

3

Strategic management and strategic human resource management



Learning objectives

By the end of this chapter, you should be able to:

- define and evaluate the concepts of 'strategy', 'strategic management', and 'competitive advantage', and appreciate the contribution that strategy can make to performance;
- evaluate the origins of strategy and how perspectives on strategy have changed over time;
- evaluate the classical perspective on strategy and how it differs from alternative views;
- explain different levels of strategy within an organization and their implications for human resource management (HRM);
- critically evaluate the link between strategy and HRM.



Key concepts

- Strategy
- Strategic management
- Competitive advantage
- Strategic alignment

3.1 Introduction

Grant (2010) made an important distinction between business strategy and competitive strategy. *Business strategy* sets out an organization's strategic scope or direction—essentially, the markets in which it wants to compete—and it is important to note that business strategy is often referred to as 'corporate strategy'. *Competitive strategy* is about *how* an organization will compete in those markets:

A company's competitive strategy provides a kind of template for day-to-day business decisions but is not itself subject to short-term alteration . . . the template provides a framework for engaging in the market and guiding operational decisions. It sets forward a view on how best to compete over the next three, five, or even ten years.

(Cappelli et al., 2010: 118)

The concept of 'strategy' is central to human resource management (HRM), because HRM policies and practices cannot be understood in isolation from the wider strategic objectives of the business. Strategy is a multidimensional concept, and it can be both planned and emergent in organizations. *Planned strategy* is developed based on a well-structured process consisting of two separate steps: first, goals are deduced from a vision and then a strategy is planned; and second, the strategy is implemented through the organization so as to achieve these goals (Neugebauer et al., 2016). In contrast, the concept of *emergent strategy* refers to strategy that emerges out of practices within an organization in a bottom-up or undirected way. To this end, strategic decision making is viewed as an ongoing and rather inductive change process (Hendry, 2000; Regnér, 2003).

Strategy is an organization's response to the wider environment, as well as to a range of stakeholder interests. Increasingly, strategy is about more than maximizing the financial returns of shareholders; it must now engage with the interests of customers, communities, the environment, and employees.

This chapter examines some of the debates that surround the concepts of strategy and **strategic management**, and their relationship with HRM. We first consider the concepts of strategy and strategic management, and explain their origins and how perspectives of strategy have changed over time. We then consider issues associated with strategy, indicating levels of strategy and different perspectives on the strategic process. We move on to questions of how strategy is related to HRM and the concept of **strategic alignment**.

3.2 Strategy, strategic management, and competitive advantage

The concepts of 'strategy', 'strategic management', and 'competitive advantage' are frequently used interchangeably. However, they are conceptually different.



Key concepts

- **Strategy** can be defined as a plan that integrates an organization's vision, mission, goals, and objectives, and determines how resources will be used.
- **Strategic management** consists of a set of managerial decisions and actions that influence long-run organizational performance.
- **Competitive advantage** consists of advantages derived from unique organizational capabilities that contribute to maximizing returns for shareholders.

3.2.1 Strategy

Definitions of strategy typically emphasize the achievement of goals through the allocation of resources. Traditionally, strategy was conceptualized as a plan, but thinking has shifted to viewing strategy as direction. This latter notion of strategy highlights the imperative for organizations to be flexible and responsive when operating in turbulent business environments. Strategy researchers also make a distinction between strategy as a process and strategy as a set of outcomes. Table 3.1 reveals this distinction.

Table 3.1 What is strategy?

Processes	Outcomes
Guiding the evolution of an organization	Delivering services or products
Making choices about the nature and direction of an organization	Creating sustained value for shareholders and other stakeholders
Making decisions about the allocation and development of resources	Sustaining competitive advantage
Responding to the changing conditions posed by the external environment and internal capabilities	

Sources: Kaplan and Norton (2004); Haberberg and Rieple (2008); Koch (2011)

An interesting counterpoint to academic definitions was provided by Jack Welch, General Electric's famous former chief executive officer (CEO):

Look, what is strategy but resource allocation? When you strip away all the noise, that's what it comes down to. Strategy means making clear-cut choices about how to compete. You cannot be everything to everybody, no matter what the size of your business or how deep its pockets.

(Welch, 2005: 169)

Insights from strategic leaders are important because they help us to better understand the *practice* of strategy. In large, complex organizations, CEOs have a significant influence on strategy (Porter and Nohria, 2010). Indeed, the CEO has been described as the *guardian* of strategy (Tappin and Cave, 2010).

3.2.2 Strategic management

Strategic management is conceptualized as an organizational process that enables an organization to convert strategic intent into strategic actions. Figure 3.1 presents the typical sequence of activities. Strategic management is typically conceptualized as a cycle on which a variety of activities follow and feed into each other. Most models envisage five stages, or steps, in the process.

The five stages illustrated in Figure 3.1 consist of the following elements.

Step 1 Mission and goals

The first step in the process focuses on senior managers articulating the organization's mission, vision, and goals. The mission and vision convey an organization's core values and aspirations. It specifies the direction that senior management would take to achieve strategic goals (Daft and Noe, 2000). These elements are used by CEOs to inspire employees to realize strategy.

