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Human Resource Management in Context

*Learning Outcome 3 – how organisational and
HR strategies are shaped by and developed in
response to internal and external
environmental factors*

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www.uwtsd.ac.uk

LO2 - Key Points

- Management is basically a power resource in organisations, comprising a hierarchy of those people – managers – who have responsibility for enabling organisations to achieve their organisations and make them work.
- Debates over whether management is a profession.
- Management normally organised by function (Marketing . .).
- Power, authority and influence are the means through which managers manage and attempt to control resources.
- Managerial politics plays a central role in organisational life. Being an effective manager means knowing how and when to use power ethically.
- There are a variety of models of the HR function, with research indicating HRM operates at strategic and operational levels.
- There are many forces shaping the HR agenda – eg labour market.
- Psychological contract – evidence transactional model has superseded relational one and is based on the short-term.

Forces – labour market, patterns of employment, flexibility, employment legislation, public policy.

Schedule for Today

- 1pm – Learning Pair
- 2pm – Strategy/HR Strategy
- 3pm – Break
- 3:30pm – Strategy/HR Strategy
- 4pm – PESTLE activity

What is Strategy?

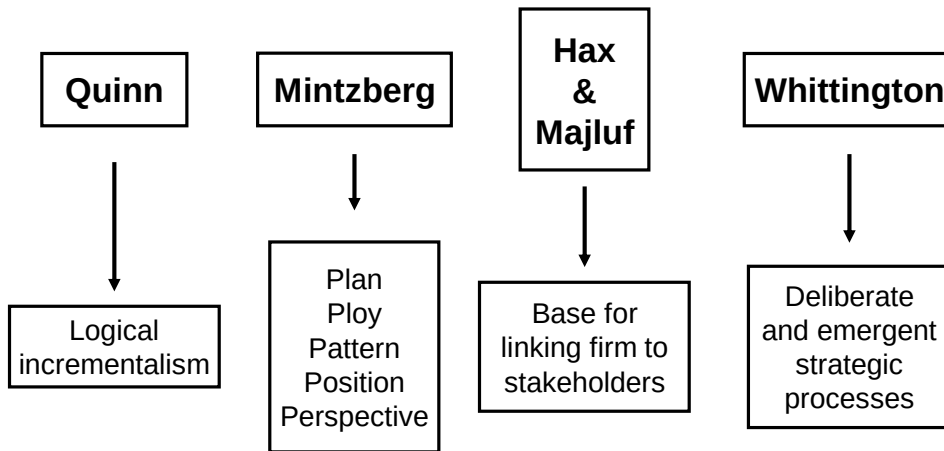
Quinn (1980):

A strategy is the pattern or plan that integrates an organisation's major goals, policies and actions into a coherent whole.

Formal strategies contain 4 main elements:

- Most important goals to be achieved, policy guidelines for action and programmes to accomplish defined goals
- Effective strategies develop around a few key concepts
- They deal with the unpredictable and unknowable
- Organisations have a number of hierarchic and mutually related supporting strategies

LO3 - How would you define the term 'strategy'?



Quinn- derives out of the emergent approach. Strategic management not seen as a formal planning process, but a series of sub-processes by which strategies develop. Logical because it is based on reason; incremental because it is structured on a piece-meal basis.

Mintzberg – describes different definitions of strategy – strategy as a ploy etc. All inter-relate.

