



CAIIB

Module-B Unit-1

Human Resources Management



CAIIB HRM Module B Unit 1- HR As A Strategic Player

HR As A Strategic Player & Strategic HRM

- Most discussions on strategy today deal with the Balanced Scorecard model as the benchmark as this approach takes into account all major aspects of an organisation including the financial, customer, internal processes as well as learning and development.
- The **Balanced Scorecard** is a strategic planning and management system which takes into account non-financial aspects of corporate performance, such as customer satisfaction and business processes, to create a complete picture of how the company is likely to perform in the future.
- The balanced scorecard is used to reinforce good behaviours in an organisation by isolating four separate areas that need to be analyzed. These four areas, also called legs, involve **learning and growth, business processes, customers, and finance**. The balanced scorecard is used to attain objectives, measurements, initiatives and goals that result from these four primary functions of a business.

The Four Legs of the Balanced Scorecard

Information is collected and analyzed from four aspects of a business.

- **First, 'learning and growth'** are analyzed through the investigation of training and knowledge resources. This first leg handles how well information is captured and how effectively employees utilize the information to convert it to a competitive advantage over the industry.
- **Second, 'business processes'** are evaluated by investigating how well products are manufactured. Operational management is analyzed to track any gaps, delays, bottlenecks, shortages or waste.
- **Third, 'customer perspectives'** are collected to gauge customer satisfaction with quality, price and availability of products or services. Customers provide feedback regarding if their needs are being met with current products.
- **Fourth, 'financial data'** such as sales, expenditures and income are used to understand financial performance. These financial metrics may include receivables, financial ratios, budget variances or income targets.

These four legs encompass the vision and strategy of an organisation and require active management to analyze the data collected. Therefore, the balanced scorecard is often referred to as a management tool, not a measurement tool.

Developing Strategy

Present Time professional companies the world over, rely on good human resources to take them where they intend to go and HR must therefore align with the business and transform itself into a business partner than a business supporter. HR needs to build a strong team of professionals with their own areas of strength.

For HR to command the respect of all others in the corporate, *the following should be the constitution of the HR department*

- **The Resourcing Expert:** Who is able to identify each and every potential recruit as a considerable value add to the organisation. Recruitment then must no longer remain a routine activity but go beyond, to ensure that candidates with the right profile are available who have a combination of education, good family upbringing and good social skills with the potential to grow with the organisation.
- **The Developer:** Every HR professional must believe in the Pygmalion Effect., an HR professional as a developer must play the role of a coach, a catalyst.
- **The Behavioural Specialist:** The HR professional requires to look around and understands the undercurrents in the organisation and guard against undesirable practices getting an upper hand. They should be a good mind reader, a specialist in body language and must have a good network to catch up with the grapevine. He anticipates a problem much before even the management gets to know about them and would have solutions to nip such issues in the bud.
- **The Value Creator:** Individuals have to create value. The market is full of stories of headhunters who source out exceptional talent be it in marketing, finance or even in manufacturing. What they are looking at is value which has been created, by the individual over a period of time.

HR Transformation

- HR transformation changes both behaviour and outputs. Changing any single HR practice (staffing, training, appraisal, teamwork, upward communication) does not create a transformation. Unless the entire array of HR practices collectively adds value for key stakeholders, transformation has not occurred.
- Transformation requires integrating the various HR practices and focusing them jointly on value-added agendas in intangibles such as customer connection, organisation capabilities, and individual abilities.
- A fundamental transformation of HR starts with a definition of HR value – who the receivers are and a clear statement of what they will receive from HR services.
- The transformation endeavours and the need for HR to integrate itself into the corporate business plans and goals has heralded the concept of Strategic Human Resource management (SHRM).

Strategic HR

Strategic HRM' (SHRM) is a process by which an organisation utilizes the knowledge, skills and abilities of its employees in formulation and execution of its business strategy. **'Strategic HRM'** is the process of linking HRM with strategic role and objectives in order to improve business performance, to develop organisational cultures and also to foster innovation and flexibility.