Mission and vision statements range from the succinct (for example UK retailer Morrison: 'To be the food specialist for everyone') to the more verbose (for example US computer

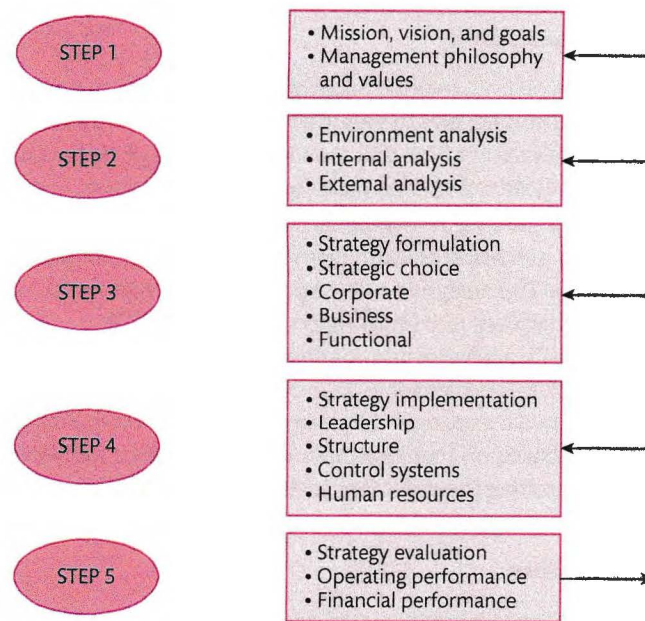


Figure 3.1 The strategic management model

company Dell: 'Our future will take us from the desktop, to the data centre, to the cloud and into the hands of billions of potential new customers who are carrying the Internet—essentially the world—with them everywhere they go'). In turn, the mission statement is an articulation of the strategic goals and organizational values that underpin the vision. For instance, a strategic goal of Google is 'to provide the best user experience possible'. This contrasts with the strategic goal of the Vietnamese shipbuilder VinaShin, which is 'to make Vietnam the world's fourth largest shipbuilder by the year 2018' (Hayton, 2010). This identification with national success reflects the extent to which state-owned enterprises (SOEs) in the developing Asian economies operate a different business model from their Western business counterparts. In terms of values, Finland's Nokia is a typical example: the firm seeks to 'focus on our customer; communicate openly; inspire; innovate; and, win together' (Steinbock, 2010).

Vision and mission statements are most effective when they are expressed clearly and simply (Levis, 2009). For instance, Sunil Mittal's vision for Indian company Airtel is as 'the provider of very low-cost telecommunication services to a very large population of customers' (Cappelli et al., 2010). This captures the two principal features of India's rapid economic growth in recent years: the success of low-cost business models, coupled with the huge potential of India's domestic market as more and more people are lifted out of poverty and join the country's expanding middle classes. Levis (2009) added that vision and mission statements are also more effective when they focus on something that is wrong with, or missing from, existing markets. However, as Hamel and Prahalad (1996: 117) warned, 'not only must the future be imagined, it must be built'. Consequently, the principal purpose of strategic management is to *build* an organization's strategy using the vision and mission statements as the underlying foundation.

Step 2 Environmental analysis

The second stage focuses on both internal organizational strengths and weaknesses, and external environment opportunities and threats. Data from external and internal environments can be analysed to provide information that then informs strategic decisions about business and competitive strategy. External sources include economic forecasts, market trends, technological changes, labour market, demographic trends, and government initiatives. Internal sources include business processes, performance metrics, staffing (and skills) levels, financial data, and attitude surveys. This analysis is not the preserve of a single function, although marketing usually plays an important role (Brassington and Pettitt, 2003).

A particular problem with analysing information for strategic decision making is 'bounded rationality' (Simon, 1985). It is not possible to know everything about the external environment, although it is assumed that people will always choose the best course of action and will make rational decisions based on that information. But any search for information is inevitably incomplete, thus resulting in satisfactory rather than optimal decisions (Simon, 1985).

Step 3 Strategy formulation

The strategy formulation stage is composed of **evaluation** of the internal and external context and the making of strategic choices to realize organizational goals. This involves choices about what the strategy should be (that is, business strategy) and how it should be achieved (that is, competitive strategy). Freedman (2003: 2) defined strategy as the 'framework of choices that determine the nature and direction of an organisation'. From a business perspective, it is about 'winning' (Grant, 2010: 4). The latter reflects the competitive nature of global markets.

It is critical that the organization's sources of competitive advantage are correctly identified. Ulrich and Brockbank (2005a) provided several examples of these, including: innovating new products and services (for example Intel); quality (for example Toyota); branding (for example Coca-Cola); on-time delivery (for example FedEx); and customer service (for example Virgin Atlantic Airways). These sources of competitive advantage—or, in the case of public and non-profit sectors, performance advantage through the delivery of best value—reflect the core capabilities of an organization.

Some academics have examined whether strategic choice is a rational or political process. The dominant view is that the strategic management process is essentially political, whereby decisions and actions are taken by a group of decision makers who are dominant (McLoughlin and Clarke, 1988).

Step 4 Strategy implementation

The strategy implementation step takes into consideration issues such as strategic leadership, the fit of culture and structure with strategy, the allocation of human resources, and the development of control systems to monitor the implementation of processes. However, as Morgan et al. (2007) pointed out, most strategies fail at the implementation phase, suggesting that it is not possible to plan for every possible contingency. It is during this phase that intended strategies are overtaken by events and replaced with new, emergent strategies.

Step 5 Strategy evaluation

The fifth stage focuses on activities that determine the effectiveness of strategy implementation and whether the performance gains anticipated are realized. Strategy evaluation is a neglected aspect of strategic practice. Many organizations use the **Balanced Scorecard** (Kaplan and Norton, 1996) to measure the effectiveness of their strategies. The Balanced Scorecard is intended to encourage organizations to move away from a short-term reliance on financial measures by focusing on four areas: financial, internal business processes, learning and growth, and the customer (Kaplan and Norton, 2004). India's Tata Steel relies heavily on this approach (Seshadri and Tripathy, 2006), while Wipro, another Indian firm, uses a modified version that is used to link individual performance to six, rather than four, areas (Hamm, 2007).

3.2.3 Competitive advantage

The concept of competitive advantage is considered central to strategic management (Porter, 1996). Michael Porter, in his seminal contribution, argued that competitive advantage is a key determinant of superior performance.

There are different perspectives on competitive advantage. The *market-based view* proposes, for example, that industry factors and external market characteristics are the primary determinant of competitive performance (Porter, 1980a; Bain, 1968). In contrast, the **resource-based view (RBV)** argues that competitive advantage is determined by a firm's internal environment and emphasizes the resources that firms develop to compete in the external environment. Prahalad and Hamel (1990), for example, suggested that an organization's core competencies, which emphasize critical resources and capabilities, are essential to competitive advantage. Barney (1991) also argued that an organization's resources are a primary source of competitive advantage.

