Chapter I

Introduction
Strategy creation is about doing the right things and is a primary concern of senior executives and business owners. Implementation is about doing things right, a much different set of activities.

This study has been inspired by various theories, perspectives and discussions on the application of Strategy to the Human Resources function. Given the global trends of increased competitiveness and the tremendous focus to the growth of the Indian economy, the role of the HR function has become the foremost leadership role in an organization. Over the past decade, the researcher has observed that Systems Thinking as an approach to strategy in India has been undiscovered and largely ignored. To gain competitive advantage, Indian firms have benchmarked on best HR Practices and have given tremendous focus to deal with acute shortage of trained and skilled manpower to meet the growing demands, which are existing as India rises to be a potential superpower by 2020. Human Resources Heads commenced very aggressive talent acquisition and retention plans. This study was largely impacted by the need to explore a holistic approach to Strategic HR Planning and the need to understand the relevance and practice of all aspects of Strategic HR Planning in India.

This chapter has been designed to share important and relevant definitions, thoughts, models and case studies on Strategy, Strategic HR Planning (SHRP), Strategic HR Management (SHRM), Human Capital Management (HCM), and Systems Thinking by academicians, thought leaders, Management Gurus, scientists and authors of thought provoking books.

A well-recognized authority, Walker (1980), indicated that Human Resource Planning (HRP) can be defined, as the process of analyzing an organization's HR needs, under changing conditions and by developing the activities necessary to satisfy these needs. He illustrates the relationship between forecasting activities and programming activities.

While Walker's (1980) Model was well-defined and was grouped step by step, the level of complexity was minimally reduced. However, Walker identified four stages that represent successive levels of complexity and scope in the systems, procedures, and activities that make up an organization's Human Resource Planning (HRP).

Another definition by Tracey (1985) has been widely accepted as compared to Walker 1974. She indicated that current HRP practices included SHRP and development, career planning, information systems and forecasting, evaluation and selection of employees at any level in an organization. Political environment refers to executive order
legislation and all potential regulations that have an impact on organizations practicing HRP activities and procedures.

1.1.1 Role of Strategy in HR Practices

To understand the role of strategy in HR Practice, we need to delve into the many definitions and interpretations of strategy that have influenced thought over the past few decades. The word “strategy” derives from the Greek word strategos; which derives from two words: -“stratos” – meaning army “ago” – which is the ancient Greek word for leading/guiding/moving.

In its military aspect, the term had to do with stratagems by which a general sought to defeat an enemy, with plans he made for a campaign, and with the way, he moved and disposed his forces in war. It refers to the general’s plan for arraying and maneuvering his forces with the goal of defeating an enemy army.

The strategy definition most commonly known today, as the art of analyzing, projecting and directing campaigns. Some point that Strategy deals with competitive situation in an uncontrolled environment whereas Planning largely deals with situations in a controlled environment. Business strategy is therefore the overall strategic aim of the Organization. Business people have always shown a propensity towards military analogies, so it is not surprising that they have embraced the notion of strategy. They too began to think of strategy as a plan for controlling and utilizing their resources (human, physical and financial) with the goal of promoting and securing their vital interests. Kenneth Andrews was the first to articulate these emerging ideas in his classic, The Concept of Corporate Strategy, (K. Andrews, 1971). Andrews defined strategy in terms of what a business can do – that is, its strengths and weakness—and what possibilities are open to it—that is the outer environment of opportunities and threats. A decade or so later, Harvard professor Michael Porter sharpened this definition, describing strategy as “a broad formula for how a business is going to compete.” Bruce Henderson (1995), founder of The Boston Consulting Group, and one of the senior thought leaders of corporate strategy, connected the notion of strategy with competitive advantage, perhaps borrowing a concept drawn from economics (comparative advantage). Henderson wrote that “Strategy is a deliberate search for a plan of action that will develop a business’s competitive advantage and compound it”. Competitive advantage, he went on, is founded in differences.” The differences between you and your competitors are the basis of your advantage.” (Haines, S. G, Successful Strategic Planning, 1995.)

Michael Porter concurs with Henderson’s idea of being different: “Competitive
strategy is about being different. It means deliberately choosing a different set of activities to deliver a unique mix of value.” (Source: Porter 1980, 1985). Strategy is a plan that aims to give an enterprise a competitive advantage over rivals through differentiation. Strategy is about understanding what to do, what you want to become, and—most importantly—focusing on how you plan to get there. Likewise, it is about what you don’t do; it draws boundaries around the scope of a company’s intentions. A skillfully implemented strategy enables to identify the goals and directions that managers and employees at every level need in order to define their roles and make the organization successful. In the absence of a clear strategy the enterprise is rudderless.

It was Drucker (1955), in the practice of management emphasized on the importance of strategic decisions, which he defined as “all decisions on business objectives and on the means to reach them. However, the concept of business strategy was not fully realized until the pioneers like Alfred Chandler (1962), Kenneth Andrews (1965), Igor Ansoff (1965) and Michael Porter (1980) - the “shapers and movers” as described by Moore (1992) - developed what could be regarded as the classical approach. This involves the use of formal and systematic design techniques, is quantified and externally focused, concentrates on long term plans without being much concerned with implementation, and more or less ignores the human element. Later writers, especially Henry Mintzberg (1994), emphasized the process and qualitative aspects of strategy, seeing it as evolutionary and as a pattern of activities rather than a formal design. Prahalad & Hamel (1990), Barney (1991, 1995) and others developed the concepts of distinctive competences and resource-based strategy, and more recently, academics such as Purcell (2001) have stressed that strategy is about implementation as well as planning. This shift in thinking about strategy has been described by Ghoshal & Bartlett (1999) as moving “from strategy, structure and systems, to purpose, process and people”. This has formed and created a strong foundation for theoretical framework for Strategic HRM.

In many ways, Ansoff (1970) was years ahead of his time. He was, for example, exploring the idea of ‘competitive advantage’ well before Michael Porter turned his mind to the topic in the 1980s. In other ways, Ansoff reveals his background as an engineer and a mathematician in his approach, and he has attracted criticism over the years for being too rational, prescriptive, and unwieldy. Ansoff, to his credit, was alert to these critical comments, even to the point of coming up with definitive phrase for characterizing one of the key drawbacks of his approach—‘paralysis by analysis’.

It is all too easy in this more turbulent time to dismiss Ansoff’s highly structured methodologies as the product of a rational mind operating in a stable business environ-
ment, and therefore of marginal relevance to sophisticated twenty-first century organizations. This would be unfair. Ansoff gave firm structure to organizational thinking. (Igor Ansoff, 1965, Corporate Strategy)

‘Strategic management is a comprehensive procedure which starts with a strategic diagnosis and guides a firm through a series of additional steps which culminate in new products, markets and technologies, as well as new capabilities.’

About strategy, and the underlying questions he explored in Corporate Strategy — where to grow, how to assess organizational capability, which competencies to leverage, and so on — are crucial issues that need to be faced by any organization seeking to build its future. (Igor Ansoff, 1988, Corporate Strategy)

Competing on the Edge, (Brown and Eisenhardt, 1998) was one of the first books that attempted to translate leading-edge complexity concepts from science into management practice. It concludes, perhaps not surprisingly given its background, that organizations need to move from a static strategic proposition (grounded in analytical rigor and standard techniques) to a more dynamic fluid model that draws its energy from the boundaries of chaos. For those readers who are not familiar with complexity theory, the edge of chaos is a key concept which suggests that systems that exist at the boundary zone between chaos and stability are most capable of evolving to meet (continually) emerging new orders.

**According to Brown and Eisenhardt, the edge of chaos is characterized by:**

- The existence of a few rules (like priorities) that are not arbitrary and are not compromises between extreme values. They are specific rules that can create, for example, the flocking behavior of birds.

- The need to maintain the balance on the edge of chaos because it is a ‘dissipative equilibrium’ (i.e. in a constant state of flux and therefore unstable). There is a constant tendency to fall into the attractors of structure and chaos.

- Mistakes: These occur because systems at the edge of chaos often slip off the edge. But there is also quick recovery, and, like jazz musicians who play the wrong note, there is a chance to turn mistakes into advantages. They go on to propose that competing successfully ‘on the edge’ use four main approaches to creating strategy: Management teams build collective intuition frequent meetings and real-time met-
rics that enhance their ability to see threats and opportunities early and accurately. Executives stimulate conflict by assembling diverse teams, challenging them through mindset-breaking tactics, such as scenario planning and role playing, and stressing multiple alternatives to improve the quality of decision making. Effective decision-makers focus on maintaining decision pace, not pushing decision speed. Their perspective is collaborative, not competitive. (Shona Brown & Kathleen Eisenhardt, 1998, Competing on the Edge)

Pulitzer prize-winning business historian Alfred Chandler was one of the seminal influences on the development of thinking about strategy in the 1950s and 1960s. He was one of the first writers, and certainly the first historian, to argue the importance of strategy in the development, management and success of the corporation.

Chandler’s central thesis in Strategy and Structure is that strategy gives companies focus and allows them to determine what should be done and why. Once a company has established what its strategy should be, it then needs to ensure that it has the appropriate structure to enable it to achieve its strategy. Chandler put it succinctly: ‘structure follows strategy’.

In more recent times, the Chandler idea—that strategy is set and then structure follows—has been questioned. Tom Peters, writing in his book Liberation Management, is characteristically blunt: ‘I think he (Chandler) got it exactly wrong for it is the structure of the organization that determines, over time, the choices that it makes about the markets it attacks’.

Richard Pascale, in his book Managing on the Edge, also take Chandler’s thinking to task: ‘The underlying assumption is that organizations act in a rational, sequential manner. Yet most executives will readily agree that it is often the other way around. The way a company is organized whether functional focused or driven but independent divisions, often plays a major role in shaping its strategy. Indeed, this accounts for the tendency of organization to do what they know best how to do—regardless of deteriorating success against the competitive realities.’ (Alfred Chandler, 1962, Strategy and Structure)

In Competing for the Future, Gary Hamel & C K Prahalad (1994) question the traditional strategic approach and suggest that companies need to talk less of strategy and planning and think more about strategizing. To help companies achieve this paradigm shift, they offer a whole new vocabulary of strategy. They talk, for instance, of the importance of ‘strategic intent’, ‘strategic architecture’, ‘industry foresight’, and—probably the
concept for which Competing for the Future is best known – ‘core competencies’.

Hamel and Prahalad define core competencies as ‘a bundle of skills and technologies (rather than a simple or discrete skill or technology) that enables the company to provide a particular benefit to customers’. They argue that companies gain benefit by thinking beyond their current product lines and being clear about and deploying effectively their underlying competencies. Applying this thinking reveals that a company such as Nike has a core competence of design and merchandising, not shoe quality. Sony pioneered transistor radios, but isn’t still making them. Its core competency of miniaturization enables it to amaze consumers by pioneering new thing to miniaturize. For McDonald’s convenience is a core competence.

For any organization, core competencies are necessarily limited in number. A company that believes it to have 50 core competencies, for example is probably describing constituent skills and technologies rather that core competencies. At the other extreme, a company that can list only one or two core competencies is likely to be using too broad a level of aggregation. Hamel and Prahalad take the view that to be considered core, a competency must meet three tests:

1. **Customer value:** a core competency must make ‘a disproportionate contribution to customer- perceived value’. They cite Honda’s know-how in engines as core competency, whereas its management of dealer relationships isn’t. The fact is that very few of Honda’s customers choose it over competitors because of some unique capability on the part of Honda’s dealers; whereas their reputation for building some of the world’s best engines does distinguish the company form the competition.

2. **Competitor differentiation:** a core competency must be competitively unique. This does not mean that it is uniquely held by just a single company, but it does mean that any capability that is ubiquitous in an industry sector is not a core competency.

3. **Extendibility:** core competencies rather than product lines are gateways to tomorrow’s markets. Companies need to escape a product centric view of their capabilities and be prepared to use their core competencies as basis for entry into new product markets.

If a significant chunk of the power of core competencies rests in their capability to lever open new potential markets for a company, we should bear in mind that actually identifying those opportunities still requires a considerable act of corporate imagination.
The trick is to see the future before it arrives. The industry foresight needed to achieve this, say Hamel and Prahalad, 'grows out of a childlike innocence about what could be and should be, out of a deep and boundless curiosity on the part of senior executives, and out of a willingness to speculate about issues where one is, as of yet, not an expert'.

If core competencies provide the potential for companies to move into new markets, and industry foresight enables those future markets to be imagined, that future still needs to be built. Hence Hamel and Prahalad's coining of the term 'strategic architecture'.

Building strategic architecture involves much more than 'rolling out' a long-term plan. It requires processes to be built that allow all the employees in the organization to see the big picture as well as their individual parts in making the future happen. To build new core competencies, the organization must have a holistic view of its relationship with its environment and the changes that are likely to occur in this relationship in future. Strategic architecture becomes the process which allows the organization to create an enlarged sense of future possibilities. But of course strategic architecture needs organizational architect. (Gary Hamel & C K Prahalad, 1994, Competing for the Future)

During the 1980s and 1990s, Japan's management methods become the focus of a great deal of study. More than anybody, Richard Pascale and Anthony Athos were the people who brought the Japanese style of management to the attention of the western world, and made it a hot topic with their book The Art of Japanese Management.

At the time of writing their book, Pascale and Athos were both consultants for McKinsey and Co. they found that the more they worked with American companies and examined US working methods and practices, the more concerned they grew. Western management was hierarchical, and in large part modeled on military practices in terms of levels of authority, unity of command, line and staff functions, and so on. Decision-making was essentially top-down. Equally concerning to them was a level of self-confidence that existed in American companies that did not seem justified by corporate Performance.

As they came increasingly to the view that sources of best management practice lay beyond rather than within US borders, they turned their heads to the more consensual working practices of Japan. Their research revealed some harsh truths about US industrial Performance as they concluded that 'if anything, the extent of Japanese superiority over the United States in industrial competitiveness is underestimated;

They found that managerial skill levels were higher in Japan than in the West, but
perhaps most damning of all was their observation of western management that it had too many management tools at its disposal but displayed too little vision. They were concerned that western managers were beguiled by management fads and used them in a piecemeal and inauthentic manner. Japanese companies, in contrast, were visionary, and only deployed management tools that would advance them towards their chosen goals. Although the concept of vision is widely known nowadays, and having a vision is regarded by most organizations as essential, Pascale and Athos were the first writers to discover and champion the value of vision as a unifying, dynamic modus operandi.

However, for all that The Art of Japanese Management was the first widely read paean to the power of galvanizing, authentically held vision; the book is best known these days hosting the first public appearance of the seven S framework.

This framework, which now features has an element of just about every MBA programme running on the planet, was originally developed as a consulting tool for McKinsey & Co. in 1979 by a team that included Pascale, Athos, Robert Waterman and Tom Peters.

In essence, the seven S Model is a diagnostic tool that categorizes organizations into Seven key areas of concern:

- **Strategy**: developing a strategy that moves towards a shared vision for the organization and matches its core competencies to the needs of the environment;

- **Structure**: ensuring that structure (how the firm is organized) supports the strategy;

- **Systems**: ensuring that systems (how information flows around the organization) also support the strategy;

- **Skills**: organizational capabilities and competencies;

- **Style**: management style and level of commitment to change (including the levels of openness and participation within the organization);

- **Shared values**: the culture, purpose and guiding precepts of the organization and how these are communicated both within the organization and to outsiders; and

- **Staff**: people issues such as the use of team work, empowerment and participation, reward and promotion issues.
Some of these areas are 'hard' (strategy, structure and systems) and some are 'soft' (style, staff and shared values). Skills is placed centerpiece because it is both 'hard' and 'soft', competencies of the organization as a whole.

According to Pascale and Athos, the value of the Seven S Model is that it imposes an interviewing discipline on researchers, forcing them to audit an organization from all perspectives, both 'hard' and 'soft'. The importance of the model lies not only in understanding each dimension within the framework but also in looking at the fit between the seven dimensions.

The Seven S Model is a useful starting point in understanding organizational change because different aspects of organizational life: on the one hand, the technical and operational aspects of providing a product or service; on the other hand, the rich human dimension that surrounds them. This is critical because it is in the ability to integrate the 'hard' and 'soft' aspects of organizational change that the best organizations often differentiate themselves.

Pascale and Athos conclude that Japanese companies were superior in skills, staff, shared values, and management style—all of which one might term the soft skills. In contrast, the West was preoccupied with the hard Ss of strategy, structure and systems.

Since the book was published, over 20 years ago, Western companies have started to direct more attention to the soft Ss, with mixed success. What is ironic, of course, is that Japan’s image as a role model for good managerial practice has been tarnished in recent years as its industrial Performance has slipped. (Richard Pascale & Anthony Athos, 1981, The Art Of Japanese Management)

Tichy argues that looking at a problem systemically will always yield a better understanding that it was back in the 1930s that researchers began to look at businesses not just as technical or economic institutions, but also as social systems, it has take a long time for organizations to recognize and come to terms with the fact that they have both rational and non-rational underpinnings.

According to Tichy, Managing Strategic Change raises some fundamental questions about the nature of organizations. What business or businesses should we be in? Who should reap what benefits from the organization? What are the values and norms of organizational members?
Managing Strategic Change sets out Tichy’s conceptual framework for managing these basic dilemmas and problems facing organizations in three key areas (or systems) – the technical, political, and cultural. He calls his framework TPC theory after these three areas, which he believes pose fundamental problems for organizations that ‘require continuous attention’, and which are ‘never solved, but constantly adjusted over time’.

Tichy uses a powerful analogy of the intertwined strands of a rope to demonstrate how the technical, political and cultural systems play out in an organizational setting. He makes the point that, just as it is virtually impossible to distinguish the individual strands of a rope from a distance, so it is difficult to distinguish an organization’s technical, political and cultural systems. He also points out that ropes can weaken and unravel over time; the same is true of organizations.

When the technical, political and cultural systems are not working together harmoniously, the organization becomes weakened. It is the process of strategic management that is supposed, in Tichy’s words, to keep the ‘rope together in the face of changing demands brought on by technical, political, and cultural changes in the environment’.

