The practice of strategy

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Abstract

Purpose – This paper aims to explore the obstacles to human resources (HR) making a strategic contribution and to share ways of overcoming those obstacles.

Design/methodology/approach – The paper uses case studies to demonstrate how organizations are successfully integrating people and business strategies.

Findings – This author argues that HR has found it difficult to effectively make a strategic contribution to the organizations it supports because it has not defined what form a strategic input should take, a lack of capability within the function and an absence of management support.

Originality/value – The paper explains how organizations can overcome these obstacles and gives examples of how two very different types have integrated business and people strategies, and measured functional impact.

Keywords Strategy, HR capability, HR analytics, Strategic contribution, Strategic objectives, Management strategy, Human resource management

Paper type Case study

It has been HR’s ambition over many years to contribute more to organizational strategy. There have been a number of reasons why HR has struggled to achieve this goal – lack of clarity on the detail of this aim, functional skill deficiencies and lack of management support – which we will detail in this article before turning to how HR might best overcome these obstacles, and concluding with some examples of successful HR strategy making and implementation.

Obstacles to success

The identification of these obstacles is the result of many years of HR work as a practitioner and over 15 years as a researcher and consultant. In particular the author draws upon research undertaken for the CIPD and for three books he has co-authored on HR management:

1. Defining strategic. HR has been too loose in defining the meaning of strategic or it has not bothered at all. Whether this is due to an assumption that its meaning is self-evident or that the presence of strategic HR is an illusion, its effect has certainly been harmful to the profession. The pressure point is found at the business partner role since it has been created precisely to offer a strategic contribution to the business. If, however, one was to be a spy on the wall in internal HR team meetings, or even more so in functional reviews with line management customers, one would frequently hear of the difficulties of putting into practice the injunction to “get strategic.” Definitional variation would be found among the HR business partner community and even more among the bemused business leaders who, beyond doing the basics well, simply want HR to solve people-related
business problems and build future organizational capability. Whether this is dubbed strategic is to them beside the point.

2. **HR skills.** This argument is closely related to the deficit of HR staff who are able to operate at a strategic level, as we argued in an earlier book (Reilly and Williams, 2006). If you doubt this statement you simply have to note the number of development courses for business partners and listen to the laments of HR directors in trying to hire effective people.

   According to CIPD research, serious skill gaps exist in strategic thinking and influencing, with a business knowledge gap in some cases compounding the problem. One could add that HR staff have neither honed their political skills to navigate the rapids of executive decision making, nor had the wherewithal to challenge those in senior positions. This has left them addressing technical issues in HR management like changing terms and conditions, managing redundancies, delivering training courses, etc and not shaping the business direction.

3. **Management backing.** If HR has not pushed, nor has senior management often pulled HR into the strategic domain. If one is being optimistic, increasingly executives understand the importance of people to business success, especially those with a direct customer interface. Companies like Tesco and McDonald’s genuinely put a stress on employee engagement. Other executives get the idea, but do nothing to further its cause. What is even more important in this context is whether any of these leaders (including those who are more people positive) see the HR function as the means to help drive organizational performance through people? Has HR got its offer of a strategic contribution accepted at the top of the organization, or does it fail because of capability, lack of positional authority or a traditional view of personnel?

**How to succeed strategically**

**Clear definition**

So when HR talks about being “strategic” what might its aspiration be? Before thinking about this from a more academic perspective, one can argue that for HR strategic is something of a code word for getting business aligned and getting into value added areas of activity. Rather than mired in transactional administration, HR wants to be and to be seen to be contributing directly to business success.

Drawing on the work of Becker and Huselid (1999) and to a lesser extent Ehrlich (1997), the characteristics of a people strategy include:

- Having an organizationally shared philosophy underpinning people management.
- Seeing people as a competitive resource.
- Ensuring a planning approach to resources (not just numbers but also skills and potential).
- Considering how to generate long-term and not just short-term value.
- Bringing together the full range of people management activities in an integrated manner.
- Focusing on business-critical issues and outcomes.
- Building social capital and intellectual capital through knowledge sharing, networking and relationship building.
Anticipating change through horizon scanning and internal sensing.