A third perspective on competitive advantage, the *knowledge-based view*, considers knowledge to have special characteristics that make it the most important and valuable resource (Grant, 1996). Zack (1999), for example, categorized organizational knowledge into three categories: core knowledge, advanced knowledge, and innovative knowledge.

- *Core knowledge* represents basic knowledge and offers short-term market advantages.
- *Advanced knowledge* provides organizations with knowledge similar to that of its competitors and, like core knowledge, it offers only short-term competitive advantage.
- *Innovative knowledge* provides a firm with competitive advantage over the long term.

The *capabilities-based view* argues that capabilities are the primary source of competitive advantage, with resources the sources of capabilities and a firm able to win a competitive battle only if it possesses more relevant capabilities (Collis, 1991). Such capabilities are viewed as residing within the individual and the primary role of the organization is to apply knowledge rather than to create it (Grant, 1996).

Finally, the *relational view* of competitive advantage suggests that competitive advantage is generated from inter-organizational relationships with external partners. Dyer and Singh (1998), for example, emphasized dyad or network routines and processes that extend beyond the firm's boundaries. These relational sources of competitive advantage are relation-specific

assets, knowledge-sharing routines, complementary resources and capabilities, and effective governance.

Organizations approach the task of achieving competitive advantage in different ways. A common strategy is to be less expensive than competitors. A good example of this is the airline sector and low-cost airlines, such as Ryanair in Europe and Southwest Airlines in the United States. Other strategies include differentiation, innovating new products and/or services, and occasional cost promotions to undercut competitors for short periods—although the latter is proving increasingly ineffective as companies learn how to respond to such deals much more quickly than in the past (Hall, 2008). Much of India's business success has been achieved through competitive advantage based on a combination of low-cost business models and innovation (Kumar et al., 2009a), while multinational corporations (MNCs) are using different strategies to establish and grow businesses in China (see Case studies 3.1 and 3.2).



Case study 3.1 Tata Motors

Over the last 20 years, US car producers have been focusing on trucks and sports utility vehicles (SUVs). This strategic focus derived from analysis of marketing information on consumers and competitors, which indicated that there was less immediate competition in the truck and SUV market segments than in that for conventional cars, and this was seen as an opportunity for the greatest short-term profits. In contrast, India's Tata Motors was moving forward with a strategy focused on small inexpensive cars, even though this was a highly competitive market segment, dominated by Japanese auto makers. The company's aim was to design a small car that would be significantly cheaper to make and buy than any other model, and thus to satisfy India's mass market demand for low-cost transportation. The result was the Nano, with a sales price of 100,000 rupees (US\$2,500), which was half the price of its closest competitor in India. Tata Motors achieved this by designing everything from scratch, deleting features that were taken for granted by other auto makers (for example air conditioning, power brakes, radios), using lightweight steel and an aluminium engine, and building in fuel efficiency of 50 miles to the gallon. The car's other important feature was its modular design, enabling the Nano to be distributed across the country in kit form and assembled by local businesses. The global reaction to the Nano catapulted the Tata Group into sixth place on *Business Week's* list of the world's most innovative firms (behind Apple, Google, Toyota, General Electric, and Microsoft).

Source: Cappelli et al. (2010)

Activity

Compare Tata Motors' approach to competitive advantage with that of a leading car manufacturer in the United States, such as Ford or General Motors. What appears to be the principal difference between the approaches adopted by the two firms?



Case study 3.2 Moving into China

The world's three biggest retailers have adopted different entry and growth strategies.

- Carrefour has expanded aggressively and set up joint ventures in China's provinces.
- Walmart has been more cautious in expanding into the provinces. In 2007, the company paid US\$1 billion for a local chain, Trust Mart, to strengthen its expansion. In 2009, Walmart overtook Carrefour.

- Tesco bided its time before acquiring a 50 per cent stake in the Hymall chain (which was a subsidiary of a Taiwanese company). Tesco took this strategic decision because it viewed it as a way of better understanding China's retail environment—particularly in relation to supply and distribution networks.

Source: Torrens (2010: 10)

Activity

What role does the state play in China's corporate sector and how does this impact on the ability of Western firms to penetrate China's domestic markets?

3.3 The evolution of business strategy

The concept of strategy has a significant history. Its origins can be traced to financial budgeting in the 1950s and 1960s. Organizations, in an effort to achieve more effective managerial control, implemented financial budgeting. These budgets took the form of annual financial plans that incorporated short-term financial controls and facilitated the management of short-term strategy. In response to the limitations of financial budgeting, corporate planning emerged in the early 1960s. This typically took the form of five-year plans articulating goals, objectives, external analysis, and identifying strategies (Payne, 1956; Drucker, 1999). Many organizations established corporate planning departments—but, as the 1970s and early 1980s evolved, both academics and practitioners began to question the utility of corporate plans. The emergence of more competitive and dynamic external environments resulted in a shift away from corporate planning towards strategy formulation. The term 'strategic management' emerged, and led to a focus on competitive analysis and competitive advantage. Michael Porter (1980a) drew attention to the analysis of industry profitability and the role of experience on costs and profits. The predominant focus was on the external environment as a source of competitive advantage.

During the late 1980s and 1990s, attention shifted away from the external environment towards capabilities within the firm. Strategists and academics began to focus on both resources and capabilities as a basis for competitive advantage (Grant, 1991; Collis and Montgomery, 1995). This approach encouraged organizations to consider how they differed from competitors and to select strategies that exploited these differences. Porter (1980a), for example, emphasized that strategy involved a search for difference and the selection of strategies to deliver value.

In the early years of the twenty-first century, few approaches to strategy emerged that represented responses to dynamic and turbulent business environments. In addition, the pursuit of shareholders' value was questioned in light of a global recession and the need to think differently about the purpose of business. This has resulted in a new focus on corporate business strategy and sustainability.