(Noel Tichy, 1983, Managing Strategic Change)

Perhaps it would be useful at this point to say a little more about each of the three systems: Technical system, Political system, Cultural system. Effort, TPC theory offers the reader a framework for addressing change issues in a systematic and thorough manner. With his concept of the strategic rope, Noel Tichy has come up with possibly the most potent strategic metaphor of the past 25 years. (Noel Tichy, 1983, Managing Strategic Change)

Since strategy also concerns internal resources along with external, Purcell defined it as “A strategy is a pattern or plan that integrates an organization’s major goals, policies and action, sequences into a cohesive whole. A well- formulated strategy helps marshal and allocates an organization’s resources into a unique and viable posture based on its relative internal competencies and shortcomings, anticipated changes in the environment, and contingent moves by intelligent opponents.” Therefore, the contributions of Ghoshal & Purcell categorically emphasized on the resources & align them with the most important resource – the Human Resource.

According to Patel (2006): “Strategy is fundamentally about difference. Strategy therefore denies equality, striving for sameness or belief in there being only one answer. Difference requires leaps beyond what others can grasp. Strategy requires us to go beyond what the blind following of analysis can reveal or where the sharing of common
assumptions, where the accepted wisdom points us, what the acceptance of unfit rules gives us.” (Ketan Patel, 2006, The Master Strategist - Power, Purpose and Principle 2006)

Chanakya the great scholar, the strategist who advised Emperor Chandra Gupta Maurya referred to focusing on one’s goals. “A clever man must concentrate his attention on his goal just like a crane. When it spots a fish it stands immobile, eyes fixed on the target” (Vishwamitra Sharma (2008) Complete Chanakya Neeti)

In discussion of strategy the reference to the Balanced Scorecard is necessary as it introduced a framework on all important aspects of an organization’s strategy, including the HR strategy. The Balanced scorecard is a management system that enables an organization to set, track and achieve its key business strategies and objectives. Once the business strategies are developed, they are deployed and tracked through what is referred to as the Four Legs of the Balanced Scorecard. The Balanced Scorecard Strategy relies upon four different yet integrated perspectives: The Customer Leg, the Financial Leg, the Internal Business Process Leg, and the Knowledge, Education, and Growth Leg. These four legs of the Balanced Scorecard are necessary for Corporate executives and managers to be able to plan, implement and achieve their business strategies. A brief understanding of each aspect of the Balanced Scorecard has been attempted: Customer Scorecard: Measures the customers’ satisfaction and their Performance requirements—for their organization and what it delivers, whether it is products or services. Financial Scorecard: Tracks the financial requirements and Performance. Internal Business Process scorecard: Measures their critical-to- customer process requirements and measures. Knowledge, Education, and Growth scorecard: Focuses on how an organization trains and educates their employees, gain and capture their knowledge, and how it is used to maintain a competitive edge within the relevant markets.

**The Concept of Strategy**

The subject of strategy falls a long way short of an established discipline, characterized by a widely accepted Organizing structure and a growing body of empirical knowledge. Indeed the strongly commercial orientation of the strategy business itself conflicts directly with this. The tradition of scholarship demands that each author should explain carefully how his contribution relates to all that has gone before; the dictates of profit suggest that each consultant should dismiss as bunkum the theories of his rivals and proffer his own nostrums as the one true solution. (Kay, 1993)
There is also acknowledgment of the fact that the concept has evolved, particularly in the past ten years, from a situation during which strategic planning was the main focus of study and application to one which has witnessed the broadening of the planning concept to the process now known as strategic management. As will be seen there are important insights to be gained in more fully examining both the origins and more recent developments in the strategy concept.

**Definition of Strategy**

A dictionary definition of strategy conveys its orientation. Strategy is: The art of war, generalship, especially the art of directing military movements so as to secure the most advantageous positions and combinations of forces.

A strategem is: An artifice, trick, or maneuver for deceiving an enemy. A strategist is: A military commander. The Latin root of the concept is to be found in the words, stratos, meaning army and again, meaning to lead. Interpretation of the above definitions suggests a leader, directing the movements of an army and engaging in actions to maneuver the enemy. Applied to the business organization, the definitions suggest the Chief Executive (or main decision-makers) engaged in leading the organization in a direction and in a manner intended to secure competitive advantage over competitors in pursuit of the organization's mission. Using this definition five key elements in strategy can be discerned: Leading, Positioning the company, Deploying resources, Securing competitive advantage, and being successful in the environment specific to each organization.

**The Incremental Approach**

Mintzberg's concept of crafting strategy is in stark contrast to the formal planning approach. Strategy formed through the latter approach is based on thinking and reasoning. Crafting strategy is completely different. The concept of craft evokes traditional skill, dedication perfection through mastery of detail. There is a sense of involvement, intimacy and harmony which has been developed through long experience and commitment. Formulation and implementation merge into a fluid process of learning through which creative strategies evolve. In Mintzberg's view the crafting image captures the reality of the process by which effective strategies come into being, while the planning image distorts this reality and in doing so misguides organizations that embrace it unreservedly. Mintzberg, in research into how strategies are actually made as opposed to how they are, prescriptively, supposed to be made, has concluded that strategy is needed as much to explain past actions as to describe intended behavior. If strategies can be planned and
intended, they can be pursued and realized or not realized. A pattern of action, that is, realized strategy, should be discernible. When strategy is portrayed as a deliberate process it suggests thinking before action. However strategy can form as well as be formulated. ‘A realized strategy can emerge in response to an evolving or it can be brought about deliberately.’ Strategies that appear without clear intentions are emergent strategies. Mintzberg thinks that deliberate strategy precludes learning while emergent strategy fosters it but precludes control. Learning must be coupled with control. Effective strategies combine deliberation and control with flexibility and organizational learning. The organization manages the environment by handling periods of stability and revolutionary change that is convergence and divergence. In his view the strategist is a pattern recognizer and a learner who manages a process in which strategies and vision can emerge as well as be deliberately conceived. The debate with regard to the nature of strategy formation still continues. Ansoff (1991) condemns Mintzberg’s analysis as being methodologically unsound on a number of counts not least that he moves from description to prescription without offering any evidence that the prescription will work. In Ansoff’s view the ‘emergent’ approach is unsuited to the continuing high levels of turbulence in evidence in the environment and could even endanger the survival of the organization, because by the time the ‘emergent’ strategists had brought a product/service to the market, they could find that they had been preempted by more foresightful competitors who had planned their strategic move in advance. The model is based on extrapolation of the past although managers are never totally sure or unsure about the past and formulate strategy precisely because they are partly unsure. Use of the organizational learning concept of ‘trial and error’ ignores the rational of learning which a legitimate alternative is. (Ketan Patel in his book The Master Strategist, Power, Purpose & Principle 2005, 2007)

Strategy, in this context, is simply the name we give to the plans and actions by which we enforce our ways on others—peoples, institutions and environments. To summarize, this work is based on five themes, namely: We are experiencing a level of change that is transforming the context within which strategy needs to be formulated in exponential and stepped manner. The current methods of developing strategies will not deliver changes to the strategic methods that are significant or fast enough to deal with the changes in the context. The strategies of today are based on assumptions that are no longer relevant and are based on models that are too simplistic and often erroneous. The level of progress in the fields of science and technology is far ahead of the field of strategy and this is dangerous because strategy is required to determine how we utilize the results of science and technology. The strategists that are required cannot be developed quickly enough through the methods that are being employed today and development is the responsibility of leaders and individuals and will, in general, require more extreme
measures should they desire to succeed. The current ability to move faster through the process of invention- destruction-replacement has never been so accentuated.

**The Failure of Modern Strategy**

Strategy is fundamentally about difference. Strategy therefore denies equality, striving for sameness or belief in there being only one answer. Difference requires leaps beyond what others can grasp. Strategy requires us to go beyond: What the blind following of analysis can reveal,

Where the sharing of common assumptions leads, where the accepted wisdom points us, what the acceptance of unfit rules gives us. The current methods for developing strategy will not deliver progress of the magnitude and speed required. Researchers and academic authorities in the fields of science have examined a broad set of narrow domains and established frameworks and formulae that abstract from the complexity to define solutions to very precise problems. Given the concerted effort of scientists, particularly since the Renaissance, the number and diversity of these models of the world provide a rich body of theory and knowledge in their attempt to explain the world. Despite, or perhaps because of this investment, scientists have been ready to make other leaps of thought in the scientific domain. While new answers are being developed and new methods too perhaps one of the most significant lessons is that we have accepted models as if they were fact. This was never the intention of the inventors of the models. The inventors of the models understood the limitations of their models just as most of today’s elite within the scientific research and academic community understands this.

However, somewhere in the common use of these models, this was forgotten and people came to respect the models as if they were the answer. A modern has not yet happened that does have the richness or diversity of models to explain the world. However, the models we do have are taken literally and have resulted in narrow and incomplete strategies. These strategies lead us to wage unnecessary wars, destroy the environment and over-compete. The breakthroughs in strategic thinking since then have taken a more scientific approach in that they have picked narrower domain and produced models to address that narrow domain. Unfortunately, given the lack of investment in developing strategic thought, there have been too few breakthroughs in comparison to other fields and so this are not well equipped to formulate strategy to deal with the complex series of growing and interconnected factors facing us today. The progress made in the fields of science has not been matched by that made in the fields of strategy and so there is a risk in squandering the gains made by scientists.
The role of strategy is to create change. This change must be fit for the desired result in the context of the environment. For the success to last, the ability to change must be both preemptive and responsive. The change must be capable of being both evolutionary and revolutionary. The change must be neither fast nor slow—it must be appropriate.

The Master Strategist ‘programmes’ the organization and the environment to create this change in order to achieve an outcome. Although this change happens in a fluid way, to understand it we need to use a simple model that is called Position - Reposition. This involves morphing the organization from a current state to a future state, through a series of intermediate positions. It also involves morphing the environment, the external dimension described above, from a current state to a future state, through a series of intermediate positions. To see the whole of this change, we need a clear understanding of the current state, a vision of the future state, and the ability to work backwards from the future to determine the intermediary positions on the journey. (Ashok Chanda and Shilpa Kabra, 2000, Human Resource Strategy)

Successful people learn to create action plan to realize their vision; they have the ability to transform dreams into an existent, empirical reality. What marks great achievers such as Mahatma Gandhi, Aristotle, Alexander and Hitler? Chiefly, their power to envision and the significant capability to transform and convert their vision into reality. Similar is case of organizations. It is the power to envision and move towards reality that makes them successful. If an organization has no clear vision, it has literally lost its basic reason for existence. A problem also can exist when an organization has a vision that is not shared by all employees. It is obvious that employees share a vision when they consciously address the three issues of how they want to work together and what they must do.

Organization vision is more than a scheme of profits, activities, projects, or programmes of an organization – more than the production of goods and services. Vision is a view of what the organization would look like in the future as well as a statement of the greater policies of the organization. Vision produces a connection between the day-to-day routine of even the smallest job and the larger purpose of the organization.

Any organization’s vision tells employees what is really important in the way they do their work. Sometimes the vision is written and sometimes it is implicit. However, only after it is been clearly defined, written, and articulated throughout the organization does it become the parameter for determining how decision are made, how problems are solved, and ultimately how the vision are accomplished. When dealt with in this formal fashion, it becomes the mechanism that allows employees to feel personally responsible
for their contribution to the organization and formally stated vision can be powerful and long reaching. Because visions are people-centered, it is imperative that the HRD teams examine and react to the vision held by employees.

Any vision is a model of desirable or idealistic future for the organization, but beyond that, visions have the ability to renew or transform an organization. Consider Toyota’s dream of producing a vehicle – later called the Lexus – engineered to go beyond the existing standards of high-performance luxury automobiles. Or consider Walt Disney’s vision (Nanus, 1992) for a new kind of amusement park:

The idea of Disneyland is a simple one. It was to a place for people to find happiness and knowledge. It was to a place for presents and children to spend pleasant times in one another’s company; place for teachers and pupils to discover greater ways of understanding an education. Here the older generation could recapture the nostalgia of days gone by and the younger generations could savour the challenge of the future. There was to be the wonder of Nature and Man for all to see and understand. Disneyland was to be based upon and dedicated to the ideas, dreams and hard facts that have created America. And it was to uniquely equip to dramatize these Great companies understand the difference between what should never change and changes are required. This rare ability to manage continuity and change requiring a consciously practiced discipline is closely linked to the ability to develop a vision. Vision is a guide to what is core to preserve and what future to stimulate progress towards. But vision has become an extremely overused and misunderstood word, conjuring up different images for different people – of deeply held values, outstanding achievements, societal goals, motivating force or reasons for corporate existence. Vision plays an important role not only in the start-up phase of organization but throughout the organization’s life cycle. Vision is a signpost pointing the way to those who need to understand what the organization is and where it tends to go. Over a period of time when an organization needs redirection or perhaps a complete transformation, and then the first step would be a new vision, a wakeup call to everyone involved with the organization that fundamental change is needed and is being formulated.

An organizational statement of vision outlines why the organization exists. It should define the organization’s line or lines of business, identify its products and services, and specify the markets it serves at present and within a time frame of three to five years. A vision incarnates the possibility of a realistic, credible, attractive future for the organization. It articulates the destination toward which your organization should aim, a future that in important ways is better, more successful or more desirable for your organ-
ization than in the present. Vision provides a base to move ahead, a goal to be achieved. Vision gives an overall long-term direction to an organization. The Constitution of India, for example, is a written description of the founding fathers vision for India, setting a clear direction and defining values but not specifying how to get there.

A vision is only an idea or an image of a more desirable future for the organization, but the right vision is an idea so energizing that in effect jump-starts the future by calling forth the skills, talent, and resource to make it happen. For example, Henry Ford’s vision of a widely affordable car or, consider from the vision statement of the IT development department of the Government of India: To establish India as a global force in the next ten years, bring benefits of electronics to every walk of life, respond through critical applications, policy framework and technological advancement

**HR Vision – A concept**

From the organization’s vision, various business divisions can derive their own vision. HR vision is one of such attempts. The HR vision statement defines what business the HR function is in, and just as importantly, what HR does not do. In addition, being clear as to what is and what is not in the scope of the function are key methods of establishing trust and confidence of customers and HR employees.

The HR vision statement focuses on customer expectation from the HR function. An articulated HR vision provides a sense of direction for HR professionals and the HR department of the organization at large. It clearly defines HR goals, objectives and activities.

The HR vision defines an organization’s long-term views and direction towards its employees to build their competencies and commitment to remain competitive in the business it is in.

The HR vision should aim at maximizing employee contribution to the achievement of corporate objectives. HR does this by cost-effectively promoting and enabling the defined objectives. These serve as checkpoints to ensure that the capability to deliver was incorporated into the company’s business plans, This does not imply that all services will be delivered by the HR function, but if a relevant item is included in the vision, HR takes responsibility for ensuring that a delivery path exists, whether the concerned department delivers directly or otherwise, as reflected through Mike Monroney Aeronautical Center’s HR vision: We value the dignity and diversity of all people, excellent customer service, honesty and integrity, honoring commitment, teamwork and collaboration, open commu-
As organizations work to create a more successful HR strategy, the need for their workers to have more knowledge continues to grow. When corporate objectives are at stake, the need to develop a successful HR vision can become its critical need.

Many HR departments haven't yet achieved that business partner status HR professional have been struggling so hard for lately. It is a difficult role to achieve, especially when senior management is resistant to the value of employees and employee-management issues. But as much as HR would like to blame CEOs, Presidents and the rest of the senior management team for the lack of concern about employees and employee issues, HR has to first examine its own role to make sure it's headed in the right direction – and leading the vision from there. HR professionals are quiet essential key players on their company’s management team.

The reality today is that many HR professionals have been very focused to the harder side of HR – understanding business partners – that they have neglected HR’s softer side – the principle that employees need to be treated as people, not just as assets or as resources. And they, especially to the senior management. HR vision not only needs to be defined at the inception of corporate policies, but also must be re-examined at regular intervals. Several factors should be assessed, such as the current status of HR practices, changes in the competitive position of its human resources, change in top level management, new technology and its impact on HR, increased HR costs, and other vital issues.

**Components of a HR Vision**

Most discussions of HR vision has a tendency to degenerate into the mystical, the implication is that an HR vision is something mysterious that mere mortals, even talented ones, could never hope to have. But developing a good HR direction isn’t magic. It is a tough, sometimes exhausting process of gathering and analyzing information. People who articulate such visions aren’t magicians but broad-based strategic thinkers who are willing to take risks. A well – conceived HR vision should consist of the following major components:

The basic philosophy of an organization’s HR vision defines what the HR function stands for, it’s propose and beliefs and why the function exists. This remains constant, and supplements the future dream of the function and the organization. The future dream is
what the HR function aspires to become, to achieve, and to create.

This defines the enduring postulates of the HR function. It represents basic HR beliefs and what the function stands for. It is an identity of the function that transcends individual beliefs, the organization, the nature of processes and the prevailing fads. Basic philosophy provides the glue that holds the HR function together as it grows, decentralizes, diversifies, expands globally and develops workplace diversity. HR vision should embody the basic philosophy, the values and the core purpose of the organization. According to M B Arthreys (National Conference, HRD Network, Madras, September, 1987): The points is that if HR philosophy is widely understood and dispersed in a company, then you can achieve most of what you want through the existing structures and the department of personnel, welfare, industrial relation and soon. Through the potential of every employee and so on. Through an emphasis on potential of every employee and the possibility of developing it through the very process to the organization. The mere belief in potential exerts a tremendous development pressure. The nomenclature really does not matter. It is commitment to the HR philosophy, which is of prime importance.... The ultimate aim of HRD is the full participation of the individual in job and life. Modern industry, formal organization, technology and similar interpersonal forces may tend to create alienation in the individual. An intense form of this is self-alienation in the individual. An intense from of this self-alienation, where the person is not even aware of the damage his alienation is causing to himself. HRD aims to move executives and workmen towards fuller participation, so that their potential can be utilized to the benefit of themselves and the organization.

As individuals ponder the origins of one’s personal beliefs, one would conclude that these are not innate. We learn them over time and assimilate them into our life styles. Our beliefs reflect those of our families and our social context society we live in. and that is precisely the way HR functions – its beliefs and philosophy are linked to and emanate from the beliefs of the organization.

