CHAPTER – 1
STRATEGIC HUMAN RESOURCE MANAGEMENT
– AN OVERVIEW

“One ailment that antibiotics will never stamp out is premature formation of opinions.”
- Anonymous

1.1 INTRODUCTION

Learning organizations called effective organizations are increasingly realizing that, of the various factors that contribute to organizational performance, the human element is clearly the most critical\(^1\). Regardless of the size or nature of a firm, the activities it undertakes, and the environment in which it operates including its success is determined by the decision of its employees and makes the behaviors in which they engage.

The discipline that concentrates on the management of people in organizations has witnessed a great amount of change over the past decade. There is a transformation of people management from being the field of personnel management to being the field of human resource management in the first place. In the second place, there is the transformation from being the field of human resource management to being the field of strategic human resource management\(^2\). Strategic view of human resource management considers employees as human assets and developing appropriate polices as investments in these people assets to increase their value to the organizations and the market place.

The asset characterization of employees has important implications for the strategic human resource management because that asset has something of value and worth the human resource policies and practices of the firms substantially influence human behavior and that their impact would produce positive result only if they influence


\(^2\) Lawler, E. III. (1992), *The ultimate advantage, creating the high involvement organization*, San Francisco, Jossey-Bass, p.21
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human behavior in the firms\(^3\). To influence human behavior in strategic human resource management, integration of HR policies and practices is important in as much as they influence human behavior and consequently produce positive results. Towards this end the firm requires needed insights and knowledge about several human resource policies and practices and their impact on human behavior at work\(^4\).

The increased globalization of businesses necessitated the linking of HR policies, programmes, and practices with corporate policies and programs gave rise to the emergence of the discipline strategic human resource management. It is based on the premise that firms can be more effective if their human resources are managed with human resource policies and practices that deliver the right number of people with the appropriate behaviors, the needed competencies and the feasible levels of motivation to the organization\(^5\).

Today, based on the accumulated evidence, the academics and professionals can claim that systematic co-ordination of human resource policies and practices based upon the needs of the firm can result in such outcomes as improved employee satisfaction, customer satisfaction, profitability, environmental and social impact, strategic partner relationship and organizational survival. These outcomes are achieved by the practice of strategic human resource management on the basis of partnerships.\(^6\) Making the partnerships of HR and corporate endeavors concrete and real is more challenging and complex because strategic human resource management is practiced in firms operating across several countries of the world. The multinational companies are stretching out all over the world, therefore the practice of formulating and implementing strategy is considerably more complex. Thus, linking of human resource management policies and practices is also challenging and complex\(^7\).


Introduction

Of late, human resource professionals are being challenged to learn more about the business, its strategy, its environment, its customers, and its competitors. They are also being challenged to manage the process of change that organizations are going through. Under the circumstances, human resource professionals are demonstrating to others that they can add significant economic value to the organization and that they are producing competitive advantage for the firm. In doing so, they are significantly transforming their human resource departments.

The human resource professionals create organizational structures such as centers for excellence and service centers to achieve competitive advantage. They are also reducing the size of their operations through outsourcing some of their traditional activities and focusing only on their core competencies. The discipline strategic human resource management is imbued with great amount of excitement and energy, both for professional and academics.⁸

Paradigm Shifts and SHRM

In a business climate characterized by unprecedented, unparalleled, unrelenting, and largely unpredictable change, competitiveness is a moving target. Under such circumstances, organizations stumble, and sometimes fall, because the rate of change in their external environments simply outpaces their organizational capacity to keep pace.⁹ Recognizing the challenge, many organizations make fundamental changes in their basic bureaucracies in attempts to enhance speed and flexibility; common concepts include skunk works, process reengineering, cross-functional product development teams, and employee involvement. Anecdotal evidence suggests that these efforts are only partially successful.¹⁰

The impact of globalization and highly competitive markets has undoubtedly caused the HRM to take on a more strategic role in the organization and management of human resources.¹¹ Accordingly, the new positioning of HRM to SHRM emphasizes

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¹⁰ Andrews, IBID, p-10
the integration of HR practices with corporate strategy. To achieve strategic integration it is essential that each of the key activities making up HRM, for instance recruitment and selection and training and development should be similarly integrated, vertically and horizontally aligned with their strategic imperatives. The strategic human resource management practices and competitive advantage of an organization reflect its effective implementation of human resource practices.\footnote{Kravetz, D J, (2008), *The Human Resources Revolution: Implementing Progressive Management Practices for Bottom-line success*, San Francisco, Jossey Bass, p.63.}

Strategic human resource management is concerned with the contributions human resource strategies make to organizational effectiveness, and the ways in which these contributions are achieved.

Over time, as the field's focus has shifted from 'show what' to 'show how'\footnote{Meyer, A D, et.al (2003), Contingency approaches to Organizational Analysis, academy of Management Journal, 36(6), pp.1175-1178.}, strategic human resource management scholars adopted a contingency (or occasionally configurational) perspective, leading theorists and researchers into the domain of fit, or alignment. Here, fit comes in two forms. One is vertical, or the degree of alignment between (a) components of a firm's human resource strategy and (b) core features of its business strategy. The other is horizontal fit, or the degree of alignment among components of a firm's HR strategy (typically activities or programmes such as selection, training and compensation).

**1.2 NATURE OF SHRM**

The past decades witnessed an increasing interest of management scholars in strategic human resource management. A number of theoretical and empirical studies emerged in the field of strategic human resource management, and there is a consensus among practitioners and scholars that people are valuable resources for business success, and can be the source of sustainable competitive advantage of the firms. In the following paragraphs, the thesis best captures the nature of strategic human resource management.
Strategic human resource management is broadly defined as the pattern of planned human resource activities and policies for effectively deploying and utilizing human resources for the attainment of organizational goals. By linking human resource practices with business strategy, SHRM covers a series of internally consistent and strategy with compatible HR practices. It is voiced that firms engaging in strategic human resource management usually outperformed the firms that do not have SHRM.

**Strategic Human Resource Management – Defined**

There are innumerable definitions of strategic human resource management in the literature. SHRM has been summarized to capture the following meaning. First, it relates to the development of planning systems, which permit the connection of HR practices with the workforce forecast and business plans. Second the match of human resource policies and practices to business strategy is emphasized in SHRM, since HRM practices and systems could facilitate appropriate employee behaviors to gear the achievement of organizational goals.

Third, SHRM represents a coherent approach to design and manage personnel based on employment policy and manpower strategy of the firm, and is often underpinned by an HR ‘philosophy’. With an HR philosophy integrated with corporate culture, the development of HRM practices is coherent with the set of management attitude and values, but not simply governed by the environment changes. Finally, in SHRM, people are regarded as the ‘strategic resources’ of the organization and the role of HRM in achieving competitive advantages is also recognized.

- Hendry and Pettigrew’s (1986)

Strategic human resource management deals with those decisions and actions which concern the management of employees at all levels in the business and which are related to the implementation of strategies directed towards creating and sustaining competitive advantage.

- Miller (1987)

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Added that HRM and SHRM could be differentiated from each other by the role and organizational level they are focusing on. While line managers are downplayed in traditional HRM, they are main actors in strategy making is SHRM, with HR managers playing only a supportive role. Whereas traditional HRM function is fulfilled by middle-level personnel specialists, SHRM relates to strategic decisions and resources allocations, and is therefore, usually formulated at the top.

- Dyer and Holder (1988)

Guest (1989) emphasizes the nature of strategic human resource management as the integration of human resource practices and firm strategy in both policy levels and across different hierarchical levels to facilitate the achievement of organizational goals.

SHRM is all those activities affecting the behavior of individuals in their efforts to formulate and implement the strategic needs of the business.

-Schuler .R.S (1992)

Strategic human resource management is the pattern of planned human resource developments and activities intended to enable an organization to achieve its goals.

- Patrick M. Wright and Gary C. McMahan (1992)

SHRM involves designing and implementing a set of internally consistent policies and practices that ensure a firm’s human capital contributes to the achievement of its business objectives.

-Huselid et al. (1997)

HR strategy is the outcome of the mission, vision and priorities of the HR function.

-Dave Ulrich (1997)

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SHRM is the process by which organizations seek to link the human, social, and intellectual capital of their members to the strategic needs of the firm.

-Bamberger and Meshoulam (2000)

Armstrong (2001) noted that SHRM is an approach to making decisions and plans of the organization concerning the employment relationship and organization’s recruiting, training, development, performance management, reward and employee relations strategies, policies and practices. Armstrong going further emphasized that the objectives of strategic human resource management is integration that is HR strategies are horizontally integrated with one another and vertically integrated with firm’s strategy.

Strategic human resource management covers policy issues and decision making regarding the appropriate attraction, recruitment, selection, placement, appraisal, compensation, training and development, and promotion of human resources at all organizational levels to support and drive organizational strategic objectives.

-Jeffrey A Mello (2001)

Strategic HRM is a collection of tasks and processes shared jointly by line managers and human resources to solve business issues based on people.


SHRM is concerned with ensuring that human resources management is fully integrated into the strategic planning and that HRM policies cohere both across policy areas and across hierarchies and that HRM practices are accepted and used by line managers as part of their everyday work.

-Guest et al. (2003)
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Strategic Human resource management is an approach that refers how the aims of the organization will be acquired through people by means of human resource strategies and combined human resource practices and policies. Strategic Human resource management is also based with viewing the people of the organization as a strategic element for the acquirement of competitive benefit.


There is a fundamental paradox at the heart of any attempt to define or otherwise engage with SHRM despite, or possibly directly because of, the important role SHRM plays in theories of, and attempts to describe, understand, critique and change organizations and theories of organizational structures and functioning, it is virtually impossible to define SHRM. There is no such thing as SHRM because SHRM is not a unitary phenomenon but a collection of phenomena. It consists of very diverse phenomena: prescriptions, models, theories and critiques.

-Salaman, Storey and Billsberry (2005)²⁸

Strategic human resource management can be defined as the linking of human resources with strategic goals and objectives in order to improve business performance and develop organizational culture that foster innovation, flexibility and competitive advantage. In an organization SHRM means accepting and involving the HR function as a strategic partner in the formulation and implementation of the company's strategies through HR activities such as recruiting, selecting, training and rewarding personnel.

