

TRANSFORMING HUMAN RESOURCES INTO STRATEGIC ASSETS: DIFFERENTIAL IMPORTANCE OF VARIOUS HR PRACTICES

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Abstract Human Resource Management (HRM) as a function has undergone substantial changes and has evolved tremendously over the past few decades. Primarily it concerns with building processes that ensures optimum and economic use of people's talent in an organization. Standard HR practices (that include recruit, retain and reward) are the tools any HR manager has in his/her hands to deal with people issues in an organization. The aim of this paper is to demonstrate that various HR practices are not equally important, but can have differential impact on the outcomes of organizational objectives, depending on the context provided by the organizational strategy.

Keywords: HRM, Differential Importance, Context Specific Perspective

1. INTRODUCTION

Human Resource Management (HRM) as a function has undergone substantial changes and has evolved tremendously over the past few decades. Primarily it concerns with building processes that ensures optimum and economic use of people's talent in an organisation. It has progressed from earlier being recognised as an administrative function to a time where it is now recognised as a strategic business partner.

The field of HRM is divided into three subareas: micro HRM, strategic HRM, and international HRM (Boxall, Purcell and Wright, 2007).

Micro HRM is the area that deals with various HR systems in the realm of recruit, reward and retention and also includes managing trade unions and labour organisations. Strategic HRM aligns HRM function to the overall strategies of the organisation and tries to measure its impact on the achievement of organisational objectives. International HRM covers HRM in organisations working in different countries (Lengnick – Hall *et al.*, 2009). This paper falls in the area of strategic HRM.

Today's business organisations are facing a very challenging business environment, which is changing and evolving at a rapid pace. To survive in the continuously changing environment, organisations must find ways to become agile and flexible. HRM function is not left behind in this scenario.

An organisation has to respond to challenges around it through its competent human resources.

Standard HR practices are the tools which any HR manager has in his/ her hands. In any HRM function, these include Recruit (selection, induction), Retain (performance management, training and development) and Reward (compensation and benefits). These are the main mechanisms through which any HR manager deals with workplace issues. While facing dynamic business environment, HRM function also has to align itself differentially to the requirements of the business so as to maximise its impact on the performance of overall organisation.

The aim of this paper is to demonstrate conceptually how various HR practices can have differential importance on organisational performance. That is, this paper aims to conceptually demonstrate the view that all HRM practices are not equally important, but are differentially important, depending on the context provided by the organisational strategy.

2. LITERATURE REVIEW

Systematic literature review was conducted in this area. Following papers were identified as being important contributions to the field of context specific HRM practices. Literature review is briefly mentioned in this section.

Table 1: Literature Review

Author	Year	Title of Paper	Source
Miles and Snow	1984	Designing strategic human resource systems	Organisational Dynamics, 13 (1), 36-52.
Schuler and Jackson	1987	Linking competitive strategies with human resource management practices	Academy of Management Executive, 1(3), 207-219
Lengnick-Hall and Lengnick-Hall	1988	Strategic human resources management: A review of the literature and a proposed typology	Academy of Management Review, 13 (3), 454-470
Baird and Meshoulam	1988	Managing two fits of strategic human resource management	Academy of Management Review, 13 (1), 116-128
Jackson, Schuler and Rivero	1989	Organisational characteristics as predictors of personnel practices	Personnel Psychology, 42 (4), 727-786.

3. UNIVERSALISTIC PERSPECTIVE OF HRM PRACTICES

Universalistic perspective of HRM emphasizes the fact that all the HR practices (like recruitment, selection, performance management, compensation etc.) are equally important to an organisation. That is because every organisation needs to develop, recruit and retain workers. It is in this matter one can find profusion of universal statements as if everything can be used anytime, anywhere.

That is, irrespective of the industry and the environmental conditions, certain set of HR practices consistently yield positive results for the firm. Which set of HR practices are universal, has remained a source of debate. Essentially, this position argues that there is no need for fitting HR practices to a particular strategy or a particular organisation context (Delery and Doty, 1996).

