understand the key strategic issues. So according to the writer firm can obtain competitive advantage only if firm obtain and develop its human resource that can learn faster and apply learning effectively as compare to their rivals (Hamel and Prahalad 1989). This approach is important for a learning organization.

2. Strategic fit

It talks about the importance of vertical integration and horizontal integration in the success of business planning process. Vertical fit is important to align HR strategy with business strategy and horizontal fit is the alignment of different HR practices with each other. In order to achieve vertical integration two things are important:

- 1) Integration with the culture of the organization; and
- 2) Fit with the business strategy.

In case of horizontal integration bundling is done which consists of identifying appropriate HR practices then assessing how the items in the bundle can be linked together so that they become mutually reinforcing and drawing up programmes for the development of these practices, paying particular attention to the links between them according to author bundling is not just a pick and mix process it should be carried out in steps.

3. High-performance management

In United States it is called High performance work system or practices which is important to create an impact on the performance of the firm through its people in such areas as productivity, quality, and levels of customer service, growth, and profits and, ultimately, the delivery of increased shareholder value. A well known definition of high performance work system was produced by US department of Labor which is:

1. Careful and extensive systems for recruitment, selection and training;
2. Formal systems for sharing information with the individuals who work in the organization;
3. Clear job design;
4. High-level participation processes;
5. Monitoring of attitudes;
6. Performance appraisals;
7. Properly functioning grievance procedures;
8. Promotion and compensation schemes that provide for the recognition and financial rewarding of the high-performing members of the workforce.

(Strategic human resource management: A guide to Action. Michael Armstrong)

4. High Commitment management

According to Wood in this case management try to enhance commitment by self regulatory behavior rather than controlled by pressures and sanctions. In order to achieve this commitment Beer et al (1984) and Walton (1985) gave different approaches which are to develop career ladders at all levels in the organizations and to have high level of functional flexibility rather than rigid jobs. Reduction of status difference and introduction of teams is also important to achieve high commitment. As well as job security, employee empowerment and honest performance appraisal are also important for commitment building.

5. High-involvement management

This is related to the communication and involvement of the employees in the firm's mission values and objective.

Universalistic, Contingency and Configurational approaches

John E. Delery and D. Harold wrote an article in 1996 and highlighted the three different modes of theorizing that have been employed in the field, but the differences among the alternative perspectives have not been explicitly acknowledged. Some authors have adopted a universalistic perspective (cf. Dewar & Werbel, 1979) and argued for a "best practices" approach to SHRM. The basic assumption of this approach is that some HR practices are always better than others are and that all organizations should adopt these best practices like profit sharing, results orientation etc. The second theory based on contingency perspective. Contingency theorists argue that, in order to be effective, an organization's HR policies must be consistent with other aspects of the organization. For example, contingency theorists have attempted to show how a number of HR practices are consistent with different strategic positions and how these practices relate to firm performance.

The third theory is called configurational approach that is emerging in the organization theory and strategic management literatures. In general, configurational theories are concerned with how the *pattern* of multiple independent variables is related to a dependent variable rather than with how individual independent variables are related to the dependent variable. To achieve effectiveness an organization must develop an HR system that achieves both horizontal and vertical fit. Horizontal fit refers to the internal consistency of the organization's HR policies or practices, and vertical fit refers to the congruence of the HR system with other organizational characteristics, such as firm strategy.

Doty and Delery then made extensive research on banks to test the applicability of all three approaches. Overall, the results of this study provided relatively strong support for a universalistic perspective and some support for both the contingency and configurational perspectives. Three individual HR practices, profit sharing, results-oriented appraisals, and employment security, had relatively strong universalistic relationships with important accounting measures of performance. Contingency relationships between strategy and three HR practices participation, results-oriented appraisals, and internal career opportunities explained a significant portion of the variation in the same performance measures. Finally, similarity to the market-type employment system was also positively related to firm performance. In combination,

these results demonstrate that managing human resources as prescribed by each of the different perspectives enhances organizational performance

The strategic human resource management perspective (SHRM) makes evident the importance of human resource practices for organizational performance, such as employee turnover, productivity and financial performance. The current focus on HRM as integral to firm's strategic processes involves viewing HRM activities as a resource contributing to firm profitability opposed to cost of production. The resource-based view posits that human and organizational resources, more than physical, technical or financial resources, can provide a firm with sustained competitive advantage because they are particularly difficult to emulate. This requires developing human skills, experience and knowledge, which can help company, achieve competitive advantage and effectiveness. There are two types of effectiveness; technical HRM effectiveness involves using traditional HR practices, such as recruiting and selection, efficiently. SHRM effectiveness, in contrast, stems from the firm building human resource complexities through innovations such as team based job designs, flexible workforces and employee empowerment. However, the SHRM effectiveness gives yields economic benefits not readily duplicated through competitive actions.

Based on this view the author established a statement, "Firms that achieve higher levels of SHRM effectiveness will have higher levels of organizational effectiveness". Then the contingency/resource based view says that some contingency factors should be kept in mind while measuring the role of SHRM and The organization's strategy remains the primary contingency factor in the SHRM literature. When resource based view combines contingency approach, it states that internal processes require nourishment in the appropriate context.

It is found that capital has a contingency role in the organizational strategy. Firms are likely to vary in the amount that they invest in physical assets. Some firms desire direct control over their physical assets and perform most work internally while others focus on core business and outsource other activities but it is the factor of losing or keeping the control that matters. The firms, which invest in their operations, require productivity and performance. Thus, SHRM effectiveness becomes essential for those

firms with high levels of capital intensity. Based on this approach the author developed a second statement. “Strategic HRM effectiveness and capital intensity will influence organizational effectiveness through a positive interaction effect”.

The writers chose the banking industry for the research purpose and employee turnover and return on investment were taken as measures of effectiveness. The strategic HRM effectiveness items include employee participation and empowerment; teamwork; workforce planning- availability and deployment; advanced issue identification-strategic studies; management and executive development; succession planning; workforce productivity and quality of output; and employee and manager communications. The results showed that SHRM effectiveness was significantly and negatively related to firm turnover (beta = $-.32$, p , $.01$).

However, no support was found for productivity or ROE. Thus, these results suggest that effectiveness is unrelated to productivity and firm performance but is correlated with lower turnover. This suggests that turnover effects do not depend upon strategy. In a sense, employees do not care about business strategy in deciding whether to attend, quit or increase effort. When capital asset intensity was used as contingency factor the interaction effect did not significantly improve the variation explained in turnover. Thus, no support was found for turnover. In sum, the results suggest that alignment between SHRM effectiveness and capital intensity increase both firm productivity and ROE. Turnover, however, appears driven by direct HR effectiveness effects. thus it is concluded that However, when these programs are executed in conjunction with a strategy that particularly meshes with effective HR implementation, then Firm performance is more likely enhanced.

John E. Delery and D. Harold Doty in 1996 said that the modern knowledge based organizations require that strategic planning should integrate the human resource practices in the following seven ways (the employment systems):

- Internal career ladders
- Formal training systems
- Results-oriented performance appraisal

- Employment security
- Employee participation
- Broadly defined jobs
- Performance based compensation.

A study done on 1400 people of the Department of social services North Carolina (a public organization) The results show that the practice of participation got a high B, job description, results oriented appraisal, job security got C+, career ladder and training got C and pay for performance got D. the cumulative result was C+ .

This indicates a moderate use of strategic human resource practices. There is also possibility that strategic human resource practices may not be applicable to multi values public sector, which is dependent on multiple external factors for the attainment of goals. The performance of the public organization depends on the other social and political factors.

Broadly speaking there are two traditional schools of thought in SHRM; Universalistic approach and contingency approach. The universalistic scholars talk about “best practices” which positively influence firm performance. They assumed that SHRM could help firms improve their human resources cost benefits, promote operating efficiency, increase innovation and revolution ability, and increase organizational performance benefits. The most influential best practice set is associated with the 16 practices which haven summarized into seven practices: including employment security, selective hiring, self-managed team, provision of high pay contingent on company performance, extensive training, reduction of status differences and sharing information. According to them it changes passivity into initiative, transmits organizational goals clearly and encourages the involvement of line-managers.

In contrast with universalistic thinking, contingency scholars argued that HR strategy would be more effective only when appropriately integrated with a specific organizational and environmental context. Additionally, contingency arguments are

more complex than universalistic arguments because they imply interactions rather than the simple linear relationships involved in the universalistic perspective.

The contingency perspective argues that the relationship between the independent and the dependent variables differs when the contingency variable is added. Moreover, most studies are concerned with the meaning of internal and external fit and with how to achieve them, such as the fitness of HR practices and various organizational and environmental factors such as effects of person-environment fit, executive controls and local environment, unions, resource dependency and integration, administrative heritage and competency

A study done on 23,882 taiwaneese firms and the data was plotted for a significant innovation strategy and SHRM interaction. The study supported both the notions in some way. Clearly, firms that implement SHRM will perform better in an innovation oriented market environment. However, under the same environment, firms that implements SHRM will perform poorly. This situation may occur because SHRM promotes team-based job designs, flexible workforces, employee empowerment and incentive compensation and in the same way given a lack of innovation in the market environment, SHRM clearly has little impact on profitability.

ROLES IN STRATEGIC HRM

Different people play different roles in strategic HRM. Top management provides visionary leadership; define purpose and values and set directions and overall strategy for the business. Line managers play a very important and critical role in the implementation of strategies made by top management. According to author HR proposes and line disposes. According to Purcell et al. (2003) role of line manager is like “bring HR to life”. If line managers are not happy with the policies and do not implement them in the right way companies would suffer a great loss like performance management schemes often fail because line managers are reluctant to carry out reviews. Role of line managers is also affected due to their lack of ability for the assigned task. If responsibility is delegated to line manager then they would be able to perform better for the change process in the organization as well as they can synthesize information about emerging trends. HR director also play an important role

in the formulation and implementation of business strategy if HR has an integrative linkage in the organization. Their contribution and credibility depends mainly on their business awareness and skills. HR specialists also play an important role in the alignment of HR policies with the business strategy and they can do this only when they impel and guide serious discussions of how the company should be organized to carry out its strategy.

FINDINGS

CHAPTER 5: IMPLEMENTATION OF SHRM – ORGANIZATIONAL CONTEXT

Different organizations have different levels of absorption when it comes to strategic moves such as alignment. It is not always advisable to have a complete fit in a dynamic and ever-changing organizational and industrial scenario.

The "Growth-Readiness" matrix depicted in the following figure captures the basic features of strategic HRM typology. Corporate growth expectations are a proxy for the goals of the organization (Chandler, 1962; Leontiades, 1982). Organizational readiness measures availability of human resources skills, numbers, styles, and experience needed for strategy implementation. Readiness is a proxy for implementation feasibility. The four quadrants represent four conditions under which organization strategy and, as per our recommendation; human resource strategy should be formulated (Patrick M. Wright; Scott A. Snell, *Toward a Unifying Framework for Exploring Fit and Flexibility in Strategic Human Resource Management*, 1998).

