Chapter-1
Strategic Human Resource Management -
analysis of literature.
## INDEX - CHAPTER 1

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1.0 HUMAN RESOURCE MANAGEMENT:

1.0.1 HRM - A conceptual analysis:

The Human Resources Management (HRM) function includes a variety of activities, and key among them are deciding the staffing needs of the organization, recruiting and training the best employees, ensuring their high performers, dealing with performance issues, and ensuring that the personnel and management practices conform to various regulations. Activities also include managing the employee benefits and compensation, employee records and personnel policies. These policies are often in the form of employee manuals, which all employees have.

The HRM function and HRD profession have undergone tremendous change over the past 20-30 years. Many years ago, large organizations looked to the "Personnel Department," mostly to manage the paperwork around hiring and paying people. More recently, organizations consider the "HR Department" as playing a major role in staffing, training and helping to manage people so that people and the organization are performing at maximum capability in a highly fulfilling manner.

"Human Resource Management is the science and the practice that deals with the nature of the employment relationship and all of the decisions, actions and issues that relate to that relationship. In practice, it involves an organization's acquisition, development and utilization of employees, as well as the employee's relationship to an organization and its performance."(Ferris R, Rosen D Sherman & Barnum T (1995)

HRD has been defined as, "a process by which the employees of an organization are helped, in a continuous, planned way, to acquire or sharpen capabilities required to perform various functions associated with their present or expected future roles; develop their inner general capabilities as individuals and discover and exploit their own inner potential for their own and organizational development purposes; develop an organizational culture in which the supervisor-subordinate relationships, teamwork and collaboration among sub-units are strong and contribute to the professional well being, motivation and pride of employees.”[Rao,(1985)]
The concept of HRD was formally introduced in 1969 by Prof. Leonard Nadler in America at the American Society for training and development conference. He described HRD as a service of organized activities conducted within a specified time and designed to produce behavioral change. Larsen and Turbo were the first Indian organization to introduce this concept in 1975 among the private sector.

Hence HRD is the art; science and practice of managing and motivating people in an organization to enable it utilize the best potential of its employees.

1.0.2 The interrelationships between HRD instruments, processes, outcomes and organizational effectiveness: (Figure 1)

An HRD instrument is any systematic or formal way of facilitating competency, motivation and climate development. These instruments lead to the generation of improved HRD processes to create more competent, satisfied and committed people. These HRD outcomes influence the effectiveness of the organization.

The interrelationships between HRD instruments, processes, outcomes and organizational effectiveness are presented in figure 1 below. By performing HRD mechanisms like performance appraisal; training, Organizational development interventions, counseling etc are systematic interventions an organization can make to set into motion or to develop the desired HRD processes and outcomes. This figure presents an illustrative list of HRD mechanisms, process variables, process outcomes and organizational effectiveness, which depend on the variables like environment, technology, competitors etc. However, other things being the same an organization that has competent, satisfied, committed and dynamic people is likely to do better than an organization that scores low on these HRD outcome variables.
Figure 1: A systematic presentation of linkages between HRD Instruments, Processes, Outcomes and Organizational Effectiveness:

HRD Mechanisms or HRD Processes & HRD outcomes
Sub-systems or HRD Climate variables Organizational
Instruments variables Effectiveness dimensions

- HRD department
- Performance appraisal
- Review, discussions, feedback, counseling sessions
- Role analysis exercises
- Potential development exercises
- Training
- Communication policies
- Job-rotations
- OD exercises
- Rewards
- Job-enrichment programmes
- Other mechanisms

- Role clarity
- Planning of development by every employee
- Awareness of competencies required for job performance
- Proactive orientation
- More trust
- Collaboration and teamwork
- Authenticity
- Openness
- Risk-taking
- Value-generation
- Clarification of norms and standards
- Increased communication
- More objective rewards.
- Generation of objective, data on employee etc

- More competent people
- Better developed roles
- Higher work-commitment and job involvement
- More problem solving
- Better utilization of human resources
- Higher job satisfaction and work motivation
- Better generation of internal resources
- Better organizational health
- More teamwork, synergy and respect for each other.

- Higher productivity
- Growth and diversification
- Cost reduction
- More profits
- Better image

Other factors:
Environment, Technology, Resource availability, history, nature of business etc.

(T.V.RAO, 1999)

1 Source: Rao.T.V (1990)- HRD Audit- Evaluating the HR function for business improvement- Sage publication
1.0.3 - Research evidence relating good HR practices to business improvement

Recent researches worldwide have shown that good HR practices and policies can influence business growth and development. The researches indicate the following:

Rao and Abraham (1986) conducted an HRD Climate survey for 52 organizations. The 38 item questionnaire data indicated that there was a wide gap between belief of the top management and their actual practices of HRD. It also indicated that although banks have relied upon training as mechanisms for HRD, training has not been taken seriously nor has been evaluated.

Abraham (1989) surveyed the HRD practices of 68 Indian organizations which included performance management practices, training, career planning, promotions, rewards etc., and the HRD climate (openness, collaboration, trust, authenticity, pro-action, autonomy, confrontation). In his study he constructed an index of growth of the company profitability as a measure of organizational performance. He was able to use this index only in 14 of the 68 companies. He found that while the HRD profile did not correlate with the company performance, the HRD climate did. He found that the perception of the HRD climate of the company was more important than the HRD practice itself. This study also indicates that HRD culture is a powerful intervening variable in translating HRD practices into profit.

T.V.Rao, (1990) a good HRD system has the three essentials namely competence building, commitment building and culture building. The elements of good HRD System are:

- Corporate-strategy and business linked HRD
- Systems-engineered and systems-driven HRD
- Appropriately structured and competently handled HRD

• Appropriately rooted (in terms of culture and values) HRD.

Khandwalla *3 (1992) after the review of several case studies and experiences in India concluded, 'Western and Third World studies of organizational excellence indicate five major keys to organizational excellence: organizational passion (mission, vision of excellence, core values), style of management, goals, policies and choices of domain, management systems and structure and the organizational renewal processes. These factors foster organizational excellence of larger organizations.

