Strategic Management

Strategic management involves positioning the organization for the future—deciding where and what the organization will be in the future and making the decisions in the present that this future requires. The future can be 18 months, three years, five years, or even longer for particularly audacious and complex goals.

Traditionally, strategic management includes four phases, as shown in Figure 1.
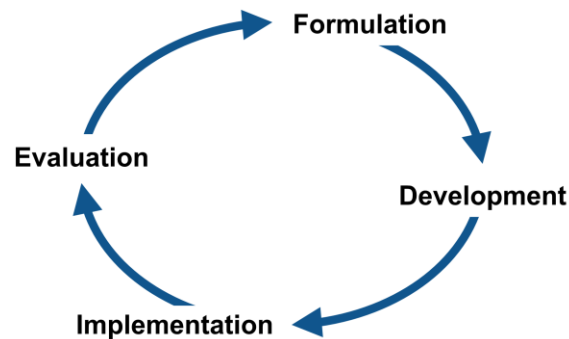

Figure 1: Strategic Management Process

The planning process is usually shown as a cycle that is repeated periodically. Ideally, the organization can capture its experience and build on that in the period covered by the next strategic plan.

We will discuss these phases first from an organizational perspective and then examine how HR is involved in creating the organizational strategy and how it develops its own functional strategy.

During formulation, those planning strategy—let's call them the strategists—gather and analyze internal and external information to determine the organization's current position and capabilities, opportunities, and constraints. The outcome of formulation for the organization as a whole is a set of strategic statements that describe the organization's mission, vision, goals, and values. These statements may be formal or informal, written or implicit in leaders' actions. Whatever form they take, they provide a direction for the strategies that will be developed in the next phase of planning.

During the development phase, organizational strategies will be selected. As discussed in Section 3 in this Functional Area, these strategies will consider how

the organization will compete in its industry (its competitive advantage) and where it will compete (the markets and industries in which it chooses to compete). Based on these strategies, business units and functions, including HR, will develop their own strategies and examine their own readiness to implement the organizational and functional strategies.

During implementation, strategies are translated into specific action plans and resources are allocated by strategic priority. HR leaders may propose allocation of resources to new initiatives. Specific performance objectives are established for use during the final phase, evaluation. Strategic decisions are communicated with the entire organization. As plans are implemented, HR managers communicate goals and objectives to the HR team. They support performance by providing necessary guidance, resources, and interventions (e.g., conflict management). They communicate with internal customers to make sure that expectations are being met and to identify emerging needs as other functions implement their own strategies. Leaders track value-oriented performance results and use of resources and maintain strategic focus.

During evaluation, performance data is analyzed against agreed metrics. The success of the strategic initiatives is reported to management, who may opt to persist with, adjust, or shift the strategic plan.

The model suggests neatness and linearity, but like strategy itself, strategic planning is dynamic. Initiatives are usually evaluated continually, not at the end of the strategic planning period. Based on these evaluations or new information, such as new competitive actions or the appearance of new external risks or constraints, strategists may need to cycle back, gather new information, and adjust the plan accordingly.

Strategic Planning and Management: Critical Success Factors

Organizations that are successful at strategy have mastered certain skills. All of these critical success factors relate directly to the required competencies and responsibilities of HR.

- **Alignment of effort.** Strategic alignment is necessary to maintain organizational focus on a defined mission and goals. As the strategy is progressively elaborated at other levels within the organization—in business divisions and/or functional areas—each unit must examine its plan against the organization's.

Will HR's strategic activities help move the organization toward its goal? Similarly, each time the organization's strategy must be adjusted, the organization must be mindful of the logic behind the original plan and the value of the original goal.

- **Control of drift.** Strategic drift happens when an organization keeps doing what it is used to, perhaps making incremental changes, until it is no longer on track toward its desired destination. When this happens, an organization may have to transform itself and its plans. HR must actively resist satisfaction with the status quo, challenging the strategic effectiveness and efficiency of all its policies and processes and amending them as needed.