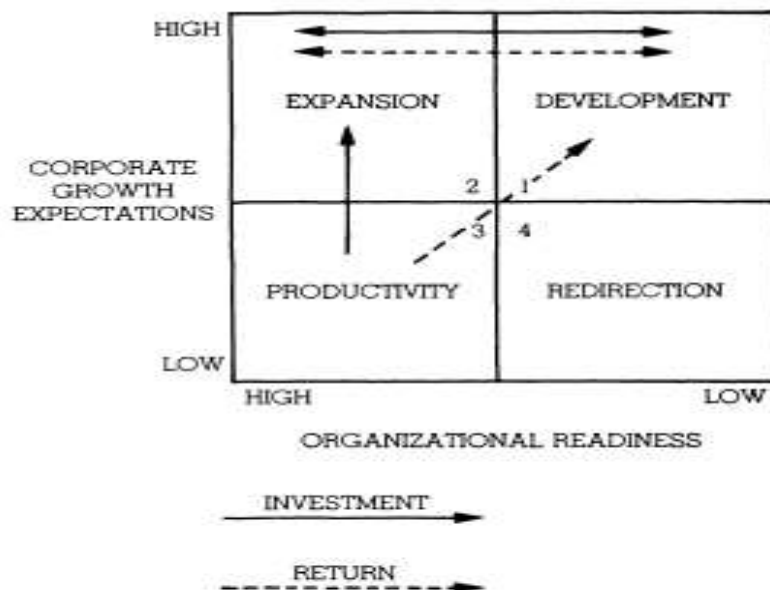


Figure 1. Growth readiness matrix.

There are many forces such as industry and product maturation, that apply pressure to move the strategic situation from left to right (from high readiness to obsolescence) as technologies and strategies change. Movement from one quadrant to another quadrant results from an interaction between environmental conditions and organizational choices.

In short, the basic design of strategic human resource management has two dimensions: organizational goals and availability of human resources. This typology explores these complex, multivariate relationships in a systematic fashion.

Quadrant 1: Development

The Development quadrant is characterized by high growth expectations and a poor level of readiness between strategy and human resource skills. The first-order choice is strategy formulation (Pitts & Snow, 1986). There are three options: (a) a firm may choose to invest heavily in its human resources (b) a firm may decide to change corporate goals to reflect the lack of readiness or (c) a firm may choose to change the corporate operating strategy to capitalize on the skills and resources that are currently available.

First, the cause of poor readiness should be diagnosed. This determines whether or not current goals can be obtained with additional investment in human resource capabilities. Second, the reasonableness of corporate growth expectations given product life cycle, industry conditions, and the competitive position of the firm must be determined (Porter, 1980).

Finally the fit and flexibility continuum should be considered. If goals represent a long-term commitment and if strategic conditions are supportive, greater investments in achieving organizational readiness are warranted (Hrebiniak & Joyce, 1984). Under these conditions, working towards a fit is desirable. If, on the other hand, goals are temporary or if strategy is likely to change, large investments in fit are unwise. These analytic steps provide a template for strategic human resource management under "development" conditions.

Quadrant 2: Expansion

The Expansion quadrant is characterized by high growth expectations and good readiness indications between strategy and skills. These conditions apply to firms in established competitive positions in the mainstream of a growth industry. Under these

conditions, the first-order question involves resource allocation. What proportion of resources should be devoted to achieving continued growth, and what proportion should be channeled into managing the effects of growth?

Resolution depends on (a) the level of human resource investment required to maintain desired growth and continued readiness, (b) profitability, and (c) other performance measures that are important to the firm. Again organization culture and the need for firm- and industry-specific skills play a crucial role.

The issue of fit versus flexibility is also important. High growth and strong readiness are conducive to maximal fit. Although good fit may make growth easier to achieve, it also makes continued growth the primary means to achieve organizational rewards. Thus, continued growth is likely to become a means to achieve financial and status benefits even if continued growth is no longer cost effective within the industry setting. A number of analytic steps contribute to sound resource allocation decisions. First, relevant trends in product, organization, and industry life cycles need to be identified.

A firm should identify indirect costs of achieving growth; among the most important of these is a consideration of fit versus flexibility (Pitts& Snow, 1986). As the need for firm-specific or unit specific skills increases, personal power of successful employees also increases. Because this power is contingent on maintaining existing organization conditions, there is a strong incentive to resist change. Often while firms are growing, the seeds for future problems are being sowed if organization design does not keep pace with organization accomplishments.

Quadrant 3: Productivity

The Productivity quadrant is characterized by low growth expectations and strong readiness for strategy implementation, for example, the positions established by Mercedes Benz or the Kroger Stores. Because a firm has an established competitive advantage and is not trying to expand rapidly, operations usually are highly effective

and efficient. Stated differently, the basic choice is where to channel resources and efforts that are no longer required simply to maintain growth objectives.

There are several alternatives. The focus can be on preparing for anticipated changes in the particular business in question or on improving the current competitive position. Undoubtedly some degree of fit already has been established, and the issue becomes whether continued fit should be rewarded to increase profits and efficiency or whether the first steps toward organization change should be encouraged. If diverse businesses are managed interdependently, businesses that receive investments to aid their own competitive position may, over time, be expected to contribute to the growth of other units. If fit, rather than flexibility, has been emphasized, this shift in perspective presents a monumental challenge.

Unit-, firm-, and industry-specific skills also contribute to or inhibit organization transition. If businesses are related then firmspecific and industry-specific skills have been emphasized, employees may feel more secure. If, on the other hand, businesses are unrelated and unit-specific skills have been emphasized, employees have a vested interest in maintaining an existing strategic posture for the business, even if it is suboptimal for the firm as a whole.

If the planning horizon is short, fit should be de-emphasized, resources should be channeled to other units, and skills that are necessary for transition should be rewarded. If the planning horizon is long, fit should be balanced with flexibility, sufficient resources should be reinvested in the unit to maintain competitiveness, and unit-, firm-, and industry-specific skills should continue to receive rewards.

Quadrant 4: Redirection

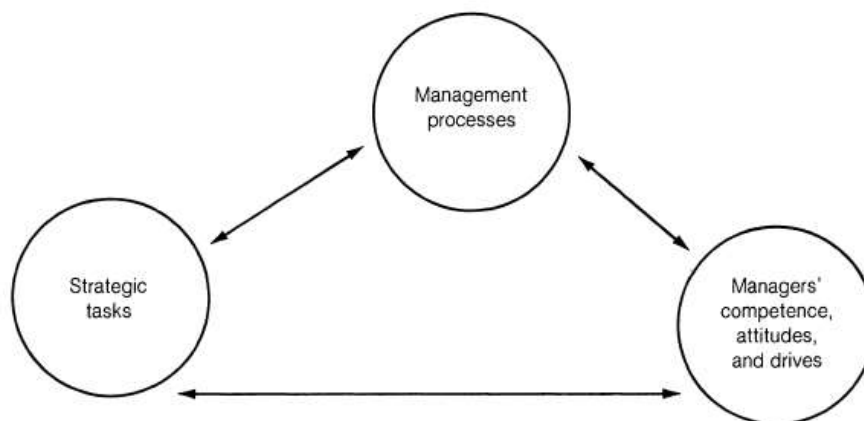
The fourth quadrant, Redirection, is characterized by low growth expectations and poor readiness. Typically, firms facing these conditions are in declining industries or have maintained obsolete products or manufacturing processes that are no longer competitive (Porter, 1980). This situation often arises in firms that focus on excessive

fit between skills, culture, procedures, and strategy. Their choice is either turnaround or exit from the industry. Stated differently, a firm must decide whether to redirect employee activities or to alter the business focus. Both human resource and competitive considerations are paramount. If turnaround is chosen, retraining, restructuring, and realignment are needed.

This model, along with its four quadrants not only clarifies various doubts regarding the 'hows' of strategic HRM but also gives a new dimension to its definition. Although most authors are found advocating the proper and exact alignment of HR with the organizational strategies, there exists a perfectly logical reason for not adopting the alignment theory and leaving the two i.e. HR and strategy loosely intertwined. This depends completely on the situation. Thus the above-mentioned framework for fit and flexibility seems more practical and realistic. There are many real life examples given in the article both in favour of fit as well as flexibility. Firms around the world have seen success using either of the two so this fit or flexibility paradox needs to be thought-through by both the top management as well as the HR management. If used at the right time, the flexibility side may prove more useful than the fit one.

Is It Important To Have Motivated Managers For Strategic HRM Implementation?

The Strategic Human Resource Management Task: Matching Strategy, Process, and Individuals



As a scarce strategic resource, human capital must be allocated carefully; it can be far more critical to have the right people in the right slots than to focus excessively on the

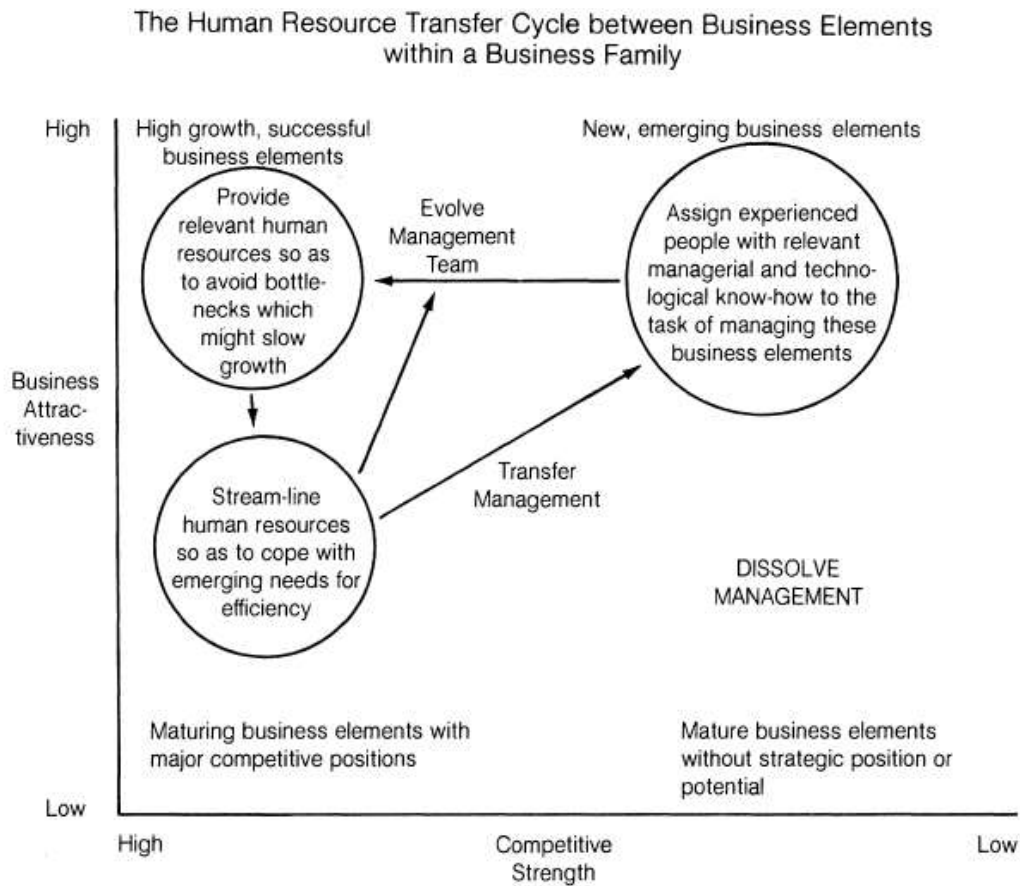
financial and other dimensions of resource allocation. To match the corporation's strategic intents with the goals, competence, and motivation of key managers seems particularly important in multinationals. Unless individual managers see that it is in their own best interest to commit themselves to the firm's strategy, realistic implementation may be hard to achieve.