4. CONTEXT SPECIFIC HRM PRACTICES

Context specific HRM practices recognise that particular sets of HR practices were likely to yield better performance if they were matched with specific objectives, conditions and strategic interests of the organisation. Strategic HRM looks at HR practices as not constant or not universal. That is, effective HR practices have to evolve depending on the strategy of the firm. These HR practices have to ensure a complementary fit with the strategy of the firm in order to be effective. This approach has been supported in literature (Miles and Snow, 1984; Legnick- Hall and Legnick-Hall, 1988).

5. TRANSFORMING HUMAN RESOURCES INTO STRATEGIC ASSETS

This paper uses the perspective of context specific HRM practices while deriving the conceptual framework for

‘Transforming Human Resources into Strategic Assets’. It is based on the following two premises

- For HRM to be considered as a strategic asset by an organisation, it should significantly contribute to firm’s performance.
- Adopting the contingency perspective of HRM will aid HRM in maximizing its impact on firm’s performance and converting itself into strategic asset.

This paper proposes the view that all HRM practices (like recruitment, selection, performance management, training and development etc.) are not equally important, but they are contingent upon the context provided by the organisational strategy. Organisation and its strategies provide context through which appropriate HR strategies as well as HR activities are derived.

6. CONCEPTUAL MODEL

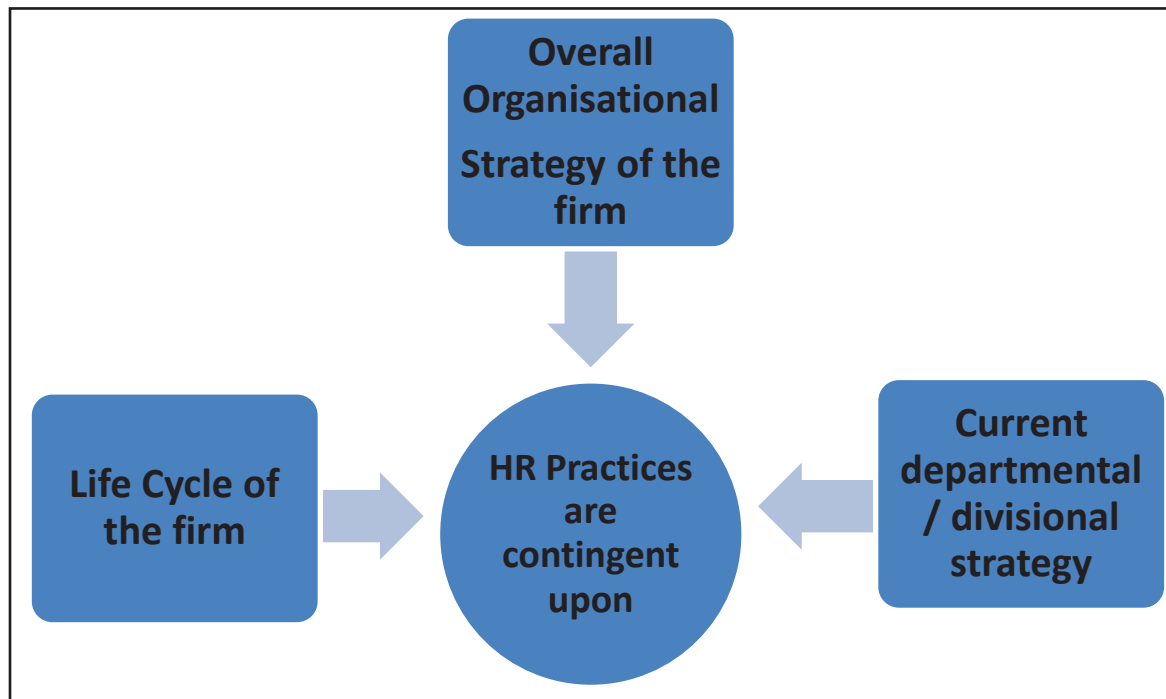
The proposed conceptual model (Figure 1) highlights the key idea of the paper that HR practices can have differential importance in an organisation. This paper takes into consideration three types of context and demonstrates that how HR practices vary in importance according to the each of the context provided by the organisation.