-Ranasinha (2007)²⁹

Strategic HRM means making and implementing practices and policies of human resources that generates the behaviors and competencies of employee that the organization requires to gain its strategic goals.

-Dessler (2011)³⁰

The above definitions emphasize the concept of achieving competitive advantage through human resource management, and imply a two dimension meaning of strategic human resource management that is internal fit and external fit. In other words, HRM policy and practices are not only internally consistent for increasing HR effectiveness but also strategically linked to overall business goals for the purpose of attaining a firm’s strategy.

The definitions of SHRM focus on the integration of traditional human resource management with business strategy and its contribution to strategy formulation and implementation. This leads to overall business success, based on the assumption that human resource is a strategic asset which organizations can employ to facilitate the achievement of their strategic goals. SHRM reflects such a concept that highlights the role of human resource management function in the business strategic process. SHRM reflects the philosophy and mindset of business leaders, with underlying values and beliefs, in garnering firm’s human resources for facilitating business development and fruition.

HRM pattern apparently reflects the nature of strategic human resource management. Thus, the basic meaning and implication of strategic human resource management can be understood as the pattern of SHRM activities for effective employment and utilization of firms’ human resources, by integrating HRM practices with organizational goals and strategy. Only in this way a firm’s competitiveness can be increased.

Inferring from the above definitions, strategic human resource management is thus the pattern of planned HR practices and policies that reflect the psyche and philosophy of business leaders for effectively utilizing human recourse to facilitate the achievement of corporate objectives through its human resources. Operationally, strategic human resource management represents a set of HR Activities that are internally consistent and compatible with the firms’ strategy.

Dessler (2011), Strategic Role of Human Resources Management, Pearson Education Inc., Publishing as Prentice Hall, New Jersey
1.3 PM, HRM AND SHRM-DISTINGUISHED

For a better understanding of the concept strategic human resource management, it is helpful to distinguish it from traditional human resource management and even personnel management. Many scholars at times argued that it is difficult to define the term “SHRM” and also differentiate it from traditional HRM, owing to lack of a strong theoretical framework. It was some two decades ago. The various dimensions of SHRM made the research scholars difficult to define in accurate fashion of the term SHRM. Multifarious dimensions are covered under the term SHRM. Each dimension has its own parameters and therefore, difficulty in defining the term by incorporating all phenomena.

However, the growth and application of the distinct philosophy strategic human resource management enabled the scholars to capture the distinctions among SHRM, HRM and PM. Personnel Management focuses on employee management and control, while HRM focuses on management of teams. Line management takes a role in HRM in sizable organizations, while SHRM goes beyond to cover strategic linkages with corporate goals. Personnel Management does not have a role in line management. Similarly, organizational culture matters in HRM but not in PM. In other words, HRM is more strategic than PM. HRM is asset based, while PM is liability based – hire and fire.

HRM is a unitary approach that is directing more attention toward individual development, commitment, flexibility, and adoptability, in contrast to the collectivist approach of personnel management. HRM is featured more by a focus on its “resource” perspective towards employees signifying employee development in the broader domain of business development. In the year 1991, a ‘hard’ and ‘soft’ version of HRM was introduced by the HR Guru Storey. Hard HRM focuses on the quantitative, calculative side of human resource management. Soft HRM deals with traditional human relations idea, focusing on commitment, motivation and leadership.

Storey argued that the hard versions cover an extensive form of activities beyond those covered by PM, and the soft versions mainly reflect the strategic approach inherent in HRM. This is the fundamental difference between HRM and PM. Alternatively SHRM and HRM distinction lies on “strategy formulation, implementation, evaluation and control in relation to HR objectives and corporate objectives. SHRM lies in the connection of HRM with firm strategy. SHRM is a bridge between a firm’s strategy and its human resource management.

Under HRM, the HR professionals are adept at techniques within their unique sub-functions such as selection, performance appraisal, while caring little about other HR functions. When the significance of these HR functions to firm’s strategy has been realized, some strategic functional HRM issues are raised such as strategic selection, strategic appraisal, strategic training and so on. It is only recently that scholars used the SHRM concept to emphasize how the ‘synergistic” effect HR functions can facilitate employees’ efforts toward business strategy.

Traditional HRM focuses on the micro approach of individuals only, while SHRM focuses on the macro approach by which the entire organization is used as the level of analysis. SHRM links the employee deployment and organizational management within the purview of overall business and its contextual environment, whereas, HRM is only one organizing activity under SHRM. Further, line management shares responsibility for HRM implementation in SHRM process. Cost minimization is goal of personnel management.

Maximization of individual employees in HR outcome is the goal of HRM, while the goal of SHRM is the organizational effectiveness as a whole. The nature of personnel management is plural and reactive, HRM is unitary and more active and SHRM is a strategic and proactive approach for managing human resources. In so far as the level of focus, SHRM is concerned more about the top level of the organization, while the focus of personnel management and human resource management is relatively lower and middle level of the organization.
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SHRM plays the role of strategic partner of the organization, but the contribution of PM is marginal and HRM acts as a major managerial function only. The major actors in SHRM, HRM and PM are both line and HR managers take active roles in SHRM, with the HR manager playing a supportive role, whereas in HRM, the HR managers and professionals are the major actors with only few tasks delegated to the line managers.

To conclude, the differences among PM, HRM and SHRM, SHRM covers a set of HRM practices that are internally consistent and externally aligned with firm strategy but not separate HR practices. Long term orientation is another characteristic of SHRM. In SHRM, HR professionals act as strategic partners of the organizations beyond their functional role. The comparisons of PM, HRM and SHRM are summariily depicted in Table 1.1.

<table>
<thead>
<tr>
<th>Factors</th>
<th>Personnel Management (PM)</th>
<th>Human Resource Management (HRM)</th>
<th>Strategic Human Resource Management (SHRM)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Basic Assumption</strong></td>
<td>People as commodity</td>
<td>People as resources</td>
<td>People as Strategic resources</td>
</tr>
<tr>
<td><strong>Goal</strong></td>
<td>Performance of pre-defined professional activities</td>
<td>Individual HR outcome</td>
<td>Organizational effectiveness as a whole</td>
</tr>
<tr>
<td><strong>Nature</strong></td>
<td>Plural, collective and reactive</td>
<td>Unitary, individual and active</td>
<td>Strategic and proactive</td>
</tr>
<tr>
<td><strong>Framework</strong></td>
<td>Lack of systematic framework</td>
<td>Isolated HR program or activities, separating from each other and from the environment</td>
<td>Broad, contingency- based, and integrative framework, HR system designed to fit extant environment and mutually reinforcing or synergistic</td>
</tr>
<tr>
<td><strong>Level</strong></td>
<td>Relatively lower level</td>
<td>Middle level</td>
<td>Top level</td>
</tr>
<tr>
<td><strong>Context</strong></td>
<td>Special field within the organization</td>
<td>Within the organizational scope</td>
<td>Interact with organizational factors as well as external factors</td>
</tr>
<tr>
<td><strong>Psychological Contract</strong></td>
<td>Compliance</td>
<td>Commitment</td>
<td>Long-term Commitment/Development</td>
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<table>
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<tr>
<th>Evaluation</th>
<th>Cost-minimization</th>
<th>Utilization maximum</th>
<th>Overall business success</th>
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<tbody>
<tr>
<td>Status</td>
<td>Marginal</td>
<td>Major managerial</td>
<td>Strategic Partner</td>
</tr>
<tr>
<td>Actors</td>
<td>‘Contract managers’/Collective bargaining expert</td>
<td>HR professionals/manager devolving some to line manager</td>
<td>Line and HR managers, with HR a supportive role</td>
</tr>
<tr>
<td>Orientation</td>
<td>Short-term</td>
<td>Short-term/Long-term</td>
<td>Long-term</td>
</tr>
</tbody>
</table>

(Source: Wright and Boswell (2002), Truss and Gratton (1994), and Baker (1999))

1.4 SCOPE OF SHRM

Strategic human resource management ensures that human resource management is fully integrated with the strategy and the strategic needs of the organization. Human resource policies cohere both policy domain and across different levels of management. Human resource architecture of the firm that is a judicious mix of structure, systems, rewards, processes, people, styles, skills, and shared values results in above average economic performance. HR architecture sub-components reflect the development and management of the firm’s human resources. Further, HR practices are adjusted, accepted, and used by line managers and employees as part of their everyday work.

SHRM involves formulation of corporate strategies and ensuring their implementation. HR executives should compile and guide the discussion on contextual factors. SHRM encompasses an organization’s architecture. In other words, it should identify the underlying model of the company’s way of doing business. HR functions are having accountability. Therefore, they are subject to organizational audit. SHRM involves horizontal integration that is integration of all HR functions. It also takes care of the strategic aspects of vertical integration that is combining HR activities with corporate objectives. More so, the SHRM certainly revolves around the given international business environmental factors.33

1.5 OBJECTIVES OF SHRM

Strategic human resource management is a relatively new field, which commits itself to examining the effectiveness of human resource practices on the holistic performance of firms. At present SHRM has developed as an independent field in management. The conspicuous objectives of strategic human resource management areas follow.\textsuperscript{34}

SHRM is a strategic management of human resources in accordance with the intentions of the organization on the future directions it wants to take.

- In SHRM, HR practices are used to control, motivate, and reinforce desired behaviours consistent with business strategy.
- Under SHRM, the management in consultation with the HR professionals of the firm selects individuals with competencies; develop those behaviours needed to produce high job performance and productivity for the business strategy.
- One of the objectives of SHRM is to establish the relationship between business strategy, HR practices and human capital. These are linked to a sustainable competitive advantage.
- SHRM measures the contributions of employees and reward accordingly. For this purpose, HR practices must motivate and retain skills needed for business strategy.
- The idea in SHRM is that firm’s human resources are of critical importance and that the skill, behaviour, and interaction of employees have the potential to provide for both the foundation for formulations and the means for strategy implementation.
- A firm’s HRM practices are instrumental in developing the strategic capability of its pool of human resources.
- SHRM identifies resource based view of HR and those RBVs are integrated with the corporate objectives to produce the sustained competitive advantage. The term RBV is resource based view on any phenomenon. In SHRM the inimitable skills, abilities, and knowledge of employees are considered as HR-RBV.

