

Aligning HR with Business Strategy

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INTRODUCTION:

The business is becoming highly competitive and the constantly changing environment, which is defying the quantitative forecasting, is forcing the organizations to leverage human resources to differentiate and bring in sustained competitive advantage. The blurring of the advantage due to innovation in products and service and technological advantage has been eroding the competitive position of the organization, paving the way for the human intervention in all the business process to ensure customer satisfaction.

ORGANIZATIONS ARE MADE UP OF THREE TYPES OF COMPETENCIES/CAPITAL

- a. Customer capital i.e, four P's of marketing product, place, price and promotion. Organizations which come out with new products/ sources keeping in tune with the changing needs will become successful.
- b. Structural capital – this refers to operational processes/efficiency involved in the system
- c. Human Capital – Human capital is central to the performance of customer and services capital because, it is the responsibility of employees to acquire/retain customers and produce goods and services upto customers satisfaction.

Today there is an urgent need to link human psychology to the business goals of organizations at both strategic and practical levels. This can be achieved through strategic HR which creates framework for aligning human growth with organizational goals & is dependent on the mental texture (giving that extra bit) of employees. That is why right pre-support ions are more important.

The root problem in the organizations is always psychological not material, financial or technological. Mind is the cause of once bondage and it is the mind that liberates. Technology is one of the tools but never the decisive factor. It is the people who make the difference and it is they who use the tools for contributing to the organizational performance.

THRUST ON HR.....

Current business conditions mandate greater competitive advantage from HR practices. To add greater competitive advantage, HR must contribute strategic value against criteria from customer and capital markets. HR can add value either reactively or pro-actively. In its strategically reactive mode, HR assumes the existence of a business strategy and adds value by linking HR practices to the business strategy and by managing change in its strategically proactive mode, HR creates competitive advantage by creating cultures of creativity and innovation, by facilitating mergers and acquisitions and by linking internal processes and structures with ongoing changes in the market place.

Over recent years there has been an increasing interest in the field of human resource management. Further, currently the literature encouraging the consideration of human resources as strategic factors, not any because they play important role in strategy implementation also because they are beginning to be reckoned as sources of sustained competitive advantage.

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EVIDENCE ABOUT HR COMPETITIVE ADVANTAGE/CONTRIBUTION

There is a growing consensus among HR professionals that organizational human resource policies can, if properly configured, provide a direct and economically significant contribution to a company's performance substantial amount of evidence. Suggests that individual human resource practices, as well as, internally consistent systems of HR can indeed directly influence organizational performance. Over the years, researchers have collected a fair amount of empirical evidence that certain HR practices can directly affect a company's performance. Over the past decade, number of studies conducted have shown that enormous economic returns were obtained through the implementation of what are variously called high involvement, high performance or high commitment management practices.

Fombrum and Tickey (1984) provided American evidence that there is HR practice which is strategic. They showed that in the United States there is a strategic staffing, appraisal, rewards system and cultural development and the HR strategy can enhance innovation, quality work, productivity and internationalization.

Flamholtz (1985) found that the economic return from investment in human resources policy and practices are substantial. Guzyo Etal (1985) study showed that HR management interventions involving training, goal setting etc had a significant effect on productivity. Katz etal study demonstrated that effective industrial relations system (operationalized as fewer grievances, disciplinary actions and lower absenteeism) increased product quality.

Schuster (1986) found that use of greater number of HR interventions like assessment centres, flexible work schedules, gain sharing and organizational development had a substantial and positive effect on firms performance. Similarly, Katz etal (1983) in another study highlighted the important role certain innovative practices, like increased managerial discretion in allocation of labour hours, job transfers and lay off, could play in improving the productivity. Further, Pfeffer (1994) drawing on his research in companies ranging from Men's warehouse, Volkswagen and AESTo Apple computers, United Airlines and ranks in USA and Germany. He found a significant correlation between high commitment practices such as employment security, high wages, employee ownership, information sharing, participation and empowerment, cross-training and redesign of jobs and organizations performance. In other words, he was building an irrefutable business case that there is a direct correlation between strategic HRM and economic success. Schuler and Mac Millan (1984) made a similar point that effectively managing human resources gives many benefits including greater profitability.