- **Focus on core competencies.** Strategic organizations know what they are good at and focus their efforts on where those competencies will have the most effect. Necessary but not core competencies can be outsourced to reliable suppliers. The trick here, however, is to ensure alignment of competencies with the changing environment. In "The Big Lie of Strategic Planning," Roger L. Martin notes that organizations may rely too heavily on strategies that exploit their core competencies without asking whether those are the right core competencies—whether these competencies will fulfill the market's interests. For example, an HR function may have assessed its performance by how it performed its administrative role. In a different environment and with a new strategy, it may need to focus more on employer branding and marketing. Moving from one competency to another requires changes in perspective, knowledge, and technical skills.

- **Systems thinking.** The organization must be seen as composed of interrelated parts. Making changes in one area to achieve strategic goals will most likely require changes in other areas.

- **Structure as a strategic lever.** A strategic lever magnifies the results of an organization's efforts. An organization's structure must be aligned with its strategy. For example, a strategy that requires collaboration and innovation across disciplines and regions will not thrive in an organization with a strong "silo" mentality. HR organizational interventions often include identifying misalignments of structure with strategic activity and offering solutions to redesign structures or support channels for cross-functional or interdivisional collaboration.

- **Culture as a strategic lever.** As Peter Drucker said, "Culture eats strategy for breakfast." As a strategy is managed and implemented, the members of the organization will apply shared experiences, perspectives, expectations, and values to solving problems and making decisions. Therefore, the organization's culture and strategy must be in alignment. Execution may be enhanced or dampened by the **organizational culture**—defined by Edgar Schein as "the basic assumptions and beliefs that are shared by members of an organization, that operate unconsciously and define in a basic 'taken for granted' fashion an organization's view of itself and its environment." If the leaders want to pursue a strategy that requires different behaviors from the organization, then the organization's culture must be transformed. For example, an organization following a strategy that relies on innovation and agility will need a culture that values diversity and change and that encourages individual initiative, problem solving, and decision making. This calls for HR's Consultation competency and expertise in organizational effectiveness and development.

Role of HR in Strategy

HR can have a direct impact on the organization's strategy through its input into the organizational strategic process and through its own strategic initiatives. As you reviewed the preceding section on the critical success factors for strategy, you were probably thinking that there were many points at which HR could contribute to the organization's strategic planning and management—from improving leaders' abilities to manage change to making sure that talent management activities are aligned with critical competencies, both current and future.

Contributing fully will require many of the competencies discussed in the *HR Competencies* module. Wayne Cascio and Herman Aguinis note that strategically focused HR should be adept at:

- **Scanning and sensing changes in the outside environment.** This skill is discussed in the next section, "Strategy Formulation." HR professionals should develop a habit of looking at events in the outside world in terms of how they could influence HR and the organization.

- **Building bridges.** HR needs to build bridges with internal and external stakeholders where interdependencies exist. This demonstrates the ability to think in terms of systems—to see issues from multiple perspectives and to use complementary strengths to help each other toward strategic goals.

- **Developing appropriate strategic responses.** This requires creativity and control: the ability to analyze a challenge, develop innovative responses, and select the best option and the ability to set objectives, motivate a team toward these objectives, and report accomplishments to management.

Relationship Management Competency in Action

The key to the Relationship Management competency is to recognize others as having their own valid needs and agendas. The acceptance of strategic change depends on including internal customers in creating that change, as shown in this example.

The chief human resources officer (CHRO) for a research institute has been asked to develop a new performance management system for the organization. The system will be an important source of information about what technical knowledge and skills reside in the organization and where they are located.

Although the CHRO knows that this HR service focuses on the entire organization, the CHRO is well aware that the key stakeholders here are the lab directors. Their ability to fulfill their unit missions depends on having the right talent for the present and the future. The lab directors need to see how the performance management system will produce the people they need in key positions. So the CHRO and the HR staff working on this project initiate a series of interviews with the lab directors to understand their current and future talent needs more fully and to discuss issues with the current performance management system that can be corrected in the new service.

