# Enhancing recognition as HR-Business Partner by implementing Workforce-Differentiation?

Peter Weis (peter.weis@fh-kempten.de)
University of Applied Sciences Kempten, Germany

Robert Schaefer (robert.schaefer@kienbaum.de)
Kienbaum Management Consultants, Munich, Germany

**Summary**

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|---|---|
| Research questions: | Workforce Differentiations (WD) as applied strategic Human Resource Management (SHRM) has many potential benefits as well as risks; the preliminary WD concept needs more theoretical and practical research, though. Successful implementation depends largely on the scope of segmentation already applied in organizations, on the company context and culture and needs to be embedded in a professional change management approach. |
| Methods: | Literature review combined with theoretical consideration and qualitative research |
| Results: | WD has many potential benefits and risks; the concept needs in some respects additional theoretical research as well as empirical case studies and findings |
| Structure of the article: | 1. Essay 2. Literature Review 3. Workforce Differentiation in Practice 4. Conclusions 5. About the authors |


## 1. ESSAY

"Senior managers and readers of the popular business press are probably familiar with the mantra that people are the new source of competitive advantage. (…) But despite all the talk about a new strategic emphasis on the workforce, most companies haven't yet capitalized on the opportunity for strategic success that effective workforce management can provide" (Becker, Huselid, & Beatty, 2009, p.1).

This seems astonishing as Huselid and Becker (2011, p.422) argue that the primary conclusions of the academic literature about HR-Strategy "have been that the financial returns to investments in *high-performance work systems* (HPWS) are both economically and statistically significant". Similarly, there is no scarcity of scientific evidence supporting conclusions that workforce competencies that are well aligned to business strategy drive competitive advantage.

Illustrative examples for this argument are core competencies like organizational learning systems with skills like experimentation or learning ability; further, the effective management of cross-unit collaboration with team oriented and communicative skills, or values like commitment and its consequence for organizational citizenship behavior (OCB).

Therefore the question arises why obviously so many companies do not draw on these findings appropriately. There is no scarcity of answers proposed in the literature. HRM seems not to have become a key area of management attention at large, and, in particular, HR functions have not been over successful in becoming true strategic business partners (cf. Alfes & Thom, 2010; Scholz, 2010b; Kienbaum, 2011). Referring to the scholar's side, Scholz (2010b) notes that there is usually a lack of concrete, substantial proposals on how to arrive at relevant HRM practices, since much of the strategic debate on HRM remains at a rather abstract and conceptual level.

All in all SHRM is not high on the priority list for many HR practitioners, and it is often not considered by senior line managers as a value-adding activity of HRM. However, it is proposed that this also may be due to a "substantial variance in HR management quality" (Huselid & Becker, 2011, p.423).

Whether Workforce Differentiation and especially WD according to Huselid and Becker (Becker, et al., 2009; Becker & Huselid, 2006; Huselid, Beatty, & Becker, 2005; Huselid & Becker, 2011) has the potential to bridge the gap between the more abstract macro (strategic) and the more concrete micro (functional) domains of SHRM is questioned in this article. The stakes are high: Regarding workforce differentiation as a major element of Human Capital Planning, Brush and Ruse (2005, p.49) assume that this is what gives, "HR (…) the opportunity to get and keep a seat at the strategic decision making table".

*Clarifying Workforce Differentiation*

Before discussing these "promises" the term WD should be clarified preliminarily. A more detailed discussion follows after introducing related aspects of the Resource-Based View of the firm theory (RBV).

At first sight, the concept of WD appears to have been already implemented in manifold ways in organizational practice. It is not new per se that companies differentiate between, e.g., blue-collar and white collar workers, junior or senior managers and non-managers, low-level vs. high-level professionals, low and high performers, employees with low or high potential, and employees vs. co-workers or associates. Additionally, firms usually differentiate between employees with commodity-like or company-specific abilities, different employee groups, and younger and older employees. Consequently, adequate HR policies react to different needs and ambitions of different individuals or groups of individuals and translate these into diverse HR tools and instruments.
For example, employees with particular development potential are identified, selected, developed and promoted into higher positions. Professionals with greater contributions to company goals are compensated in different ways than those still climbing along the learning curve. So, the underlying differences and interests of stakeholders already create a broad variety of HR tools and practices in and within organizations.

In contrast to the preceding view, WD as according to Huselid et al. in essence means to explicitly differentiate employees according to their contribution to the execution of strategy and thus the company strategic objectives goals (A-, B- and C-Players), and to derive specific differentiated HR actions based on this classification: A-Players are those employees who adress key business challenges and who are critical for achieving competitive advantage (Huselid, Beatty & Becker, 2005). They usually possess superior capabilities and competencies valued according to how they fit to the requirements of the specific business strategy.

*Research Questions*
At first we summarize some major implications of the RBV; then, we clarify the WD approach by Huselid et al. in the context of RBV.

The theoretical centrepiece of this article elucidates the “strategic jobs” and the combined “strategic assets” with their core competencies: How can we identify strategic jobs? What is actually “strategic” about these jobs? Can WD contribute to illuminate the “theoretical logic that links job design to the kinds of strategic outcomes that are the focus of the SHRM literature” (Becker & Huselid, 2010, p. 384)?

Therefore we consider potential benefits and risks of this approach, and we also consider its implications for imcumbents of “non-strategic jobs”. Further, we discuss whether WD is really an innovative HR-practice, or whether it is more a “white elephant“, as practitioners have had related tools like job gradings or job descriptions for a long time? We also exemplify consequences and resulting actions from this approach to ascertain whether WD is a potentially useful, realistic, and practical approach for HR. Finally, we conclude with some implications regarding the role of HRM.

## 2. LITERATURE REVIEW

Competitive advantage has many sources; it derives from industry or company specific factors such as organizational size (e.g. economies of scale, scope and learning), market imperfections (barriers to entry), regulations (patents or antitrust laws) and the organization’s workforce and culture, capital resources and management system (cf. Clardy, 2007, p. 342).

*Resource-Based View*
Based on a broad field of business strategy literature SHRM scholars have invoked the resource-based view of the firm theory (RBV), to understand which workforce issues and characteristics are important for competitive advantage (cf. Grant, 1991, 2007; Wright, Dunford, & Snell, 2001; Colbert, 2004).

One purpose of strategic planning is to help the firm achieve a sustainable competitive advantage by differentiating itself from its competition with hard-to match operational asymmetries or imbalances (Prahalad and Hamel, 1998).
A similar view (Barney, 2001) concentrates less on a comparative approach vis-à-vis its competitors than on its internal resources or ‘‘core competencies’’, distinctive qualities and characteristics: It is the valuable resources that allow organizations to take advantage of market opportunities.