1.6 BENEFITS OF SHRM

The practicing of the strategic human resource management dimensions in an organization brings about the numerous benefits to individual, organization, and the society.

Individul Benefits

- SHRM identifies, develops, and sustains individual employee competencies in the firm.
- The individual employees who are possessing unusual competencies are profiled to constitute the resource-based-view of the firm.
- SHRM identifies and develops the needed skills for the individuals and those skills and business strategies are strategically linked.
- Individual HR professionals in addition to the knowledge of HR functions need to have the business knowledge in the spheres of product, technology, competition, quality, international business environmental factors influencing firms political, legal, technological, economic, socio-cultural, and global. These are advantages in the practice of strategic human resource management.
- The individuals under SHRM need to justify their existences in the organizations therefore, necessarily they have to learn continuously and contribute.
- Individual employees are rated as ‘resources’ and their capabilities are contributed to organizational overall capabilities. The individual employee enjoys the sense of fulfilment in the organizations on account of the presence of strategic human resource management practice.

Organizational Benefits

- SHRM Contributes increased organizational performance.
- It ensures enhanced organizational productivity.
- It provides the undercurrent for the long-run survival of the business.
- SHRM is a challenging and self-fulfilling paradigm of individuals therefore the attrition rate of the organization is usually low.

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35 Aswathappa K, IBID, p.67.
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- SHRM enhances the customer satisfaction and ensures the profitability through satisfying the customers.
- HR department existence in the organization is justified on account of the presence of strategic human resource practice.
- Organizational systems designed to achieve sustainable competitive advantage through people.
- Values people as strategic resources and represent critical investments in a firm’s performance.
- Concerned with skills and behaviors that are developed and encouraged for strategic advantage of the firm like building organizational capabilities.
- Unlike capital investments, economic scales, or patents, a properly developed HR system is an invisible resource that creates value and enhances firm’s capabilities.

Societal Benefits

- In the country and societal contexts, the organizations practicing SHRM supply the quality goods and services at competitive prices.
- SHRM practice in the organizations helps the society by demanding from the society the knowledge workers. Hence, the policy makers necessarily provide university education to their masses.
- Creating HR RBV is a national asset in that it increases the national competitive advantages not only in the HR pool but also RBVs contributions to customer focuses, product innovation, technological innovation, market innovation and so on.
- A country’s economic development depends on the practice of strategic human resource management in that it reduces all kinds of wastages and losses such as HR wastages and losses and so also the technological and capital resources of a country.
- Countries practicing personnel management and human resource management in various sectors shall move towards the adoption of strategic human resource management for the greater benefits of all stakeholders concerned.
1.7 EVOLUTION OF STRATEGIC HUMAN RESOURCE MANAGEMENT

There is some consensus regarding the strategic human resource management practices. There ought to be a link between a firm’s strategy and human resource management practices. Of late, researchers have begun to approach the sphere of human resource management from a macro perspective. Schuler and Walker (1990)\(^{36}\) observed that HR strategy is a short-term focus on business needs. And the author defined the HR strategy as a set of processes and activities jointly shared by human resources and line managers to solve people-related business problems. Guest (1989)\(^{37}\) suggested that SHRM is concerned with ensuring that human resource management is fully integrated into the strategic planning and that HR policies cohere both across policy areas and across hierarchies and that HR practices are accepted and used by line managers as part of their everyday work.

2 Schuler stated that strategic human resource management is all those activities affecting the behavior of individuals in their efforts to formulate and implement the strategic needs of the business.

3 Wright and McMahan (1992)\(^{38}\) defined SHRM as the pattern of planned human resource deployments and activities intended to enable an organization to achieve its goals.

4 The essential commonality in these definitions appears to be the macro organizational approach to viewing the role and function of HRM in the larger organization. The present study considers the definition of SHRM offered by Snell, Wright, McMahan, Dave Ulrich, Huselid, Gerhart and Milkovich in that organizational systems designed to achieve sustainable competitive advantage through people. This approach places importance on the integration of human resources with rest of a business and its environment. It also views that people are valued as strategic resources and represent critical investments in a firm’s performance.

5 The concept of the HR system as a strategic resource has implications for both the characteristics and the effects of such a system. Strategic resources are the set of


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difficult to trade and imitate, scarce, appropriable, and specialized resources and capabilities that bestow the firm’s competitive advantage. Unlike capital investments, economic scales or patents a properly developed HR system is an invisible resource that creates value when it is so embedded in the operational systems of an organization that it enhances the firm’s capabilities. This interpretation is also consistent with the focus on “core competencies” popularized by C K Prahlad and Hamel (1990)39.

1.8 ORIGIN AND GROWTH OF SHRM
Strategic human resource management is a distinct philosophy and a new field which appears in recent decades in management study domain. It bridges across both the field of human resource management and the field of strategic management. In the 1970s, firms were familiar with the concept of human resource management (HRM). The traditional HRM function covered the functions such as recruitment, selection, performance appraisal, training and development, compensation management and so on. The emphasis was on people only but ignored the connection of these HR functions with the strategy of the organization. It also ignored the treatment of human resource in perspective of strategy and that led to the lack of fitness and elasticity between the human resource management and the organization strategy.

Since, the traditional human resource management is hard to adapt the need for rapid development and innovation of firms, many scholars tried to put forward a general management theory to explain, forecast, and to coach the employee and the researchers’ human resource management. 30 years ago in the United States of America, the concept of strategic human resource management emerged under various dimensions. They are human resource as strategic asset, resource-based-view, strategic partner and administrative pioneer. The sub-field of SHRM was devoted to exploring HRs role in supporting business provided as dimension for demonstrating strategy value to the firm. The HR Gurus contributed to the field of SHRM are Dave Ulrich, Schuler, Randall, McMahan, Walker, Robert Kaplan, Brain E. Becker, Mark A. Huselid, Devanna, Fombrum, and Burack and so on.

Walker’s article (1978)\textsuperscript{40} for a link between strategic planning and human resource planning signified the conception of the field SHRM, but its birth came in the early 1980s with Devanna and Fombrum (1984)\textsuperscript{41} devoted themselves to extensively exploring the link between business strategy and HR. SHRM’s evolution has consistently followed developments within the field of strategic management.

Baird, Meshoulam, Degive and Burack (1988)\textsuperscript{42} brought forward integrated SHRM theory and proposed firms to adopt this theory. They thought the difference between the strategic human resource management and the traditional human resource management whether the determination of human resource management plan is connected with the organization’s strategic plan. Organizations needed a process of SHRM to help deal with the rate of ‘strategic surprises’ that generated the need for flexibility and innovation, developing culture to harness creativity and enterprise (Kanter, 1983)\textsuperscript{43}.

In the developing process of SHRM theories, the most influencing one is generated by Beer (1984)\textsuperscript{44} that suggests SHRM is about developing and implementing HR strategies that support the delivery of four important goals such as competence, commitment, congruence, and cost. The article provides framework consisted of six basic groups such as stakeholders’ interest, HRM policy choices, HR outcomes, long-term consequences and feedback loop. It developed variations of SHRM into a broader approach.

From the above, it is clear that SHRM is different from the traditional HRM. SHRM emphasizes the congruence or ‘fit’ between HR practice and business strategy. Many scholars assert that the application of effective HR practices and the design of a HR system compatible with the firm strategy are imperative for the successful

\textsuperscript{40} Walker (1978), Integrating the Human Resource Function with the Business Human Resource Planning, 17(2), 59-76.
implementation of business strategies (Miles and Snow-1984, Baired and Meshoulam-1988, Wright and McMahan-1992).\textsuperscript{45}

There exists increasing numbers of empirical studies conducted in various relationships between strategic HRM and organizational performance or competitive advantage. Significantly, SHRM focuses on developing the firm’s capacity to respond to the external environment through a better deployment of human resource. Since, the strategy of firm is reflection of its response to the competitive external changes, a human capital pool with a broad list of skills that are compatible with the corporate strategy. It is a catalyst for fulfilling the strategic goals by promoting behavioral utility among employees.

\textbf{1.9 ENVIRONMENT OF SHRM}

Within SHRM thinking, processes and programmes of organizational change are attributed to challenges and pressures in organizations’ environments which make such change necessary. A direct connection is established between identified environmental developments and organizational adjustments which are mediated by the business strategy which is a response to environmental challenge but which requires organizational adjustment for the strategy to be delivered.

Organizational environments are defined as rapidly changing and they are changing in new ways. The key environmental changes are characterized as the decline of the traditional industries. The drastic increase in competitive pressures particularly, from the newer globalized economies and the increase in environmental pressure from de-regulation and from political, consumer and environmental lobbies (Jackson & Schuler, 1989).\textsuperscript{46}

It assumes that all SHRM initiatives are necessary, and writes that they are designed solely to improve performance and that they are inevitable, unavoidable and well designed namely, management knows best. SHRM sometimes act as a legitimatory device to establish tighter control over employees and to enhance the status of HR


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specialists including academics and consultants who advise on, or write about SHRM matters. In this view SHRM, despite its claims for introducing radically new ways of managing labour to avoid the old adversarial type of relations, is actually a way of making new forms of traditional attempts to tighten control.

Under economic environmental changes, SHRM includes changes in markets, or market segments, changes in competition, changes in the national or local economy in terms of inflation rates, unemployment, interest rates and balance of trade. Political changes across the countries in the world include change from communism to capitalism, socialism to capitalism, regulation to de-regulation, public ownership to private ownership, monopoly to competition, green moment and energy issues.

Technological changes include technological developments and the costs and implications of such developments. Social changes effect factors which affect people as consumers of a firm’s goods or services through influencing attitudes, life-styles, values, expectations, or which affect people as employees. The significance is demographic trends which bring about staff and skill shortages.

The globalization of national economies and the evolution of multi-national companies have resulted in increased awareness and documentation of the differences in human resources managed among countries. This is because countries often have unique cultures such as values, norms and customs. It is widely presumed that multi-national enterprises must understand the culture of the region in which they operate in order to effectively manage their human resources.

The most widely known framework for comparing national cultures is that developed by Geert Hofstede (1980), who identified four dimensions of culture. They are individualism, masculinity, uncertainty avoidance, and power distance. In 1993, he added a fifth dimension called time-orientation. National culture impacts the strategic human resource management. SHRM operates under varying environmental context.