The historical evolution of thinking on strategy is one dominated by Western perspectives. During the 2000s, this dominance was challenged by business models that emerged from countries such as China and India. This trend mirrors changes in the global political context,

with the position of the United States as the sole superpower now being challenged by China (Clegg, 2009). It also reflects the extent to which new MNCs have been emerging over the last decade from developing countries: China's Huawei, in telecommunications equipment; India's Tata Consultancy Services, in information technology (IT) services; Brazil's Embraer, in regional jets; Russia's Gazprom, in energy; and Mexico's Cemex, in cement (Ramamurti, 2009). Although business plans and strategies were not really considered in the start-up phase of many Chinese private enterprises, most of them adopted what was, in effect, a low-cost model (Nie et al., 2009).

The problem for Western MNCs is that they are discovering that what has worked in the West does not necessarily work in countries such as China, which is very different in terms of its business practices and competitiveness, as well as language and culture (Nie et al., 2009; So and Westland, 2010). Said Torrens (2010: 1): 'Many companies have relied on their strategies for developed markets to operate in the country. For most this has failed, and they have been forced to revise plans to take into account the idiosyncrasies of the Chinese market.'

Initially, many of China's leading enterprises adopted a Western-influenced strategy, but they have since grown as a result of emergent indigenous strategies. For instance, the intended strategy for Sina was focused on adapting Yahoo's business model (a diversified approach involving 10–20 services), but over time a new strategy emerged that was based on fewer services (the primary focus being the online aggregation of news—except politics—plus four supplementary services covering lifestyles, finance, entertainment, and sports). It seemed that Chinese consumers preferred this less-diversified approach (So and Westland, 2010). The competitive advantage of Chinese firms is thus largely predicated on an understanding of their own culture with which non-native firms struggle. For example, when US travel firm Expedia acquired a majority shareholding in China's eLong, its model floundered because the firm relied on the Internet as its primary booking system and its payment system relied on consumers having credit cards; Chinese consumers want a call centre option and few have a credit card.

3.4 The classical versus alternative perspectives on strategy

The classical perspective on strategy can be attributed to a number of authors, including Chandler (1962), Rumelt (2011), and Grant (2013). The classical perspective on strategy emphasizes a number of themes, as follows.

- *Long-term direction* Strategy is concerned with establishing a long-term direction that is pursued with commitment and resources.
- *Sustained competitive advantage* Strategy is about achieving sustained competitive advantage. This can be through the development of new products or services, or the provision of better value than competitors. Sustained competitive advantage requires that organizations stay ahead of the game.
- *Scope* Scope focuses on what types of activity the organisation will engage in to remain competitive. It will be reflected in the portfolio of activities that it will maintain to achieve success and ensure higher profit margins.
- *Matching* Matching has as its central focus the alignment of internal resources and capabilities with the external environment to achieve a strong strategic fit. This is

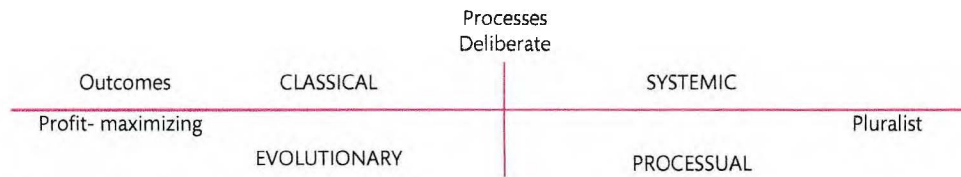


Figure 3.2 Whittington's typology of strategy

Source: Adapted from Whittington, R. (1993) *What is Strategy and Why Does it Matter?*, Routledge.

typically realized by conducting a SWOT analysis (that is, analysis of the organization's strengths and weaknesses, opportunities and threats). Effective strategy formulation requires a detailed understanding of the competitive environment and making systematic approvals of the organizational resources available to meet these environmental contingencies.

- **Operational implementation** Classical strategy models acknowledge that strategic decisions have important operational implications. Operational activities need to be aligned with new strategic goals to realize competitive advantage. The alignment of operational activities also includes consideration of structure, culture, and systems (Grant, 2013).
- **Values and expectations** The values and expectations of organizational decision makers are central to the strategy process. Their interpretations of both external and internal resources will influence the strategic decisions they make.

This 'classical model' is one view of strategy, but not the only one. Whittington (1993) suggested a fourfold typology (see Figure 3.2) that portrays strategy as a more multidimensional concept. The typology is based on two dimensions:

- the extent to which the outcomes of strategy are perceived as profit maximizing or in more pluralistic terms, and
- the extent to which the strategy process is deliberate or emergent.

The four types proposed are as follows.

- **Classical (profit-maximizing, deliberate)** We have already explored this type in detail. However, in the context of the typology, strategy is profit maximizing and deliberate. Within the classical model, the strategic decision-making model is non-political and there is little focus on HR issues because they are viewed as operational.
- **Evolutionary (profit-maximizing, emerging)** Strategy in this scenario is conceptualized as the outcome of market forces. Organizations adapt to the requirements of the environment in an evolutionary way; hence strategies emerge to respond to competitive forces. Therefore the challenge for organizations is to learn how to adapt to changing customer requirements to achieve competitive advantage.
- **Processual (pluralist, emergent)** This perspective emphasizes that strategy emerges through a process of discussion and engagement by managers in conflicts and disagreements about strategy. Quinn (1980) proposed the notion of 'logical incrementalism' whereby strategy emerges in a fragmented and intuitive fashion as a

result of a combination of internal decisions and external context. The processual view also highlights the contradictory nature of organizations in which there are conflicting goals and priorities.

- **Systemic (pluralist, deliberate)** The final perspective argues that strategy is shaped by the social system in which it is embedded and that this influences strategic actors. Whittington (1993) proposed that strategy is culturally bounded and therefore that the notion of a single model of strategy is futile.



Critical reflection

Analyse the competing notions of strategy and consider their implications for strategy practice.

3.5 Levels of strategy, strategy development, and functions of strategy

An important distinction made in the literature concerns different levels of strategy or a hierarchy of strategy.