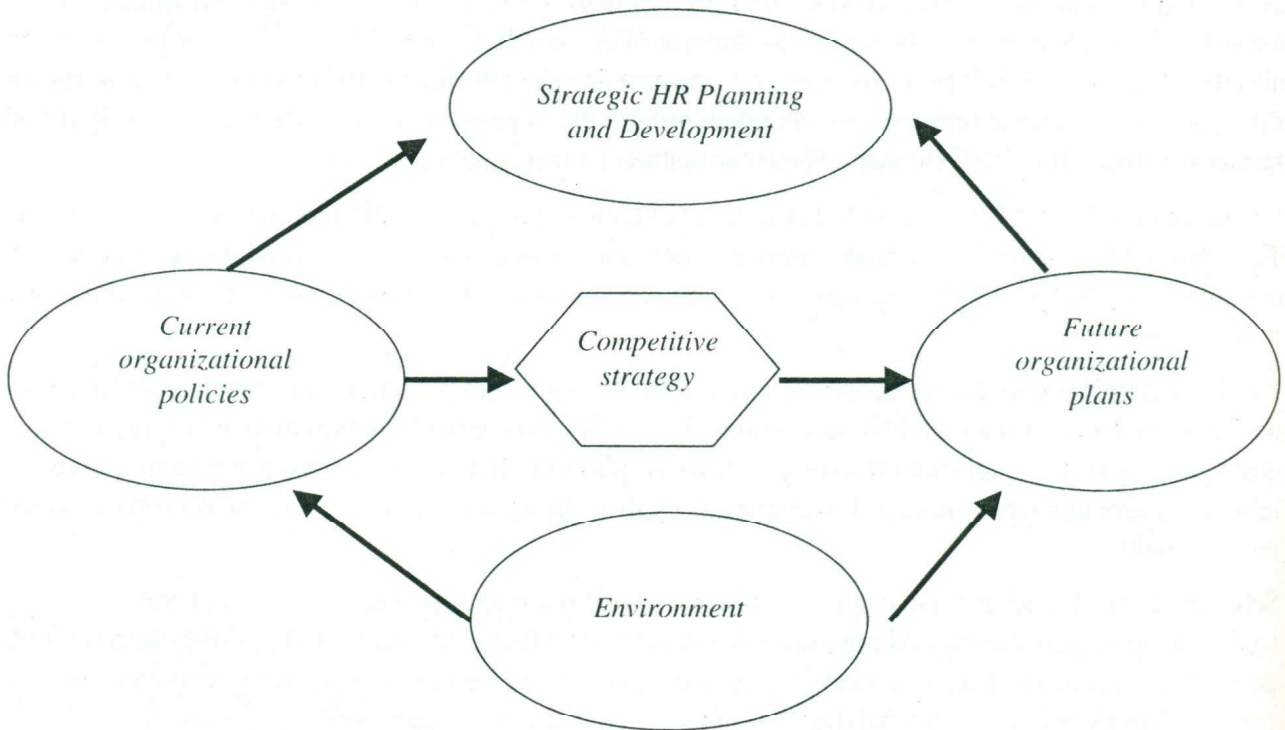
Arthur (1994) empirically identified the mills with commitment system which had higher productivity and lower employee turnover than those with control systems. Huselid (1995) found a significant correlation between implementation of high performance work practices and company's financial performance. Further, he shows that the magnitude of the returns for investment in high performance work practices is substantial.

HR MANAGER AS A STRATEGIC CHANGE PARTNER / NEW ROLE OF HR PROFESSIONAL

Grundy (1997) argues that strategic human resource development and planning involves linking business strategy with organizations strategy, to the current and emerging pool of management skills, thus identifying key shifts and gaps and areas for intervention. Figure 1 shows how competitive strategy influences the current organizations position and its stages of development. It also shows the linkages between strategic human resources planning and development with competitive strategy.