According to RBV theory the *value* of a resource is determined by the context of its application, in particular by its demand from and its usefulness for companies (cf. Collins & Montgomery, 1995). An example for the latter could be a bundle of resources securing a superior customer service and loyalty. These valuable resources also need to be *rare*, since resources that are common offer little potential to achieve sustained competitive advantage: simply, because many organizations will have access to them (Barney, 1991; 2001). Furthermore, the criterion of *inimitability* refers to the degree to which they are hard to duplicate or replaceable with a substitute; resources that are harder to imitate are likelier to provide advantages over the longer run (Barney, ibid.). Hence, resources based on company specific knowledge and competencies are more difficult to replace.

Only if a resource or capability meets all three criteria, can it be considered a strategic factor or strength (cf. Stavrou & Brewster, 2005). From this view, the key to an organization's success is therefore the uniqueness of its portfolio of resources and capabilities (Grant, 2007).

An example for a strategic strength in Sales and Distribution may be effective sales promotion and efficiency, reliability and speed of order processing.

It should be noted that strategic (individual and organizational) capabilities are the outcomes of complex processes across the organization in combining resources with competencies and expertise in a way that is superior to rivals (Schreyögg & Kliesch-Eberl, 2007). They emerge in particular, when an organization combines and delivers on employees' respective competencies, knowledge, motivation, and abilities successfully (Prahalad & Hamel, 1998; Ulrich & Smallwood, 2004).

In essence, the RBV suggests that sustained competitive advantage accrues to firms that identify, manage and combine valuable, rare and not or difficult to imitate resources and capabilities, as these allow firms to exploit opportunities in unique and advantageous ways (cf. Barney, 1991; 2001). In other words there is an empirical positive relationship between these "managed" resources (e.g. special capabilities, culture, and communication) and success factors (e.g. productivity, market success, profitability, commitment).

It is not a primary intention of the RBV theory and SHRM generally to further prescribe the contribution of HRM tools or instruments (Colbert, 2004; Wright, et al., 2001), nor do they provide specific techniques for managing the workforce elements of strategic capabilities. But given that HR has the potential to manage these workforce characteristics (skills/competencies) by adequate business oriented HRM systems and practices, and is able to link them to superior organizational outcomes (cf. Becker & Huselid, 2006), it should also enhance HR's business partner competence.

*The Concept of Workforce Differentiation*

The last section suggested that, by focusing on how HRM fits to the strategic capabilities as defined by applying RBV logic, there is a basis to augment HRM contribution to competitive advantage. This section thus introduces the concept of workforce differentiation as a proposed practical approach to align business strategy and HRM.

Using strategic capabilities develops the alignment logic further: "Strategic capabilities are the basis for what is, in fact, strategic about a firm's approach to workforce management. Focusing on those capabilities is what puts strategy into a workforce strategy" (Becker, et al., 2009, p. 32).

But what exactly does it mean to consider strategic capabilities as operational building blocks of a strategic approach to HRM? And what does it imply?

Firstly, not all employees or employee skills are of the same (strategic) relevance and importance to organizations. Secondly, it requires differentiating HRM to a greater degree of firm-specificity: As strategic capabilities differentiate organizations from their competitors, they should therefore, generate “idiosyncratic fit” of HRM (Becker & Huselid, 2003, p. 6).

What are the implications of these conclusions? Beatty and Schneier (1997, p. 30) propose that HRM should gain significance by particularly taking care of the “core competency workforce”. The authors recognize the existence of “high-leverage positions” (Beatty & Schneier, ibid.) with a direct impact on the organization’s strategic success. Contributing to attract, retain and develop these talented employees by enhanced allocation of funds and HR-focus should augment HR’s strategic value.

Other authors argue that the different value of employees for companies should be reflected by managing employees differently and by a differentiated architecture of HR practices and systems i.e. by standardizing some HR practices, and customizing others to the specific requirements of certain employee groups (cf. Lepak and Snell, 1999; Wright et al., 2001). Also, the psychological contracts of mutual expectancies, i.e., the forms of employment relationships between employees and the organizations, should differ. Lepak and Snell (1999) therefore propose a differentiating approach to HRM, grounded in two dimensions: uniqueness of human capital, in terms of the firm-specificity (versus broad availability and use) of skills, and strategic value of human capital. These dimensions should become the primary determinants of a respective HR architecture. **Figure** 1 displays a summary of the proposed differentiated HRM architecture.

Figure 1:
Differentiated HR Employment Modes and Characteristics (adapted from Lepak & Snell, 1999, p. 36)

The model has both descriptive and prescriptive purposes. Employee groups with high uniqueness and high strategic value are described as being in an *internal development employment mode* with an organization-focused psychological contract, i.e., employment relationship, and a configuration of HR practices that is oriented towards commitment. HR-practices should, for example, emphasize flexible work design, talent and potential, intense training and development including career path models, skill-based and team-based pay schemes, as well as information sharing and extensive feedback processes in order to enhance long-term mutual interests (Lepak & Snell, 1999). The authors also provide empirical support that variations in the value and uniqueness of skills are indeed associated with the described differentiated employment modes.

Considering strategic capabilities and differential contributions of roles, the building blocks of SHRM alignment as proposed thus go beyond identifying the most valuable employees groups, or roles: It implies recognizing the necessity of a differentiated HR architecture in order to achieve the HRM fit and alignment. Becker and Huselid (2006) consequently suggest that applying a greater emphasis on differentiation is a major strategic opportunity for most HR functions and most firms to enhance competitive advantage

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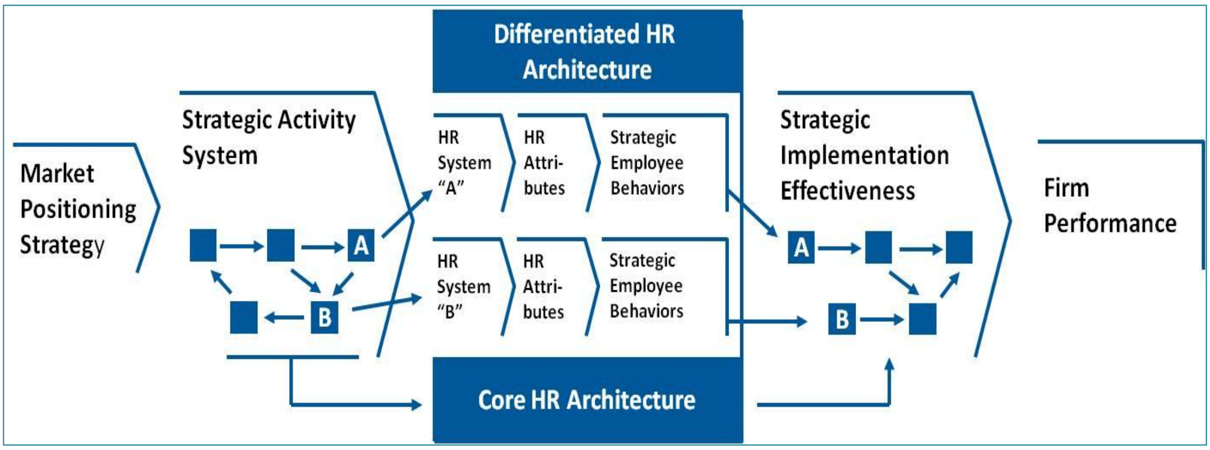
Their conceptual understanding of such a resulting differentiated HR architecture is displayed in figure 2.