Johnson, Ryan and Schmit (1994) in their study at the Ford Motor Credit revealed that attitudes concerning workload, teamwork, training and development, satisfaction with the job and satisfaction with the company were all related to customer satisfaction.

Schmit and Allscheid (1995) found that customer satisfaction and perceptions of service quality were significantly related to measures of employee attitudes about the fairness of pay, whether management was concerned about employee welfare and treated people fairly and whether supervisors encouraged and participative work environment. Employee attitudes are in turn related to profits.

Macduffie(1995, cited by Pfeiffer, 1998:32) observed from his studies that innovative HR practices are likely to contribute to improved economic performance only when:

Employees possess knowledge and skills needs to be built up.

Employees are motivated to apply this skill and knowledge through discretionary effort.

When employees contribute to such an effort.

---

Huselid (1995) evaluated the links between systems of high performance work practices and firm performance, based on a national sample of nearly one thousand firms. The results indicate that these practices have an economically and statistically significant impact on both intermediate employee outcomes (turnover and productivity) and short and long-term measures of corporate financial performance. Support for predictions that the impact of High Performance Work Practices on firm performance is in part contingent on their interrelationships and links with competitive strategy was limited.

Huselid found that in a sample of 3,452 firms representing all kinds of industries, the increase in management practices was associated with increases in sales, market value and profits. Huselid concluded that ‘prior empirical work has consistently found that use of effective human resource management practices enhances firm performance.’ (Huselid, 1995:640)

Delery and Doty (1996) in a study of nearly 200 banks found that differences in HR practices accounted for large differences in financial performance. Banks that were able to align human resources practices with business strategy had 50% higher return on assets than the banks whose human resource practices were less aligned.

Warren Boekar (1997) examined how chief executive and top management team characteristics interact with organizational performance to influence strategic change. Results indicated that poor performance, long chief executive and top management team tenures and high diversity in top management team tenure are associated with greater levels of strategic change.

Huselid, Jackson and Schuler (1997) evaluated the impact of HR managers’ capabilities on HR management effectiveness and the latter’s impact on corporate financial performance for 293 U.S. Firms. 92% of the respondents were senior executives in HRM and 8% of the respondents were from the line positions. In this study effectiveness was associated with capabilities and attributes of HR staff and
also relationship between HR management effectiveness and productivity, cash flow and market value.

Pfeiffer (1998) presents the following rationale to explain the relationship between firm performances and people namely:

Performance increases because people work harder. People put in effort and show greater commitment if they have greater control over their environment, see their effort as related to compensation and pressure activated from self-managed teams. Training, job rotation and such other practices help people to work smarter also. High commitment to work also saves direct and indirect costs of labor. Training, multi-skilled, self-managed and motivated employees save on a variety of administrative costs including the cost of management, thus reflecting in profits. Pfeiffer further argues that the following seven “best practices” if adapted in any firm can lead to superior economic performance namely:

- Employment security
- Selective hiring
- Teams and decentralized decision-making
- High pay
- Extensive training
- Reduced status distinctions
- Extensive information sharing.

Becker and Huselid (1999) studied the Strategic Human Resource Management in five leading firms. Their study emphasized the role of the ‘people’ component as a source of competitive advantage. The study revealed that people form the foundation of the value adding HR function which is basically characterized by three aspects:

- Operational excellence.
- A focus on client service by individual employees and managers.
- Delivering these services at the lowest possible cost.
The value-adding role of the ‘people’ component in the organization with a people-based competitive strategy can be realized only with the strong commitment and support from the Top Management and Buy-in from the line managers.

Arthur K Yeung and Bob Beran: in their article Adding value through human resource Building upon the balanced scorecard framework, addresses three central issues human resource (HR) measurement:
(1) Do HR practices impact business results?
(2) How can HR practices add value to business performance?
(3) What HR measures can drive business performance?
Using Eastman Kodak as a case study, this article identifies three paths through which HR practices contribute to business performance: (1) by building organization capabilities; (2) by improving employee satisfaction; and (3) by shaping customer and shareholder satisfaction. Three clusters of measures are proposed: internal operation HR measures, internal strategic HR measures, and external strategic HR measures. 1997 John Wiley & Sons, Inc

Jeffrey A Mello-In his book Strategic HRM (1991), talks about the creation of value through building organizational capabilities:
Jeffrey Mello has given the example of Southwest Airlines to prove the point of creating value through building organizational capabilities. Southwest’s excellent employee relations support a decrease in opportunity cost among its employees relies on a simple stylized analysis in three steps, from the individual employee’s perspective, if the total remuneration increases so does the total value that employee receives. In Southwest, through monetary compensation is average non-monetary compensation is greater than that provided by the competitors. This model is a rare one and difficult to duplicate and it contributes to the competitive advantage of the organization.
These evidences indicate that good HR practices contribute to organizational effectiveness. However, other intervening variables have to be considered before understanding the relationship between the two i.e. HR practices and organizational effectiveness. A good HR practice can lend competitive advantage to the organization if other things are equal. For example one cannot make good HR practices work wonders if the organization has already invested in a bad technology or it is not located at a strategic place. Even within HR there are a number of variables to be understood and differentiated.

To conclude, aligning employee performance with corporate strategy and goals throughout the organizations is the key to increase performance of the organization which is the centrality of Strategic Human Resource Management process.

1.0.4: RESEARCH ON THE STRATEGIC IMPACT OF HR: (1990- Huselid and Becker)

Considering the fact that Strategic Human resource management field is relatively infant two deficiencies need to be addressed in this literature study namely:

1. There is no clear agreement regarding the delineation of the field of Strategic Human Resource Management particularly with respect to its definition. Hence it is difficult to distinguish clearly between HRM and SHRM.

2. Until recently there have been very few theoretical models to support the understanding of the role of SHRM in organizations and the determinants of various HR Practices.

