

**HRM**

NELSON SERIES IN  
HUMAN RESOURCES MANAGEMENT

# STRATEGIC HUMAN RESOURCES PLANNING

SEVENTH EDITION



BELCOURT | PODOLSKY



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**NELSON**

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*To Zabeen Hirji, formerly Executive Vice-President and Chief Human Resources Officer,  
RBC and currently Global Advisor, Future of Work, Deloitte for her strategic work in HRM.  
M.B.*

*To Mary Jo, Jackson, and Claire, for the joy that you bring to my life.  
M.P.*





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# ABOUT THE SERIES

The management of human resources has become the most important source of innovation, competitive advantage, and productivity. More than ever, human resources management (HRM) professionals need the knowledge and skills to design HRM policies and practices that not only meet legal requirements but also are effective in supporting organizational strategy. Increasingly, these professionals turn to published research and books on best practices for assistance in the development of effective HR strategies. The books in the *Nelson Series in Human Resources Management* are the best source in Canada for reliable, valid, and current knowledge about practices in HRM.

The texts in this series include:

- *Managing Performance through Training and Development*
- *Management of Occupational Health and Safety*
- *Recruitment and Selection in Canada*
- *Strategic Compensation in Canada*
- *Strategic Human Resources Planning*
- *Industrial Relations in Canada*

The *Nelson Series in Human Resources Management* represents a significant development in the field of HRM for many reasons. Each book in the series is the first and now best-selling text in the functional area. Furthermore, HR professionals in Canada must work with Canadian laws, statistics, policies, and values. This series serves their needs. It is the only opportunity that students and practitioners have to access a complete set of HRM books, standardized in presentation, which enables them to access information quickly across many HRM disciplines. Students who are pursuing the HR professional designation through their provincial HR associations will find the books in this series invaluable in preparing for the knowledge exams. This one-stop resource will prove useful to anyone looking for solutions for the effective management of people.

The publication of this series signals that the HRM field has advanced to the stage where theory and applied research guide practice. The books in the series present the best and most current research in the functional areas of HRM. Research is supplemented with examples of the best practices used by Canadian companies that are leaders in HRM. Each text begins with a general model of the discipline, and then describes the implementation of effective strategies. The books serve as an introduction to the functional area for the new student of HR and as a validation source for the more experienced HRM practitioner. Cases, exercises, and endnotes provide opportunities for further discussion and analysis.

As you read and consult the books in this series, I hope you share my excitement in being involved and knowledgeable about a profession that has such a significant impact on the achievement of organizational goals, and on employees' lives.

*Monica Belcourt, PhD, FCHRL*  
*Series Editor*  
*March 2018*

# ABOUT THE AUTHORS

## Monica Belcourt

Monica Belcourt is the founding director of the School of Human Resources Management at the Faculty of Liberal Arts and Professional Studies at York University. Her writing is grounded in the experience she gained as director of personnel at CP Rail, as director of employee development at the National Film Board, and as a functional HR specialist for other organizations. Dr. Belcourt alternated working in HRM with graduate school, earning an MA in psychology, an MEd in adult education, and a PhD in management. In 2010 she was awarded the designation of Fellow Certified Human Resource Leader (FCHRL), a lifetime achievement award in recognition of extraordinary contributions to the profession. She has taught HRM at Concordia University, Université du Québec à Montréal (UQAM), McGill University, and York University. At York, she founded and managed the largest undergraduate program in HRM in Canada and Canada's only executive-style Masters in human resources management. She is the academic editor of the Nelson Series in HRM.

Dr. Belcourt was the founding director of the International Alliance for Human Resources Research (now recreated as HRRI [Human Resources Research Institute] and managed by HRP), a catalyst for the discovery, dissemination, and application of new knowledge about HRM. Under her leadership, IAHR launched The Research Forum, a column in *Human Resources Professional*; the Applied Research Stream at the annual HRP conference; and the best theses awards program.

Dr. Belcourt was active in many professional associations and organizations. She was the president of the Human Resources Professionals Association of Ontario (<http://www.hrpa.org>). She is a frequent commentator on HRM issues for CTV's *Canada AM*, CBC, *The Globe and Mail*, Report on Business Television, Workopolis, and other media.

## Mark Podolsky

Mark Podolsky is an Assistant Professor at the School of Human Resource Management at York University. Mark received his PhD in Human Resource Management and Organizational Behaviour from the DeGroote School of Business at McMaster University. His research focuses on situational constraints in the workplace, which includes the kinds of management practices and behavioural norms that can influence individual and group level behaviours and outcomes. Mark's research also explores the relationships between organizational strategy and HR practices, and seeks to develop methods to connect strategic outcomes to HR practices and the management of human capital.

With management experience in the financial sector and in arts organizations, Mark's research and teaching brings an understanding of many of the issues facing practitioners today. In addition to organizational research, Mark has a deep love of music, and prior to his PhD was a tenured professional classical musician in one of Canada's leading symphony orchestras.