Though on the whole managers are generally willing to perform the tasks they are assigned, a number of conditions are likely to increase a manager's willingness and ability to implement strategy. The manager must comprehend and accept his role in implementing strategy. At a minimum, therefore, strategies must be explained and communicated clearly, so that they are not perceived as ambiguous and vague general concepts, but instead take on specific meaning [Lorange 1983]. Also, the manager may be better motivated if he has some say in the formulation of the goals to be achieved [Stedry 1960; Odiorne 1965]. (However, research on such participation has provided mixed results [Schein 1980]). The manager's participation will help ensure that the firm's strategies are in line with the manager's concept of self-development.

A manager must also perceive that he has sufficient freedom of action to be able to implement a strategy. If a manager is too constrained by specific instructions, he will become more concerned with following rules and responding to environmental contingencies than implementing the strategy [Vancil 1980].

In this article, the author's prime interest is in the middle managers who assist the top management in implementing their strategies. Here, the alignment is considered to be an automatic outcome of a situation where the strategies are made keeping the workforce's competence and motivation in mind. However, the gist of strategic HRM does not lie in only matching the strategies with the competence. It has more to do with the alignment of the resources with the strategy, if the required resource is not available, the HR management is supposed to acquire new resources to do so. Thus, this notion of matching the managers' capabilities with strategies is only a part of strategic HRM and not the whole of it.

THE HR TRANSFER CYCLE IN MNCs



There is, then, a need to match strategy and human resource management at all 3 strategic levels: the corporate portfolio level; the business family level, whether "global" or "country-based"; and the business element strategy level. Human resource management at the different strategic levels is basically similar, in that it involves matching strategy, managerial processes, and individual goals (as illustrated in Figure 1). There are basic differences, however, in how human resources are developed at different levels—for instance, selecting and recruiting managers to head each business element, each business family, and the corporation as a whole. Also, the development of managers must be tailored to each particular level and strategy so that the supply of managerial talent is sufficient for the future needs of each business element or family. Finally, at the portfolio level and to a lesser extent in the business family, a firm must realize that in selecting and developing managers it is also developing its organizational structure through the conceptual frameworks, communication patterns, and attitudes that are shaped in the process.

The field research for this article centers on 4 Swedish MNCs-AGA, SKF, Sandvik, and Ericsson. Their practices and experiences in managing human resources within their foreign operations were examined. At Ericsson, then, marketing, production, and development are rather centralized. At the other extreme is AGA, where both production and marketing are decentralized. Strategy is formulated and implemented in individual countries in AGA, while it is centralized globally in Ericsson, and mixed in SKF and Sandvik. Ranking the typical business families of the 4 companies along a span from local to global would result in the following: AGA, SKF, Sandvik, and Ericsson. The 4 business families are basically similar in that they are made up predominantly of maturing business elements with major competitive positions. Data were collected on human resource management in these 4 companies through a survey study as well as through interviews carried out at the corporate, division, and subsidiary level of each MNC.

HRM practices closely follow local practices, with differences among specific practices. The degree of similarity to local practices is significantly influenced by the method of founding, dependence on local inputs, the presence of expatriates, and the extent of communication with the parent. In addition, sharp differences are revealed among affiliates of Canadian, Japanese and European MNCs, suggesting strong country effects. Together, these findings support the view of MNCs as composed of differentiated practices, which in turn are shaped by forces for local isomorphism and for internal consistency.

One of the central questions in the literature on MNCs is the extent to which one of the central questions in the literature on MNCs is the extent to which their various foreign affiliates (or subsidiaries) act and behave as local firms versus the extent to which their practices resemble those of the parent corporation or some other global standard. In a seminal paper on this topic, Perlmutter [1969] described three types of MNCs: ethnocentric, polycentric and global. According to this typology, the management practices in foreign affiliates of MNCs could resemble those of the MNC's home country (ethnocentric), could conform to local practices of the affiliate's host country (polycentric), or could adhere to a worldwide standard (global).

Perlmutter's typology described the management practices of the MNC in terms of an overall orientation. More recently, some scholars have argued that viewing multinationals in terms of an overall orientation obscures the internal differentiation of management practices within an MNC [Hedlund 1986; Bartlett and Ghoshal 1989; Ghoshal and Nohria 1989]. Instead, they argue, an MNC is properly viewed as a nexus of differentiated practices.

According to this view, MNC affiliates are composed of many separate practices, ranging from manufacturing to finance to human resources, each of which faces distinct pressures for global efficiency and for local responsiveness [Doz, Bartlett and Prahalad 1981; Prahalad and Doz 1987]. In organization theoretic terms, the profile of management practices in an MNC is shaped by the interplay of opposing pressures for internal consistency and for isomorphism with the local institutional environment, with specific practices shaped by these opposing pressures to varying degrees [Rosenzweig and Singh 1991]. As a consequence, Perlmutter's three-part typology may not be sufficient to describe the complexity within MNC affiliates. As Soenen and Van den Bulcke [1988] found in their study of Belgian firms, some affiliate practices may tend more closely to resemble the MNC's homecountry practices, while others may more closely resemble host-country practices, and still others may be global in nature.

In this section, the forces that shape HRM practices in MNC affiliates are examined. HRM practices, no less than others, as Evans and Lorange [1989] have noted, are subject to the dual pressures for local adaptation and internal consistency. Accordingly, we start by examining the resemblance of a number of affiliate HRM practices to local practices and to parent practices. From that baseline, we consider a set of related hypotheses, testing whether factors such as the extent to which the affiliate is embedded in the local environment, the extent of flows between the parent and the affiliate, the characteristics of the parent, and the nature of the industry, influence HRM practices.

Finally, this section will look at the differences among affiliates according to their parent nationality. The guiding objective is a more thorough understanding of the forces that influence human resource management in MNCs, and, more generally, to

shed light on the impact of management practices in MNCs on their organizational effectiveness.

STRATEGIC HUMAN RESOURCE PRACTICES IN MNCs

There are two main forces that shape up the HRM practices in MNCs i.e. the pressure for internal consistency or the pressure for local isomorphism. Of the two, which one is stronger?

One view argues that the pressure for internal consistency is stronger. Because employees may move among subunits, MNCs seek to develop a consistent approach to compensation and benefits, and to maintain consistent policies and procedures. Even in the absence of extensive employee mobility across borders, MNCs may wish for reasons of internal equity to adopt a consistent set of HRM practices around the world. Consequently, we should expect affiliate HRM practices to be shaped mainly by the pressure for internal consistency.

Counteracting the pressure for internal consistency is a pressure for affiliate HRM practices to resemble local practices. Some practices may have to comply with local laws and regulations, and may therefore be compelled to resemble local practices through "coercive isomorphism". In other instances, affiliates may seek to resemble local firms, perhaps to compete more effectively in local labor markets, or to "fit in" by imitating local practices. Adopting local practices for these reasons may be explained as "normative isomorphism" and "mimetic isomorphism," respectively (DiMaggio and Powell 1983). These pressures, separately or in combination, would lead MNC affiliates to adhere to HRM practices found in the local environment rather than those of the foreign parent.

While theoretically it can be argued that HRM practices are shaped by equally compelling counteracting logics, previous empirical research has tended to show that of all functions, human resource management tends most closely to adhere to local practices, whereas finance and manufacturing tend more closely to resemble parent practices (Kobayashi [1982]). This is because HRM practices are often mandated by local regulation or shaped by strong local conventions. Moreover, since an MNC

affiliate, in most instances, has little choice but to hire its employees from competitive local labor markets, it is hard for it to diverge too much from local norms. Finally, HRM practices can be politically sensitive and affiliates may prefer to conform to local practices rather than invite unnecessary scrutiny e.g. the marketing division of an MNC affiliate in an Islamic country would revise its dressing norms for the female staff. Thus the study's first hypothesis is that the overall tendency of HRM practices to more closely resemble local practices, as reported in earlier studies, will hold as follows:

Hypothesis 1: Overall, affiliate HRM practices will more closely resemble those of local competitors than those of the parent in its home country.

While we have hypothesized that in general affiliate HRM practices will more closely resemble those of local competitors, we expect this tendency to vary across HRM practices. In keeping with the precepts of institutional theory, practices that are mandated by local laws, or are highly visible, or affect a large number of locals, or entail a high degree of interaction with locals, will face stronger pressures to conform to local practices [Meyer and Rowan 1977; DiMaggio and Powell 19831]. Conversely, practices that are most likely to raise concerns of internal equity or that involve a high degree of interaction with the parent will face stronger pressures to conform to parent practices. To explore this variation, we examined six different HRM practices.

Walton and Lawrence 19851, identified four major areas of HRM policy: reward systems, including compensation and benefits; employee influence mechanisms such as participation; job design and work organization; and employee selection and development. Seeking to capture a number of these elements, we identified six HRM practices for study: (i) the extent of employee benefits (Benefits), (ii) the extent of annual paid time off (Time On, (iii) the use of bonuses to compensate managers (Executive Bonus), (iv) the degree of participation in executive decision-making (Participation), (v) gender composition of management (Gender Composition), and (vi) the amount of employee training (Training).

Hypothesis 2: **HRM** practices will tend to conform to local practices in the following order, starting with the one that will most closely resemble local practice: (1) Time Off; (2) Benefits; (3) Gender Composition; (4) Training; (5) Executive Bonus; and (6) Participation.

We expect Time Off to most closely resemble local practices because norms about this practice are often set by local legislation or determined by collective bargaining agreements. Thus an MNC affiliate often has very limited choice but to offer at least as much Time Off as its local competitors. And though it has the option of offering more Time Off than is customary in the local environment, it is unlikely that a profit-oriented firm would do so.

Most of these arguments also apply to the practice of employee benefits. In the case of Benefits, however, local firms usually have greater discretion, giving the MNC more room to choose. Also, when it comes to benefits, there are at least some, especially long-term benefits such as retirement and pension plans, on which the MNC is likely to want to maintain internal consistency and equity to the extent that is possible.

When it comes to Gender Composition, local norms tend to be even more diffuse than is the case with Benefits. While there certainly are laws in some countries against discrimination on the base of gender, these laws are hard to enforce. Also, in some countries it is socially and politically correct to have broad-based participation by women in the workforce, whereas in others, women are still excluded from participating in certain jobs. In most situations, an MNC affiliate is likely to try and adhere to local norms. Yet parent practice will continue to serve as an important influence because the parent may be uncomfortable with placing women in positions of responsibility, especially if they are not used to that in their own environment. Moreover, even if the parent wanted to change its practice to more closely resemble local practice, it may take some time to do so.

With respect to Training, firms again will feel pressures in both directions. Training needs of different workforces may vary depending upon local conditions. Also, in order to compete effectively, MNC affiliates will need to provide opportunities for their employees to enhance their human capital that are comparable to what local

competitors offer. Both these considerations create pressures to conform to local practices. However, there are countervailing forces because many MNCs have corporate-wide policies regarding employee training, as well as management philosophies that favor certain types of training, creating pressures for their affiliates to adhere to parent practice.

