

# Chapter 7

## Strategic Human Resource Management and Organizational Performance

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### ABSTRACT

*The discipline of human resource management has progressed significantly over a period of time. Today it is being considered as the most critical source of competitive advantage to the firm. It has progressed to a strategic business partner. Various approaches and models of strategic human resource management have been developed within the framework of strategic human resource management. Like many theories of organization, none are complete. Rather being right or wrong each approach points to different aspect of the process needed to develop effective strategic human resource functions. The issue of fitting HR practices to business strategy has become increasingly relevant over few years. Therefore in the present study we have made efforts to highlight various issues which are relevant to the strategic HRM in the changing scenario of business environment. The present chapter has been divided into five sections. In the first part, the changes occurring in the business environment and its implications for human resource functionaries have been discussed. In the second section we have highlighted the changing role of human resource management. Historical background of strategic human resource management, its role in addressing the challenges of changing business scenario and determinants of strategic fit have also been presented in the second section. In the third section issues regarding the relationship of strategic human resource management with business performance have been discussed. In the fourth section we have made efforts to bring into notice those emerging future trends which might become key issues for high performance in the organization of new era. At last conclusions have been drawn that what needs to be done on the part of the HR functionaries and the organization itself to enhance the strategic fit between the various HR practices and the overall organizational strategic plan.*

DOI: 10.4018/978-1-4666-1601-1.ch007

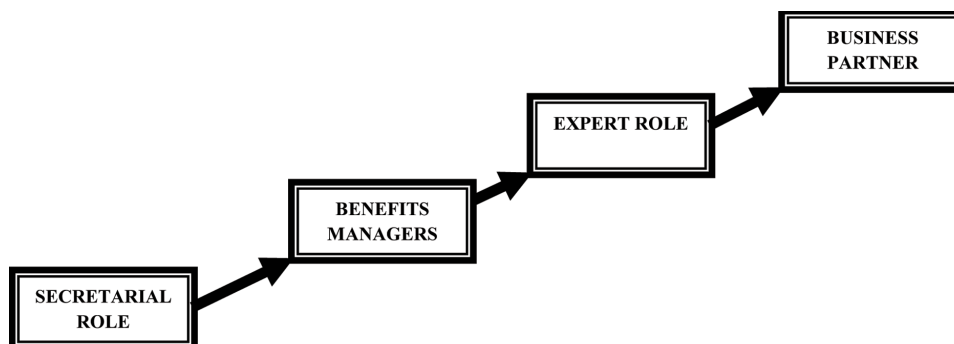
## INTRODUCTION

The industrial revolution in the nineteenth century brought about the automation in the manufacturing process putting the muscle power to the back seat and focusing mainly on production of goods. The focus later on shifted to marketing considerations putting customer satisfaction on the top. The information technology revolution of the twentieth century along with globalization has brought the drastic changes in the working environment i.e. putting people as the most important resource. The importance of human resources can be traced back to ancient Hindu texts such as Kautilya's Arthashastra, which provides the evidence of existence of systematic management of people as early as 320 B.C. (Khanka, 2003). However, the first evidence of origin of human resource management (HRM) practices has its roots in the industrial revolution of the 17th century. The technical advancements during this period created the need for better work methods, productivity and quality. Smith (1776) in his book 'An Enquiry into Nature and Causes of Wealth of Nations' talked about the economic advantages of the division of labour. He proposed that work could be made more efficient through specialisation. From the division of labour he saw three advantages: the development of skills, time saving, and the possibility of using specialised tools. The importance of people in the business performance can be traced from the work of Owen (1825). He argued that money spent on develop-

ing people was one of the best investments that management can make. Babbage (1832) examined and expanded upon the division of labour in his work and concluded that it allows a more careful matching of people's skills and physical abilities with specific tasks. Land mark revolution came in the field of people management practices when Taylor (1911) attempted to formalize the processes, methods, workers experiences and tacit skills into objective rules and formulae. The path breaking studies that revolutionized the human resource management practices were conducted from 1927 – 1932 by Mayo and his associates to study the relationship between productivity and the working environment followed by the studies carried out by Barnard (1938), and others. All these studies have identified commitment, communication, employee motivation, leadership and learning as the antecedents of organizational success. The nature, status and role of human resource management have progressively become broader and strategic since the days of industrial revolution (Figure 1).

Today human resource management is not just about hiring and firing people, administering wages and salaries, designing and implementing benefit programmes, and implementing the strategic intentions of the top management, rather it is playing an active role in formulating the business strategies. The advent of the era of globalization and liberalization accompanied by the information technology revolution has transformed the world around us. This has made possible the

*Figure 1.*



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