The essential features of SHRM can be summarized as under:

- There is an explicit linkage between HR policy and practices and the overall organisational environment.
- It focuses on an organisation's human resources as the primary source of the organisation's competitive advantage.

- The activities of SHRM emphasize the HR programs, policies, and practices as the means through which the organisation's people can be deployed to gain a competitive advantage.
- The pattern and plan of SHRM envisage a congruence between HR strategy and the organisation's business strategy (vertical fit) and between all HR activities (horizontal fit).
- The people, practices, and planned patterns are all purposeful, directed towards the achievement of the organisation's goals.

HR New Roles

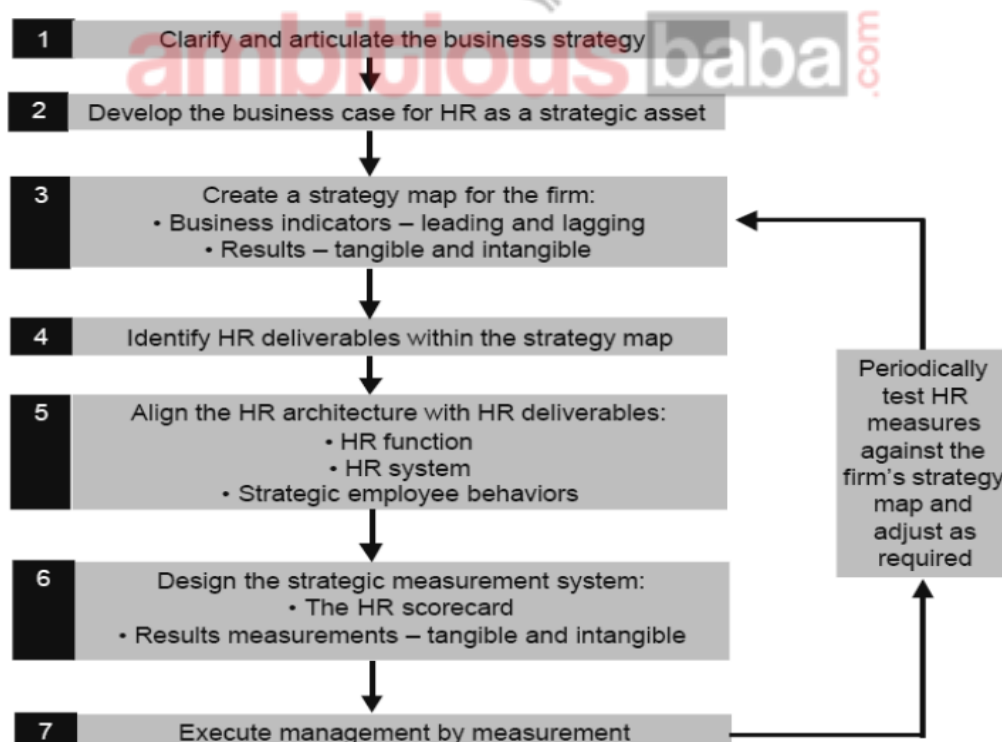
- **Core People Role**
- **Organisational Value-Add Role**
- **Business Transformation Role**

Broad Functions under each Role:

Role	Broad functions
1. Core People Role	Selection, orientation, career development, motivation, compensation, welfare services, retention & attrition.
2. Organisational Value-Added Role	HR technology services, creating a learning work-environment, organisational development & consulting.
3. Business Transformation Role	Creating flexible work culture, aligning HR initiatives to business strategies, implement organisational change & transition with ease, assess return on investment on human capital.

HR Strategy Formulation And Implementation

The Seven-Step Model for Using HR as a Strategic Business Asset



Evolution of HR Strategy

The HR role within a firm has evolved over the past century quite dramatically:

The traditional perspective was to view HR or the earlier personnel department as being purely administrative –administering benefits and payroll.