- **Corporate-level strategy** focuses on the overall direction of a corporation and the business in which it wishes to be. Corporate-level strategy focuses on both positioning and direction. *Strategy as positioning* focuses on the basics of competitive advantage and where the corporation competes. In contrast, *strategy as direction* focuses on what the corporation wants to become and how it will get there. Figure 3.3 illustrates the differences between these two perspectives on corporate strategy.

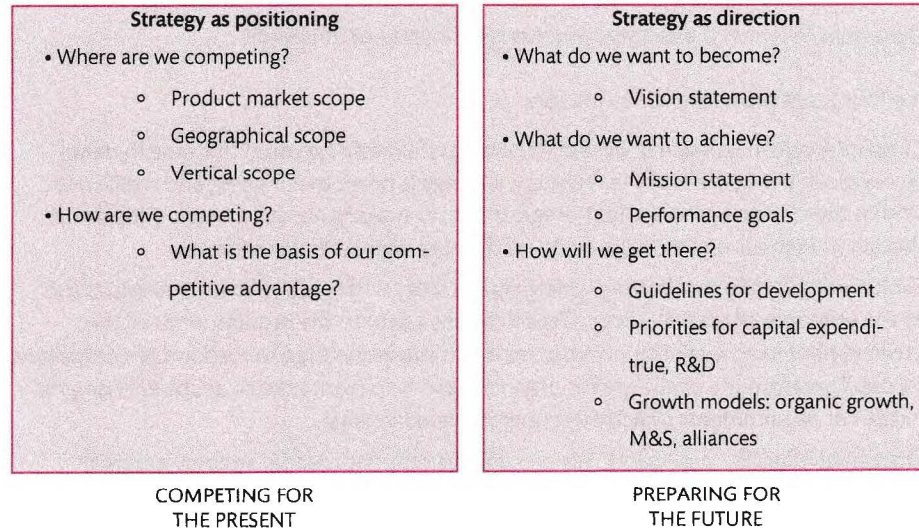


Figure 3.3 Differences between two perspectives on corporate strategy

COMPETITIVE SCOPE	COMPETITIVE ADVANTAGE	
	Low cost	Uniqueness
Broad target	Low-cost leadership (e.g. Wal-Mart)	Differentiation (e.g. Tommy Hilfiger's apparel)
Narrow target	Focused low-cost leadership (e.g. Rent-A-Wreck Cars)	Focused differentiation (e.g. Mountain Equipment Co-operative)

Figure 3.4 Porter's competitive strategies

Source: Adapted from Porter (1985)

- *Business-level strategy* focuses on decisions and actions taken by different business units. Business-level strategy will be influenced by corporate strategy; however, business units will develop a strategy that fits with the unit's operating conditions. Porter (1985), for example, proposed that business-level strategy will emphasize cost leadership, differentiation, and focus (Figure 3.4). Low-cost leadership focuses on having the lowest unit cost and price compared to competitors. A differentiation strategy seeks to distinguish products or services from competitors through service levels and product quality; a focus strategy emphasizes niche markets, so that business units can implement a focused low-cost leadership or a focused differentiation strategy.
- *Functional-level strategy* focuses on the operational strategies of functional activities such as finance, manufacturing, marketing, and HR. The primary emphasis of functional-level strategy is to support business-level competitive strategy.

How organizations formulate strategy is a central debate in strategic management. The dominant paradigm is the rational approach. Mintzberg (1978), for example, has criticized rational approaches to strategy because there is little evidence that many organizations actually engage in systematic strategic planning. He made a distinction between intended, realized, and emergent strategies.

- *Intended strategy* is formulated by the senior team and is the result of negotiation, bargaining, and compromise.
- *Realized strategy* is defined as the actual strategy that is implemented and it may have little relationship with what was intended.
- *Emergent strategy* derives from a complex array of decisions whereby managers interpret what is intended, but make changes to adapt to external environmental conditions.

The emergent perspective highlights the role of the organization in adapting and learning through a dynamic process of both strategy formulation and implementation. Grant (2003) for example, emphasized that organizations combine both planned and emergence processes in which strategic planning systems provide a mechanism for coordinating decentralized strategy formulation within a structure of demanding performance targets and clear corporate guidelines. He called this approach 'planned emergence' and how these two decisions play out is influenced by a firm's business environment.

A third area of debate concerns the roles that strategy performs in an organization. Four perspectives can be highlighted, as follows (Pascale, 1984; Collis and Rukstad, 2008),

- **Strategy as decision support** This perspective emphasizes that strategy enhances organizational decision making. It performs this role through (a) constraining the range of decision alternatives, (b) permitting the integration of diverse knowledge sources, and (c) facilitating the use of analytical tools and frameworks.
- **Strategy as coordination** This perspective on the role of strategy highlights a number of dimensions. Specifically, it (a) promotes communication of goals, positioning, and identity, (b) provides a forum in which stakeholders can exchange views and perspectives, and develop consensus on courses of action, and (c) helps to secure buy-in and commitment to the strategy.
- **Strategy as target** This perspective concerns the function of strategy in establishing a direction and in setting out what the organization will look like in the future. Hamel and Prahalad (1989), for example, proposed the concept of 'strategic intent'. They suggested that strategic intent focuses on the articulation of a desired leadership position on strategy. The communication of strategic intent challenges the organization to be ambitious and innovative, and to achieve success.
- **Strategy as orientation** This perspective highlights that strategy making is about storytelling (Weick, 1995). Through the use of stories about strategy, organizational leaders help to mobilize, motivate, and work as a team to achieve strategy.



Critical reflection

Which of the four roles proposed here are most difficult to realize? What challenges will leaders encounter in telling stories about strategy?



Case study 3.3 A Taiwanese story about strategy and structure

Before 2000, Taiwan-based company Acer had competing strategies. For 15 years, one part of the firm had been building computers for other PC sellers, who would put their own labels on the machines, while another part sold very similar computers under the company's own brand. The latter strategy was predicated on direct sales to consumers, which had brought the firm into direct competition with companies such as Dell.