It consists of two parts: objectives, and what it will be like to achieve these objectives. Identifying basic philosophy is a process of discovery, but setting the future dream is a creative process. It makes no sense to analyse whether the dream is right or wrong. With a creation – and the task is the creation of a future, not predication – there can be no right answer. Citibank, a giant US corporation, had the following goal: ‘to become most powerful, the most serviceable, the most far-reaching world financial institution that has ever been’ – a goal that generated excitement through multiple generations until it was achieved. To create an effective future dream requires a certain level of unreason-
able confidence and commitment. Unfortunately, for many HR functions the vision statements are usually boring, confusing, and a structurally unsound of words. HR vision requires passion, emotion and conviction to fulfill the vision. HR vision simply provides the context for bringing this dynamic to life, for example, the HR vision of University of California states: ‘To be the model human resource organization by valuing people, maximizing employee potential and exceeding expectations’.

**HR Vision – The Evolutionary Process**

HR vision evolves through a sharing process in which top people in the management share their views, perspectives, philosophies and strategies, based on a mutual assessment of the strengths, weaknesses, opportunities, threats and core competencies of the organization.

The process of evolving HR vision starts from defining the organization’s overall vision. This gives a direction and focus to HR vision. Besides the HR team, line managers and senior executives need to jointly contribute to the brainstorming process and thoroughly discuss various HR issues that they want to address in the long run. For example, SAIL’s core values or its basic philosophy, as we see it, can be regarded as customer satisfaction, concern for people, development, profitability and commitment to excellence. The process through which they went through an evolution of these is something like this: there were discussions with large groups of employees at different locations. In some of them there was participation by the top team, in some through specially trained core mangers. These discussions brought to the fore a number of values across the organization. Through some were not so well framed, the thoughts clearly came out.

**Is Strategic Planning Worthwhile?**

A final strand of research into the strategy concept has dealt with the extent to which organizations have found utility in the application of strategy formation processes. Ansoff and McDonnell (1990) report on research by Ansoff et al., (1970) in which they investigated the relationship between performance and the growth methods (mainly mergers and acquisitions) used by large US organizations in the period 1947-66 concluded that firms which did plan tended to use these plans and to exhibit deliberate and systematic acquisition behavior. On all relevant financial criteria, planners significantly outperformed the non planners. Not only did planners do better on the average, they performed more predictably than non planners. Ansoff et al, say that since this study several others have arrived at much the same conclusion.
Powell (1992) has reviewed studies dating back to 1970, since when there had been a rapid expansion in the use of formal strategic planning but his findings are not as positive of Ansoff et al, having reviewed studies which explored the financial performance consequences of the use of tools, techniques and activities of strategic planning, he has concluded that the studies were ‘confusing, contradictory and impossible to reconcile; these problems were attributed to methodological flaws such as failure to account for key contingency variables, incomplete and unreliable planning measures and, small sample sizes. However, the rigorous the methodologies employed, which he concedes have become more so over time, the portent for the process has not been favorable in that correlations between strategic planning and financial performance have tended towards zero.

Stacey (1993) suggests that excellent companies have mastered the prescriptions of the conventional wisdom it should be reasonable to expect those companies to remain successful over long periods of time. However, of the 43 excellent companies identified by Peters and Waterman (1982), only one–third could be included in the sample after five years. The companies identified in a UK context by Goldsmith and Clutterbuck, (1984) had met with much the same fate. Moreover, the ranking of the Fortune 500 and Financial Times Top 100 companies change dramatically over a five-year period. Stacey’s review indicates that the impact of environmental turbulence is the usual reason proffered by companies which failed to master strategic management over the long term. His remaining findings were similarly bleak. Greenley in 1986 was unable to find a connection between the existence of formal planning and superior performance in UK organizations. In a survey of large UK organizations, Gold and Quinn (1990) found that only 15 per cent of those having formal planning systems used these as templates against which to monitor strategic action. Japanese companies, it would seem, do things very differently. It appears, according to Argenti (1984), that only 20 per cent of them ever practice long-term planning. Hamel and Prahalad (1989) found that the relative success of the Japanese organization is linked with a superior model of strategy in which they do not attempt to adapt to the environment but rather create core competences and build market share. Hampden–Turner (1990) describes Japanese managers as being more comfortable with dilemmas and paradoxes than Western managers. Nonaka (1988) describes how Japanese managers deliberately encourage the instability of counter-cultures within the organization whilst western counterparts strive towards more and more conformity. Research into the strategy process has made it apparent that the state of development of the concept raises important questions but not generates conclusive answers.
Human Resource Management defined

Human Resource Management (HRM) is a strategic, integrated and coherent approach to the employment, development and well-being of the people working in organization.

Other definitions of HRM are; Human resources management involves all management decision and action that affect the nature of the relationship between the organization and its employees-its human resources. (Beer et al, 1984). HRM comprises a set of policies designed to maximize organizational integration, Employee commitment, flexibility and quality of work. (Guest, 1987)

HRM consists of the following propositions: That human resource policies should be integrated with strategic business planning and used to reinforce an appropriate (or change inappropriate) organizational cultural, that human resources are valuable and a source of competitive advantage, that promote commitment and which, as a consequence, foster a willingness in employees to act flexibly in the interests of the ‘adaptive organization’s’ pursuit of excellence. (Legge, 1995), Human Resource Management is distinctive to employee management which seeks to achieve competitive advantage through the strategic deployment of a highly committed and capable workforce, using an integrated array of cultural, structural. (Personnel techniques, Storey, 1995.)

HRM is: ‘The management of work and people towards desired ends’. (Boxall et al, 2007). HRM is concerned with how organizations manage their workforce. (Grimshaw and Rubery, 2007)

The Objectives of HRM

The overall purpose of Human Resource Management (HRM) is to ensure that the organization is able to achieve success through people. HRM aims in increase organizational effectiveness and capability – the capacity of an organization to achieve its goal by making the best use of the resources available to it. Ulrich and Lake (1990) remarked that: ‘HRM system can be the source of organizational capabilities that allow firms to learn and capitalize on new opportunities.’ But HRM has an ethical dimension which means that it must also be concerned with the right and needs of people in organization through the exercise of social responsibility.

Dyer and Holder (1998) analyzed management’s HR goal under the heading of
contribution (what of employee behavior is expected?), composition (what headcount, staffing ratio and skill mix?), competence (what general level of ability is desired?) and commitment (what level of employee attachment and identification?)

**The strategic nature of HRM**

Perhaps the most significant feature of HRM is the importance attached to strategic integration. Legge (1989) argued that one of the common themes of the typical definition of HRM is that human resource policies should be integrated with strategic business planning. Keith Sisson (1990) suggested that a feature increasingly associated with HRM is the emphasis on the integration of HR policies both with one another and with business planning more generally. John Storey (1989) believes that: ‘The concept locates HRM policy formulation firmly at the strategic level and insists that a characteristic of HRM is its internally coherent approach.’

As Baird and Meshoulam (1998) remarked: ‘Business objective are accomplished when human resource practice, procedures and systems are developed and implemented based on organizational needs, that is, when a strategic perspective to human resource management is adopted’. It is imperative for successful strategic business plans to incorporate a strategic HR plan. Boxall (1996) explained that strategic HRM ‘is the interface between HRM and strategic management’. Organizations will have to ensure that they have a well integrated, comprehensive and it takes the notion of HRM as a strategic, integrated and coherent approach and develops that in line with the concept of strategic management. This is an approach by management that involves taking a broad and long-term view of where the business or part of the business is going and managing activities in ways that ensure that this strategic thrust is maintained.

As defined by Pearce and Robinson (1988). ‘Strategic management is the set of decisions and action resulting in the formulation and implementation of strategic designed to achieve the objectives of an organization. ‘According to Kanter (1984) its purpose is to: ‘elicit the present actions for the future’ and become ‘an action vehicle – integrating and institutionalizing mechanisms for change’. Strategic fit as explained by Wright and McMahan (1992) strategic fit refers to the two dimensions that distinguish strategic HRM: First, vertically, it entails the linking of Human Resource Management practices with the strategic management processes of the organization. Second, horizontally, it emphasizes the coordination among the Human Resource Management practices.

Taking into account the concept of the resource – based view and strategic fit,
Chapter 1

Introduction

Delery and Doty (1996) contended that ‘organization adopting a specific strategy require HR practice that are different from those required by organization adopting different strategies’ and that organization with ‘greater congruence between their HR strategies and their (business) strategies should enjoy superior performance’.

The following quotations from Porter (1996) and Porter (2001) capture the gist of this most recent thinking: “The goal of strategy is to achieve a “superior long-term return on investment.” “Economic value is created when customers are willing to pay a price for a product or service that exceeds the cost of producing it.” (Porter 2001) “Competitive strategy is about being different.” (Porter 1996) “Strategy is the creation of a unique and valuable position, involving a different set of activities…. different from rivals” (Porter 1996,). “Strategy is making tradeoffs in competing” (Porter 1996).

Strategy is the approach selected to achieve defined goal in the future. According to Chandler (1962) it is: ‘the determination of the long – term goal and objectives of an enterprise, and the adoption of course of action and the allocation of resources necessary for carrying out those goal’. Strategy has three fundamental characteristics. First, is forward looking. It is about deciding where you want to go and how you mean to get there. It is concerned with both end and means. In this sense a strategy is a declaration of intent: ‘this is what we want to do and this is how we intend to do it’. Strategic defined longer – term goal but they also cover how those goals will be attained. They guide purposeful action to deliver the required result. A good strategy is one that works, one that in Abell’s (1993) phrase enable organization to adapt by ‘mastering the present and pre- empting the future’. As Boxall (1996) explained: ‘Strategy should be understood as a framework of critical ends and means.

The second characteristic of strategy is that the organizational capability of a firm (its capacity to function effectively) depends on its resource capability (the quality and quantity of its resource and their potential to deliver result). This is the resource – based view, based on the idea of Penrose (1959) who wrote that: the firm is ‘an administrative organization and a collection of productive resources’. It was expanded by Wernerfelt (1984) who explained that strategy ‘is a balance between the exploitation of existing resource and development of new ones’. Resource – based strategy theorists such as Barney (1991, 1995) argued that sustained competitive advantage stemmed from the acquisition and effective use of bundle of distinctive resource that competitors cannot imitate. The resource – based view is a major element in strategic HRM.

The third characteristic of strategy is strategic fit – the need when developing HR strategies to achieve congruence between them and the organization’s business strategies
within the context of its external and internal environment. The focus is upon the organization and the world around it. To maximize competitive advantage a firm must match its capacities and resources to the opportunities available in its environment. The concept of fit or integration is also a major feature of strategic HRM.

The formulation of corporate strategy is best described as a process for developing a sense of direction, marketing the best use of resources and ensuring strategic. It has often been described as a logical, step-by-step affair, the outcome of which is a formal written statement that provides a definitive guide to the organization’s intention. Many people still believe and act as if this was the case, but it is a misrepresentation of reality. In practice the formulation of strategy can never be as rational and linear a process as some writers describe it or as some managers attempt to make it. The difficult is that strategies are often based on the questionable assumption that the future will resemble the past. Some years ago, Heller (1972) had a go at the cult of long-range planning: ‘What goes wrong’ he wrote ‘is that sensible anticipation gets converted into foolish numbers: and their validity always hinges on large loose assumption’.

Strategy formulation is not necessarily a deterministic, rational and continues process, as was pointed out by Mintzberg (1987). He believe that, rather than being consciously and systematically developed, strategy reorientation happens in what he calls brief ‘quantum loops.’ A strategy, according to Mintzberg’ it can realized the intentions of senior management for example to attack and conquer a new market. But this is not always the case, In theory, he says, strategy is a systematic process: first we think then we act; we formulate, then we implement. But we also ‘act in order to think.’ In practice, ‘a realized strategy can emerge in response to an evolving situation’ and the strategic planner is often ‘a pattern organizer , a learner you like, who manages a process in which strategies and vision can emerge as well as be deliberately conceived’. This concept of ‘emergent strategy’ conveys the essence of how in practice organizations develop their business and HR strategies.

Mintzberg while giving his strong comments on the weakness of strategic planning in his 1994 article in the Harvard Business Review on ‘The Fall and Rise of Strategic Planning’, contends that ‘the failure of systematic planning is the failure of system to do better than, or nearly as well as, human beings’. He went on to say that: “Far from providing strategies, planning could not proceed without their prior existence… real strategists get their hands dirty digging for ideas, and real strategies are built from the nuggets they discover… sometimes strategies must be left as a broad vision, not precisely articulated, to a changing environment.”
He emphasized that strategic management is a learning process as managers of firms find out what works well in practice for them. Tyson (1997) pointed out that, realistically, strategy has always been emerged and flexible - it is always 'about to be', it never exists at the present time; is not only realized by formal statements but also comes about by actions and reactions; is a description of a future - oriented action that is always directed towards change; is conditioned by the management process itself.

Strategic HRM is an approach that defines how the organization's goal will be achieved through people by means of HR strategies and integrated HR policies and practices.

Strategic HRM can be regarded as a mindset underpinning by certain concept rather than a set of techniques. It provides the foundation for strategic reviews in which analysis of the organizational context and existing HR practices lead to choices on strategic plans development of overall or specific HR strategies. Strategic HRM involves the exercise of strategic choice (which is always there) and the establishment of strategic priorities.

But strategic HRM is not just about strategic planning. It also concerned with the implementation of strategy and the strategic behavior of HR specialists working with their line management colleagues on an everyday basis to ensure that the business goal of the organization are achieved.

The fundamental aim of strategic HRM is to generate organizational capability by ensuring that the organization has the skilled, engaged, committed and well-motivated employees it needs to achieve sustained competitive advantage. It has two main objectives: first to achieve integration of HR strategies. Second to provide a sense of direction in an often turbulent environment so that the business needs of the organization and the individual and collective needs of its employees can be met by the development and implementation of coherent and practical HR policies and programmes. In accordance with the resource - based view, the strategic goal will be to 'create firms which are more intelligent and flexible than their competitors' (Boxall, 1996) by hiring and developing more talented staff and by expending their skill base. Schuler (1992) stated that: Strategic Human Resource Management is largely about integration and adaptation. Its aim is to ensure that: 1) Human Resources (HR) management is fully integrated with the strategy and strategic needs of the firm; 2) HR policies cohere both across policy areas and across hierarchies; and 3) HR practices are adjusted, accepted and used by line managers and employees as part of their everyday work.
As Dyer and Holder (1998) remarked, strategic HRM provides 'unifying frameworks which are at once board, contingency based and integrative'. The rational of Strategic HRM is the perceived advantage of having an agreed and understood basis for developing and implementing approaches to people management that take into account the changing context in which the firm operates and it’s longer – term requirements.

**The resource – based view of Strategic HRM**

To a very large extend, the philosophy and approaches to Strategic HRM are underpinned by the resource – based view. This states that it is the range of resources in an organization, including its human resources, that produces its unique character and creates competitive advantage.

Barney (1991, 1995) stated that competitive advantage arises first when firm within an industry are heterogeneous with respect to the strategic resources they control and second, when these resources are not perfectly mobile across firms and thus heterogeneity can be long lasting. Creating sustained competitive advantage therefore depends on the unique resources and capabilities that a firm brings to competition in its environment. These resources include all the experience, knowledge, judgment, risk – taking propensity and wisdom of individuals associated with a firm. For a firm resource to have the potential for creating sustained competitive advantage it should have four attributes: it must be valuable, rare, imperfectly imitable and non – substitutable. To discover these resource and capabilities, managers must look inside their firm for valuable, rare and costly – to – imitate resources, and exploit these resources through their organization.

**SOURCE REVIEW:** The significant link of the resources and capabilities of a firm and strategies was summarized by Grant (1991); The resources and capability of a firm are the central consideration in formulating its strategy: they are the primary constants upon which a firm can establish its identity and frame its strategy, and they are the primary sources of the firm’s profitability. The key to resource – based approach to strategy formulation understands the relationship between resources, capabilities, competitive advantage, and profitability – in particular, an understanding of the mechanism through the design of strategies which exploit to maximum effect each firm’s unique characteristics.

Wright et al (2001) noted that there are three important components of Human Resource Management (HRM) that constitute a resource for the firm and influenced by Human Resource (HR) practices or the HR system: The human capital pool comprised of the stock of employee knowledge, skill motivation and behaviors. The flow of human
capital through the firm is the movement of people and of knowledge. The dynamic processes through which organization change and/ or renew them.

They suggested that Human Resource (HR) practice are the primary levers through which the firm can change the pool of human capital as well as attempt to change the employee behaviors that lead to organizational success.

**THE RESOURCE BASED VIEW:** Strategic Human Resource Management (SHRM) can produce what Boxall and Purcell (2003) referred to as human resource advantage. The aim is to develop strategic capability. This means strategic fit between resource and opportunities, obtaining added value from the effective deployment of resource, and developing people who can think and plan strategically in the sense that they understand the key strategic issues and ensure that what they do support the achievement of the business’s strategic goals. In line with human capital theory, the resource-based view emphasizes that investment in people increases their value to the firm.

The strategic goal emerging from the resource-based view will be to ‘create firms which are more intelligent and flexible than their competitors’ (Boxall, 1996) by hiring and developing more talented staff and by extending their skill base. Resource-based strategy is therefore concerned with the enhancement of the human or intellectual capital of the firm. As Ulrich (1998) commented: ‘Knowledge has become a direct competitive advantage for companies selling ideas and relationship. The challenge to an organization is to ensure that they have the capability to find, assimilate, compensate and retain the talented individuals they need’.

The significance of the resource-based view of the firm is that it highlights the importance of a Human Capital Management (HCM) approach to HRM and provides the justification for investing in people through resourcing, talent management and learning and development programmes as a means of enhancing organizational capability. However, it is important to analyze and consider that the original resource-based view as expressed by Barney (1991, 1995) referred to all the strategic resource associated with a firm, and not just human resources. This was challenged by Mueller (1996) on his comments on how strategy is formulated - An emergent and flexible process of developing a sense of direction, making the best use of ensuring strategic fit.

The aim of strategic HRM is to generate organizational capability by ensuring that the organization has skilled, engaged, committed and well-motivated employees it needs to achieve sustained competitive advantage.
The resources covered by the resource – based view, Mueller (1996)

Empirical analyses conducted within a resource – based view framework have shown that in fact most companies value their company and product reputation - even through obviously sustained by employees – as their most important asset, followed in third place by employee know – how. It is difficult to see, for British Airways its landing spots at London Heathrow Airport. Often people alone cannot sustain the success of the ‘super star’ of corporate performance ... It is more fruitful to look at how different strategic assets sustain each other, rather than engage in a sterile debate about which are analytically prior or more important. Human have been seen within the context of the firm’s broad array of resources: employees are central for a firm to retain its valued product reputation, but also vice versa; a highly reputable company will find it easier to attract highly qualified employees.