Figure 2:
Differentiated HR Architecture Contingent on Business Strategy (adapted from Becker & Huselid, 2006, p. 906)




This conceptualization is organized around the claim that strategy implementation effectiveness is the point of impact for HRM. It therefore needs to be based on an understanding of what the required capabilities are, and of how and to what extent they are the outcomes of HRM practices. Creating this fit then reflects an "idiosyncratic" (Becker & Huselid, 2003, p. 6) or "differentiated fit" (Becker & Huselid, 2006, p. 906) HR architecture. The differentiated HR architecture focuses uniquely on each element of the system, generating those employee behaviors that are required to enhance the performance of each dimension of strategy

implementation effectiveness (Becker & Huselid, 2003, p. 38).

However, *fit* also refers to a core HR architecture that should be based on best-practice experience and be aligned to the strategic activity system of the business. It has equal value in all strategic business processes and should focus on those workforce-related requirements that are common across the organization. Effectiveness in strategy execution is then an outcome of both core and differentiated fit (Becker & Huselid, ibid.).

With regard to which HRM practices should effectively be managed accordingly within such a differentiated HRM architecture, the range of potentially differentiated HRM practices could, for example, include evaluation, development, compensation, and succession (Huselid, et al., 2005, p. 114), attraction, selection, and retention (Huselid & Becker, 2011, p. 426) and employer branding (cf. Scholz, 2010b, p. 228).

Other authors, notably from consulting firms, have come to some similar conclusions regarding the importance of a more differentiated approach towards strategic jobs and roles and the resulting HR consequences. Taking a workforce investment portfolio standpoint, Balaguer, Cheese & Marchetti (2007) and Cantrell & Di Paolo Foster (2007), for example, argue that leading-edge HR functions should develop and take on an investment strategy, in order to avoid indiscriminate allocations of HR resources, given that HR budgets usually cannot cover extensive activities.

In order to achieve this, HR functions should apply a WD approach by targeting those jobs that are more critical to its mission and strategy than others. But the authors also state that such workforce differentiations are not widespread. On the contrary, many companies apply HR investments in the same way across all roles and employees, partly due to an existent (historic) assumption that all employees are equally valuable, and partly due to a lack of understanding how different jobs contribute to business outcomes, according to the authors.

Also, the need to maximize returns on HRM investments is emphasized by identifying critical workforce segments, which are defined as those parts of the workforce that a) truly create organizational value, b) can make or break strategy, c) have the most valuable skills, and d) are generally the hardest to replace (Deloitte, 2009). Deloitte (ibid.) also argues that strategic workforce planning requires thorough analyses and understanding of complex supply and demand dynamics, which simply cannot be achieved for all roles, but should be applied only to those that are most critical. Huselid, et al. (2005) and Huselid and Becker (2011) recognize this argumentation, and support the view of managing the workforce like a portfolio of assets, from a practitioner-point of view.

Table 1 summarizes some major arguments from this section.

Whether or not HRM is able to gain strategic impact can be evaluated based on its contributions to the effectiveness of the desired strategic capabilities of the organization. It seems likely that the degree and value of impact increases as the organization's HRM architecture is differentiated based on the approaches to managing the workforce components of the strategic capabilities. This impact could indeed work disproportionately through focusing on "strategic jobs" as proposed by WD (cf. Becker & Huselid, 2006).

Table 1:
*Summary of major WD-approaches and their characteristics*

| **Author** | Main Messages |
|---|---|
| Lepak & Snell (1999; 2002) | Differentiation based primarily on employee characteristics, such as the value of **knowledge and skills**. Employees with the most valuable and unique skills are considered strategic assets for the company Skills and knowledge are valuable if they improve effectiveness and efficiency of the firm, let the firm exploit market opportunities, and neutralize potential market threat. |
| Collings and Mellahi (2009) | Differentiation based on (identification of) **key roles**, or “pivotal talent positions”; allocate talent management resources to employee groups with high strategic contribution; talent pools ensure that these roles can be filled. Finally establish an adequate, differentiated and commitment-oriented HR architecture. Key positions are not necessarily top positions. |
| Huselid, et al. (2005), Becker & Huselid (2006), Becker, et al. (2009), Huselid and Becker (2011) | Differentiation based on value of **job or role**; key employees contribute to strategic objectives and their behaviors become a “complement to effective strategy implementation” (“A Positions”). Value and uniqueness of skills and knowledge are secondary aspects. Strategic value of a job not bound on level of job. Performance variability in strategic roles is a linchpin for HRM. |

*Implementation of the WD Approach based on the Becker, Huselid, and Beatty proposal*

This section amplifies the arguments from the previous sections, by outlining the practical implementation of workforce differentiation, as proposed by Huselid, et al. (2005) and Becker, et al. (2009). It covers how to

- link strategic capabilities to workforce strategy, i.e., to determine which organizational capabilities are strategic;
- identify strategic positions; and
- manage human capital and design a differentiated HR system.

Determining the strategic value of certain job needs an understanding of how the workforce actually drives strategy. How should an organization determine which jobs and capabilities are truly strategic, and are therefore the locus of differentiations? According to Becker, et al. (2009), identifying an organization’s strategic capabilities is a qualitative process of discovering them within an existing strategy.[1] One could, of course, also refer to existent generic lists of strategic capabilities (cf. Grant, 2007). However, as discussed, the starting point should be the value proposition contained in the competitive strategy.

Several questions regarding potential strategic capabilities should help distinguish strategic capabilities from merely necessary processes (see figure 3).

[1] Workforce differentiation as a SHRM approach complements strategic planning, but it is not about strategic planning. Thus, it is based on the assumption that an organization that conducts workforce differentiation actually has a competitive strategy in place, either explicitly or implicitly, and that workforce differentiation is derivable from this. Nonetheless, applying workforce differentiation is likely to lead to a reconsideration of certain assumptions within strategic planning (cf. Becker, et al., 2009, p. 36). It should lead to a more “integrative linkage” between strategic planning and HRM (cf. Buller, 1988).

Figure 3:
Diagnosing Strategic Capabilities (adapted from Becker, et al., 2009, p. 37)

| When considering whether an organizational capability is strategically important, ask the following questions: | Yes/No |
|---|---|
| 1. Is the capability an important source of the value proposition you offer to customers? | ☐ |
| 2. Is the capability relatively unique among your firm's close competitors? | ☐ |
| 3. If all close competitors rely on a similar capability, is your firm "head and shoulders" above the competition in its execution? | ☐ |
| 4. If all close competitors rely on a similar capability, does your firm execute on par with industry standard (or well enough)? | ☐ |

Prompting senior managers with these questions should lead to a clearer picture about potential strategic capabilities. The authors propose that identifying strategic capabilities is much easier in practice than in abstract.