# PREFACE

The fundamental premise of this text is that different organizational strategies require different human resources management (HRM) policies and practices. *Strategic Human Resources Planning*, Seventh Edition, is designed to help human resources (HR) managers plan and make decisions about the allocation of resources for the effective management of people in organizations within a given strategy.

HR planning should be more than just demand and supply forecasting: HR professionals should be business partners in strategy formulation and implementation, and should be concerned with the implications of strategic decisions on HRM practices. A decision to expand internationally affects selection, compensation, and other functional areas. Strategic decisions to merge or downsize have HR implications beyond simple forecasting. All these strategic options will lead to questions about the best types of compensation, selection, and training to ensure the success of the chosen strategy. This text attempts to answer these questions, without neglecting traditional and important HR forecasting processes. It provides tools for HR planning and forecasting and matches corporate strategies with specific HR practices.

## // STRUCTURE OF THE TEXT AND CHANGES IN THE SEVENTH EDITION

The text is organized to introduce the reader to the concepts of strategy formulation and implementation within an HR context. Chapters 1 to 3 outline the fundamental building blocks of strategic HR with an introduction to the concepts and their links to HR planning, how trends and issues are identified, and how organizations determine whether implementation of strategies, policies, and plans are successful.

**Chapter 1** lays the groundwork by introducing the concepts of both corporate and business strategies. We spend some time explaining strategic choices because it is imperative that, as HR managers become business partners, they understand commonly used business terms. This will help them to participate fully in strategic discussions and to explain the impact of their HR programs on the organization. *Strategy* seems to imply that only corporate-wide plans are made, and that these are used to manage and control the various units that exist within an organization. But many large organizations operate several businesses, each with its own strategy. (For example, Alcan Aluminum operates two “divisions” or businesses, one that focuses on primary metals and one that focuses on fabrication. Each has a different business strategy, although the overall corporate strategy is growth.) Two types of business-level strategies are discussed. Because most HR professionals are becoming strategic planning partners, and are playing a critical role in the development of mission, vision, and value statements, we have included material on describing and differentiating these concepts. In the HR world, there is a growing understanding that human resources provide a competitive advantage. We describe what this means, and distinguish between tangible and intangible assets. We outline the benefits of strategy formulation. A model of strategic HR planning is introduced in this chapter to orient the reader and to provide the structure for the text.

**Chapter 2** continues the introduction to strategy by embedding HRM strategy within an organizational strategic framework. A model of strategic HR planning is introduced in this chapter to orient the reader and to provide the structure for the text. As the field of HR develops, many are claiming that the discipline needs to have a theoretical foundation in order to test and validate new ideas about the best way to manage employees. We introduce three perspectives, which may be in the embryonic stages of testable theories: the resource-based view, the behavioural perspective, and the “theory” of human capital. The rest of the chapter is focused on a description of strategic HR, the reasons HR planning is important, and the ways in which the HR function contributes to the strategic planning process. Coverage of goal attainment is strengthened in this edition. Finally, we conclude with a section that outlines the characteristics of an effective HR strategy.

The environmental factors that influence strategic choice, particularly within an HR context, are discussed in **Chapter 3**. We look at the sources of information about the environment and the methods HR strategists use to scan the environment. In this chapter, we have discussed the stages of environmental planning. We have listed the sources of information that are useful for environmental scanning. We have included material about the methods of forecasting, including scenario planning. There is also a section on competitive intelligence. In this edition, there is an emphasis on the expanding role of technology. As we do for every edition, we identify the latest trends in globalization, the labour market, politics and legislation, technology, demography, and culture that will influence the practice of HR. This edition has a new section on Generation Z or iGen. We conclude with a description of how stakeholders influence HR policies.

Chapters 4 to 8 focus on the more traditional aspects of HR planning: forecasting supply and demand. A critical component of strategy is matching employee capabilities with organizational objectives. The ability to assess current skills is a fundamental part of strategic planning for human resources. These chapters provide a comprehensive set of tools that enables the HR professional to develop the numbers and methods needed to support organizational objectives.

**Chapter 4** introduces the forecasting process and the general methods that are commonly used. This edition differentiates this chapter from the subsequent chapters on forecasting HR demand (Chapter 5) and forecasting supply (Chapter 6) by focusing on the forecasting process in general, and its importance in the development of strategic human capital. This edition includes a new section on the relevance of the stock and flow of human capital to the forecasting process. As organizations continue to move toward labour practices that go beyond the constraints of full-time or part-time jobs, this chapter considers how the human capital forecasting process can begin to look at work in terms of tasks that must be performed rather than jobs that must be filled. The chapter then considers the environmental and organizational factors that affect the forecasting process, and closes with a brief discussion of how estimates of demand and supply are brought together to form a basis for instituting or revising HR programs and policies.