SOURCE REVIEW: Perspectives on HRM, Delery and Doty (1996)

1. **The universalistic perspectives** – some HR practices are better than other and all organizations should adopt these best practices. There is a universal relationship between individual ‘best’ practices and firm performance.

2. **The contingency perspectives** – in order to be effective, an organization’ HR policies must be consistent with other aspects of the organization. The primary contingency factor is the organization’s strategy. This can be described as ‘vertical fit’.

3. **The configurational perspective** – this is a holistic approach that emphasizes the importance of the pattern of HR practices and is concerned with how this pattern of independent variables is related to the dependent variable of organizational performance. In its general sense, configuration has been defined by Hucynski and Buchanan (2007) as: ‘the structures, processes, relationship and boundaries through which an organization operators’.

This typology provided the basis for what has become the most commonly used classification of approaches as advocated by Richardson and Thompson (1999), which was to adopt the terms ‘best practice’ and ‘best fit’ for the universalistic and contingency perspectives, and ‘bundling’ as the third approach. This followed the classification made by Guest (1997) to fit as an ideal set of practices, fit as contingency and fit as bundles.

Delery and Doty (1996) identified seven strategic HR practices, i.e. ones that are related to overall organizational performance: the use of internal career ladders, formal
training systems, result-oriented appraisal, performance-based compensation, employment security, employee voice and broadly defined jobs.

Problems with the best practice model are that the ‘best practice’ concept has been attacked by a number of commentators. Cappelli and Crocker-Hefter (1996) comment that the notion of a single set of best practices has been over-stated: ‘There are examples in virtually every industry of firms that have very distinctive management practice... Distinctive Human Resource practices shape the core competencies that determine how firms compete’. Purcell (1999) has also criticized the best practice or Universalist view by pointing out that the inconsistency between a belief in best practice and the resource-based view that focuses on the intangible assets, including HR, allow the firm to do better than its competitors. He asks how can ‘the universalism of best practice is squared with the view that only some resources and routines are important and valuable by being rare and imperfectly imitable?’ In accordance with contingency theory, which emphasizes the importance of interactions between organizations and their environments so that what organization does is dependent on the context in which they operate, it is difficult to accept that there is any such thing as universal best practice. What works well in one organization will not necessarily work well in another because it may not fit its strategy, culture, management style, technology or working practices.

However, a knowledge of what is assumed to be best practice can be used to inform decisions on what practices are most likely to fit the needs of the organization, as long as it is understood why a particular practice should be regarded as a best practice and what needs to be done to ensure that it will work in the context of the organization. Becker and Gerhart (1996) argue that the idea of best practice might be more appropriate for identifying the principles underlying the choice of practices, as opposed to the practices themselves. Perhaps it is best to think of ‘good practice’ rather than ‘best practice’.

**THE BEST FIT APPROACH:** The best fit approach is in line with contingency theory. It emphasizes that HR strategies should be congruent with the context and circumstance of the organization. ‘Best fit’ can be perceived in terms of vertical integration or alignment between the organization’s business and HR strategies. There are three models, namely: lifecycle, competitive strategy, and strategic configuration.

The lifecycle model is based on the theory that the development of a firm takes place in four stages: start-up, growth, maturity and decline. This is in line with product lifecycle theory.
Human resource management’s effectiveness depends on its fit with the organization’s stage of development. As the organization grows and develops, human resource management programmes, practices and procedures must change to meet its needs.

**BEST FIT AND COMPETITIVE STRATEGIES:** Three strategies aimed at achieving competitive advantage have been identified by Porter (1985): Innovation – being the unique producer. Quality – delivering high quality goods and services to customers. Cost leadership – the planned result of policies aimed at ‘managing away expense’. It was contended by Schuler and Jackson (1987) that to achieve the maximum effect it is necessary to match the role characteristic of people in an organization with the preferred strategy. Another approach to best fit is the proposition that organizations will be more effective if they adopt a policy of strategic configuration (Delery and Doty 1996) by matching their strategy to one of the ideal types defined by theories such as those produced by Miles and Snow (1978). This increased effectiveness is attributed to the internal consistency or fit between the patterns of relevant contextual, structural and strategic factors.

Miles and Snow (1978) identified four organizations, classifying the first three types as ‘ideal’ organization:

1. **Prospectors**, which operate in an environment characterized by rapid and unpredictable changes. Prospectors have low levels of formalization and specialization and high levels of decentralization. They have relatively less hierarchical levels.

2. **Defenders**, which operate in a more stable predictable environment than prospectors and engage in more long-term planning. They have more mechanistic or bureaucratic structures than prospectors and obtain coordination through formalization, centralization, specialization and vertical differentiation.

3. **Analysis**, which are a combination of the prospector and defender types. They operate in stable environments like defender also in markets where new products are constantly required, like prospectors. They are usually not the initiators of change like prospectors but they follow the changes more rapidly than defenders.

4. **Reactors**, which are unstable organizations existing in what they believe to be an unpredictable long-range plans.
**Comments on the concept of best fit**

The best fit model seems to be more realistic than best practice model. As Dyer and Holder (1988) pointed out: 'the inescapable conclusion is best depends'. It can therefore be claimed that best fit is more important than best practice. But there are limitations to the concept. Paawue (2004) emphasized that: 'It is necessary to avoid falling into the trap of “contingent determinism” (i.e. calming that the context absolutely determines the strategy). There is, or should be, room for making strategic choices'.

There is a danger of mechanistically matching HR policies and practices with strategy. It is not credible to claim that there are single contextual factors that determine HR strategy, and internal fit cannot therefore be complete. As Boxall et al (2007) assert: 'It is clearly impossible to make all HR policies reflective of a chosen competitive or economic mission; they may have to fit with social legitimacy goal'. And Purcell (1999) commented that: 'The search for a contingency or matching model of HRM is also limited by the impossibility of modeling all the contingent variables, the difficulty of showing their interconnection, and the way in which changes in one variable have an impact on others'.

Best fit models tend to be static and don’t take into account of the processes of change. They neglect the fact that institutional forces shape HRM – it cannot be assumed that employers are free agents and are able to make independent decisions.

**Bundling**

As Richardson and Thompson (1999) comment: ‘A strategy’s success turns on combining vertical or external fit and horizontal or internal fit’. They conclude that a firm with bundles of associated HR practices should have a higher level of Performance, provided it also achieves high levels of fit with its competitive strategy.

'Bundling' is the development and implementation of several HR practices together so that they are inter-related and therefore complement and reinforce each other. This is the process of horizontal integration, which is also referred to as the use of ‘complementarities’ (MacDuffie, 1995) who explained the concept of bundling as follows:

Implicit in the notion of a ‘bundling’ is the idea that practices within bundling are interrelated and internally consistent, and that ‘more is better’ with respect to the impact on performance, because of the overlapping and mutually reinforcing effect of multiple practices.
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Example:

Dyer and Reeves (1995) note that: ‘The logic in favors of bundling is straightforward since employee performance is a function of both ability motivations, it makes sense to have practices aimed at enhancing both’. Thus there are several ways in which employees can acquire needed skill (such as careful selection and training) and multiple incentives to enhance motivation (different form of financial and non-financial rewards). Their study of various models listing HR practices that create a link between HRM and business performance found that the activities appearing in most of the models were involvement, careful selection, extensive training and contingent compensation.

On the basis of his research in flexible production manufacturing plants in the United States, MacDuffie (1995) noted that employees will exercise discretionary effort only if they ‘believe that their individual interest are aligned with those of the company, and that the company will make a reciprocal investment in their well – being’. This means that flexible production techniques have to be supported by bundles of high-commitment human resource practice such as employment security, pay that is partly contingent on performance, a reduction of status barriers between managers and workers, and investment in building worker skill. The research indicated that it is integrated with a production system that bundle human resource practices into a system that is integrated with production/business strategy; outperform plants using more traditional mass production system in both productivity and quality.

Following research in 43 automobile processing plants in the United States, Pil and MacDuffie (1996) established that when a high-involvement work practice is introduced in the presence of complementary HR practices, not only does the new work practice produce an incremental improvement in performance but so do the complementary practices.

The aim of bundling is to achieve high performance through coherence, which is one the four ‘meanings’ of strategic HRM defined by Hendry and Pettigrew (1986). Coherence exists when a mutually reinforcing set of HR policies and practices have been developed that jointly contribute to the attainment of the organization’s strategies for matching resources to organizational needs, improving performance and quality and, in commercial enterprises, achieving competitive advantage. The process of bundling HR strategies is an important aspect of the concept of strategic HRM. In a sense, strategic HRM is holistic; it is concerned with the organization as a total system or entity addresses what needs to be done across the organization as a whole. It is not interested in isolated programmes and techniques, or in the ad hoc development of HR practices. Bundling
can take in a number of ways. For example, competency frameworks can be devised that are used in assessment and development centers and to specify recruitment standards, identify learning and development needs, indicate the standards of behavior or performance required and serve as the basis for Human Resource Planning (HRP). They could also be incorporated into performance management process in which the aims are primarily developmental and competencies are used as criteria for reviewing behavior and assessing learning and development needs. Job evaluation could be based on levels of competency, and competency-based pay systems could be introduced. Grade structures can define career ladders in terms of competency requirements (career family structures) and thus provide the basis for learning and development programmes. They can serve the dual purpose of defining career paths and pay progression opportunities. The development of high-performance, high-commitment or high-involvement system is in effect bundling because it groups a number of HR practices together to produce synergy and thus makes a greater impact. The problem with the bundling approach is that of deciding what the best way to relate different practices together is. There is no evidence that one bundle is generally better than another.

**The Reality of Strategic HRM**

It is prudent to address the rationale for Strategic HRM, which is that it is the basis for developing and implementing approaches to people management that take into account the changing context in which the firm operates and its longer-term requirements. It should also be borne in mind that Strategic HRM is a mindset that only becomes real when it produces actions and reactions that can be regarded as strategic, either in the form of overall or specific HR strategies or strategic behavior on the part of HR professionals working alongside line managers.

It was famously remarked by McGregor (1960) that there is nothing as practical as a good theory, i.e. one that has been based on rigorous field research and, probably, tested by future research. This is certainly the case with Strategic HR theory, which is based on thorough research and testing and, once the jargon has discarded, has a tremendous common sense appeal.

The theory i) addresses major people issues which affect or are affected by the strategic plans of the organization, ii) provides an agreed and understood basis for developing and implementing approaches to people management that take into account the changing context in which the firm operates and its longer-term requirements, iii) ensures that business and HR strategy and functional HR strategies are aligned with one another,
and iv) is the rationale for HR practitioners acting as strategic partners.

**Conclusion**

**The significant features of Strategic HRM:** Creating sustained competitive advantage depends on the unique resources and capabilities that a firm brings to completion in its environment (Baron, 2001). Competitive advantage is achieved by ensuring that the firm has higher quality people than its competitors (Purcell et al., 2003). The competitive advantage based on the effective management of people is hard to imitate (Barney, 1991, 1995). The challenge lies in achieving organizational capability, ensuring that businesses are able to find, assimilate, reward and retain the talented individuals they need (Ulrich, 1998). It is unwise to pursue so-called ‘best practice’ (the ‘universalistic’ perspective of Delery and Doty, 1996) without being certain that what happens elsewhere would work in the context of the organization. ‘Best fit’ (the ‘contingency’ perspective of Delery and Doty, 1996) is preferable to ‘best practice’ as long as the organization avoids falling into the trap of ‘contingent determinism’ by allowing the context to determine the strategy (Paawue, 2004). The search for best fit is limited by the impossibility of all the contingent variables, the difficulty of showing their interconnection, and the way in which changes in one variable have an impact on others (Purcell, 1999). Best fit can be pursued in a number of ways, namely by fitting the HR strategy to its position in its lifecycle of start-up, growth, maturity or decline (Baird and Meshoulm, 1988), or the competitive strategy of innovation, quality or cost leadership (Porter, 1988), or to the organization’s ‘strategic configuration’ (Delery and Doty, 1996), e.g. the typology of an organization as prospectors, defenders and analyzers defined by Miles and Snow (1978). Improved Performance can be achieved by ‘bundling’, i.e. the development and implementation of several HR practices together so that they are interrelated and therefore complement and reinforce each other (MacDuffie, 1995).

Strategic HRM is the interface between HRM and strategic management. It takes the notion of HRM as a strategic, integrated and coherent approach and develops that in line with the concept of strategic management (Boxall, 1996). The fundamental characteristics of strategy: Forward looking; The organizational capability of a firm depends on its resource capability; Strategic fit – the need when developing HR strategies to achieve congruence between them and the organization’s business strategies within the context of its external and internal environment.

**Implication of the resource-based view**

The creation of firms which are ‘more intelligent and flexible than their competi-
tors' (Boxall, (1996) by hiring and developing more talented staff and by extending the skills base.

The three HRM ‘perspectives’ of Delery and Doty (1996); (i) Universalistic perspective – some HR practices are better than others and all organizations should adopt these best practices. (ii) Contingency – in order to be effective, an organization’s HR policies must be consistent with other aspects of the organization. (iii) Configurationally – relating HRM to the ‘configuration’ of the organization in terms of its structures and processes.

The concepts of ‘best practice’ and ‘best fit’

- The concept of practice is based on the assumption that there is a set of best HRM practices which are universal in the sense that they are best in any situation and that adopting them will lead to superior organizational performance. This concept of universality is criticized because it takes no account of the local context.

- The concept of best fit emphasizes that HR strategies should be congruent with the context and circumstances of the organization. ‘Best fit’ can be perceived in terms of vertical integration or alignment between the organization’s business and HR strategies.

- It is generally accepted that best fit is more important than best practice.

1.1.2 Concept of Business Model versus Strategy

Scholars define a business model as the economic underpinnings of an enterprise’s strategy. Every viable organization is built on a sound business model, but a business model isn’t a strategy, even though many people use the terms interchangeably. It is imperative to understand that while the economic perspectives is the point of intersection between a business model and strategy for a business, the two cannot be used as synonyms.

Strategy begins with goals, which naturally follow from the entity’s mission but for practical purpose, goals cannot stand in isolation. They are informed by iterative sensing of the external environment and the organization’s internal capabilities.

“The essence of formulating competitive strategy,” writes scholar Michael Porter, “is relating a company to its environment.” (Source: Harvard Business Review (HBR)
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1985) Every company’s environment is populated with customers, competitors, suppliers, and, in most cases, regulators. And all have an impact on its profit potential. There are both current and potential customers, each with requirements for product/service quality, features, and utility. There is also a set of current competitors and still others who might enter the arena. Technology is part of the competitive environment, and that technology is always changing. Is there something developing in the world of technology that could alter your competitive environment, perhaps making the products of today’s industry leaders obsolete? (Source: HBR 1985)

A critical aspect of the debate on Business Model versus Strategy was presented by Peter Seddon & Geoffrey Lewis (Pacific Asia Conference on Information Systems, 2003). They pointed that terms “business model” and “strategy” were being widely used by millions of people and often interchangeably as these terms have varied definitions. “If one were to argue and accept Porter’s (1996) definition of strategy as valid, then comparing definitions of “business model” from a broad cross-section of the literature, e.g., as Pateli (2002) and Freeman (2003) have done, it is really quite hard from a perspective to distinguish between the terms. In his condemnation of the term “business model”, Porter (2001,) seems to have come to the same conclusion.

They argued that an alternative view that of view a business model as an abstract representation of a firm’s strategy, and to understand this concept, one has to accept that a firm’s strategy is always firmly anchored in its own particular competitive environment. So a firm’s strategy is specific to that firm and that firm alone. In contrast, a business model can be conceived as an abstraction of a firm’s strategy. This same business model could then apply to more than one firm. Equally well, a firm’s strategy can be represented by any number of business models. Combining this idea with Magretta’s (2002) suggestion that a business model describes an organization’s “core logic” for creating value suggests the following definition for a business model: A business model is an abstract representation of some aspect of a firm’s strategy; it outlines the essential details one needs to know to understand how a firm can successfully deliver value to its customers.

Asking a rhetoric question of which comes first, strategy or business models? The most possible answer was that because business models are like patterns in architecture and software engineering (Alexander 1977, Coplien 1996, Veryard 2001)—i.e., as successful solutions to some way in which firms create value—business models come first. Just as pattern languages can be used for designing software, so, it is suggested that, combinations of business models could be used for “designing” strategy: thinking in terms of combinations of business models could enable strategists to mix and match various com-
combinations of business models to create new strategies for new and existing businesses.

### 1.1.3 Strategy Models by Experts

**Michael Porter’s 5 Force Framework**

No discussion of the competitive environment would be complete without some discussion of Michael Porter’s five forces framework. First articulated in 1979 in an award-winning Harvard Business Review article on “How Competitive Forces Shape Strategy,” Porter’s framework remains a useful tool for getting an analytical grasp on the state of competition and the underlying economics within an industry. It also encourages the strategist to look outside the small circle of current competing rivals to other actors and influences that determine potential profitability and growth. Porter identified the following forces as governing industry competition: Threat of new entrants, bargaining power of suppliers, jockeying for position among current competitors, bargaining power of customers, and threat of substitute to products or services. “The collective strength of these forces,” he writes, “determines the ultimate profit potential of an industry.” (Porter, 1995). Owing to these factors, the profit potential will vary from industry to industry. Today, for example, sectors of the telecommunications industry are faced with weak profit potential because so many factors conspire against existing providers: Industry participants are continually fighting to grab their rivals’ customers, often by cutting prices and extending services; customers can switch easily; and many communications options are available, including land lines, cell phones, e-mails, instant messaging, and Internet phone. Meanwhile, the rapid pace of technological change is forcing the existing players to spend royally to remain on the cutting edge. Participants in other industries, in contrast, may confront a much more favorable combination of the five forces.

