



Strategic Human Resource Management for Competitive Advantage

KEYWORDS

BSC (Balanced Scorecard), SHRM (Strategic Human Resource Management), HIWP (High Involvement Work Processes), ICT (Information Communication Technology), ABC (Activity Based Costing).

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ABSTRACT The framework presented here challenges the business executives to manage human resources strategically as an integral part of the strategic planning process. Business executives should consciously formulate human resource strategies and practices that are linked to and reinforce the broader strategic posture of the organization. The HR function must go beyond delivering services, maintaining records, and auditing. It needs to spend time being a member of the management team, doing strategic HR planning and making contributions to organizational design, strategy development, and strategic change. This article provides a framework for (1) determining the significance of strategic HR management (2) identifying and implementing essential human resource management actions, and (3) challenges and requisites for strategic management (4) usage of the innovative performance measurement metric – the Balanced Scorecard in strategic management and eventually a conclusion is drawn.

Introduction:

Indian economy, after decades of confinement, has experienced a revolutionary change. Liberalization has resulted in sudden and increased levels of competition for Indian organizations from multinational organizations, globalization and internationalization of domestic businesses, unbridled imports, concerns for total quality management, incentives to export, demographic changes in the employee profile, retraining and redeployment of workforce, focus on performance appraisal and performance based incentive systems and rightsizing. Efficiency and effectiveness within the organization, have become imperative for organizations, driven by economic restructuring and competitive forces of the environment. The extensiveness of typology of managerial innovation has centered on western nations and has not diffused to many developing countries and their organizations. The human resources (HR) function is at an inflection point. It must reshape itself to deliver the strategic value that today's business environment demands and refocus its energies to become a change catalyst and leader. HR is in a position to shape corporate culture, spread best practices, and drive enterprise-wide consistency of important shared values and messages. The human resources function is at a crossroads, as new technologies create opportunities for more strategic leadership in the management of human capital and corporate culture, thus commoditizing some of HR's traditional administrative functions. In this information age HR can proactively help drive business results and business transformation and can further the corporation's business goals.

Objectives of the study:

1. To bring out the significance of the strategic role of HR.
2. To present the challenges and requisites for strategic management.
3. To bring out the usage of Balanced Scorecard in strategic management.
4. To present the conclusion of the study.

The Significance of the Strategic Role of Human Resource:

HR has a leadership opportunity toward a more strategic role in an organization. It has a potential as a change catalyst and create a sustainable supply of P/E enhancing talent and support future growth in markets. It is more transaction oriented as it glues together behaviours and expectations. This means HR need to focus on creating a work environment that promotes continuous learning inculcating innovative programs ranging from performance management to talent development. Technology can enhance HR's strategic role by helping

speed cultural change. Certain organizations consist of heterogeneous teams, cultures and processes, so there should be a common DNA across the organization and cross silo communication. The strategic approach to human resource management includes assessing the organization's environment and mission; formulating the organization's business strategy; assessing the human resources requirements based on the intended strategy; comparing the current inventory of human resources in terms of numbers, characteristics, and human resource management practices with respect to the strategic requirements of the organization and its services or product lines; formulating the human resource strategy based on the differences between the assessed requirements and the current inventory; and implementing the appropriate human resource practices to reinforce the strategy and attain competitive advantage.

Literature Review: Traditional HRM versus SHRM

Title	Traditional HRM	SHRM
Responsibility for HR programmes.	Staff personnel	Line managers
Focus of activities	Employee relations – ensuring employee motivation and productivity, compliance with laws	Partnerships between employees and stakeholders.
Role of HR	Reactive and transactional	Proactive and transformational
Initiative for change	Slow, fragmented and not integrated with larger issues	Fast, flexible, systematic and change initiatives implemented in concert with HR systems
Time horizon	Short-term	Consider various time frames as necessary
Control	Bureaucratic control through rules, procedures and policies	Organic control through flexibility and few restrictions on employee behavior possible
Job design	Focus on scientific management – division of labour, independence and specialization	Broad job design, flexibility, teams and groups and cross training

Important Investments	Capital, products, technology and finance	People and their knowledge, skills and abilities
Accountability	Cost centre	Investment Centre

Challenges of Strategic Human Resource:

1. Efficient communication channels through global leadership development program is necessary to confront difficult strategic issues.
2. Building up credibility in the management ranks.
3. Demands of talent-intensive, high attrition rate service business.
4. Aligning the people in the organization with the business strategy.
5. Ensuring consistency across the enterprise and pacing culture change efforts to the organization's capacity.
6. Educating the employees about the tie-in between the HR initiatives and financial outcomes and ensure that majority follow the strategic setup.
7. Quantifying the value-add of strategic HR programs. Areas of e-learning and task automation has to be considered.
8. Metrics for productivity improvements, performance ratings, and retention rates are to be designed.