In order to distinguish between Human resource management and Strategic Human resource management it is important to understand the two fields. HRM consists of various HR/ OD practices commonly grouped into sub disciplines like recruitment and selection, training and development, Performance management system and rewards...
and recognitions generally reflecting on the identifiable functions of HR department in an organization.

Huselid and Becker carried out an HR survey across companies which are summarized below:
Assumption- for HR to be a strategic asset, those HR SYSTEMS had to have a demonstrated influence on the measures that matter to CEO’s namely firm profitability and shareholder value.
Target: firms with sales greater than $5 million and more than 100 employees, with survey based on 2,800 respondents.

The initial 1992 survey was limited to fundamental elements of a professional, developed HR system designed to develop and maintain a high-performance workforce. 13 items measured the percentage of the workforce, both exempt and nonexempt that was covered by such policies as validated selection procedures, promotion from within, annual performance appraisals, merit-based promotions, incentive pay plans, hours of training and information sharing systems.

The 1994 and 1996 surveys included the extent to which HR and business strategies were aligned and how well the firm's strategy was communicated and understood throughout the firm. The characteristics that might complement a high-performance work system included the professional competencies within the HR function as reflected in their effectiveness across different functional activities, as well as senior leadership styles that emphasize motivation and vision, rather than command and control. The 1998 survey focused on how other systems that support strategy implementation (knowledge management and business performance measurement) might also leverage the influence of the HR strategy.
Each survey enabled to construct an HPWS index that measures the extent to which a firm’s HR system is consistent with the principles of a high-performance HR strategy. These indices are additive measures across the elements of the HR system.

**Findings:** firms scoring higher on the HPWS index are also rated higher on their usage of KM systems and BSCs style business performance systems. Senior Management in these HPWS firms likewise adopts a philosophy that supports this approach by viewing the organization’s employees as a source of value creation. Finally, the firms in these two groups also differ on some objective benchmarks that we would anticipate to be related to the adoption of HPWS. They have lower turnover rates and much lower level of unionization. The average ratio of market to book value of equity is also more than twice as high in the group with HPWS.

**Comprehensive analysis of effects of HR on firm performance:**
It is difficult to isolate the independent effects of HR on the firm’s financial performance given the multiple influences on firm performance at any point in time. It is easier when comparing experience across firms because, if one can measure those other influences, their impact on the HR-firm performance relationship can be controlled statistically. We estimate the statistical relationship between a firm’s HR system and firm performance. As an indicator of the strategic impact of HR, the best reflection of this influence is the effect on shareholder value.

1.1- **INTRODUCTION TO STRATEGIC HUMAN RESOURCE MANAGEMENT.**

1.1.1 *Why Strategic Human Resource Management?*
HRM is no longer looked at as a cost centre for the organization. The need for Strategic HRM has been emphasized by organizations because it aims at increasing organizational performance and also optimizes the cost. People factor on an average attributes to more than two third of an organization’s costs (direct costs) excluding equipment and facilities expenses for value creation opportunities. The costs...
attached with the measures that impact external stakeholder's viz. quality, product cost and customer satisfaction are heavily driven by human performance. Hence managing effective performance plays a key role to the success of an organization. 

The need for strategic HRM is emphasized by leading management scientists:

"The human resource is the one least efficiently used—the one holding the greatest promise for improved economic performance."

- Peter Drucker

"HRD becomes indispensable if the growth and development of people working in the organization is related to the growth and development of the organization itself"

- Rao, T.V (1990)

"It may be axiomatic, but just as labor is a derived demand in basic economic theory, the demand for a strategic HR presence is derived from the larger corporate or business strategy."

- Becker and Huselid (1999)

1.1.2 Strategic HRM - A Conceptual analysis:

Strategic Human Resource Management has been defined as follows:  
1. "The pattern of planned human resource deployments and activities intended to enable an organization to achieve its goals. Strategic HRM is all those activities affecting the behavior of individuals in their efforts to formulate & implement the strategic needs of the business."

- Wright and McMahan, (1992)

In this definition the key words are, "Planned HR deployment" and "Strategic needs of the business."
2. "Strategic HRM is primarily concerned with understanding how the human resource function attempts to integrate its activities with the strategic planning process in firms." (Greer, 1995)

3. "Strategic HRM is the macro-organizational approach to understanding the role of human resource management in the organization" (Butler et al., 1991)

In other words, SHRM is the macro-organizational approach to viewing the role and function of HRM in the organization. It entails the linking of HRM practices with the strategic management process of the organization. It also emphasizes the coordination among the various HRM practices. The process by which strategies are produced is called strategic planning as depicted in the figure below:

**Figure 2 Strategic Planning and Strategies**

- **STRATEGIC PLANNING IS:**
  - a systematic process which defines the way to guarantee the permanent accomplishment of the company's overriding goals and objectives

- **Strategies are:**
  - long-term
  - managerial guidelines
  - guaranteeing the permanent accomplishment of the company's overriding goals and objectives

4. Strategic human resources management (SHRM) is the pattern of planned human resources deployments and activities intended to enable an organization to achieve its goals. Four levels of integration exist between the HR functions and the strategic management function:
- Administrative linkage: HR function’s attention is focused on day-to-day Activities
- One-way linkage: the firm develops the strategic plan and then informs the HR.
- Two-way linkage: strategic planning team informs HR of the various strategies, HR analyze them and present the results to the team. After deciding, the strategic plan is passed to HR to implement.
- Integrative linkage: it is a dynamic process, based on continuing rather than sequential interaction, done by the HR executive who is a member of the senior management team.

