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# Strategic human resource management

Understand how strategic HRM works, and its relationship with business strategy, human capital management and performance

## Introduction

Strategic human resource management (strategic HRM) provides a framework linking people management and development practices to long-term business goals and outcomes. It focuses on longer-term resourcing issues within the context of an organisation's goals and the evolving nature of work. It also informs other HR strategies, such as reward or performance, determining how they are integrated into the overall business strategy.

This factsheet looks at how thinking on strategic HRM has developed since the early 1990s and describes strategic HRM in relation to business strategy, human capital management and business performance.

Explore [our viewpoint on productivity and people management](#) in more detail, along with actions for government and recommendations for employers.

## What is strategic HRM?

Strategic HRM, or 'people strategy', is about creating a coherent planned framework for employees to be hired, managed and developed in ways that supports an organisation's long-term goals. It helps ensure that the various aspects of people management work together to drive the behaviour and climate needed to create value and meet performance targets. It focuses on longer-term people issues, matching resources to future needs, and large-scale concerns about structure, quality, culture, values and commitment. It must also be a response to the evolving nature of work itself, which is explored in our [Megatrends](#) series and our [Profession for the Future](#) work.

There's no single HRM strategy that will deliver success in all cases. Organisations must define their own unique strategy according to their specific context, culture and objectives. People professionals are instrumental in applying their expertise to understanding organisational circumstances, and designing human capital value chains that reflect stakeholder demands.

In their book Strategic HRM: the key to improved business performance Armstrong and Baron explained in detail the various definitions and approaches to HRM, strategy and strategic HRM. They state that strategic human resource management is a complex process that's constantly evolving and a topic of ongoing discussion by academics and other commentators. Its definition and relationships with other aspects of business planning and strategy are not absolute and opinions vary.

The idea of strategic HRM started around the early 1990s, when academics developed definitions such as:

- The undertaking of all those activities affecting the behaviour of individuals in their efforts to formulate and implement the strategic needs of business (Schuler).
- The pattern of planned human resource deployments and activities intended to enable the organisation to achieve its goals (Wright and McMahan).

Boxall and Purcell describe strategic HRM as being concerned with explaining how HRM influences organisational performance. They also argue that strategy is not the same as strategic planning because:

- **Strategic planning** is the formal process that takes place, usually in larger organisations, defining how things will be done.
- **Strategy**, by contrast, exists in all organisations (even if it's not written down and articulated) and defines the organisation's behaviour and how it attempts to cope with its environment.

Strategic HRM can include a number of individual HR strategies, for example:

- To deliver fair and equitable reward.
- To improve employee performance.
- To streamline organisational structure.

In themselves these are not 'strategic HRM'. Rather, strategic HRM is the overall framework that determines the shape and delivery of the individual strategies, systematically linking people with organisations by integrating HRM strategies into organisational strategies to deliver organisational success.

## Strategic HRM and business strategy

A good business strategy is informed by people factors. This is driving demand for greater evaluation and reporting of human capital data (see below).

Most organisations today recognise that people are fundamental to sustainable value creation, which is why they are often referred to as a business' 'most important asset'. The idea of 'human capital' is important here (see below). Employees' knowledge, skills and abilities are assets which the organisation should invest in and use to create sustainable value for the organisation and its various stakeholders. The intangible value of an organisation relating to the people it employs is gaining recognition among accountants and investors, and its implications for long-term sustained performance is now generally accepted.

Individual HR strategies may be shaped by the business strategy. For example, a business strategy for improving customer service may translate into discrete HR strategies involving the use of training plans or performance improvement plans. However, it's too simplistic to suggest that strategic HRM simply follows on from business strategy – the two must inform one another. The way in which people are managed, motivated and deployed, and the availability of skills and knowledge, should all shape the business strategy. Indeed, it's now increasingly common to find business strategies that are inextricably linked with, and incorporated into, strategic HRM, defining the management of all resources within the organisation.

Our Profession Map is based on key principles that govern how HR and other people professionals behave and deliver value through their work. The principles 'Work matters, People matter, Professionalism matters' describe clear pathways to strategic decision making to ensure value is created sustainably for the benefit of all stakeholders.

### **Links with workforce planning**

One important area of people strategy is workforce planning. This helps organisations meet their future skills needs and support their long-term business goals. There's recently been renewed interest in this issue, largely driven by the realisation that in a fast-changing economy some degree of planning is vital to ensure the organisation is developing enough capacity to adapt to new trends and take advantage of emerging opportunities.

Workforce planning involves putting business strategy into action. It must therefore be an iterative process - feeding information upwards on the capability and capacity of the

workforce to deliver - and acting on forecast need for skills and capabilities to take the organisation forward.