Approaches to Formulating Business Strategy

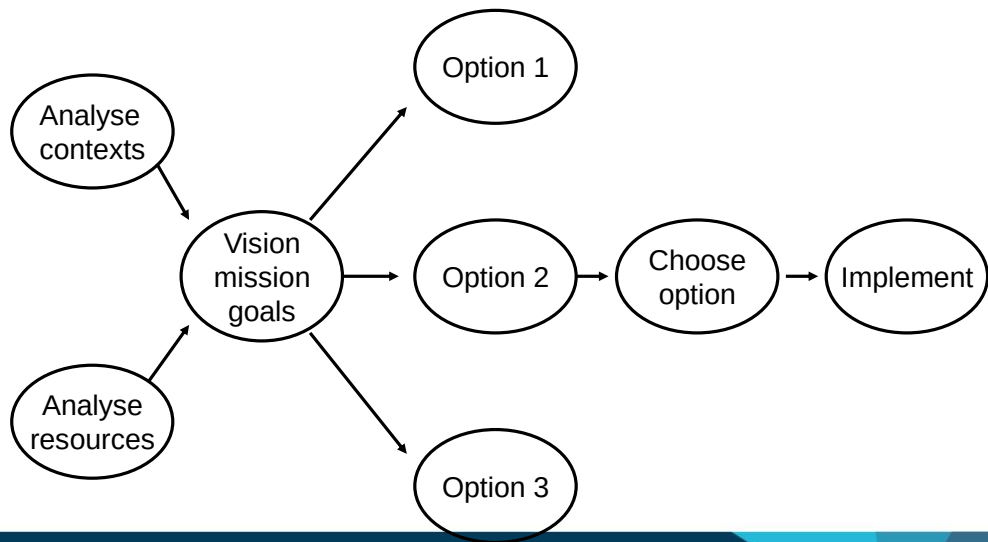
- Rational/Classical
- Emergent/logical incrementalism
- Symbolic/radical

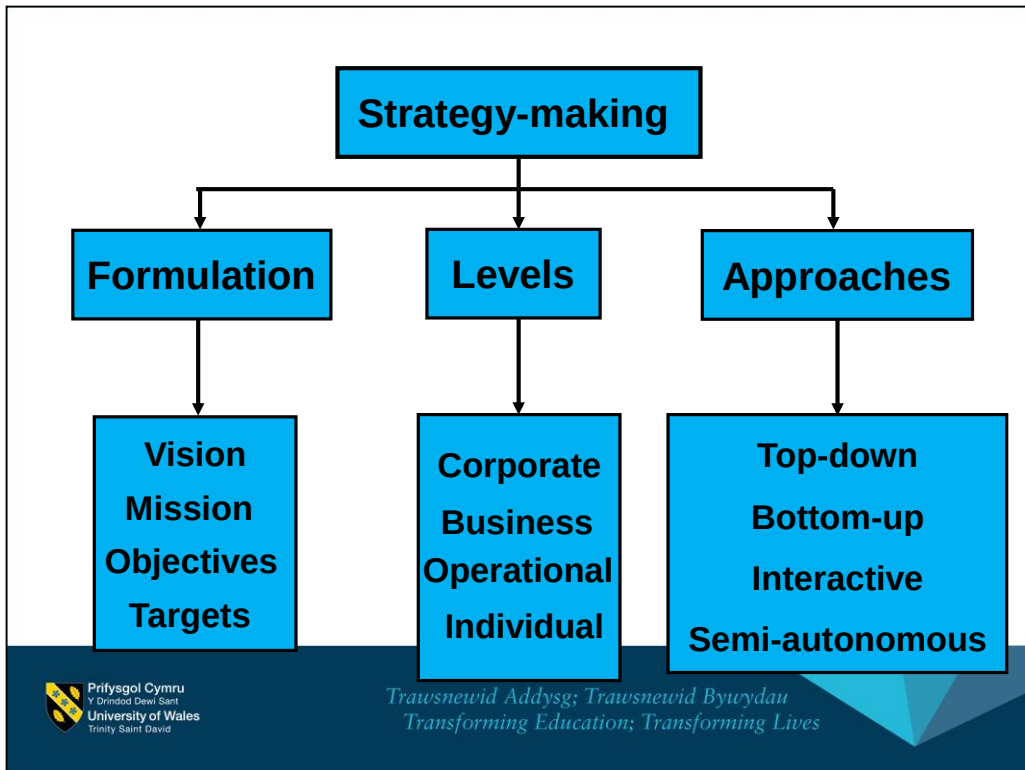
Rational/Classical – senior managers undertake a continual appraisal of both the external and internal environments using tools such as SWOT and use this information to formulate goals, aims or objectives for the organisation. Then gather together resources (raw materials, technology, capital, people). They appraise different strategic courses of action, evaluate them and then make a choice.

Emergent/logical incrementalism – strategy can be influenced by external factors as time goes on which influence its direction (Quinn, 1980 – idea of emergent strategies).

Symbolic/radical – try things first before formulating strategy. A symbolic action designed to give an organisation gravitas and credibility.