The key to growth and survival, according to Porter, is to use one’s knowledge of these five forces to “stake out a position that is less vulnerable to attack from head-to-head opponents, whether established or new, and less vulnerable to erosion from the directing of buyers, suppliers, and substitute goods.” Such a position, he argues, can be gained by solidifying relationships with profitable customers, product differentiation (either through redesign or marketing), integrating operations, or by gaining technical leadership.

Looking outside for threats and opportunities is one piece of the preparation you must do before you even discuss strategic plans. Great companies do this continually. They send their technical people to professional conferences and subscribe to key academic journals.
They are always in touch with current and potential customers via focus groups and inter­views with lead users—that is, companies and individuals whose need are far ahead of typ­ical users. Some even set up special “intelligence” units to scan newspapers and technical journals, keep an eye on proposed regulations, and so forth. These companies are constantly sensing the outer world for threats and opportunities that could affect them.

**ABCDE Model by Stephen Haines et al**  
*(Haines Centre for Strategic Management, 1995, 2004)*

The Systems Thinking Approach begin with the end in mind has been the key parameter differentiating this model from others. This model is an extremely simple, user-friendly step by step guide, which enables any strategy planner with an effective tool in hand to plan.

The ABCDE model of strategic thinking begins with defining the goal—Where we want to be? (A), a Feedback Loop -How will we know when we get there? (B), a Current state Assessment --Where we are now? (C), followed by a process formulation phase -How do we get there? (D) And finally E- Environment where in the context of a changing environment and its impact is assessed.

**The Seven S Framework**

Over the years, attempts have been made to create a model for successful strategy implementation. One of the first—and best—of these first appeared in The Art of Japanese Management, authored by Richard Pascale and Anthony Athos and published in 1981. Their model was adopted by McKinsey & Company, a global strategy consulting organization; many now refer to it as the McKinsey Seven S Framework. The “S” in this framework is Strategy, Structure, Systems, Style, Staff, Skills, and Shared values.

As Larry Bossidy and Ram Charan write in their popular book, Execution: “The strategy by itself is not often the cause. Strategies most often fail because they aren’t executed well.” *(Source: Charan, 2007)*

Drawing broad conclusions from the above 3 strategic frameworks, it is evident that having the right people on board is imperative, as it underlines the assumption that they have the requisite competencies to deliver results. The importance of environment is emphasized both in the ABCDE model and in Porter’s 5 force framework. The Kellogg School of Management, clearly states that any strategy must be based on facts and that no
amount of economic theory or consulting templates can substitute for institutional knowl-
edge. Strategy development is a continuous process that must be sensitive to idiosyncratic
market conditions opened David Dranove & Louia Marcau. *(Kellogg’s on Strategy, 2007)*

Pankaj Ghemawat in his book *Redefining Global Strategy*, elaborates and explores
the core propositions in understanding global strategy and that frontiers matter. He
defined the current state of the world “semiglobalization”. This notion of semiglobaliza-
tion is diametrically opposite to the notion about frontiers diminishing and creating a flatter
world. Ghemavat provides actionable knowledge about global strategies that can be
implemented and emphasis that borders still matter and classifies them in terms of cul-
tural, administrative, geographic and economic distances between countries.

“The differences between the countries are larger than generally acknowledged. As
a result, strategies that presume complete global integration tend to place far too much
emphasis on international standardization and scalar expansion. While it is, of course,
important to take advantage of similarities across borders, it is also critical to address dif­
fences. In the near and medium term, effective cross-border strategies will reckon with
both, that is, with the reality that I call semiglobalistion.” *(Pankaj Ghemavat, 2007, 
Redefining Global Strategy)*

Our research confirms that there are no permanently excellent companies, just as
there are no permanently excellent industries. As we have found on our own tumbling road,
we all, like corporations, do smart things and less-than-smart things. To improve the qual­
ity of our success we need to study what we did that made a positive difference and under­
stand how to replicate it systematically. That is what we call making smart strategic moves,
and we have found that the strategic move that matters centrally is to create blue oceans.

Blue ocean strategy challenges companies to break out of the red ocean of bloody
competition by creating uncontested market space that make the competition irrelevant.
Instead of dividing up existing—and often shrinking—demand and benchmarking com­
petitors, blue ocean strategy is about growing demand and breaking away from the com­
petition. This book not only challenges companies but also show them how to achieve
this. We first introduce a set of analytical tools and frameworks that show you how to
systematically act on this challenge, and, second, we elaborate the principles that define
and separate blue ocean strategy from competition-based strategic thought.

Our aim is to make the formulation and execution of blue ocean strategy as system­
atic and actionable as competing in the red waters of known market space. Only then can
companies step up to the challenge of creating blue oceans in a smart and responsible way that is both opportunity maximizing and minimizing. No company—large or small, incumbent or new entrant—can afford to be a riverboat gambler, and no company should.

Blue ocean opportunities have been out there. As they have been explored, the market universe has been expanding. This expansion, we believe, is the root of growth. Yet poor understanding exists both in theory and in practice as to how to systematically create and capture blue oceans. We invite you to read this book to learn how you can be a driver of this expansion in the future.

Blue oceans, in contrast, are defined by untapped market space, demand creation, and the opportunity for highly profitable growth. Although some blue oceans are created well beyond existing industry boundaries, most are created form within red oceans by expanding existing industry boundaries, as Cirque du Soleil did. In blue oceans, competition is irrelevant because the rules of the game are waiting to be set.

It will always be important to swim successfully in the red ocean by out competing rivals. Red oceans will always matter and will always be a fact of business life. But with supply exceeding demand in more industries, competing for a share of contracting markets, while necessary, will not be sufficient to sustain high performance. Companies need to go beyond competing. To seize new profit and growth opportunities, they also need to create blue oceans.

Unfortunately, blue oceans are largely uncharted. The dominant focus of strategy work over the past twenty-five years has been on competition-based red oceans strategies. The result has been a fairly good understanding of how to compete skillfully in red waters, from analyzing the underlying economic structure of a existing industry, to choosing a strategic position of low cost or differentiation or focus, to benchmarking the competition. Some discussions around blue oceans exist. However, here is little practical guidance on how to create them. Without analytic frameworks to create blue oceans and principles to effectively manage risk, creating blue oceans has remained wishful thinking that is seen as too risky for managers to pursue as strategy. This book provides practical frameworks and analytics for the systematic pursuit and capture of blue oceans.

The Continuing Creation of Blue Oceans

Although the term blue ocean is new, their existence is not. They are a feature of business life, past and present. Look back one hundred years and ask yourself, How many of today’s industries were then unknown? The answer: Many industries as basic as
automobiles, music recording, aviation, petrochemicals, health care, and management consulting were unheard of had just begun to emerge at that time. Now turn the clock back only thirty years. Again, a plethora of multibillion-dollar industries jump out—mutual funds, cell phones, gas—fired electricity plants, biotechnology discount retail, express package delivery, minivans, snowboards, coffee bars, and home videos to name a few. Just three decades ago, none of these industries existed in a meaningful way.

Now put the clock forward twenty years—or perhaps fifty years—and question how many now unknown industries are likely to exist then. If history is any predictor of the future, again the answer is many of them.

The reality is that industries never stand still. They continuously evolve. Operations improve, markets expand, and players come and go. History teaches us that we have a hugely underestimated capacity to create new industries and re-create existing ones. In fact, the half-century-old Standard Industrial Classification (SIC) system published by the U.S. Census was replaced in 1997 by the North America Industry Classification Standard (NAICS) system. The new system expanded the ten SIC industry sectors into twenty sectors to reflect the emerging realities of new industry territories. The services sector under the old system, for example, is now expanded into seven business sectors ranging from information to health care and social assistance. Given that these systems are designed for standardization and continuity, such a replacement shows how significant the expansion of blue oceans has been.

Yet the overriding focus of strategic thinking has been on competition-based red ocean strategies. Part of the explanation for this is that corporate strategy is heavily influenced by its roots in military strategy. The very language of strategy is deeply imbued with military references—chief executive “officers” in “headquarters,” “troops” on the “front lines.” Described this way, strategy is about confronting an opponent and fighting over a given piece of land that is both limited and constant. Unlike war, however, the history of industry shows us that the market universe has never been constant; rather, blue oceans have continuously been created over time. To focus on the red ocean is therefore to accept the key constraining factors of war—limited terrain and the need to beat an enemy to succeed—and to deny the distinctive strength of the business world: the capacity to create new market space that is uncontested.

**The Impact of Creating Blue Oceans**

We set to quantify impact of creating blue oceans on a company’s growth in both
revenues and profits in a study of the business launches of 108 companies. We found that 86 percent of the launches were line extensions that is, incremental improvements within the red ocean of existing market space. Yet they accounted for only 62 percent of total revenues and a mere 39 percent of total profits. The remaining 14 percent of the launches were aimed at creating blue oceans. They generated 38 percent of total revenues and 61 percent of total profits. Given that business launches included the total investments made for creating red and blue oceans (regardless of their subsequent revenue and profit consequences, including failures), the performance benefits of creating blue waters are evident. Although we don’t have data on the hit rate of success of red and Blue Ocean initiatives, the global performance differences between them are marked. (Blue Ocean Strategy, 2005, W. Chan Kim Renee Mauborgne)

The Harvard Framework

The other pioneers of HRM in the 1980s were the Harvard school of Beer et al (1984) who developed what Boxall (1992) calls the ‘Harvard framework’. This framework is based on the belief that 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 these 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 Harvard 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. The Harvard school suggested that HRM had two characteristic features: 1) line managers accept more responsibility for ensuring the alignment of competitive strategy and HR policies, and 2) HR has the mission of setting policies that govern how HR activities are developed and implemented in ways that make them more mutually reinforcing.

1.1.4 Introduction to Systems Thinking

Ludwig von Bertalanffy, (1900) the father of General Systems Theory (GTS), was the great originator and innovator of the 20th century whose works have produced a rev-
olution in impacting our view of the world. “Systems Thinking – A new way to view and mentally frame what we see in the world: a worldview and way of thinking whereby we see the entity or unit first as a whole, with its fit and relationship to its environment as primary concerns; the parts secondary” (Haines S. 1994)

A system is a set of components that work together for the overall benefit of the whole. Systems Thinking is a way of seeing the whole as primary, the parts as secondary. It is a higher-level way to view, filter, and mentally frame what we see in the world. A worldview that considers the whole entity or enterprise, along with its fit and relationships to and with the environment. A tool for finding patterns and relationships among subsystems and learning to reinforce or change these patterns to achieve specific outcomes. A shift from seeing elements, functions, and events to seeing processes, structures, relationships, and outcomes.

The phrase “Systems Thinking” became a popular buzzword in organizational change theory after 1990 publication of Peter Senge’s best-selling The Fifth Discipline. While Senge’s Fifth Discipline is, in fact, Systems Thinking, many people misuse the term today. They use it to refer broadly to anything that connects together and links with something else — a list of related subjects, for instance, that are somehow important to learning and self development or some other specific goal. That would be, at best, an integrated list, not a complete Systems Thinking view. Systems’ Thinking is a science — the Science of Living Systems on Earth. In many ways it’s the opposite of analytical thinking.

Analytic Thinking and its limitations

The reason analytic thinking is less effective in business today than then it was in earlier ages are that the global economy is increasingly complex, interconnected, and interrelated. Analytic thinking doesn’t usually consider all environmental factors as it looks for one-and-only-one best way. The environment, other systems, relationships between and among systems, and multiple and circular causalities and surrounding the enterprise have great impact on daily functioning. Yet analytic thinking often looks inward instead of considering these relationships, multiple solutions, interdependencies, and environment.

A system, in Bertalanffy’s terminology, is any entity maintained by the mutual interaction of its parts, from atom to cosmos, and including such mundane examples as telephone, postal, and rapid transit systems. A Bertalanffian system can be physical like a television set, biological like a cocker spaniel, psychological like a set of laws. A system can also be a categorical combination, like the man machine system that composes
a factory. A system can be static like a crystal, mechanical like clock, mechanically self-regulating like a thermostat, and organismically interactive with the environment, like plants, people, and population.

A system can be composed of smaller system and can also be part of a larger system, just as a state or province is composed of smaller jurisdictions and also is part of a nation. Consequently, the same organized entity can be regarded as either a system or a subsystem, depending on the observer’s focus of interests. The hierarchical nature of system is itself a basic pattern or organization, as in such ascending levels of organized complexity as atom, molecule, cell, organ, organism, group, society, world, solar system, galaxy, and universe.

The common denominator of various definitions of system is the idea of interaction. On various occasions, Bertalanffy defined a system as “a set of elements standing in interaction”, “a complex of components in mutual interaction”, “a complex of interaction elements”, and “a dynamic order of parts and processes standing in mutual interaction”. A co-founder of the general systems movement, bio-mathematician Anatol Ropoport (1977), defines a system as “a whole that functions as a whole by virtue of the interaction of its parts,” adding that “a system, roughly speaking, is a bundle of relation”. Hence, a watch functions as a system, but it become just a heap of parts if it is disassembled. Likewise, when Star Wars robot C3PO was disassembled in act of villainy, he lost all semblance of personality and become just a collection of mute junk. A watch and a robot, as systems, are entities that emerge from the organized relationship of their parts.

A system is a manifestation of something intangible, but quite real, called organization. A system, like a work of art, is a pattern rather than a pile, like a piece of music; it’s an arrangement rather than an aggregate. Organization means nothing to an aggregate, like a bunch of peanuts, and it means everything to a system, like a peanut farm. To a system, organization is a matter of life and death.

Take the human example more than one’s constituent ingredients of a few gallons of water and sorted quantities of fat, carbon, lead, phosphorus, iron, lime, magnesium, and sulphur. You are the organization of your parts. Disrupt your organization, and you die. Conversely, though the cell population of your body repeatedly dies and is replaced, you survive because your organization survives. You exist as an expression of a universal force of organization, a force that coordinates about 10 billion cells in your brain and approximately 100 trillion cells in your body. It is a force, like gravity, that is too mysterious to explain – nobody knows what gravity is – but too common to ignore.
There is nothing mysterious, in the perspective of science, about the idea that a system is greater than the sum of its parts. This is because a system consists of the parts plus the way the parts relate to each other and the qualities that emerge from those relationships.

Stone Age ancestors employed the concept of system for their survival. At first, they lived on the perpetual edge of extinction, relying on hand-held stones that they shaped and sharpened to serve as tools for defense and hunting. Then they became masters of their environment as a result of being inspired to make tools of two or more different parts. They used stray vines to tie their two or more different parts. They used stray vines to tie their sharpened stone to a wooden handle, thereby producing the first axes. Similarly, they produced the first spears by attaching a pointed flint-stone to a wooden rod. Gradually, they invented an entire arsenal of such composite tools, each providing more total power than its components could have provided independently. That system breakthrough marked the beginning of technology and the prelude to civilization.

System thinking is vital to a real understanding of a relationship like marriage, where “us” is significantly more than they seem because of qualities that emerge from the relationship themselves. In accordance with this principle of emergent, system have characteristic that emerges from the interaction of two parts of hydrogen and one part of oxygen. The same holistic magic occurs when a composer arranges notes to form a musical composition, when an artist arranges dabs of pigment to form a painting, and when a writer assembles lifeless words to form a work of living literature. The Nobel Laureate poet of India, Rabindranath Tagore (1861-1941), expressed the principle of emergence when he wrote: “By plucking her petals, you do not gather the beauty of the flower”.

**Systems Thinking – the cornerstone of the learning organization**

The Fifth Discipline provides a good introduction to the basics and uses of such theory – and the way in which it can be brought together with other theoretical devices in order to make sense of organizational questions and issues. Systemic thinking is the conceptual cornerstone (‘The Fifth Discipline’) of his approach. It is the discipline that integrates the others, fusing them into a coherent body of theory and practice. Systems theory’s ability to comprehend and address the whole and to examine the interrelationship between the parts provides, for Peter Senge, both the incentive and the means to integrate the disciplines.

First, while the basic tools of systems theory are fairly straightforward they can build into sophisticated models. Peter Senge argues that one of the key problems with
much that is written about, and done in the name of management, is that rather simplis­tic frameworks are applied to what are complex systems. We tend to focus on the parts rather than seeing the whole, and to fail to see the organization as a dynamic process. Thus, it is that, a better appreciation of systems will lead to more appropriate action.

‘We learn best from our Experience, but we never directly experience the conse­quences of many of our most important decisions’, Peter Senge (1990: 23) argues with regard to organizations. This is tending to think that cause and effect will be relatively near to one another. Thus when faced with a problem, it is the ‘solutions’ that are close by that people focus upon. Classically, people in organizations consider actions that pro­duce improvements in a relatively short time span. However, when viewed in systems terms, short-term improvements often involve very significant long-term costs. For example, cutting back on research and design can bring very quick cost savings, but can severely damage the long-term viability of an organization. Part of the problem is the nature of the feedback we receive. Some of the feedback will be reinforcing (or amplifying) – with small changes building on themselves. ‘Whatever movement occurs is amplified, producing more movement in the same direction. A small action snowballs, with more and more and still more of the same, resembling compound interest’ (Senge 1990): 81). Thus, a cut in the advertising budgets, see the benefits in terms of cost savings, and in turn further trim spending in this area. In the short run there may be little impact on people’s demands for the goods and services, but longer term the decline in visibility may have severe penalties. An appreciation of systems will lead to recognition of the use of, and problems with, such reinforcing feedback, and also an understanding of the place of balancing (or stabilizing) feedback. A further key aspect of systems is the extent to which they inevitably involve delays – ‘interruptions in the flow of influence which make the consequences of an action occur gradually’. Peter Senge (1990) concludes:

The systems viewpoint is generally oriented toward the long-term view. That’s why delays and feedback loops are so important. In the short term, you can often ignore them; they’re inconsequential, but in the long term they are critical

Peter Senge advocates the use of ‘systems maps’ – diagrams that show the key elements of systems and how they connect. However, people often have a problem ‘seeing’ systems, and it takes work to acquire the basic building blocks of systems theory, and to apply them to your organization. On the other hand, failure to understand system dynamics can lead us into ‘cycles of blaming and self-defense: the enemy is always out there, and problems are always caused by someone else’ (Bolam and Deal 1997, Senge 1990).
Chapter 1

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The core disciplines

Alongside Systems Thinking, there stand four other ‘component technologies’ or disciplines. A ‘discipline’ is viewed by Peter Senge as a series of principles and practices that we study, master and integrate into our lives. The five disciplines can be approached at one of three levels: Practices: what you do. Principles: guiding ideas and insights. Essences: the state of being those with high levels of mastery in the discipline (Senge 1990: 373). Each discipline provides a vital dimension. Each is necessary to the others if organizations are to ‘learn’.

