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HRM737

Strategic Human Resource Management

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HRM737

Strategic Human Resource Management

Lecture Handouts

Prepared for the students of Virtual University of Pakistan

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1. From Personnel Management to SHRM

LEARNING OBJECTIVES

- • Define strategic HRM
- • Trace the evolution of the HR function
- • Explain why HR became strategic

Strategic Human Resource Management (SHRM) is the pattern of planned HR deployments and activities intended to enable an organization to achieve its goals (Wright & McMahan). Where old **personnel management** was administrative and reactive (payroll, files, hiring on request), SHRM is proactive: HR strategy is derived from business strategy, HR sits at the strategy table, and HR systems are designed as an integrated architecture that builds competitive advantage.

The shift was driven by the **resource-based view** (Barney): sustainable advantage comes from resources that are valuable, rare, inimitable and non-substitutable (VRIN) - and a skilled, motivated, well-organized workforce is the hardest resource to copy. Empirical work (Huselid; Becker & Huselid) links **high-performance work systems** to higher productivity, lower turnover and better financial returns - the 'HR black box' research agenda: how do HR practices convert into performance?

HR architecture

The integrated system of HR practices (selection, training, appraisal, rewards, job design) plus the HR function and employee behaviors it produces - designed as a coherent whole, not isolated programs.

SECTION SUMMARY

SHRM = HR as a strategic, integrated system driving business goals. Its logic: people are the VRIN resource; high-performance work systems measurably improve firm performance.

2. Strategic Fit: Alignment Models

LEARNING OBJECTIVES

- • Explain vertical and horizontal fit
- • Describe universalistic, contingency and configurational approaches
- • Apply Miles and Snow / Porter linkages

Vertical (external) fit: HR strategy aligns with business strategy - a cost-leadership firm needs efficient, standardized HR; a differentiation/innovation firm needs creative, empowered talent (Porter linkage). **Horizontal (internal) fit**: HR practices align with each other - selective hiring + extensive training + performance-based pay reinforce the same behaviors; misaligned bundles

(teamwork preached, individual bonuses paid) destroy credibility.

Three theoretical lenses (Delery & Doty): **universalistic** - some 'best practices' (e.g. valid selection, training) help everywhere; **contingency** - HR effectiveness depends on fit with strategy/context; **configurational** - synergistic **bundles** of practices matter more than single practices (equifinality: different bundles can reach the same goal). Miles and Snow's **defenders** need internal, long-term HR; **prospectors** need flexible, external-market HR.

■ VERY IMPORTANT

Vertical fit = HR matches business strategy; horizontal fit = HR practices match each other. Examiners often present a misaligned company and ask you to diagnose both fits.

SECTION SUMMARY

Fit is two-dimensional: vertical (HR-business strategy) and horizontal (practice-practice consistency). Best-practice, contingency and configurational views debate how universal the answers are.

3. Human Resource Planning and Talent Strategy

LEARNING OBJECTIVES

- • Conduct HR demand and supply forecasting
- • Explain workforce planning techniques
- • Design talent management systems

Human resource planning forecasts demand (driven by business plans, technology, turnover) and supply (internal: skills inventories, succession pipelines, Markov/transition analysis; external: labor markets, demographics), then closes gaps via hiring, training, outsourcing or restructuring. Techniques: trend analysis, ratio analysis (e.g. sales per employee), Delphi estimates, and quantitative models. Pakistan's context: youth bulge supplies labor, but skills mismatches force firms into heavy in-house training.

Talent management: identify pivotal roles (where talent variance most affects strategy), build differentiated pipelines - **succession planning** for leadership (the 9-box grid: performance x potential), high-potential programs, and retention of stars. **Employer branding** (why top talent should join you) and **employee value proposition** (EVP: pay, growth, purpose, flexibility) are the marketing side of talent strategy.

SECTION SUMMARY

Workforce planning = forecast demand vs supply, close the gap. Talent management focuses investment on pivotal roles and high potentials, marketed through a compelling EVP.

4. Strategic Recruitment and Selection

LEARNING OBJECTIVES

- • Design strategic recruitment
- • Evaluate selection methods by validity
- • Ensure legal and ethical hiring

Strategic recruitment targets the **right talent pools**: internal mobility (career ladders, job posting) vs external (campuses, portals like Rozee.pk, headhunters for executives); realistic job previews reduce early turnover. **Selection validity** (Schmidt & Hunter meta-analyses): top predictors of job performance are **general mental ability tests** (~.51), **structured interviews** (~.51) and work samples (~.54); unstructured interviews (~.38) and reference checks are weak; graphology is worthless. Combine methods into a validated battery; use assessment centers for managerial roles.