**Chapter 5** introduces methods for forecasting the demand for human capital. This edition begins with some of the current challenges to demand forecasting, including the high levels of uncertainty in today’s environment as well as the growing volume and complexity of data that is becoming available to organizations. Chapter 5 is roughly organized by the basic categories of demand forecasting, ranging from quantitative methods, to qualitative methods, and finally to methods that combine both quantitative and qualitative methods such as simulation. With the growing importance of data in the decision-making process in organizations, this chapter provides examples of basic quantitative methods such as trend analysis and regression, so that students develop an

understanding of how these methods can be applied in the context of forecasting the demand for human capital. This edition includes new sections on the differences in the types of data and results expected from qualitative versus quantitative analyses, and a section on simulation as a method to combine qualitative knowledge with quantitative data.

**Chapter 6** focuses on the methods for forecasting the supply of human capital. This chapter begins by orienting the reader to the role that supply forecasting plays in the development of a skills gap. This edition also introduces the concept of employee segmentation, where the HR function groups employees based on characteristics that are relevant to the employee experience. Segmentation can increase the size of the relevant applicant pool, and potentially decrease turnover. This edition also includes an expanded focus on the use of Markov models and discusses the bullwhip effect in order to understand how to model the flow of human capital.

Managerial succession planning, discussed in **Chapter 7**, is an important consideration for ensuring that the organization has a stock of replacements for its managers. Succession management has evolved from replacement planning for individual executives to the development of talent pools for broad leadership roles aligned with the organization's strategies. An example of a replacement chart has been included in this chapter. Development techniques such as promotions, job rotations, special assignments, and mentoring and coaching are described. The role of employees in their own career development is outlined.

**Chapter 8** has been revised to reflect the growing roles of big data and HR analytics in the HR function. The chapter begins with the role of IT in supporting the HR function through various modes of service delivery such as web portals, apps, self-service, and HR information systems. Big data is defined and discussed in terms of the different types of big data, the resources required to support big data, and the ethical challenges emerging from its use. There is also discussion around the limitations to using big data in the context of the HR function. Artificial intelligence is emerging as an important partner to the use of big data, as it helps humans to sort through and model large amounts of data. Workforce analytics are introduced in this chapter as they relate to the development of HR dashboards. Workforce analytics are discussed in more detail in Chapter 14.

**Chapters 9 to 13** examine the types of strategic orientations that firms may choose. Company-wide strategies, sometimes referred to as corporate strategies, are focused on overall strategy for the company and its businesses or interests. Examples of corporate strategies include decisions to merge or to establish the organization in international markets. Strategies at this level are usually also focused on long-term growth and survival goals.

We discuss four major decisions facing organizations: restructuring, international operations, mergers and acquisitions, and outsourcing. HR planning is discussed within the overall strategies of restructuring, international initiatives, and mergers. By the end of these chapters, readers will understand how specific strategic decisions can be matched with HR policies and practices.

**Chapter 9** introduces the topic of organizational change and its importance to the HR planning process. The chapter begins with a discussion of the competencies that are important for leading change, and the challenges HR departments face in general in bringing about organizational change. Models of organizational changes are introduced, with a focus on two major perspectives around how change is implemented: the planned approach, and the emergent approach. Despite the apparent differences in these two approaches, they both benefit from the principles of a learning organization. This edition closes the chapter with a discussion of the role of the HR function in bringing about successful organizational change.

**Chapter 10**, written by Professor Terry Wagar of Saint Mary’s University, discusses restructuring and downsizing. Starting with definitions of these two terms, this chapter presents different strategies for reducing the workforce. The reasons for downsizing are delineated. The consequences of reducing the workforce are explained, including survivor syndrome and the impact on financial indices. We include a debate on ethical considerations of downsizing and an introduction to other impacts of restructuring, including corporate reputation, organizational learning, and employee safety. New to this edition is a discussion of the future of work, including artificial intelligence and job loss. This chapter offers suggestions for effective downsizing. The chapter concludes with a discussion on the effect of downsizing on HR issues such as the psychological contract and labour relations.

**Chapter 11** extends the principles of HR planning from the domestic context to a global focus. The chapter begins with a discussion of the challenges of managing an international workforce. This edition includes increased discussion around the different types of international assignments, and includes new sections on issues of human capital demand and supply in an international context.

In **Chapter 12**, we examine another high-growth area: mergers and acquisitions (M&As). An acquisition occurs when one company acquires another, whereas a merger is typically seen as two organizations merging to achieve economies of scale. Both acquisitions and mergers lead to issues of integration of common functions, elimination of duplication or underproductive units, and a meshing of cultures and practices. We include a section on cultural assessment and classification that should enable HR managers to make better decisions about possible fit between two organizations contemplating a merger. This chapter outlines the benefits of M&As, and compares the alleged benefits against the real effectiveness of this strategy. HR has a significant role to play, as mergers often fail because HR issues are not managed in a timely and effective manner. There is a new section on making mergers successful.

