"Effective Human Resource Management Strategies"
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In order for human resource management to be done effectively there must be a strategy that defines an organization's approach to attracting, retaining and motivating a workforce that will enable it to succeed. The critical characteristics of an effective HR strategy are: 1) it fits the organizational context, 2) it aligns human resource management policies and programs with the strategy of the organization, and 3) it integrates the HR functional strategies (staffing, development, performance management, rewards management and employee relations) with each other.

Figure 1, "Aligning Human Resources Strategy With Organizational Context," provides a model for formulating an HR strategy that fits the organization at a particular point in time. This model can guide the formulation of a human resource management strategy where one has not existed or has not been formally defined and can also be used to evaluate the current effectiveness and appropriateness of an existing strategy. Once an effective strategy has been defined it can then be used to evaluate how well policies and programs fit the strategy. The model is dynamic; if any of the contextual components change the HR strategy must be re-assessed. The degree to which the HR strategy is made specific will also depend on contextual characteristics; in times of uncertainty it may be in the form of a general direction, to be sharpened in focus when a direction is clear and objectives defined.

How an effective HR strategy can be formulated is discussed below:

<u>Fit With The Organizational Context</u>

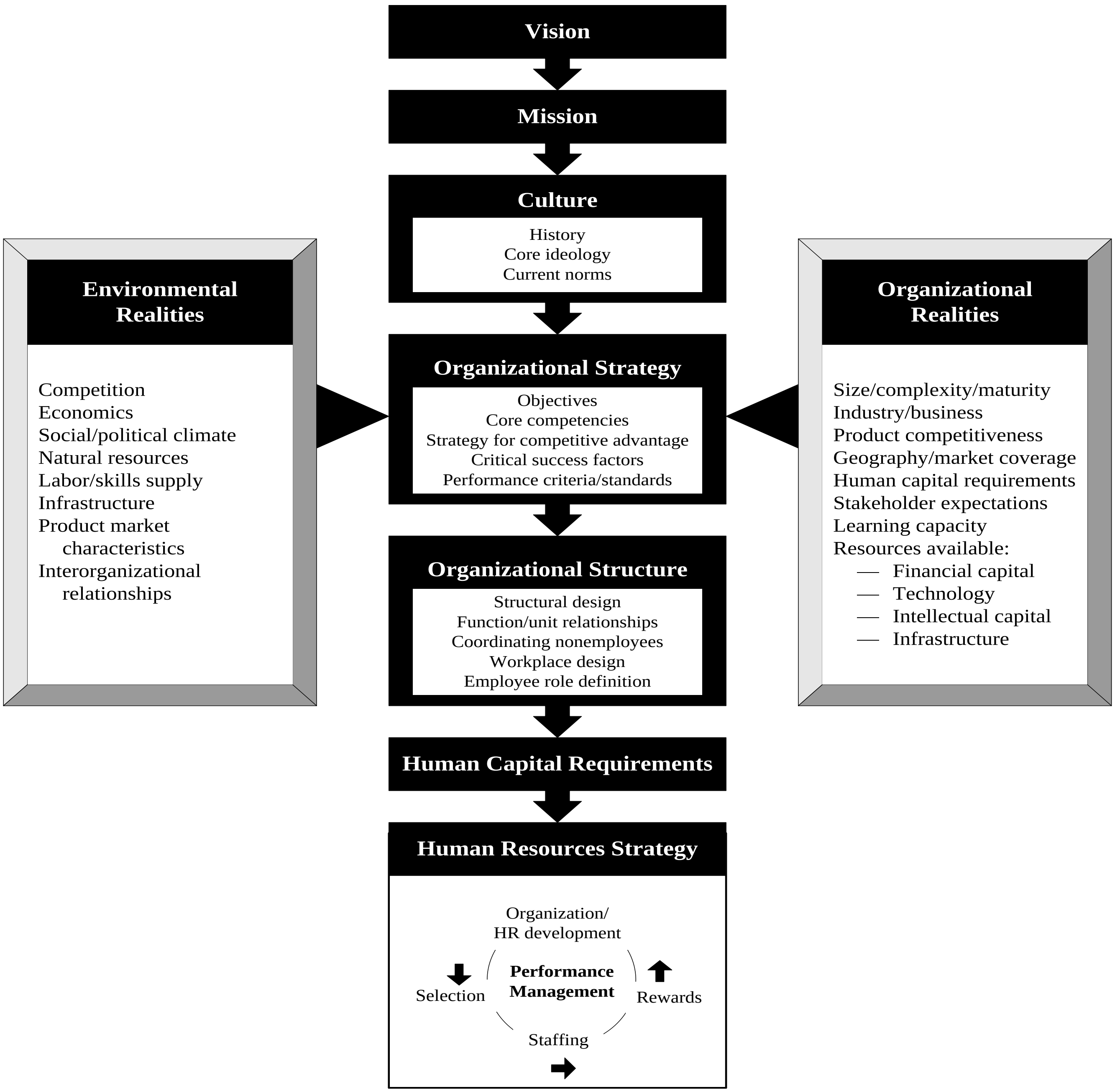
The *vision* and *mission* of an organization define the organization's desired future; both the end state and the role the organization will play in producing that end state. The example below from the utility division of a major city illustrates how the vision and mission might be defined:

> *Vision:* (OurCity) with reliable power and safe/clean water available to the entire population, contributing to a healthy/high quality standard of living.
> *Mission:* To generate and distribute power and to purify and distribute water to the entire population reliably and in a cost efficient manner.

Although vision and mission statements are often dismissed as useless products of management retreats or a palliative for investors and the community it is difficult to set a direction without knowing the desired destination. Admittedly these statements accomplish little if they are relegated to posters on bulletin boards if they are reflected in the behavior of leaders they can truly become a part of the mindset of the workforce.

Figure 1

Aligning Human Resources Strategy with Organizational Context



Source: Adapted from "Culturally Compatible Rewards Strategies"
by R. J. Greene, *ACA Journal,* Autumn 1995 (revised December 1998).

The *culture* of an orgnaization defines how its members see the world; their beliefs, values and priorities. Edgar Schein defined culture as "how an organization resolves problems of external adaptation and internal integration." Much has been written about organizational culture but its role in defining how members of an organization behave can hardly be overemphasized. The culture(s) of the workforce is also critical to how an organization will function. Diversity in national/ethnic, generational and occupational culture offers an opportunity to look at challenges from many perspectives but also presents challenges when diverse viewpoints must be reconciled. Globalization has presented virtually every organization with the task of attracting, retaining and motivating people with very different perspectives and the culture of the organization must address the challenges associated with it.

Organizational culture can be defined in many ways but the formal articulation of the desired culture can help to align all constituencies. Below is an example of how key elements of the aforementioned utility's culture could be defined:

> *Culture:* Reliability in serving customers and executing processes is the primary goal of all employees and organizational units. All employees will be expected to perform well as individuals while making others they work with and their unit effective. Safe, reliable and affordable products are the primary measures of effectiveness. Rewards and career progression will be based on competence and performance. Long service will be rewarded through recognition programs and company loyalty to the employee, assuming they continue to perform and to maintain their skills and knowledge as required. Ingenuity and creativity are valued as long as the parameters defined by safety, reliability and cost effectiveness requirements are observed.

Although this summary seems to leave a lot unsaid about how an employee should behave when presented with a particular set of circumstances it establishes the importance of safety and reliability and commits to valuing both service and performance and commits the organization to adhering to established principles.

The *environmental realities* faced by an organization at a given point in time will significantly impact its strategy. The economic, market, social/political, legal and competitive conditions will play a major part in determining the feasible approaches to accomplishing organizational objectives. Organizations attempting to use contingent incentive compensation awards to motivate employees world wide may find that in some places the approach is not accepted or even illegal. The condition of the infrastructure needed to support operations may render an otherwise attractive strategy impossible to execute. Failure to perform regular environmental scans and to consider their impact on the organizational and human resources strategies is the recipe for disaster, particularly if operations are dispersed globally.

The environmental realities must be identified and their impact assessed. An example of a summary of environmental realities for the aforementioned utility might be:

> *Environmental Realities:* Governmental support is available to provide long-term capital for constructing the necessary power generation/distribution and water purification/ processing/ distribution infrastructure. Private capital is available at premium rates. Major corporations have own facilities to provide their power. Utilities from other areas free to provide alternative power sources due to deregulation. Regulatory control precludes denying power or water based on consumer ability to pay and customer dissatisfaction shall subject the organization to scrutiny by regulatory bodies. Environmental impact of operations will be monitored by public and private agencies.

Although much is left unstated in such a summary it is important to identify the forces faced by the organization and to assess their impact on both strategy and on how operations are conducted.

The *organizational realities* faced by an organization at a given point in time will also have a critical impact on what the strategy will be and how it will be executed. The characteristics of the organization and its business(es) will be dynamic, as will the resources it has available. As organizations grow it becomes increasingly critical to formualte policies and systems that will enable the growth to be controlled. The human capital requirements are particularly relevant to the human resource management strategy... it does little good to build a state of the art microchip plant if the available workforce does not have the knowledge, skills and abilities to operate it effectively. Using the aforementioned utility as an example again, a summary of internal realities might be as follows:

> *Organizational Realities:* Adequate technological knowledge exists within the workforce to operate and maintain facilities/system. Engineering consulting resources are available for design work exceeding the existing skills and staffing levels, partially funded by governmental agencies. Operating capital meets minimally acceptable levels. Current workforce is resistant to major infusion of technology if it results in reduction of jobs. Over one-half of the workforce is in need of continuing training in new technology. Entitlement to continued employment and annual adjustments to pay levels is strong.