Reliability (consistency) is necessary but not sufficient for validity. **Adverse impact**: when a neutral test screens out protected groups disproportionately - validate job-relatedness and consider alternatives. Pakistani law: constitutional equality, provincial Shops & Establishments rules, and growing harassment-workplace legislation (Protection Against Harassment of Women at Workplace Act 2010) frame compliance; ethical hiring also means honest job descriptions and feedback to rejected candidates.

SECTION SUMMARY

Recruit from the right pools with realistic previews; select with validated tools (structured interviews, ability tests, work samples) - validity beats intuition, and fairness is both legal and strategic.

5. Training, Development and Careers

LEARNING OBJECTIVES

- • Apply the ADDIE/systematic training model
- • Evaluate training effectiveness
- • Design career development systems

Strategic training follows **ADDIE**: **Analyze** needs (organization, task, person analysis), **Design** objectives, **Develop** materials, **Implement** (on-the-job: coaching, job rotation; off-the-job: simulations, e-learning), **Evaluate**. **Kirkpatrick's four levels**: reaction -> learning -> behavior (transfer) -> results (ROI). The **transfer problem** - most training never changes behavior - is solved by manager reinforcement, opportunity to practice, and accountability, not fancier courses.

Development is longer-term: 70-20-10 (experience, relationships, formal learning), mentoring, 360-degree feedback, leadership pipelines. **Career systems**: career ladders vs lattices, dual tracks (technical/managerial), and plateau management. In Pakistan's hierarchical firms, transparent promotion criteria and sponsored professional education (e.g. certifications) are powerful retention tools for high potentials.

Training transfer climate

The work-environment support - manager encouragement, peer norms, opportunity and accountability - that determines whether learned skills are actually applied on the job.

SECTION SUMMARY

ADDIE designs training; Kirkpatrick evaluates it through to ROI; transfer climate determines whether it sticks. Development builds careers through experience, mentoring and feedback.

6. Strategic Performance Management

LEARNING OBJECTIVES

- • Design effective appraisal systems
- • Compare appraisal methods
- • Handle rater errors and difficult conversations

Performance management is a **continuous cycle**: goal setting (SMART, aligned to strategy - MBO lineage) -> ongoing coaching/feedback -> formal review -> development planning. Methods: graphic rating scales, BARS (behaviorally anchored - most defensible), 360-degree feedback, forced distribution (controversial - 'rank and yank'), and OKRs for agile goal tracking. Strategic appraisal measures **what** (results/KPIs) and **how** (competencies/values).

Rater errors: halo, leniency/strictness, central tendency, recency, similarity bias - countered by rater training, calibration sessions and multiple raters. The annual review is evolving into **continuous performance management** (quarterly check-ins, real-time feedback apps). Difficult conversations follow a structure: evidence, impact, listen, agree actions, follow up. In high power-distance Pakistani culture, upward feedback and self-appraisal need careful facilitation to be honest.

SECTION SUMMARY

Performance management = aligned goals + continuous feedback + fair review + development. Fight rater bias with training and calibration; the trend is from annual ritual to ongoing conversation.

7. Strategic Compensation and Rewards

LEARNING OBJECTIVES

- • Design a strategic pay system
- • Explain pay-for-performance variants
- • Address executive compensation and equity

Strategic pay aligns with business goals: **job evaluation** (ranking/classification/point method) sets **internal equity**; **market surveys** set **external competitiveness** (lead, match or lag policy); **pay structures** (grades, bands, broadbanding) operationalize it. **Pay for performance**: individual bonuses, piece rates, commissions; team gainsharing; organization-wide profit sharing and **ESOPs** (employee stock ownership - powerful for alignment, common in Pakistani startups and banks).

Executive compensation: salary + annual bonus + long-term incentives (stock options, restricted stock) - must link to sustainable performance; excessive short-term bonuses fueled pre-2008 risk-taking, a classic agency-theory lesson. **Equity theory** (Adams): perceived unfairness vs referent others drives demotivation - transparency and consistent criteria matter. Total rewards include benefits (health, pension), work-life flexibility and recognition - increasingly decisive for retention.

■ VERY IMPORTANT

Agency theory explains executive pay design: align agents' (managers') incentives with principals' (shareholders') interests through long-term, performance-contingent pay - while avoiding rewards for mere luck or excessive risk.

SECTION SUMMARY

Pay design balances internal equity, market competitiveness and performance linkage. Total rewards - not just salary - retain talent; executive pay must solve the agency problem without encouraging recklessness.