The hot issue of outsourcing is explored in **Chapter 13**, with a thorough analysis of the reasons, risks, and benefits of the outsourcing decision. The benefits are not always realized, so the chapter offers suggestions for managing the outsourcing arrangement. We include a new section on the issues with the providers of outsourcing. We also discuss the evolving consumer backlash to outsourcing.

A critical part of strategic planning is the ability to measure results and to determine if goals have been met. **Chapter 14**, “HR Assessment and Analytics,” provides information about the importance of not only measuring HR activities and programs, but also using data (metrics) to predict employee behaviour. Because HR is a young field, we are prone to adopt emerging trends, and so we describe how to distinguish a fad from an effective HR program. This chapter provides a framework for understanding how HR processes, practices, and policies can affect organizational outcomes. This edition strengthens the content on HR analytics. The chapter outlines the many ways to evaluate effectiveness, and which areas to measure. There is a need to establish universal metrics of measurement and prediction. We include a list of the characteristics of successful measurement.

Features retained from the previous edition of this text include chapter learning outcomes, extensive use of Canadian examples, use of figures and tables to convey information efficiently, margin definitions of key concepts, chapter summaries, and listings of key terms.

New content in the Seventh Edition includes new chapter opening vignettes, as well as new “HR Planning Today” boxes to put issues in a real-life context, and new “HR Planning Notebook” boxes to highlight key points that flow from the chapter. End-of-chapter material includes some new discussion questions, exercises, and case studies.

As a part of the process needed to earn a professional HR designation, granted by the HR provincial associations, applicants must undergo two assessments: one is a knowledge-based exam, and the second assessment is based on experience. Because the competencies required for the knowledge exams may differ by province, we have not provided lists or links in this edition. Those interested in obtaining an HR designation should consult the HR Association in their province.

## // INSTRUCTOR RESOURCES

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We hope that this book provides an enjoyable learning experience.

*Monica Belcourt  
Mark Podolsky  
March 2018*

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# CHAPTER 1

## STRATEGIC MANAGEMENT

### CHAPTER LEARNING OUTCOMES

#### AFTER READING THIS CHAPTER, YOU SHOULD BE ABLE TO:

- Discuss why managers need to examine the human resources implications of their organizational strategies.
- Discuss why human resources managers need to understand strategy.
- Understand the various terms used to define strategy and its processes.
- Describe organizational strategies, including restructuring, growth, and maintenance.
- Define business strategy and discuss how it differs from corporate strategy.
- Discuss the steps used in strategic planning.
- List the benefits of strategic planning.

## STRATEGIC MANAGEMENT AT THE BAY

Hudson's Bay Company (HBC) is Canada's oldest organization, established in 1670 as a fur trading company. It has survived for over 300 years by adapting its strategy to changing environmental conditions, both threats and opportunities. The following condensed history will demonstrate that it has experienced nearly all of the strategic options described in this chapter.

In 1821, HBC merged with its main rival, the North West Company. The declining demand for fur influenced the decision to change the fur trading posts to retail stores, and HBC launched its department store business in 1913. The company also had a diversification strategy and at various times throughout its history sold liquor, salmon, coffee, tobacco, and real estate. The economic downturn of the 1980s caused HBC to rethink its priorities and, like many other firms, return to its core business. Non-retail businesses were sold off and retail businesses added. The pace of retail acquisition increased with takeovers of Zellers (1978), Simpsons (1978), Fields (1978), Robinson's (1979), Towers/Bonimart (1990), Woodward's (1994), and Kmart Canada (1998) following in the tradition of Cairns (1921), Morgan's (1960), and Freiman's (1971). Even HBC's subsidiaries had to adopt new business-level strategies. For example, when Walmart entered the Canadian retail market in 1994, competing head-on with Zellers, the latter had to reposition itself from a low-cost business strategy to a differentiation strategy by selling exclusive

and slightly upscale products such as Martha Stewart Everyday. Other retailers, such as Eaton's and Consumer Distributors, did not make good strategic decisions, and went bankrupt.

In 2005, HBC adopted a corporate growth strategy and a business-level strategy of differentiation coupled with low cost by opening new store concepts such as Home Outfitters and DealsOutlet.ca. Online shopping was introduced in 2000. In 2006, American billionaire Jerry Zucker bought HBC. Thanks to HBC's talent management and succession planning systems in place, HBC was able to quickly generate a new executive team from within. When Zucker died, his estate sold HBC to NRDC (owners of the Lord & Taylor department store). The 2008–2009 economic recession again forced HBC to focus on its department store and specialty store businesses to drive growth. In 2011, HBC decided to spin off 220 stores of its weakest chain, Zellers, to Target for \$1.825 billion. Currently, HBC is focusing on the luxury market, with the acquisition of other retailers such as Lord and Taylor and Saks Fifth Avenue.<sup>1</sup> The organization has acquired one retailer in Germany and another in Belgium. Currently it has 480 stores and 66 000 employees.