The following section describes how HR practices assume differential importance by discussing each context at a time.

6.1. HR Practices Contingent upon Life Cycle of the Organisation

Each organisation goes through a life cycle – starting from embryonic phase, growth phase, maturity phase and finally decline phase. HR strategies that firm uses depend on the life cycle of the firm. For example, the HR needs of a small, three year old high technology software firm will be different from those of a highly established firm like HLL. The relationship between life cycle of the organisation and HR management activities is profiled in Table 2.

Figure 1: Proposed Conceptual Model for Explaining Context Provided by the Firm for Highlighting Differential Importance of HR Practices



Embryonic: At the embryonic stage a firm has limited resources. However environment of the firm is charged up with excitement. Firm is willing to take risks and wants to establish it. Due to limited resources, monetary compensation offered by firm is often unassuming. It is also unable to afford expensive talent and limited training and development opportunity exists. Thus firm adds individuals to the organisation depending on whether they already have the necessary skills required by the organisation.

Growth: During the growth phase, a firm increases demand for its offerings in the market place. In order to respond to this growing demand, the firm needs to add human resources and also enhance its facilities, productions and marketing functions. Sometimes organisation grows faster than its demand. HRM function of an organisation during its growth phase is much more systematic. There exist standard HR plans and processes in an organisation. In order to attract talented employees to the organisation, wages that are on par with industry average are offered. Career planning and human resource development efforts are initiated in order to provide scope for HR talent and also attempts are made to retain employees.

Shakeouts: In the shakeout stage, firm responds to fast pace of accelerated growth. Rate of growth slows down for many firms. Not all firms continue to exist. Some will be taken over and others will become obsolete. The explosive growth in the Internet businesses and the consolidations of Internet

providers by such firms as Google, Yahoo, Microsoft illustrate how shakeouts occur. HR management in this phase is concerned with cost-control. Cost of compensation is very high. But a focus and emphasis is required to retain high potential and high performing employees. This is done by deploying long and short term measures. The business organisation relies on these high performing employees to ensure that the organisation emerges as a major player following the shakeout.

Maturity: Stability marks this phase. Previous success and growth phase have an impact on the HR function. Presence of formal HR systems and procedures marks the organisation. HRM is systematic and organized. Compensation becomes the favoured mechanism to attract the new tool as well as to retain high performers. HR development efforts are emphasized. Mostly internal staff takes initiative and responsibility for this.

Decline: Indian manufacturing sector can act as an example of decline phase of an organisation. Firms are required to cut the number of employees, shut down business or part of business, and use existing resources to explore new business avenues. The major focus of HR is on cost cutting, and reducing the number of employees. Various retirement schemes are launched. Many employees including trade unions resist these efforts.

Thus if one monitors the life cycle of the organisation and various HR activities, it is apparent that in the startup phase,

Table 2: Industry Life Cycle and HRM Activities

HR activities	Embryonic	Growth	Shakeout	Maturity	Decline
Staffing	Limited jobs exist. Recruit and retain people with necessary capabilities	Jobs are added in the organisation. Growing need for talented people in all fields of organisation	Organisational restructuring takes place. This creates job shifts. Some jobs are enlarged, merged and some are eliminated.	Opportunities are very few. Key performers are retained while letting go of others.	Many jobs are eliminated, very few key performers are required.
Compensation	Modest and low wages. As a retention plan, long term incentives like stock options offered to good employees. Very limited benefits.	Standardized pay practices. Industry competitive pay. Annual compensation incentives and benefits.	Growing compensation expenses. Attempts are initiated to control it. Longer term and short term incentives.	Cost of compensation is very high.	Tight cost control. Sometimes wage reduction. Short term cash and long term stock and scaled back benefits.
HR Development	Very few resources for development of human resources	Increased resources for learning and development. Firm responds to career growth aspirations of employees.	Restock of employee skills and capabilities. Deployment of external and internal resources for training and development. Competency based development takes place.	Extensive focus on developmental programs. Well known external training resources are used.	Outplacement of employees. Helping employees in career transition.

