

HRM in Context

Session 2

CIPD Advanced Diploma
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Today's session

- Competitive forces and strategy
- Hyper competition
- Strategy formation
- Strategy evaluation
- Best fit versus best practice HR strategy
- External context – market forces and HR

Competitive strategy

- Environmental conditions – market, competitors, economy
- Strategy seeks to maximise competitive advantage within this environment
- Therefore should seek to maximise strengths minimise weaknesses and make most of opportunities and reduce threats (SWOT)

Competition

- According to Porter (1998) the essence of competitive strategy is relating a company to its business context. It is based on 5 competitive forces
 - Bargaining power of buyers
 - Bargaining power of suppliers
 - Threat of entry to the industry
 - Pressure from substitute products
 - Intensity of rivalry among existing customers

Strategic Approaches

- To cope with Porter's 5 competitive forces, he identifies 3 potential generic strategic approaches to outperforming firms in the industry
 1. Overall cost leadership
 2. Differentiation
 3. Focus on innovation
- Identify and explain your organisation's generic competitive strategy. Justify whether it is appropriate or inappropriate for your organisation. How might its generic strategy be improved?
- Explain Porter's Five Forces model and comment on its usefulness as a tool of competitive analysis. Apply this model to your organisation

Implications for HRM

Business Strategy:

Innovation

Quality Enhancement

Cost Reduction

HRM Contributions?

From Schuler and Jackson (1999)

In a group

- Choose an industry you have some knowledge of and identify an organisation with each strategy
- What do you think are the key HR activities and strategies within each

Responding to the environment

Hyper competition (D'Aveni, 1994)

- Characterised by uncertain markets, diverse global players, rapid technological change, price wars and continual internal reorganisations.
- Hyper competition places special demands on the way organisations organise to survive. The key is flexibility to be able to respond to threats and opportunities in the market

Implications for HR

- HR needs to be run as efficiently as possible which may mean outsourcing and measuring HR outcomes
- Management of change on HR agenda and developing capacity for flexibility
- Skills needed to manage HR aspects of merger and acquisitions
- Knowledge management become more important and complex
- Core HR functions of recruiting, retaining and motivating high performers increasingly important
- Competitive conditions can restrict pay demands and rewards. Need to motivate and engage staff through other means. HR need to elicit discretionary effort from staff
- HR need to ensure they recruit, reward, retain and review talented, resourceful, committed people for organisational and corporate performance

Classical Definition of Strategy

**‘Strategic action should be purposeful,
encompassing the enterprise as a whole and
long term in nature’**

Chandler 1962

Definition of Strategy - 2002

‘The direction and scope of an organisation over the long term which achieves advantage for the organisation through its configuration of resources within a changing environment and to fulfil stakeholder expectations’.

G.Johnson & K.Scholes

Model of Strategy

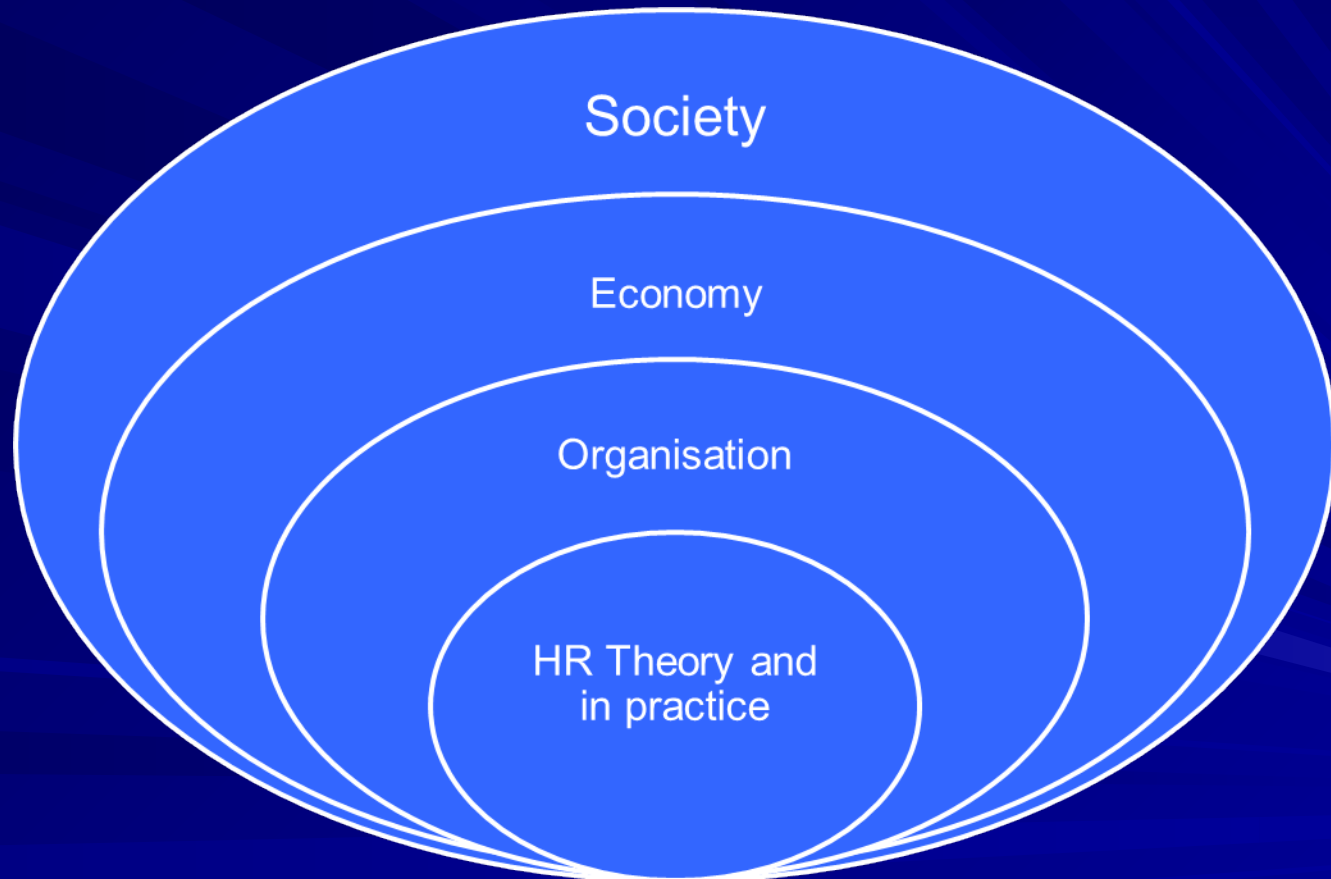
Dimensions:

- 1 Processes - deliberate or emergent?
- 2 Outcomes - profit maximising or pluralistic?
- CLASSICAL (deliberate/profit maximising)
- EVOLUTIONARY (emergent/profit max)
- PROCESSUAL (emergent/pluralistic)
- SYSTEMIC (deliberate/pluralistic)

R. Whittington

What factors have or can affect HR strategy?

■ Circles of influence



Integration of business strategy and HR strategy?

Key Dimensions

- Separation
- Fit
- Dialogue
- Holistic
- HR Driven

D.Torrington (2001)

Current approaches to HR strategy – Inside out versus outside in

■ Wright, Snell and Jacobson (2004)
interview with 20 HR executives about their
HR strategies and examined documents of
these organisations

■ “*We found that
the content, process, and evaluation
of the HR strategies can each be
classified as focusing primarily on
the HR function, the people of the
firm, or the business.*” (Pg 1)

Inside out strategies

■ At the extreme, the *'inside-out' approach begins with the status-quo HR function (in terms of skills, processes, technologies, etc.) and then attempts (with varying levels of success) to identify linkages to the larger business (usually through focusing on "people issues"). Making minor adjustments to HR activities along the way.

Outside In strategies

- On the other hand, a few firms have made a paradigmatic shift to build their HR strategies from the stalling point of the business. Within these "outside-in" HR functions, the starting point is the business, including the customer, competitor, and people issues they face.

Analyse your own organisation

■ Inside out or outside in?

■ Consider the following:

1. Who inputs into overall strategy?
2. How suitable is the strategy for your sectors maturity and product portfolio? (see page 106)
3. How does HR strategy relate to overall strategy?
4. In what terms is HR strategy measured and expressed?

Vertical and Horizontal integration

- **Vertical integration** – links between HRM and wider business strategies / organisation contexts
- **Horizontal integration** – ‘fit’ between different HR policies/practice and the degree to which they support/contradict one another

M.Marchington & A.Wilkinson

Issues with 'Best-Fit' Approach

- **Determinism**
- Clear business strategy ?
- Classical approach to strategy – cascade?
- Contingency still implies one best fit!
- Different parts of business could use different strategies?

Relevance of 'Best Fit' Approach

- As a tool for guidance not a 'recipe'
- Questions the 'Best Practice' approach
- Leads HR professionals to think about contribution to business and 'fit' of new proposals (Legge)

External context

Market forces

Consider how changes in the following factors have affected HRM in practice in the last five years

- Working patterns
- Occupational trends
- Labour markets
- Changes in public sector
- Economic forces

Labour Markets

- National labour market consists of the working population
- External labour market- number of workers available for it
- Highly segmented by occupation, industry, geography, gender, ethnicity and age
- Internal labour markets are arrangements where labour is supplied and demanded within a firm
- Patterns of work and employment have changed significantly since end of WWII

Explain the changes in the occupational and sector structures of the working population in the UK since the late 1970's

Working patterns

- Growth and widespread use of computer technology and web and shift from a manufacturing based economy to a service based economy have encouraged changes in the way people work
 - Move towards non standard work is fuelled by employer pull for more employment flexibility and worker push for a balanced approach to work and family
 - Part time work, temporary working, shift work, total hours worked
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1. Critically examine the reasons for increased employment flexibility that enable an organisation to meet both its organisation needs and that of its employees
 2. Identify and describe types of labour markets that your organisation recruits from

Hour glass occupational structure

- Half new jobs being created are high skill/high pay and other half low skill/low pay
- Goos and Manning (2003) argue:
 - Increasing numbers of people employed in high paid, secure, professional and managerial occupations in finance, private services and parts of public sector
 - Jobs in manufacturing, clerical and admin roles are being exported to eastern Europe, China and India where wages are lower
 - Growing number of higher paid people in UK are using income to buy services not provided from overseas resulting in growing domestic demand for hairdressers, beauticians, restaurant and entertainment sectors
 - Demand for shortage skilled workers eg plumbers, electricians and builders

Do you agree/disagree with the hour glass theory and why?

The Future of work and HR?

- Psychological contract
- Work life balance
- Role of Trade Unions
- Flexible working

Review

- What is dynamic pricing? Give an example
- What is an oligopoly?
- What are Porter's 5 forces?
- What is a 'dog' product and why might an organisation maintain it?
- How does the perfect competition model explain wages?
- Why do you think the share of manufacturing in UK's GDP has fallen?