In the 1990s, HR started to be seen as a strategic asset from several perspectives:

- **Personnel – Hiring and developing exceptional employees.**
- **Compensation – Rewards for exceptional performers.**
- **Alignment – Executing whatever management wants.**
- **High-performance – Using HR to achieve greatness.**

Strategy Implementation

HR managers must understand the business intimately and in detail. That will then give them the insight to see precisely where HR deliverables are supporting the firm level performance drivers in the strategy map. This will allow the return on investment (ROI) in HR to be calculated using these three steps.

- **Step 1 – Identify all potential costs:** Costs comes in various combinations such as Fixed – those that don't vary with production levels, Variable – those that change directly with the level of output and Sunk – the total resources invested in a project.
- **Step 2 –Identify the likely benefits:** Every expenditure must find a corresponding revenue generation; and investment on human assets, should also correspond to contribution by high-performing employees as opposed to the output of low-performing employees. The economic impact of an average performance must get compensated by the superior performance of a higher cost employee.
- **Step 3 – Calculate the ROI of the program:** The ROI can be expressed as a percentage or counted in cash terms; or in time slots, indicating the amount of time required before the program recovers its costs. This could be stated as breakeven, more sophisticated net present value calculations to reflect factors like the opportunity cost of capital, uncertainty and risks or even incorporate benchmarks from peer group companies for improvement.

The HR Strategic Measurement system

- A well designed HR scorecard will accurately measure the impact of all HR policies on organisational performance and capture the full impact of HR. A well thought-out HR scorecard has four basic dimensions: HR Deliverables, which help identify the causal relationships through which HR generates value in the firm, with an emphasis on HR performance drivers and HR enablers.
- Once the HR deliverables have been clearly defined, the High-Performance Work System (consisting of HR policies, processes and practices) implements the business strategy and generates the deliverables specified.

- It is also important to measure how the HR system is aligned with the firm's key performance drivers. When properly aligned, the HR system should be making a definable and significant contribution to the value creation process. These are the metrics, benchmarks and standards by which the HR system's performance will be gauged and evaluated.

Need For A Distinctive HR Strategy

Corporate Strategy and HR Strategy

- For companies with strong HR strategies like the software majors, the new challenges for HR are likely to be on a fresh dimension of corporate strategy – mergers and acquisitions. Research on the success and failure of M&A has consistently found post-merger integration especially on the people front to be a significant factor in the success of a merger or acquisition.
- Considering the importance of HR portfolio for leveraging the same to the overall Corporate objectives, many of the global institutions of high reputation like, World HRD Congress, Institute of Directors, Government of India, GreenTech Foundation, etc., have since instituted 'HR Excellence Awards' whereby the organisations which have excelled in overall HR and/or in various functions of HR are selected through a committee comprising of HR/Corporate professional of high eminence on yearly basis and confer such awards, in appreciation of the valued contribution of HR to their respective organisational development.

Individual Development Plan

An IDP starts with an annual conversation between a manager and a staff member that is transformed into an action plan of realistic steps the employee can take to help him or her build a desired skill, better use of existing talents, or prepare for a career goal.

IDP is a process you direct, in partnership with your manager, to enhance your professional growth by:

- Setting goals for professional development.
- Identifying ways to learn or improve in important competencies you will need now or in the future to achieve these goals.
- Identifying your strengths, talents and passions and planning ways to use them on the job.

Creating Business Value Through HR Strategy

S.No	HR Strategy	Various steps involved in the Strategy
1.	Define human capital value	1. Understand the business strategy 2. Define HR strategy
2.	Align HR products and services	3. Segment HR customers 4. Prioritize HR investments 5. Design HR services
3.	Deliver value	6. Ensure right HR service delivery model 7. Establish right HR capabilities 8. Improve HR operational excellence continuously 9. Build HR brand 10. Measure impact of HR products and services

HR Strategy Framework

Define Human Capital Value

The first step towards an effective HR strategy is to define value and to understand how business value is created. This requires a deep insight into the overall business environment as well as a clear understanding of the organisation's overall business strategy.