47 Geert Hofstede (1980), Cultural Diversity: Four Dimensions for Defining Work-related Values Associated with National Culture, Chartered Management Institute, USA.
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The above changes require or cause organizational change with definite implications for organizational structures, systems and skills which are the crucial elements of SHRM approaches. The SHRM approaches were given by the pressures for change arising from environmental contextual changes.

Strategic Responses for Environmental Changes

Within SHRM, environmental pressures are typically seen as associated with a series of strategic responses. Organizations take initiatives for strategic responses including SHRM responses. **Author Child** (1997),⁴⁸ attempted to identify and develop classified developments in the environment with classified responses from the organization. The author attempted to track relationships between environments and organization. Environment is the ultimate source of organizational changes and the latter is the fundamental to SHRM thinking.

**Child** argued that environmental and competitive pressures produce three types of strategic challenge. The first is demand risk, in that a reduction in the market or an increasing level of competition brings the risk of sharply fluctuating demand or demand collapse. It arises on account of recession, increased global competition or entry of new competitors to the market and it is added by variations in product specifications. Therefore, it requires on the part of firm to be flexible, responsive and providing improved quality.

The second strategic challenge is from innovation risk, that is, the failure to match competitors’ technological innovations. To counter, these organizations need to retrieve or develop the ability to innovate.

The third is the strategic risk of inefficiency that is inability to match competitors’ costs. This leads to a drive to cut costs. These three strategies-innovation, quality, and cost may all occur within one multi-product-service organization. SHRM stresses the importance and benefits of being able to ensure staffs comply rigorously with managerial intentions and requirements.

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It is fundamental feature of SHRM as a body of ideas that it asserts a critical relationship between ‘environment’ strategy and human resource strategies. Organizations have made and are making a number of different types of changes in HR systems and structures, which are commonly identified as aspects of SHRM. These changes are commonly aimed at the efficiency, performance, quality, and flexibility of labour.

1.10 MODELS OF SHRM

For the deeper understanding of the concept strategic human resource management and for mapping out the process of SHRM, it is imperative to discuss the models on the strategic human resource management which forms the domain knowledge of the present study. Truss and Gratton (1994)\textsuperscript{49} classified models on SHRM into three basic types. They are normative models, empirical models and theoretical models. The normative models of SHRM are concerned with “how SHRM should work, and provide frameworks for practitioners on best practices.

The empirical models are derived from data evidence collected from sample firms. Theoretical and conceptual models are those sourced from literature. Truss and Gratton appropriately summarizes most works on SHRM of the previous scholars, especially the emergence of normative models and handful of empirical models in the early stages of the development of SHRM. The details are as follows.

A. Normative Models of SHRM

The beginning of the normative models of SHRM is essentially descriptive, focusing on the basic functions of strategic human resource management and how they work. In the beginning stage of the development of SHRM, some basic models on SHRM were developed from the strategic management perspective. A basic reason underlying these normative models is that “HR follows the strategy”.

The normative model suggests that HRM should be audited first based on the requirement of business strategy. Thereafter, a set of effective HR strategy is

developed after conducting a gap examination. Numerous models with the core idea of HR-Strategy integration were provided by different scholars. The details are given in table 1.2.

### Table 1.2

**Normative Models of SHRM**

<table>
<thead>
<tr>
<th>Author</th>
<th>Core Contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Devanna and others (1981)&lt;sup&gt;50&lt;/sup&gt;</td>
<td>Organization of HR is the nature of strategic human resource management with HR strategy as a core. The audit of HR practices is suggested to identify the gap between HR organizational structure and business strategy</td>
</tr>
<tr>
<td>Tichy and others (1982)&lt;sup&gt;51&lt;/sup&gt;</td>
<td>The author proposed the interaction of three paradigms that is strategy-structure-HRM. The formulation of HR policies will suit the specific strategy and the corresponding structure. The model also suggests HR cycle consisting of selection, appraisal, reward and development. These procedures are linked to firm’s strategy, leveraging the realization of business strategy. Internal organization of HR activities and the linkage of HR activities to the line management is the crux to strategic human resource management.</td>
</tr>
<tr>
<td>Miles and Snow (1984)&lt;sup&gt;52&lt;/sup&gt;</td>
<td>Strategic application of human resource policies and practices should correspond to different kinds of strategy. Companies adopting unique strategies such as Defender, Prospector or Analyzer should consider HR practices with distinct focus on skill building, acquiring from outside or allocating HR respectively.</td>
</tr>
<tr>
<td>Baird and Meshoulam (1988)&lt;sup&gt;53&lt;/sup&gt;</td>
<td>Eloquently and systematically illustrate on the ‘fit’ perspective of strategic human resource management. Alignment between various internal and external environmental factors and organizational</td>
</tr>
</tbody>
</table>


developmental stages is regarded as the basis of model of ‘internal fit’ and “external fit of SHRM”. Their model also explains an HR strategic matrix by combining five developmental steps and six strategic components, highlighting the specific HRM strategies firms could use to respond to organizational needs.

<table>
<thead>
<tr>
<th>Dyer and Holder (1988)&lt;sup&gt;54&lt;/sup&gt;</th>
<th>Suggest three HR strategies based on environmental conditions. The three HR strategies consider and incorporate the dimensions of inducement, investment and involvement.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lengnick-hall and Lengnick-hall (1988)&lt;sup&gt;55&lt;/sup&gt;</td>
<td>A framework is provided demonstrating the reciprocal interdependence between firms’ strategy and its HR strategy the strategic choices that firms alternatively make are contingent on different situations expressed by two dimensions-organizational readiness and corporate growth expectations.</td>
</tr>
<tr>
<td>Schuler (1992)&lt;sup&gt;56&lt;/sup&gt;</td>
<td>Developed 5p model consisting of HR philosophy, policies, programs, practices, and processes. 5p model is established to detail HR strategies based on linkage of business strategic needs with strategic human resource management functions.</td>
</tr>
<tr>
<td>Kane and Palmer (1995)&lt;sup&gt;57&lt;/sup&gt;</td>
<td>Human resource management strategy should be an integral part for realizing corporate strategy, with strategy in different sub-functions of HR supporting overall HR strategy</td>
</tr>
</tbody>
</table>

In essence, most of the normative models that emerged in the strategic human resource management field started with organization strategy that is business strategy, coming first and followed by HR strategy. Further, all these models emphasize that HR strategies should be developed based on firm strategy, serving its realizations. The same logic applies to various sub-functional HR strategies. According to the overall strategy these functional strategies are formulated.

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Many authors emphasized on functional strategies of human resource management, concerned about the content and the development process of functional strategies. While some other authors concentrated on the compatibility of HR strategy to both business strategy and environmental factors, engaging in the analysis of HR strategies that are developed from a larger scope of context.

The above models contributed to the development of strategic human resource management by clarifying the fundamental aspects of SHRM as the link of HR strategy and business strategy. These models illustrate certain internal and external factors that constitute or influence the strategic human resource process. However, they are descriptive in nature and could only provide a general guideline on the functions of SHRM to organizations. Moving further, understanding of SHRM based on sound theoretical analysis and conclusion drawn from data measuring business reality is still needed. The attempt of measuring the results based on business reality is by the use of business scorecard linked HR scorecard.

B. Empirical Models
On the basis of information derived from observations in certain business firms, the empirical models represent a closer reflection of business realities than some of the abstracted strategy-human resource management relationships presented in normative models. In comparison to normative models of SHRM, the empirical models on SHRM are somewhat relatively few. However, the applications of linking business strategy with HR strategy is gaining widespread acceptance in the globe.

It is interesting to note that some research models derived from empirical data is available for sharing among the professionals of SHRM. Unlike the normative models, which cover only limited variables such as strategy and HR practices, the empirical models include broader contextual factors such as political, legal, socio-economic, technical and a variety of internal variables like industry, competitors, structure, and strategy and the like.

Many American and Britain scholars on strategic human resource management summarized the meaning of SHRM as the employment of human resource based on
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firm strategy matching to HR strategy. They view people as strategic resources for firms gaining competitive advantage. Hendry and others (1988)\textsuperscript{58} analyzed the dynamic environment in which HRM needs to cope with and thus, the HR strategies firms will adopt requiring formal retraining, flexible recruiting system and HR development. Lundberg (1985)\textsuperscript{59} has given an empirical model of SHRM based on case study in Reynolds Corporation, covering a number of organizational and societal factors impacting SHRM.

Storey (1992)\textsuperscript{60} argued that the most effective way to increase understanding of the concept SHRM process is to construct models from literature and subsequently test them by empirical data. This is by nature of conceptualizing process. With thorough review of literature, Truss and Gratton (1994)\textsuperscript{61} established such a ‘conceptual map’ on SHRM through illustrating the process of SHRM that is in what way external parameters impact business and HR strategic process.

The model is accommodated by an open system perspective on the relationship between an organization and its environment. The difference between intended and realized strategy is taken care of. They indicated in the model that the context of SHRM is derived from both intended business strategy and intended HR strategy (which is developed from the firm’s strategic context). Whereas, the realized HR interventions may actually differs from the intended HR strategy. In other words, those HR activities taking place within the organizations may not necessarily align with the articulated HR strategy.

It is obviously a gap that future empirical studies could fill, since it is the realized HR activities that contribute to the firm’s outcomes. Unfortunately, no further specific illustrations, especially empirical designs were given by Truss and Gratton about how to examine such a difference.

\textsuperscript{60} Storey (1992), Developments of the Management of the Human Resources, Blackwell, Oxford
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In summary, these empirical studies for constructing SHRM are inductive in nature. They are valuable efforts to extract concepts from organizational practices, and therefore are more embedded in and reflect business reality. The shortcomings of these models lie in the difficulty of generalizing the findings from a limited number of firms in a specific geographic area and thus prevent the development of a universal theory about SHRM.

Having said this, it is worth noting that these empirical studies raise the importance of examining the contextual variables influencing the SHRM process. Verifying of the internal and external factors surrounding SHRM facilitates a better understanding of the role and mechanism of SHRM process.