The next step is to develop a clearer picture of the workforce-related elements of these strategic capabilities (cf. Ulrich & Smallwood, 2004; Wright, et al., 2001). According to Becker, et al. (2009), this means understanding what parts of the workforce and how they drive a strategic capability. The authors propose to apply a strategy mapping process. This process starts with measures of strategic success, and works back through the various drivers of success, in order to describe the causal logic from internal processes to customer value proposition, foregrounding the "talent dimension" (Becker, et al., 2009, p. 41) of strategy. It reveals in more detail the scope and structure of a strategic capability, as well as the jobs and roles that are particularly critical to executing the capability successfully. Obviously, these aspects are neither revealed quasi-automatically nor with academic rigor. Rather, it should be regarded as establishing an informed dialogue in which the key stakeholders eventually come to a consensus as regards the above.

Having identified strategic capabilities, and having revealed their workforce-related elements (positions and players), an organization can go onto identifying its strategic roles, as well as the competencies and behaviors required in these roles (cf. Becker, et al., 2009, p. 51). It can then generate performance improvements in its most critical roles. Figure 4 contains a summary of this process so far.

Figure 4:

Key Elements of the Process to Create a Differentiated Workforce (from Becker, et al., 2009, p. 52)

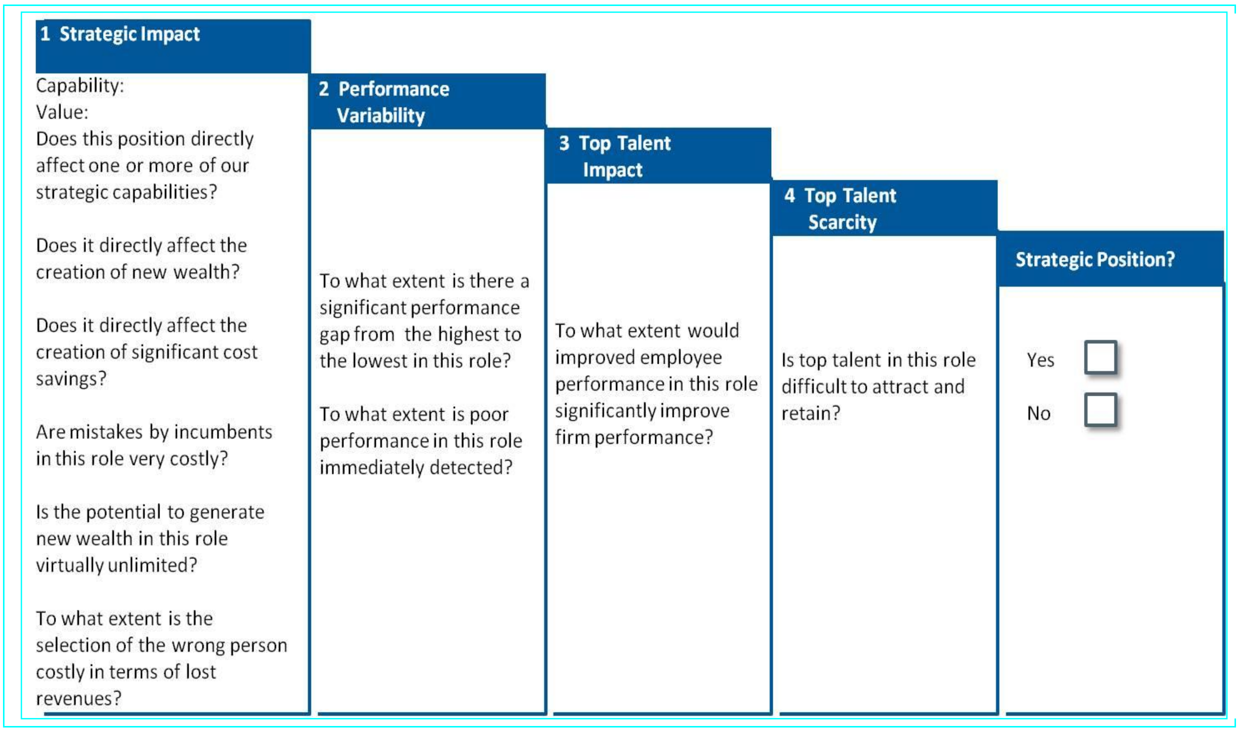
| | Determine strategic choice | Identify strategic capabilities | Identify strategic positions | Assess players in positions | Plan actions for players in strategic positions |
|---|---|---|---|---|---|
| Process Steps | • Operational excellence<br>• Product leadership<br>• Customer intimacy | • List possible strategic capabilities<br>• Review criteria<br>• Assess each for present and future wealth creation impact<br>• Determine 3-5 strategic capabilities | • List positions within each strategic capability<br>• Assess each position on present and future wealth creation potential<br>• Identify strategic positions' performance variability<br>• Finalize strategic positions<br>• Review other positions (not in strategic capability for wealth-creation potential) | • Develop "A", "B", and "C" criteria<br>• Apply criteria to all positions<br>• List all positions by "A" to "C" designation<br>• Assess all employees in positions<br>• Determine percentage of "A", "B", and "C" players in each position | • Remove "C" positions<br>• Remove "C" players from "A" positions<br>• Put "A" players in "A" positions<br>• Develop "B" players in "A" positions into "A" players |
| Exec. team | ✓ | ✓ | ✓ | | |
| Line manager | | | ✓ | ✓ | ✓ |
| HR function | | | ✓ | ✓ | ✓ |

What are strategic roles then, more specifically, in this process? Becker, et al., (2009), and Huselid, et al. (2005) propose that strategic roles ("A-Positions") are primarily defined by their disproportionate contribution to an organization's strategic capabilities resulting in substantial impact on value creation or destruction, and by a given wide variability in the quality and levels of performance among holders of these roles (Huselid et al., 2005, p. 101). Strategic jobs "provide the *context* for significant performance improvements, while variability (…) gives the specific *opportunity* for improvements (…)" (Becker, et al., 2009, p. 52).

Becker, et al., (2009, p. 63) also introduce *secondary characteristics:* A-Players need often a high level of expertise, they have great decision autonomy and the primary factor of compensation is performance. They are usually scarce, although in the authors' view, scarcity (versus ready availability) of knowledge and skills is not a defining characteristic of human capital value. Not more than 15-20 per cent of all roles can be strategic roles. They are not determined by hierarchy.

To better identify strategic roles, Becker, et al., (2009, p. 63) recommend generating lists of potential strategic roles, which should then be evaluated by experts and informed committees in an iterative way. The guiding questions and issues for this process are displayed in figure 5.

Figure 5:
Identifying Strategic Positions (from Becker, et al., 2009, p. 74)




Becker, et al. (2009) recommend that an organization should further explore and clarify the impact of its non-strategic roles, by distinguishing them into "B" and "C" positions.

"B" positions are those roles that generally support or enable performance in strategic roles (cf. Huselid, et al., 2005; Becker, et al., 2009). They are either indirectly strategic, or they have direct impact on strategic capabilities but exhibit little performance variability, thus offering little opportunity for augmenting strategic success. They are therefore rather unlikely to create additional wealth, but are usually very important in maintaining it. The scope of authority is restricted by specific processes and procedures and the job level is the primary factor for compensation.