The HBC example highlights the strategic decisions made by organizations in their attempts to survive and become profitable. Each strategic choice has implications for the management of human resources.

## // A NEED FOR STRATEGIC HRM

Read any Canadian newspaper and you will see stories such as these:

- Amazon buys Whole Foods and will pose new threats to the grocery retail sector.
- FedEx closes retail stores.
- Toys R Us files for bankruptcy.
- The jobs of hundreds of support staff in Winnipeg hospitals are eliminated.
- Strawhouse, a developer of digital marketing tools, based in Kelowna, BC, grew 3000 percent in two years.

The common theme in these stories is the adoption of a strategy that has serious HRM implications. In most cases, unless the HRM strategy, for example, internationalization or downsizing, is appropriately formulated and skillfully implemented, the success of the organizational strategy is at risk.

We have written this book to provide answers to questions about the proper alignment of HR policies with organizational strategies. Managers who have implemented any kind of change within their organizations realize the importance of matching HRM practices with organizational goals. There is a growing acknowledgment that the strategic management of people within organizations affects important organizational outcomes such as survival, profitability, customer satisfaction levels, and employee performance. Our goal is to help readers understand strategy and the HRM programs and policies that enable organizations to achieve that strategy. We discuss strategy at some length, because HR professionals have been criticized for not understanding nor using the language of business when discussing the value of HR programs. HR managers have to use strategy terms to show how their HR practices support organizational strategies.

## STRATEGY

**Strategy** is the formulation of organizational objectives, competitive scopes, and action plans for gaining advantage.<sup>2</sup> Strategy is the plan for how the organization intends to achieve its goals. The means it will use, the courses of action it will take, and how it will generally operate and compete constitute the organization's strategy.<sup>3</sup>

We have presented one definition of strategy, but there are many others. A sampling is found in HR Planning Notebook 1.1.

The top management team determines strategy through a process of environmental analysis (which is discussed in Chapter 3) and discussions. The strategy and objectives developed by senior management are then approved by the board, and negotiated and revised as they filter throughout the organization. The organization then develops plans, which include HRM programs, to achieve those goals. This does not suggest, however, that strategic planning is a unilateral or one-time process. Various organizational outcomes provide a feedback loop to the strategic planning process led by senior

### Strategy

The formulation of organizational objectives, scopes, and action plans for gaining advantage

## HR PLANNING NOTEBOOK

## 1.1

### DESCRIPTIONS OF STRATEGY

Concepts of strategy are numerous. Here is a guide to some common terms used throughout the text and in the organizations where you work:

*Strategy:* A declaration of intent

*Strategic intent:* A tangible corporate goal; a point of view about the competitive positions a company hopes to build over a decade

*Strategic planning:* The systematic determination of goals and the plans to achieve them

*Strategy formulation:* The entire process of conceptualizing the mission of an organization, identifying the strategy, and developing long-range performance goals

*Strategy implementation:* Those activities that employees and managers of an organization undertake to enact the strategic plan and achieve the performance goals

*Objectives:* The end, the goals

*Plans:* The product of strategy, the means to the end

*Strategic plan:* A written statement that outlines the future goals of an organization, including long-term performance goals

*Policies:* Broad guidelines to action, which establish the parameters or rules

management, who will also continuously monitor the dynamic environment to make adjustments to the strategy.

Strategic planning requires thinking about the future. In a perfect world, some experts believe that the strategic planner would establish an objective for 5 to 10 years and then formulate plans for achieving the goals. However, other experts do not perceive strategy in such a simplistic, linear fashion. They assert that the future is not that predictable. Planning for the long term (i.e., more than 10 years) is difficult and would be more appropriately judged as a best guess. For example, the nuclear power industry in Japan could not have predicted the 2011 Tohoku earthquake and tsunami, nor could financial analysts have predicted the 2008 economic meltdown on Wall Street. Besides catastrophic events, there are more typical shocks to the competitive environment that trigger a change in strategy, such as changing market conditions, new technology, emerging markets, and new moves of competitors etc. Some other organizational events that precede strategic change are outlined in HR Planning Notebook 1.2.

Because of the unpredictability of trigger events, many planners look at a relatively shorter period of time, a more predictable term of three to five years. Because of the uncertainty, their plans are formulated to be somewhat flexible so that they can respond to changes in the environment. Thus, strategic planning must be viewed as a dynamic process, moving, shifting, and evolving as conditions warrant changes. The process of subtly redirecting strategy to accommodate these changes is called logical incrementalism.<sup>4</sup> Rather than calling for a straight path to the goal, this strategy calls for a series of actions to react to changes in competitor actions or new legislation. Another name for this reactive process is **emergent strategy**. This cumulative process can look like a dramatic revolutionary change to those on the outside, but to those on the inside, the strategy has been incrementally implemented.<sup>5</sup> Firms can wait passively for these changes to occur and then react, or they can anticipate these moves and adopt a proactive stance.