MNC affiliates are less likely to conform to the practices of their local competitors when it comes to the extent to which bonuses are used in executive compensation (Executive Bonus). This is because there are likely to be greater concerns of internal equity when it comes to the compensation of senior executives. Executives are also the class of employees most likely to be transferred or rotated across the various affiliates of the MNC, making it more important to maintain consistency across the MNC. Of course, an MNC affiliate will face some pressure to conform to local practices, especially if it wishes to recruit talented executives in a competitive local labor market. But here too, as in the case of Training and Gender Composition, local norms tend to be diffuse and broad, leaving the MNC with greater flexibility to respond to the need for internal consistency.

With respect to the extent of Participation in executive decision making, the pressure to conform to local practices is likely to be the weakest. No doubt if the MNC is operating in an environment where executives are used to having a great deal of voice in key decisions, they must to some extent respond to this expectation in order to attract and keep satisfied the best local talent. But executive decisionmaking is not an area in which the MNC is likely to deviate too much from its parent practice because it speaks to the most critical processes of strategic choice and resource allocation, topics about which the parent is likely to attach a great deal of importance, and on which it often retains direct influence.

In sum, HRM practices for which there are well-defined local norms and which affect the rank-and-file of the affiliate organization are likely to conform most closely to the practices of local competitors. Practices for which there are diffuse and poorly defined local norms, or which are seen as being critical to maintaining internal consistency or arriving at critical decisions, are less likely to conform to local norms.

The foregoing discussion has hypothesized differences among HRM practices, but has treated all affiliates alike. In fact, not all affiliates should be expected to adhere equally to local practices; some may face stronger pressures to conform to local practices while others face stronger pressures to conform to parent practices. Affiliates are likely to vary systematically in the degree to which they resemble local practices according to specific contextual variables.

One set of contextual factors that can influence an affiliate's conformance to local practices is the extent to which the affiliate is embedded in the local environment. The extent of local embeddedness depends upon factors such as the history of the affiliate including its method of founding (whether greenfield or by acquisition) and its age. Also important are factors such as the size of the affiliate, the extent to which it is dependent upon local inputs, and the extent to which it is subject to pressure from local institutions such as unions and governmental bodies. We would expect that the greater the extent to which the affiliate is embedded in the local environment, the more it will take on the practices that prevail locally.

A second set of factors that can influence an affiliate's conformance to local practices are the flows of various resources between the parent and the affiliate, such as capital, information and technical experts. We would expect that the greater these flows, the stronger will be the influence of the parent, and the less the affiliate will conform to local practices.

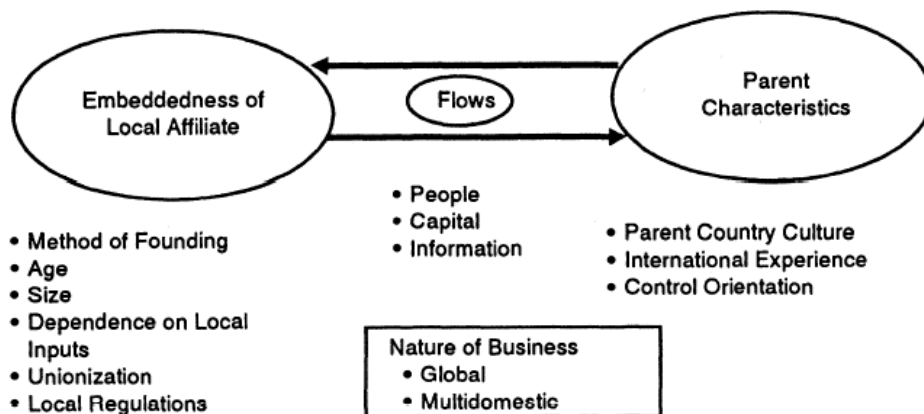
Characteristics of the parent are a third set of factors that will affect the extent to which an affiliate will conform to local HRM practices. One such factor is the culture of the country in which the parent is located, and how that differs from the culture in which the affiliate is embedded. The greater the cultural distance between the parent and affiliate countries, the less the affiliate will conform to local practices. On the other hand, the greater the parent's international experience and exposure to operating abroad, the more likely it will be to adopt a cosmopolitan attitude and let its affiliates adopt local practices.

Another parent characteristic that is important is its orientation towards control. As Egelhoff has observed, some MNC parents control their subsidiaries more tightly than

others. We would expect that the more controlling the parent, the less likely it will be that affiliate practices will resemble local practices.

Finally, the nature of the industry in which the affiliate operates can also have a bearing on the extent to which its practices resemble those of local competitors. One would expect, for instance, that the pressure to conform to local norms would be greater if the affiliate were doing business in a multi-domestic industry as opposed to a global industry. This local-global context has consequences on the strategic implementation of Human Resource Management.

Contextual Factors that Affect Affiliate HRM Practices



Human Resource Strategic Matrix

Human Resource Strategic Matrix (Lloyd Baird & Ilan Meshoulam, 1988) is a proposed model for developing and implementing human resource management strategies incorporating both an external fit (human resource management fits the developmental stage of the organization) and an internal fit (the components of human resource management complement and support each other) is proposed. Human resource management is seen as having five developmental stages and six strategic components. These are combined to form the Human Resource Strategic Matrix. Since the internal fit is obvious, we would focus on the external fit which is a new way of looking at the phases of Strategic HRM.

Figure: Stages of HR Strategic Matrix

RESEARCHER	FOCUS	INITIATION			FUNCTIONAL GROWTH		CONTROLLED GROWTH	FUNCTIONAL INTEGRATION	STRATEGIC INTEGRATION
		STAGE I	STAGE II	STAGE III	STAGE IV	STAGE V			
Davis (1951)	Leadership	Pioneering stage Owner/manager	Exploitation Entrepreneur	Professional Executive leadership					
Drucker (1954)	Size	Small	Fair size	Large size			Very large		
Rostow (1960)	Nation/ economic	Traditional and preconditions for take-off	Take-off and drive to maturity	High mass consumption					
Chandler (1962)	Organization strategy	Initial expansion One product Chief executive- owner Entrepreneurial spirit	Rationalization of resources Functionally coordinated One product line	Expansion into new market Diversified products			Development of new structure to ensure continued mobilization of resources		
Katz & Kahn (1966)	Environment	Primitive system Cooperative task behavior Primitive production system	Stability Informal systems Tightened productivity systems	Elaboration Need for environ- mental support Institutional relations Adaptive systems					
Salter (1968)	Organization	Single unit Sole proprietor Single market	Single unit Team of top managers Function approach Single market	Decentralized operating units Multiple distribution channels Centralized operating units			Semi-autonomous units report to corporate head- quarters Varied products Separate markets		
Greiner (1972)	Organization growth	Creativity Entrepreneurial Informal Founder-managers	Direction Functional Specialized jobs Formal standards	Delegation Headquarters, line separation New acquisitions Decentralized			Coordination Product group Formal planning Controlled investments	Collaboration Team action Matrix organization	

Stage V-Strategic Integration is the one where management's focus is on flexibility, adaptability, and integration across business functions. The stage is characterized by team action, full integration of functional areas, strategic management, highly developed monitoring capabilities, and an ability to adjust to the environment.

At this stage, human resource management is recognized as everyone's job. This might be taken as an advance form of strategic HRM. Managers realize the importance of human resources in positioning the organization for the future. Human resource programs are integrated not only among themselves but also with other functions, such as accounting, marketing, and operations. Human resource implications are considered before a major business decision is made, whether it is a new acquisition, a new product, or new markets (Pascarella, 1985). Sophisticated analytical techniques are used to ask "what if" questions.

CHAPTER 6: STRATEGIC HUMAN CAPITAL MANAGEMENT

One of the models of *Strategic Human Capital Management* is structured to assist organizations leaders in order to manage their people. According to author this model would help Organizations leaders to lead and manage their people effectively and integrate human capital considerations into daily decision making processes. In order to achieve the above goal the model presents the importance of a sustained commitment by Organizations leaders to maximize the importance of their human capital and to manage the related risks.

The model highlights the kinds of thinking that Organizations should apply, as well as some of the steps they can take, to make progress in managing human capital strategically. The concepts presented in the model are arranged around eight critical success factors, which are organized in pairs to correspond with four cornerstones of effective strategic human capital management. (Managing For Results Using Strategic Human Capital Management to Drive Transformational Change David M. Walker)

The model consists of the following:

- The *Critical Success Factors Table* identifies eight critical success factors for managing human capital strategically, which embody an approach to human capital management that is fact-based, focused on strategic results, and incorporates merit principles and other national goals. Each critical success factor is then presented in a table, illustrating their development across three levels. These factors are interrelated and mutually reinforcing. For each critical success factor there is 3 levels which are