## Strategic HRM and human capital management

The term 'human capital' describes people's potential to create value for their organisations. Heery and Noon's [A dictionary of human resource management](#) defines human capital as 'the knowledge, skills, and abilities that workers possess and which have been acquired through education, training, and experience both within and beyond the workplace'. Human capital management treats people as assets rather than costs. It focuses on adopting an integrated and strategic approach to managing people, which is the concern of all stakeholders in an organisation, not just people management professionals.

Human capital management can complement and strengthen strategic HRM by:

- Clarifying the links between what people do in their jobs, the value they create, and business strategy. This includes not just what people do day to day, but also how they bring innovation into operational tasks or management processes. See our PrOPEL Hub [blog](#) and [short videos](#) on how employees contribute to workplace innovation.
- Strengthening the belief that people are assets rather than costs.
- Drawing attention to the significance of 'management through measurement' - the aim being to establish a clear line of sight between HR interventions and organisational success.
- Providing guidance on what to measure, how to measure and how to report on the outcomes of measurement (this is often known as 'human capital metrics').
- Underlining the importance of using the measurements to prove that superior people management is delivering superior results and to indicate the direction that HR strategy should follow.
- Reinforcing attention on the need to base HRM strategies and processes on the requirement to create value through people and thus further the achievement of organisational goals.
- Emphasising the role of HR specialists as business partners.

Strategic HRM can be seen as the means through which human capital is converted into organisational value. Human capital evaluation is useful in that it provides information about people's current and potential capabilities to inform the strategy. So strategic HRM could be viewed as the framework within which these evaluation, reporting and management processes take place and ensures that they are mutually reinforcing.

Find out more in our research report [Human capital analytics and reporting: exploring theory and evidence](#).

## **Strategic HRM and business performance**

Since around the mid-1990s, the CIPD and other organisations have been gathering evidence of the impact of people management practices on business performance. Much emphasis has been placed on the importance of 'fit'. In other words, HR interventions should align with both each other and other organisational strategies for maximum impact. The main areas of practice agreed to have an impact on performance are around job design and skills development.

The 'people and performance model' generated from CIPD-sponsored work at Bath University was described in our [Understanding the people and performance link: unlocking the black box](#) report. It emphasised the importance of individual HR strategies fitting with each other and operating within a strategic framework that incorporates both people and business issues.

This research has also found that individual HR practices alone do not drive better business performance. For example, highly skilled individuals with valuable human capital can only generate value if they also have positive relationships with their managers in a supportive environment with strong values. All these factors will promote 'discretionary behaviour', that is, the willingness of the individual to perform above the minimum necessary or give extra effort. Hence strategic HRM should take account of the need to foster [employee engagement](#) and related states, such as motivation and commitment, all of which support organisational performance.

## **Strategic HRM and people analytics**

The term [people analytics](#) is often used to describe the use of data about people to solve business problems. It is sometimes known as HR analytics or workforce analytics.

The quality of strategic HRM is best shown by collecting key performance indicators that

show the impact of strategic practices on both the HR function and the wider organisation. People analytics is crucial for understanding these outcomes, and especially for developing insights which further drive strategic decision making. The absence of people analytics capabilities makes the delivery of effective strategic HRM difficult, and more likely to fail. So it's important that HR functions are developing their strategic activity build a firm foundation of people analytics practices.

To find out more on establishing effective people analytics practice, take a look at our [practitioner guide](#).

## Further reading

### Books and reports

ARMSTRONG, M. (2020) *Armstrong's handbook of strategic human resource management*. 7th ed. London: Kogan Page.

FARNHAM, D. (2015) *Human resource management in context*. 4th ed. London: Chartered Institute of Personnel and Development.

KEW, J. and STREDWICK, J. (2016) *Human resource management in a business context*. 3rd ed. London: Chartered Institute of Personnel and Development.

MCGEE, R. and RENNIE, A. (2009) *HR strategy*. CIPD Toolkit. London: Chartered Institute of Personnel and Development.

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### Journal articles

BOXALL, P. (2018) The development of strategic HRM: reflections on a 30-year journey. *Labour & Industry*. Vol 28, No 1, March. pp21-30.

CASCIO, W.F. (2015) Strategic HRM: too important for an insular approach. *Human Resource Management*. Vol 54, No 3, May/June. pp423-426.

JIANG, K., LEPAK, D. and TAKEUCHI, R. (2013) Where do we go from here? New perspectives on the black box in strategic human resource management research. *Journal of Management Studies*. Vol 50, No 8, December. pp1448-1480.

KRAMAR, R. (2014) Beyond strategic human resource management: is sustainable human

resource management the next approach? *International Journal of Human Resource Management*. Vol 25, No 8, April. pp1069-1089.

REILLY, P. (2012) The practice of strategy. *Strategic HR Review*. Vol 11, No 3, pp129-135.

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