C. Theoretical Models

In so far as the theoretical models of SHRM, probably the benchmark work are a summary of various frameworks by Wright and McMahan (1992)\(^{62}\). Six important models discussed in their work, including four strategic perspectives-behavior perspective, agency/transaction cost theory, resource-based-view of the firm and cybernetic models. The two non-strategic views, that is, resource dependence perspective and institutional theory are also provided by these two authors. In 1999, McMahan and others\(^{63}\) updated this framework, adding more recent developments in the field such as, the population ecology perspective and the human capital theory.

Behavioral Approach Theory

As a basic perspective underlying SHRM, Behavioral Approach emphasizes the realization of organizational strategic goals through appropriate employee behavior. It is premised that in SHRM, unique HRM practices are needed to elicit and reinforce different employee behaviors required for different strategies. In other words, employee behaviors act as the mediator between HR practices and firm strategy.


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The typical examples cover Schuler and Jacksons (1987) employment of the competitive strategy model linking different strategies with unique HR practices. It is argued that the rationale of these studies is that employee behaviors are instrumental in the implementation of competitive strategies. For example, for ‘milking’ strategy in BCG Matrix, careful selection of managers is needed to fit their personalities and skills to the strategy, and an appropriate reward system is useful. Likewise, categorizing current employees according to their permanence and potential are also quite meaningful for facilitating the implementation of the strategy.

Despite the HR practice-behavior relationship being the common focus in the behavioral approach; the behavior-strategy linkage is rarely studied. Hence, it is difficult to draw a firm conclusion on the mediating role of employee behavior in HR practice-strategy relationship. Further, critics argued that the effect of employee skills on their behaviors and the cognitive processes leading to those behaviors are neglected, making this perspective a partial explanation of the fundamental issues in SHRM.

Agency/Transaction Cost Theories

These are two important strategic human resource management theories based on economics. They are borrowed by the strategic human resource management on account of the possibility of their application in explaining issues emerged in managing human resources at various levels (Wright, 1992). Transactions costs incur in the process of human exchange, including the costs for negotiating, monitoring and implementing this exchange contract. With the increase of cost, there is a tendency to internalize the exchange relationship through organization.

Agency Costs are costs for maintaining efficient contracts between principal and agent. When the agent that is the party providing service to the principal behaves opportunistically and self-interestedly in an uncertain environment, the contract control is possible. In this sense, control becomes the core of both issues. It is

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possible for HR system to act on such a control function, to foster employee performance, by monitoring their shirk behaviors and rewarding their contributions.

McMahan and others (1999) observed that the transaction cost perspective is employed most in explaining performance differential and, agency theory is used most in studying compensation. Several forms of organizational control can be found from past research including managerial control, bureaucratic control, and outcome control (Ferner, 2000). Firms depend on the above controls by the various HRM practices to monitor and motivate business actors, so as to achieve personal and corporate performance improvement. For example, different levels of stock-based compensation will result in various extents of control on CEO, thus influencing their behaviors and their achievements (Toyne and Miller, 1998). Likewise, positive or negative behavioral control through praising, rewarding or punishing and demoting will have significant impact on problem employees.

Nevertheless, the emphasis of agency theory on incentive alignment, the administrative nature of HRM permits bureaucratic control that is very significant for corporate performance. Ferner (2000) in his research indicated that the effect of bureaucratic control system could be reinforced by being used together with a social control mechanism, thus promoting the creation of common values and belief.

Cybernetic Model
This model is based on systems approach. It assumes that firms are either closed system or open system. It takes into consideration the input, throughput and output. The traditional closed system fails to take into consideration the outside influences. However, cybernetic models focuses on open systems taking into account the external factors and organizations into consideration. The example given by Wright and

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Snell (1991) described an open system model with employee competencies as inputs, employee behaviors as throughputs and affective and performance outcomes as the outputs. The two authors state that SHRM function should have competence management and behavior management, the former covering competence acquisition, utilization, retention, and displacement and the latter, consisting of behavioral control, behavioral co-ordination.

Subsequently, Snell (1992) developed a control theory of strategic human resource management by taking into account the whole process relating into input, behavior and output explaining the mediating role of administrative information on the relationship between HRM control and strategy. Thus confirming, the idea that different strategic postures required different HRM practices for control.

In summary, the above models contribute to understanding of some organizational decisions that are difficult to explain by traditional logic. SHRM explains the role of the different models-both economic and sociological perspectives. Infact, SHRM is an approach characterized or manifested by the connection of HR practices with strategic goals of the organization. The rationale of such an approach can be explained by different theories. Although, there lacks a unified theory for SHRM, some basic meanings about SHRM and implications about SHRM process can be drawn from all these perspectives.

1.11 ROLE OF HR PRACTITIONERS IN SHRM

In today’s competitive context, the roles undertaken by HR professionals are, in reality, multiple and not single. HR professionals need to fulfill both strategic and operational roles. They must be both policing and partnering and they must shoulder the responsibility for both qualitative and quantitative goals in the short-run and long-run. HR professionals in the increasingly complex global scenario must add value to the business. Towards this, they must perform increasingly complex and paradoxical roles.

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To create value and deliver results (HR deliverables), HR professionals must begin not by focusing on the activities or work of HR (HR doable), but by defining the deliverables of that work. Deliverables ensure the outcomes of HR work. With deliverables defined, the roles and activities of business partners is stipulated. According to deliverables, the HR professional must fulfill four key roles to make their business partnership a reality. **Dave Ulrich** (1997), the HR Guru based on his extensive research work devised a way to describe the deliverables of HR professionals’ HR work.

Broadly, the roles are grouped into HR professional’s focus and activities. Focus ranges from long-term/strategic to short-term/operational. HR professional needs to learn both strategic and operational, focusing on the long-term and short-term goals. Activities range from managing process (HR tools and HR systems) to manage people. These two classifications of focus and activities explain four key roles of HR professionals. They are (1) Management of strategic human resources, (2) Management of firm infrastructure, (3) Management of the employee contribution and, (4) Management of transformation and change. To understand each of these roles more fully, one must consider these three issues, that is, the deliverables that constitute the outcome of the role, the characteristic metaphor or visual image that accompanies the role, and the activities, the HR professional must perform to fulfill the role. Table 1.3 Summaries these issues for each of the roles identified above.

**Table 1.3**

<table>
<thead>
<tr>
<th>Role</th>
<th>Deliverable /Outcome</th>
<th>Metaphor</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management of Strategic Human Resources</td>
<td>Executing strategy</td>
<td>Strategic partner</td>
<td>Aligning HR and business strategy “organizational diagnosis”</td>
</tr>
<tr>
<td>Management of firm Infrastructure</td>
<td>Building an efficient infrastructure</td>
<td>Administrative expert</td>
<td>Re-engineering, organization process “shared services”</td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th>Management of Employee Contribution</th>
<th>Increasing employee commitment and capability</th>
<th><strong>Employee champion</strong></th>
<th>Listening and responding to employees “providing resources to employees”</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management of Transformation and Change</td>
<td>Creating a renewed organization</td>
<td><strong>Change agent</strong></td>
<td>Managing transformation and change “ensuring capacity for change”</td>
</tr>
</tbody>
</table>

(Source: Dave Ulrich, Human Resource Champions, HBS Press, USA, 1997, p35)

**Strategic Partner**

The metaphor for HR professional role is “strategic partner”. HR professionals become strategic partners when they participate in the process of defining business strategy, when they ask questions that move strategy to action, and when they design HR practices that align with business strategy. The deliverable from the management of strategic human resources is strategy execution. HR practices help accomplish business objectives.

The primary actions of the strategic human resource manager translate human strategies into HR priorities. In any business setting, whether corporate, functional, business unit or product line, a strategy exists either explicitly, in a formal process or document, or implicitly through a shared agenda on priorities. As strategic partners, HR professionals should be able to identify the HR practices that make the strategy happen. The process of identifying these HR priorities is called organizational diagnosis, a process through which an organization is audited to determine its strengths and weaknesses.

**Administrative Expert**

Creating an organizational infrastructure has been a traditional HR role. It requires that HR professionals design and deliver efficient HR processes for staffing, training, appraising, rewarding, promoting and otherwise managing the flow of employees through the organizations. HR professionals create infrastructure by constantly examining and improving the HR processes. The deliverables from the infrastructure role is administrative efficiency.
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The metaphor for work on a firm’s infrastructure is the “administrative expert”. HR professionals acting as administrative experts reduce unnecessary costs, improve efficiency, and constantly find new ways to do the things. For this they undertake continual re-engineering activities. In many firms, this re-engineering of HR processes has led to a new HR organizational form called shared services, through which HR administrative services are shared across company divisions.

Employee Champion

The employee contribution role for HR professionals includes their involvement in the day-to-day problems, concerns, and needs of employees. In companies, in which intellectual capital becomes a critical source of the firm’s value, HR professionals should be active and aggressive in developing this capital. HR professionals, thus, become the employees’ champions by linking employee contributions to the organization’s success. With active employee champions who understand employees’ needs and ensure that those needs are met, overall employee contribution goes up.

The deliverables from management of employee contribution are increased employee commitment and competence. HR practices should help employees to contribute through both their competence to do good work and their commitment to work diligently. The metaphor for this role is “employee Champion”. These champions personally spend time with employees and train and encourage managers in other departments to do the same.

Employee contribution is essential to any business, not only for its own sake, but also because it affects a firm’s ability to change, meets customer expectations, and increase financial performance. When employees are competent and committed, the intellectual capital becomes a significantly appreciable asset that is reflected in a firm’s financial results. The main activities for the management of employee contribution are listening, responding and ascertaining ways to provide employees with resources that meet the changing demands.
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**Change Agent**

A fourth key role through which HR professionals can add value to a firm is to manage transformation and change. Transformation calls for fundamental cultural change within the firm. HR professionals managing transformation become both cultural guardians and cultural catalysts. Change refers to the ability of an organization to improve the design and implementation of initiatives and to reduce cycle time in all organizational activities. HR professionals help to identify and implement the processes for change.

The deliverable from management of transformation and change is capacity for change. As firms undergo transformation, HR executives serve as business partners by helping employees let go of old and adapt to new culture. As change agents, HR executives help organizations identify a process for managing change. As implied, the metaphor for work in this role is “change agent”. As change agents HR professionals face the paradox inherent in any organizational change.