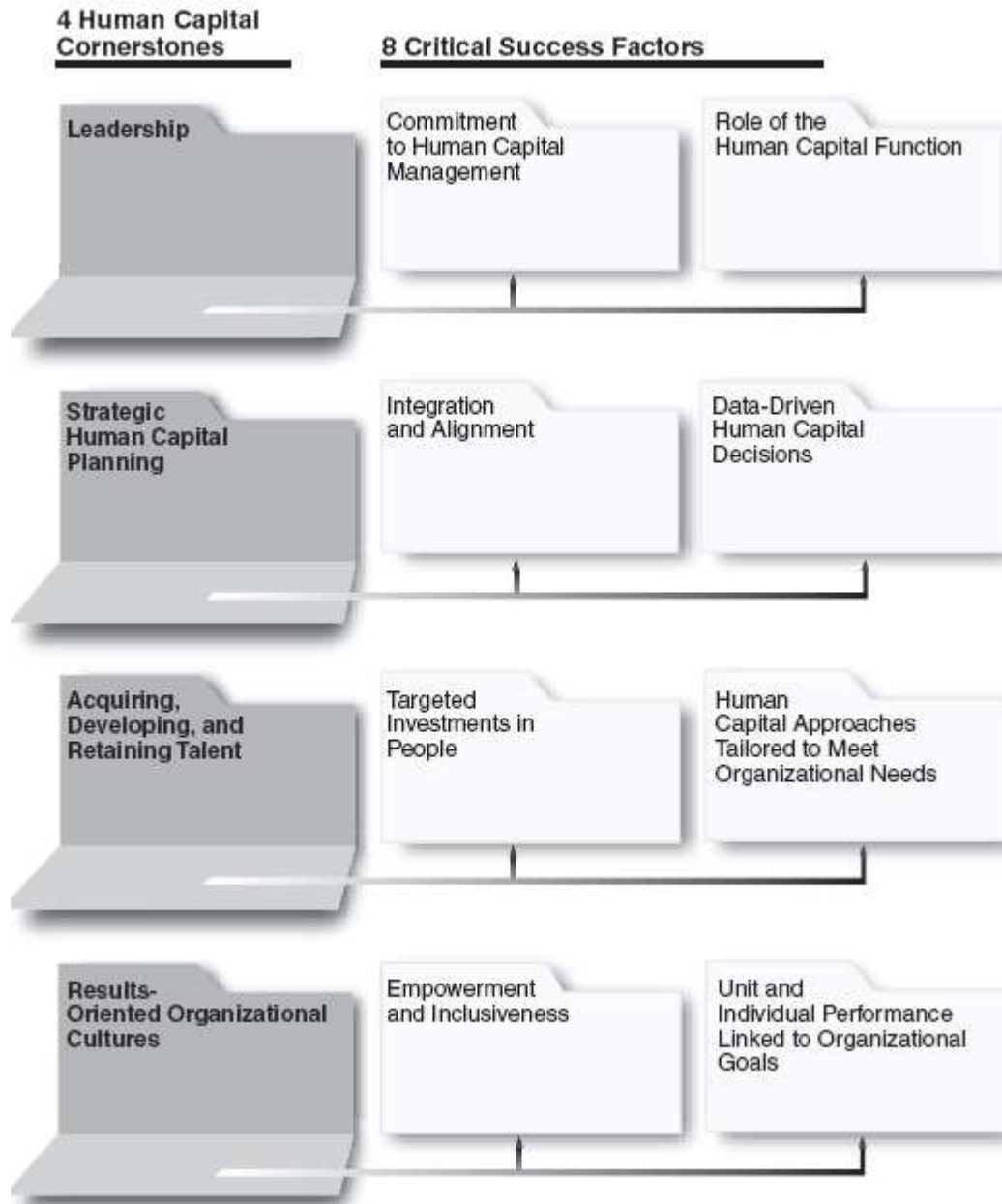
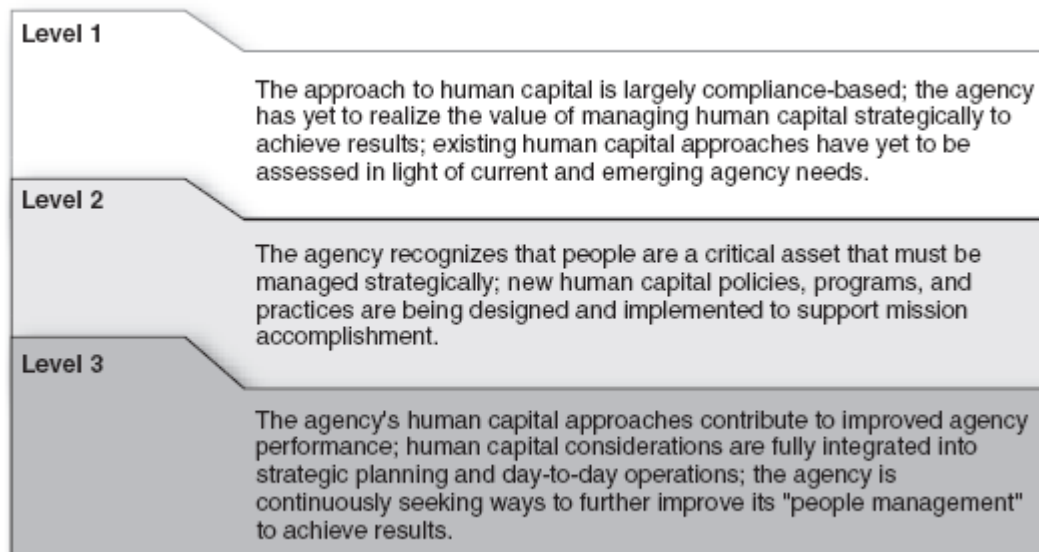


Figure 2: The Three Levels



Organization at Level 1 are unlikely to have effectively put these two principles into practice. At Level 2 an Organization is clearly taking steps to apply them. An Organization at *Level 3* has made these principles an integral part of its approach to doing business, and can see demonstrable results from having done so. (A Model of Strategic Human Capital management, March 2002, David M. Walker)

For example in case of Commitment to Human Capital Management critical success factor Organizations at level 1 would view its people as cost to cut not as asset to be valued and decision making is centralized. Organizations at level 2 consider employees as important source to accomplish their mission and inform managers to understand the role they would need to play to acquire, train and retain employees. Organizations at level 3 view people as an important enabler of Organizations performance recognize the need for sustained commitment by the Organizations to strategically manage its human capital, and stimulate and support efforts to integrate human capital approaches with organizational goals. The Organization's human capital approaches are consistently developed, implemented, and evaluated by the standard of how well they support the Organization's efforts to achieve program results. Managers at all levels actively support these concepts and are prepared and held accountable for effectively managing people. In

the same way all the critical success factors and their dimensions are explained by the writer. (A Model of Strategic Human Capital management, March 2002, David M. Walker)

- Discussions in *Pointers* expand upon the eight critical success factors to highlight not just the needed actions but the kind of thinking that marks high-performing organizations' approaches to managing people through the presentation of concepts, steps for progressing, and Organizations case illustrations.

In this article writer mentioned a critical step which an Organizations can take to progress under each critical success factor.

1. Leadership

a. Commitment to Human Capital Management

In every organization there is a team of senior members who are committed to develop effective ways of doing business, accomplish results and investing in human capital. According to writer the most important element of successful management is the commitment of top leaders to change.

Steps to be taken: in order to encourage committed leadership two steps can be taken

1. An executive development program
2. Succession planning

Both of these steps should be linked with Organizations goals and objectives.

Organizations leaders have other opportunities for displaying their commitment to human capital. Continuous learning efforts, employee-friendly workplace policies, competency-based performance appraisal systems, and retention and reward programs are all ways in which Organizations can value and invest in their human capital.

b. Role of the Human Capital

It includes integration of human capital approaches with the strategy of organization in order to accomplish organization mission and program goals. This integration is used by

the organization to ensure that its core processes efficiently and effectively support mission related outcomes.

Steps to be taken: According to writer high-performing organizations treat strategic human capital management as fundamental to effective overall management. The role of human capital manager should focus on:

- Developing, implementing, and continually assessing human capital policies and practices that will help the Organizations achieve its mission
- Leading or assisting in the Organization's workforce planning efforts
- Participating as partners with line managers
- Reaching out to other organizational functions and components through facilitation, coordination, and counseling
- Providing integrated mission support

Role of human capital professionals is to provide information for the strategic workforce planning, continuous learning and knowledge management initiative. High-performing organizations also recognize the need for leveraging the internal human capital function with external expertise, such as consultants, professional associations, and other organizations, as needed.

2. Strategic Human Capital Planning

a. Integration and Alignment

Organizations integrate human capital approaches as strategies for accomplishing their mission and programmatic goals and results. High performing organizations stay alert to emerging mission demands and human capital challenges and remain open to reevaluating their human capital practices in light of their demonstrated successes or failures in achieving the organization's strategic objectives.

Steps to be taken: organizations can support the accomplishment of programmatic goals through the use of workforce planning. It includes succession planning, linked to strategic goals and objectives can enable an Organizations to remain aware of and be prepared for

its current and future needs as an organization, such as the size of the workforce; its deployment across the organization; and the knowledge, skills, and abilities needed for the Organizations to pursue its mission.

b. Data-Driven Human Capital Decisions

It includes the fact based and objective approach to human capital management which is important for maximizing the human capital and managing risks. High performance organizations use that data to determine key performance objectives and goals which enable them to evaluate the success of their human capital approaches. They also use that data to forecast their human capital needs and their appropriate development.

Steps to be taken: companies can use this data in order to measure the effectiveness of human capital approaches which are used to support the mission and goals of the company. The types of data that can inform workforce planning efforts include but are not limited to: size and shape of the workforce, skills inventory, attrition rates, projected retirement rates and eligibility, deployment of temporary employee/contract workers, dispersion of performance appraisal ratings, average period to fill vacancies, data on the use of incentives, employee feedback surveys, feedback from exit interviews, grievances, or acceptance rates of job candidates.

3. Acquiring, Developing, And Retaining Talent

a. Targeted Investments in People

Performance capacity of the organization increases with the increase in the value of their people. Leaders can provide resources and incentives in order to support their employees to work efficiently in order to attain Organizations goals and objectives

Organizations should consider making targeted investments in specific human capital approaches in light of three fundamental ideas:

- First, the approaches should help the Organizations attract, develop, retain, and deploy the best talent and then elicit the best performance for mission accomplishment.

- Second, the approaches should have clearly defined, well-documented, transparent, and consistently applied criteria for making these investments.
- Third, decisions regarding these investments should be based largely on the expected improvement in Organizations results.

Steps to be taken: develop an environment that supports continuous learning and invest in training and professional development programs, recruitment and retention strategies, or performance incentives. Invest in developmental and mentoring program which include combination of formal and on-the-job training, individual development plans, rotational assignments, periodic consultations with senior managers, periodic formal assessments, and mentoring relationships with other employees. In addition to this Organizations can offer recruiting bonuses, retention allowances, and skill-based pay to attract and retain the critical skills needed for mission accomplishment.

b. Human Capital Approaches Tailored to Meet Organizational Needs

Organizations can offer competitive incentives to attract employees with critical skills; to create the kinds of performance incentives and training programs that motivate and empower employees; and to build constructive labor-management relationships that are based on common interests and the public trust.

Steps to be taken: according to the writer successful organizations develop and implement human capital approaches based on a data-driven assessment of the organization's specific needs and capabilities. Educating Organizations personnel about the availability and proper use of human capital flexibilities, such as student loan repayment and childcare services, is an important step toward tailoring these approaches to meet identified needs.

4. Results-Oriented Organizational Cultures

a. Empowerment and Inclusiveness

Involvement of employees in the decision making process and implementation process is crucial to success. . Managers may also consider delegating authorities to front-line employees who are closer to citizens, drawing from the strengths of employees at all levels and of all backgrounds.

Steps to be taken: leading organizations took their employees input on a periodic basis and collected feedback using different types of employee’s surveys and upward feedback.

Important steps taken by leading organizations are

- Demonstrate top leadership commitment to management reform
- Engage employee unions
- Train employees to enhance their knowledge, skills, and abilities
- Use employee teams to help accomplish Organizations missions
- Involve employees in planning and sharing performance information
- Delegate authority to front-line employees.

b. Unit and Individual Performance Linked to Organizational Goals

In order to embed result orientation is to align individual employee performance expectations with organizations goals and objectives. High-performing organizations have recognized that a key element of a fully successful performance management system is to create a “line of sight” that shows how individual responsibilities can contribute to organizational goals. As a first step, these organizations align their top leadership’s performance expectations with organizational goals and then cascade performance expectations to lower organizational levels.

Steps to be taken: organizations can take following steps in this case:

- Strengthened alignment of results-oriented goals with daily operations
- Fostered collaboration across organization boundaries
- Enhanced opportunities to discuss and routinely use performance information to make program improvements
- Provided a results-oriented basis for individual accountability, and
- Maintained continuity of program goals during leadership transitions.

Difficulties with SHRM

Although there has been substantial research on SHRM and further study is going on in this field yet aligning organizational and HR strategies presents a number of difficulties. "...strategy development may be incremental, ad hoc social, cultural and political affairs where numerous cognitive, information limitations - allied to cultural ways of thinking, and political loyalties, and historic relationships and interests - play major roles in structuring how managers think and what they think about". It is also evident that SHRM assumes stability and rationality but this is not what happens in real world. Where SHRM is imposed "top-down" as a "scientific exercise", then the result is likely to be a sarcastic workforce.

