

BUSINESS AND HUMAN RESOURCE STRATEGY

Shaun Tyson*

What do we know about how successful businesses use their human resources strategically? Behind this apparently simple question there are serious research problems and numerous traps for the unwary.

Since the popular acclaim achieved by Peters and Waterman's 'In Search of Excellence' the bandwagon effect has produced a plethora of further titles all aiming to describe the golden rules of business success. This is perhaps inevitable, given how easy it is to tempt people with the notion that there is a fundamental truth which, if only they understood it, would bring them success, fame and riches. Such books are in the same genre as earlier attempts, from which the reader was expected to learn how to make friends and influence people or to succeed in business without really trying. As Guest (1992) puts it, 'In Search of Excellence' may have been 'right enough to be dangerously wrong'; that is the book was researched and even if the ideas were over simplified, the appeal of half truths is that managers can find some degree of resonance with their own experience, so tend to believe the entire message. What is equally dangerous is a reaction to such books which dismisses all the messages, and which results in a rejection of any attempt to research this area.

The research problems raised by the desire to find out what managers do to improve performance through HRM begin when we seek to define 'successful businesses'. What is success - profit, high share prices, return on capital, happy customers, happy employees, stable employment, a significant contribution to the economy? The questions could continue, but the point is surely made that we cannot assume simple definitions of success will be accepted by all the stakeholders in a business. What was fatal to the Peters and Waterman (1982) argument was their assumption of some sort of 'permanent' or long term success. Businesses rise and fall with the trade cycle. No virtue attaches to just survival in business for a long period. What works in 1992 may not be suitable for the year 2000.

The most important criterion from the perspective of the shareholder is profitability and the return on assets, but shareholders and analysts are aware that few companies will turn in spectacular profits every year. Ten years ago companies such as Polly Peck were amazing commentators with their performance, but even the existence of such apparent shooting stars has proved ephemeral.

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There are long term good performers, such as Marks and Spencer, Glaxo and ICI which regularly produce highly successful business performance, year on year, within their own industry groupings. What makes them newsworthy is their steady top of the league position. Such long run results may require significant changes to the business, to the types of services, the products or even the portfolio of businesses. The flexibility of the business strategy could therefore be an important aspect of their success. But how compatible is business flexibility with the concerns of Human Resource Management? Human Resource Management is sometimes characterised as being concerned with creating organisation culture, with change from one stable state to another stable state. For many businesses now, perhaps there is no stability: continuous change is the norm.

The Literature on Business and Human Resource Strategy

There is not the space here for a comprehensive review of the literature on this subject, but it is important to recognise that there is a literature on HR strategy which is growing rapidly.

The study of business strategy has been dogged by prescriptions. These 'how to do it' formulae have at least provided researchers with tools for analysis, and have offered frameworks against which practice may be compared. Thus we find the seven 's', the Boston matrix, and various other approaches to competitive posture analysis taken up by consultants and business students.

From the strategic study of businesses, categories of strategic objectives have been developed, such as cost competitiveness, product differentiation and niche marketing. Miles and Snow (1978) have taken this further by putting forward a fourfold strategic typology dependent on the stability of product markets, based on the match between the strategy, the market environment and the organisational goals which influence the control systems, including the human resource management systems. There are, according to this formulation, defensive, prospector, analyser and reactor strategies, each of which has implications for organisation structure.

In the literature on HR strategy, Purcell (1989) has explored how structures in multi-division companies influence strategy, and has shown the complexities of corporate strategies covering a portfolio of businesses. The first and second order strategies followed in divisionalised companies concentrate on markets, and the integration of company policies. He argues that because of the need to meet short-term financial targets, and under the pressure of accountability for divisional profits, human resource strategies are relegated to third order strategies which concentrate on marginal improvements and this makes it harder for unit level managers to bring out long run policies.

By contrast, Schuler (1992) has put forward a vision of strategic human resource management based on three distinct elements: HR philosophy, policies and practices. This suggests that even in large organisations there are distinctive HR approaches, which are sustained by line managers as much as by HR professionals.

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Many accounts of HR strategies in support of business strategies concentrate on management of the change process. Pettigrew (1988) has demonstrated how skills development and training processes can be exploited to provide a competitive advantage, and there are classic case studies of companies such as British Airways which reveal the significance of HR policies in bringing about a cultural transformation. What many of these studies tell us is that successful businesses have found ways to gain the maximum utilization from the human resource, by a variety of means.

In this way, as Storey (1992) reminds us, human resource management has been conceptualized in varying ways. For example normative visions emphasize empowerment and commitment, but there are also descriptions which equate the concept with employment policy, for the utilization of people, including sub-contract and franchise arrangements. There are also those who see HRM as another version of Organisation Development, where the key concern is managing change.

Models of HR

The need to discover what constitutes successful performance can result in a move from 'is' to 'ought'. The problems of researching the area are best overcome by case study methodologies but this produces difficulty when we try to generalize the research.