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This may occur through lack of attention to crucial HR issues, or through wasted effort on poorly implemented HRM. In the absence of a robust HR Strategy clearly linked with corporate/business strategy, HRM programs may easily lack direction, clarity coherence, and critical marks to add real value, especially where there is a high element of emergence in HR strategy.

All of us are aware that HR has operational responsibilities. Generally it is responsible for recruitment, reward systems, performance management, and appraisal processes and development. If it can ensure that the test of each process or practice is the degree to which it enhances the achievement of a particular corporate goal, then it has a likelihood of becoming a strategic partner. Further, HR managers will be considered strategic only when they recognize that their responsibilities and accountabilities only be judged in terms of the influence they have on the strategic orientation where they recognize how their inputs will influence the achievement of strategy.

In a growing number of organizations human resources are now being viewed as a source of competitive advantage. There is greater recognition that distinctive competencies are obtained through highly developed employee skills, distinctive organizational cultures, management processes and systems. This is in contrast to the traditional emphasis on transferable resources such as equipment. Now it is increasingly being recognized that competitive advantage can be obtained with a high quality workforce that enables organizations to compete on the basis of market responsiveness, product and service quality, differentiated products and technological innovation.

So, the situation demands, that HR managers become strategic partners in business operations playing prospective roles rather than being passive administrators reacting to the requirements of other business

functions. Strategic HR managers need a change in their mindset from seeing themselves as relationship managers to resource managers knowing how to utilize the full potential of their human resources.

The new breed of HR managers need to understand and know how to measure the monetary impact of their actions, so as to be able to demonstrate the value added contributions of their functions. They become strategic partners when they participate in the process of defining business strategy, when they ask questions that move strategy to action and when they design **HR practices that align with the business strategy**.

To achieve partner status HR manager has not only to be fully aware of the strategies but has to be perceived by his/her colleagues as being able to contribute to the achievement of the strategy. **Figure - 2 shows a Model of the Cycle of Strategic Influence.**

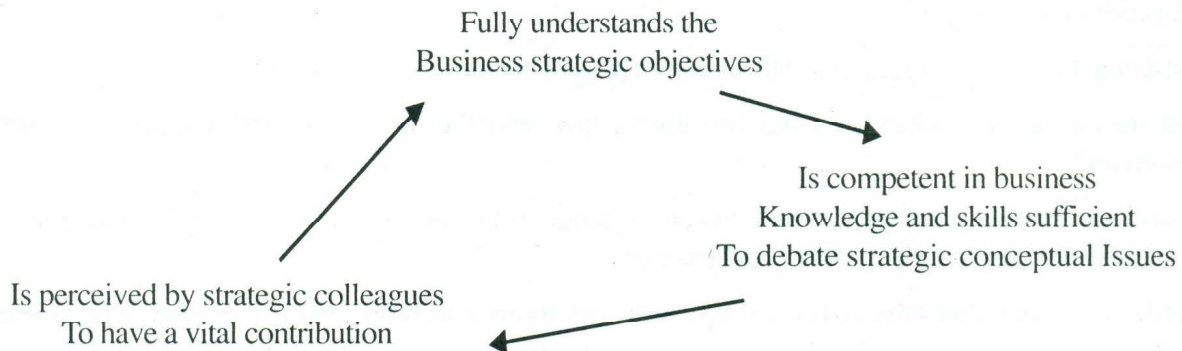


Figure -2 Strategic Influence Cycle

Further, to be perceived as having a vital contribution, HR manager should exhibit a capacity to solve business problems. Diagrammatically this has been shown in Figure 3. They would be able to become valued members of business decision – making teams if they can create an image of themselves as a successful business person i.e, spotting a marketing opportunity, like a marketer, and recommending a change in salary policy to ensure retention of high flying marketers.

