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Developing an Effective Human Resource Strategy

Few would deny that managing the human resource of an organization is critical for the creation of competitive advantage in a global environment. For proponents of Human Resource Management (HRM) effective strategic planning requires the involvement of HR managers in the process, and even better, the presence of HR Directors on the Board. This view is very much in the tradition that has argued for a move from personnel management and employment planning, to HRM and HR planning. But what form should this involvement take? What happens in practice and what evidence is there that involvement contributes to greater organizational effectiveness? This Manager Update will consider some recent writing on the linkage between HR and corporate strategy, and on the importance of having clear HR planning objectives together with an explicit planning process. It will also raise the issue of the extent to which the development of a corporate and competitive strategy should begin with a consideration of people capabilities, through an examination of barriers to effective human resource management in Russia.

HR strategy and Corporate Strategy

For Torrington and Hall [1] the 'interest in strategy has taken personnel management by storm'. They identify five potential relationships between organizational strategy and human resource strategy:

1. 'Separation' where there is no relationship at all.
2. 'Fit' where HR strategy meets the requirements of organization strategy.

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3. 'Dialogue' where there is debate between the organizational and HR strategies.
4. 'Holistic' or mutual development of the two strategies.
5. 'HR driven' where HR strategy is in prime position.

In an ideal world, they argue, the development of human resource strategy would be fully integrated with the development of organizational strategy. In reality, this relationship is often of a very different nature.

Grundy [2] considers the links between HR strategy and corporate strategy, and also the role that these links play in determining organizational effectiveness: or the capacity of an organization to adapt rapidly to its environment and to achieve good business performance. HR strategy, which may be 'deliberate' or 'emergent', is concerned with developing the human capability of the organization to meet the future needs of its internal and external environment.

He argues that the notion of linking corporate and HR strategy through 'strategic fit', part of what has become known as the 'matching model', is simplistic and that linking HR strategy to corporate strategy is likely to be very difficult, even in the most favourable environment, for several reasons:

- the complexity of the diverse linkages that need to be managed;
- the degree to which it is possible to have separate identity for an HR strategy;
- the presence of an emergent corporate strategy;
- the more intangible nature of human capability;
- organizational turbulence;
- the question of ownership of HR strategy.

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The Dangers of an Emergent Strategy

Grundy argues that to make effective linkages in practice between Corporate Strategy and Human Resources Strategy requires a shift from a separate HR strategy to a unified 'organization and people' (O&P) strategy, about which more will be said later. Moreover this should not be founded on 'out-of-date, bureaucratic processes'. It requires a simultaneous review of the business an organization wishes to be in, its competitive positioning and prospects, and the distinctive human capabilities which can achieve competitive advantage.

The key conclusions of his small-scale qualitative research on two major UK financial services companies are that:

- an emergent HR strategy may undermine organizational effectiveness;
- culture may be the basis for designing a competitive strategy rather than vice versa;
- pursuing differentiation and cost leadership strategies at the same time minimises the contribution of HR strategy to organizational effectiveness;
- HR strategy should not be separated out from business strategy;
- HR strategy may be marginalised if it is seen to be owned by the HR or Personnel department.

An emergent HR strategy, which often follows from an emergent corporate strategy, can lead to a number of difficulties: inadequate management of the interdependencies between HR programmes, a lack of attention to HR as a source of competitive advantage, poorly implemented HRM, the simultaneous pursuit of differentiation and cost leadership,

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the decoupling of brand strategy from plans to develop staff's behaviour values and skills, and a lack of thought on softer issues such as people's implementation capability. A 'robust HR strategy clearly linked with corporate strategy' is necessary to give HRM programmes 'direction, clarity, coherence and critical mass to add real value'. For Grundy 'it does very much seem to matter whether a deliberate or emergent approach to HR strategy is taken, and how well this links to corporate strategy'.

