

Keynote Address

Emerging Strategic Human Resource Themes for Sustainable High Performance Work Systems



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Abstract

This presentation discusses how a shift is happening in the management of the human resource in the present era of chaotic competition. Traditional HRM focus is giving way to a new HR paradigm that is tangibly linked to organizational performance and realization of its strategic goals. In order to gain competitive advantage and build high performance work systems, companies are increasingly resorting to the strategic management of human resources. Towards this end, seven key themes in strategic HRM, which most enlightened global organizations are focusing on, have been discussed. These themes are: primacy on soft as opposed to hard HR; employee first, customer second approach; building HR intangibles; hiring and retaining the gold-collared worker; employee cooperation through voice; employee engagement; and culture change through HR strategy alignment. It is argued that implementing these HR themes can help organizations in differentiating their human resource management which can be a key tool for promoting excellence. However, HR departments need to change their architecture to make this happen.

ISSN: 2345-9980

Introduction

It is evident that the business environment has changed remarkably during the last quarter century at the global level, primarily due to globalization, technological developments, greater focus on service industry, and information technology revolution. These developments have resulted in considerable changes in global economies and work practices. Consequent to these realities, fierce competition has resulted, as the global economy is far more integrated today. Speed has become a critical factor for determining the continued success of organizations. Economic consequences of being late are significant; they could result in: higher development and manufacturing costs, shrunken customer base, and lower profit margins. Further, due to the information technology revolution the entire workplace dynamics is changing across organizations. The costs of communications and transportation have also reduced substantially. Miniaturization is the norm in the electronic industry. Customers are more informed and aware now a days. Service sector has become more important as compared to the manufacturing and agriculture sectors due to globalization dynamics.

The emergent new realities have compelled businesses to learn anew and innovate, in order to be ahead of their competitors. Mergers and acquisitions (M&A) across the globe have become an ongoing part of the firm's strategy to fight competition. Promoting flexibility and change management have become very crucial for such firms for managing reintegration after mergers. M&A represent sudden and major change and generate a great deal of uncertainty. Consequently, culture change involving

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change in people's behaviour, attitudes and mental models are major people management challenges faced by organizations in general and more so during M&A activities. More firms have to deal with problems like diversity management today. And, global business operations have to give critical importance to cultural issues. Talent management and human capital management are becoming necessary areas of focus. There is a need for organizations to act more strategically in order to sustain themselves in an increasingly competitive environment. These realities have led organizations to focus on building high performance work system (HPWS) through strategic management of their human resource. So as to fully grasp the changing role of HR as a change agent, human capital developer and strategic partner, it is important to understand the demands of the organization as well as the employees.

Focus is increasingly shifting from traditional personnel management to strategic human resource management (SHRM). These trends have got well documented in the emerging HR research. Strategic HRM is seen as "A distinctive approach of employment management, which seeks to achieve competitive advantage through the strategic development of a highly committed and capable workforce, using an integrated array of cultural, structure and personnel techniques"(Storey, 1995). SHRM relates to the way people are developed, rewarded and led; and HR strategy is concerned with producing people behaviours that reflect business needs. A key factor for success in today's competitive environment is the alignment between a firm's

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strategy and its HR systems and practices so as to produce the requisite behaviour of organizational members.

In this presentation I seek to analyse some contemporary HR issues of strategic importance. These issues relate to greater reliance of empowerment HR; employee first, customer second approach; building HR intangibles; hiring and retaining the gold-collared worker; employee cooperation through voice; employee engagement; and focus on changing the culture through HR strategy and business strategy alignment.

From Functional HR to Strategic HR

Personnel management originated as a result of industrial revolution in UK. When factories flourished in Britain workers worked under capitalists mode of production. The rise of 'scientific management' and the Taylorist mode of production led to serious developments in the field of personnel management. Traditionally, personnel departments have been performing their functional role of managing issues like: hiring, training & development, performance appraisal, salary administration, and managing industrial relations (IR). However, with the changes in the regulatory environment in late 1970s onwards the term HRM became more popular in US. Human beings were now considered as resources that are linked to business success. Gradually emerged HR philosophy, which saw HRM as a critical management function.