Source: HRM by Mathis and Jackson (2000)

organisation needs talented employees most, but at the same time it is least attractive to external players. Efforts are made to attract good talent to the organisation through offer of stock option based pay. That is employees can be a part of the growth process of the organisation and also get reward from the growth of the organisation. The traditional recruitment gains importance as organisation enters the growth phase. In the maturity and decline stage, effort is to reduce employees while retaining key talent and key jobs.

It is also apparent that compensation practices are also not same during the life cycle of the organisation. An embryonic stage firm for example a startup, cannot offer market competitive pay to employees. Base pay of the embryonic organisation is often modest. Thus it offers talented employees to be a part of the growth process of an organisation. Market competitive pay becomes apparent only at the maturity phase. In the decline stage of an organisation, an attempt is made to reduce compensation related expenses by cutting jobs or by cutting employees or by restructuring their salaries.

Opportunities for HR development are often limited in an embryonic stage firm. Efforts are made to hire employees who have the necessary skills and capabilities. In the growth and maturity phase, organisation makes an effort to recruit employees in large numbers and get them trained to suit the specific needs of the organisation. In the shakeout and decline stage, often HR development activities are considered as expenses.

Thus, as can be seen from the information presented above, the traditional HRM activities of recruit, retain and reward are differentially important during the different life stage of an organisation.

6.2. HR Practices and Fit with the Organisational Strategy

The concept of context specific HRM activities is illustrated in this section by analysing linkage of HRM activities with organisational strategies. This section describes that sometimes HRM function has to align itself with the overall strategy of the firm. The HRM practices and policies then follow the big organisational strategy.

Based on their strategies, business units can be classified as adopting either a “defender” strategy or a “prospector” strategy (Miles and Snow, 1984).

Defender Business Strategy: These business units have established businesses with relatively stable product / service portfolio. They do not prefer to explore new avenues or take the risk of innovation. Defenders tend to be highly formalized and emphasize cost control, and operate in a stable environment.

Prospector Business Strategy: These business units are opposite of business units with defender business strategy. These business units emphasize growth and innovation. They are eager to innovate and identify new products and/or new

Table 3: Linkage of HRM Activities with Organisational Strategy

Strategic HR area	Defender Strategy	Prospector Strategy
Work Flows	Systematic work flow Standard job descriptions Elaborate work planning	Broad perspective Autonomy, creativity valued Overall planning is less rigorous as compared to defender business organisations. Work can evolve
Staffing	Standard job descriptions Hire for specific job responsibilities Hire positions filled through internal promotions Technical qualifications are important	Jobs are defined on broad competencies. External hiring, lateral hiring is done. Emphasis on fit of applicant's attitude with organisational culture. More informal and less formal as compared to defender strategy.
Performance Appraisals	Standardized appraisal processes. One process is used for all. Deployed to control work processes as well as employees. Narrow focus Immediate boss plays crucial role.	Customized appraisals Deployed for developmental purpose. Multipurpose appraisals: appraisals are used to enhance employee performance, identify training gaps and create smooth work flows. Multi-rater (360 degree) appraisals
Training	Training restricted to improve current job skills	Cross functional training to enhance current as well as potential job performance of an employee.
Compensation	Fixed Pay Seniority based pay Centralized pay decisions	Variable Pay Individual based pay Performance based pay Decentralized pay decisions

Source: Managing Human Resources by Gomez Mejia, Balkin and Cardy (2009)

markets. They are prepared to take the risk and acknowledge the fact that some of these efforts might result in the failure.