"Conceptual Design for a Strategic Human Resources Quality Management System by Dr. Sherif A. Mazen and Dina I. El-Kayaly"

### 1.1.3: Table 1: The comparison between Traditional HR Vs Strategic HR:
The concept of strategic HR differs from the traditional concept of HR in the following respects:

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<th>TRADITIONAL HR</th>
<th>STRATEGIC HR</th>
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<tr>
<td><strong>1. Role of HR</strong></td>
<td>Transactional change follower, supportive and respondent</td>
<td>Transformational change leader, proactive and initiators.</td>
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<tr>
<td><strong>2. Responsibility of HR</strong></td>
<td>People management programs- Staff specialists</td>
<td>Places the responsibility of managing people with individuals- i.e. respective line managers.</td>
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<tr>
<td><strong>3. Focus</strong></td>
<td>Employee relations ensuring that employees are motivated and productive in compliance with necessary employment laws</td>
<td>Partnerships with internal and external customers managing multiple relationships to ensure satisfaction at all levels of the organization.</td>
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<tr>
<td>4. Initiatives</td>
<td>Slow, reactive, fragmented</td>
<td>Fast, proactive and integrated</td>
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<td>5. Time horizon</td>
<td>Short-term handling transactions as they arise.</td>
<td>Short, medium and long (as necessary)</td>
</tr>
<tr>
<td>6. Control</td>
<td>Bureaucratic- through rules, policies and procedures</td>
<td>Organic (loose and free flowing)</td>
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<tr>
<td>7. Job design</td>
<td>Job specialization to increase employee efficiency. Tight division of labor, independence tasks to develop specific skills.</td>
<td>A broad job design, flexible. Specialization is replaced by cross-training and team building approach.</td>
</tr>
<tr>
<td>8. Key investments</td>
<td>Capital, brand name, products, technology and investment strategy.</td>
<td>People are organizations only sustainable competitive advantage.</td>
</tr>
<tr>
<td>9. Accountability</td>
<td>Cost Center- With emphasis on monitoring expenditures and charging overheads to fiscal units.</td>
<td>Investment Center- Considers returns as well as expenditures with attention paid towards the “value added” by HR activities.</td>
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**Traditional HR** assumes a role of transactions as they arise. It manifests itself in bureaucratic control through rules and regulations, policies and procedures. The process grew on the basis of the principles of scientific management and job specializations to increasing employee efficiency.

Strategic HR assumes a more transformational role and plays the role of a change agent in the organization and treats people as the organization’s sustainable competitive advantage.
1.1.4- A Simple Model of Strategic Human Resource Planning:

The strategic HRP process can be described in the following steps:

1. Link the purpose, goals and objectives of the HR department and/or HR plan to the purpose, goals and objectives, core competencies of the organization.

2. Assess the present status of HR in the organization by analyzing
   a) work done in jobs, positions or job categories
   b) The people in jobs, positions or job categories
   c) The HR department.

3. Scan the environment to assess:
   a) How jobs, positions or job categories will probably change over time;
   b) How people in those jobs, positions or job categories will probably have to change over time to keep up with job changes and
   c) How the HR department will probably be affected by changes inside and outside the organization over time.

4. Compare present work being done in jobs/positions to expect future work that will probably be done in the future. (The result is a planning gap in the work) and the present people doing the work and those who will be needed in the future.

5. Consider the range of long-term HR strategies that will help close planning gaps in the work and work force and select one, which becomes an HR grand strategy.

6. Implement HR grand strategy through coordination of such HR practice areas as:
   a) Career management programs.
   b) Training
   c) Recruitment
   d) Job design
   e) Organizational development
   f) Labor relations
   g) Employee assistance programs
   h) Compensation benefits
7. Manage the HR function so that it is an effective vehicle for helping implement HR grand strategy by changing people and jobs.

8. Evaluate HR grand strategy before, during and after implementation. The results of evaluation are fed back to step 1.

1.1.5 The 5-P Model: Linking Strategic Business needs and Strategic HR Management Activities

Figure 3: The 5-P Model 4

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<tr>
<th>INTERNAL CHARACTERISTICS</th>
<th>EXTERNAL CHARACTERISTICS</th>
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<tr>
<td>Organizational Strategy</td>
<td>Initiates the process of identifying strategic business needs and provides specific qualities to them</td>
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Strategic Business Needs
Expressed in mission statements or vision statements and translated into strategic business objectives

STRATEGIC HUMAN RESOURCE MANAGEMENT ACTIVITIES

<table>
<thead>
<tr>
<th>Human Resources Philosophy</th>
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<tr>
<td>Expressed in Statements defining business values and culture</td>
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<td>Expresses how to treat and value people</td>
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<th>Human Resources Policies</th>
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<tr>
<td>Expressed as shared values (guidelines)</td>
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<tr>
<td>Establishes guidelines for action on people-related business issues and HR programs</td>
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<tr>
<th>Human Resource Programs</th>
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<tr>
<td>HR Strategies</td>
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<tr>
<td>Coordinates efforts to facilitate Articulated as change to address major people-related business issues</td>
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<tr>
<th>Human Resource Practices</th>
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<tbody>
<tr>
<td>For leadership, managerial and operational roles</td>
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<tr>
<td>Motivates needed role behaviors</td>
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<tr>
<th>Human Resources Processes</th>
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<tr>
<td>For the formation and implementation of other Activities</td>
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<tr>
<td>Defines how these activities are carried out</td>
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The 5-P model of SHRM above merges various HR activities with strategic needs. The 5 P's are HR Philosophy, Policies, Programs, Practices and Processes. This model shows the inter relatedness of these HR activities.

1.1.6: A fit/ flexibility model of Strategic HRM:

Figure 4: Fit/ flexibility model of SHRM

Figure 4 above gives the Fit/ flexibility model of SHRM. In this model Schuler and Jackson (1987) have defined the flexibility model of SHRM. In the top half of the figure, they have depicted how Strategic HRM promotes organizational fit. At the front end of the model (consistent with Ansoff (1984) the strategy formulation process is defined consisting of the definition of the mission and goals of the firm followed by an examination of the internal resources (strengths and weaknesses) of external developments (opportunities and threats). These make up the basic component that lead to the choice of the given strategy. The process contains input from the HRM function regarding strengths, weaknesses, opportunities and threats related to the firm’s human resources, although the extent to which this input exists in most organizations varies substantially (Butler, 1988; Golden and Ramanujam, 1985; Martell and Carroll, 1995). In this model the major role of HRM is strategy implementation. The model depicts a process where the firm’s strategy dictates the required skills and behaviors as perceived by the top managers or those HR managers who are seeking to implement the strategy. (Capelli and Singh, 1922; Gupta and
Govindrajan 1984; Schular and Jackson, 1987; Wright, Smart and McMahan 1995.) Thus it is this perception of the required skills and behaviors* that derives the HRM practices (Schular and Jackson, 1987). These desired HRM practices however are then operationalised into actual HRM practices and the exact resemblance of the latter to the former is never perfectly assured (Truss and Gratton, 1994).