Alignment With Organizational Strategy

Once the vision and mission of the organization have been estabished, the culture defined and the environmental and organizational relaities identified, the next step is to formulate a strategy that will enable the organization to achieve its objectives. In order to test the feasibility of a strategy the core competencies (capabilities) required for successful execution of the strategy must be defined and the existing capabilities assessed. Many strategies are not implemented because organizations are not be capable of doing what is needed, so it is critical to realistically assess the feasibility of adopting a strategy. Once core capabilities have been identified and their existence confirmed the next step is to decide how they will be deployed to produce a competitive advantage. Finally, it is necessary to identify the critical success factors and then to create performance criteria and standards so performance can be continuously measured. One of the critical prerequisites for producing motivation and alignment in the workforce is a clear definition of what is needed and how each person/unit should act to facilitate attainment of the organization's objectives. Using our utility example once again, a summary of the strategy might read as follows:

> *Strategy:* To be the preferred provider of power and water for commercial organizations by providing more peak capacity than they can afford and by demonstrating superior reliability. Lower rates will be charged consumers and will be funded by the ability to charge higher commercial rates and by government subsidy for low-income customers. Localized distribution of power will be done by cooperatives who purchase power and collect income from customers. Water will be controlled from collection to distribution. Maintenance functions will be centralized and available to cooperatives on a contractor fee basis. The competitive advantage of the organization will be gained through operational excellence, which requires efficiency, reliability and speed.

Unfortunately organizations decide their strategy should be to "be better than everyone at everything." It is unlikely that all other organizations are so inept that such an approach is possible and further such a strategy causes resources to be applied in a very dispersed fashion, often rendering the organization ineffective at everything. Michael Porter's classic model relating to strategy mandates an organization make choices about where the focus will be and where excellence is required. The Treacy & Wiersema model presents three alternatives (operational excellence, product leadership or customer intimacy) and likewise mandes choices. And once the choice is made the strategy will provide considerable direction to those formulating a human resource management strategy.

An Operational Excellence strategy leads WalMart to identify the key occupations to be logistics management, while a Customer Intimacy strategy leads "competitor" Nordstroms to put customer service people high on the list. By identifying which functions are critical to successful execution of strategy it enables an organization to focus its resources when staffing, developing and rewarding people. The selection of an Operational Excellence strategy by our utility (see above) helps to provide a focus for allocating resources, particularly those related to the workforce.

The *organizational structure* is directly related to strategy execution... it is how the core competencies will be mobilized to achieve the desired results. The structure is the architecture of the organization and must be reflected in the human resource management strategy, since it defines the roles of functions/units and employees and also the relationships between the parts of the organization. Much has been written about the end of hierarchy and the emergence of the “network” organization... a parallel to the distribution of information processing that has occured over the last two decades. However, some would argue that there is still room for bureaucracy, particularly when reliability is a primary focus. The description of the utility’s philosophy relative to structure might be:

> *Structure:* Staff functions will be centralized and be outsourced when cost and quality dictate. Power generation, power distribution and water/waste water purification and distribution organizational units will be centralized and be fully staffed by permanent employees. Teams will be utilized for field maintenance and construction.

Although this sounds very “Roman Legion’ish” and out of date in today’s world one might consider the impact on the population if the utility moved to self-directed work teams focused on ingenuity and operating largely autonomously. Failure to integrate activities and to control operations closely to ensure they conform to regulatory requirements/sound practice could result in a lot of sick people or an avalanche of power failures (both recent events in the U.S.). Autonomy and innovation can be sought but the degree to which they are unleashed should be guided by the strategy and kept within the desired control parameters by the organzational structure. The structure of a software design firm focused on leading the way in new technology will certainly contrast sharply in its approach to structure. Project-focused teams with fluid membership are apt to be the unit of choice, rather than departments delineated on organizational charts, supported by specific job descriptions that establish the responsibility for critical tasks.

The architecture will have a major impact on the HR strategy, much as an architect’s plans prescribe the type of materials needed and how they must come together in order to function appropriately.

Integration Of HR Functional Strategies

The organizational context and the strategy selected by the organization will largely define its human capital requirements. The human resource management strategy must then be designed to produce the workforce that can execute the organization’s strategy and do so while operating in the context. The HR strategy must enable the organization to staff operations with the right kind of people, develop those people so they are able to do what is required, define and measure performance on a continuous basis and appropriately reward individuals and units based on results realized.