HRM activities differ in business organisations that follow Defender Strategy vis-a-vis Prospector Strategy.

Table 3 gives the linkage of HRM activities with organisational strategies. It also summarizes orientation of HRM activities of organisations with Defender as well as Prospector strategies.

Defender HR strategies emphasize work flows that allows managerial control and reliability, staffing and separation policies designed to foster long term employee attachment to the firm, performance appraisals focused on managerial control and hierarchy, structured training programs, and compensation policies that emphasize job security.

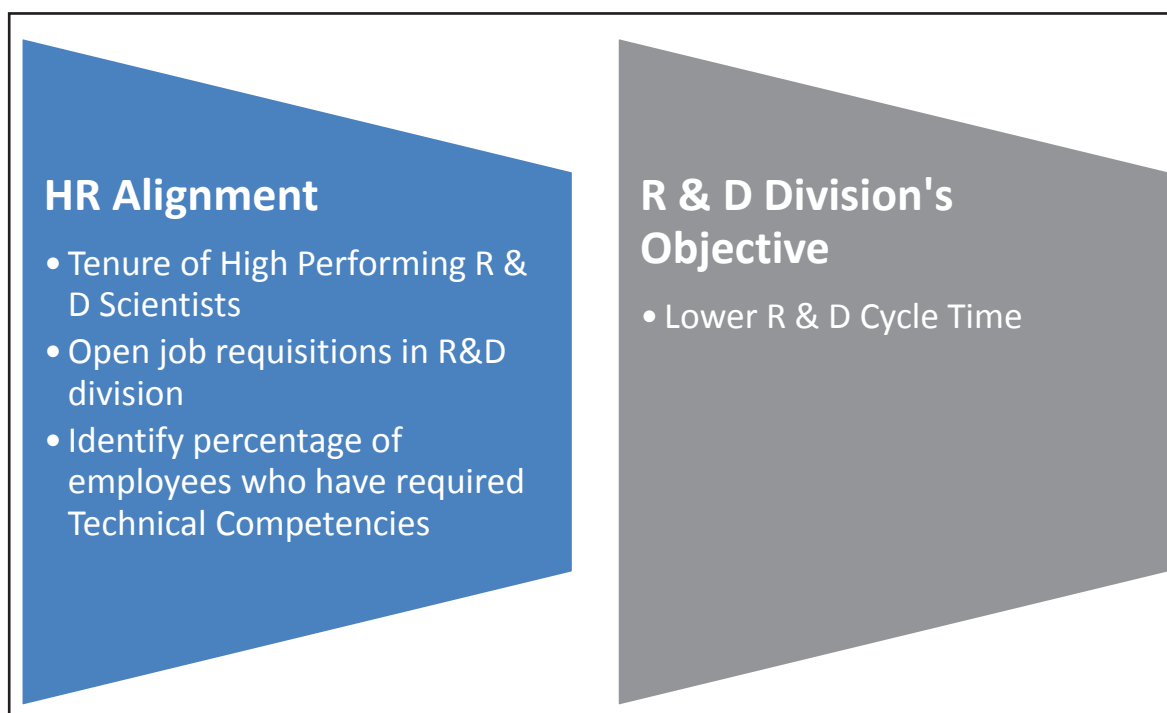
Defenders business units have a standardized internal mechanism for rewarding and promoting employees. These mechanisms are relatively isolated from the uncertainties of the external business situations. That is, irrespective of the market conditions, employees continue to get steady rise in salaries. Employees also are committed to the firm for longer period of time. Employees are sure of job security and most of the promotions are internal, thus employees can advance their careers in single organisation.

Also many defender organisations compete in the market based on cost leadership. Therefore these organisations value efficiency, stability and cost control. HRM in these organisations focus on having standardized jobs and job descriptions, training employees to carryout required jobs, it takes long term view of employee capabilities. HR tends to hire for specific job responsibilities (narrow job descriptions), promotions are internal.