8. Employee Relations, Engagement and Retention

LEARNING OBJECTIVES

- • Explain engagement drivers
- • Design retention strategies
- • Manage unions and labor relations

Employee engagement (vigor, dedication, absorption - Schaufeli) predicts performance, retention and customer outcomes; drivers: meaningful work, manager quality, growth, recognition, voice. **Retention analytics** identify flight risks (tenure, pay position, engagement dips); counter-tools: stay interviews, career pathing, flexible work, and fixing bad managers - the

top quit reason ('people leave managers, not companies').

Industrial relations: Pakistan's Industrial Relations Acts (federal/provincial) govern unions, collective bargaining agents (CBA), works councils and dispute resolution (conciliation, arbitration, labor courts). Strategic approach: treat unions as stakeholders - interest-based bargaining, joint productivity committees - rather than adversaries. Grievance procedures that are fast, fair and final prevent escalation.

SECTION SUMMARY

Engagement = meaningful work + good managers + growth + voice. Retain stars with careers and flexibility; manage unions as partners under Pakistan's IRA framework.

9. HR Metrics, Analytics and the HR Scorecard

LEARNING OBJECTIVES

- • Build an HR scorecard
- • Apply HR analytics
- • Compute key HR metrics and ROI

The **HR Scorecard** (Becker, Huselid & Ulrich) translates strategy into HR deliverables: workforce success measures, HR system alignment, and HR efficiency - a strategy map for the function. **HR analytics** progresses from descriptive (turnover rate, time-to-fill, cost-per-hire) to predictive (which units will lose critical talent?) to prescriptive (what intervention retains them?). Utility analysis (Schmidt & Hunter) can price selection validity in rupees.

Key metrics: turnover (voluntary/involuntary, regretted), absenteeism, engagement scores, training ROI (Kirkpatrick level 4 monetized), HR expense ratio, revenue per employee, quality of hire. **Evidence-based HR** means A/B-testing interventions (does structured onboarding cut 90-day attrition?) instead of following fads. Pakistani firms increasingly adopt HRIS (e.g. SAP SuccessFactors, local ERPs) enabling this analytics maturity.

Human capital ROI

The return on workforce investment - e.g. (revenue - operating expenses - compensation) / compensation - measuring how productively human capital is deployed.

SECTION SUMMARY

The HR Scorecard links HR to strategy; analytics moves from reporting to prediction; utility analysis prices HR decisions. Measure what matters: quality, retention and ROI - not just activity.

10. Global HRM and the Future of Work

LEARNING OBJECTIVES

- • Explain IHRM strategies
- • Manage expatriates and cross-cultural teams
- • Analyze future-of-work trends

International HRM strategies (Perlmutter): **ethnocentric** (home-country managers lead subsidiaries), **polycentric** (local managers), **geocentric** (best person anywhere). Choices cover staffing, expatriate compensation (balance-sheet approach: home purchasing power + incentives), cross-cultural training, and repatriation (where most assignments' value is lost). Hofstede's dimensions (power distance, individualism, uncertainty avoidance) guide adaptation - Pakistan scores high on power distance and collectivism.

Future of work: **gig/platform labor** (Careem, foodpanda riders - flexibility vs precarity, misclassification debates), **remote/hybrid work** (output-based management, digital surveillance ethics), **AI in HR** (resume screening - with bias-audit obligations; people analytics - with privacy limits), **diversity, equity & inclusion** as performance strategy, and **skills-based organizations** replacing rigid job structures. SHRM's future role: architect of adaptable, humane, high-performing human systems.

SECTION SUMMARY

IHRM balances global integration with local responsiveness (ethnocentric/polycentric/geocentric). The future - gig work, AI, DEI, skills-based design - keeps SHRM at the strategy table.

11. Exam Pointers

High-yield topics

- Wright & McMahan SHRM definition; resource-based view VRIN; Huselid HPWS findings.
- Vertical vs horizontal fit; universalistic/contingency/configurational; Miles & Snow defenders vs prospectors.
- Selection validity ranking (work samples/structured interviews/GMA on top); reliability vs validity.
- ADDIE; Kirkpatrick's four levels; transfer climate.
- Appraisal methods (BARS, 360, forced distribution); rater errors and fixes.
- Pay design: internal equity (job evaluation), external competitiveness, ESOPs; agency theory in executive pay.
- Engagement drivers; retention tools; Pakistan IRA basics (CBA, dispute resolution).
- HR Scorecard; HR metrics formulas; utility analysis logic.
- Perlmutter's IHRM orientations; Hofstede applied to Pakistan; gig/AI/DEI trends.

SECTION SUMMARY

Structure answers as: theory -> practice -> Pakistani example -> metric. SHRM questions reward strategic reasoning: every HR choice must trace back to business goals.