Implications for SHRM research:
Recognizing the dual roles of SHRM in achieving both fit and flexibility expands the types of research questions relating to the role of human resources in the firm performance. First it points to the need for research distinguishing among HRM practices, skills and behaviors that are tightly coupled with the short term strategic needs of the firm vs. those that are loosely coupled. E.g. some firms may emphasize coupling the strategy to skills, whereas others may tightly couple strategy and behaviors.

Second it is important to note how firms achieve simultaneous loose/ tight coupling through focusing on fit in some aspects of the HR system while emphasizing flexibility in other aspects. Certain strategic needs require tight coupling with only a specific set of HRM practices, skills and behaviors. E.g.: a firm that focuses on an increased level of customer service may include some aspect of customer orientation in the selection process but might still seek to assess other skills.

Third our model provides an impetus for examining the timing of the SHRM decision making and implementation. Recognizing the lack of information and political processes we need to discuss the points that need better data on time frame involved in SHRM processes.

Conclusion:
SHRM in any organization is an integration of HR philosophy, policies, programs, practices, processes etc. It also depends on the external environment and the
internal environment. The external and internal environment guide the corporate strategy and the lines of business strategy. HR processes supports the SHRM philosophy, policies and processes. The HR audit evaluates the effectiveness of the HR processes and systems.

1.1.5 A Perspective on the interdependence of business strategy and human resource strategy:

In this perspective both HR strategy and Business strategy are seen as composite outcomes because in each many functions, events and relationships influence organizational results. Each is an input and a constraint on the other.

"Firms that engage in strategy formulation process that systematically and reciprocally considers human resources and competitive strategy will perform better (using multiple measures of effectiveness) over the long term than firms that manage competitive strategy and human resources independently of each other." - Lengnick Hall⁴

Comments: Reciprocal interdependence is seen between a firm’s business strategy and the human resources strategy in figure 5 below. Both human resource strategy and business strategy are seen as composite outcomes because in each, many functions, events and relationships influence organizational results.

1.1.8 Recent issues that have emerged on linking HRD with Organizational Strategy:

1. Planning strategically for the HRD function: It means establishing a strategic plan for the department. To plan strategically for the HRD function, HRD practitioners work by themselves or with such key stakeholders as top managers, line managers and others to do the following (Rothwell & Sredl, 1992):

   i) Clarify the vision for HRD
   ii) Establish the mission or purpose of the HRD function or department.
   iii) Set HRD goals and objectives.
   iv) Scan the environment for future threats and opportunities affecting HRD.
   v) Appraise the HRD function or department for present strengths and weaknesses.
   vi) Consider the range of HRD strategies available.
   vii) Select an HRD strategy.
   viii) Implement the HRD strategy.
   ix) Evaluate the results of the HRD strategy and improve continuously.
Each step in strategic planning for the HRD department is similar to organizational strategic planning.

2. Key steps in planning instruction:

   Each step of instructional design process can be carried out with a strategic and future-focused approach. It is possible to conduct training need assessment, instructional design and development, instructional delivery and evaluation with a future-focused rather than present or past-focused approach in mind.

3. Linking HRD with key strategic issues:

   When HRD is linked with a key strategic issue the HRD department sets its sights on applying the rifle approach by drawing a bead on the CEO’s or strategic plan’s top priority and unabashedly pursuing it.

4. Linking HRD with the organization’s core competencies:

   A core competency means a bundle of skills and technologies that enables a company to provide a particular benefit to customers. Linking HRD with core competencies means building greater strength in the area that has already made the organization successful.

5. Linking human performance improvement with organizational strategy:

   Human performance improvement is defined as “the systematic process of discovering and analyzing important human performance gaps, planning for future improvements in human performance, designing and developing cost-effective and ethically-justifiable interventions to close performance gaps, implementing the interventions, and evaluating the financial and non-financial results.” (Rothwell ibid)

The following points should be considered for this:

1. What are the differences between the results people are achieving at present and what results they must achieve in the future if the organization is to realize its strategic vision, purpose, goals and objectives?
2. What are all the ways the organization’s environment can be made more supportive of individual performers so that they can best help realize the organization’s strategic vision, purpose, goals and objectives?

3. What are all the ways that individual performance in the organization can be enhanced? How can these performance improvement interventions be implemented in a coordinated way? How can they be evaluated?

1.1.9 - Evaluation of HR Strategy:
HR strategy can be evaluated through the use of self-audits, benchmarking comparisons with other organizations, or achievement of expected values of organizational performance.

- The self-audit questionnaire tests the appropriateness of the alignment of HR strategy with corporate- and business-level strategies, supported by the use of the HR Strategy models to provide decision guidelines.
- Benchmarking is a process of comparing measures of costs and performance in one organization with those of the other organizations. A comprehensive benchmarking of an organization’s HR strategy and its associated impact on performance are likely to require the use of several of the foregoing sources to glean the information needed to form appropriate baselines for comparison. These evaluation alternatives have different costs, benefits, methodologies and limitations.
- Achievement of expected values of organizational performance is done by the comparison of expected and actual performance through a partial regression or discriminant function analysis model.