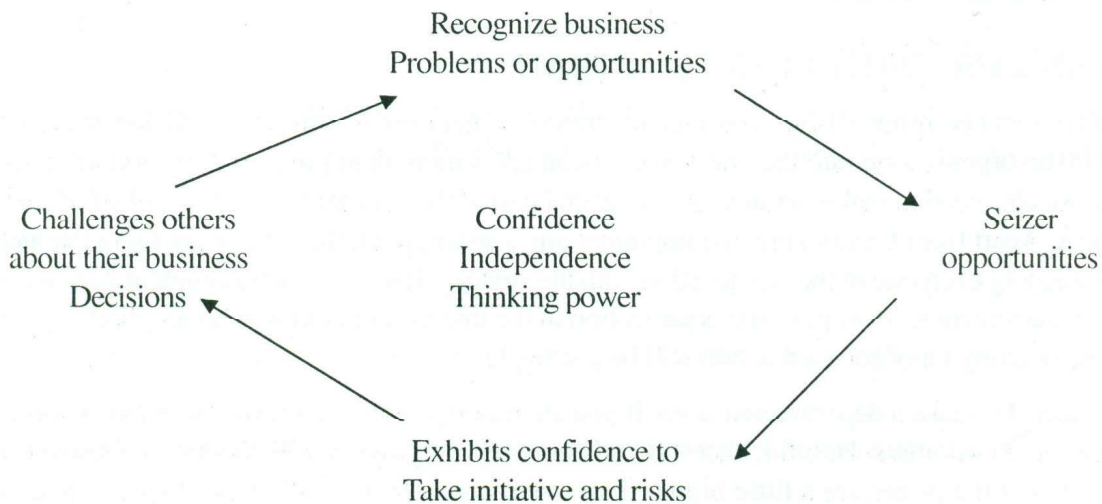


Figure 3 Problem Solving Capacity

The primary action of the strategic human resource manager is to translate business strategies into HR priorities. In any, business setting whether corporate, functional, business unit or product line a strategy

exists either explicitly in the formal process or document or implicitly through a shared agenda on priorities. As strategic partners, HR professionals shall be able identify the HR practices that make the strategy happen. The process of identifying these HR priorities is called organizational diagnosis, a process, through which an organization is audited to determine its strengths and weaknesses.

WHY TO TRANSLATE BUSINESS STRATEGIES IN TO HR PRACTICES

As we know, the linking of human resources with strategic goals and objectives is nothing but strategic human resource management. And this has to be done if we wish to improve the business performance and develop organizational culture that fosters innovation and flexibility. But the question arises as to why business strategies need to be translated into HR practices.

Translating business strategies into HR practices helps a business in three ways:

First, the business can adopt to change because the time from the conception to the execution of a strategy is shortened.

Second, the business can better meet customer demands because its customer service strategies have been translated into specific policies and practices.

Third, the business can achieve financial performance through its more effective execution of strategy.

In brief, as strategic perspective of HRM, that requires simultaneous consideration of both external (business strategy) and internal (consistency) requirement, leads to superior performance of the firm/company. This performance advantage is achieved by:

- Marshalling resources that support the business strategy and implementing the chosen strategy, efficiently, effectively.
- Utilizing the full potential of the human resource to the firm's advantage
- Leveraging other resources such as physical assets and capital to complement and augment the human based advantage.

ALIGNING HR WITH BUSINESS STRATEGY

One of the most common difficulties face in strategies planning is turning this vision into a reality. To transform an organization into the one you envision takes more than great strategy and implementation. Further, we also need to make the strategy an integral part of the very fable of the organization, i.e, strategic alignment. Apart from formulating and implementing a strategy, another important thing that needs to be done is aligning everyone in the organization with the strategy. Because, such alignment will make it easier for the management team to push the organization in the intended direction: without good alignment with the strategy, every bit of forward action will be a struggle.

For instance, let's take a departmental store. If you are running such a store, you probably want employees who appeal to customers. Helpful, cheerful and courteous employees will encourage these customers to return, even if the prices are a little higher than other stores. Rude, sullen employee who don't know how to help customers will drive customers away. If you have good staff in the store, you won't have to work as hard to get customers to return. Further, if your staff are really excellent, you may even get some word of mouth advertising. While this may cost a little more in terms of the compensation you offer to employees, you will get a payoff in the form of a loyal specialty customer base.