Writers on strategy sometimes distinguish between intended strategy and realized strategy. The **intended strategy** is the one that was formulated at the beginning of the period. The **realized strategy** is, of course, what actually happened.

Figure 1.1 illustrates these various concepts of strategy.

You may be asking: Why develop a strategy if the organization must continually change it to accommodate unforeseen changes? Think of strategy as a game plan or a flight plan. A pilot's flight plan looks relatively simple: fly from Ottawa to Edmonton. However, before departure, he or she is aware of the environment and the capacities (or competencies) of the plane. On the basis of these external and internal factors, the pilot develops a strategy for a safe flight. While on the voyage, however, environmental changes, such as strong winds or a blizzard, may require a change of plans. Even internal factors, such as a passenger suffering a heart attack, may necessitate such a change. But the plane and/or its passengers will somehow, at some time, arrive in Edmonton. This is what is meant by incremental adjustments to the strategy, adjustments that do not require changing the focus of the desired result. There is no strategy so finely crafted that adjustments aren't needed. The general rule is that, unless there is a crisis, it should not be necessary to make quantum leaps in strategies. Thus, these strategies should withstand the test of time and be durable for several years.

A good strategy recognizes the complexity of these realities. To be effective, strategic management anticipates future problems, provides an alignment with external contingencies and internal competencies, recognizes multiple stakeholders, and is concerned with measurable performance<sup>6</sup>—just like the flight plan.

**Emergent strategy**

The plan that changes incrementally due to environmental changes

**Intended strategy**

The formulated plan

**Realized strategy**

The implemented plan

## TRIGGERING EVENTS TO STIMULATE A CHANGE IN STRATEGY

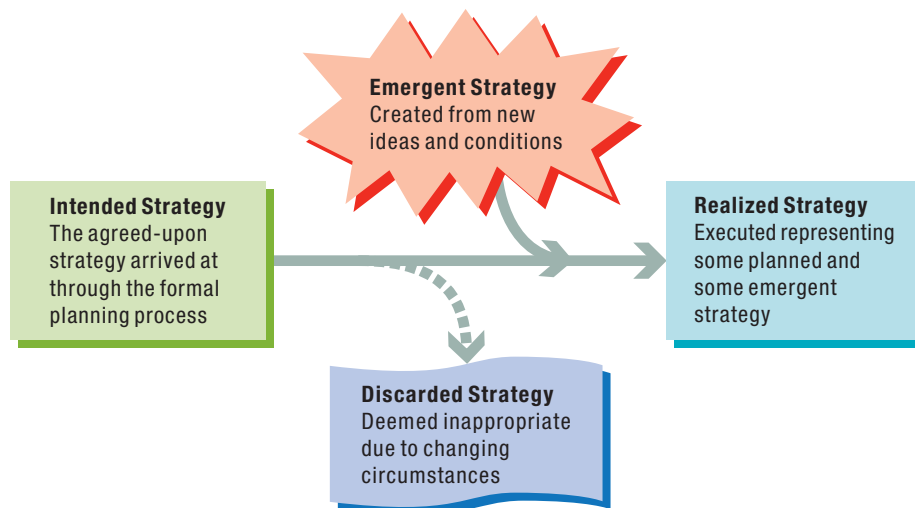
Here are some common examples of events that trigger a change in strategy within organizations:

- **New CEO:** May ask questions about the assumptions underlying the strategy and challenge the status quo
- **Threat of a change in ownership:** Similarly to a change in CEO, new owners (or a threat of new ownership) cause a reconsideration of the effectiveness of the strategy
- **External intervention:** Examples are a customer who accounts for a large portion of sales defecting to another company or lodging a serious complaint about a defect
- **Performance gap:** When sales or profit targets are not being met, most organizations will review the strategy
- **Strategic inflection point:** Rapid changes in technology (for example, when Yellow Pages had to go digital), customer preferences, or industry regulations will trigger a change in strategy

Sources: Adapted from S.S. Gordon, W.H. Stewart, R. Sweo, and W.A. Luker, "Convergence versus Strategic Reorientation: The Antecedents of Fast-Paced Organizational Change," *Journal of Management*, Vol. 26, No. 5 (2000), pp. 911–945; and T.L. Wheelen, and J.D. Hunger, *Concepts in Strategic Management and Business Policy*, 11th edition, 2008, Toronto: Prentice Hall, p. 19.

FIGURE 1.1

## THE REALITY OF THE STRATEGIC PROCESS



Adapted from the work by Henry Mintzberg. Used with permission.

The fundamental premise of this book is that different organizational strategies demand different HR policies and practices. Therefore, before we can discuss HRM strategies, you need to understand the different types of strategies that organizations formulate and implement.