Theoretically, SHRM writings present some ideal recipe for an organization to shift to SHRM and deploying certain resource practices. But such a check list is general and over-simplistic. Moreover the SHRM requires inevitable and necessary organizational strategies which in certain situations can be simply political choices aimed at displacing the costs of organizational decline to the less advantaged members of the organization, while presenting these policies as inevitable and neutral. Many organizations may be unable to formulate clear strategic objectives, which can be cascaded down and owned round the organization. The situation becomes complicated when strategy may be determined bottom up rather than top-down (emergent strategy) or cross-sectorally, then aligning HR with strategy and the integrative role becomes jeopardized. Moreover, some of the basic themes of SHRM consist of contradictory ideas; for example,

- simultaneously stressing individualism (in pay for performance and incentives) and co-operation
- employee commitment and managerial flexibility

Additionally, "single recipe" approaches to SHRM take little or no account of cultural difference between organizations or even countries. The pressure to succeed may run counter to the long-termism of SHRM. Despite the earlier comments about successful

implementation of SHRM, there is still relatively little evidence that SHRM has a direct causal relationship to improved performance within organizations. Mueller's (1996) arguments that the real benefit of SHRM is at the more organic, underlying levels and that SHRM is often caused by success rather than being an influencing factor in the first place (David Baker, 1999, Strategic human resource management: performance, alignment, management).

ANALYSIS

CHAPTER 7: ANALYSIS OF THE IMPLEMENTATION APPROACHES OF SHRM

SHRM and Internal Auditing Analysis

In the past when HRM was not really developed the managers considered HRM as a necessary evil that made no real contribution to productivity or profit levels. During the same time, Internal Auditing (IA) was concerned about the outcomes. IA's role was to analyze the effectiveness and the risks associated with practices and processes within such areas as production, marketing and human resources to ensure that these areas worked in accordance with company goals. However, for the past some time things have changed. Now, the managers realize that employees contribute significantly to the financial performance of their organization. Perhaps this is the awareness that has led to functions such as training and incentive payment schemes becoming fused with business objectives. IA now has to be aware of practices that can yield competitive advantage. So, when we talk about the importance of SHRM this can be substantiated by a model which assesses the risk with relevance to company goals while making HR part of strategic planning.

Hyland and Verrault suggest that IA functions are either compliance based or risk managing, and HRM practices administrative or strategic. On this basis, the authors propose a model that incorporates four possible combinations of IA and HRM functions. The impact upon the organizational whole varies with each combination:

Cost minimizing

In this combination, a compliance-based IA function operates alongside an administrative HRM function. Here, the focus is placed upon obeying company rules and discarding practices not legally required. The almost total emphasis on cost-control leaves little or no consideration of the value any such practices may bring to the organization. There is no strategic element in this relationship.

Motivating

Here, the IA function is risk managing and the HRM function administrative. HRM's lack of strategic focus will hinder the company's financial performance, but as IA provides HRM with a risk assessment of various human resource functions and procedures, the combination allows for future change. IA can influence HRM to implement its proposals to become more strategically focused and move towards the value-creating combination. However, this may take time.

Limiting

The roles are reversed here with IA compliance-focused and HRM strategic. The outcome, though, is quite different. Even though HRM can operate strategically on its own, this combination limits financial achievement. Without IA's expertise, HRM cannot measure the value of its practices in both strategic and financial terms. Consequently, in this combination HRM is unlikely to realize its full strategic potential.

Value-creating

This combination forms when functions or practices in both IA and HRM are strategic. IA then measures the value of HRM practices, providing an analysis of the cost and benefits involved. In return, HRM's involvement with strategic business risks makes it a responsive client of IA. When IA and HRM work in strategic tandem like this, improved financial performance is the outcome.

Obviously, then, the impact is maximized when both IA and HRM adopt a strategic approach. The greater the strategic match between functions, the greater the impression upon each other and the organizational whole.

The field of human resource management faces a significant dilemma. Nowadays, many scholars state that Human Resource has become companies' most valuable capital to the extent that companies' competitive advantage lies with its human resource. However, the measures used to articulate the impact of human resource management decisions remain misunderstood, unwanted by key constituents, or even counter-productive

This paper talks about four necessary elements of enhanced HR measurement, and has provided a framework for understanding and developing better future measures. The four components are:

- (1) Evidence
- (2) Explanation
- (3) Purpose
- (4) Method

The research proposes that the key to creating meaningful HR metrics is to embed them within a model that shows the links between HR investments and organizational success. The People Vantage model is proposed as a framework. Application and the potential of the model for guiding research and practical advances in effective HR measures are also been discussed by the author. (Strategic Human Resource Management Measures: Key Linkages and the People Vantage Model, John W. Boudreau, 1998)

CHAPTER 8: PERFORMANCE MANAGEMENT SYSTEM IN SHRM

Some researchers talk about the broad human capital improvements opportunities that are helpful to the Organization change/transformation activities. These categories are:

- Alignment of individual and organizational performance.
- Implementation of result oriented pay reforms

Sustain Organization transformation efforts. In this article the writer uses the word human capital instead of human resource and presents an important human capital management model. According to the author this model shows two principles central to the human capital idea:

- People are assets whose value can be enhanced through investment. As with any investment, the goal is to maximize value while managing risk.
- An organization's human capital approaches should be designed, implemented, and assessed by the standard of how well they help the organization pursue its mission and achieve desired results or outcomes. (Managing for Results Using Strategic Human Capital Management to Drive Transformational Change David M. Walker)

Using Performance Management Systems to Help Transform Organizations

According to the writer performance management system is a key tool used for the alignment in the organizations. Leading organizations used performance management system as a tool to achieve three key objectives. First one is the constructive and candid feedback that would help individuals to maximize understanding of their goals and objectives. Second thing is it would provide management a fact based information for rewarding top performers. And third thing is performance management system give them information and documentation about poor performers.

Writer says that most of the federal management systems failed to achieve these objectives and now began realizing the importance of performance management system.

Result oriented performance management system makes employees accountable for their performance to achieve their results and create alignment between the individual and organizational goals. It is also helpful for the following processes:

- strengthened alignment of results-oriented goals with daily operations,
- fostered collaboration across organizational boundaries,
- enhanced opportunities to discuss and routinely use performance information to make program improvements,
- maintained continuity of program goals during leadership transitions.

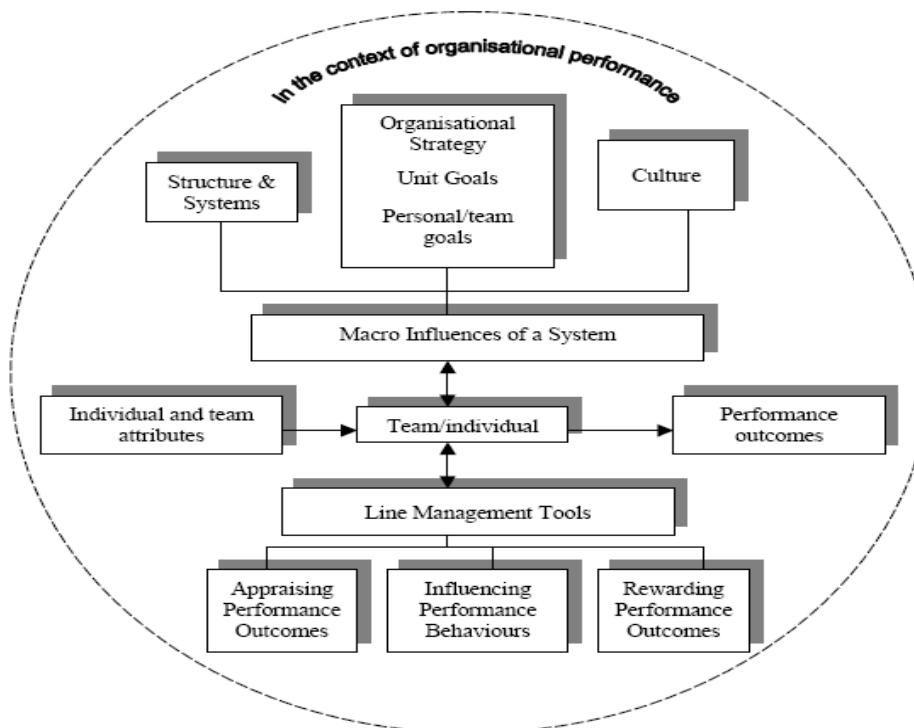
Efforts to link federal pay to knowledge, skills, and performance should be part of a broader effort to align resource decisions to results. According to the writer, result oriented approach is used to determine the federal pay gap. In order to overcome this problem they implemented broad banding pay for performance system. The basic purpose of this system is to base employee compensation on their knowledge, skills and performance and provide flexibility to assign employees in a multitasking assignment

In January 2003 they introduced a new competency based performance management system which was used to create a clear linkage between employee's performance and their strategic plan and core values. It includes some competencies which are as follows: (Managing for Results Using Strategic Human Capital Management to Drive Transformational Change David M. Walker)

- Achieving results
- Maintaining Client & Customer Focus
- Developing People
- Think Critically
- Improving Professional Competence
- Collaborating with Others

- Presenting Information Orally
- Presenting Information in Writing
- Facilitating & Implementing Change
- Investing Resources
- Leading Others

Effective performance management is part of strategic HRM in any organization but how it works and to what extent it would be used is the major issue. Performance management is not only important for SHRM but also for corporate strategic management process Millett (1999). It is the responsibility of line manager to implement performance management process effectively and efficiently in the organization that would match with the organization goals and strategy. (Integrating diversity management initiatives with strategic human resource management, Ronel Erwee, 2003)



CHAPTER 9: ROLE OF STRATEGIC HRM IN ORGANIZATIONS

There are different views about the role of strategic HRM in the organization.

Alignment with business strategy

Basic aim of strategic management is to align all the firm's resources with the organizational goals (Hubbard 2000; Kramar 2001). Objectives of strategic HRM are linked with the objectives and strategy of the organizations (Stone 1995). So according to different authors Strategic alignment between business and HR strategies is also very important. Also consider employees as an important resource in the organization (Nankervis, Compton & McCarthy 1999; Walker, in Albrecht 2001). Corporate strategy is the major source to drive HR strategy like if organization strategy is innovation then HR practices or policies should be linked with close interaction and coordination among employees. According to one author this is called an "accommodative linkage" between SHRM and organizational strategy (Nankervis et al. 1999).

HR alignment is a vital process to advance Organizations accountability. By defining, maintaining, and assessing HRM goals and measures, communicating them throughout the organization, and using the information to make management decisions, organizations are able to ensure that the management of human resources contributes to mission accomplishment and that managers are held accountable for their HRM decisions in support of mission accomplishment. (Strategic Human Resources Management: Aligning with the Mission, U.S. Department of Personnel Management, JSTOR, Sept 1999)

Integrative Linkage

There is another view about the role of SHRM in te formulation of business strategy. Stone 1995 said that HRM input is helpful in determining the corporate strategy and a reciprocal relationship exists. There was another perspective that the skills and

knowledge of HRM professionals is not valuable for the Strategic decisions but the proponents of this perspective said that HRM specialists should become strategic partners at all levels of management. This perspective is called an integrative linkage and is given by Nankervis et al. (1999).

Relationship between multinational organizations and SIHRM

Third and the last view are related to the Strategic International Human Resource Management (SIHRM). According to different writers it has become a difficult task for multinational organizations to use and link SHRM effectively with its vast and complicated business processes.