*Personal Mastery:* ‘Organizations learn only through individuals who learn. Individual learning does not guarantee organizational learning. But without it no organizational learning occurs’ (Senge 1990: 139). Personal mastery is the discipline of continually clarifying and deepening our personal vision, of focusing our energies, of developing patience, and of seeing reality objectively’. It goes beyond competence and skills, although it involves them. It goes beyond spiritual opening, although it involves spiritual growth. Mastery is seen as a special kind of proficiency. It is not about dominance, but rather about calling.

People with a high level of personal mastery live in a continual learning mode. They never ‘arrive’. Sometimes, language, such as the term ‘personal mastery’ creates a misleading sense of definiteness, of black and white. But personal mastery is not something one possesses. It is a process. It is a lifelong discipline. People with a high level of personal mastery are acutely aware of their ignorance, their incompetence, and their growth areas. And they are deeply self-confident. Paradoxical? Only for those who do not see the ‘journey is the reward’. (Senge 1990: 142)

In writing such as this we can see the appeal of Peter Senge’s vision. It has deep echoes in the concerns of writers such as M. Scott Peck (1990) and Erich Fromm (1979). The discipline entails developing personal vision; holding creative tension (managing the gap between our vision and reality); recognizing structural tensions and constraints, and our own power (or lack of it) with regard to them; a commitment to truth; and using the sub-conscious.

*Mental models:* These are ‘deeply ingrained assumptions, generalizations, or even pictures and images that influence how we understand the world and how we take action’ (Senge 1990). As such they resemble what Donald A Schón talked about as a professional’s ‘repertoire’. We are often not that aware of the impact of such assumptions etc. on
our behavior – and, thus, a fundamental part of our task (as Schön would put it) is to develop the ability to reflect-in- and –on-action. Peter Senge is also influenced here by Schön’s collaborator on a number of projects, Chris Argyris.

The discipline of mental models starts with turning the mirror inward; learning to unearth our internal pictures of the world, to bring them to the surface and hold them rigorously to scrutiny. It also includes the ability to carry on ‘learningful’ conversations that balance inquiry and advocacy, where people expose their own thinking effectively and make that thinking open to the influence of others. (Senge 1990)

If organizations are to develop a capacity to work with mental models then it will be necessary for people to learn new skills and develop new orientations, and for there to be institutional changes that foster such change. ‘Entrenched mental models… thwart changes that could come from Systems Thinking’. Moving the organization in the right direction entails working to transcend the sorts of internal politics and game playing that dominates traditional organizations. In other words it means fostering openness (Senge 1990). It also involves seeking to distribute business responsibly far more widely while retaining coordination and control. Learning organizations are localized organizations.

Building shared vision. Peter Senge starts from the position that if any one idea about leadership has inspired organizations for thousands of years, ‘it’s the capacity to hold a share picture of the future we seek to create’ (1990). Such a vision has the power to be uplifting – and to encourage experimentation and innovation. Crucially, it is argued, it can also foster a sense of the long-term, something that is fundamental to the ‘fifth discipline’.

When there is a genuine vision (as opposed to the all-too-familiar ‘vision statement’), people excel and learn, not because they are told to, but because they want to. But many leaders have personal visions that never get translated into shared visions that galvanize an organization… What has been lacking is a discipline for translating vision into shared vision - not a ‘cookbook’ but a set of principles and guiding practices.

The practice of shared vision involves the skills of unearthing shared ‘pictures of the future’ that foster genuine commitment and enrolment rather than compliance. In mastering this discipline, leaders learn the counter-productiveness of trying to dictate a vision, no matter how heartfelt. (Senge 1990: 9)

Visions spread because of a reinforcing process. Increased clarity, enthusiasm and
commitment rub off on others in the organization. ‘As people talk, the vision grows clear­er. As it gets clearer, enthusiasm for its benefits grow’. There are ‘limits to growth’ in this respect, but developing the sorts of mental models outlined above can significantly improve matters. Where organizations can transcend linear and grasp system thinking, there is the possibility of bringing vision to fruition.

**Team learning:** Such learning is viewed as ‘the process of aligning and developing the capacities of a team to create the results its members truly desire’ (Senge 1990: 236). It builds on personal mastery and shared vision – but these are not enough. People need to be able to act together. When teams learn together, Peter Senge suggests, not only can there be good results for the organization; members will grow more rapidly than could have occurred otherwise.

The discipline of team learning starts with ‘dialogue’, the capacity of members of a team to suspend assumptions and enter into a genuine ‘thinking together’. To the Greeks dia-logos meant a free-flowing if meaning through a group, allowing the group to discover insights not attainable individually. It also involves learning how to recognize the patterns of interaction in teams that undermine learning. (Senge 1990)

The notion of dialogue that flows through The Fifth Discipline is very heavily dependent on the work of the physicist, David Bohm (where a group ‘becomes open to the flow of a larger intelligence’, and thought is approached largely as collective phe­nomenon). When dialogue is joined with Systems Thinking, Senge argues, there is the possibility of creating a language more suited for dealing with complexity, and of focusing on deep-seated structural issues and forces rather than being diverted by questions of personality and leadership style. Indeed, such is the emphasis on dialogue in his work that it could almost be put alongside Systems Thinking as a central feature of his approach.

**Leading the learning organization**

Peter Senge argues that learning organizations require a new view of leadership. He sees the traditional view of leaders (as special people who set the direction, make key decisions and energize the troops as deriving from a deeply individualistic and non-sys­temic worldview (Seige, 1990). At its centre the traditional view of leadership, ‘is based on assumptions of people’s powerlessness, their lack of personal vision and inability to master the forces of change, deficits which can be remedied only by a few great leaders’. Against this traditional view he sets a ‘new’ view of leadership that centers on ‘subtler
and more important tasks'.

In a learning organization, leaders are designers, stewards and teachers. They are responsible for building organizations were people continually expand their capabilities to understand complexity, clarify vision, and improve shared mental models — that is they are responsible for learning.... Learning organizations will remain a ‘good idea’... until people take a stand for building such organizations. Taking this stand is the first leadership act, the start of inspiring (literally ‘to breathe life into’) the vision of the learning organization. (Senge 1990: 340)

Many of the qualities that Peter Senge discusses with regard to leading the learning organization can be found in the shared leadership model. For example, what Senge approaches as inspiration, can be approached as animation. Here we will look at the three aspects of leadership that he identifies — and link his discussion with some other writers on leadership.

Leader as designer. The functions of design are rarely visible, Peter Senge argues, yet no one has a more sweeping influence than the designer (1990: 341). The organization’s policies, strategies and ‘systems’ are key area of design, but leadership goes beyond this. Integrating the five component technologies is fundamental. However, the first task entails designing the governing ideas – the purpose, vision and core values by which people should live. Building a shared vision is crucial early on as it ‘fosters a long-term orientation and an imperative for learning’. Other disciplines also need to be attended to, but just how they are to be approached is dependent upon the situation faced. In essence, ‘the leaders’ task is designing the learning processes whereby people throughout the organization can deal productively with the critical issues them face, and develop their mastery in the learning disciplines’.

Leader as steward: While the notion of leader as steward is, perhaps, most commonly associated with writers such as Peter Block (1993), Peter Senge has some interesting insights on this strand. His starting point was the ‘purpose stories’ that the managers he interviewed told about their organization. He came to realize that the managers were doing more than telling stories, they were relating the story: ‘the overarching explanation of why they do what they do, how their organization needs to evolve, and how that evolution is part of something larger’ (Senge 1990). Such purpose stories provide a single set of integrating ideas that give meaning to all aspects of the leader’s work – and not unexpectedly ‘the leader develops a unique relationship to his or her own personal vision. He or she becomes a steward of the vision’. One of the important
things to grasp here is that stewardship involves a commitment to, and responsibility for the vision, but it does not mean that the leader owns it. It is not their possession. Leaders are stewards of the vision, their task is to manage it for the benefit of others (hence the subtitle of Block’s book—‘Choosing service over self-interest’). Leaders learn to see their vision as part of something larger. Purpose stories evolve as they are being told, ‘in fact, they are as a result of being told’ (Senge 1990). Leaders have to learn to listen to other people’s vision and to change their own where necessary. Telling the story in this way allows others to be involved and to help develop a vision that is both individual and shared.

*Leader as teacher:* Peter Senge starts here with Max de Pree’s (1990) injunction that the first responsibility of a leader is to define reality. While leaders may draw inspiration and spiritual reserves from their sense of stewardship, ‘much of the leverage leaders can actually exert lies in helping people achieve more accurate, more insightful and more empowering views of reality (Senge 1990). Building on an existing ‘hierarchy of explanation’ leaders, Peter Senge argues, can influence people’s view of reality at four levels: events, patterns of behavior, systemic structures and the ‘purpose story’. By and large most managers and leaders tend to focus on the first two of these levels (and under their influence organizations do likewise). Leaders in learning organizations attend to all four, ‘but focus predominantly on purpose and systemic structure. Moreover they “teach” people throughout the organization to do likewise’ (Senge 1993). This allows them to see ‘the big picture’ and to appreciate the structural forces that condition behavior. By attending to purpose, leaders can cultivate an understanding of what the organizations (and its members) are seeking to become. One of the issues here is that leaders often have strengths in one or two of the areas but are unable, for example, to develop systemic understanding. A key to success is being able to conceptualize insights so that they become public knowledge, ‘open to challenge and further improvement’.

‘Leader as teacher’ is not about ‘teaching’ people how to achieve their vision. It is about fostering learning, for everyone. Such leaders help people throughout the organization develop systemic understandings. Accepting this responsibility is the antidote to one of the most common downfalls of otherwise gifted teachers – losing their commitment to the truth. (Senge 1990)

Leaders have to create and manage creative tension – especially around the gap between vision and reality. Mastery of such tension allows for a fundamental shift. It enables the leader to see the truth in changing situations.
Chapter 1

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Issues and problems

When making judgments about Peter Senge's work, and the ideas he promotes, we need to place his contribution in context. His is not meant to be a definitive addition to the 'academic' literature of organizational learning. Peter Senge writes for practicing and aspiring managers and leaders. The concern is to identify how interventions can be made to turn organizations into 'learning organizations'. Much of his, and similar theorists' efforts, have been 'devoted to identifying templates, which real organizations could attempt to emulate' (Easterby-Smith and Araujo 1999). In this field some of the significant contributions have been based around studies of organizational practice, others have 'relied more on theoretical principles, such as systems dynamics or psychological learning theory, from which implications for design and implementation have been derived'. Peter Senge, while making use of individual case studies, tends to the latter orientation.

The most appropriate question in respect of this contribution would seem to be whether it fosters praxis – informed, committed action on the part of those it is aimed at? This is an especially pertinent question as Peter Senge looks to promote a more holistic vision of organizations and the lives of people within them. Here we focus on three aspects. We start with the organization.

Organizational imperatives. Here the case against Peter Senge is fairly simple. We can find very few organizations that come close to the combination of characteristics that he identifies with the learning organization. Within a capitalist system his vision of companies and organizations turning wholehearted to the cultivation of the learning of their members can only come into fruition in a limited number of instances. While those in charge of organizations will usually look in some way to the long-term growth and sustainability of their enterprise, they may not focus on developing the human resources that the organization houses. The focus may well be on enhancing brand recognition and status (Klein 2001); developing intellectual capital and knowledge (Leadbeater 2000); delivering product innovation; and ensuring that production and distribution costs are kept down. As Will Hutton (1995) has argued, British companies' priorities are overwhelmingly financial. What is more, 'the targets for profit are too high and time horizons too short'. Such conditions are hardly conducive to building the sort of organization that Peter Senge proposes. Here the case against Senge is that within capitalist organizations, where the bottom line is profit, a fundamental concern with the learning and development of employees and associates is simply too idealistic.

Yet there are some currents running in Peter Senge's favor. The need to focus on
knowledge generation within an increasingly globalized economy does bring us back in some important respects to the people who have to create intellectual capital.

Productivity and competitiveness are, by and large, a function of knowledge generation and information processing: firms and territories are organized in networks of production, management and distribution; the core economic activities are global – that is they have the capacity to work as a unit in real time, or chosen time, on a planetary scale. (Castells 2001)

A failure to attend to the learning of groups and individuals in the organization spells disaster in this context. As Leadbeater (2000) has argued, companies need to invest not just in new machinery to make production more efficient, but in the flow of know-how that will sustain their business. Organizations need to be good at knowledge generation, appropriation and exploitation. This process is not that easy:

Knowledge that is visible tends to be explicit, teachable, independent, detachable, it also easy for competitors to imitate. Knowledge that is intangible, tacit, less teachable, less observable, is more complex but more difficult to detach from the person who created it or the context in which it is embedded. Knowledge carried by an individual only realizes its commercial potential when it is replicated by an organization and becomes organizational knowledge.

Here we have a very significant pressure for the fostering of ‘learning organizations’. The sort of know-how that Leadbeater (2000) is talking about here cannot be simply transmitted. It has to be engaged with, talking about and embedded in organizational structures and strategies. It has to become people’s own.

Politics and vision: Here we need to note two key problem areas. First, there is a question of how Peter Senge applies Systems Theory. While he introduces all sorts of broader appreciations and attends to values – his theory is not fully set in a political or moral framework. There is not a consideration of questions of social justice, democracy and exclusion. His approach largely operates at the level of organizational interests. This is would not be such a significant problem if there was a more explicit vision of the sort of society that he would like to see attained, and attention to this with regard to management and leadership. As a contrast we might turn to Peter Drucker’s (1977) elegant discussion of the dimensions of management. He argued that there are three tasks – ‘equally important but essentially different’ – that face the management of every organization. These are:
To think through and define the specific purpose and mission of the institution, whether business enterprise, hospital, or university. To make work productive and the worker achieving. To manage social impacts and social responsibilities.

He continues: None of our institutions exists by itself and as an end in itself. Everyone is an organ of society and exists for the sake of society. Business is no exception. ‘Free enterprise’ cannot be justified as being good for business. It can only be justified as being good for society. (Drucker 1977)

If Peter Senge had attempted greater connection between the notion of the ‘learning organization’ and the ‘learning society’, and paid attention to the political and social impact of organizational activity then this area of criticism would be limited to the question of the particular vision of society and human flourishing involved.

Second, there is some question with regard to political processes concerning his emphasis on dialogue and shared vision. While Peter Senge clearly recognizes the political dimensions of organizational life, there is sneaking suspicion that he may want to transcend it. In some ways there is link here with the concerns and interests of communitarian thinkers like Amitai Etzioni (1995, 1997). As Richard Sennett (1998) argues with regard to political communitarianism, it ‘false emphasises unity as the source of strength in a community and mistakenly fears that when conflicts arise in a community, social bonds are threatened’. Within it (and arguably aspects of Peter Senge’s vision of the learning organization) there seems, at times, to be a dislike of politics and a tendency to see danger in plurality and difference. Here there is a tension between the concern for dialogue and the interest in building a shared vision. An alternative reading is that difference is good for democratic life (and organizational life) provided that we cultivate a sense of reciprocity, and ways of working that encourage deliberation. The search is not for the sort of common good that many communitarians seek (Guttman and Thompson 1996) but rather for ways in which people may share in a common life. Moral disagreement will persist – the key is whether we can learn to respect and engage with each other’s ideas, behaviors and beliefs.

A question of sophistication and disposition. One of the biggest problems with Peter Senge’s approach is nothing to do with the theory, its rightness, nor the way it is presented. The issue here is that the people to whom it is addressed do not have the disposition or theoretical tools to follow it through. One clue lies in his choice of ‘disciplines’ to describe the core of his approach. As we saw a discipline is a series of principles and practices that we study, master and integrate into our lives. In other words, the
approach entails significant effort on the part of the practitioner. It also entails developing quite complicated mental models, and being able to apply and adapt these two different situations—often on the hoof. Classically, the approach involves a shift from product to process (and back again). The question then becomes whether many people in organizations can handle this. All this has a direct parallel within formal education. One of the reasons that product approaches to curriculum (as exemplified in the concern for SAT tests, examination performance and school attendance) have assumed such dominance is that alternative process approaches are much more difficult to do well. They may be superior—but many teachers lack the sophistication to carry them forward. There are also psychological and social barriers. As Lawrence Stenhouse put it some years ago: ‘The close examination of one’s professional Performance is personally threatening; and the social climate in which teachers work generally offers little support to those who might be disposed to face that threat’ (1975). We can make the same case for people in most organizations.

The process of exploring one’s performance, personality and fundamental aims in life (and this is what Peter Senge is proposing) is a daunting task for most people. To do it we need considerable support, and the motivation to carry the task through some very uncomfortable periods. It calls for the integration of different aspects of our lives and experiences. There is, here, a straightforward question concerning the vision—will people want to sign up to it? To make sense of the sort of experiences generated and explored in a fully functioning ‘learning organization’ there needs to be ‘spiritual growth’ and the ability to locate these within some sort of framework of commitment.

**Conclusion**

John van Maurik (2001) has suggested that Peter Senge has been ahead of his time and that his arguments are insightful and revolutionary. He goes on to say that it is a matter of regret ‘that more organizations have not taken his advice and have remained geared to the quick fix’. As we have seen there are very deep-seated reasons why this may have been the case. Beyond this, though, there are the questions of whether Senge’s vision of the learning organization and the disciplines it requires has contributed to more informed and committed action with regard to organizational life? Here we have little concrete evidence to go on. However, we can make some judgments about the possibilities of his theories and proposed practices. We could say that while there are some issues and problems with his conceptualization, at least it does carry within it some questions around what might make for human flourishing. The emphases on building a shared vision, team working, personal mastery and the development of more sophisticated mental models
and the way he runs the notion of dialogue through these does have the potential of allowing workplaces to be more convivial and creative. The drawing together of the elements via the Fifth Discipline of systemic thinking, while not being to everyone’s taste, also allows us to approach a more holistic understanding of organizational life (although Peter Senge does himself stop short of asking some important questions in this respect). These are still substantial achievements – and when linked to his popularizing of the notion of the ‘learning organization’ – it is understandable why Peter Senge has been recognized as a key thinker.