In 2000, the firm decided to adopt a new business strategy to increase its global market share. Acer's manufacturing division was made an independent company (Wistron), and this enabled a smaller and more nimble sales firm to emerge. The strategy based on direct sales was discarded, to be replaced with a strategy focused on selling as many low-cost laptops and netbooks as possible to consumers, but via a network of partners and retailers. A new logo was adopted to reflect this new strategic direction, which had proved very successful despite the industry downturn.

By 2008, Acer had replaced Hewlett-Packard as the market leader in Europe, the Middle East, and Africa, partly as a result of Acer's success in the booming netbook market. This strategy enabled the firm to become the world's second largest PC vendor. However, in 2011, tensions at board level over the firm's strategic direction culminated in the resignation of Acer's CEO Gianfranco Lanci. The

difference in opinion appeared to be about whether the firm's future lay in PCs or mobile devices. Acting CEO J.T. Wang announced that the PC would continue to be the firm's core business. In 2009, the firm had entered the smartphone market, with the launch of four different handsets and the promise of more in the pipeline. Unlike Apple, which has focused on developing one phone only, Acer's strategy is based on targeting each of its phones at a different market segment. In March 2011, Acer announced that revenue projections for the first quarter had fallen short of expectations by about 10 per cent as a result of weaker demand in the PC markets in the United States and Europe.

Sources: Kwong (2009); Vance (2009); Kobie (2011); Woodburn (2011)

Activity

1. Which elements of Whittington's four perspectives can be identified in the case study?
2. What does this case study tell us about the role of the CEO?

3.6 Linking HRM to organizational strategy

Strategic HRM is rooted in the achievement of organizational performance outcomes. Strategic HRM has as its key concern the following elements that contribute to competitive advantage:

- the capabilities of employees and the extent to which they contribute to competitive advantage;
- the composition of the organization's workforce;
- the organization's culture, including its values, assumptions, beliefs, and expectations; and
- the organization's HR policies and practices, and how they support the development of an organization's human capital.

3.6.1 People capabilities and competitive advantage

Employee capabilities are an important source of competitive advantage. The research findings highlight that employees, as a form of human capital, possess knowledge, skills, and abilities that can be utilized to generate value for the organization (Coff, 1997; Bontis et al., 2002). In many knowledge-based industries, for example, organizational performance depends on people know-how. To ensure that employees are a source of competitive advantage, many organizations, such as Microsoft, Dell, and Four Seasons Hotels, invest in staff to ensure that they are the best. Organizations also focus on combining and developing employee talents to realize the benefits of human capital. Procter & Gamble (P&G), for example, tracks employees and their talents. It has a deep knowledge of the talents that its employees possess and it is therefore able to quickly realign people resources as demanded by changes in the external environment. Organizations also focus on creating unique cultures to ensure that they realize the most significant performance gains from employees.

3.6.2 Workforce composition and competitive advantage

Research highlights the important role of the composition of the workforce. This requires that organizations make important decisions about the types of employee to employ internally, what resources should be contracted externally, and how best to manage and develop different categories of employees to maximize their performance contribution to the organization. Lepak and Snell (1999a, 1999b) proposed that employees can be classified according to the extent to which they create strategic value and how unique they are to the organization. The research highlights a number of trends in the way in which organizations categorize staff according to their strategic value.

- *Strategic knowledge workers* possess unique skills that are strongly strategically aligned to the organization's strategy. They are difficult to replace and possess important context-specific human capital. They are typically **knowledge workers** and organizations invest considerable amounts in their development. Examples of strategic knowledge workers include research and development (R&D) expertise in pharmaceutical firms and regulatory employees in banking organizations.
- *Core employees* possess skills that are valuable to an organization, but not particularly difficult to replace. They possess highly transferable skills and they therefore have high mobility in the external labour market. Given their mobility, organizations are less likely to invest in their training and development.
- *Support employees* typically possess skills that are less important to the customer value proposition and they are in plentiful supply in the labour market. They include administrative and clerical employees, and employees who work in support functions such as finance and HR. There is significantly less investment made in their training and development, and their relationship with the organization is more transactional.
- *Partner employees* are typically not directly employed by the organization; however, they possess specialized skills that are valued by the organization. These employees are acquired through strategic partnerships and alliances, and emphasis is placed on knowledge exchange.

3.6.3 Corporate culture as a source of competitive advantage

It is increasingly recognized that an organization's culture can be a source of competitive advantage. Thus organizations spend considerable resources on developing employees' values, attitudes, beliefs, and expectations to ensure that they are aligned with business strategy (Clawson, 2008; Salpeck, 2011). Some organizations engage in values-based hiring, for example, whereby they assess the extent to which potential employees fit an organization's culture and hire those whom they consider have the best fit. An example of such an approach is that taken by Juniper Networks, a US MNC that develops and markets networking products, which has identified five behaviours that are central to its core values: authenticity, trust, excellence, bold aspiration, and meaningful difference.

3.6.4 HR infrastructure as a source of competitive advantage

The types of HR policies and practices that an organization use are an important source of competitive advantage. The policies and practices architecture or infrastructure helps an organization to make the most effective use of employees' knowledge, skills, and abilities. Thus organizational investments in HR policies and practices such as selection, training and development, and performance management are considered invisible assets that enhance the capabilities of an organization (Becker and Gerhart, 1996). The appropriate mix of HR policies and practices works in tandem with strategy to create competitive advantage (Wright et al., 1994). Wright and McMahan (2011), for example, reported that competitive advantage will be created when HR practices and policies enhance an organization's human capital through influencing knowledge creation, transfer, and integration. Furthermore, HR practices and policies can enhance social and organization capital, including the relationships between people and an organization's routines and processes. Becker and Huselid (1998) suggested that when HR policies and practices are interdependent and dynamic, competitors will experience difficulties in imitating them. These issues are discussed in more detail in Chapter 8.



Critical reflection

Evaluate the four contributions that SHRM can make to competitive advantage. What practical issues arise for HR practitioners in seeking to realize these sources of competitive advantage?