In case of failure in getting this strategic control on dispersed operations and management of these operations these organizations can not succeed. So the development of SIHRM is very important for any multinational corporation. Multinational prefer the integrative linkage of SIHRM between their departments in different countries and their internal operations. As in different countries there are different legal demands, workers issues and demographics so in addition to working together they should also work according to their local conditions.

Now the main issue faced by the multinational organizations is the increase in diverse HRM policies and practices which needed to be integrated, controlled and coordinated across countries. In this case the main thing which a multinational firm can do is the change management and continual adaptation in order to achieve a fit between the multinational's changing internal and external environments

Three main components are present in the integrative linkage of SIHRM which are issues, functions and policies and practices. These are most important issues because they are influenced by the multinational's strategic activities. According to one author if companies wanted to sustain their performance they should have effective human resource management in several areas like they would need to have cross cultural

leadership, a efficient and experienced workforce, individuals who know how to work in global networks and they should have capacity to change or adapt rapidly. So this shows a fully integrative linkage between corporate strategy and SHRM (Nankervis et al. 1999), especially in multinational corporations.

Another view

To ensure Global Strategic human resource management, two things can be done; development of shared service centers for consistency of HR practices across the national boundaries and adoption of the practices of the host country. It has been observed that multinationals from rapidly developing countries, such as China and India, appear to be adopting the HR management practice of a host country as a way of acquiring advanced skills that enable them to compete more effectively in international markets.

The concept of shared service centers are particularly useful for large, geographically dispersed organizations with several lines of business and that the top leadership should know the critical drivers such as HR becoming more of a strategic partner, the elimination of duplicate resources, consistency of programs and services, and improved quality of services. However, the implementation of a regional or multi-country approach to shared services introduces additional challenges because of differences of demographics, cultural and language differences, infrastructure, investments, labor costs, consistency of programs and processes, availability of expertise and regulatory requirements etc. across the nations. Therefore, the challenge to consider which services to consolidate depends on the ease or feasibility of centralizing and their likely impact on business strategy.

However, if implemented properly, the potential benefits from shared services are significant cost savings, consistency, and better and more efficient administrative services. Most importantly, shared services can free up HR resources for activities that can maximize the return on human capital investment. (Maximizing the return on HR Investment: The benefits and challenges of global strategic human resource management)

Chapter 10: BEHAVIORAL ASPECTS IN SHRM

Diversity Management in Strategic HRM

Dealing with a diverse workforce is a major issue for organizations and management of diversity in the organization is a way of achieving organizational outcomes and improvement in the management practices. Now integration of diversity management with Strategic HRM is a major issue nowadays.

In order to deal with diversity issue top management should work on the following programs, joining hands with the HR management, which are important in diversity management.

Providing training and development

Organizations should provide different types of training to the employees like awareness training (focuses on creating an understanding of the importance and meaning of diversity, and increases participants' self-awareness of diversity-related issues such as stereotyping and cross-cultural insensitivity), Skill-building training (educates employees on specific cultural differences and how to respond to differences in the workplace), legal awareness training (informs employees of the law and the consequences of breaking the law, and encourages employees to engage in appropriate behaviors), Diversity-related training (with emphasis on cross-cultural training and anti-racism training).

According to few authors organizations should include diversity related training as part of their diversity management strategy and should not take them as a solution in themselves Cox (1993). Therefore, we can say that training is an important part of diversity management but it's not a complete strategy.

Leadership and organizational policy

HR practices such as recruitment, training, performance management and compensation are expected to change to respond to diversity-related issues. The absence of leadership

and organizational policy is a major issue in the organizations (D'Netto et al 2000). So there should be a proper strategy in order to manage the changes in the organization due to diversity.

Organizational research or cultural audits

The collection and analysis of data on diversity issues within the organization is essential. Data collection would include equal opportunity profile data, analysis of attitudes and perceptions of employees and the career expectations of different cultural groups. The analysis could identify departments where certain groups are clustered, monitor the effectiveness of and progress with diversity programs, and assist in designing organization specific training and development programs. The primary objectives of a cultural audit are to uncover sources of potential bias against members of certain cultural groups and to identify ways that corporate culture may inadvertently put some members at a disadvantage.

Diversity enlargement or target group employment strategies

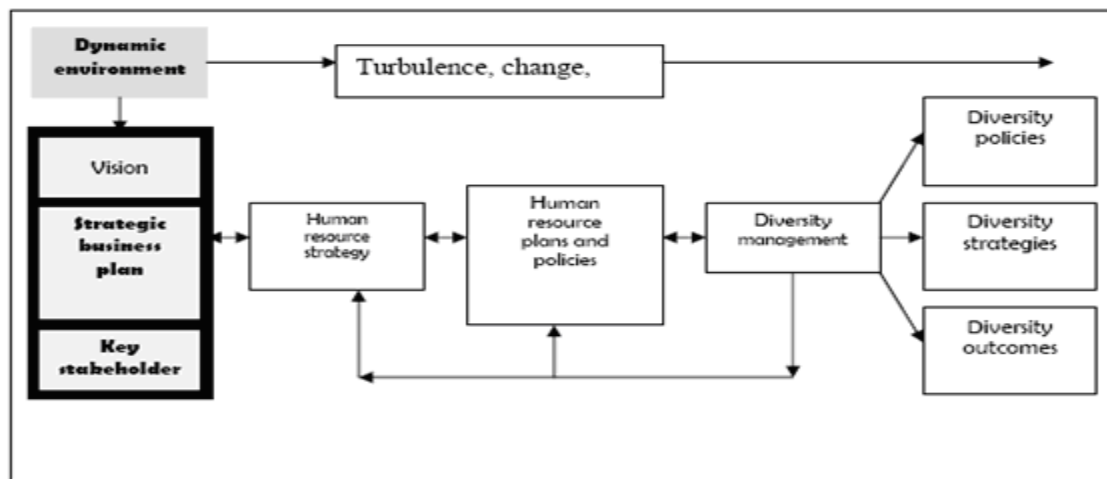
Diversity enlargement programs refer to increasing the representation of groups with particular personal characteristics such as ethnic or gender backgrounds. Usually the organization's demographic composition is changed, but other HR practices may remain unchanged. Such a strategy will not be effective if there is an assumption that increasing diversity and exposure to certain groups will automatically result in increased performance, particularly if this assumption is combined with a perception that it is a forced change effort in order to be politically correct

So in order to achieve efficient diversity management organizations must give training to their employees should provide leadership and should conduct research and cultural audit in order to match HR Practices with the cultural diversity.

Creating linkages in SHRM policy and practices with diversity management

Nankervis et al.'s model assumes reciprocal linkages between HR strategy and a strategic business plan, giving rise to HR plans and policies that have a reciprocal influence on strategy. Such HR plans and policies set the stage for diversity management but are influenced by the latter. Diversity management policies, strategies and outcomes flow from the previous processes, but a feedback loop influencing HR plans, HR strategy or the strategic business plan was not included. The model is based on the assumption that working arrangements and management styles have to be flexible to accommodate the range of employee work attitudes and religious and cultural requirements, and is designed to optimize and liberate human potential in order to maximize productivity while at the same time satisfying individual employee desires. The model is used to emphasize organizational turbulence and change and to incorporate more linkages between components to suggest a fully integrated approach.

Fig: Diversity Management Flow Diagram



Source: Adapted from Nankervis, A., Compton, R.L. & McCarthy, T.E. 1999, Strategic Human Resource Management, 3rd edn, Nelson, Melbourne, p. 158.

How to Implement SHRM through Employee Behaviours

Erickson and Dyer (2004) touched upon a different dimension of SHRM, which shows “how” the competitiveness can be achieved. They say that the universalistic approach and contingency approach both emphasize that SHRM is concerned with the contributions human resource strategies make to organizational effectiveness, but the ways in which

these contributions are achieved still need to be explored. Some SHRM scholars suggest that certain organizational goals require certain employee behaviors and that certain human resource strategies produce certain employee behaviors. In other words, a “Black Box” exists between HR practices and organizational effectiveness, so this leads to develop a SHRM models using a behavioral approach but this model was developed for the high reliability organizations; organizations focused on reliability rather than for organizations pursuing other performance outcomes and the organizations operating in volatile environment instead of stability.

HR practitioners argue that it is possible for organizations to continually delay or even permanently defer the inevitable failures through effective organization and specific behaviors that are;

Diligence:

The goal is, at best, to foresee the problems before they emerge or, on the otherhand detect and locate problems quickly enough to act before they do great damages and this requires constant communication among employees.

Ascertain:

They actively monitor and challenge each other’s actions and thought processes to keep problems from occurring in the first place.

Communicate:

They strive to avoid distortions and misunderstandings by conversing and corresponding a direct, clear, precise, and accurate manner. They report problems or failures immediately and candidly.

Facileness

When the unexpected strikes, HROs are facile in the sense that they are capable of quickly and easily switching from stable and routine activity to flexible and novel action and then back again.

Initiate:

They take responsibility for problems whenever they get into situations they don't understand, they ask for help.

Deploy:

They switch tasks and roles with minimal time and effort so that help arrives where and when it is needed. They organize into ad hoc action groups and then dissolve as soon as the crisis is over.

Fluidity:

They exhibit the capacity to operate effectively in chaotic situations through collective effort.

Co act:

In novel and complex problems, people with diverse talents and perspectives, co act or spontaneously collaborate to address the issues at hand with minimal wasted time and effort.

Impoverish:

They accomplish novel tasks through the creative use of available resources and switching of tactics to reduce the time between discovery and execution of solution.

Generativeness:

Employees focus on learning and work to squeeze as much new knowledge as possible out of their successes and failures as well as the experiences of others.

Learn:

People in HROs continuously strive to go deeper and wider in their skills and understandings. They "over learn" the tasks to meet unexpected conditions.

Educate:

Employees believe in sharing information and knowledge with colleagues both inside and across departmental boundaries. These behaviours can be triggered through following HR strategies:

- **Embed an obsession of reliability:**

HROs do this by entrenching reliability objectives into organizational missions, values, and performance metrics. Moreover, organizations have to select and promote people based on their adherence to organizational mission and values and reward reliability attained above the productivity and efficiency.

- **Promote contextual clarity.**

The organization provides employees with lots of real-time operating information, guidelines, proper training and communication tools.

- **Foster reconfigurability**

HROs design contingency plans in advance and then provide employees lots of training and practice in using them. In addition, this can be achieved by under specifying and overstaffing the critical roles and delegating the decision-making authority at the lowest level, so that under unexpected conditions, employees have the flexibility to take corrective actions.

- **Instill accountability.**

This action requires clarifying the responsibilities to the employees and implementing frequent and thorough performance management systems to ensure intolerance for a compromise on reliability.

- **Facilitate development.**

This is done through providing employees with lots of opportunities for new training, retraining, and cross training, they create communities of practice to allow people to develop in-depth knowledge of particular topics and to share that knowledge with others across unit and organizational boundaries.

- **Encourage security.**

This can be ensured by employing people with highly specialized skills, formally and informally rewarding people for raising concerns and pointing out errors. The voluntary turnover can be minimized by carefully selecting employees and offering candidates

realistic job previews and providing better than average pay. All of the HR activities are kept in house to ensure reliability.