Edwards (2003) recommended a combination of self-audit with benchmarking:

1.1.10 10 ways to link HRD with organizational strategy:
1. The Top-Down Approach: Organizational strategy determines and dictates HRD offerings.
2. **The Market-Driven Approach**: The HRD function or department identifies future learning needs based on future market conditions confronting the organization.

3. **The Career-Planning Approach**: The HRD effort helps individuals prepare for the future against the backdrop of the organization’s strategic plans.

4. **The Futuring Approach**: The HRD function helps top managers formulate strategy.

5. **The Artificial Experience Approach**: The HRD function simulates the future conditions the organization may face if the strategic plan is realized.

6. **The Pulse-Taking Approach**: HRD professionals take the pulse of people and situations to find out how well an existing organizational strategy is being implemented.

7. **The Performance Diagnosis Approach**: While assessing training needs, HRD professionals uncover performance problems or opportunities of strategic import. They provide that information, in turn, to top managers for use in organizational strategic planning.

8. **The Educational Approach**: HRD practitioners link HRD with organizational strategy by teaching people how to think strategically as they do their work.

9. **The Interpersonal Approach**: HRD professionals interact with strategists and attempt to identify their beliefs and visions of the future, using that information when developing or prioritizing HRD efforts.

10. **The Rifle Approach**: HRD practitioners concentrate their efforts on areas of greatest need.

1.1.11. The relationship between SHRM and the performance of the firm has been viewed in three approaches:

> - Best practices
> - Contingency
> - Configuration.
In the best practices approach certain HR practices will result in increased organizational performance across all situations (Ichniowski, 1990).  

In the contingency approach the effectiveness of human resource practices depends upon the organization’s strategy (Schuler and Jackson, 1987).  

The configuration approach assumes that maximal organizational performance stems from developing the proper set of matching human resource practices that support on another. (Arthur, 1994).

1.1.12 Barriers to Strategic HR:
The following barriers may be faced by organizations which attempt to take a strategic approach to HR:

I) Organizations adopt a short-term mentality and focus on current performance. Performance evaluations and compensation throughout organizations tend to be based on current performance. Most owners and investors also don’t take a long term view of their investments and expect to see quarterly progress in wealth-building.

II) Many HR managers are not able to think strategically given their segmented understanding of the entire business. HRM is a complex ever changing function requiring a tremendous amount of technical knowledge which may be lacking in senior HR managers.

III) Most senior managers lack appreciation for the value of HR and its ability to contribute to the organization’s goals from a strategic perspective. Managers throughout the organization often see the HR function as providing unnecessary bureaucracy to their work and being more of an adversary than an ally.


A few functional managers realize that they are HR managers also as regardless of the technical specialty of a manager; any individual who is responsible for people management is a HR manager.

Due to competitive pressures making organizations more bottom-line oriented, programs that may not have any direct quantifiable benefit, such as culture building and team building may be disregarded.

Human assets aren’t owned by organizations and therefore are perceived as a higher risk investment than capital assets.

Most important barrier for strategic HR may be the resistance to change by the older, less trained employees. Taking a strategic approach may mean making drastic changes in how work is organized, how employees are hired and trained, how performance is measured etc. Employees tend to enjoy maintaining the status quo and hence organizations often find resistance to any change initiatives.

To conclude most of the barriers to a strategic approach to HR are rooted in the culture of an organization and the organization’s history, values and management practices can act as disincentives for any change initiatives.

1.2 Approaches to evaluate the HR function and its impact:

This decade has seen a radical transformation in the face of HRD. The HR function has now been recognized as one of the high valued strategic functions of the organization, by CEOs the world over. Along with this recognition also came the increased demands to quantify and measure all that the HR Department does. The functions of HR department can no longer be treated to be, ‘reactive’, ‘intangible’ and ‘support function’, but can be classified as a ‘developmental’ and ‘value adding’ proactive function of the organization.

As Huselid and Ulrich remark, “many companies seem to be unaware of the consequences of their investment decision involving people.” The need for HR to transform itself calls upon adoption of Quantitative HR which is essentially an
approach to managing the human capital of the organization in a manner that is more objective and measurable. This approach advocates the use of procedures, framework, methodologies that help in assessing and interpreting HR processes and outcomes in the quantitative manner.

The approaches to evaluate the HR function and its impact are:

1.2.1 Balanced Score Card Approach
1.2.2 The Strategic HR framework
1.2.3 The Integrative framework
1.2.4 The HR Score Card
1.2.5 The HR audit

1.2.1 BALANCED SCORE CARD APPROACH:

NOTE: This method has been further elaborated further in Chapter 5 - Data analysis

Introduction:
The concept of the balanced score card was popularized by Kaplan and Norton (1992, 1993). This approach assumes that for the success of a business in the long run, the expectations of three stakeholders- employees, customers and shareholders- must be satisfied. It also assumes that all the three stakeholders are interrelated: employee attitudes and behavior influence customer satisfaction and retention which in turn, influence shareholder satisfaction and investments. The scorecard reflects the strategy. The HR function has a significant role to play in ensuring that all three stakeholders remain satisfied.

The Scorecard provides “balance” between external measures (e.g., meeting customers’ needs) and internal measures (e.g., improving organizational effectiveness) and between “lagging” measures (e.g., return on net assets) and “leading” indicators (e.g., staff development versus plan). The Balanced Scorecard
serves as the focal point to define and communicate business imperatives to the organization, employees, and customers.

1.2.2 THE STRATEGIC HR FRAMEWORK:
The strategic HR framework (Ulrich and Lake, 1990) aims to leverage and/or align HR practices to build critical organizational capabilities that enable an organization to achieve its goals. The Strategic HR framework offers specific tools and paths to identify how a firm can leverage its HR practices. Business strategy, organizational capabilities and HR practices are the three important elements in this framework. The strategic HR framework has been already defined in the conceptual analysis of Strategic HRM.

1.2.3 THE INTEGRATIVE FRAMEWORK:
The integrative framework (Yeung and Berman, 1997) builds on earlier approaches. This framework identifies three paths through which HR practices can contribute to business performance:

I. By building organizational capabilities.
II. By improving employee satisfaction
III. By shaping customer and shareholder satisfaction.