Characteristics of Strategic Human Resource:

1. System should be combined with a commitment strategy – employee participation, high wages and bonuses or incentives, decentralized decision making, comprehensive training.
2. Careful selection, extensive training, problem solving multi-attribute gain sharing and skill based pay.
3. Tight hiring standards, intensive training, participation encouragement, information share systems, considerable job rotation and contingent compensation.
4. Core practices for high performance: selection, training, communications and reward.
5. Practices reinforce staff retention and regulation of the work-life balance of employees, e.g. family-friendly policies.
6. Differentiators offer broad skills sets to employees in order to respond to greater levels of external change, uncertainty and employee discretion.
7. HIWPs are particularly beneficial (levels of productivity) to firms pursuing a differentiation strategy rather than to cost-reducers.
8. Commitment relates to financial performance, but the relationship was stronger when firms were more committed or dedicated to a strategic position (e.g. cost leadership, differentiation, or innovation).
9. Total Quality Management, self-managed teams to investigate the difference between manufacturing plants and retail.

Requisite Strategic Skill Development and Human Resource Competencies

The relevant strategic skills or core competencies required for a HR professional are need to develop in order to face the emerging challenges in an organization are:

1. Global operating skills: These skills enable him to understand the issues of globalization and how to do business with individuals of diverse background or nationalities.
2. Business and financial savvy: He needs to understand financial reports, business goals, and possess the business

acumen necessary to understand and support the function.

3. Strategic visioning, critical thinking and problem solving skills: As a strategic business partner, he needs the skills to take the lead in contributing to strategy, vision, and critical thinking to gain credibility for the HR function.
4. Ability to use information technology: The HR professional must be well grounded in information communication technology (ICT) and leverage this for business results. ICT is the engine that drives the modern organizations to business success and offers them sustained competitive advantage.
5. Deep HR knowledge: He needs to be well grounded in the theoretical and practical fundamentals of HR to adequately articulate HR practices. He needs to invest more time and resources for training and development.
6. Change management skills: He needs these skills to move the organization to new and more efficient ways of doing business. He needs to show commitment to change management in the organization.
7. Organizational effectiveness skills: These skills enable him to diagnose the effectiveness of the organization as accurately as possible to portray the current and future state of the organization. He can then monitor and correct inefficiencies. A sound business knowledge along with a strong customer orientation and system perspective is essential.

The Balanced Scorecard Approach:

Today strategic management is used as a lever for innovation specifically through the implementation of balanced scorecard approach, a performance management tool which is an innovative and progressive work of Dr. Robert Kaplan and Dr. David Norton. In today's business environment strategy has never been more important. Yet research shows that most companies fail to execute strategy successfully. Behind this abysmal track record lies an undeniable fact: many companies continue to use management processes- top- down, financially driven, and tactical-that were designed to run yesterday's organizations.