Today HRM philosophy has gained enough popularity in Western organizations, MNCs (multinational companies) and to some

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extent at local levels as well. Presently, most MNCs are investing a lot in devising innovative people-management strategies. While a large number of organizations have been making claims of adopting progressive HRM strategies and practices, research especially in the West, explodes the myth of these claims. There is a huge difference between the rhetoric and the reality of the HRM. Both hard and soft HRM strategies have been found to be in vogue, including, among others: team building, empowerment, diversity management, communication, employee involvement, reward strategy, performance management, developing learning organizations, flexibility management, de-unionization, reengineering, and rationalization. Depending on the company strategy and business exigencies, both instrumentalist and empowerment HRM approach are being used. However, the scope for empowerment HRM strategy is much wider than instrumentalist HRM.

There are several challenges that HR managers face today. HR managers need to align HR function of the organization with the overall business strategy. They need to prove their credibility in the eyes of the employers and the top management. Critics of HR departments see outsourcing, consultants and human resource information system (HRIS), etc. as alternative to HR managers. Many suggest doing away with HR departments. Also, top managements have started realizing that HR management should not be left to the duty of HR managers only. Involvement of line managers is also equally important. All these issues have posed survival threats for the HR function. This function today is in a stage where it should preach less and do more. It should

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proactively involve itself in adding value in building and implementing policies conducive to competitive advantage. HR practices must create value by increasing the intellectual capital within the firm. It has been argued that HR practices are not meant to make employees happy but to help them “become committed” towards realizing the company’s vision (Ulrich, 1997). HR should become an agent of continuous transformation, shaping processes and a culture that together improve an organization's capacity for change.

Critical HR Themes in the New Era

In view of the above developments in the field of HRM, can we predict what HR roles would get critical attention of HR professionals in the coming times more than others? Of course, HR would be performing the employee champion’s role and the administrative role as in the past, but in order to prove its worth to the top management, it would have to indulge in activities that facilitate desired organizational change. Taking a clue from what smart companies are doing across the globe recently, the following seven critical HR roles are identified that HR professionals in enlightened organizations are seen to be focusing more often.

1. Primacy on Soft HR

Hard (instrumentalist) HRM and Soft (empowerment) HRM are two frequently used approaches to understand the policies of organizations. Their basic assumptions are quite different. Hard HRM views employees as resources like any other resource; it focuses on functional aspects of HRM like hiring, training and

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development, performance appraisal, and managing compensation. In this approach, human resources are sought to be acquired as cheaply as possible and exploited fully so as to achieve more with less and thus achieve organizational objectives. It is largely a reactive approach. On the other hand soft HRM views employees as resourceful humans; it focuses on strategic aspects of HRM like trust and relationship building among employees, employee communication, building organizational culture and employee commitment.

In 1982, in their book, *In Search of Excellence*, Peters and Waterman introduced the concept of excellence, which gave way to the emergence of the “excellence” movement in management theory. They defined what is meant by superior performance and what is the role of soft aspects in people management, i.e. culture, HR practices, management style and attitudes in achieving excellence. The excellence movement came up as a big boost for people management in organizations. It emphasized the need for effective HRM in order to generate added value. As a result several organizations like HP and Johnson & Johnson became associated with excellence movement. Within HRM, concepts of employee involvement, empowerment and participation gained importance as means of achieving employee commitment to organization’s strategy and goals. The book emphasized firm’s competitive advantage achieved through excellence in human resource management and linking personnel policy to the organizational strategy. Employers today are increasingly realizing the importance of trust, communication, transformational leadership and commitment. They are

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developing an ambiance of love and care. There is greater awareness that absence of trust can undermine employee motivation and commitment.

Emanating from soft HR paradigm, the challenge for HR managers is to build and maintain employee trust and commitment in the organization. It is therefore in the interest of HR managers and organizations to treat employees as a valuable resource. They need to realize the importance of soft HRM. They should provide appropriate welfare schemes and growth opportunities to their key employees. By doing so, organizations can retain their key talent. Organizations that fail to address the dynamics of changing business environment and the importance of soft HRM principles are likely to lose talent needed to build competitive advantage. Empowerment was viewed in the Western world as “the elixir of the 1990s.” In this regard, smart companies have already started undertaking several path-breaking steps, for example, promoting work–life balance, and devising new roles and responsibilities for employees that are acceptable to them.

