
6

Human Resource Strategy and Talent Management

Andrew Jenkins

Learning objectives

After reading this chapter you will be able to:

- Explain how strategy develops in organisations
- Explain how an organisation's strategic orientation affects how it manages people
- Discuss the key characteristics of strategic human resource management
- Discuss the principal features of a strategic approach to talent management in organisations
- Identify future factors likely to influence an organisation's strategic approach to talent management in organisations

Introduction

This chapter will start with a discussion of strategy and strategic management in order to provide the reader with a good overview of how strategy develops in organisations and how strategy may affect the organisation's approach to managing human resources. Thereafter, the concept of strategic human resource management and strategic talent management is examined and the chapter concludes with a discussion of future issues concerning strategic talent management.

Strategic management

Strategy concerns the long-term direction of an organisation (Johnson *et al.*, 2014). There are many definitions of strategy and strategic management. David (2011: 37) defines strategic management as '*the art and science of formulating, implementing,*

and evaluating cross-functional decisions that enable an organisation to achieve its objectives'. According to Wheelen and Hunger (2010), strategic management relates to managerial decisions and actions that affect the long-term performance of an organisation. Wheelen and Hunger (2010) further state that strategic management includes scanning the environment, formulating and implementing strategy, and the evaluation and control of strategy. However De Wit and Meyer (2014) state that a clear definition of strategic management is illusive, given differing opinions about what strategic management is and the key issues associated with it.

Essentially, there are two different approaches to explain how strategy develops in organisations: the *intended* (also called *prescriptive* or *deliberate*) and the *emergent* approach (Barney and Hesterly, 2010; Lynch, 2012; Johnson *et al.*, 2014). The intended approach is where strategic development is linear, rational and where the main elements of strategy are determined in advance. The emergent approach is where strategy emerges over time and, as a result, cannot be usefully summarized in a plan (Lynch, 2012). Johnson *et al.* (2014) comment that deliberate strategy involves intentionally formulating or planning strategy and this could take many forms including strategy intentionally being made by the strategic leader; strategy being made by the process of strategic planning involving many managers; and strategy imposed on the organisation. It is not necessarily the case that one approach is better than another, but there are situations where one approach is better suited to the prevailing conditions. Thus Lynch (2012) asserts that the prescriptive approach works perfectly well where growth is continuous, linear and predictable, but is much less suited to conditions where there is rapid change taking place.

In the intended approach to strategic management, strategy is defined as a plan of action for the future. There are typically three common questions that can assist an organisation to determine its strategy: Where are we now? Where do we want to be? How do we get there? A strategic plan will provide data and argument to support the organisation's strategy (Johnson *et al.*, 2014). Typically, strategic plans have a long-term focus with business plans usually being developed around a three to five-year time-frame, although, because of increased uncertainty in the environment, the time-horizon is become shorter (Tyson, 2012). The aim of designing and following a strategic plan is to create competitive advantage for the organisation. Competitive advantage relates to a firm's ability to create more economic value than its competitors (Barney and Hesterly, 2012). In attempting to create greater economic value, a firm must be able to supply products and services that more closely match the needs and wants of its customers and be able to actually develop and supply these products and services (De Wit and Meyer, 2014).

Strategy can be formulated and implemented at different levels, and there are recognised generic forms that organisations or sub-divisions of organisations might adopt. The levels at which strategy are formulated and implemented are most frequently identified as corporate, business and operational or functional

(see, for example, Boxall and Purcell, 2008; and Johnson *et al.*, 2014). Wheelen and Hunger (2010) recognize three types of strategy: corporate, business and functional. Corporate strategy is about the organisation's overall strategic direction relates to growth and how it manages its various businesses, products and services; business strategy focuses on improving the firm's competitive position in relation to its products and services, usually at the business-unit or product level; and functional strategy relates to the approach taken by a functional area, such as marketing, human resource management or research and development, to achieve corporate and business unit objectives by maximizing the productivity of the given resource (Wheelen and Hunger, 2010).