“ALIGNING EVERYONE IN THE ORGANIZATION WITH THE STRATEGY IS ONE OF THE MOST IMPORTANT THINGS ONE CAN DO”

Let’s consider another example to drive on the point. Specialty stores need specialty sales people. This is obvious but the strategy may introduce a trust into our thinking. Let’s say there are two kinds of specialty computer stores. Those that appeal to neophyte and those that appeal to technologically oriented users. If the strategy is to be a neo-phyte oriented one we want our staff to be good at hand-holding, explaining technology, and patiently answering simple questions. Because deep technical knowledge may be less important than the ability to reassure customers who might otherwise be fearful about computers.

At the more sophisticated store, you want a very different sort of employees. Employees who are more knowledgeable about the product will be much more valuable and a willingness to answer most difficult questions as well will keep the specialty power user coming back. For a minute think of a reverse situation. The wrong person in the wrong store will be a disaster in either case, despite the fact that both might be specialty computer stores. Let’s imagine a new computer user encountering a sales person who is just right for the techic store. The techic sales person will overwhelm the neophyte with information about AGP slots, frontside bus clock speed, and BIOS configurability (most of which most computer users don’t need to – or want to know). The new user will likely go along with this but may not make the purchase, simply because the salesperson has only convinced him or her that this is indeed a very complicated purchase. Further, even if he or she does buy, that day, you may never see that customer again (if there is a choice) because the experience was more frightening than reassuring. So there is a problem in three ways.

- It is bad for your store,
- It is bad for the customer, and
- It is bad for the career of a salesperson, who would be really good in another store.

SHRM: A CONCEPTUAL FRAMEWORK

Figure – 4 presents a conceptual framework representative of the kind found in the business literature. It depicts SHRM as a process that merges strategic planning and human resource management. As we can see, it views SHRM as a continuous process of determining mission related objectives and **aligning HR policies and practices with those objectives**. The HR department plays a strategic role to the extent that its policies and practices support accomplishment of the organization’s objectives. Key components of such exercise include:

- Analyzing company’s internal and external environments
- Identifying the companies strategic objectives
- Developing HR objectives and strategies consistent with the company’s goals (vertical integration) and
- Aligning HR policies and practices with each other (horizontal integration)



Figure – 4 SHRM: A Conceptual Framework

But, for this conceptual understanding of SHRM to be implemented successfully certain core requirements (structural and procedural) must be satisfied.

THE CORE REQUIREMENTS OF SHRM

A. An established strategic planning process:

The role of strategic planning is to provide organizations with a clear sense of direction by classifying the mission, setting priorities, and identifying goals and objectives. Strategic planning may be practical in a variety of ways (Bryson 1995). It may be externally oriented, bringing together a diverse range of stakeholders to resolve issues of mutual concern, or internally-oriented bringing together a cross-functional team of company officials to set internal priorities and objectives. It may be mandated from above for purposes of accountability or adopted voluntarily by an organization to establish a clear sense of direction. It may comprise of a temporary, problem specific process that ends when the immediate problem has been resolved or an ongoing, institutional process for goal setting and issues management. Lastly, it may follow the Harvard policy model and call for extensive analysis of the organization’s internal and external environments, or it may avoid lengthy analyses, opting instead for simple goal-setting (Bryson 1987) exercises.

Advocates of SHRM tend to assume an institutionalized, internally oriented strategic planning process adopted by companies to clarify their missions, set priorities, and decide upon strategic objectives. However, currently there are two contrasting approaches in use:

1. **The performance management approach:** Which is mandated by executive order and aims to ensure accountability i.e, identifying appropriate performance measures for tracking success in achieving identified objectives.
2. **The issues management approach:** is undertaken voluntarily to address emerging issues, internal or external to the company, that are likely to affect its ability to carry out its mission. The primary purpose is adaptability rather than accountability.

The performance management approach is less suited to the purpose of SHRM. Because, performance management systems are usually mandated from above and monitored by budget / planning officers. Further, the model of SHRM presented in Figure – 4 calls for alignment of HR policies and practices with strategic initiatives designed to help the organization adopt to or cope with internal and external pressure. It does not call for their alignment with performance measures as such.