1.1.5 How is strategic thinking linked to HR?

“Human Resources Management (HRM) can be defined as a strategic and coherent approach to the management of an organization’s most valued assets- the people working there who individually and collectively contribute to the achievement of its objectives” (Handbook of Strategic Management, M Armstrong & A Baron, 2008)

Strategic Human Resource Management has been defined as: All those activities affecting the behavior of individuals in their efforts to formulate and implement the strategic needs of the business (Schuler, 1992). The pattern of planned human resource deployments and activities intended to enable the firm to achieve its goals. (Wright & McMahan, 1992)

Getting the Right People on Board: Strategy implementation is a mechanical process: Just develop a blueprint of action steps, tell employees to execute those steps, and check periodically for compliance and progress. The reality is that people are the most important part of implementation, and harnessing their energy and commitment to strategic change is often management’s greatest challenge. People have to feel that they’ve had something to say about the plans they are told to implement. They must know that success is important. They must be motivated to do the right things well. And they must see real incentives for their hard work.

The rationale for strategic HRM rests on the perceived advantage of having an agreed and understood basis for developing approaches to managing people in the longer term. It has also been suggested by Lengnick – Hall and Lengnick- Hall (1990) that underlying this rationale in a business is the concept of achieving competitive advantage through HRM: “Competitive advantage is the essence of competitive strategy. It encompasses those capabilities, resources, relationships and decision which permit an organization to capitalize on opportunities in the market place and to avoid threats to its desired position.”
Increasingly, they claim, it is being acknowledged that the management of people is one of the key links in generating a competitive edge. It is understood that organizations may be so preoccupied with survival and managing the here- and now that perhaps unwisely they do not have an articulated Corporate or business strategy. A strategic approach to HR issues manifests itself only in an environment in which there is a strategic approach to Corporate or Business issues. In many, the HR function fulfills a primarily administrative and service role and is not at all concerned with strategic matters.

Linkage of the Four Legs of the Balanced Scorecard to Strategies

At the core of every Balanced Scorecard is the need for a company's senior management to develop corporate strategies for all the legs of the scorecard. Hence, before one begins developing strategies for one's business, it is important to understand how these strategies affect the four legs of the Balanced Scorecard and how all the organizational resources play a vital role in making those strategies work. How closely is each of the four legs influenced by the strategies formulated? It depends upon the strategy, on your business, and on the things that influence them, both internally and externally, the key is that you give each leg its due consideration figuring out how each of your strategies impacts each leg and then developing the plans, tactics projects and measures that will achieve their long-term goals and objectives.

The key to developing a successful strategy and making the strategy drive the business goals is to develop their vision, mission, and guiding principles for the organization. Develop their long-term strategies and goals based upon strategic analysis and planning and to develop the strategy map, operational and tactical plans, goals, and objectives analysis and planning. Develop balanced Scorecards and dashboards. Implement plans, measuring and monitoring progress and updating scorecards and dashboards as necessary. Adjust strategies, plans, and tactics as necessary to achieve the desired success. It is an ongoing process that becomes an integral part of the way the organization manages the decision-making process and manages business.

Focusing resources on your strategies

Identifying and focusing your strategies on all four legs of the scorecard is only part of the equation. You also need to ensure that you align and focus your resources when implanting your strategies. This means focusing like a laser beam on achieving your strategic goals and objectives by applying the resources needed to succeed.
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Resources to be budgeted include things like: Money, Time, Administrative support and supplies, Training and education of employees (scorecards and dashboards, team and process improvement skills, job skill, etc.), Space to meet and operate, and places and systems for display and communication of scorecards and dashboards. Integrating scorecard and dashboard software with information technology systems and databases to allow ongoing monitoring of your strategic and four legs goals, objectives, and Performance.

Aligning the organization to the strategies:

To align your organization to your scorecard strategies, you want to create synergies among your various business units and functions. The breaking down of functional silos and barriers and improved communication and coordination are the keys. To achieve this executive team should set a consistent message and priorities, linking business units and shared services within the company. Integrating strategies into every employee’s daily job involves a planned effort in ensuring that all the employees understand the strategies and how they can contribute to attaining and sustaining the strategic goals and measures. An executive’s job becomes one of communication, education, and eventually empowerment of the workforce to continually improve and work towards achievement of the strategies.

Strategies should be deployed downward to the operational and tactical levels of the company, and the various levels should be allowed to individualize their measures and to go beyond functional boundaries and silos. Team-based and corporate rewards and recognition incentives should be established to motivate scorecard knowledge and achievement.

Strategic Human Resource Management (SHRM)

The term, Strategic Human Resource Management, conveys the sense of human resource management in a strategic context. In order for this to take place there has to be some connection made with the strategic process through which the aims of an organization are managed, that is, its strategic management. In this chapter the state of development of the strategic process, which, at present, culminates in the concept of strategic management will be considered. The anticipated outcome of the strategy process is to win in the face of the competition. It will be seen that the military roots and battle analogy of the concept are still influential in the process. Awareness is created of the scope of the field of research in relation to strategy, and progress in this sphere is evaluated.
Against a background of ever accelerating environmental turbulence, the process of strategic management emerges from an evolution of earlier, simpler systems for managing business planning. How should the many changes in the concept be interpreted? Looking ahead, are there aspects of the concept, in its current state of development, which can accommodate a linkage with human resource management?

1.1.6. Human Resources Planning (HRP) and Systems Thinking

Human Resources Planning and Human Resources Management quintessentially address and incorporate the same broad areas and hence for the purpose of this study these two terms have been used interchangeably.

HRP can be defined as a strategic and a coherent approach to the management of an Organization's most valued assets- the people working there who individually and collectively contribute to the achievement of its objectives.

**The key characteristics are that:**

1) It emphasizes the need for strategic fit – the integration of business and HR strategies.

2) Importance is attached to strong cultures and values.

3) People are treated as human capital to be invested as key assets – they are not regarded as a variable cost.

4) It is a Top management driven activity, and the Performance and delivery of HRP is a line management responsibility.

5) It contributes in measurable ways to the creation and maintenance of competitive advantage, and the focus is on performance and adding value, especially for stakeholders.

6) There is a strong emphasis on the delivery of quality to customers (internal & external) and the achievement of high levels of customer satisfaction.

7) Rewards are differentiated according to performance, competence, contribution of skill. (Source: Handbook of Strategic HRM, M Armstrong & A Baron, 2006, 2008)
A core competence is a potential foundation for any new or revised strategy. The term core competency refers to a company’s expertise skills in key areas that directly produce superior performance.

Beckhard (1969) defined Organization Development as an effort (1) planned, (2) Organization-wide, and (3) managed from the top to (4) increase organization effectiveness and health through (5) planned interventions in the organization’s processes, using behavioral-science knowledge.

The Systems Thinking Approach to SHRP is important from a perspective of a holistic approach identifying the goals and then formulating the strategy. It is different from the traditional analytical approach of a piece meal approach beginning with the current state assessment. The Systems Thinking approach supports the OD efforts by virtue of it being holistic. Each component is inter-connected and hence in formulating the SHRP a piecemeal analytical approach does not often facilitate meeting the organizational goal.

1.1.7 The Essence of Human Capital Management (HCM)

Human capital management (HCM) was described by the Accounting for people Task Force (2003) as ‘a strategic approach to people management that focuses on the issues that are critical to the organization’s successes. It treats people management’ as a high level strategic issue and seeks systematically to analyze, measure and evaluate how people policies and practices create value’. Scarborough and Elias (2002) noted that the most useful contribution of human capital to date is in defining the link between HR and business strategy. The Chartered Institute of personnel and Development (CIPD, 2006a) expanded on this idea as follows: ‘A human capital approach implies that a realistic business strategy must be informed by human capital data. In other words how can a business pursue a strategy that doesn’t take account of the capacity of all the resources available, including the human ones?’

HCM is concerned with measurement (metrics) but there is more to it than that. As Duncan Brown, Assistant Director of the CIPD commented in 2006: ‘Human capital management is not primarily about measurement. It is about creating and demonstrating the value that great people and great people management add to an organization.’

Donkin (2005) believes that the organizational strength of HCM lies in three areas: ‘development and application of relevant measures, both quantitative and qualitative; gathering and interpreting results; utilizing this information for strategic for strategic
advantage'. He continues:

‘Companies that concentrate management efforts on these areas will be best positioned to align their employment policies with strategic intent. Good human capital management, therefore, is all about learning, understanding, intervening and adjusting’.

The prime object of this book is to provide a practical guide to how HCM policies and practices can help to deliver added value through people while continuing to meet their aspiration and needs. It deals with the processes of measurement and reporting but focuses on the process of critical evaluation of both quantitative and qualitative data and the use of predictive analysis to determine the future outcomes of existing and proposed practices. To achieve this book takes the following approach:

**The Concept of Human Capital**

The concept of human capital is concerned with the added value people provide for organizations. It has been well said by Chatzkel (2004) that ‘it is Human Capital that is the differentiator for organization and the actual basis for competitive advantage’. Human Capital Theory, as stated by Ehrenberg and Smith (1997), ‘conceptualizes workers as embodying a set of skill which can be “rented out” to employers. The knowledge and skill a worker has – which come from education and training, including the training that experience brings – generate a certain stock of productive capital.

Human Capital is an important element of the intangible assets of an organization. The other intangible assets include copyright, customer relations, brands and company image. All these, but especially the know-how, imagination and creativity of employees, are as critical to business success as ‘hard assets. The significance of human assets explains why it is important to measure their value as a means of assessing how well they are used and used and of indicating what needs to be done to manage them even more effectively.

As described by Scarborough and Elias (2002):‘The concept of Human Capital is most usefully viewed as a bridging concept – that is, it defines the link between HR practices and business performance in terms of assets rather than business processes.’ They point out that human capital is to a large extent ‘non-standardized, tacit dynamic, context dependent and embodied in people’. These characteristics make it difficult to evaluate Human Capital in mind that the ‘features of human capital that are so crucial to firm performance are the flexibility and creativity of individuals, their ability to develop skills
over time and to respond in a motivated way to different contexts'. They also mention that: 'In human capital theory, reference is made to people and skills, whilst in theories of physical capital reference is made to plant and equipment.'

There are many definitions of human capital but in this book it is treated as one of the three elements that make up intellectual capital treated the others being social capital and organizational capital.

**Human Capital - Origin of the Concept**

The term human capital was originated by Schultz (1961), an economist who proved that the yield no human capital investment through education and training in the United States was larger than based on investment in physical capital. Schultz elaborated his concept in 1981 as follows: 'consider all human abilities to be either innate or acquired. Attributes... that are valuable and can be augmented by appropriate investment will be human capital... by investing in themselves; people can enlarge the choices available to them.'

However, the idea of investing in human capital was first developed by Adam Smith (1776), who argued in the wealth of nations that differences between the ways of working of individuals with different levels of education and training reflected differences in the returns necessary to defray the costs of acquiring those skills. The return on investment in skills can therefore be compared to the returns from investing in physical capital. But this comparison has its limitations. Firms own physical capital but not their workers, except in a slave society.

Economists such as Elliott (1991) developed the Theory of Human Capital. He is concerned with human capital in terms of the quality, not quantity of the labor supply. He describes the decision to acquire or develop skills as an investment decision that requires the outlay of resources now for returns in the future and emphasizes that a major part of the human stock of economies takes the form of human capital. He comments that:

When investing in individuals, firms have fewer guarantees that they do with machines, that they can secure the continuing use of their services. Individuals, unlike machines, can always decide to leave the firm, or they can decide to withdraw their labor, strike, go absent or work badly. Human capital theory proposes that individuals will invest in human capital if the private benefits exceed the cost they incur and that they will invest up to the point at which the marginal return equals the marginal cost.
Human Capital Defined

Human capital consists of the intangible resources that workers provide for their employers. It was defined by Bontis et al. (1999) as follows: “Human capital represents the human factor in the organization; the combined intelligence, skills and expertise that gives the organization its distinctive character. The human elements of the organization are those that are capable of learning, changing, innovating and providing the creative thrust which if properly motivated can ensure the long-term survival of the organization.”

Human capital is not owned by the organization but secured through the employment relationship. People bring human capital to the organization although it is then developed by experience and training. Davenport (1999) comments that: “People possess innate abilities, behaviors and personal energy and these elements make up the human capital they bring to their work. And it is they, not their employers, who own this capital and decide when, how and where they will contribute it. In other words, they can make choices. Work is a two-way exchange of value, not a one-way exploitation of an asset by its owner.”

The point emphasized by Davenport, that workers as well as employers invest in human capital, is in accord with the economic theory of human capital as described above. As expressed by Ehrenberg and Smith (1994), human capital theory conceptualizes workers as embodying a set of skills, which can be “rented out” to employers.

For the worker, the expected returns on human capital investments are a higher level of earnings, greater job satisfaction, better career prospects, and, at one time, but less so now, a belief that security in employment is assured. In today’s condition, however, investments by workers in developing transferable skills can be attractive as means of increasing employability. The costs of such investments, as spelt out by Elliott (1991) take a psychological, social and monetary form. Psychological costs are those borne by individuals, perhaps the less able, who may find learning difficult. Social costs take the form of foregone market opportunities (i.e. opportunity costs – the time spent devoted to investing in human capital could have been spent in other activities). Monetary costs include both direct financial outlays and foregone market opportunities. As suggested by Elliott, the decision to acquire skills is an investment decision. Individuals will invest in human capital if they believe that benefits to them will exceed the costs they will incur. These benefits consist of the net addition to life-long earnings that result from selling skilled rather than unskilled labor.
For the employer, the returns on investment in human capital is expected to be improvements in performance, productivity, flexibility and capacity to innovate which should result from enlarging the skill base and increasing levels of knowledge and competence. Schuler (2000) suggests that: ‘the general message is persuasive: skills, knowledge and competences are key factors in determining whether organization and nations will prosper. ‘And Lepak and Snell (1999) comment that: ‘The value of human capital is inherently dependent upon its potential to contribute the competitive advantage or core competencies of the firm.’ Human Capital Theory can be associated with the resource-based view of the firm as developed by Barney (1991). This proposes that sustainable competitive advantage is attained when the firm has a human resource pool that cannot be imitated or substituted by its rivals.

It can also be associated with what might be called the competency movement on the grounds that competencies, effectively used, build value in organizations. The assessment of competency levels in Performance management processes can reveal trends in the development of a competent workforce and therefore the value of that workforce. Ulrich (1998) states that human capital consists of ‘competence x commitment.’

Organizational Capital

Organizational capital or structural capital consist of knowledge owned by the individual employees. It can be described as embedded or institutionalized knowledge that may be retained with the help of information technology on readily accessible and easily extended databases. It can be include explicit knowledge that has been recorded on a database or in manuals and standard operating procedures, or tacit knowledge that has been captured, exchanged and, as far as possible, codified.

Any process or procedure in an organization is constructed from the knowledge of individuals. As Davenport and Prusak (1998) comment: ‘in theory this embedded knowledge is independent of those who developed it – and therefore has some organizational stability – an individual expert can disappear without bringing the process to halt or reducing the company’s stock of embedded knowledge’.

Organizational capital is created by people (Human Capital) but is also the outcome of social capital interaction. It belongs to the firm and can be developed by knowledge management processes that aim to obtain and record explicit and tacit knowledge.
**Human Capital Theory and HR Practices:**

Human Capital Theory focuses attention on resourcing, HR development, and reward strategies and practices.

**Resourcing Strategies:**

Resourcing strategies are concerned with matching human capital resources to the strategies and operational needs of the organization and ensuring the effective utilization of those resources. The strategies contribute to the formulation of business strategy by defining future human capital requirement, identifying opportunities to make better use of human capital, and pointing out how human capital constrains may affects the implementation of business plan unless action is taken. These constrains could include skill shortage, problems in recruiting and retaining people, low productivity, high absenteeism, insufficient flexibility or an employee relation climate that inhibits cooperation and commitment.

Resourcing strategies will be based on HR planning processes that ensure that human capital needs identified and plans made to satisfy them. ‘Make or Buy’ decision may have to be made. To a greater lesser extent, organizations can concentrate on growing their own talent and promoting from within (a ‘make’ decision). A policy choices needs to be made on the extent to which a ‘make’ or ‘buy’ approach is adopted.

They will also be concerned with talent management – ensuring that talented people are attracted, developed and retained in accordance with organizational needs.

**HR Development Strategies**

HR development strategies are business led in that they are initiated by the strategic plans of the organization and driven by the HR plans that define knowledge, skills and competency requirement. The strategies will address issue relating to the development of the capabilities of individuals learning. HR development strategies aim to attract and to retain human capital as well as develop it. This is in accordance with the concept that workers are human capital investors; they will place their investable capital where it can be earned the highest return. They want to develop their skills, potential and employability are more likely to get and to keep the sort of human capability they need. This applies to all categories of employees, not just knowledge workers.
Reward Strategies

From a financial reward point of view, the implication of Human Capital Theory is that investment in people adds to their value to the firm. Individuals expects a return on their own investment and firms have recognized that the increased value of their employees should be rewarded. Human Capital Theory encourages the use of skilled based or competency based pay as a method of reward. It also underpins the concept of individual market worth. This indicates that individuals have their own value in the marketplace, which they acquire and increase through investment by their employer and themselves in gaining extra expertise and competence by means of training, development and experiences. The market worth of individual may be considerably higher than the market rate of their jobs, and if they are not rewarded accordingly they may market their talents elsewhere.

But non-financial reward consideration should also be taken into account. If workers are investing their human capital they want to obtain a return not only in the form of opportunities to grow and to achieve but also in terms of being valued by their employers. Organizations need therefore to consider how to recognize accomplishments through Performance management processes and formal recognition schemes.

The Link between HCM and Strategic HRM

HCM provides the basis for strategic HRM through measurement and analysis leading to evaluation, diagnosis and action. As Kearns (2006) contends, ‘HCM is only concerned with outputs, results and value – right from the outset – and designs its interventions and activities accordingly’.