The rational approach to strategy





How HR can contribute to formulating organisational strategy

- Participation at different levels (board member, facilitator, adviser)
- Provision of organisational insights and hard information.
- Analysing and interpreting business and performance data.
- Identifying obstacles and risks.
- Preparing position and policy papers
- Communicating with senior, middle managers and staff

(See also – management of change and HR's role – CIPD Factsheet).

Analysing External Factors

- To inform strategy
- To remain competitive
- To ensure sustainable organisational performance

PESTLE Analysis

- A PESTLE analysis is an audit of an organisation's environmental influences, with the purpose of using this information to guide strategic decision-making (CIPD, 2015).

A PESTLE (Political, Economic, Sociological, Technological, Legal, Environmental) analysis is an audit of an organisation's environmental influences, with the purpose of using this information to guide strategic decision-making (CIPD, 2015).

A PESTLE analysis is a useful tool for understanding the 'big picture' of the environment in which an organisation is operating. Specifically a PESTLE analysis is a useful tool for understanding risks associated with market (the need for a product or service) growth or decline, and as such the position, potential and direction for an individual business or organisation.

PESTLE analysis can be used for business and strategic planning, marketing planning, organisational change, business and product development and research reports. It can also be used from a departmental or individual perspective to look at what you deliver, to whom and how you do it.

Video - PESTLE

- <https://www.cipd.co.uk/knowledge/strategy/organisational-development/pestle-analysis-factsheet>

PESTLE

- **Political**
- **Economic**
- **Sociological**
- **Technological**
- **Legal**
- **Environmental**



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Political: what is happening politically in the environment in which you operate, including areas such as tax policy, employment laws, environmental regulations, trade restrictions and reform, tariffs and political stability.

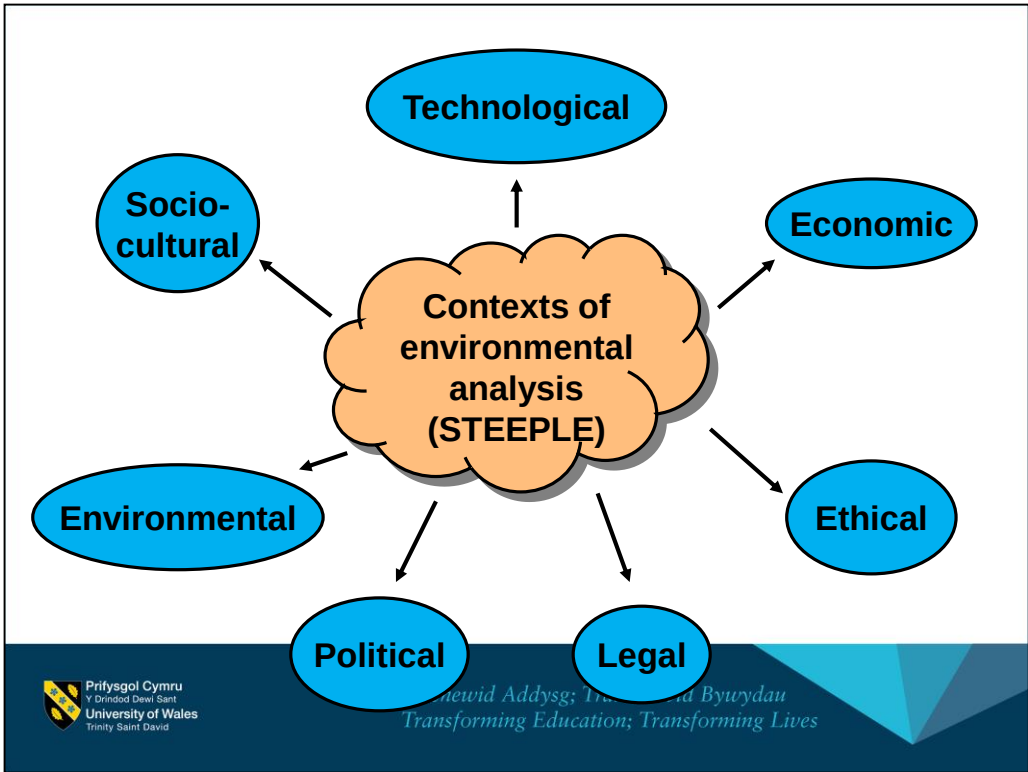
Economic: what is happening within the economy, for example; economic growth/ decline, interest rates, exchange rates and inflation rate, wage rates, minimum wage, working hours, unemployment (local and national), credit availability, cost of living etc.