B. Involvement of HR managers:

The second one is involvement of the HR managers in the strategic planning process and full consideration of the HR related implications of the strategic objectives or initiatives under discussions. This is necessary to ensure that the strategic initiatives under discussion are evaluated in terms of their implications for human resource. For instance, when a new program initiative is under consideration the HR manager can offer an analysis of the gap between the current human resources capabilities and projected needs. Similarly if the organization wishes to adopt a customer – service orientation, the HR manager can explain the difficulties inherent in changing an organizations culture and the kinds of training and incentives required to accomplish it successfully.

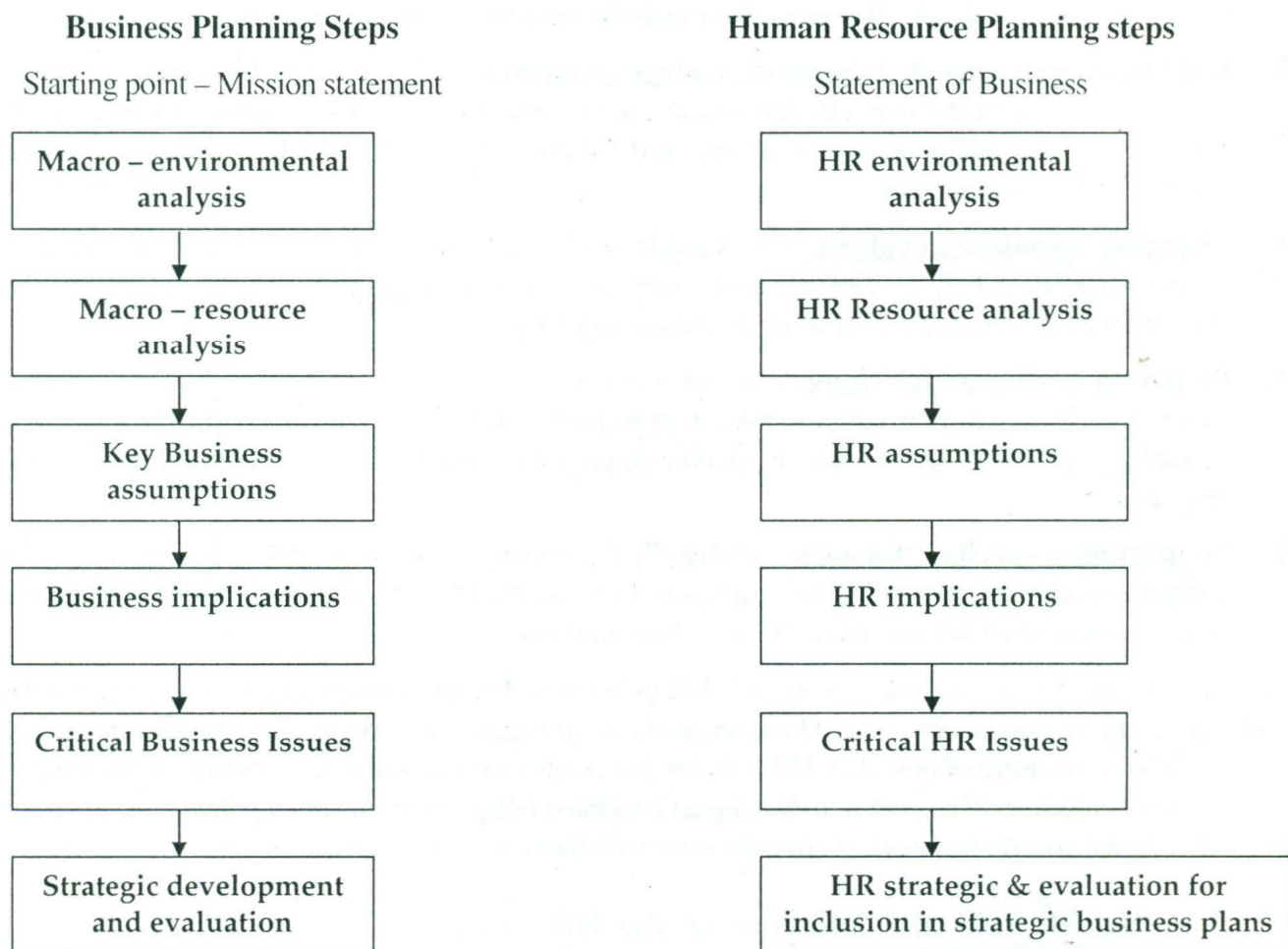


Figure – 5 Linking HRD with Strategic Business Planning

Further, involvement by the HR manager is also necessary so that the HR staff can obtain a better and more complete understanding of the organization’s mission and the issues confronting Line Managers.