Prior theoretical work on the topic of strategic human resource management (SHRM) has not fully elaborated the link between a firm's HR architecture or overall system of human capital management and its subsequent financial performance. Most of the strategic human resource theories talk about what to achieve but none of them actually talks about how to achieve it. Instead intermediate outcomes, as part of an indirect link, are central to a more complete understanding of how the HR architecture can be a source of new value creation. This extension of SHRM theory complements recent work in the strategy literature that emphasizes the nature and contribution of strategy execution as source of competitive advantage.

Therefore for removing black box, which exists in the HR architecture and firm performance relationship, effective strategy implementation has to be incorporated as intervening variable in SHRM theory.

Drawing on the strategy literature it is proposed explicitly including effective strategy implementation as the key-mediating variable in this relationship. This also requires a new focus on the idiosyncratic dimension of HR's strategic fit, which tends to emphasize the fit with corporate positioning strategy. The emphasis on idiosyncratic fit requires that researchers develop new and more direct measures of HR's strategic fit, while it increases the need for HR professionals consider how the HR architecture can be customized to the unique human capital requirements of each dimension of the strategic activity system.

These extensions of SHRM theory more completely articulate the HR's impact on value creation by increasing the inimitability of the HR architecture's influence on firm performance.

High Performance Work System

One way of achieving this inimitability of HRM on any organization's performance is the High Performance Work System (HPWS). Research has been conducted in 702 firms for the validity of impact of high performance work system, implementation effectiveness and alignment with strategy on shareholder wealth and came to know that one standard deviation increase in the above factors is associated with a \$42000 per employee increase in market value.

HRM and firm performance relationship is contingent upon the degree to which systems have been implemented effectively, the fit among HRM policies and fit among those policies and the firm's larger strategic objectives.

Authors, rather than examining specific HR practices and policies and their complementarities, have focused broadly on two dimensions of a high performance HR strategy: the HR management system and its associated levels of effectiveness and alignment. Through this they have broaden their horizon of study by not only considering the corporate strategy, as alignment and effectiveness include not only the appropriate focus and effective operation of the HR function but also the strategic role of HR in organizational decision making and the role of HR as business partner rather than compliance gatekeeper. Most of the theoretical and empirical literature has a gap of such complementarities; however such gap has been eliminated with the help of this article.

During the study, authors came up with multiple hypotheses which are summarized as below:

- Do the HR system and effectiveness and alignment strategies have independent and economically significant effects on firm performance?
- Is there an optimal balance between these two dimensions of a firm's HR strategy, or is there more than one combination of these two dimensions that can serve as effective HR strategy.

Through the extensive analysis of above given hypothesis, results fully supported authors view i.e. a high performance HR system has an economically positive and significant effect on firms performance if we focus on the importance of implementation effectiveness along with the top management support and consensus on strategic role of HR.

Research work has been carried out in almost thousand companies and thus supports the prediction that high performance work practices have an economically and statistically significant impact on both intermediate employee outcomes and short and long term measures of corporate financial performance.

Prior work in both the academic and popular press has argued that the use of high performance work practices will be reflected in better work performance. However this study has provided broad evidence in support of such assertions. From the study conducted, Mark came to know that investments in HPW practices are associated with lower employee turnover, greater productivity and corporate financial performance. According to his research, one standard deviation increase in such practices is associated with a relative 7.05% decrease in employee turnover and on a per employee basis \$27044 more in sale and \$18641 and \$3814 more in market value and profits respectively.

In addition to that, investments in the HPW practices are to be made each year otherwise if they are taken as a one-time expense then it would underestimate the impact of HPW practice on the firm performance.

Despite theoretical argument that better internal and external fit will increase firm performance, Mark has found only modest evidence of such an effect for internal fit and little evidence for external fit, and therefore according to him, simple adaptation of such practices is more important rather than ensuring that these policies are internally consistent or aligned with the firms competitive strategy.

Example of Some Leading Organizations

Human resource is considered as cost center, not only in past but even today, therefore it traditionally focused on transactions, practices and compliance. Looking at the market conditions, companies always tried to minimize their costs but giving limited attention to human resource. However in contrast, HRM system should be considered as investment where it develops and maintains a firm's strategic infrastructure.

On the basis of research carried out in 2400 firms and three separate surveys, an empirical link between HR strategies and systems and financial performance has been discovered. The findings from five case studies conducted in firms known to be leaders in the management of people and drew three broad conclusions:

1. The foundation of a value-added HR function is a business strategy that relies on people as a source of competitive advantage and a management culture that embraces that belief.
2. A value-added HR function will be characterized by operational excellence, a focus on client service for individual employees and managers, and delivery of these services at the lowest possible cost; and
3. A value-added HR function requires HR managers that understand the human capital implications of business problems and can access or modify the HR system to solve those problems.

CONCLUSION

CHAPTER 10: THE WAY FORWARD

High Performance Work Systems

Manufacturers in the western world are considered to be leaders in various managerial practices. Many of the fortune 500 manufacturing companies are encouraging companies to look more closely at what they can do to enhance their people's performance. These days, when it is increasingly easy to move production or to outsource supplies, it is people who provide the vital competitive edge.

The use of 'High-performance work systems' (HPWS) is being recommended in such dynamic industries as manufacturing (in Pakistan, it could be the Telecom sector). These involve using human resource policies and practices to improve company performance. It sounds simple but too few companies are using these relatively well established techniques, even in the West. Pakistani companies and the MNCs working here, are far behind in this race. They have still to discover the wonders of high performance work systems.

The system comes with four different aspects:

1. Giving employees autonomy and involvement in decision making
2. Training, development and support for employee performance
3. Sharing of information and knowledge
4. Rewards for performance

The key is to motivate people to work beyond the boundaries of their job descriptions by having human resource policies and practices which encourage this. This, if aligned with company strategies, can make HR department visibly a star department and let it escape the inevitable of returns on investment. The HR efforts would clearly speak for themselves when the productivity of each employee rises.

There are good examples of where implementation of HPWS has brought major benefits. Research by Sheffield University with 100 manufacturing companies showed as much as

a 20 percent improvement in productivity. In another survey, companies in the aerospace industry were found to have vastly increased sales per employee.

HPWS facilitating SHRM

The strategic role of human resource management (HRM), and specifically, the influence of a firm's HRM system on its financial performance, has generated considerable interest within the academic and practitioner communities. The theoretical foundations for an HRM-firm performance relationship points particularly at the potential of a high-performance work system to serve as an inimitable resource supporting the effective implementation of corporate strategy and the attainment of operational goals.

HPWS – form of organization

High Performance Work System is a name given to the form of organization that is frequently seen as most appropriate for contemporary conditions. It entails greater levels of involvement and skill development for all employees regardless of their function or level in the organization. Other labels for this include high-commitment management, high-involvement management, flexible production systems or simply transformed or innovative work systems.

What the High Performance Work System entails

The High Performance Work System (HPWS) is generally characterized by a set of managerial practices that serve to enhance the involvement, commitment and competencies of the employee. These may be classified into three sets.

(1) The core practices involve changing the way jobs are designed and executed. In particular they entail methods for working flexibly, including functional flexibility (the training of people to do a range of jobs), team working, quality circles, and suggestion schemes.

(2) A set of practices are used to guarantee that employees have the knowledge and competences to do their jobs under the high performance system. These include training

in team working and inter-personal skills, team briefing, appraisal and information sharing.

(3) A set of practices aimed at ensuring that the organization attracts and retains people with the right motivations to work under such a system.

These include job security guarantees, attitude surveys with feedback to employees, a high priority given to internal recruitment, and the use of systematic selection methods. The various HR work practices take a unique bundle-like form under HPWS to ensure strategic success and this is where it truly facilitates SHRM.

Pay Systems and HPWS

The extent to which reward systems that link pay to performance are required is an open question. Individual-based pay systems are, on the one hand, potentially disruptive of team working, but, on the other hand, if well designed, can focus employees on key performance criteria. Systems that are linked to organizational or group performance may be more appropriate, but there is little evidence to suggest that profit-sharing and employee share-ownership schemes increase organizational identification.

Basing pay on the acquisition of skills (knowledge-based pay) is perhaps the system which dovetails best with high performance practice. But there is a strong case for relying on high flat salaries in order to ensure pay is not a source of conflict.

HPWS and Job Design

Part of the initial thrust for increased employee involvement was the realization that people were not strongly motivated by marginal increments in their pay. The satisfactions involved in doing rewarding work were important. This recognition of the intrinsic motivation of people led to a concern for the quality of working life and to redesign jobs so that they are more demanding and involved. From this perspective the HPWS is unlikely to work unless employees have considerable variation in the tasks that they do and control over how and when they do them.

A High Performance Work System

But it may be that high performance practices can have some impact even when jobs remain highly fragmented and low skilled. Much Japanese management falls in to this category: job rotation, group working and quality circles are often implemented into assembly line situations. In the terms of one UK manager in car manufacturing this involves a new role obligation: that 'the employee should have two jobs, one to make the product, the other to think of better ways of making it'.

HPWS and Total Quality Management

HPWSs have been associated with other management methods such as Total Quality Management (TQM) and Lean Production and it is possible that it can enhance their effectiveness. Certainly investing in the new quality management procedures associated with TQM without some use of high performance practices is unlikely to pay-off.

Evaluating the HPWS

Naturally, the HPWS should be judged by whether employees display certain role behaviours, i.e. are flexible, pro-active and willing contributors to innovation. If they do we would also need to know if this reflects their being more committed, involved and satisfied.

Ultimately the HPWS must be judged by whether it produces the high performance its title suggests it should. Conventional indicators – profit, productivity, costs and human resource measures such as labour turnover – are important. But the real gauge of the system is whether it fosters innovations that enhance the quality of products, service delivery and processes. Since these in turn impact on profits and productivity, it is rates of change in these and other conventional measures that are important. Successful utilization of the HPWS should also enlarge the intellectual capital, an intangible asset, of

Academic research on HPWSs has concentrated on assessing its impact on outcomes such as productivity, profits, labour turnover and absenteeism. But the results are uneven

across studies and, within individual studies, across performance measures. It is not, however, the case that the effects are stronger for more proximal human resource indicators, such as labour turnover. Nor is it the case that the best designed studies (e.g., the limited number of longitudinal ones) reveal the strongest effects.

There is no evidence that HPWSs depend on context from the small number of studies that have tested this. For example, it does not appear that HPWSs have more effect in uncertain situations or where management is following a high-innovation strategy. It is also unclear in many of the studies that have found positive associations whether these reflect synergistic relations between practices, i.e., whether the whole is greater than the sum of the parts. Nor can we tell whether certain specific practices are crucial or if the decisive factor is management's general orientation towards employee involvement and development, rather than practices per se.

Nonetheless, with but a single exception, no study reports HPWSs being negatively associated with organizational performance. And there is sufficient evidence to link superior performance to the key practices associated with HPWSs to suggest that investing in further research in this area is worthwhile. This will need to be on a bigger scale than that so far.

Until the results of such an endeavour are available it is likely that the jury will remain out on whether there is an approach or set of practices better than that of the high performance tag. The research on SHRM so far, ends up sitting on practitioners' shelves in most parts of the world. Wherever it is seen implemented, there are strong tints of HPWS in those organizations, indicating that this visibly productive set of practices has paved the way significantly for SHRM!

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