Sociological: what is occurring socially in the markets in which you operate or expect to operate, cultural norms and expectations, health consciousness, population growth rate, age distribution, career attitudes, emphasis on safety, global warming.

Technological: what is happening technology-wise which can impact what you do, technology is leaping every two years, how will this impact your products or services, things that were not possible five years ago are now mainstream, for example mobile phone technology, Web 2.0, blogs and micro-blogs (Twitter), social networking websites. New technologies are continually being developed and the rate of change itself is increasing. There are also changes to barriers to entry in given markets, and changes to financial decisions like outsourcing and insourcing.

Legal: what is happening with changes to legislation. This may impact employment, access to materials, quotas, resources, imports/ exports, taxation etc.

Environmental: what is happening with respect to ecological and environmental issues. Many of these factors will be economic or social in nature.



Johnson et al (2011) 5 Stage Model

- Stage 1 Audit of environmental influences (use of PESTLE/STEEPLE)
- Stage 2 Assessment of nature of the environment (placid/dynamic/turbulent)
- Stage 3 Identification of KEY environmental factors (eg for the NHS - demographic trends such as ageing population, technological developments in healthcare and government policy such as public-private partnerships)
- Stage 4 Identification of competitive position (use of Porter's Five Forces)
- Stage 5 Identification of the principal opportunities and threats (use of SWOT analysis)

Model for analysing the environment.

Tools

- PESTLE
- STEEPLE
- SWOT – CIPD suggests that opportunities and threats (external environment) will emerge through a STEEPLE analysis while strengths and weaknesses (internal environment) can be analysed through the PRIMO-F framework

PRIMO-F – analysing the internal environment

- **P**eople: what do they do, do they have the skills the organisation needs?
- **R**esources: does the organisation have the right and adequate resources?
- **I**nnovation: are new ideas important to us in all parts of the organisation?
- **M**arketing: how do they know what the organisation does?
- **O**perations: how is all this managed?
- **F**inance: what are the prices, costs and investments?

Porter's Five Forces Analysis - five forces

that determine the competitive intensity and therefore attractiveness (profitability) of an Industry



An Explanation of Porter's Five Forces

[https://youtu.be/ laBZmB09RE](https://youtu.be/laBZmB09RE)

Activity

Part One - Prepare a PESTLE analysis for the NHS, using sources to underpin your points.

Part Two – State the implications for HR Strategy.

For example:

A social trend is the ageing population.

Possible HR implications – need to train staff in elderly patient care; increase number of staff in certain wards; offer flexible working opportunities to encourage older workers into the workforce/retain them;

External Context Trends and Effect on HR Strategy

- Political – UK parliament and devolved assemblies, local government, privatisation, marketisation. Government involvement in labour markets. Need to reward staff to retain them, compete for staff in open labour market. Implications of Brexit.
- Economic – globalisation, downturn to be followed by upturn, demand for skilled workers, less manufacturing more service orientated businesses, EU single market. Free movement of labour, impact on recruitment strategy.
- Socio-Cultural – ageing population, growing population, inequality, trends such a single person household – affect supply and demand for labour, has resulted in demand for flexible working, job mobility, less union involvement, individual orientated HR policies.
- Technological – internet, email, HR databases, Google's search engine, Wikipedia, BBC iplayer, Social Media, medical advances – changing ways people are managed and how long they are in the labour market for.
- Legal – UK, EU law.
- Environmental – sustainability, acting ethically. Moral rules apply to business behaviour. Green HR policies such as teleconferencing over travel.

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PESTLE

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SWOT analysis

- A SWOT analysis is a planning tool used to understand the Strengths, Weaknesses, Opportunities, and Threats involved in a project or in a business. It involves stating the objective of the business or project and identifying the internal and external factors that are either supportive or unfavourable to achieving that objective. SWOT is often used as part of a strategic or business planning process, but can be useful in understanding an organisation or situation and decision-making for all sorts of situations.