C. A clear statement of Strategic objectives

Strategic goals and objectives are the key products of the planning process and very often are stated in a written plan. This plan provides a useful guide to the HR department or it seeks to align existing policies and practices with strategic objectives. However, absence of a written plan developed at the organization level does not mean that SHRM can not exist. The HR office can develop its own plan for linking its goals to the organizations goals. For the purpose of SHRM what is required is that members of HR staff know and understand the organizations strategic objectives so that they can contribute to their attainment.

D. Alignment of HR policies and practices with strategic objectives.

The vertical alignment of HR policies and practices with an organizations mission and strategic objectives and horizontal integration of HR policies and practices with each other. The kinds of actions that are undertaken to achieve vertical integration could be as follows:

1. **Adopting to environmental change**: This includes actions taken by HR department in response to external trends or events like tight labour markets, new technologies etc.
2. **Building human capacity to support strategic initiatives**: For instance, if the company decides to serve a new clientele group, HR department can play a strategic role by recruiting new employees with the requisite skills or enhancing the skills of the existing personnel through training and development.
3. **Changing organization culture**: For example, when the company adopts a "Customer-service" orientation, HR can help develop a shared commitment to service quality and customer satisfaction through its employee orientation sessions and training programs.
4. **Preparing employees for change**: In addition to taking steps to develop a new organizational culture the HR department can also take steps to prepare employees for impending changes. For example, it can encourage managers to involve employees in the design and implementation of new programs.
5. **Supporting a specific "Business strategy"**: For example, when Marriott decided to gain a competitive advantage by being the employer of choice, the HR department altered its policies and practices so as to attract and retain the very best workers.

Vertical integration is a measure of how well HR policies and practices individually and collectively, contribute to organizational objectives. However, as shown in Figure – 4, horizontal integration is important as well. This is a measure of how well HR policies and practices mesh with each other in contributing to organizational objectives. The goal is to develop an integrated HR program in which policies and practices in one functional area do not work at cross purpose with those in other areas.

E. Changing the role and structure of the HR office:

The first four requirements of SHRM can not be satisfied unless the HR department alters the way it does business. But how to go about in this regard. Advocates of SHRM have offered several recommendations in this regard.

First, it must develop the capacity it needs to support strategic initiatives. Eg. Staff expertise in job design, employee motivation etc.

Secondly, the traditional control orientation must be superseded by a service orientation. For SHRM to be implemented successfully the HR staff must believe that their mission is helping the organization accomplish its mission by assisting supervisors in managing their human resources.

Lastly, decentralizing and deregulating HR systems. However, decentralization deregulation may not be a pre-requisite for the successful implementation of SHRM. It is enough of each department / division has sufficient authority and flexibility to align its HR policies and practices with its strategic objectives.

HOW DO WE GET THE ALIGNMENT

Having discussed the core requirements for the conceptual understanding of SHRM to be implemented successfully, the next question is “**How do we get this alignment?**” These are five basic steps you must take to assure your employees are aligned with your company’s strategies.

First, employees must have the conceptual tools required for good strategic thinking about their work.

Second, employees must understand the strategy

Third, strategic alignment needs to be built around the structure of the organization

Fourth, strategy must be reflected in the structure of individual jobs – especially those in critical areas.

Fifth, you must have buy-in to the strategy.

Let’s look at each of them.

First, strategic alignment can only work if the employees already have the tools required for good strategic thinking. Because they must be capable of taking decisions with strategic impact in order to be aligned with the company’s strategy. These tools includes examples, role models and training. However, this does not mean that every employees needs to be a great strategic thinker but employees must be able to understand how their work fits into the success of organization.