Towards an 'Organization and People' Strategy

A number of implications for theory and practice follow from these arguments:

- Given that it is implementation that frequently lets corporate strategy down, companies may be as well to start with some thinking about HR strategy instead of starting off with product/market and competitive positioning.
- Since HR strategy elements are so interdependent with operational initiatives, and the people resource is only one part of the operational mix, it makes less and less sense to extract the pure HR element.
- Fruitless attempts to compile complex frameworks for HR strategy planning processes may be avoided.

Grundy proposes that organizations develop an organization and people strategy, owned and developed by line managers with facilitation by HR, and which is seen as the flip-side to competitive strategy. He argues that this approach will have the following practical benefits:

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- helping to dissolve the Line/HR barrier;
- dovetailing into both competitive and business plans;
- a greater chance of senior manager sponsorship;
- easier integration of hard initiatives (such as BPR) with HR initiatives;
- easier evaluation of business and financial effects of HR programmes because they do not stand alone.

From Strategy to Planning

Lam and Schaubroeck [3] argue that very little empirical research has been undertaken to determine how HR planning is actually being carried out in organizations. In addition, little is known about how the planning process is integrated with organizational strategies.

Many HR planning methodologies have been developed which typically include the setting of formal objectives, identifying appropriate organizational strategies, and searching for innovative HR applications. The appropriateness of the various methods of formal planning is dependent upon the specific planning objectives. Three different types of HR planning objectives are identified:

- 'operational objectives' which focus on current capabilities and near-term requirements such as HR costs;
- 'HR planning objectives' which focus on the longer term requirements for demand and supply, the number and type of staff required, and cover such issues as career development and succession planning;

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- 'strategic HR planning' objectives which involve line managers in developing and evaluating HR practices which contribute to strategic planning and a process which builds commitment to organizational strategy across different levels and functions of the organization, with HR professionals adopting a facilitative role.

'As organizations move toward a more strategic planning orientation, the identification of means to establish and maintain core competencies and the building of commitment to the strategy is at the forefront of HR planning'. With this orientation, objectives are set in the context of the organization's internal and external environment and reflect the organization's position and values.

Planning processes may vary in terms of their sophistication and formality. Formal approaches rely on clearly defined planning steps, on techniques and models, and on schedules and documentation. Within an informal approach there are few written procedures or guidelines, and objectives are accomplished primarily through informal discussions, without explicitly predefined steps. Research cited by the authors suggests that formal and sophisticated strategic planning processes may not have a significant correlation with financial indicators of firm performance. However, the authors argue that whilst sophistication of planning processes and procedures may not be necessary, a fair degree of formality (or explicitness) in HR planning is needed to fully realise planning objectives - for example, with regard to the collection and interpretation of data critical to creating and maintaining organizational competitiveness, and to evaluate the potential benefits or risks facing an organization when implementing the organizational plan.

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Planning Orientations, Formality and Usefulness

Lam and Schaubroeck attempted to identify some contingency factors behind the usefulness of HR planning to an organization. Their study, based on 85 Hong Kong companies representing five different industries with an average size of 841 employees, had three stages: establishing different HR planning orientations; an examination of the perceived usefulness of HR planning to organizational goal attainment; and, finally, examining the joint effects of formality of planning process and HR planning objectives on the perceived usefulness of planning.

Several HR planning orientations were distinguished: 'strategic impact' - with a concern for alignment with organizational strategy; 'control' - focusing on efficiency and cost effectiveness; 'co-ordination' - seeking to integrate HR objectives with each other; and 'communication' - focusing on enhancing communication and support amongst employees and top management. Their analysis identified four clusters of planning orientations amongst the companies studied:

1. 'strategic impact and communication';
2. 'control';
3. 'co-ordination';
4. 'no clear objectives'.

In the second phase of the study, the authors found a clear relationship between the HR planning orientation and planning performance, as measured by the perceived level of usefulness to organizational performance reported by the CEO, Chief Operating Officer or Planning Director of the companies. The ranking of perceived usefulness of each orientation, from greatest to least, was for 'co-ordination',

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'control', 'strategic impact and communication' and then 'no clear objectives'. The presence of HR planning objectives was the most significant source of perceived HR planning usefulness differences, with the presence of objectives positively associated with usefulness.