This is called the first linkage chain. In the second linkage chain, organizational capabilities become key drivers which implement business strategy, impact customer satisfaction and eventually contribute to shareholder satisfaction.

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1 Please ref: Chapter 1.1: Introduction to Strategic HRM.
1.2.4 HR SCORE CARD:
The HR Scorecard is actually the balanced scorecard of the HR department. It matches business strategy against HR deliverables and objectives to provide a statistical basis by which HR efficiency and contribution to strategy implementation can be measured. It also measures the HRD maturity level of an organization.

The HRD maturity level depends on the following four factors:

I. HRD systems maturity
II. HRD competencies of the employees including the HR department.
III. HRD culture.
     Business linkages of HRD.

The HR scorecard helps HR department in:

- Becoming a strategic asset and a source of competitive advantage.
- Assessing quantitatively HR’s contribution to firm’s financial results and profitability.
- Creating and measuring the degree of alignment between the strategy of the business and its HR architecture.
- Enhancing its role as a Strategic Business Asset.

The four basic dimensions of HR scorecard are:

1. HR deliverables: linkages through which HR generates value in the firm viz. Performance drivers. These measures represent the human-capital dimensions of discrete performance drivers in the firm’s strategy map. Cumulatively, they represent a significant source of value creation.
2. High performance work system: which can be generated through HR policies, practices and processes.
3. External HR system alignment measures: to assess how well HR system is aligned with the firm’s key performance drivers.
4. **HR efficiency measures:** these are the metrics, benchmarks and standards by which the HR system's performance will be gauged and evaluated.

**Figure 8: The Seven-step model for using HR as a strategic business asset:**

1. Clarify and articulate the business strategy.
2. Develop the business cases for HR as a strategic asset
3. Create a strategy map for the firm
   - Leading and lagging indicators.
   - Tangibles and intangibles
4. Identify HR deliverables within the strategy map.
5. Align the HR architecture with HR deliverables
   - HR Function → HR System → Strategic employee behavior
6. **Design the strategic measurement system**
   - Develop HR scorecard (leading, lagging, cost control and value creation measures)
   - Measure HR relationship with Intangibles → Firm performance
7. Execute management by measurement

**Step 1: Clearly Define Business Strategy:**
At this stage the focus of senior HR leaders should be on implementation of strategy, rather than just strategy formulation and also on how to communicate the firm's goals throughout the organization.

**Step 2: Build a business case for HR as a strategic asset:**

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Once the organization clarifies its strategy, HR leaders need to build a clear business case for why and how HR can support that strategy. Evidence gathered from four national surveys and more than 2,800 firms suggests that a high-performance work system have a distinct, positive influence on a firm’s financial performance.

**Step 3: Create a strategy map:**

Robert Kaplan and David Norton have defined the term “strategy map” to highlight how a firm’s financial goals are linked to key success facts at four levels, i.e. customers, operations, people and the IT system. A strategy map details which organizational processes and capabilities drive the firm’s performance. It includes:

**Business indicators-leading and lagging:**
- Leading-indicators that drive performance
- Lagging-indicators that measure results.

Creating a strategy map is an extended process of value creation after which the organization can design a HR and strategy implementation process. There is no trail blazer of the strategy implementation process and every firm must customize its system to tailor-make its strategy implementation process catering to its unique strengths and needs.

**Figure 9 : Creating a strategy map**
Step 4: Identify HR deliverables within the strategy map:

It is important to identify which HR deliverables (again, both performance drivers and enablers) support the firm-level performance drivers depicted in the strategy map. HR drivers and enablers are identified so that HR policies that enhance the HR drivers can be developed. This is achieved by cost benefit analysis, which is a three-step process:

- Identify potential cost- fixed and variable
- Identify the likely benefits
- Identify the economic contribution generated by an average employee.

Variability of financial results on employee performance, i.e. calculate the ROI on the HR Project, i.e. identify potential costs, identify potential benefits, calculate the ROI of the program using an appropriate index. The HR Scorecard accurately measures the impact of all HR policies on firm’s performance and captures the full impact of HR.

The High performance work system and the HR System alignment are the leading indicators and the HR deliverables and the HR efficiency measures are the lagging indicators for HR’s performance.

Step 5: Align the HR Architecture with HR Deliverables:

By using HR performance drivers, i.e.: strategic “thrusts”, to guide its analysis of unique HR problems facing its respective business units. Also work with individual business units to develop SBU- specific strategy maps that more systematically describe and guide HR’s contribution to the unit’s strategy.

Step 6: Design the Strategic HR Measurement system:

To measure HR-firm performance relationship with precision, it is necessary to develop valid measures of HR deliverables. So choosing the correct performance driver and enabler and choosing correct measures for those deliverables is important.

Step 7: Implement Management by Measurement:

If the scorecard is aligned with the imperatives if the firm’s strategy, HR professionals will have new insight into what it takes to actually manage HR as a strategic asset. HR leaders must regularly review the HR deliverables they’ve defined in order to be sure that these drivers and enablers remain strategically significant.
What is the HR architecture?

The HR structure of the organization forms the HR architecture. The HR architecture is composite of three dimensions, which lays the foundation of a strategic HR role namely: the HR function, the HR system and the Employee behaviors.

The HR Function:

The HR function comprises of all the HR processes and functions of the HR department like recruitment and selection, training and development, performance management etc. The HR function basically defines how HR professionals and the HR infrastructure can understand and implement the firm’s strategy.