3.7 Approaches to strategic alignment



Key concept

Strategic alignment comprises two elements. The first is **vertical strategic alignment**, which is the process by which HR strategy, policies, and plans are aligned with an organization's strategic goals and objectives. The second is **horizontal strategic alignment**, which is the process by which functional strategies, policies, plans, and practices are aligned with each other.

Strategic alignment is critical to competitive advantage. It combines strategic and operational practices in such a way that both levels are, in effect, intertwined. This can be seen in firms such as Toyota, in which managers treat employees as knowledge workers or assets, rather than as resources, to sustain the firm's strategic approach, which is based on the lean production model (Osono et al., 2008). Many Western firms have tried and failed to replicate the 'Toyota Way' (Liker and Hoseus, 2008), because Western business leaders have struggled to understand the management mindset within Toyota, instead viewing the 'Toyota Way' as little more than a set of techniques (Rother, 2009). However, Toyota also illustrates the fragility of competitive advantage: its capabilities for quality, improvement, and innovation have been compromised by following a strategy based on rapid expansion (Spear, 2010).

Strategy and structure are linked because an organization's structure is critical to the achievement of business strategy (Bryan and Joyce, 2007). The importance of the relationship

between strategy and structure can be traced back to Chandler (1962): an organization should be designed in such a way that its structure supports the competitive strategy—not the other way round. For instance, strategies that focus on close collaboration with customers and suppliers require a strong matrix structure that ‘promotes agility and responsiveness’ (Morgan et al., 2007: 116). Many of India’s leading CEOs believe that strategy drives structure (Cappelli et al., 2010). As K.V. Kamath, chair of India’s ICICI Bank, observed, ‘We’ve always seen structure as living and play about with it as much as we can’ (Tappin and Cave, 2010: 40).

As explained in Chapter 1, organizations have become more varied in design as a result of globalization and improvements in information and communications technology (ICT). Many organizations are now characterized by flexibility, outsourcing of the **supply chain**, and virtual working. Odebrecht, Brazil’s leading construction company, uses ‘a flexible internal organizational structure that devolves as much autonomy—and entrepreneurial decision making—as possible to each manager. Traditional hierarchical structures are eschewed’ (Brainard and Martinez-Diaz, 2009: 212).

Changes in supply chains have had the most impact on the relationship between strategy and structure. More than 300 MNCs, including Pfizer, Microsoft, Sony, and Samsung, have now opened R&D centres in China, while others, such as Hornby, have relocated production there to maximize cost efficiencies (Torrens, 2010). A great many other Western companies have outsourced facilities to take advantage of cost savings. This has enabled countries such as India to build a strong reputation for call centres. Other types of structural change can be more substantial. For instance, in 2009, Dutch oil company Shell announced it was planning to merge its power and gas division with its exploration business to create two new units and thereby make the company nimbler by reducing the layers of bureaucracy (Mouawad, 2009).

In turn, if HR practices are going to have any impact, they must be aligned with the organization’s strategy (Ulrich et al., 2009a). Holbeche (2009: xi) has highlighted the implications of strategic alignment for HRM:

The business context drives the HR agenda, especially as work becomes progressively more knowledge- and talent-intensive. It also drives the transformation of the HR role, organisation, structure and skill sets. Delivering a value-adding agenda requires purpose, focus, a well-formulated strategy and effective methods, as well as effective measurement to ensure the right kinds of impact on organisational performance are being achieved.

This requires a form of HR leadership that combines strategic acumen with pragmatism (Holbeche, 2010). The CEOs of leading Indian firms emphasize the importance of HRM practices—in particular, encouraging employee engagement and culture (Cappelli et al., 2010).



Strategic HRM in action

Research the strategies of Dell and McDonald’s.

1. How have both global firms responded to changes in competition and trends in the marketplace?
2. What are the main differences in their approaches?
3. Based on the ideas that you have engaged with in this chapter, how would you describe their current strategic positions in their respective marketplaces?



Conclusion

This chapter addressed the topic of strategy, which is central to modern conceptions of SHRM. Strategy is about providing common purpose, the commitment of resources, and the creation of value. Strategic decisions are focused on helping organizations to achieve competitive advantage and superior performance. Strategy is often viewed or conceptualized as a rational, top-down process, and while this represents an oversimplification, it is a useful starting point when discussing strategic management. Such rational approaches are increasingly challenged as a result of instability in the external environment and internal contexts that are ambiguous, messy, and conflict-laden. This means that practice or strategic management is highly problematic: it is one thing to state an organization's strategic direction, but a totally different matter to turn this intent into action. The latter is achieved through the adoption of a four-phase approach with all four phases being inextricably linked: analysis, selection, implementation, and review. The outcomes of these five phases is a **business strategy** (often referred to as **corporate strategy**), which explains what the strategy is and where it is focused (for example on specific markets), and a **competitive strategy**, which explains how the business strategy will be achieved (that is, how competitive advantage will be acquired and sustained). A core assumption of much of SHRM theory and research is that HR strategy should be aligned with business strategy. Strategic alignment is critical to the success of a competitive strategy, because it combines strategic and operational practices in such a way that both levels are intertwined. The principal factors that need to be intertwined are strategy and structure, organizational culture, and HRM processes. Resource-based perspectives place emphasis on human resources as a strategy for competitive advantage. In addition, the composition of an organization's workforce, the awareness of culture, and the configuration of HRM practices are also sources of competitive advantage. Thus the HR function can play an important role in helping organizations to formulate and develop business strategies to achieve competitive advantage.



Summary

- Strategy involves the achievement of superior performance, change, and strategic choices. Strategic management comprises five stages or phases: mission, vision, and strategy; environmental analysis; strategic formulation; strategy implementation; and evaluation.
- The classical approach to strategy emphasizes rational, top-down analysis; alternative approaches emphasize the role of policies, consensus, and emergent approaches to strategy formulation.
- The dominant discourse on strategy is a Western one, but the changing nature of the global economy and the emergence of developing economies such as India, China, and Brazil challenge taken-for-granted approaches to strategic management.
- Strategic HRM is founded in the notion of a relationship between strategy and HRM. This relationship involves elements of vertical and horizontal fit.
- Human capital, transfigurations of human resources, HR practices and policies, and organizational culture can be viewed as sources of competitive advantage.