As previously stated, corporate strategy is concerned with the overall direction that an organisation follows. For large corporations, such as multinational organisations, this is a question of which sectors of business they choose to be engaged in, and these organisations would then develop separate business level strategies for their strategic business units, each focusing on a discreet range of products or services. Corporate-level issues concern the geographical coverage of the organisation, the products and services offered, the methods used to develop the business and how resources are allocated within the organisation whilst typical business-level issues concern innovation, scale and response to competitors (Johnson *et al.*, 2014).

Operational strategies concern the delivery of corporate and business strategies in relation to resources, processes and people (Johnson *et al.*, 2014). The functions an organisation has will depend on the type of business, its structure and its size. Functional areas include human resources, operations, marketing and sales, logistics, procurement, research and development, human resources and finance. Each of these functional areas needs to follow strategic plans that are consistent with the corporate and business plans adopted by the respective organisation. The strategic plans followed by the functional departments must be integrated to ensure success as they are interdependent and cannot be formulated without reference to each other.

Strategy involves gathering and processing data in order to make long-term decisions. There is a need to focus on relevant information to the firm, but it is also important to be as comprehensive as possible in order that potentially important information is not overlooked. Since planning is concerned with forecasting future actions, there is always the potential for developments that are not foreseen. This means that planning is an on-going process, and that a five year strategic plan cannot be followed slavishly until the end of the five year period but will probably need to be adjusted to take into account unforeseen developments.

Identifying pertinent issues, and collecting relevant information concerning them, is referred to as *environmental scanning*, defined by Wheelen and Hunger (2010: 64) as '*the monitoring, evaluating, and disseminating of information from the external and internal environments to key people within the corporation*'. The acronym PEST, or its alternative forms of PESTEL or PESTLE, are commonly used as an aide

memoire of the issues that organisations need to take into consideration when formulating their strategies. The initials in PEST stand for Political, Economic, Social and Technological issues whilst the E and L in variations of the acronym stand for Environmental and Legal issues (Thompson, Scott and Martin, 2014).

There are various strategic options that an organisation may wish to follow. These include growth, stability and retrenchment (Millmore *et al.*, 2007). There are different ways of pursuing each of these strategies. Growth, for example, can be achieved through the development of new products and services, by increasing the market share for existing products and services in domestic or international markets, through mergers and acquisitions or by means of growing the business using franchising or management contracts. The strategic directions of growth, stability and retrenchment are normally associated with the life cycle stages of products and markets. The idea behind the Boston Consulting Group (BCG) Matrix is that large corporations would aim to have a balanced portfolio of businesses which have products that are stable and products that are growing (Lynch, 2012).

The work of Michael Porter (1980, 1985 and 1988) is frequently cited in discussions of business strategy. Porter's generic strategies, as cited in Johnson *et al.* (2014), are cost leadership, differentiation, cost focus and differentiation focus. Cost leadership focuses on obtaining advantage by reducing costs so that they are below those of the firm's competitors (Barney and Hesterly, 2012). A differentiation strategy is the ability of the firm to supply products and services that offer superior value to the consumer in terms of build quality, special features or quality of after-sale service (Wheelen and Hunger, 2010). A focus strategy targets an activity or segment, tailoring products and services to the needs of the segment (Johnson *et al.*, 2014). There are two variants of focused strategies: cost focus and differentiation focus. Porter (1980) states that the generic strategies offer alternative and viable approaches to a firm's competitive forces. However, a firm that is 'stuck in the middle' is in a very weak strategic position.

One or a combination of the generic strategies can be adopted in order to achieve the organisation's chosen corporate strategy. A strategy based on cost will involve an organisation attempting to improve efficiency by reducing staffing, production and other costs. A strategy based on differentiation means emphasising the uniqueness of the firm's products or services, for example by being known for the aesthetic design of its products. A focused strategy entails concentrating on a particular segment rather than the whole industry or sector. As a strategic direction, innovation can also provide a major focus. In this respect, Guest, Storey and Tate (1997) make the point that all business strategies need some element of innovation.

A major strand of strategic management literature relates to the Resource-Based View (RBV) of the firm. RBV views organisational resources as unique bundles that can give an organisation advantage over its competitors (Saunders, Millmore and Lewis, 2007). Firm resources, according to Barney (2002: 155) consist of 'all