**"C" roles**, on the other hand, have little strategic impact and exhibit low performance variability with little discretion on work, although they may still be critical to an organization's operational excellence. However, identifying such "C" roles may also lead to the conclusion that certain "C" roles are not needed in the organization any more (Huselid, et al., 2005). Their compensation reflects the market price.

Once an organization has differentiated its roles, line managers and HR need to manage them, both individually and through establishing a best-fit differentiated HR architecture (Becker, et al., 2009; Huselid, et al., 2005). Line managers should focus on five areas of HRM with the right level of differentiation: the selection of the most appropriate employees, their individual development, assessment and reward, work design, and a process which the authors label "strategic human capital planning" (Becker, et al., 2009, p. 92). For each strategic position a talent inventory should be developed in order to ensure that only "A" players are placed in "A" positions. This would include removing "B" and, of course, "C" players from those "A" roles, unless such "B" players are potential "A" players, whose timely development into "A" players could be facilitated. The process should include defining "career level" roles that are apt for developing employees into certain strategic roles.

Consequently the whole HR architecture has to design and differentiate policies, practices and core elements aiming to manage strategic roles and others for non-strategic roles. Becker, et al. (2009, p. 112) propose that an organization first needs to define what kind of understanding it wants everyone to have. Also, many of the traditional transactional HR practices are likely to be identical across the whole organization. In contrast to this HR policies and practices in the five described HRM areas above should differ.

Becker, et al., do not provide a decision framework in order to guide through the stages of a differentiated HR architecture more specifically, beyond these rather general prescriptions and recommendations. However, they introduce several practical examples from firms having implemented a differentiated HR architecture, ranging from differential HR marketing to differential job pricing methods (cf. Becker, et al., 2009, pp. 111-143). **Figure** 6 contains examples of differentiated HRM practices, based on differential objectives for attracting and retaining candidates and employees for strategic and non-strategic roles.

Figure 6:
Examples of Differentiated HRM Practices (adapted from Becker, et al., 2009, pp. 104-106)

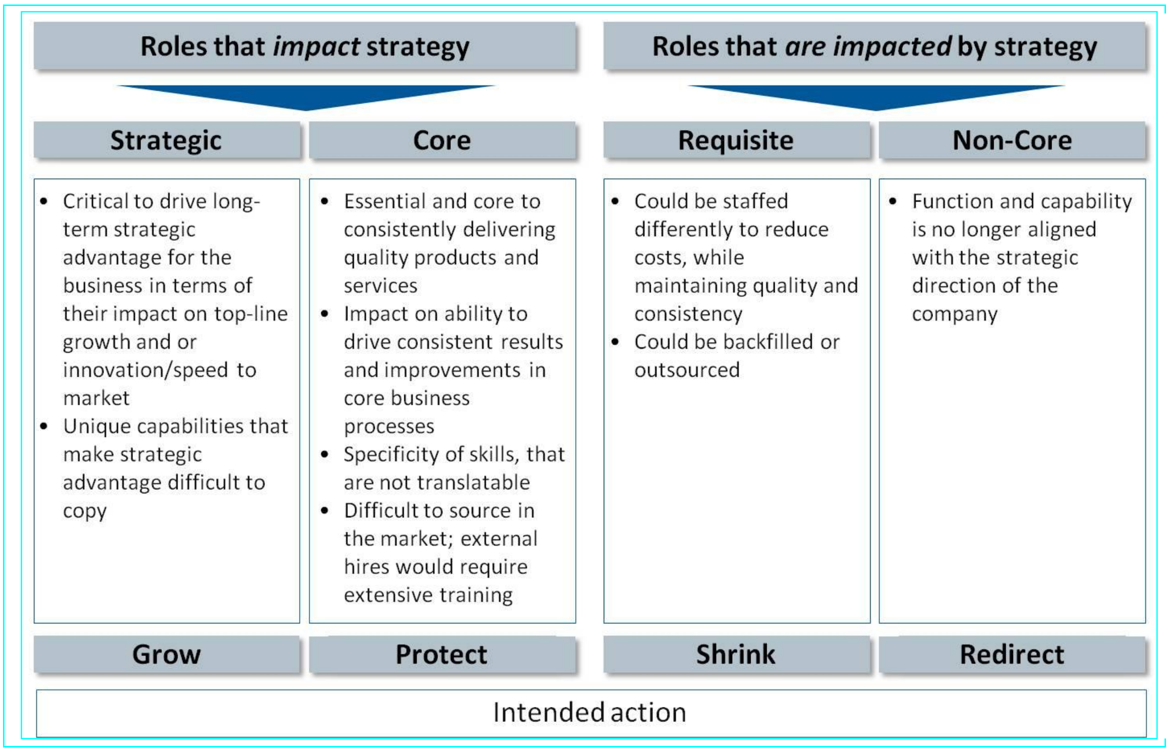
| | "A" Positions | "B" Positions | "C" Positions |
|---|---|---|---|
| Selection | ▪ Constant Top-Grading<br>▪ Recruiting independent of vacancies<br>▪ Referrals from top employees | ▪ Recruiting for vacancies<br>▪ Agency-use for recruiting<br>▪ Only referrals from recruiters below market-midpoint comp. | ▪ Vacancies scrutinized for necessity before recruiting<br>▪ Recruit via newspaper ads<br>▪ Use of agency sreens |
| Performance Management | ▪ Very high performance expectations<br>▪ Continuous monitoring and frequent feedback, immediate removal of non-high performers | ▪ "Success" is defined as meeting a market standard<br>▪ Occasional feedback<br>▪ Removal of poor performers | ▪ Standard at or below market midpoint<br>▪ Feedback only of performance falls |
| Rewards | ▪ Base above 3rd quintile in the market, up to 90th percentile<br>▪ Significant variable pay, may double base | ▪ Base compensation at about midpoint<br>▪ Incentive pay provided based on range of market | ▪ Base set with the midpoint at the lowest quartile or the market for positions<br>▪ Productivity/efficiency incentives |
| Development | ▪ Significant resources, incl. for professional conferences etc.<br>▪ Each holder has mentor; rotational assignments and other opportunities offered | ▪ Holders encouraged to attend programs to enhance skills in their area of expertise and skills<br>▪ Organization-wide orientation | ▪ Training to enable employees to meet the minimum performance standards |
| Work Design | ▪ Remove all bureaucratic, non-value added workload<br>▪ Special "best practices" sessions<br>▪ New/improved ways demanded | ▪ Improve processes to cut costs or deliver enhanced levels of support<br>▪ Monitoring best practices is encouraged | ▪ Unnecessary work is eliminated<br>▪ New ways to eliminate work are encouraged<br>▪ Outsourcing considered |

*Examples for Workforce Differentiation*

There is relatively little scientifically "reliable" literature on the practical application of workforce differentiation as conceptualized in this article, apart from rather anecdotal evidence. The objective of this section is thus to briefly highlight some exceptions which we find notable.