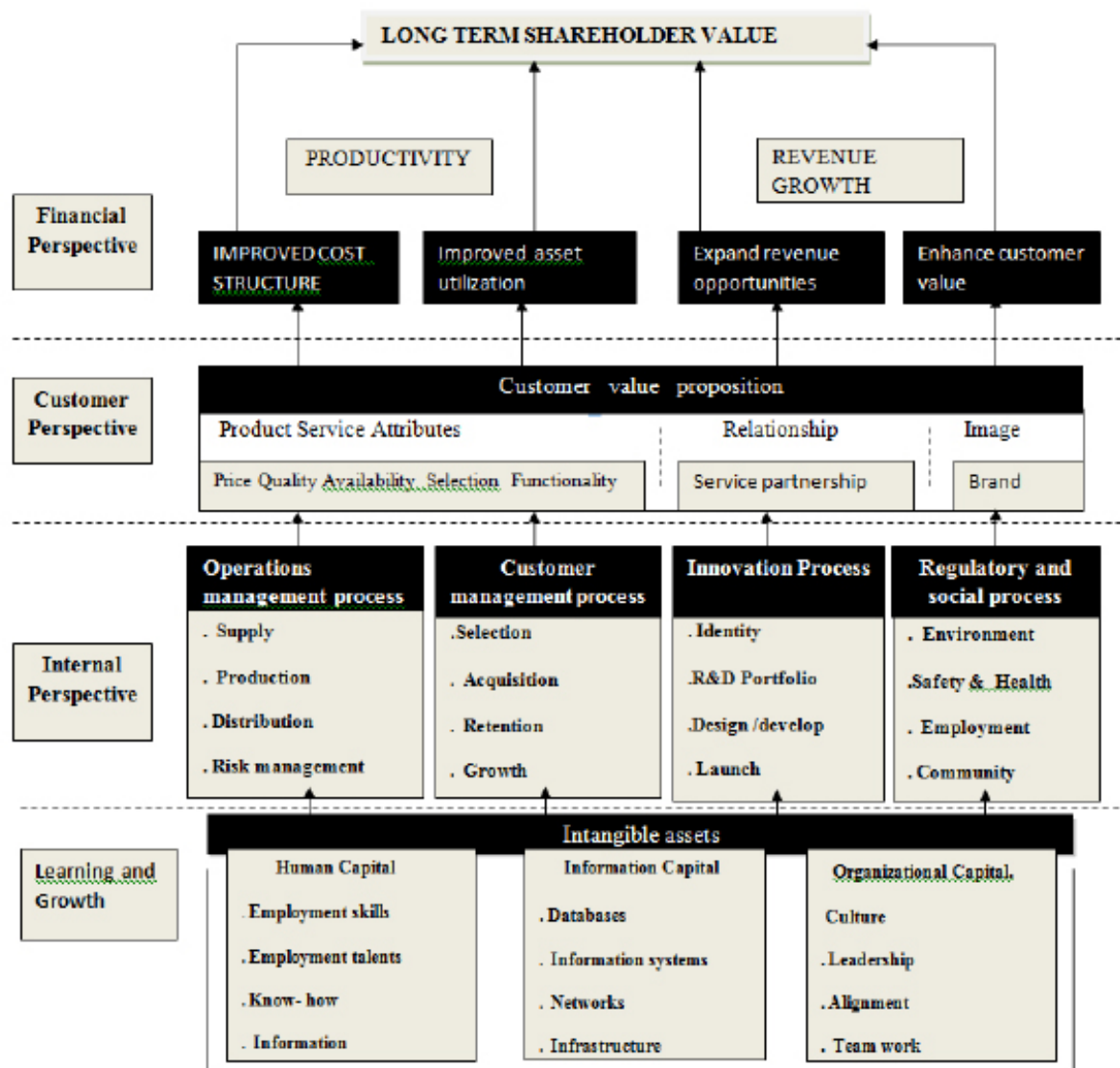
Integration of Strategy Formulation and Implementation

Smart companies are searching for ways to incorporate intangibles – such as quality management, customer retention, research and development and innovation into their regular performance evaluation. Although new concepts and tools have been constantly proposed their potential can be unfolded only if they are translated into concrete strategy. At this juncture the Balanced Scorecard Approach has evolved as not only as a measurement framework, but also as a novel means for translating strategy into action by ensuring that the behaviors of employees at all levels of an organization are aligned with strategy. The perception that balanced metric-based management systems can substantially contribute to the successful integration of strategy formulation, and implementation is not only supported by leading representatives of the scientific community but also by management practitioner surveys. This innovative tool of performance management ties business strategy to human resource strategy. In this context, performance management system serves as the lever for change within the organization, besides aligning strategy with HRM goals and objectives. Now, the creators of the revolutionary performance management tool called Balanced Scorecard introduce a new approach that makes strategy a continuous process owned not just by the top management but by everyone. The users of the balanced scorecard have taken their ground-breaking tool to the next level.