Another thing is to make sure that your people understand enough of basics of business that they can see how the strategy is going to make them better off, increase their job security, increase the likelihood that they get promotions and how it will increase the likelihood that they see pay increases in the future.

Second, understanding the strategy can only happen when the employees have the conceptual tools mentioned above. For instance, a Rolls-Royce sales person should not get upset that a customer didn’t buy because he/she didn’t like the price. With out a clear understanding of the strategy, such kind of alignment is impossible, especially when the “frontline” employees are for removed from the strategic planning process.

Third, organizational structure can greatly help or hinder strategic alignment. Let’s take one example. It is very common in larger organizations to find a ‘silo effect’ where the organization is very effective vertically within a department/division, yet lacks efficiency and flexibility in activities which require cross-departmental cooperation. Some successful organizations like Hewlett Packard have created “matrix” organizational structures to overcome this. These structures attempt to break down “slio” walls by creating reporting structure by both operational functions (i.e, manufacturing, accounting) and market or product (i.e, home office printer, banking industry).

Fourth, job structure. It is very important that the way you hire, train, compensate and retain the employees you have, is key strategic areas works with your strategy. For example, if you have a specialty strategy, you definitely want to be looking for people (smart expensive) who add value to your product or service.

At the same time you may have ways to add value with inexpensive people and if you do, you need to manage them to think about the customer and the product or service the right way.

Fifth, buy – in. If you have an employee who thinks the strategy is not good, you won't have alignment no matter what you do. The first two-items, tools and communication will go a long way towards getting buy-in, but there are people who just won't buy into some strategies – especially if they are smart. Getting people to buy into a strategy means, you have to get them to believe in it. This means, the strategy itself has to have some credibility with your employee.

Ofcourse, an ideal way is to get people aligned with strategy is to make it their strategy. buy-in is much easier if you can actually make your strategy that employees made up themselves. But it is really difficult to have effective, efficient, strategic planning meetings when you have too many people as well as when you have too few people. So one must look for ways to **make people feel like they are contributing to the strategic decision-making process, even when, they are not directly involved** in the decision-making part of the process.

The companies that take these simple steps to build alignment between their employees and their strategies find greater success. Infact, one will find better support for implementation of strategies and more effective day-to-day use of strategies at all levels of organizations when they achieve alignment. This will make the difference between struggling to make your vision a reality and smoothly flowing into the future you have defined.

AN ALTERNATE UNDERSTANDING OF SHRM

What we have discussed so far about managing the human resources strategically is closely tided to the practice of strategic planning. That is, it envisions the HR department taking only those decisions necessary to support a specific strategic objective. In this case the HR departments role may be strategic but somewhat adhoc and reactive.

An alternative understanding of what it means to mange human resources has been suggested by Eugene Mcgeegar (1991). According to this understanding the role of HR department is to help “manage resource strategically “Managing this strategic resource strategically involves determining essential knowledge, skills and abilities, improving recruitment and selection methods, developing the capacities of all the employees etc. In short, this alternate understanding envisions a HR department pursuing an ongoing, integrated program for enhancing organizational human resources strategically.

CONCLUSION

In the past few years business conditions have arisen which mandate greater competitive advantage from HR policies and practices. To add greater competitive advantage, HR must contribute strategic value against criteria from customer and capital markets. Furthermore, HR can add strategic value either reactively or proactively. In its strategically reactive mode, HR assumes the existence of a business strategy and adds value by linking HR practices to the business strategy and by facilitating change management.

In its strategically proactive mode, HR creates competitive advantage by creating value before the competition by creating cultures of creativity, and innovation, facilitating mergers and acquisitions and linking internal processes and structures with ongoing changes in the market place.

The need of the hour is HR department adopting a strategic role in addition to its operational roles as rule enforcer and guardian of the integrity of HR system. For the HR staff, adopting a strategic role means being more responsive to organization's goals by acting as consultants and service providers to Line

manager, supporting the attainment of the organization's strategic objectives and carrying out an integrated program for enhancing organizational performance by acquiring, developing and managing human resources strategically.

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