In the final stage of the study, firms with high to moderate formalisation were found to have significantly higher perceived HR planning performance than firms that were low in HR planning formalisation. When formalisation and objective orientation are considered simultaneously, firms which engaged in high to moderate levels of formalisation in planning and were committed to a single objective orientation, were ranked in the higher usefulness group. Firms with an unclear planning orientation, regardless of level of planning formalisation, were ranked as lowest in usefulness. Firms in the strategic impact and communication cluster differed systematically in their perceived planning usefulness according to the level of planning formalisation: the greater the degree of formalisation, the greater the perceived usefulness.

The principal implications of this research for practice are that:

- HR planning requires a clear and single focussed planning objective;
- an implicit planning process could prevent a properly focussed HR planning approach from benefiting the organization;
- a formal process is more likely systematically to highlight gaps and variances, and to translate data into evaluations of core competencies that are critical to defining a firm's strategic orientation;

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- more informal processes do not provide data which is sufficiently clear and understandable to be of use in strategic planning.

Formalisation can also help to enhance organizational learning on strategic planning. However, formalisation only helps when objectives are clearly defined. If there is more than one objective, formalisation can help to enhance integration amongst objectives. Clear objectives in HR planning combined with a formal planning process are more likely to be useful to their organizations' strategic planning and other endeavours. 'Not only must HR planners have good techniques, they must clearly define these objectives in applying these techniques'. They recommend further research into contingencies to identify other factors affecting usefulness, such as environment factors and particular HR practices.

The Russian HR Experience

It has already been suggested that in developing corporate strategy, account must be taken of the capability of people to implement that strategy. In addition, when transferring HRM practices from one context to another, it may be necessary to adapt those practices to take account of any differences in the cultural and institutional contexts. Both points are vividly illustrated in the experience of human resource management in Russia.

Following the *perestroika* (reconstruction) movement fostered by Gorbachov in the late 1980's, and the transformation of Russian management practices to free market standards in the 1990's consequent on the break-up of the Soviet Union in 1991, the reform of HR management systems can be seen as critical to the transformation to a market economy. Russian organizations have been faced

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with the challenge of creating 'more comprehensive, contemporary HR departments' operating without centralised directives in and 'to be competitive in the new profit-driven global environment'.

How much progress has been made? May, Bormann Young, and Ledgerwood [4] identify a number of barriers to management effectiveness in Russian human resource management which are seen as residual problems arising from the centralised Soviet era, with restriction of individual initiative. These barriers, which have the potential to impede the success of international ventures, are:

- underestimating the complexity of the free market, and a tendency to rely on imported formulas/recipes;
- lack of organizational commitment;
- lack of personal accountability and responsibility;
- disregard for health and safety management;
- confusion surrounding compensation and benefits;
- strained labour/management relations.

They argue that given '... the instability of the nascent free market in Russia, it is imperative that Western executives be prepared for the unique barriers to management effectiveness they may encounter as they expand into Russia, particularly in the context of human resource management. For companies entering the Russian market, an effective HRM function is paramount to success. Thus, it is important that Western executives understand the idiosyncrasies of Russian HR practices, particularly if host country nationals will play a vital role in establishing and managing the HR functions on location in Russia.'

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Amongst their recommendations are the encouragement of a hybrid form of HRM incorporating free market practices and Russian culture; fostering the concept of the organization as a living entity and encouraging personal commitment to the organization; and, tying rewards to efforts to build credible management practices and encourage risk-taking, creativity and a long-term perspective.

The key lessons of this research are not only that culture and capability are critical for the success of an organization's corporate and human resource strategies, but also that behaviours deeply rooted in history may take considerable time and effort to change. Furthermore, HR professionals must question whether practices which work in one culture may simply be translated to another national context when the cultural prerequisites are not shared.

Mitchell Kusy and Richard McBain

References

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