2. Employee First, Customer Second

In the era of intense competition it is not the products and services that offer competitive advantage to companies. Companies today distinguish themselves not by what they sell but by how they deliver those products and services. It is essential for them to understand this fundamental shift in the market and bring changes in the ways employees/work are structured and managed. One unconventional yet radical management practice in this direction that some of the successful companies across world are adopting

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nowadays is “Employees First, Customers Second.” This management philosophy emphasizes building happy and respected employees which would work for the satisfaction of customers. In order to cope with the rapidly evolving markets employees must take from the management the ownership of effecting the needed change. Under this practice employees are given freedom to express themselves and ask questions. This free exchange of information and transfer of responsibility from management to front-line employees increases the speed and quality of innovation in the organization. This thinking is built on the highest form of employee empowerment and involvement.

Some of the smart companies that have benefited from the management philosophy of Employee First Customer Second are HCL, IBM, SEMCO in Brazil, etc. HCL turned its traditional organizational structure upside down in 2005 to embrace Employee First Customer Second philosophy. It made managers and those in enabling functions—such as HR and finance—accountable to the frontline employees who work in the value zone, just as those employees who were accountable to their managers. Frontline employees could interact with customers and create real value for them. The company recognized the need for change, created a culture of trust through transparency, turned the organizational pyramid upside down, and shifted the responsibility of change from the office of the CEO down to the employees. HCL developed a culture of transparency in the organization by sharing the company’s financial information—the good as well as the bad—with employees across groups. The company also opened the 360-degree performance review process

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to all employees who a manager might influence—and allowed anyone who had given a manager feedback access to the results of that manager’s 360. This practice increased participation, empowered employees, and made the 360 review a development tool, not an evaluative one. An online value portal was introduced where employee could exchange ideas. When HCL introduced these organizational changes the Indian IT industry was passing through a tough phase. Interestingly, HCL was listed as one of the most successful companies by *Business Week* in 2006.

Another example is SEMCO, a Brazilian manufacturing company. RecardoSemeler, the CEO of SEMCO, gives the freedom to its employees to make all the important decisions related to work. Primacy is given to people’s freedom and satisfaction ahead of company goals. As a result of these initiatives SEMCO witnessed a growth in productivity, employee loyalty and became an employer of choice. When Semler took over the company in 1982 its net worth was just four million US dollars. By 2003, it rose to 212 million US dollars. Presently, the company has more than 5000 employees.

For HR managers, the major challenge in embracing such a management philosophy is to provide employees with interesting work environment with opportunities for growth and learning. To invert the organizational structure upside down and develop a culture of transparency is not an easy task. This is something that cannot be done overnight. HR managers need to plan and act strategically to introduce such changes.

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3. Focus on Building HR Intangibles

The concept of intangibles is becoming increasingly popular now a days; they represent the hidden value of a firm. Dr. Baruch Lev of New York University researched on what determines share prices of a company. He found that it is through building of intangibles that companies enjoy high share prices. Traditionally it was believed that when a firm earns more money its share value goes up in the market. This logic, Lev argues, is getting twisted in favour of the value of intangibles in a company to be the determining factor. Thus, the proponents of the “intangibles” thesis claim that companies that have high intangible value have higher price/value of their stock. This is very much discernible for example in the share prices of Google, Apple, and Facebook. Their market cap far outweighs the book value of their assets. In General Electric (GE), its earlier CEO, Jack Welch (1980-2000), has been credited to be a master in intangible-value building. The share prices of GE could zoom exponentially due to the trust and credibility in the company that he created through his promises. When he took over as CEO in 1980, GE’s market cap was 13 billion US dollar, which rose to 500 billion US dollar when retired from the company.

The emerging focus on intangibles opens the way for HR professionals to more readily link their work to shareholder value. Unique people competencies and skills become its intangible asset when they help in building a firm brand and add value to a firm. Today due to increasing globalization and chaotic competition there is a greater emphasis on the role of HR department in talent acquisition and retention. Talent represents

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the intellectual asset of the company, which are the real drivers of an organization today.