- **Step 1: Understand the business strategy:** Understand market forces, trends and the business strategy and identify their impact on the HR strategy and priorities required to execute the business strategy.
- **Step 2: Define HR strategy:** Provide a roadmap for creating a unique competitive advantage by outlining how the organisation will leverage the organisation's human capital to address business challenges and achieve business objectives.

Align HR products and services

Once a strategic direction has been defined, the organisation must review its HR policies, programs and practices to ensure they are aligned with the defined Organisation's strategy.

Step 3: Segment HR customers: Identify the critical workforce segments and tailor specific programs and services.

- Define and determine which workforce segments are most critical to achieve the desired results.
- Assess the needs of each workforce segment and draw up programs and services tailored to their needs.

Step 4: Prioritize HR investments: Identify all HR projects and understand their expected costs, benefits, and primary focus to properly allocate scarce resources.

- Identify and develop prioritization criteria that are aligned with the organisation's strategy and priorities.
- Analyse the cost, benefit and risk of delivering each offering across the workforce life cycle.
- Allocate funding for parts of the people services Portfolio.

Step 5: Design HR services: Design and implement HR solutions that are critical to ensure the execution of the HR strategy for every phase of the workforce life cycle.

- Perform an HR process analysis and identify all HR processes that should be streamlined or reengineered.
- Analyse the current people services portfolio, (re)design and implement HR services and solutions.

Deliver value:

Converting HR strategies and initiatives into tangible business value requires the appropriate delivery approach, a solid foundation of HR capabilities and infrastructure

and the definition of business-driven performance measures to track whether the expected results are being delivered.

Step 6: Ensure right HR service delivery model: Think through people-related business challenges to design the right HR service delivery model.

- Analyse the current HR service delivery model and assess its ability to effectively meet the organisation's needs and objectives.
- Define specific roles, governance mechanisms, and delivery options.
- Identify key delivery enablers such as system processes and infrastructure.

Step 7: Establish right HR capabilities: Identify and build the advanced skills, competencies and capabilities required for HR to fulfill its strategic role.

- Identify the skills and competencies required to deliver the HR Strategy.
- Conduct a skills analysis, develop training and recruiting plans to fill any critical gaps.

Step 8: Improve HR operational excellence continuously: Design supporting tools, processes, and infrastructure to help the HR staff succeed.

- Assess the efficiency of HR-related services and activities through qualitative and quantitative analyses (HR Cost and Activity Analyses).
- Assess the cost structure of the HR function and control significant long-term and short-term HR-related costs.

Step 9: Build HR brand: Understand and communicate the value of HR to business leaders and key stakeholders.

- Design, develop and implement an integrated communication process in order to market the HR function within the organisation.
- Obtain feedback on how HR is and should be performing.

Step 10: Measure impact of HR products and services: Identify key performance measures to track the return on investment of HR products and services.

- Link the corporate strategy, strategic HR priorities and key performance measure for HR and for the workforce.
- Identify the right key performance measures and ensure the right balance between value- and cost-related measures.
- Design and implement an HR Scorecard to track HR impact, value and costs.

Factor Analysis in HRM

- Raymond Cattell used 'Factor Analysis' to formulate his famous 16-Factor Model of Personality to explain intelligence. He was also a strong believer in the use of statistical tools and psychometrics to provide the base of theories in psychology rather than just basing them on verbal arguments and discussion.
- Factor analysis is a useful tool for investigating variable relationships for complex concepts such as socio-economic status, dietary patterns, or psychological scales.

Types of Factor Analysis

- **Exploratory factor analysis:** Exploratory factor analysis is used to measure the underlying factors that affect the variables in a data structure without setting any predefined structure to the outcome.
- **Confirmatory factor analysis:** Confirmatory factor analysis on the other hand is used as tool in research and analysis to reconfirm the effects and correlation of an existing set of pre-determined factors and variables that affect these factors.
- **Structural equation modeling:** Structural equation modeling hypothesizes a relationship between a set of variables and factors and tests these casual relationships on the linear equation model. Structural equation modeling can be used for exploratory and confirmatory modeling alike, and hence it can be used for confirming results as well as testing hypotheses.