SWOT

- **Strengths:** positive tangible and intangible attributes, internal to an organisation and within the organisation's control
- **Weaknesses:** internal factors within an organisation's control that detract from the organisation's ability to attain the desired goal. Which areas might the organisation improve?
- **Opportunities:** external attractive factors that represent the reason for an organisation to exist and develop. What opportunities exist in the environment, which will propel the organisation? Identify them by their 'time frames'.
- **Threats:** external factors beyond the organisation's control which could place the organisation mission or operation at risk. The organisation may benefit by having contingency plans to address them if they should occur. Classify them by their severity and probability of occurrence.

What is HR Strategy?

'A set of ideas, policies and practices which management adopt in order to achieve a people management objective.' (Tyson, 1995)

- Seen as an incremental process rather than a detailed document
- Aimed at influencing practices promoting improved performance and competitive advantage at work

Approaches to Formation of HR Strategy

- Best fit/Contingency
- Best Practice/High Commitment
- Resource Based thinking

Horizontal and Vertical Integration (Best Fit)

- Main characteristic of HR strategy is its integration with business strategy
- HR Strategies need to have external fit with business strategies and be vertically integrated with them
- There needs to be horizontal integration with all aspects of HR strategy (internal fit). HR practices must support each other
- The greater the degree of vertical and horizontal integration within an organisation, the more effective HR strategy will be

For example if you recruit someone as they are self motivated and expect pay for performance, the reward system must be performance related to be effective.

Critics of this approach say it may cause an organisation to be inflexible – for example promoting certain culture which prevents employees adopting different behaviours in response to changing market demands.

Contingency Thinking

For many years managers have used contingency thinking and models to help them align HR strategies with business strategies

Porter's model (1985) – identified three core alternative strategies that firms follow:

- Cost leadership (value for money)
- Differentiation (via quality enhancement or innovation)
- Focus (using cost leadership or differentiation in a niche market)

The kinds of HR policies and practices that need to be in place in order to effectively support the three will be different.

Porter argues that an organisation has a choice of three major strategies to use in order to compete effectively: it can produce goods and services that are cheaper or higher quality or that are more innovative.

There is evidence that hybrid policies work (Amazon – cost leadership and differentiation).

HR policies:

Cost leadership – keep wage bill low. Paying below market rates and managing the implications for morale, retention, recruitment. Or paying above, but requiring high productivity. Tends to be associated with bureaucracy, low levels of involvement and a lack of sophisticated HR practices.

Differentiation – innovation - recruit those with specialist skills and encourage risk taking, share ideas and think creatively. Quality – high pay, genuine involvement, good training and development, consultative management style – to enable employees to meet highest customer expectations.

Other Contingency Models

- Boston Consulting Model (Purcell, 1989)
- Miles and Snow (1978)

These models are effective guides that help HR function to think strategically about their activities and how best to add value but do not take account of variables that may make a different strategic approach more appropriate – for example when there is a tight labour market (Taylor and Woodhams, 2016)

Boston Consulting Model (Purcell, 1989) – suggests how HR practices should vary depending on an organisation's relative market share and whether or not its markets are growing or in decline.

Miles and Snow (1978) – model identifies the appropriate HR practices for different types of competitive strategy – defensive, prospecting or analysing.

Best Practice Model

Whatever the strategy an organisation adopts, the same basic bundles of HR practices need to be adopted to enhance its chances of success (Pfeffer, 1994, Huselid, 1995, Purcell et al 2003).

What are the best practices?

Kew and Stredwick (2016) identified 10 'best practices' as being linked to high levels of employee commitment/involvement:

- Flexibility/team working
- Employee involvement
- Employee voice
- Performance related reward
- Employee ownership
- Sophisticated selection
- Internal promotion
- Employment security
- Commitment to learning
- Harmonisation of terms and conditions