On the basis of a survey of practices of globally-successful organizations, Dave Ulrich and Norm Smallwood (2005) identified seven key HR intangibles that have to be nurtured by any enlightened organization. They include: shared mindset, talent, speed, learning, accountability, collaboration, and quality of leadership. These intangibles are important for building customer, investor, and employee confidence about the future. Their architecture of intangibles suggests four layers of intangibles: delivering predictable earnings; articulating a future growth vision, say in the sphere of customer, innovation, and geography; ensuring future competencies aligned to strategy, say through product innovation, operating efficiency, customer intimacy, product distribution, and technological use and upgradation; and creating capabilities to build future competencies. Managers and leaders, who are concerned about shaping their future in the chaotic business world, are making greater efforts in attending to the needs of the above-mentioned intangibles.

What do all these revelations suggest for HR managers? Researchers agree to the fact that intangible assets rest on human and organizational capabilities—to innovate, acquire and practice skills, manage relationships, nurture talent, collaborate, and share and maintain values. Role of HR is inevitable in increasing the shareholders' value through helping develop each of the intangibles. Top managements often feel that HR department

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indulges in wasteful expenditure in non-measurable activities. HR managers should be involved in the architecture of intangibles and thus redefine their role in the company. HR department should partner with line managers and other functional departments especially those of finance, accounting and IT in articulating and designing the firm's strategy. HR could provide coaching, education, tools and consulting with the aim of making greater impact on performance.

4. Hiring and Retaining the Gold-Collared Worker

For the past three decades, changes in the global business environment have been dramatic. They are expected to be further accelerating in the coming decades. Examples of such changes include increased global competition, information technology revolution, business process reengineering, the shift from product to services, and the emergence of new forms of organization. With these changes in the global landscape, the expectations of workers and the nature of work they undertake have also changed. Increasing importance of knowledge and the global shift from product to services coupled with the emergence of telecommuting has led to the emergence of a new class of workers called 'Gold/pink collared workers'.

As a result of these changes, firms have realized the importance of human resources in managing change and innovation. In the 21st century, where socio-economic certainties of past are turning into uncertainties, organizations need to keep abreast of the times and develop strategies that prepare them to respond to the changing environmental pressures and proactively seize the

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initiative. Talent management and retention have become some of the key issues for managers in every organization today. Companies have started realizing that if companies want to remain in business, they need people, especially those with valuable ‘knowledge skills’. In order to manage change and innovation, organizations are becoming increasingly reliant on employees who are agile, multi-skilled and customer-focused. This new class of workers is known as the Gold collared workers. Organizations need to define, plan, acquire, engage, develop, deploy, lead and retain this multi-skilled gold collar workforce.

Key challenge facing HR managers is ensuring that the right people with right competency are hired. However, employers often face the problem of skill deficiency in young graduates. In many sectors, particularly those requiring higher level specialist skills, there are global shortages of talent (Cascio, 1995). Free labor markets created by opening up of economies have given a choice and freedom to employees of changing jobs. Employers of today face several risks related to human resources like unproductive workers, incompetent workforce, skill shortages and the risks of not replacing skilled employees just in time. Another major challenge is to retain the gold-collar workers. Organizations should understand the diverse needs of workers. Workers have different needs depending on their age, gender, caste, religion, etc. It is therefore challenging for organizations to understand the needs of this class of workers and fulfill them accordingly. Employer branding also plays an important role in talent attraction and retention. Google is one organization that has mastered the art of hiring and retaining gold-collar workers. It

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offers excitement at work to its employees by meeting their need and providing a culture of casualness, diversity, enjoyment and fun.

5. Employee Cooperation through Voice

Especially since the emergence of excellence movement in management, companies have been searching ways for promoting employee excitement. Employers in Europe found that “empowerment” was the elixir of 1990s; it has become truly popular as a device for promoting employee engagement. Employee participation has been at the heart of industrial relations since its inception; but it could become popular only in some of the locales like Germany, Sweden, Denmark, etc. It has to essentially involve the role of unions in building a democratic working of industry. But employers simultaneously worked on the agenda of trade union dilution in their efforts to promote organizational flexibility. Thus, they did not like to accept arrangements that strengthened trade unions. This led to evolving strategies that promote individualization of working class power. Thus emerged the concept of employee involvement (EI). EI has today become part of practicing high-commitment HRM model. EI also is symptomatic of a shift from Taylorism. Employee participation refers to state or collective-employee initiatives in promoting their collective representation in organizational decision-making possibly in the face of employer resistance (Hyman & Mason, 1995). Employee participation includes financial participation and profit sharing. *On the other hand, employee involvement* is a strategic device used by management in promoting employee commitment and the consent/cooperation of

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the workforce through information given directly without any representatives.