## // STRATEGIC TYPES

Many executives and senior managers put in an incredible number of hours forging the strategy for the firm, and they believe the strategy they developed, with much sweat and tears, is unique to their organizations. In one sense, pure, unique organizational strategies do exist, because organizations are extremely complex and no two are identical. In another sense, they do not, because it is possible to group strategies into categories or generic types. Just as we can group our friends into personality categories of introvert and extrovert, so we can group organizations by strategy. By virtue of their simplicity, these *typologies*, or classification schemes, aid our understanding. The more we add variables to approximate the reality of an organization, the more unwieldy the typology becomes.<sup>7</sup> Organizational theorists use classification schemes not only to help us understand how organizations work but also to enable us to test the concepts, leading us to better information about how to manage.

These identifiable, basic strategies can be classified into (1) corporate strategies and (2) business strategies.

### CORPORATE STRATEGIES

**Corporate strategies**  
Organizational-level decisions that focus on long-term survival

Company-wide strategies, sometimes referred to as **corporate strategies**, are focused on overall strategy for the company and all of its businesses or interests. Examples of corporate strategies include decisions to compete internationally or to merge with other companies. Strategies at this level are usually focused on long-term growth and survival goals and will include major decisions such as the decision to acquire another company.

Grouped within corporate strategies are three options: restructuring, growth, and stability.

### RESTRUCTURING STRATEGIES

When an organization is not achieving its goals, whether these are business goals of profitability or social goals such as helping rehabilitate prisoners, corporate strategy becomes one of trying to deal with the problem. Restructuring options include turnaround, divestiture, liquidation, and bankruptcy.

**Turnaround strategy**  
An attempt to increase the viability of an organization

**TURNAROUND** A **turnaround strategy** (sometimes called a *retrenchment strategy*) is one in which managers try to restore money-losing businesses to healthy profitability or government agencies to viability. Turnaround methods include getting rid of unprofitable products, imposing layoffs, making the organization more efficient, or attempting to reposition it with new products. For example, many cable companies were once near bankruptcy and have now turned around. See also HR Planning Today 1.1 for a history of the turnaround efforts of McDonald's.

## TURNAROUND AT MCDONALD'S

The McDonald's burger chain has, for several decades, been a success story. Every year saw increases in outlets, people served, profits, and shareholder value. Today, 375 000 McDonald's employees serve about 69 million people *daily* in 36 900 outlets in 120 countries. Many different strategies led to this success.

One effort focused on making its food healthier through continuous innovation. It introduced premium salads in 2003, snack wraps in 2006, and real-fruit smoothies and frappés in 2010. Related to these introductions was its switch to trans fat-free cooking oil for french fries and the use of organic milks. The company also introduced a food and nutrition website, and created a mobile app that allows customers to calculate the nutrients in their meal choices.

Another effort attempted to tap regional food interests. The company has McArabias (grilled chicken in Arabic bread) in the Middle East, Shogun Burgers (teriyaki

pork) in Hong Kong, McShawarmas (kosher meat) in Israel, Bulgogi Burgers in South Korea, and McSpicy Paneer in India.

A third attempt was to diversify; McDonald's added high-margin McCafé coffees in 2009 and Chipotle BBQ in 2011 to broaden its customer base.

Finally, as consumers were facing the economic recession, McDonald's boosted its low-price dollar-menu items, which included a double cheeseburger or a hot fudge sundae. At a recent presentation at Ryerson University, the Canadian CEO admitted to making mistakes such as introducing too many products (menu creep). For example, a launch of custom made meals ("Create your taste") resulted in wait times of seven minutes, compared to two minutes for its fast-food bestsellers (fries, burgers, nuggets) McDonald's decided to focus on a core item: coffee. It now controls 11 percent of the brewed coffee market in Canada.

Sources: Adapted from [www.canadianbusiness.com/companies-and-industries/mccomeback](http://www.canadianbusiness.com/companies-and-industries/mccomeback), retrieved November 17, 2014; Olive, D. "Don't count the behemoth out yet," *The Toronto Star*, December 12, 2014; D. Goold, "McDonald's Woes a Matter of Taste," *The Globe and Mail*, November 28, 2002, p. B9; "McDonald's Said Ready for More Restructuring," *The Globe and Mail*, March 24, 2003, p. B1; and [www.economist.com/blogs/schumpeter/2011/06/fast-food-and-cultural-sensitivity](http://www.economist.com/blogs/schumpeter/2011/06/fast-food-and-cultural-sensitivity); and -company fact sheets, [www.mcdonalds.com](http://www.mcdonalds.com), retrieved July 26, 2011.