Brush and Ruse (2005) describe an element of workforce differentiation with Corning which they label segmentation, in order to focus and align Corning's HRM. According to Brush and Ruse (2005), the HR function at Corning initially realized that it has finite resources to invest, and that it should therefore make "informed portfolio investment and allocation decisions" (ibid., p. 52) in managing HRM. Four segmentation areas were defined reflecting each segment's relative value in achieving business objectives. The respective roles were assessed whether they were a) required in order to execute the strategy or b) merely impacted by the strategy (requisite roles or non-core roles). **Figure 7** shows the Corning workforce segmentation approach.

Figure 7:
Workforce Segmentation at Corning (adapted from Brush & Ruse, 2005, p. 54)




Besides its application in the strategic workforce planning process at Corning, the authors describe the use of workforce segmentation in transformational projects, cost reduction projects, as well as in green-field projects, where appropriate contingent HRM practices were applied, such as the external sourcing of "requisite" workforce. At the same time, the authors report that developing and implementing workforce segmentation posed a major challenge with regard to the organizational and leadership culture at Corning. In her review of the development of workforce planning, Young (2006; 2008) considers the approach proposed by Brush and Ruse (2005) a major step in human capital planning.

Boudreau and Ramstad (2005, p. 22), propose to apply “talent segmentation” in order to create insight into the connection between workforce elements and strategy. They propose to base differentiation and tailoring of “talent pools” by differential contribution to strategic success or according to certain major strategic parts of the corporate value chain, such as “those with customer contact at the point of service”, or, “those who integrate product lines to support cross-selling”, rather than on certain jobs or on hierarchy. Organizations should heavily invest in these talent pools as they lead to the most significant contributions to strategic success.
The authors describe a case example of applying such talent segmentation at logistics company Fed Ex: When senior management as well as the HR function were asked to name the most critical segments, they named pilots, logistics designers and senior management. A differing approach, starting with the key business processes and the desired organizational capability of ensuring customer satisfaction, however, found that investing in the quality and expertise of couriers and dispatchers would significantly advance strategy, as their behaviors notably affect customer satisfaction for various reasons (cf. Boudreau & Ramstad, 2005, p. 24). This led to additional HRM investments in this employee segment, both as regards staffing and training, in order to attract and maintain particularly qualified couriers and dispatchers. Furthermore, it was explored which factual opportunities they actually have, in addition to their capabilities and their motivation, to perform the aligned behaviors.

Yanadori and Kang (2011) provide an interesting empirical study on intra-firm workforce differentiation with regard to compensation. The authors set out to explore to what extent firms actually differentiate compensation practices among groups of employees (in this case research and development roles and administrative roles in US high-technology firms).
The findings suggest that differentiation between employee segments is indeed existent. However, while compensation systems may vary, they are usually consistent across the groups as regards their market positioning. That is, if a firm pays above market with regard to the income of its research and development members of staff, it is likely to also pay above market for its administrative roles.
This pattern was found to be particularly consistent in larger firms. While this might be a pragmatic way to balance differentiation with a potential desire to maintain some equity, it does on the other hand not reflect the full approach of workforce differentiation. It might, in fact, even be considered somewhat contradictory: Why would a company pay non-critical roles above average, just because critical roles are paid above average?
Furthermore, contrary to WD-conceptualizations, the firms in the study seem to apply differentiation with respect to relatively broad job-family or competency clusters. Relying on such broad categories as basis for differentiations is not fully in accordance with the more nuanced view that workforce differentiation suggests. It also should be noted that the findings are obviously limited in that they merely refer to high-technology firms and their specific patterns.

## 3. WORKFORCE DIFFERENTIATION IN PRACTICE

Can WD be applied in practice? Is it possible to clearly identify strategic positions? What are “real” organizational capabilities, and how do they really contribute to strategic success? What positive – or indeed negative - consequences of WD based on this are likely to arise?

First we consider some exemplary jobs in order to gain further insights about WD. Following this we discuss practical implications of these hypothetical findings. Finally we deliberate about risks and opportunities of such a WD-approach

***Applying Huselid’s criteria to job examples***

Table 2 applies the criteria of Huselid et al. to some illustrative job examples. The aim is to gain further insight in the “mechanics” to determine strategic jobs and to derive further research questions which are discussed briefly in the last chapter.

Table 2:
*Examples of jobs and their strategic significance*

| Job | Strategic impact / objectives and value (role)? | Rare organizational competencies and inimitable? | Performance Variability? | Strategic position (according Huselid et. al.) |
|---|---|---|---|---|
| **Airline Pilot** | Personification of the business model. High impact for clients and capital in a casualty. | Easily imitable although time-consuming and costly | Low – only in critical situations extraordinary competencies needed | No (?) |
| **Currency or Money Market Dealer in a Bank** | High impact for results but depending on risk regulations | No, generally a matter of education and job-related training | Can be very high – in both directions | Yes, but depends on risk systems |
| **Researcher in a pharma-ceutical company** | Core position; impact depends on professionalism and support | Yes, can be inimitable due to lengthy job experience and specialized knowledge | Often very high | Yes, but not all R&D-positions |
| **Sales Manager for agricultural machinery (e.g. tractors)** | Very high – point of contact to the customer | Partly, possible to recruit experienced employees and train them although costly | High variability but performance management (e.g. training) narrows variability | More likely yes |

| | | | | |
|---|---|---|---|---|
| **Key Account Manager for Asset Management** | High impact for clients and performance | Valuable and generally rare; difficult to substitute due to firm-specific capabilities | Generally relatively low – results can be monitored and job incumbents can be replaced | Yes |
| **Underwriter for a Reinsurance Company** | High impact; risks assessment are main "input" for contracts and pricing | Rare competencies, difficult to recruit on the market, lengthy training and experience | Supreme company effort to limit variability due to critical results in case of miscalculation | Yes |
| **Senior Manager Finance Department** | Can be high but difficult to assess. Incumbent needs operational excellence | In most cases based on a broad education and some additional firm specific knowledge and experience | High regulated but in some cases very high variability due to complexity and many action alternatives | (?) |

In accordance with Huselid (2005, p. 113) we would not consider *Airline Pilots* as a strategic job in this regard. But this conclusion may be disputable, for good reasons: The Unique Selling Proposition (USP) of some airlines is based on securing safety for passengers. Superior abilities of pilots may indeed prevent an accident in critical situations – although, generally, this job is well defined and not too open for variable actions under "normal" as well as difficult circumstances.

Contrary to this a *Bank Dealer Job* seems to be strategic; some publicized downside examples in the past underline this drastically. But could this have happened if the more unspectacular operational risk mechanisms and controlling activities had been in place (back-office jobs)? Whether the upside potential return can be seen as "strategically significant" depends similarly on the granted authority and adequate support by other roles in the organization.

The example of a *Researcher in a Pharmaceutical Company* illustrates the importance of personal characteristics: Often a "strategic position" has evolved by persistent personal excellence in combination with allocated additional operational resources while other research positions are not seen as strategic due to less successful job-incumbents or limited research possibilities. Often there is a wide range of researchers with different strategic value for the company.