The utility used throughout as an example might define its HR strategy by describing the strategy in each of the functional areas as follows:

> *Staffing:* Management and professional personnel will be hired based on their education and experience and their fit to the organization's culture. Newly graduated professionals will be from the top one-quarter of their class. Those performing permanent core functions will be hired on a permanent full-time basis, supplemented by contractors on major projects involving non-recurring work or non-core activities.
>
> *Development:* Develop technical personnel using internal training programs, augmented by periodic formal education at external institutions. Management training provided internally using a planned continuing development cirriculum. Staff professionals will be trained both internally and externally, based on need.
>
> *Rewards:*Total compensation package will meet or exceed the average in private industry. Direct pay levels will be 10-15% above market for high performing technical, professional and managerial personnel, achieved by setting base pay levels at 90% of market average and providing incentive award opportunity of 20-25%. All other personnel will be paid competitive salaries and outstanding performers will be eligible for larger pay adjustments and significant cash incentive awards. Stock options will be available for management and professional personnel and annual profit sharing plans will provide the opportunity to earn cash and stock awards to all personnel. Benefits package will provide adequate protection from major threats to their standard of living (illness, disability, pre-retirement death, unemployment and retirement). Defined contribution retirement plans will be utilized and benefit program options will be offered on a flexible basis, driven by employee choice.

This summary of the utility's HR strategy establishes its value proposition... it becomes its "brand" as an employer. The HR strategy must define how people will be selected for employment, how they will be developed while employees and how their performance will be defined, measured and rewarded. From the organization's perspective the HR strategy must establish how its human capital will be deployed to support its strategy and to meet its objectives.

HR Strategy's Bottom Line

An HR strategy must result in the type and level of performance that enables the organization to meet its objectives and fulfil its mission. In order for employees to perform there are four pre-requisites: 1) they must be able to do what is required, 2) they must be allowed to do it, 3) they must want to do it and 4) they must know what "it" is. In order to facilitate the required level of performance by individuals and units the HR strategies and programs must be appropriate, as described earlier. Figure 2 illustrates how specific HR programs can impact the four pre-requisites.

In order to produce the desired performance at the individual and group/ organizational levels there must be programs that support the HR strategy and effective administration of these programs. But there must also be a recognition on the part of management that human resource management is critical to success and a willingness to devote the necessary resources to building and leveraging human capital.

Management commitment is often difficult to obtain, since organizational "success" has traditionally been equated to financial results, at least in most developed countries in the West. Organizations are principally financed through the equity markets, which means capital providers will focus on the short term and withdraw their investment if they do not like what they see in quarterly profit and loss statements. The accounting systems certainly exacerbate the difficulty of having human capital recognized as a resource... they treat any investment in human capital as a short-term expense, which reduces profit, and record no asset value to offset that expense. Although much work is being done on recognizing and valuing "intangibles" making major investments in things such as employee development can be risky, no matter how much it is needed for the future viability of the organization.

The soaring popularity of the "balanced scorecard" concept has certainly helped organizations recognize that there may be something to investing in the workforce. The Learning and Growth measures that Kaplan and Norton included in the BSC model have furthered the cause of those who would have effective human resource management listed among the core capabilities of successful organizations. Further work on developing "scorecards" for HR are also contributing to the recognition that non-financial resources are critical to organizations. The ultimate test of the importance of an HR strategy is whether or not good strategies contribute positively to return on investment. That is a difficult challenge, but one that must be met.

Figure 2

Impact of Human Resource Strategies/Programs on Performance

Prerequisite	HR Initiatives to Facilitate	Needed for Individual Performance	Needed for Group/Org. Performance
ABLE TO DO IT	Selection Placement Development Role/Job Design	Right persons hired People utilized well Training adequate/timely Resources adequate Role design appropriate	Interpersonal and conflict management skills developed Necessary knowledge exists within the unit Processes appropriate
ALLOWED TO DO IT	Culture Role/Job Design Nature of management	Permission/support for exercising appropriate autonomy Resources adequate Role design appropriate	Group structure appropriate Individual roles clearly defined Roles integrated/not conflicting Management oversight appropriate
WANT TO DO IT	Rewards Recognition Culture	Rewards tied to performance Behavior and results are both appropriately rewarded "Heroes" are high performers Intrinsic satisfaction provided	Competition at individual level does not drive rewards Performance criteria/standards not in conflict with norms/values People experience intrinsic satisfaction from group success
KNOWS WHAT "IT" IS	Vision/mission Culture Performance criteria Objectives Management communication	Clear direction Values stated Objectives clear Performance criteria and standards accepted by all Communication channels open and feedback provided continuously	Clear direction Values stated Objectives clear Performance criteria and standards accepted by all Communication channels open and feedback provided continuously