Walker (1992) defines strategic HRM as ‘the means of aligning the management of human resources with the strategic content of the businesses’. It can be described as an approach to making decision on the intentions and plans of the organization in the shape of the policies, programmes and practices concerning the employment relationship, talent management, knowledge management, learning and development, Performance management, reward, and employee relations. The concept of strategic HRM is derived from the concept of HRM and strategy. It takes the HRM models with its focus strategy, integration and coherence and adds to that the key notion of resource-based strategy. The link between HCM and resource based theory is that both emphasizes the Importance of human capital as a means of adding value and both recognize the Importance of strategic planning that is based on an understanding of the factors that have a direct impact of
the Performance of people in the organization.

A resource-based approach to strategic HRM focuses on satisfying the human capital requirement of the organization by reference to the data provided by human capital measurements. The notion of resource based strategic HRM is based on the ideas of Penrose (1959) who wrote that the firm is 'an administrative organization and collection of productive resources'. The approach was developed by Hamel and Prahalad (1989) who declared that competitive advantage is obtained and develops human resources that enable it to learn faster and apply its learning more effectively than its rival. Barney (1991) states that sustained competitive advantage stems from the acquisition and effective use of bundles of distinctive advantage stems from the acquisition and effective use of bundles of distinctive resources that competitors cannot imitate. As Purcell et al (2003) suggest, the values and HR policies of an organization constitute an important non-imitable resource. This is achieved by ensuring that: 1. The firm has higher-quality people than its competitors; 2. The unique intellectual capital possessed by the business is developed and nurtured; 3. Organizational learning is encouraged; 4. Organization specific values and a culture exist which ‘bind the organization together (and) gives it focus’.

Resource based theory is linked to human capital theory; they both emphasize that investment in people adds to their value to the firm.

HCM indicates the direction to be taken by a resource-based approach in order to improve resource capability – achieving strategic fit between resources and opportunities and obtaining added value from the effective deployment of human capital. Resource-based strategy, as Barney (1991) indicates, can develop strategic capability and produce what Boxall (1996) refers to as human resource advantage.

A strategic HCM approach involves identifying the drivers of organizational Performance such as customer service, innovation, quality and sales/cost leadership. The key attributes people need to deliver effective performance can then be identified and defined in terms of recruitment and promotion specifications, skills, competencies and upholding corporate values so that as these are redefined, they process. At Selfridges, as reported staff and staff employed in the various concessionary retail outlets on the shop floor. An assessment tool was developed based on the competencies and behaviors that were found to be most positive in promoting customer care and the external brand they were keen to foster. This was used in both recruitment and promotion to ensure that those appointed had the behavioral characteristics required by the company as well as the necessary skills.
Taking this one step further there were several examples among the companies interviewed for this book where the HR functions was actively developing human capital measures to monitor progress against that strategy.

Becker et al (2001) refer to the need to develop a ‘high-performance perspective’ in which HR and other executives view HR as a system embedded within the larger system of the firm’s strategy implementation. They state that: ‘the firm manages and measures the relationship between these two systems and firm performance.’ A high-performance work system is crucial part of this approach in that it links the firm’s selection and promotion decision to validated competency models; Develops strategies that provide timely and effective support for the skill demanded by the firm’s strategy implementation. Enacts compensation and Performance management policies that attracts, retain and motivate high-performance employees.

Lloyds TSB has produced the following definition of what they mean by a high-performance organization as part of their HCM programme: People know what’s expected of them – they are clear about their goals and accountabilities. They have the skills and competencies to achieve their goals. High Performance is recognized and rewarded accordingly. People feel that their job is worth doing, and that there’s strong fit between the job and their capabilities. Managers act as supportive leaders and coaches providing regular feedback, Performance reviews and development. A pool of talent ensures a continuous supply of high performers in key roles. There is climate of trust and teamwork, aimed at delivering a distinctive service to the customer.

1.2 Need for the Study

The purpose of the present study was to empirically investigate the application of Systems Thinking to Strategic HR Planning. Conceptual framework was developed based on the model of Haines Centre for Strategic Management. The reason this model has been selected is to get a deeper understanding of the application of the Systems Thinking Approach to implement a HR Strategy. Strategic perspective towards organizational functioning is emerging as an important dimension for enhancing efficiency and effectiveness in an organization. In a functional area like Human Resources, it emerges as a strong facilitator to organization planning and structuring. From a variety of angles there are compelling forces which make it imperative for HR to continue looking at systems and get feedback and extend its partnership to the Corporate. Because of such pressing requirements, HR as a facilitator makes it a case to be studied from a strategic perspective. The present study attempts to identify the role and
Importance of systems approach in today’s industrial context.

In strategic human resource management, all programmes, project and activities relating to the HRM function such as selection, assessment and Performance appraisal, reward and control systems, and training and development must be designed, implemented and evaluated in the context of the organization’s mission, business strategy, goals and objectives. In this regard, human resource management becomes an important consideration in the process of overall formulation and implementation of strategic plans. (Kiggundu, 1989; Kamoche, 1992)

1.3 Significance of the study

In the light of previous contributions and the gaps that exist in the previous models. The study examines a 360° assessment of various areas of HR planning and assesses the Importance of that activity and its current Performance. The 7 areas of HR strategy identified are Acquiring the Desired Workforce, Engaging the Workforce, Organizing High Performance Teams, Creating a learning Organization, Facilitating Cultural Change, Collaborating with Stakeholders, HR- A Business Partner. Thus, Organizations that have a holistic or a systems perspective to planning and implementing the HR strategy apply the Systems Thinking approach to their HR strategy. Corporate are traditionally Analytical Thinkers and hence the Systems Thinking approach to HR strategies would develop a unique perspective to understand how Indian Corporates and multinationals plan their people strategies.

1.4 Operational Definition:

**Balanced scorecard**— a concept developed by Robert S Kaplan and David P Norton of the Harvard Business School, which supplements traditional financial Performance measures with customer, internal business process, and innovation and learning measure. However, the balanced scorecard goes beyond the use of key Performance indicators because it specifically integrates accounting and financial information into a management system that focuses the entire organization on implementing its long-term strategy.

**Benchmarking**— the process of comparing one set of measurements with another set drawn from a source that represents best practice in its field.

**Bricks and mortar**— companies that use traditional methods of selling and dis-
tributing products.

**Business Process Re-design**—involves changing both organizational structure and processes to ensure that future customer needs can be anticipated and fulfilled in the most cost-effective manner. It should not be confused with crude cost-cutting exercises (such as downsizing), although many organizations have used both approaches simultaneously, with the result that the value of process redesign has been permanently tarnished in the eyes of many managers.

**Business Strategy**—concerned with market positioning and segmentation, matching business structures, following through cost leadership, differentiation and specialization strategies at SBU level.

**Communities of practice**—groups that form within an organization, typically of their own accord, where members are drawn to one another by a common set of needs that may be both professional and social. Compared to project teams, communities of practice are voluntary, longer-lived, have no specific deliverable, and are responsible only to them. Because they are free of formal strictures and hierarchy within an organization, they can be viewed as subversive.

**Competitive advantage**—John Kay, following in the footsteps of Michael Porter, defines competitive advantage as ‘the application of distinctive capability to a specific marketplace differentiating an organization from its competitors and allowing it to achieve above-average returns in that market’.

**Competitive convergence**—what happens when companies are drawn towards imitation and homogeneity? The result is often static or declining price and downward pressures on cost that compromise companies’ ability to invest in the business in the long term.

**Competitive intelligence**—in a world of rapid technological change where new and sometimes surprising competitors can suddenly appear, a company’s success will increasingly depend on how effectively it can gather, analyze and use information. According to Larry Kahaner, author of a book on the subject, companies that can turn raw information into powerful intelligence will ‘build market share, launch new products, increase profits and destroy competitors’.

**Core Competence**—Cluster of extraordinary abilities or related 'excellences' that a firm acquires from its founders, after consistent striving over the years, and which can-
not be easily imitated. Core competencies are what give a firm one or more competitive advantages, in creating and delivering value to its customers in its chosen field. Also called core capabilities or distinctive competencies.

**Core Competencies**— the key strengths of an organization (some-times called ‘distinctive capabilities’). Gary Hamel and CK Prahalad, authors of Competing for the Future, define core competencies as ‘a bundle of skills and technologies (rather than a simple or discrete skill or technology that enables the company to provide a particular benefit to customers’.

**Corporate Strategy**— concerned with mission and vision, portfolio management, acquisitions and divestments. Generic corporate strategies include growth, portfolio extension, caretaking, harvesting or retrenchment.

**Critical Success**— factors are the key organizational capabilities that differentiate competitors in the industry in their ability to meet customer needs.

**Customer Intimacy**— building customer loyalty in the long term by continually tailoring and shaping products and services to the needs of an increasingly choosy customer. Organizations pursuing this strategy frequently try to build lifetime relationships with their customers.

**Differentiation**— the ability to be unique in the industry along some dimensions valued by the customer. For example, this might be through product or service leadership, or through understanding and knowing customers better than competitors.

**Downsizing**— restructuring in a declining market where the level of resources (manpower, support functions, etc.) are inappropriate to meeting current customer needs.

**Five Forces Model**— an approach developed by Michael Porter for analyzing the competitive environment within which an organization operates. The five forces are the level of rivalry between, competitors, threats of substitutes, threats from new entrants, threats from buyers, and threats from sellers.

**Focus**— a concept popularized by Michael Porter to describe companies that select a market segment or group of segments within an industry and serve customers in these segments to the exclusion of others.
**Functional strategies**—a tool for translating corporate/business strategies into concrete operational strategies.

**Game theory**—a branch of mathematical analysis that is increasingly being drawn on by strategists wishing to study decision-making in conflict situations.

**Gap analysis**—a method for exploring the gap between current reality and the vision of the organization, both terms of external customer needs and internal capabilities.

**Globalization**—the integration of economic activity across national or regional boundaries, a process that is being accelerated by the impact of information technology.

**HR Transformation**: Is an integrated aligned, innovative, and business-focused approach to defining how HR work is done within an organization so that it helps the organization to deliver on promises made to the customers, investors, and other stakeholders. (D Ulrich, HR Transformation) 360° approach used here is in the context of a complete and 100% coverage of all areas in HRM. It should not be interpreted as equivalent to term linked with Performance Management.

**Human Resource Manager**: an individual whose primary organizational functional responsibility is the planning, organizing, leading, and controlling of programs pertaining to the personnel of an organization. Typically included are human resource planning, recruitment, selection, training and development, evaluation, compensation, and benefits. In this study, human resource managers and personnel manager are synonymous.

**Human Resource Planning**: HRP as the systematic analysis of current and future HR requirements and formulation of strategic plans and program for the acquisition, utilization, development and retention of needed employees to achieve the goals of the organization. (Walker1974). This term has been used interchangeably with Human Resources Management (HRM) in this study.

**Human Resource**: HR is a process of analyzing and organizations personal needs under changing conditions and developing the activities necessary to satisfy these needs.

**Importance**: The degree to which it is critical and needs very high focus by the organization.
Innovation— a significant change or improvement in the products or services of an organization or the process by which they are produced.

Intellectual capital— intellectual material – knowledge, information, intellectual property, Experience – which can be put to use to create wealth. In a business context, it is the sum total of what employees in an organization know that gives it a competitive edge.

Internal capabilities or competencies— what the organization is good at. John Kay refers to distinctive capabilities as ‘something an organization can do that its potential competitors cannot… base on its unique set of relationships in the marketplace’.

Internal constraints— factors that can inhibit an organization’s ability to achieve desired outcomes. These factors include the level of resources available, knowledge of new markets and products, and the cultural adaptability of the organization to new opportunities.

Key Performance indicators (KPIs)— normally combined as a basket of measures to cover all critical areas of the organization. Although the choice of specific indicators will depend on the unique circumstances of the organization, KPIs are generally selected from the following categories of information: customer satisfaction; product and service innovation; operational improvement; employee morale and commitment; financial health; and cultural diagnosis.

Knowledge management— a system, most often computer-based, to share information in a company with the goal of increasing levels of responsiveness and innovation. Like many other business subjects, the theory and of strategy has a language of its own. Here is a selective glossary of some of the key terms, key concepts and key thinkers associated with the subject.

Mission— many organizations have acknowledged the Importance of purpose by framing a formal mission statement. In theory, mission statement should capture the essence of the organization, those things about it that are truly unique and provide the platform from which the organization can create the future. Management writers sometimes refer to this as establishing purpose or strategic intent. The statement take the form of a formal declaration of what an organization is all about, rooted in a clear understanding of reality. In practical terms, mission statements rarely live up to very much and are often little more than a collection of management buzzwords that are not rooted in orga-
Chapter 1

Introduction

Organizational reality.

Operational excellence— providing customers with reliable products or services at competitive prices and delivered with minimal difficulty or inconvenience. The object of the organization adopting this strategy is to lead its industry in price and convenience.

Organization Culture: Organizational culture is an idea in the field of Organizational studies and management which describes the psychology, attitudes, experiences, beliefs and values (personal and cultural values) of an organization. It has been defined as “the specific collection of values and norms that are shared by people and groups in an organization and that control the way they interact with each other and with stakeholders outside the organization.

Organization Development: Theory and practice of planned, systematic change in the attitudes, beliefs, and values of the employees through creation and reinforcement of long-term training programs. OD is action oriented. It starts with a careful organization-wide analysis of the current situation and of the future requirements, and employs techniques of behavioral sciences such as behavior modeling, sensitivity training, and transactional analysis. Its objective is to enable the organization in adopting-better to the fast-changing external environment of new markets, regulations, and technologies.

Performance: The degree to which the relevant area has been delivered satisfactorily and results have been achieved as per plan.

Porter model— this model states that the profitability of an industry is determined by five basic competitive forces:

1. bargaining power of buyers relative to firms in the industry;
2. bargaining power of suppliers relative to firms in the industry;
3. ease of entry of new firms into the industry;
4. availability of substitute products; and
5. Intensity of rivalry between existing firms in the industry.

Product leadership – an organization achieves this by creating a continuous stream
of state-of-the-art products and services.

**Professionally Qualified:** Those who have completed a qualification after their graduation and can be absorbed in a specific function at an executive/managerial level. These qualifications however, could have also included an engineering degree just as it would include a Master’s in management, Chartered Accountants and those qualified as ICWA or a PhD.

**Prospect theory**— according to this theory, people are more motivated by their losses than their gains, and this result in increasingly risky behavior as losses accumulate. For example, long-odds bets are more popular in the last horse race of the day than the first. By the end of the day, punters have lost most of their gambling money and hope to win it all back with a single long-shot bet that they would not have considered taking in the first race.

**Scenario planning**— a tool pioneered by Shell in the 1970s that involves identifying and planning for a range of possible futures. The idea, in a nutshell, is to improve a company’s capacity to respond to whichever future come to pass.

**Seven S Model**— a widely use analytical tool, devised by Richard Pascale and Anthony Athos, that evaluates organizations under seven key headings to which managers need to pay attention. The seven are: Strategy; Structure; Systems; Skills; Style; Shared Values; and Staff. Some of these areas are ‘hard’ (strategy, structure and systems) and some are ‘soft’ (style, staff and shared values). ‘Skills’ is placed centerpiece because it is both ‘hard’ and ‘soft’, comprising both the distinctive capabilities of key personnel and the core competencies of the organization as a whole.

**Shared Vision**— in a corporation, a shared vision changes people’s relationship with the company. It is no longer ‘their company”; it becomes ‘our company’. A shared vision is the first step in allowing people who mistrusted each other to begin to work together. It creates a common identity.

**Stakeholders:** are those individuals, groups and organizations that will be impacted by or interested in the organization’s strategic plan. (Ashok Chanda, HR Strategy-Architecture for Change, 2006)

**Strategic Architecture**— a term first used by Gary Hamel and CK Prahalad to refer to an organization’s high-level blueprint for developing the new competencies and
capabilities that it needs to achieve its vision for the future. As such, it emphasizes the importance of the multitude of individual networks and linkages that underlie successful change.

**Strategic Assets**— market position (for example, a monopolistic or oligopolistic position) or relationship with a nation state or regional economic block.

**Strategic Drift**— the financial performance of an organization reflects its key strengths and weaknesses in the past. Incremental changes in key markets may go unnoticed because sales and profits lag behind changes in the reality of the marketplace. The organization may experience its margins and profits being squeezed, yet take comfort in the fact that sales continue to hold up, or even rise. If the organization fails to tackle the root cause of its problems at the customer level, sales will begin to decline and profits may fall precipitously. Strategic drift is often caused when discontinuities go unnoticed because there is a significant time lag before they hit financial performance.

**Strategic Positioning**— how an organization can achieve market distinction by performing different activities to those of its rivals, or by performing similar activities in different ways.

**Strategy**: The strategy is defined as a unified, comprehensive, and integrated plan that relates the strategic advantage of the firm to the challenges of the environment, which is designed to ensure that the basic objectives of the enterprise are achieved through proper execution by the organization (Jauch and Glueck 1988).

**SWOT Analysis**— a tool developed in the 1960s to examine an organization’s internal strengths and weaknesses as well as the opportunities and threats presented by the external competitive environment.

**Systems Thinking**: “Systems Thinking—A new way to view and mentally frame what we see in the world: a worldview and way of thinking whereby we see the entity or unit first as a whole, with its fit and relationship to its environment as primary concerns; the parts secondary” (Haines S, 1994)

**Top Management Commitment**: Direct participation by the highest level executives in a specific and critically important aspect or program of an organization. In quality management it includes (1) setting up and serving on a quality committee, (2) formulating and establishing quality policies and objectives, (3) providing resources and train-
ing, (4) overseeing implementation at all levels of the organization, and (5) evaluating and revising the policy in light of results achieved.

**Value Added:** in essence, the difference between the value of a firm’s output and the cost of the firm’s inputs. Technically, it is the difference between the market value of output and the cost of inputs, including the cost of capital (it is the latter which differentiates a value-added statement from a profit or loss statement). It can also be expressed as a ratio (value added as a proportion of a firm’s net or gross output). However, in practice measurement of value added is difficult because of the many invisible /psychological attributes of products or services.

**Virtual Organization:** an organizational form representing a loose combination of technology, expertise and networks.

**Vision**— a company’s view of its future that is compelling and stretching, but also viewed as achievable. A corporate vision for the future has to be grounded in awareness. If not, it quickly becomes a wish-driven strategy – meritorious in all respects except for the fact that it will never be achieved.

**Work Culture:** The environment and the guiding framework of values, practices and business ethics existing in the context of an organization.