*Sales Managers* for investment products (e.g. agricultural machinery) are critical for the success of a company; they explain technically complex products and convince customers to acquire them (core competence). These jobs need incumbents with a high degree on technical professionalism and experience. Their success is based on cross-departmental cooperation and support such as excellent client and after sales service.

In the case of a *Key Account Asset Manager* (e.g. a Pension Fund Manager of an insurance company managing the funds for a multinational company) the strategic significance seems obvious. Due to his large profit contribution for his company and due to the possibility to benchmark his performance the company cannot afford to accept high (negative) performance variability. Potentially there is a large scope for performance variability. Through heavy investments in training, equipment and supporting resources the company tries to prevent potential undesired downside variability. Further, variability can be mitigated by a careful selection of low-risk assets. The meaningfulness of the variability criteria seems difficult to assess.

Another interesting example is the *Job of an Underwriter* in a reinsurance company. Undoubtedly this is a job influencing companies bottom-line as insurance claims can reach substantial amounts, e.g., when a natural disaster occurs. If risks were easy to calculate performance variability would consequently be very low. But in a world without complete information the challenge is to achieve the best possible risk-assessment. Besides the fact that "best estimates" may be proclaimed only in retrospect well appraised risks would clearly result in a comparative strategic advantage. Therefore contrary to the job of the Key Account Asset Manager the short or even long-term results can not automatically be interpreted as high or poor performance due to complexity reasons and insufficient levels of information. Although the performance variability criterion appears difficult to apply in this case it seems rather obvious that this would be a strategic job in a reinsurance company.

Finally we consider the job of a Manager for the Finance Department. Practitioners and most scholars would probably assess this job as "strategic". In contrast to this Huselid et al. (2005, p. 114) do not regard such roles as strategic jobs because they do not"create value through the firm's business model". They are (only) responsible to manage financials efficiently and to apply "best practices". This seems to imply that all roles or functional strategies which are not directly linked to the core company strategy or the business model cannot be "A"- or strategic positions.

So what could be some implications or hypotheses derived from the above brief reflection on applying WD to such job examples?

*Identification of strategic capabilities and roles in practice*

There is obviously no straightforward way to clearly identifying strategic roles or jobs. Similarly we consider it very challenging to identify strategic capabilities and convincingly relate these to strategic jobs.

We assume that it is beneficial to lead intensive discussions on strategy documents, value chains in a business model, strategic drivers of a Balance Score Card, and feedback from clients.
In this process we should expect time-consuming discussions and arguments how strategic jobs are identified and who will "benefit" or be "relegated" to lower echelons.

The question may arise whether practitioners are "better served by thinking in terms of strategic networks instead of strategic jobs?" (Huselid, 2010, p. 385). This, and also the formation of "job families", could be a promising avenue to arrive at further insights.
Further: Can we classify jobs with a narrow performance variance as non-strategic (example of aircraft pilot)? How can variance be reliably determined in practice? Or could it be that "operational" excellence ("zero-failure-rate") is in itself a strategic asset?

*Strategy vs. Operation*

We also have to ask what the term "strategic" means exactly, both generally and in a specific company-context. Could it be simply more promising to label something "strategic" instead of operational? Are strategic plans so detailed that 10-

20 % of all jobs can be identified as strategic? Does it really make sense to plan elaborate strategies?

The Dealer job in Tab. 2 may have its strategic relevance (high down- and upside performance potential) solely due to missing strict controlling mechanisms or a lack of team-oriented cooperation. This also reminds us that jobs are normally embedded in a complex network and environment. We act in a dynamic world with ever evolving new challenges, tasks and jobs: This will also provoke a constant change of classification as A-, B- or C-positions. What does this mean for the organization and the employees affected?
The researcher example in Tab. 2 illustrates that individuals can "make" jobs strategic, by their personal excellence. New roles may become strategic, and existing strategic roles may become non-strategic.

*Differentiation vs. felt Discrimination*

Another challenge is to measure or assess short or long-term personal performance for some strategic jobs (e.g. Finance Director). It is even more difficult to clearly determine the performance variance or to get meaningful benchmarks.

Huselid considers the job of a manufacturing director as non-strategic as it is not directly linked to the business model: We can easily find many other roles or functional jobs in supporting areas and may ask how people will react to this felt "discrimination". As a result of this WD might also pose significant potential risks to engagement and satisfaction.

People usually want to feel important, significant and to contribute to strategic success. Take, for example, HR practitioners who often feel excluded and thus strive to be accepted as Business Partners.

*Organizational culture*

The role of organizational culture with regard to implementing workforce differentiation successfully has been addressed by several authors (cf. Balaguer, et al., 2007; Becker, et al., 2009; Brush & Ruse, 2005).

A culture that supports organization's objectives and strategy could be considered a strategic resource in and of itself (cf. Barney, 2001). Decisions affecting an existing organizational culture should therefore generally receive careful consideration. There is a dilemma: as, while on the one hand culture obviously needs to "fit" to an organization, its specific business objectives, and its strategy in general. A culture that emphasizes dimensions such as competitiveness, performance-orientation, and emphasis on rewards (cf. Sarros, et al., 2008) and meritocratic elements should support high performance approaches such as the WD-concept. While WD may not necessarily be the best "cultural fit" to a high performance organization it seems realistic that the underlying ratio of WD will be widely accepted in those cultures. It still is an open question whether the WD concept would be applauded should it be implemented completely. Huselid and Becker (2011) also acknowledge that WD is an employer-focused model, which is likely to have both positive and negative impacts on employees and teams.

But if WD affects feelings of justice, fairness and equity, or induces perceptions of injustice, unfairness, and a lack of equity among some, what would be its further consequences? Would it affect important non task-performance-related drivers of organizational success such as commitment, and its consequence of organizational citizenship behavior (OCB)? OCB comprises those work behaviors and motivations that are performed in addition to task-related behaviors and contribute to the organization's success without being formally rewarded, and without being enforced through formal role expectations or job requirements (Organ, 1997).

*Achieving Acceptance and Buy-In*

We assume that many holders of strategic roles, or candidates for strategic roles would be pleased by the concept and thus support its application. On the other hand, with regard to those who are incumbents of "non-strategic" job-families (and not candidates for, respectively), we hypothesize that WD evokes strong negative affective reactions.

As the concept is also challenging regarding hierarchical differentiations we expect that not all senior managers will sympathize with WD.

*Differentiated HR Architecture*

As discussed, WD implies portfolio investment thinking in HRM. Therefore, increasing investments in some groups of employees need to go together with reducing investments in others, when workforce differentiation is implemented. The main task here is *how* differentiation should be applied.