Benefits of 'Factor Analysis'

The main uses of factor analysis can be summarized as given below. It helps us in:

- **Identification of underlying factors** – the aspects common to many variables can be identified and the variables can be clustered into homogeneous sets. Thus, new sets of variables can be created. This allows to gain insight to categories
- **Screening of variables** – it helps to identify groupings so that the organisation can select one variable to represent many.

Connecting 'Strategy' To Organisations

Acquisition of Employees

- The first step prelude to talent acquisition is plan as to how many talents are required at what time and at what place. This process is called '**HR Planning**'.
- The process entails determining how many employees the organisation needs to perform at its optimum and where the employees should be working in the organisation given the external and internal challenges and opportunities.
- HR planning should assess the skills and competencies currently available within the organisation and what other intellectual capital will be needed in the future to meet the needs of the stakeholders adequately.

Training And Development

- The term '**Training**' is concerned with imparting specific skills for particular purposes. It is act of increasing the knowledge and skills of an employee for doing a particular job.
- '**Development**' refers broadly to the nature and direction of change induced in employees through the process of training and education. 'Management Development' is all those activities and programmes when recognized and controlled, have substantial influence in changing the capacity of the individual to perform his assignment better and in so doing are likely to increase his potential for future management assignments.
- '**Education**' is used in a broader sense involving the development of an individual socially, intellectually and physically.

Performance Mangement

- **“Performance management systems** make clear to employees what is expected of them and assure line managers and strategic planners that employee behaviours will be in line with the company’s goals”
- Performance management grouped into three categories of defining performance, measuring performance, and the feedback aspect of performance.
- Performance management systems are geared to ensure that each employee within the organisation, based on previously conducted job analysis, is performing the tasks intended at the expected level to support the strategic business objectives of the organisation.
- The thinking of HR practitioners and other business leaders that an annual performance appraisal is performance management must become obsolete. Effective performance management entails a process where each employee is fully aware.

Reward System

- **A number of studies have shown that effective reward systems** can significantly increase the motivation of individuals to increase their performance.
- The fundamental intent of rewards in organisations is to provide incentives to achieve individual and organisational behaviours that would enable the organisation to create competitive advantages and maximize the value of the shareholder’s investment.
- The needs and drives of the individuals differ from each other. For example, some employees get motivated through financial rewards, whereas, some employees get motivated through non-financial rewards like career advancement, recognition, appreciation, etc.,
- Hence, it is very important for the organisations to properly assess the needs of the employees and to devise and extend financial and non-financial rewards solely on the basis of needs but not to be approached uniformly.

Strategy Execution

A 5-Point Agenda for HR Professionals

There are five ways in which HR professionals can enhance their ability to contribute to this integration process.

- HR professionals must spend more time and effort understanding the business environment and the key strategic issues faced by the company.
- HR professionals must get more involved in the nitty-gritties of the business, i.e. in operational details and issues.
- HR professionals must move towards taking an integrated look at the people in the organisation, bridging the gap between HR and IR (Industrial Relations)
- HR professionals must see themselves as knowledge workers and facilitators of knowledge flows within the organization.
- HR professionals need to change from a support paradigm to a value creation paradigm.

Aligning HR System With Decision Framework

- **HR, being a support function**, has to strategically contribute to the business of the organisation. This is the essence of making HRM as strategic HRM.
 - In order to get value out of the HR, it is all the more important to properly align the HR system with decision making framework, it is highly recognized fact that right individuals with right skills, knowledge and attitudes are more prone to take right decisions which leads to organisational development.
 - Organisations can be much more successful if HR and other leaders are able to analyse historical data, benchmarking other departments and organisations, and even using simulations in planning and implementing future interventions. The measurements for organisation theory and behaviour would therefore be the ability of HR and other leaders reasonably to predict and plan accordingly for the future based on historical data and current environments.
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