Successfully delivering change management.

So if HR is interested in creating a proper people strategy, it has to be pushing the organization towards thinking about employees as an asset, rather than a cost, and understanding the way human capital delivers organizational benefit. These insights have to be set in terms of the wider socio-economic environment and the nature of the organization’s activities and business model.

People and business strategic alignment

What the above account demonstrates is the importance of aligning the HR strategy with the business strategy. This means undertaking two important tasks.

First, there is the prerequisite of understanding the organization’s purpose in general – its “big idea” (for example, alleviating poverty for Oxfam; providing a superior return to shareholders for many public companies, or delighting the customer). It then needs to be clear as to the translation of that into the way the organization does business – how it makes money, its competitive advantage, etc.

Second, HR needs to identify the ways in which employees help deliver these high level objectives – through specific skill sets, high potential talent, innovation, collaborative learning etc. But HR should also be asking the following fundamental questions about the workforce:

- What causes people to come to work?
- What motivates them to perform?
- What stops them from being effective?
- Are they engaged?
- Do they know the big picture?
- Is their potential harnessed?

Answers to the above should help identify the people priorities by also helping address issues such as the following: Why is the workforce not more productive? Why is the resignation rate so high? Why is there a dearth of good ideas for improvement coming through? Next, consider the workforce implications of the business priorities – will the labor supply (skills/numbers) meet (changing) demand? Is the resourcing model (types of employment) in tune with the workforce requirements? How well are people allocated to jobs? Is the current organizational culture conducive to delivering the necessary goals? How ready for change is the organization?

Putting together these elements should help generate an overall people strategy. This strategy should then be tested against the external environment. Is the resourcing approach still viable with changes to Agency Regulations? Can the labor market supply the specialist skills you need in sufficient numbers and within the needed timeframe? Is the dragging out of the recession a reason to be cautious in hiring staff on permanent contracts? How will our employer brand fare in these labor market conditions?

Strategic execution

As John Purcell has pointed out (2001) the execution of the strategy is at least as important as its design, and should itself be seen as a strategic activity. In other words, delivery is not
some lesser value task that can be delegated and treated as of second order importance. This is an especially valuable statement because many of the failings of people management can be put down to poor implementation. Take high levels of absence in the public sector as an example. This is not a policy design failing but one of enforcing the policies (Knott and Hayday, 2010). Or consider the research on reward (McAdams and Hawk, 2000) where most problems occurred during and after the rollout of new programs.

So organizations should give particular attention to how they put policy or process change into practice. Vital components of delivery usually include communication – to ensure understanding the “why” as well as the “what” of change – and training – line managers in particular should be clear as to what their role is in ensuring execution.

**Evaluation of strategic contribution**

As research on reward has shown (Armstrong et al. 2010), there is too little evaluation of change in HR management. This may be because the project team has split up, leaving no ownership of the change. Evaluation might be seen as an unnecessary and expensive luxury. Staff may not have the skills, even if they have the inclination.

However, if HR has ambitions to be truly strategic, it will need to devote resources to seeing whether its change objectives have been met and whether any alterations are required. Having a sense of continuous improvement is a necessary feature for a successful organization, so learning from mistakes is essential and can only be achieved by conducting a proper post project review. See following “Case study: Fujitsu Services focuses on measurable value”.

**Building capability**

To put these ideas into practice, and to conquer executive indifference or skepticism, HR has to have people in post that can form and deliver a strategy. This starts, of course, with hiring the right talent. Here HR could market itself better in emphasizing the business-centric nature of its work, truly at the heart of the organization and with access to leadership both in the corporate center and in business units.

Next, its training and development methods should build broad based capability in the key areas of people management, not least in organizational development (OD). This should be supported by project working, temporary assignments and work shadowing – all the usual development routes – to ensure the right skill mix and overcome any functional fragmentation bequeathed by the “Ulrich” service delivery model with its separation of HR activities into discrete work areas. This means taking risks with talent. Rather than holding back talented staff because they would be eaten alive by manager customers (Tamkin et al., 2006), let them loose to test and build their resilience.