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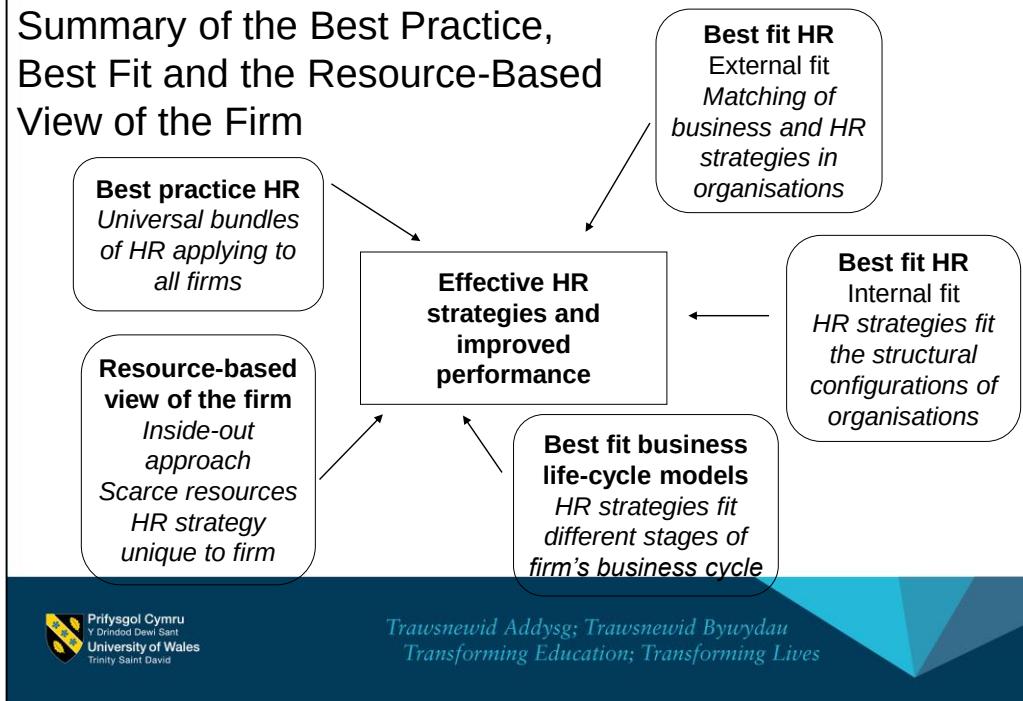
Different studies have identified different practices. This is just one example of possibilities. Others have identified 16 (Pfeffer 1994) and the CIPD 11 that are most likely to be important.

You can see that there is no consensus!

Resource Based Thinking

- 'inside out' thinking (contingency = 'outside-in')
- Starts with audit of existing resources in terms of their key competitive strengths. Examples – certain individuals, culture, knowledge, reputation, skills
- Strategy to protect, enhance and reinforce strengths, in order to build towards sustained competitive strength over time
- Focus on which resources are most valuable, rare, hard to imitate, non-substitutable (Barney, 1991)

Figure 5.2: Main Approaches to HR Strategy: A Summary of the Best Practice, Best Fit and the Resource-Based View of the Firm



Current Approaches to HR Strategy

Main models	Main propositions	Critique of approaches
Best practice	<i>Specific bundles of HR strategy and practice enhances firm's performance irrespective of contingent factors facing it.</i>	• Links to performance unproven • HR bundles costly for firms • Bias toward management interests • Superiority of strategies doubtful • Inconsistency on types and measures of HR bundles
Best fit	<i>Specific HR strategies best suited to firm's specific contexts which produces competitive advantage.</i>	• Overlook/ employee interests, social norms/legal requirements • Approach is unclear and unproven • Conflicting HR strategies • Static and top-down
RBVF	<i>Focuses on internal resources, especially 'human' that are unique source of competitive advantage</i>	• Similarity of resources in sectors • Measurement of performance? • Other variables in linking process • Economic rationale is unrealistic • Does RBVF refer to people or HR practices?

LO 3 - Key Points

- With organisations operating in unstable external contexts those leading them use strategic management techniques in response to uncertainty and market competition
- Effective strategies have 4 elements – goals, cohesion, taking account of the unpredictable and hierarchic levels
- Approaches to formulating strategy – rationalist, emergent and symbolic
- Environmental analysis is used to determine strategic direction
- Tools include PESTLE (STEEPLE), SWOT, PRIMO-F, Porter's 5 Forces
- Main stages of strategy making are formulation, implementation and evaluation
- HR Strategy has evolved over time – Person-Job fit, systemic fit and value creation stages
- Talent management and workforce planning increasingly important
- Vertical and horizontal integration are key concepts in understanding strategic HRM
- Theoretical perspectives of HR strategy include best practice, best fit and RBVF
- There is no single best way of managing organisational success – depends on a range of personal, organisation and circumstantial factors.