The Strategic Framework of Balanced Scorecard:

The appeal of the BSC is its ability to include both traditional financial metrics and non-financial performance measures and includes four strategic areas which are illustrated in the following strategy map.

STRATEGY MAP



Source: The Trainer's Balanced Scorecard by Ajay M. Pangarker & Teresa Kirkwood

Different Perspectives of the Balanced Scorecard:

The organizations have used the scorecard to create an entirely new performance management framework that puts strategy at the center of key management processes and systems. The balanced Scorecard provided a framework to look at the strategy used for value creation from four different perspectives:

Financial: The strategy for growth, profitability and risk viewed from the perspective of the shareholder

Customer: The strategy for creating value and differentiation from the perspective of the customer.

Internal business processes: The strategic priorities for various business processes, which create customer and shareholder satisfaction.

Learning and Growth The priorities to create a climate that supports organizational change, innovation and growth.

The five principles required for building strategy focused organizations:

1. Translate strategy to the operational terms:

While developing new products or services the companies capitalize on capabilities and assets both tangible and intangible. The strategies so designed have to unleash the capabilities and assets that are hidden within their organizations. There must be a framework for describing and communicating strategy in an insightful and consistent way.

2. Align the organization to the strategy:

Synergy is the overarching goal of organization design. Organizations are traditionally designed around functional specialties such as finance, manufacturing, marketing, sales, engineering and purchase. A framework is necessary to implement strategy in a coordinated manner in order to ensure that the whole exceeds the sum of the parts.

3. Make strategy everyone's everyday job:

Strategy requires the active contributions of everyone in the organization. It is imperative that all employees understand the strategy and conduct their day-to-day business in a way that contributes to the success of that strategy. Like objectives, the complete strategy has to be cascaded through the chain of command.

4. Make a continual process:

Strategy implementation must involve strategy discussions in

the executive agenda. A framework is necessary to manage strategy viz., at three stages linking strategy to the budgeting process, review of strategy and process for learning and adapting strategy. This would enable an organization to tune the strategy to the success of the organization.

5. Mobilize change through effective leadership:

Strategy implementation requires continual attention and focus on the change initiatives and performance against targeted outcomes. Once the organization is mobilized, the focus shifts to governance, with emphasis on team-based approaches to deal with the unstructured nature of the transition to a new performance model. Gradually a strategic management system evolves.

The strategy focused organization helps to solve a universal management problem – not how to formulate strategy, but how to make it work. This innovative approach of balanced scorecard aids for managing the implementation of strategy itself to evolve in response to changes in the company's competitive market and technological environments thus evolving a more comprehensive and integrated set of criteria for judging and guiding corporate and segmental performance.

Wheels of the Balanced Scorecard:

- ◆ BSC helps the companies to clarify and update strategy..
- ◆ BSC can be used to communicate strategy throughout the organization.
- ◆ BSC helps companies to align unit and individual goals with the strategy.
- ◆ BSC links strategic objectives to long-term targets and annual budgets.
- ◆ BSC helps in conducting periodic performance in corporations.

- ◆ BSC provides reviews to learn about and improve strategy.
- ◆ BSC helps in tying financial compensation to performance (incentive compensation).
- ◆ BSC helps in granularizing high-level objectives into tangible and relevant components which is vital in achieving corporate-level results.
- ◆ BSC helps to strengthen the stakeholders relationships to shareholders value creation
- ◆ Activity Based Costing(ABC) identifies cost drivers and BSC identifies the value drivers. BSC is thus used to complement ABC.

Conclusion:

Strategic approach to human resource refers to the relationship between human resource practices and strategic objectives which indicates the long term goals of the organization. With the increasing recognition of the potential of human resources in providing competitive advantage, organizations have begun to consider employees as assets or investments. This view has become more significant in today's knowledge economy that depends on the skill and knowledge of the workforce. From being a routine, administrative and reactive function the HR function today has evolved to being proactive and strategic. The rapidly changing global business environment calls for high knowledge ability on the part of the human resource managers, to function effectively as strategic business partners. The Balanced Scorecard, enables the organizations to achieve a similar consistency of vision and action as they attempt to change direction and introduce new strategies and processes. Building on one of the most revolutionary business ideas of our time, it enables the leaders to shape their own companies to meet the challenges and reap the rewards of a new competitive era.

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