So to be a strategic player, HR needs greater focus and more understanding of the process, as well as the right people in place to overcome the obstacles in the way.

**Case study: finding the priority points**

The example below from the Housing Ombudsman Service shows how the different elements in strategy making can be combined into a review of the people strategy. A review of the link between the business strategy and people strategy at the Housing Ombudsman Service, facilitated by the Institute for Employment Studies, identified what are common challenges. While the business strategy was clear and the people management philosophy was endorsed, HR actions did not fully focus on achieving the business goals by solving the requisite people problems. This was largely due to a lack of resource/capability and over ambition, exacerbated by the desire to espouse a whole system view of people management.
A framework for allocating resources

By recognizing system connectedness, the solution was to create a simple framework to allow prioritization and the allocation of resources so that effort was focused where most needed and over stretch avoided. The thinking was that it was better to do a few things well rather than launch too many initiatives that would be poorly implemented. Highest priority would go to dealing with people related obstructions to organizational performance where the management had the wherewithal to execute change well. Thereafter a series of small actions could signal the move towards the desired culture.

A simple model, see Figure 1, was developed that recognized that the people strategy and plans should be influenced by the values of the organization, as well as being driven by business requirements. These and other factors in the people domain (like the state of the labor market) are also affected by external developments.

As a result of this exercise, the business planning activity was not only clarified and accelerated, but also extended to a five year, more aspirational and stretching, but achievable strategy; and, top management awareness and confidence in the HR/OD interventions that supported the delivery of the business strategy improved, especially by them being more explicit around intentions and priorities.

Case study: Fujitsu Services focuses on measurable value

As Figure 1 demonstrates, it is very important to track the implementation of the strategy and ultimately to review whether it has been successful. We know how many people attended a diversity training session and whether they thought it helpful, but we know nothing of whether behaviors changed. This example of Fujitsu demonstrates both an effective link between business strategy and people strategy, but also the importance of measuring the results of the strategy.

Fujitsu Services was seeking to assist its HR business partners in adding “measurable value” and it called on its own external HR consultancy team to help. It provided the benefits realization model set out in Figure 2. It offered a four-stage process that rightly started with the business goals and explicitly linked HR activity to them. The other noteworthy feature of the model is its emphasis on measurement (using tools such as trend analysis and scorecards) and especially outcomes. Too often HR measures inputs (e.g. absence and turnover) without looking at the business consequences – say reduced productivity or poorer customer service.
Not shown graphically, but the model looks at the inter dependencies between activities and the various steps being taken. Again, change processes often miss this point and suffer from unintended consequences that might have been prevented with better planning and insight.

Making a suite of tools available

Other tools offered to the business partners included culture mapping that compared the "target" culture with the actual one, highlighting areas for action. Such a task was seen as a key part of the business partner role, such that the development of leadership behavior and capability was deemed to be an important focus and one where a cultural intervention might produce a benefit. Success of their efforts (and of course of the leaders') could then be measured through the employee opinion survey and the quality of coaching judged by the HR survey completed by line management.

In a very specific contribution to company performance, the consultancy team showed business partners how they might help drive up utilization levels (billable hours). This involved demonstrating how good workforce planning, talent management and recruitment and retention initiatives could ensure that the right resources were in the right place to meet customer demands successfully. The application of the approach led to real business improvement in financial, people and strategy related areas.

References


About the author

Peter Reilly is Director, HR Research and Consultancy, at the Institute for Employment Studies (IES). He joined IES in 1995 as a senior research fellow after a 16-year career with Shell. He has since been promoted to his current post. At the Institute he leads the work on reward and on the HR function, but contributes significantly to HR planning and labor market projects. He has published IES reports on reward, human resource planning, HR shared services and outsourcing. He has written numerous articles and books on both reward and the HR function. He gives consultancy support to organizations on issues concerning HR strategy, planning and resourcing, retention, HR organization, trends in personnel management, performance management and reward. Peter Reilly can be contacted at: peter.reilly@employment-studies.co.uk
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