Unlike employee participation, which aims at industrial democracy, EI is a strategic device of employee cooperation through information given to employees directly or through involving them in solving immediate workplace problems. Managements are thus building partnership with the employees through EI. In cases where unions are strong employee participation is practiced to do similar role. Employee participation and EI are important for regular production as well as success of organization. EI intertwines trust and responsibility. The basic premise is to help and take employees along with the business.

Globalization exigencies require organizations to respond quickly to market change. Firms introduce a range of organizational changes involving new process technologies (machinery, plant and equipment), reorganization of corporate structures and changes to work practices and the organization of work at the 'shop floor' level as a response to adverse market conditions. Managers see EI as a device to reduce conflict in employee relations and provide alternatives to traditional adversarial attitudes of workers. A critical factor for the success of any organization today is the autonomy given to its people and how well this power is used for achieving organizational objectives. It has been noticed that organizations that can tap the strengths of their people as individuals and collectives, will be stronger and more competitive than those that cannot.

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There has been an increased use of employee involvement and participation mechanisms in organizations since 1990s. EI is often initiated by management as a means of harnessing employee cooperation in decisions to introduce new technologies and changes in work. These days, managers usually prefer direct negotiations with employees rather than representational consultative mechanisms, which often involve union representatives. It can be seen as an influence of strategic HRM which advocates a unitarist approach to employment relations. However, employee participation and involvement can take various forms depending on the presence of managerial prerogatives and laws in a country.

Despite the popularity of EI, it has been noticed that managers often resist devolvement of responsibilities to employees. Solution to this problem could be to educate/train managers so as to become facilitators in the EI. Unions also see EI as dilution of their countervailing power. In many organizations, EI initiatives are stalled by serious unions resistance which see highly individualized work and EI as threats to collective action. A solution to this problem could be promoting trust and involvement with unions as a strategy. Union involvement may help drive workplace change in a participatory direction.

6. Employee Engagement

Employee engagement is the critical focus of employers all over the globe today as strategy to confront chaotic competition. In simple parlance, it means a positive and passionate state of mind of an employee who performs his work with vigor, sincerity and

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dedication. Thus, an employee is said to be engaged when s/he believes in an organizations goals and make efforts for its realization, is passionate about his/her work, is willing to recommend the organization to others and stays with the organization despite other attractions.

It has been noticed that the percentage of highly engaged employees across nations is quite low. According to a 2005 study by Gallup on working population in Great Britain, only 16 percent of employees at British workplaces were engaged, 60% were not engaged and rest 24% were actively disengaged. According to the survey, these 16% people are those who are loyal and psychologically committed to the organization. They are more productive, more likely to stay with the organization, less likely to have accidents on the job and less likely to steal. Sixty percent disengaged employees are those who may be productive but they are not psychologically connected to the company. They are more likely to miss workdays and more likely to leave the organization. Rest 24% employees are physically present but psychologically absent from work. They are unhappy about their work situation and colleagues.

A study by Towers Perrin, a global professional services firm that helps organizations to improve their performance through effective people management, involved 86000 employees from 16 countries. It was found that people tend to stay with organizations that are talent-friendly and progressive. These organizations gave leading edge work environments and people practices. Another major finding of the study was that there could

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be different drivers of employee engagement in different countries. This study suggested that each country/culture has certain factors that are more important than other workplaces for building employee engagement. Companies should build their engagement strategies accordingly.

Research has also shown that engaged employees are more productive. They are more profitable and customer focused. Employee engagement is therefore a strategic approach supported by managerial tactics for driving improvement and organizational change. More and more companies today have started believing that employee engagement is the most critical force that drives business outcomes. According to a study conducted by *Forbes* on world's best workplaces in 2003, successful companies are able to engage their employees because they understand what their employees are saying, they create an intentional culture, demonstrate appreciation for employees' small and big contributions, support employee development and communicate well with their employees. Major challenge for HR managers in engaging employees is to connect with employees; build a caring and facilitative culture; provide them challenging and meaningful work opportunities; provide for human resource development; convey organizational mission, values and organizational expectations successfully; involve them in decision-making; and collaborate with employees.