In the early 1980's I researched with Alan Fell the different approaches companies used to manage the personnel function (Tyson and Fell 1986). These different 'models' of human resource management were created by the varying contingencies which influence all organisational decision making. We distinguished three models, which we saw as: a basic administrative model, a systems model with a strong industrial relations emphasis, and a business manager, professional model. Each model was equally legitimate, each had its particular limitations. The benefits from describing these models are that we can evaluate the function in terms of what the managers realistically seek to achieve and we can measure the changes to models within any organisation over a period of time. Above all, this approach suggests we should no longer seek some idealized model of human resource management, which is unrealistic and inappropriate.

The possibility of changing models is itself a liberating maxim. We do not need to conform to any one set of assumptions. From the diversity of approaches we may expect HR specialists to form closer links with the business decision makers.

Research into the Relationship Between HR and Business Strategies

Following on from this research initiative I recently undertook a joint project with PE International, which has researched the business and human resource strategies of 30 large British quoted companies which have performed consistently and relatively well within their industry sectors. The sectors selected were engineering, construction, retail, leisure, pharmaceuticals and large multi-product/service companies. To measure company performance in a reliable way we took three key financial ratios: profit before tax:sales; return on total assets; and added value:pay. These were chosen because they cover all the main business areas of physical, financial and human assets.

Although the companies chosen included many well known corporations, given the contingency view expressed above, and the caution we would wish to extend to any research project of only 30 companies, generalizations of the findings must only be taken at a high level of analysis. There is little that is common across all these different businesses. However, there were a number of areas which stand out from our data. The findings may be summarised under five general points.

Firstly, there were different approaches to strategy formation, but each of these successful businesses did have a distinct, 'thought through' approach to the formation of strategy, which the managers felt was in tune with their current business needs. There are, one might say, different routes to excellence, but there was in each instance, a route. There was little evidence of highly centralized, formal long term planning processes for human resources. The plans may have had some quantifiable elements, but the numbers to be employed were usually in outline only. The complex, long term manpower plans still described as good practice, seem largely a matter of the past. There were scenario planning exercises, but these were in the strategy formation stage. Succession planning, by contrast, was much more commonly undertaken.

Secondly, human resources were seen as a significant creator of success. This was because of the effect on the capacity to sustain operations, to compete, and because of cost pressures. In some organisations, the innovative, creative aspect of high quality people was also stressed. Perhaps there is an echo of Purcell's point here, in the emphasis placed upon managing current operations. This was not just because of short term financial pressures, but also because of the pace of change, which was recognised by these senior managers to warrant a major human resource response. "If we are to stay on top in our business we have to...." being a typical response in relation to important policy areas such as management education and development. Managing current operations was also a role for HR Directors whose role was a mixture of 'firefighting' - handling 'downsizing', creating new management teams, looking at the immediate consequences of acquisition and divestment decisions, and contributing to long term strategic thinking.

Thirdly, Human Resource Directors were contributory to the strategic thinking at Board level. This may not have always been in a formal way, but also included cases where they performed roles such as acting as a Counsellor to the CEO; providing team development skills for the top team and advice, policies on management development and succession planning, for example in subsidiary companies, or within Divisions. In some organisations informal employee relations policies were seen as a very important ingredient in the company's success (for example keeping the unions negotiating at business unit level, rather than with the centre).

Fourthly, there is no doubt that the complexities of structural relationships defy generalisation. Prescription about the place of human resources within the structure is not possible. One reason for this is because structures seem to be constantly changing. Moves from centralization to decentralization, from a simple command structure to a more divisional form, or changes to the existing formal reporting were typically in

process. Pressure from the recession in the UK and overseas, the need to organise on European lines, or to take account of a global strategic initiative were amongst the causes. Joint ventures, and various forms of collaboration brought to these companies a more fluid approach to organisation. Here too we may see a strong HR influence, through such new philosophies as empowerment, the formation of semi-autonomous work groups, franchise operations, sub-contract and outsourcing. The post-modernist organisation form encourages diversity, and this itself provides opportunities for Human Resource input to the strategic process.

And finally, this brings me to perhaps the most significant finding. The process of strategy formation gave to Human Resource Directors their major role in managing change. There was a recognition amongst senior managers of the saliency they should attach to managing the people part of any change. The process of gaining commitment for new ways of working, for total quality management, for new industrial relations, and above all, for being prepared to live in a constant state of change was seen as the biggest contribution human resource management could make. This was because flexibility and responsiveness to market conditions, in order to remain competitive at times of political, economic and social turbulence, were given the highest value.

Summary

Our research so far has indicated the significance of organisation structure and the dynamics of change into which any conceptual notions of human resources must be placed. What is, or is not a realistic role for HR Directors is entirely dependent on the issues as perceived by the dominant coalition. This brings HR Directors into the political arena, if they wish to influence strategy. It is in this way that the process issues become significant. But, success is not all dependent on process. The 'law of the situation' is ultimately a matter of products, services, technology and markets, as the recession has shown.

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