Could it be sufficient to align, for example, selection and placement, training and development, performance management, and pay differentiation as some of the most powerful HR practices? It can be assumed that there is widespread and international consensus that performance is a factor that justifies unequal pay among employees (Evans, Kelley, & Peoples, 2010). Moreover performance or capability potential also justifies different treatment when it comes to design training and development activities or further promotion. And selecting a senior manager will or should have a higher priority and deserve a higher allocation of resources then selecting an employee for a well defined clerical task. Also the vertical differentiation, i.e., differentiation based on hierarchy, is well accepted, if it is perceived as legitimate.

It is not the sheer differentiation which is seen as critical by most employees; they are used to it and in many companies well balanced differentiation is already a constitutive element of HRM.

The challenge is how these practices will differ between the different groups, how differentiation is perceived by these groups ("segmentation") and what kind of criterion is used for differentiation purposes. We also highlight the question whether an accepted hierarchical model can be (partly) substituted by a system in which people are classified according to their "strategic value". This clearly challenges traditional hierarchy-based fundamental modes in many organizations.

## 4. Conclusions

WD holds major benefits for a company:
Holders of strategic roles - as well as candidates for strategic roles - should have a higher motivation and commitment. Further we would assume increased performance and a reduced turnover risk for this group. The introduction of (elements of) WD should also further foster a high performance corporate culture. Moreover, we agree that WD has the potential to create value through its impact on strategic jobs and organizational capabilities.
With introducing WD, HR should indeed be able to significantly enhance its knowledge and understanding of business requirements and thus its capability to align systems and practices to strategy and to support line managers in managing workforces in the most effective way.

Finally, WD should contribute in making mutual expectations more transparent (e.g. future development, career ways).

On the other hand, there are undoubtedly relevant risks related to the implementation of WD if not introduced carefully: WD could be seen as a discriminating "segregative" HR policy. Differentiation between strategic and non-strategic jobs, let alone in "A", "B" and "C" roles, may induce reluctance in the workforce.
It also may cause "us-versus-them" thinking and thus deteriorate motivation, performance and eventually impact collaboration between strategic and non-strategic roles.
High performing employees in non-strategic roles could thus be more likely to leave or - if possible - change into a strategic job with possibly detrimental consequences for such "non-strategic" yet still important delivery.
In some organizations, WD may contradict the organizational culture: Especially in knowledge based, innovation-driven and networked organizations WD could endanger major organizational capabilities like team orientation, cross-functional collaboration and commitment to the organizational goals and values. Some organizations may, for potentially good reasons, benefit from their more "egalitarian" approaches which again highlights the need for a very careful and sensitive take-up of such a WD approach.
And it could also reduce motivation to become a manager if the 'strategic' is taken away from some management roles.

It seems a plausible assumption that the perceived risks and main challenges of such WD could be a reason why WD has received so relatively little attention so far from practitioners and practice-oriented scholars:
Professional HR practitioners are much used to carefully choosing as well as balancing the intensity of their practices and tools according to different individuals or target groups; differentiation is a well accepted element in many HR-functions. But taking this element as the core linchpin of a new HR-architecture might not seem desirable for many practitioners.
Thus we argue that if WD were to be introduced, it should not be primarily a project of the HR function rather a joint project together with business management. Such an impactful change as associated with implementing WD successfully would, in our view, require unambiguous consent of major stakeholders as much as an accepted balance between differentiated and non-differentiated practices from an HR point of view.

What is the significance of this conclusion regarding HR's strive for business partnership then? Our view is that understanding the potential advantages of workforce differentiation, as well as its risks and limitations – and being able to act accordingly – would most certainly provide some of the main benefits mentioned above and thus contribute to enhance HR's recognition.
Thus, it should indeed help HR to further strengthen its role as a competent strategic business partner. In companies where HR is not yet considered a business partner, we argue on the other hand that the initiation of a WD project without careful consideration would be risky, if not counterproductive.
In any case, though, WD is a useful concept to gain insights into opportunities for HR to reinforce its focus on core business and its requirements, and to allocate more time and resources for people who disproportionally contribute to the company's strategic goals directly or indirectly.

*Further Research Tasks*

The WD approach which we described in our view remains (in parts) conceptually somewhat inadequately defined and lacking empirical evidence and guidance, in particular as regards its more critical aspects, and its organizational contingencies.

More research is therefore needed on identifying strategic capabilities, strategic jobs or roles. The major step would be to determine the operational meaning of these capabilities and their interaction with other positions. Gaining respective additional insights should be key developments in the area of WD. The Balance Scorecard Literature and especially research about business driver chains could be helpful in this regard.

Clarifying options for a more differentiated HR architecture could also further develop the WD-approach, i.e. how elements of WD could be integrated in existing HR-Strategies based on (strategic) performance. We also see differentiation potential in implementing various career tracks complementary to management levels, for instance professional- or specialist- as well as project-career tracks. This could also mitigate risks arising from the conflict potential between strategic and managerial jobs and job-holders.

Becker and Huselid (2010) emphasize the necessity to "narrowing the divide" between SHRM and job design. Traditionally, roles are graded in terms of inputs, such as skills, efforts, abilities, and working conditions, or evaluated economically, in terms of their level of compensation (Huselid, et al., 2005). Similarly job grading systems strive to assess value creation and effect on costs, and to prioritize allocation of resources; they are primarily control systems focused on consistency of decisions and on preventing mistakes. Therefore job descriptions should or could in suitable cases comprehend the link to the business model and to strategic capabilities and roles. Thus, they encourage "job design scholars to broaden that perspective to include how job design can also drive important business outcomes" (Huselid 2010, p. 381). We argue that this is a promising way to integrate SHRM findings into a major instrumental tool box for HR practitioners.

Overall, to implement WD successfully poses interesting questions for practice and research; more research, in particular case studies from a variety of industries and sectors, with different organizational cultures, and differing competitive strategies, on its facilitating and inhibiting factors would be highly desirable.

In essence, though, we would challenge Becker, et al.'s (2009) claim that workforce differentiation is not simply *a* feature, but *the* essential feature of workforce strategy. So far we have not become aware of scientifically well documented organizational case studies actually defining their whole workforce strategy based on such differentiation, as proposed by the authors.

But without doubt, many of the insights from WD, and many elements of workforce differentiation could – carefully considered and embedded in a highly professional change approach - indeed provide essential parts of an overall, firm specific and effective human capital management strategy.

## 5. About the authors

Dr. Peter Weis has been professor for Human Resources Management at the University of Applied Sciences in Kempten, Germany since 2000.
After graduating in Economics at the University of Saarbrücken he worked as Assistant Professor for Micro-Economics at Technical University Berlin. During this time he also earned his Ph.D degree. From 1983 to 2000, Peter worked as HR- and Branch Manager, HR-Director, General Manager London and as Key Account Manager for European Multinationals at Hypo-Bank and HypoVereinsbank.

His research interests are on International Human Resource Management and HR-Strategy.

Robert Schaefer holds a Diploma degree in Psychology (Industrial and Organizational Psychology) from Ludwig-Maximilians-University in Munich and an MBA. in International Business Management from Kempten University of Applied Sciences. After several years in HR and organization roles in the financial services sector Robert is now a project manager within the HRM capability of consulting firm Kienbaum.

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