On the contrary, many prospector organisations have differentiation strategy. They compete in the market place based on innovation. Therefore they value growth, innovation and decentralisation. Focus of HR in these firms is short term. Jobs are broader and more flexible. Lot of emphasis is placed on freedom, autonomy and creativity of employees. Jobs get modified according to capabilities of people who occupy them. Recruitment is often from external sources, lateral hiring takes place. Hiring is also done for broad competencies.

The above discussion emphasizes the need to align HR strategy with the organisational strategy. HRM activities that are derived from organisational strategy will be an asset to the organisation and will in turn support achievement of organisational goals. Thus HR function will play to be an important part of organisational strategy. This is the main aim of context specific HRM practices.

Figure 2: Alignment of HRM Practice with R&D Division of a Firm (Adopted and Modified from, the HR Scorecard, by Becker, B.E.; Huselid M.A. & Ulrich D, HBR Press, 2001)



6.3. HRM Practices and Current Divisional / Departmental Strategy

Sections discussed above, identified broad context that HRM function needs to get aligned to in order to have maximum impact on firm performance. This section describes the fact that sometimes HR has to get aligned to specific business objectives of a department or division in an organisation and devise (or select) a HR strategy that will help the division / department achieve its business objective. This is illustrated in Figure 2.

Thus as has been depicted in the Figure 2, imagine an R&D Division of an organisation. The primary business objective of R&D division is to reduce R&D cycle time. The HRM function can support this objective by focussing primarily on stability of high performing R&D scientists. HRM function can devise above market compensation strategies, alternatively, it can also work out attractive benefits package for these scientists. This might ensure that high performing R&D scientists would like to stay with the current organisation. Another primary focus of HRM to support R&D division's main objectives would be to identify percentage of employees of R&D division, who have requisite technical competencies. It can ensure through training and development measures to enhance technical competency of R&D staff. Another way for HRM to help

achieve R&D department its objective would be to see that adequate staff is available in this department. This can be done by checking whether there are any open job requisitions in R&D department.

Thus, HRM function has to identify from its set of standard practices that can have maximum impact on a department / division, depending on the primary business objective of that department / division.

7. SUMMARY

It can be seen that this paper, conceptually, demonstrates the idea that all HRM practices are not equally important. Rather, they are differentially important. Effective HRM practices can be understood as practices that have tangible and substantial impact on firm's performance. These effective HRM practices are not universal but rather are contingent upon the context provided by the organisation.

These two perspectives namely universalistic versus context specific HRM provide competing frameworks to understand strategic human resource management in an organisation. They are not necessarily mutually exclusive (Boxall and Purcell, 2008). In other words universal "best practices" provide a solid foundation of strategic human resource management activities, but to achieve a higher level of performance contingent factors should be considered.

Organisation and its strategies provide context through which appropriate HR strategies as well as HR activities are derived. Three different types of context are discussed in the paper. First, by taking example of how HR strategies and activities vary with the life cycle of the organisation; Second, how HR strategies vary with the organisational strategy (namely prospector and defender); and third, by demonstrating how HR activities can be aligned with specific divisional objectives. This alignment of HRM helps it to have maximum impact on organisational strategy and thereby provides a chance to transform itself into strategic asset of the organisation.

The three examples of context (life cycle, organisational strategy, and divisional strategy) provided in the paper are not exhaustive. Instead, they have been used only as examples to demonstrate the concept of context specific HRM practices which in turn highlights the differential importance of various HRM practices.

As has been pointed out in the earlier section, organisations need to adapt themselves with the dynamic, competitive and ever changing business environment. Thus all the internal functions of organisations are under constant pressure to change and align them with the ever evolving organisational strategy. HRM function is not left behind in this. In order to get considered as a strategic asset by organisation; HRM has to demonstrate that it contributes substantially towards achieving organisational objectives. Context specific HRM practices can be used by any HRM function to achieve this. Thus, depending on the context provided by the organisation, HRM can choose activities that are aligned with organisational strategies and transform itself into strategic assets.

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