The activities of change agents include identifying and framing problems, building relationships of trust, solving problems, creating and fulfilling action plans the domain of competencies related of managing change is the most important for success as an HR professional. HR professionals, who are agents help, make change happen. They understand the critical processes for change build commitments to those processes and make sure that indented changes occur.

Thus, there are four important roles played by HR professionals in the multi-national corporations covered under Fortune -1000 companies operating in all parts of the globe. Invariably, they play the above four key roles that is as strategic partner, administrative expert, employee champions and change agent.

**1.12 HR ARCHITECTURE AND KNOWLEDGE BASED COMPETITION**

The idea of knowledge based competition has gained significant attention in the recent years with scholars emphasizing on how firms create, transfer and leverage knowledge for competitive advantage. There are many reasons for the success of firms competing on knowledge. Human capital in part, is a foundation for core
competencies and an underlying source of competitive success. Though, people contribute to knowledge, innovation, creativity and the like not all employees are equal in their knowledge contributions.\textsuperscript{73}

Some employees contribute based on the knowledge they possess while others contribute based on the jobs they do. The challenge that firms face is that there are important distinctions between managing traditional work and managing knowledge work. Identifying these differences is crucial for building competitive capabilities. The new focus on managing the knowledge of a firm’s workforce represents a departure for human resource management. Traditionally, HRM viewed the job rather than knowledge as the fundamental unit of analysis. Subsequently, the focus shifted from job management to knowledge management, that is, to what people know and how they use that knowledge is having significant implications for SHRM research and practice.\textsuperscript{74}

One possible way to address these issues is to view a firm as a portfolio of multiple types of human capital that range in the kinds and levels of knowledge used to perform jobs. There is a fundamental difference between the management of knowledge workers and the management of other types of workers.

Adopting a job based approach has proven to be effective for firms, particularly if the environment is stable, change is low and jobs do not evolve quickly. Therefore, the job analysis was the base. Under the fast changing environment, job based performance will not work. Today, managing human capital requires employees’ knowledge management. The competition is knowledge based. Here comes the significance of HR architecture. An architectural perspective views a firm as a portfolio of human capital.\textsuperscript{75}

It is based on several assumptions. Firstly, the firm must frequently rely on employees who contribute in different ways to its competitive advantage. Some

\textsuperscript{73} Nonaka (1991), \textit{The Knowledge creating company}, Harvard Business Review 69 (6)

\textsuperscript{74} Argote & Ingram (2000), \textit{Knowledge transfer: a Basis for competitive advantage in Firms}, Organizational behavior and Human decisions Processes, 82 (1).

\textsuperscript{75} Svieby (1997), \textit{The new organizational Wealth: Managing and measuring knowledge based assets} Berrett-Koehler, San Francisco

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contribute based the knowledge they possess, some contribute primarily based on the jobs they perform and many contribute based on a combination of both. Hence, it is misleading to suggest that all employees are likely to be knowledge workers. Rather, knowledge workers are likely to be a part of the total workforce, and the size of that portion depends on the firm.

A an architectural perspective also assumes that organizations may draw on the knowledge of the employees who are not necessarily a part of their permanent workforce but rather are part the contract labour. Relying on external labour may enable firms to gain access to skills that would be too costly or difficult to develop internally according to Matusik and Hill, (1998).76 Rather than constantly relying on hiring and firing of workers, firms use contract workers to increase quickly the number of workers at their disposal and the types of knowledge, and skills they possess.

Finally, an architectural perspective assumes that as the relative contributions of employees to a firm’s core competencies, so do will the way they are managed. Whether the employees are internal or external or contribute based on their knowledge or on their job performance, a firm is likely to adapt its HRM system in an attempt to maximize their potential contribution. The real challenge is to design such an HRM system that facilitates the management of jobs and knowledge for internal and external employees.

For a firm to adopt an architectural perspective, it leads to recognize the entire portfolio of human capital. The knowledge, skill and ability possessed by most individuals are termed as human capital, which has monetary value. The firms recognized that knowledge management issues exist at the individual, employee group and organization levels. Knowledge at its root level is an individual phenomenon. Individual employees have different types and degrees of knowledge, skills, and capabilities, therefore, firms to understand its knowledge pool and establish the strategy to share among all of its employees. Further, firms rely on a variety of

employee groups who contribute in different ways. Some based on their knowledge, others based on their job performance.

Organizations also use different types of employees such as contract workers, fulltime employees and consultants to contribute their competitiveness. Finally, a firm’s portfolio of human capital and its respective knowledge based asset may be viewed also as an organizational asset that must be managed and leveraged.

Building on the resource based view of the firm, transaction cost economics and human capital theory along with theoretical arguments of Snell, Wright, Dave Ulrich, Lake and Youndt, an architectural perspective begins by emphasizing on the strategic value and uniqueness of human capital in order to understand its potential contribution. The human capital as a strategic value can be obtained by analyzing the benefits that employees provide to customers, shareholders and stakeholders in comparison to the cost they incur in providing those benefits. What is valuable in human resources differs from firm to firm. As the strategic value of human capital increases, so also does the likelihood that organizations will employ it internally rather than outsource or purchase it from outside.77

The contribution of human capital depends on the uniqueness that is the degree to which needed knowledge or skills are firm-specific or need to be employed in an idiosyncratic fashion. Strategic value and uniqueness serve as contingency factors in determining how firms might balance both internal and external employment decisions.

Organizations that compete based on knowledge make decisions to acquire, allocate and manage the human capital they need to be successful. To address this issue, an architectural perspective is necessary to examine the organizations as a portfolio of human capital from individual, cohort, and organizational levels. To enhance employee contribution the firms need to understand how individual employees and employee cohorts contribute to a firm’s success. This is most directly a function of an

organization’s core competencies and it is reflected in their strategic value and uniqueness, at the same time, the firm needs to understand how different HRM practices and systems affect individuals and employee groups.

Each employee group in any organization has a unique perception of obligations or a unique psychological contact with it. Job based employees may have different expectations than knowledge workers, although both groups are internal full-time workforce. The level to which firms can attend to these concerns while adhering to their own strategic demands and developing their core competencies should be positively related to their overall corporate performance. Lucidly speaking, HR architecture provides focus and the practice of knowledge management to create strategic value for the organizations.  

1.13 HR ARCHITECTURE AND FIRM PERFORMANCE

In strategic human resource management, there exists relationship between a firm’s HR architecture and firm performance. The HR architecture is composed of the systems, practices, competencies, and employee performance behaviors that reflect the development and management of the firm’s strategic human capital. Above average firm performance associated with the HR architecture reflects the cost and benefit associated with that strategic resource.

Many SHRM theories focused on the nature of HR architecture. What is the nature of the appropriate HR system (that is single HR practices or systems)? What are the key mediating variables (that is commitment) with in the HR architecture? The architectural metaphor is significant in that it highlights the locus of value creation in SHRM. Although strategic human capital is reflected in the “human assets in the organizations, it is created and managed through the organizational system reflected in the HR architecture”.

Within the architectural framework, HR system is the most important strategic asset. HR system is the source of value creation in the subsequent outcomes of HR


architecture. HR system has the potential for greater inimitability based on how it is aligned with firm’s strategy. Unlike human capital, HR system is immobile.

There is staggered effort to extend SHRM theory in a way that formally integrates the mechanism through which the HR architecture usually influences firm performance. The heavy focus on the character of the HR architecture is the natural comfort zone of HR scholars. Strategic HR needs more theoretical work on the “black-box” between the HR architecture and firm performance, and less emphasis on the black-box within the HR architecture.

1.14 FIT PERSPECTIVE OF SHRM

As the basic idea inherent in strategic human resource management, the fit or linkage perspective has been widely employed by the HR practitioners and researchers. Basically, fit is defined as the pattern of planned human resource deployments, and activities intended to enable a firm to achieve its goals (Baird & Meshoulam, 1988)80. There are two types of fits available from the literature. They are internal fit and external fit. Internal fit is the congruence among the various HRM practices, while the external fit refers to the alignment of HRM practices and the strategic management process of the firm. External fit is further divided into two. They are strategy-employee skill fit and strategy-employee behavior fit.

Internal fit also called as horizontal fit targets at the interrelationships among various HRM sub-functions focusing the significance of their congruence to each other, for achieving the overall multiplied effect. External fit or vertical fit refers to the coordination between the HRM system and firm’s strategy, signifying the importance of design HRM policy and practice according to the requirement of firm strategy.

In addition to the horizontal and vertical fit, one more component of flexibility is introduced into the SHRM phenomenon. Flexibility here refers to the extent to which the firm’s human resource possess skills and behavioral strength that can give a firm options for undertaking strategic alternatives in competition and the extent to which

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the necessary HRM practices can be identified, developed and implemented quickly to maximize flexibilities inherent in those human resource.

Interestingly, flexibility is classified into resource-flexibility and co-ordination flexibility. Resource flexibility is the level to which firm’s human resources can be adapted and applied across a variety of situations. Co-ordination flexibility is the extent to which a business can re-synthesize, re-configure and re-deploy its human resources practices. It is assumed that for the fit model to be plausible there must have a unique set of response from employees for a specific strategy, and the unique set of HR policies is possible to produce the set of responses from employees. However, these two assumptions themselves are not sound.

There are three aspects of HR system that are critical for achieving fit. They are HR practices, employee skills and employee behavior. Fit has another dimension that is the link between innovative strategy of a firm and HR practices. It considers firm’s structure, size, technology, industry and the like. In the fit strategy, contextual factors that have impact on the linkage between HR strategy and business strategy need to be considered and uncovered in a more comprehensive way.81

The internal fit process further focuses on the connection of HRM practices with employee behavior and skills, so as to understand “how strategic capabilities being developed”. The view of fit as moderation, as mediation, as gestalts, as profile division, and as co-variation respectively is the core of both internal and external linkages under SHRM. Flexibility is also extremely necessary for firms for competing in modern business environment.

SHRM should take both “fit” and “flexibility” into cognizance for increasing firm’s competitive advantage. The fit phenomenon reflects the rudimentary aspects of strategic human resource management, which indicates the sustainability of different HR practices included in horizontal fit and external fit of HR practices with business strategy. Therefore, the linkage perspective is the core of the present thesis.