**DIVESTITURE** **Divestiture** refers to spinning off a business as a financially and managerially independent company or selling it outright.<sup>8</sup> For example, Nokia divested its smartphone business to Microsoft. Here in Canada, the private equity fund NRDC acquired Hudson's Bay for roughly \$1.1 billion in 2008. In 2011, it divested one of HBC's weakest chains, Zellers, which was sold to Target for more than \$1.8 billion, much higher than the price NRDC paid for HBC.<sup>9</sup>

**LIQUIDATION** The least attractive alternative is **liquidation**, in which plants are closed, employees released, and goods auctioned off. There is little return to shareholders under this option. Nevertheless, an early liquidation may allow some resources (including human resources) to be salvaged, whereas a bankruptcy does not. Jacobs, a fashion retailer, and Radio Shack are recent examples of liquidation.

**BANKRUPTCY** **Bankruptcy** occurs when a company can no longer pay its creditors, and, usually, one of them calls a loan. The company ceases to exist, and its assets are divided among its creditors. The list of companies that have filed for bankruptcy is long and includes CanWest, Quebecor, and Sears.

**Divestiture**

The sale of a division or part of an organization

**Liquidation**

The termination of a business and the sale of its assets

**Bankruptcy**

A formal procedure in which an appointed trustee in bankruptcy takes possession of a business's assets and disposes of them in an orderly fashion

Restructuring strategies, like growth strategies, have profound effects on human resources issues, such as managed turnover, selective layoffs, transfers, increased demands on remaining employees, and renegotiated labour contracts. These issues are described in Chapter 10.

## GROWTH STRATEGIES

Many organizations in the private-sector target growth as their number-one strategy. By this they mean growth in revenues, sales, market share, customers, orders, and so on. To a large extent, the implications of a growth strategy for HR practices are profound. A firm in a growth stage is engaged in job creation, aggressive recruitment and selection, rapidly rising wages, and expanded orientation and training budgets, depending on how the organization chooses to grow. Amazon and Alibaba are good examples of companies with growth strategies.

Growth can be achieved in several ways: incrementally, internationally, or by mergers and acquisitions.

**INCREMENTAL GROWTH** Incremental growth can be attained by expanding the client base, increasing the products or services, changing the distribution networks, or using technology. Procter & Gamble uses all these methods:

- Expanding the client base (by introducing skin-care lotion and hair conditioner for babies)
- Increasing the products (by adding Pringles potato chips to a product mix of cleaning and health care products)
- Changing the distribution networks (by adding drugstores to grocery stores)
- Using technology to manage just-in-time customer purchasing

**INTERNATIONAL GROWTH** Seeking new customers or markets by expanding internationally is another growth option. Operating a business in a foreign country, particularly one that is not in North America or Europe, may be challenging for the Western HR manager. The HR implications for an international strategy are described in Chapter 11.

**MERGERS AND ACQUISITIONS** Quantum leaps in growth can be achieved through acquisitions, mergers, or joint ventures. An **acquisition** occurs when one company buys another, whereas a **merger** typically is seen as two organizations merging to achieve economies of scale. Acquisitions and mergers have an obvious impact on HR: they eliminate the duplication of functions, meld benefits and labour relations practices, and, most importantly, create a common culture. The complexity of merging two companies is outlined in Chapter 12.

### Acquisition

The purchase of one company by another

### Merger

Two organizations combine resources and become one

## STABILITY STRATEGIES

Some organizations may choose stability over growth. For many reasons, some executives, particularly small business owners in relatively stable markets, wish to maintain the status quo. They do not wish to see their companies grow. The executive team is content to keep market share, doing what it has always been doing. HRM practices remain constant,





Smith Collection/Gado/Getty Images

Acquisitions typically achieve economies of scale.

as they are presumed to be effective for current strategy. Others see this as a temporary strategy (“Pause and proceed with caution”) until environmental conditions are more favourable for growth. Or perhaps the organization grew very rapidly, and needs time to manage all the changes. Both Microsoft and Apple had rapid growth, and are now growing more slowly. We have not included chapters on stability strategies, because the HRM issues would, by definition, be subsumed under another generic strategy.

Executives in other companies, recognizing that a current profitable situation will not last forever, choose to milk the investment. This harvest strategy can also be seen as a retrenchment strategy, because no investment or efforts will be made to make the business grow; therefore, the goal will be restructuring.

Businesses can pursue several strategies over time or concurrently. Read HR Planning Today 1.2 about the strategies implemented by Cara Operations.

## HR PLANNING TODAY

## 1.2

### MULTIPLE STRATEGIES

The mission statement of Cara Operations declares that its aim is to be Canada’s leading integrated restaurant company. Cara owns or controls food outlets such as Harvey’s, Swiss Chalet, and Milestones Grill and Bar. Cara is an example of a company employing multiple corporate strategies—through acquisition, divestiture, and new concept development—to achieve increased sales and profitability.

- *Acquisitions:* Cara began an aggressive acquisitions strategy in 1999 when it bought 61 percent of Kelsey’s, a Canadian company that owned 74 restaurants including Kelsey’s, Montana’s, and Outback. In 2002, Cara bought the Second Cup coffee chain and acquired a 74 percent stake in Milestones, a chain of upscale restaurants.

*(continued)*