Review questions

1. How has the concept of strategy evolved?
2. What are the differences between strategy, strategic management, and competitive advantage?
3. How can SHRM confer competitive advantage on organizations?
4. Evaluate the five different perspectives on competitive advantage outlined in this chapter.
5. What types of challenge will organizations encounter when aligning strategy and SHRM?



End-of-chapter case study Tesco, Kraft Foods, and Haier: comparing strategies

Tesco

When Tesco announced the early retirement of its CEO, Sir Terry Leahy, the company's share price fell by 3 per cent in a day. He is widely regarded as turning Tesco into a great company by means of a decade-long strategy of 'organic' growth based on domestic and, in particular, international expansion.

Leahy's explanation for his departure was brief—'My work here is done'—referring to his two ambitions of making Tesco the UK's biggest supermarket chain and taking the business overseas.

Today, Tesco is the third largest retailer worldwide, with 597,784 employees and operations in 12 countries. It pulled out of the United States in 2013; in 2016, it reported sales of £55.9 billion. The decision to grow the business through domestic and overseas expansion had actually been taken in 1995, two years before Sir Terry Leahy was promoted to CEO, but it was under his leadership that an aspiration or vision was turned into reality, with 4,811 Tesco stores operating worldwide at the time of his retirement. The firm's success in Asia also helped to offset the problem of stalled growth in the UK.

What makes the Tesco story so interesting is that the expansion strategy was characterized by diversification into a wide range of non-food products and services, including electronics, books, music, and financial services. At the same time, Tesco worked hard to stay true to its underpinning values of simplicity, economy, and excellent service. There was, however, speculation at the time of Leahy's retirement that his successor, Philip Clarke, may have to preside over the break-up of the company because of increasing concerns that it had grown too big.

Kraft Foods

In 2009, US firm Kraft set in motion its strategy for acquiring Cadbury, the long-established British chocolate manufacturer. In February 2010, it was announced that Kraft had acquired Cadbury for £11.4 billion. The acquisition was controversial and described as a 'hostile' takeover. The acquisition was consistent with Kraft's strategy of expanding the business through mergers and acquisitions (M&As) under the leadership of CEO Irene Rosenfeld. Cadbury was an attractive brand because Kraft needed to expand into emerging economies and 40 per cent of Cadbury's sales were already in these markets. The aim of Kraft's strategy is to improve profits by 9–11 per cent per annum. As part of this strategy, innovation is preferred to cost cutting. Indeed, Irene Rosenfeld reversed some of the cost-cutting measures already in place when she took over as CEO. She also focused on decentralizing business decision making, so that the most relevant strategic choices were taken, and on implementing incentives that encourage collaboration across the company.

Haier

Haier is one of China's leading firms, with an annual turnover of over US\$15 billion. The company manufactures home appliances such as refrigerators and washing machines.

When its CEO, Zhang Ruimin, took up his post in 1984, the company was on the brink of bankruptcy. In 2004, it was listed as one of the 'World's Top 100 Brands', reflecting the extent to which its branded products can be bought around the world. Today, under his leadership, Haier is the world's biggest refrigerator and washing machine maker by volume, and is one of the few Chinese companies to expand overseas, starting with a production base in the United States in 1999.

Haier's strategy, under the leadership of Zhang Ruimin, is predicated on a commitment to quality and innovation, and a strong desire to be recognized as a global brand. The firm is now trying to build novel technologies and features into its products rather than to emphasize the low-cost advantage it derives from being a Chinese company. Such values are consistent with those espoused by firms in other Asian 'tiger' economies, such as Japan and South Korea. Haier's expansion includes a 20 per cent share in New Zealand's Fisher and Paykel Appliances Holdings Ltd for just under US\$34 million. The company also benefitted from the Chinese government's \$586 billion stimulus package to boost domestic consumption, which included cash subsidies for the purchase of washing machines, refrigerators, and computers.

Sources: Kanellos (2008); Nie et al. (2009); Schuman (2009); McGregor (2010); Nicholson (2010); Tappin and Cave (2010); *The Telegraph* (2010); Wood and Finch (2010); Zekaria (2010)

Case study questions

1. How might you explain the business and competitive strategies for each firm?
2. What appear to be the principal sources of competitive advantage for each firm?



Further reading

Grant, R. M. (2016) *Contemporary Strategy Analysis: Text and Cases Edition*, Oxford: Wiley.

A detailed and highly analytical text on business strategy and strategic analysis.

Mintzberg, H. (1987) Crafting strategy, *Harvard Business Review*, 65(4): 66–75.

This is a seminal article that is still relevant today.

Mintzberg, H. (1996) Five Ps for strategy, in H. Mintzberg and J.B. Quinn (eds) *The Strategy Process*, London: Prentice Hall, pp. 12–19.

This is a good chapter for expanding your understanding of Mintzberg's critique of deliberate and emergent strategies.

Porter, M.E. (2008) The five competitive forces that shape strategy, *Harvard Business Review*, 86(1): 78–93.

This article discusses in depth one of Porter's principal models for analysing the external environment.

Sherman, L. (2017) *If you're in a Dogfight, Become a Cat! Strategies for Long Term Growth*, Columbia: Columbia University Press.

A practitioner focused book on business strategy with some excellent examples.

Steiber A. (2018) A New Model for a New World: Why It's Needed and What It Consists of, in Springer *Management in the Digital Age*, https://doi.org/10.1007/978-3-319-67489-6_2

A provocative reading around new ways of strategic thinking

Whittington, R. (2001) *What is Strategy—and Does it Matter?*, 2nd edn, London: Thomson Learning.

At only 130 pages, this is a relatively short book that will improve your understanding of the four perspectives on strategy discussed in this chapter.



For additional material on the content of this chapter, please visit the supporting online resources at www.oup.com/uk/bailey2e/