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1.15 SHRM AND FIRM PERFORMANCE LINKAGES

There are three major approaches for understanding the relationships of strategic human resource management practices and firm performance. They are “best practices or universalism”, “best fit or contingency” view and “configurational” approach.

Best Practices or Universalism Approach (Horizontal fit)

‘Best practice’ approach assumes that there is a set of superior HR practices. Firms adopting it will achieve better performance than otherwise. The best practice includes the application of 16 HR practices including extensive training and development, compensation management, employee participation and empowerment, promotion, and the like. The presence of these practices would increase organizational productivity and profit level. Huselid (1995)\(^2\) empirically tested the positive effects of “High Performance Work Practices” which consists of formal job design program, quality work-life program, formal information sharing, performance appraisals and the like on attrition, productivity, return on asset and profit.

The other best practices are “innovative” HR practices, “progressive” HR practices and “co-operative and innovative” HR practices. These are acknowledged to be helpful for the performance improvement of all kinds of organization irrespective of the distinction of the contextual environment. In short the best practice approach is nomothetic and reflects the acceptance of the convergence on the development of global HRM.

In comparison to the ‘best practices’ approach, the ‘best fit’ and configurational approach are contextual in nature. Both approaches emphasize on understanding the difference of SHRM in various context and focus on the exploration of the reasons for such differences. Different from the rational underlying the ‘best practices’ perspective, which relates to the direct link between HR practices and firm performances, the focus of contingency and configuration approach lies in the

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explanation of the unique functions of those contextual factors that influence the relationships between HR practices and firm performance.

Best Fit or Contingency Approach (Vertical Fit)

The best fit or contingency model indicates the consistency of HR practices with other organizational aspects is crucial to organizational effectiveness. Business strategy, as an important contingent factor, is considered most in examinations of HR practice-performance linkage. To a large extent, the relationship of HR practices and firm performance is contingent on different business strategies. Miles and Snow (1984) proposed that different HR practices are required by unique firms’ strategies.

Schuler and Jackson (1987) noted that firms pursuing different strategies such as cost reduction, quality improvement and innovation need to have varied HR practices for improving organizational effectiveness. They recognized that not all employees possess skills and knowledge that are of equal strategic importance. Lepak and Snell (1999) developed HR architecture to uncover the appropriate employment practices for different types of human capital, which was embodied by different employment modes. They proposed the value and uniqueness of human capital as the two dimensions underlying the HR architecture, which is more fully discussed in sub-chapter 1.12 above.

When firm’s human capital is of high value and uniqueness, the HR configuration should ‘commitment’, with appropriate employment mode of internal development. When human capital of a firm is quite valuable but not highly unique the employment mode should be ‘acquisition’ and HR practices should be market based.

When both the value and uniqueness of human capital of a firm are low, the firm should adopt a ‘contracting’ employment mode and the HR configuration is ‘compliance’. Ultimately, for firms with human capital that is of high uniqueness but with low value, ‘alliance’ is the appropriate employment mode and HR configuration

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Miles & Snow (1984), C.C. Designing Strategic Human Resources Systems, Organizational Dynamics, summer, pp. 36-52.

Schuler and Jackson (1987), Linking competitive strategies with human resource management practices, Academy of Management Executive, 1(3), 207-219

is collaborative oriented. These research results confirmed the best fit model and the applicability of the contingency approach of SHRM.

In comparing the above two approaches, it can be found that they reflect both dimensions of fit that is best practices reflects the horizontal or internal fit perspective to a great extent, while the best fit or contingency approach focuses more on the vertical or external fit perspective. The internal fit displays the characteristics of HR system, but the vertical fit is more concerned about the contingency of HR practices to firm strategy.

Therefore the core of strategic human resource management is alignment of HR practices with business strategy, in the light of this the best practice and best fit approaches are complimentary in nature. Strategic human resource management can only be achieved through the integration of HR internal systems and the integration of HR practice with firm strategy. Under this logic, together with the complexity of the environment for firms’ applicability of SHRM, the research on best fit approach (vertical approach) is more preferable.

With certain internally consistent HR practices as the basis, the integration of HR practices with firm strategy needs to be examined at regular intervals. Many empirical researches on the contingency of SHRM and its implementation are especially helpful, because the more contextual factors being identified, the closer will be the alignment with business reality.

**Configurational Approach**

The configurational approach is different from the traditional contingency approach. The latter is featured by a holistic of inquiry, and characterized by the systems assumption of “equi-finality” in SHRM, the pattern of planned HR practices that are deployed for attaining organizations’ strategic goals.

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Further, certain permutations and combinations of HR practices can be equally effective for firm performance given a specific firm strategy. Nevertheless, the innumerable studies in the strategic human resource management literature on the relationships between HR practice and firm performance and, doubts exists, among the research scholars about conforming such a linkage theoretically and empirically.

The major arguments in these studies focus on questions of why HR practices have impact on firm performance, and how this will happen with both theoretical and empirical criticisms and suggestions. The summary of SHRM-performance linkage approaches are given in table 1.4

Table 1.4
Summaries of Best Practice, Best Fit and Configurational Approach to SHRM-Firm Performance Linkages

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Approach</th>
<th>Core Arguments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Best Practices/Horizontal Fit</td>
<td>Certain best practices are universally applicable to firms and they are instrumental for the improvement of firm performance. SHRM as a deductive approach is more consistent with the horizontal fit.</td>
</tr>
<tr>
<td>2</td>
<td>Best Fit/Vertical Fit</td>
<td>It is a mediating and moderating factor in that business strategy influences the direct relationship between HR system and firm performance. Business performance can be promoted only when HR practices, a firm adopt is congruent with their strategy. It is consistent with the vertical fit view of SHRM and it is more of inductive in nature.</td>
</tr>
<tr>
<td>3</td>
<td>Configuration Approach</td>
<td>Different aspects of business and HR practices are inter-related with each other. Some combinations of HR practices can contribute to better firm performance therefore; it is called Equi-finality. It is the reflection of both horizontal fit and vertical fit approach of SHRM.</td>
</tr>
</tbody>
</table>
1.16 SHRM AND FIRM PERFORMANCE LINKAGES-ISSUES

Notwithstanding the fact that the three approaches of linking SHRM and Firm Performance such as best practice, best fit and configurational one, and relevant empirical studies, it is inconclusive to specify the process of how HR is linked to performance according to Becker and Gerhart (1996). To account for the relationship, a more complete model which includes all key mediating factors is needed so as to partial out other alternative causal models or reverse causations.

The current theories are not enough to provide insights about how HR practices are linked to firm performance, if the linkage does exist, how much variance can be explained by the employment of certain HR practices, but not other factors. However, there are certain research studies which focus on moderating effects of some internally and externally contextual factors. The outcome is that mediating factors influence the relationship between SHRM and firm performance in such a relationship.

Many previous SHRM studies concentrated on examining firms’ strategy as an important contingent factor for integration of HR practices with business strategy. Recent studies engaged in uncovering the role of various organizational and environmental parameters on these relationships. Organizational size, country origin, and corporate culture have been confirmed as mediators of the relationship between SHRM and firm performance. The features of the environment such dynamism and significant were also found to influence the effect of SHRM on firm performance. Therefore, it highlights the significance of including the contextual variables of a firm into the study of the effect of SHRM on organizational outcome.

The second issue in SHRM-Performance relationship is that, it is not a single HR practice that contributes to the business performance but a synergetic effect of multiple HR practices in HRM that contributes to the achievement of firms’ strategy.

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Some scholars also tried to measure HRM effectiveness as an intermediary factor between the linkage of HRM and performance. Huselid (1995) examined the relationship between HRM competency and HRM effectiveness and between HRM effectiveness and organizational outcomes. He found both relationships positive. Other studies regarding the effect of SHRM is that the performance improvement derived from SHRM employment has not been studied in an inclusive way. Most empirical studies about this relationship apply only limited aspects that reflect the organizational outcome. Organizational outcome actually covers firm’s financial status, market position, operational efficiency and the like.

The present research study attempted to explore SHRM-firm performance relationships, especially through empirical investigations on the mediation and moderation effects so as to deepen the understanding about the variations related to linkages that impact the effect of SHRM on firm performance.

1.17 BARRIERS TO STRATEGIC HUMAN RESOURCE MANAGEMENT

Logically and intuitively speaking, the term strategic human resource management has a sense of purpose for organizational sustainability in the international business context. A large number of organizations have difficulty in following strategic approach route to human resource management. It is because of a number of reasons. The first barrier to strategic human resource management practice is that most firms resort to a short term mentality and focus on current performance only.

The performance management system and compensation management in the firms tend to be based on present performance. Many multi-national corporations measure their performance on quarterly basis. Several consecutive quarters often resulted in negative results hence, the management of the multi-national corporations resorted to concentrating on short-term performances in place of long term performances. This hinders the long-term strategic approach towards human resource management.

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A second barrier in regard to strategic human resource management practice is that many HR professionals are unable to comprehend strategically because of their fragmented view of the overall business of the firm. This is similar to eight blind people touching the different parts of an elephant and arriving at conclusions ignoring the totality of the elephant. Human resource management is a complex and ever-changing function. It requires a great amount of technical knowledge.

HR professionals often have insufficient general management training to comprehend the whole organization and the issues and challenges of finance, operation, and marketing sides of the firm. Hence, their ability to think strategically is impaired and their ability to influence colleagues in other departments is limited. If not senior management can appreciate these functional issues and speak the language of these disciplines, they cannot efficiently contribute to the organization in the strategic manner and can influence the managers of other departments in the firm.

A third impediment is that many senior managers lack appreciations for the value of human resources and their ability to contribute to the organizations from a strategic perspective. Many simply understand the traditional function of HR and failed to realize the contributions that human resources can make as a strategic partner. Managers throughout the firm often see the HR function as providing required bureaucracy to their work.

Many HR managers perception of human resource is that it is flexible and rules oriented and that delays their ability to do their jobs although a key function of HR is ensuring comprehension of laws that regulate the employment relationship. Many HR managers see the human resource management function as detracting from their ability to do their jobs because of the perceived additional administrative work required by the human resource management.