The CHRO has demonstrated an awareness of the organization and its constituents' individual needs and has taken steps to make sure that HR is providing the necessary service and support.

HR and Value, the Value Chain, and Stakeholder Theory

The concepts of value, the value chain, and stakeholders in organizations are discussed in the *HR Competencies* module. They apply on the HR level as well. HR must be aware of what value it creates, how it creates value, and what interests affect and are affected by HR activities.

HR's unique cross-functional (and possibly global) perspective of the organization's most critical asset—its workforce—equips HR leaders to create value by consulting and advising on aligning workforce assets with strategy demands. HR can help identify performance and organizational and global culture gaps and plan ways to bridge them.

The HR function can also apply value chain analysis to its own business, identifying its cost centers, the source of the critical value HR produces, its core competencies, and activities that may be candidates for outsourcing, such as benefits management and administration.

> The key value that global HR contributes to the value chain is the quality and availability of "pivotal talent pools," those employees whose skills are critical to the organization's strategy (John Boudreau and Peter Ramstad, "Talentship and the New Paradigm for Human Resource Management"). HR protects value when it manages labor supply to support optimal productivity. It enhances value through its leader and performance development processes. It can add value when it acquires strategically important new areas of talent.

HR strategists also analyze their own stakeholders to understand their needs:

- **Customers.** Customers include:
  - Senior management who need HR data on workforce capabilities and costs and HR expertise in identifying and managing risks related to human resources, acquiring and retaining talent, developing talent pools, managing relations with third parties (e.g., unions and works councils, workforce suppliers), and aligning workforce size and skills to achieve organizational effectiveness and efficiency.
  - Boards of directors who rely on HR to attract senior management talent, support succession plans, develop competitive and compliant compensation plans, and support the organization's ethical environment and governance system.
  - Functional leaders who rely on HR for support in staffing, development, and employee relations.
  - Employees of the organization and the HR function who are seeking compensation and benefits, safe and healthful workplaces, opportunities for career development, and support for workplace issues. Different employee groups may have unique needs, such as work flexibility, support for diversity, opportunities to affect society and the environment, and so on.

- **Suppliers.** Suppliers include short- and long-term staffing suppliers, vendors providing or managing benefits, or internal functions like IT that provide necessary support.

- **Communities, institutions, and government agencies.** As part of its portfolio HR develops and maintains relationships with groups within the community, such as educational institutions that develop future talent and workers or partners in corporate social responsibility programs. It monitors the expectations of government agencies and fulfills its legal and regulatory obligations (e.g., compliance with employment laws and laws on visas and workplace safety).

Leadership and Navigation Competency in Action

The Leadership and Navigation competency means that an HR professional must be ready to steer the HR function toward the strategic goals that senior management has set. But the "leadership" part of this competency obligates HR professionals to speak up to make sure that the organization has chosen the best strategic goals. Consider this example.

A satellite communications firm is approaching renegotiation of the labor contract with workers who perform highly technical assembly and testing work.

Senior management is primarily composed of engineers who have risen through the managerial ranks. They tend to see the union workers as less-skilled and less-critical participants in producing the firm's value. Management appears willing to implement a harsh labor strategy that the CHRO knows may lead to work stoppages.

The CHRO is attending a strategy session and listens carefully to the positions of those in the room. Asked what HR will do to implement the strategy, the CHRO says that HR will, of course, do what it can to support whatever strategy is decided. However, the CHRO points out that management's perception of the value of the union workers is not accurate. Although they are not engineers, it would not be easy to replace them. The union will not be as ready to concede as management assumes. The CHRO recommends developing and analyzing potential contracts in preparation for contract negotiations and adopting a more win-win approach.

The CHRO has demonstrated the Leadership and Navigation competency by showing the courage to challenge management when intended actions may harm the organization.