Figure 10: The HR’s Strategic Architecture:

<table>
<thead>
<tr>
<th>THE HR FUNCTION</th>
<th>THE HR SYSTEM</th>
<th>EMPLOYEE BEHAVIORS</th>
</tr>
</thead>
<tbody>
<tr>
<td>HR professionals with strategic competencies</td>
<td>High-performance strategically aligned policies and practices</td>
<td>Strategically focused competencies, motivations and associated behaviors.</td>
</tr>
</tbody>
</table>

The HR SYSTEM:

The HR system is the key of HR’s strategic influence, which is depicted by the model of this system called the High-performance Work System (HPWS). Generally a HPWS index measures the extent to which a firm’s HR system is consistent with the principles of High performance HR strategy. An HPWS does the following to develop the performance of individual employees:

- Links its selection and promotion decisions to validated competency models;
- Develops strategies that provide timely and effective support for the skills demanded by the firm’s strategy implementation;
- Enacts compensation and performance management policies that attract, retain and motivate high-performance employees.
Employee Behavior:
Depicts linking employee’s strategic focus to the organizational performance by defining what is meant by strategic behavior. Strategic behavior is the subset of employee’s productive behavior in totality. Strategic behavior is further classified as:
- Core behavior which is the result of behavioral core competencies defined by the firm.
- Situation-specific behaviors which are essential at key point in firm’s value chain and depend on the situation.

An HPWS is itself a strategy implementation system embedded within the firm’s larger strategy implementation system process. HR intersects with that larger system at many different points and perhaps with multiple elements of HR system at the same point. Understanding how to identify these intersection points would be the key to Strategic HRM and to measure the role of HR in the value creation process of the firm.

The HR scorecard helps HR department in:
- Becoming a strategic asset and a source of competitive advantage.
- Assessing quantitatively HR’s contribution to firm’s financial results and profitability.
- Creating and measuring the degree of alignment between the strategy of the business and its HR architecture.
- Enhancing its role as a Strategic Business Asset.

The HR Scorecard accurately measures the impact of all HR policies on firm’s performance and captures the full impact of HR.

The HR strategy can be evaluated through the achievement of the HR scorecard.
Table 2: Guidelines for implementing an HR Scorecard:

<table>
<thead>
<tr>
<th>Change checklist item</th>
<th>Guiding questions for change sponsors</th>
<th>Suggested guidelines for implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Leading change</td>
<td>Who is in charge of the effort?</td>
<td>1. Need two sponsors (line manager, head of HR).</td>
</tr>
<tr>
<td></td>
<td>Who champions?</td>
<td>3. Need advisory team to supervise work.</td>
</tr>
<tr>
<td>2. Creating a shared vision</td>
<td>Why do the HR scorecard?</td>
<td>1. Create business case for HR and for HR measurement.</td>
</tr>
<tr>
<td></td>
<td>How does it fit with our business?</td>
<td>2. Share this case with line management and HR.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3. Allocate 3 to 5% of HR budget to measurement.</td>
</tr>
<tr>
<td>3. Shaping a vision</td>
<td>What is the desired outcome of the scorecard?</td>
<td>1. Define the desired outcomes of the HR scorecard.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2. Prepare the key measures that will be tracked and monitored, and clarify how they will be tracked.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3. Define decisions that will be made using these measures.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4. Create a mechanism to collect the data behind the measures.</td>
</tr>
<tr>
<td>4. Mobilizing commitment</td>
<td>Who needs to support the project?</td>
<td>1. Identify key players whose support the project requires.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2. Figure out how to engage these key</td>
</tr>
</tbody>
</table>
5. Building enabling systems

| How do we build systems to sustain the change? | 1. Put the right people on the project
2. Ensure that we have the right incentives to do it.
3. Make sure that the HR measurement group reports to the right people.
4. Create a communication plan for HR measurement.
5. Invest in technology requirements to execute the HR scorecard.
6. Make the financial investments required. |

6. Monitoring and demonstrating progress.

| What will we use to track the implementation process? | Develop a project plan for HR measurement |

7. Making it last

| How will we sustain the effort? | 1. Start with simple measures
2. Make the measures viable and applicable
3. Post the measures.
4. Change the measures over time if required. |

1.2.5 HR AUDIT & HR SCORECARD

HRD audit is a process of examining policies, procedures, documentation, systems and practices with respect to an organization’s HR functions. It starts with an understanding of the future business plans and corporate strategies. HRD audit attempts to list the core competencies and skills for the future and to assess the existing skills and competency gaps in order to achieve the long-term business goals.
and short-term results. The competencies may deal with technical aspects, managerial aspects, people or conceptual aspects. They may cover the knowledge base, attitude, values and skills.

HRD audit is a comprehensive evaluation of the HRD:

- Strategies, systems and practices
- Structures and competencies
- Styles and culture
- Appropriateness of the HRD system to achieve the short and long term business goals of the organization.

MEASURING HR ALIGNMENT:
The following two dimensions provide the foundation and focus for developing actual alignment metrics. The first being the alignment between strategy implementation and HR System, depicted on the vertical axis of the diagram. The organization must emphasize strategy implementation and recognize it as a source of competitive advantage. The unique requirements of an organization’s strategy implementation determine the particular HR deliverables, which in turn shape the HR system. The horizontal axis depicts a dimension of alignment within the HR architecture that influences the overall development of human resources as a strategic asset. The HR role designates the degree to which HR professionals in an organization perceive themselves as strategic partners and the extent to which managers outside HR develop a shared view of HR’s role. Figure 11 below provides the four aspects of HR alignment:
To conclude:
This chapter briefly touches upon the theoretical concepts of various approaches that can be used to evaluate the HR function. Evaluation of an HR process of an organization requires the implementation of a few strategic HR tools mentioned in this chapter. It can also be concluded that since the HR scorecard is closely linked with the balanced scorecard the implementation of the balanced scorecard is a prerequisite for implementing the HR Scorecard and to conduct HR audit of an organization. The HR scorecard of an organization is actually the Balanced scorecard of the HR department. The balanced scorecard attempts to quantify the HR deliverables and hence it is possible to measure these deliverables to some extent.

Although it is possible to measure a few HR functions like recruitment and selection, performance appraisals etc. it is still difficult to directly quantify other functions like development activities and competency development since the benefits of these functions is only visible in the long term. These benefits later translate in the process of organizational capability building.