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7. Aligning HR Interventions with Business Strategy for Culture Change

Aligning HR interventions with business goals and vision is the most important challenge for HR managers. Leading companies choose new culture word to develop in such a way that the new dispensation delivers competitive performance. For example, General Motors developed a culture of “Go Fast” and aligned all its HR systems and policies to facilitate the building of the “Go fast” culture. Among others, this involves developing such mental models among employees which help deliver the expectations of the customer. Rigid, hard-to-change mindsets are a major roadblock in effecting organizational change.

In view of the rising global competition, companies are increasingly experiencing pressures to adjust to the global and local business requirements; this gives rise to developing global mindset in employees of especially MNCs as a major HR mission. Since managers have to often oversee working of the plans across multiple territories, it is very important to recruit and develop executives who have a global outlook and the competence to exploit business opportunities across borders. Managers with global mindset have the ability to scan the world from a broader perspective. Even at the local levels comparative performance requires change of behaviours and mindsets. In order to cope with the uncertainties in business environment managers should develop competencies to foresee unexpected trends and opportunities. Flexible mindsets and ability to deal with fewer structural layers in organizational frameworks is the single most important competency required of global managers. As industries

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and market sectors are getting more and more mature, most companies are forced to implement the innovation-led new-business model successfully.

One case of the need of alignment is that of mergers and acquisitions (M&A). One can witness M&A activities across the globe, which have become an ongoing part of the firm's strategy, to deal with the chaotic competition. This always involves change management in order to manage the reintegration after mergers. M&A represent sudden and major change and generate a great deal of uncertainty. Culture change consisting of changing people's minds as well as their behavior are major challenges faced by organizations during these. Firms also have to deal with problems like diversity management and cross-cultural issues. But it is being observed that in a large number of cases most post-merger situations do not reflect the requisite integration and generation of shareholder value. This is the single most important reason for failure of mergers. Many times employees experience grave stress in dealing with such changes and leave the organization; this often includes some of the star performers. The skill-sets or mindsets required by the new businesses are often quite different from those available with the existing employees.

For effecting the requisite change, the problem often lies in the attitudes, roles and behaviours of HR professionals themselves, whomay support command and control management style. They need to shed their power-centre mentality and nurture collaborative behaviour patterns for making the M&A successful. Further, as we move into the time ahead one would notice more

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ambiguous roles and uncertainties about lines of business operations. HR professionals have to move ahead with the possibilities of these uncertainties in mind. Motorola effected a very successful change of mindsets of employees in general when it saw that competitive realities warranted new strategies to be focused on, which in turn necessitated new HR interventions and new behaviours of employees. It wrote for itself a beautiful story of strategy alignment. It involved all the key players in this transformation process, which facilitated the success of this experiment.

Conclusion

As HR departments are evolving to perform newer roles like that of strategic business partner, change management and HR competency-building, companies will face the challenge of developing these competencies effectively in HR professionals. In a recent research by the University of Michigan it was found that in order to develop high performance work systems (HPWS) HR professionals will have to act as leaders and change agents. The biggest challenge for HR professionals is to convince top management about their deliverables and prove their credibility. Critics of HR often argue that although this role is very critical, it has to be performed mainly by line managers as HR people have often not played it competently.

Success of businesses today depends on the human and organisational capabilities—to innovate, build values, learning new skills, managing relationships. In the present era of intense competitiveness, talent attraction and retention are most important

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for organizations so as to have an edge over competitors. In this race for success, companies will be dependent on innovation, employer branding initiatives, providing work-life balance and healthy environment to attract the best brains. The most important strategic agenda of HRM today is to gain employee commitment to the organizational goals through empowerment.

Traditionally, the HR function has spent more time on adhering to legal and regulatory procedures. However, HR departments cannot afford to be playing reactive roles only, doing only administrative work and being risk averse. They need to get support from line managers to internalise HR interventions. HR professionals need to learn how to connect people's roles, behaviour and performance with the needs of business strategy. They have to learn how to nurture values in the cultural psyche of the organization.

With more and more firms entering the global arena, they would need a higher degree of professionalism in their thinking and operations. It would be risky to ignore or undermine the role of strategic HRM in this regard. Strategic HR themes discussed in this presentation will become a serious affair for HR managers requiring their immediate attention. However the actual HR recipes adopted in a particular country will depend on a country's socio-economic and political realities among other factors.

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ISSN: 2345-9980