A fourth shortfall is that, few functional managers see themselves as HR managers and are concerned more with technical aspect of their areas of responsibility than the

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92 Donald F. Harvey (1988), *Strategic management and Business Policy*, Merril Publishing
human aspect. Irrespective of the function or technical specialty of a manager, any individual who has responsibility for people is an HR manager. Although the CEOs, Chief Financial Officers, Chief Technical Officers might not consider themselves to be HR managers, any individual responsible for the performance of other employees is, in fact, an HR manager. The role of HR professional as a strategic partner involves line managers assuming more responsibilities for everyday operational issues with human resource providing internal support or for employee relation rather than assuming total responsibility for it.

A fifth barrier to strategic human resource management is that the benefits of many HR programs are not qualifying to contribute to strategic goals. The competitive pressures are making the organizations more bottom-line oriented, HR programs may not have any direct quantifiable benefit may be disregarded. Senior HR managers on sustainable basis find assistance toward their resources being allotted to some other programs that have insignificant tangible and measureable benefits.³

One more barrier to strategic human resource management is the fact that, human assets are not owned by the firms and therefore are perceived as higher risk investment than capital assets. In highly competitive industries, key executives are recruited from competitors. There is an incentive to invest less in employees than in technology and information, which are more proprietary, organizations following this mindset fail to realize that it is the people who utilize the technology and information that provide and organization with spectacular performance and a competitive advantage. Investment in these individuals can be more important than investing in technology and information. Not that technology and information are unimportant but at the same time people asset is equally important consideration.

Eventually, strategic human resource management is resisted because of the fact that it includes the change management, which calls for pro-activeness on the part of senior managers. Taking to strategic route, the HR managers have to adapt to drastic changes in work organization, employee hiring, training and developing, measuring performance, paying compensation, maintain industrial relations and so on. People,

³ Meisinger S (2003), Adding competencies, adding value, HR Magazine, p.8
by and large, enjoy their status-quo nature of jobs, particularly older workers and those with less training and skills – firms often find resistance to change initiatives. Such paramount changes can be very risky for those responsible for implementation if such efforts fail.\textsuperscript{94}

A large number of barriers are routed in the culture of the organizations and also the firm’s history, values, philosophy and management practice acting as disincentives for change initiatives. The challenge before the firm is to have HR architecture and HR systems in place that can bring about change initiatives. The above barriers to strategic human resource management are provided on the capsule mode in table 1.5.

\begin{table}
\centering
\caption{Barriers to SHRM - A Glance}
\begin{tabular}{|l|}
\hline
\textbullet Short-Term mentality/focus on current performance \\
\textbullet Inability of HR to think strategically \\
\textbullet Lack of appreciation of what HR can contribute \\
\textbullet Failure to understand General Manager’s Role as an HR Manager \\
\textbullet Difficulty in quantifying many HR outcomes \\
\textbullet Perception of human assets as higher-risk investments \\
\textbullet Incentive for change that might arise \\
\hline
\end{tabular}
\end{table}

(Source: Jeffrey A Mellow (2011), Strategic Human Resource Management pg. 165)

\subsection*{1.18 HR OUTSOURCING}
Outsourcing is the antidote to inward thinking. Just in time human resource management, sell and lease-back human resource programme and do it yourself human resource- all of these phrases characterize how companies manage outsourced HR functions. HR outsourcing is not a fad, and it can enhance the HR value chain as well as support the development of HR as a business partner and strategic contributor to the organization’s goals. HR executives view the process of outsourcing differently from purchasing, procuring, and sub-contracting. In their view, outsourcing occurs when a firm contracts with a vendor to perform an activity

\textsuperscript{94} Dave Ulrich, (1997), \textit{Human resources champions: the Next agenda for adding Value and delivering Results}, Boston, and Harvard Business school Press.
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previously performed by the company. Five competitive forces are driving many companies to outsource some of their HR activities; they are downsizing, rapid growth or decline, decentralization, increased competition and restructuring.95

Strategically, outsourcing provides HR departments with a tool for producing, competitive advantage for the firm. Operationally, many firms are pursuing low-hanging fruit by choosing, for example, to outsource benefits administration with a vendor that provides the latest in automated technology. To the extent that outsourcing decisions is a part of a larger plant to restructure the HR department, refocus HR activities and redeploy HR resources for achieving competitive advantage.96

Strategically, HR outsourcing decisions can potentially be part of a larger pattern of responses designed to deliver hard-to-imitate, hard-to-substitute, value added services that enhance the value and quality of the firm’s product and services. One can find extensive HR outsourcing among some very large companies. It is based on the philosophy that “you outsource when someone else can perform the activity better than you”. HR outsourcing enables executives to cope with time-sensitive issues and competing demands. The expectation that outsourcing will cut costs is consistent with the strategic management view of competitive resource allocation.97

Outsourcing is also used when companies that are operating at full capacity and do not have additional staff to handle increased activity. Outsourcing an HR activity can reduce liability and risk. Outsourcing non-strategic activities permits HR departments to move away from routine administration toward a more strategic role. It reduces the cost. The demerits of outsourcing are that it creates internal politics, disrupts the firm’s culture when vendor becomes a noticeable third party. The guidelines for HR outsourcing are that-manage vendor relationships, monitor and evaluate vendor’s performance. Because outsourcing is often motivated by a need for better service, HR executives should insist on high quality performance by HR vendors. Unlike

employees, vendors do not have to be paid until contracted levels of service quality are provided.  

1.19 SHRM IN INDIA

As global business competition shifts from efficiency to innovation and from enlargement of business to creation of value, management needs to be oriented towards the strategic use of human resources. Strategic human resource management practices increase employee productivity and the ability of firms to achieve their mission. Integrating the use of HR practices in strategic planning process enables an organization to better achieve its goals and objectives in future to manage the operations effectively, it is essential that companies produce business leaders and innovators through SHRM approach. India is a powerful force in today’s global market place. The enlightened companies in India understood the crucial role of adoption of innovation in strategic human resource management.

SHRM is becoming increasingly prevalent in both business and academic literature. In India, it was hypothesized that HR policy and practices is positively related to organizational effectiveness. However, practically no such study has been undertaken in India. What drives the adoption of SHRM in Indian companies is managerial innovation to cope with highly dynamic and complex environment. Managerial innovation is mainly confined to western nations and has not penetrated into many developing countries including India. It is no surprise then that, even lesser research has been conducted in the field of SHRM and its innovative practices in India. There has been very little empirical research to understand how firms, both Indian and Foreign owned adopt managerial innovation and inculcate strategic human resource practices to make organizations more competitive.

SHRM like other organizational functions has been called upon to contribute to new organizational demands and requirements in the face of organizational performance.


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Research has increasingly studied how human resource management can be used to plan the activities strategically and how to effectively manage human resource management. Research has tended to suggest that not only do innovative SHRM practices result in tangible organizational results but assist organizations in developing innovative solutions as the need arises.

India, after decades of protectionism has experienced a revolutionary change. The liberalization of the foreign investment climate in India during the 1990s has facilitated the integration of the Indian economy with the global economy. The presence of foreign multi-national companies heralded the use of strategic human resource management in view of greater turbulence in the product market environment characterized by many unexpected changes, more intense competition, greater requirements for technological sophistication and greater growth potential. Indian organizations in the face of hyper-competition have to cope with the changes of developing a diverse workforce with competitive skill sets. The greater the size of the organization, the greater is the likelihood of adoption of innovative SHRM practices. The greater the financial resources of the organization, the greater are the likelihood of adoption of innovative SHRM practices.

In order to cope with uncertain and competitive environment, in our country, a majority of organizations is undergoing restructuring and that entail the adoption of innovative SHRM practices. It was found that adoption of SHRM practices is difficult and time consuming and it is hypothesized that they will be late in their adoption process. The reason for this can be attributed to the high degree of bureaucracy, red-tapism, high power distance between management and employees.

A common feature of strong culture organizations such as Tata Group, Infosys, BPCL, Clariant, and others in India is the influential role of top management issues and the organizational impact that the leaders in these organizations have on the adoption process of innovative SHRM practice. Recent research has also shown that

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the presence of existing effective or complementary SHRM practices tends to increase the adoption rate of additional high performance HR practices.

Organizations in India and the role of HR department in them are positively correlated with organizational performance. The HR department plays a significant role in the adoption of “Best Practices” within the organization. The more professionally managed is the HR department, the greater is the strategic role of the HR department in terms of ability to identify, develop, manage support resources, the greater is the likelihood of adoption of SHRM practices. The institutional pressures have influenced the Indian firms to go in for strategic human resource management practices in the post liberalization era.

1.20 SHRM LINKAGES AND ORGANIZATIONAL EFFECTIVENESS

The present research programme involves two mainstay linkages; they are horizontal linkage and vertical linkage. These two linkages constitute and form the concept of strategic human resource management. Horizontal linkage or integration or alignment or fit refers to the integration of all human resource functions in a firm to produce HR effectiveness. This horizontal integration is the onus of HR professionals in the organization. This linkage galvanizes the strength of HR department and that augurs well for top management to support HR department. The other important linkage is vertical linkage or vertical fit which refers to integration of HR strategy with corporate strategy.

In the horizontal linkage the emphasis is given to internal consistency of the firm which means at all places and at all times, the competent and willing workforce are discharging their duties to achieve individual, departmental, business, corporate and societal goals and objectives. Again, horizontal linkage produces the desired human capital which serves as competitive edge to play in the game of business strategically in the present competitive environment. Horizontal linkage is to reduce labour cost and enhance the efficiency of human resources of the organization.

The vertical linkage enunciates the significance of integrating HR strategy with business unit’s strategy or corporate strategy. The main purpose of vertical
integration is to see that HR department play the role of “strategic” instead of administrative and advisory. The strategic connotes long-term integrated plans to achieve the pre-determined and well meditated objectives of the corporate.

The present study based on the contemporary practices in horizontal and vertical linkages in 60 Fortune-1000 companies operating on the Indian soil identified 19 independent variables (88 items) and 4 dependent variables (13 items). The impact of linkage is known through organizational effectiveness in terms of financial performance, customer performance, and employee performance of the sample global companies. The casual relationship between independent and dependent variables under the study revealed the relevance, utility, and significance of horizontal and vertical alignment of strategic human resource management. Therefore, the study is novel and justified.