CHAPTER 2

The links of HR strategy and corporate strategy

INTRODUCTION

As seen in Chapter 1, human resources (HR) strategy can be defined as:

> The plans, programmes and intentions to develop the human capability of an organization to meet the future competitive challenges in order to generate superior economic value.

Chapter 1 also showed that the role of HR strategy is by no means self-evident. To address its value, two key questions are addressed in this first section:

1. What are the links between HR strategy and corporate strategy?
2. What role do these links play in determining organizational effectiveness?

Organizational effectiveness can be defined as:

> The capacity of the organization to adapt rapidly to its external environment and to meet market and other external demands with good resulting business performance and thus economic value.

In this chapter we will first look at the key linkages needed between HR strategy and corporate strategy to help close the people gap, and we also look at some of the key linkages with the organizational structure.

Next, we will begin to examine the lessons from case study material regarding the linkage of HR and corporate strategies, especially for value creation and destruction, from two large and prominent international financial services organizations (which must remain anonymous). Here we make the radical proposals that (a) HR strategy is probably not best developed as a separate process from business strategy, and (b) it is also probably best not called 'HR' strategy at all, as inevitably this will be associated just with HR strategy rather than with the total organization.

However, first we need to step back a little and re-examine where HR strategy actually came from. Besides being one of the 'functional strategies' prescribed by corporate planning in the 1960s and 1970s, in the 1980s it became the focus of the American HR gurus.

Once we have looked at these linkages in conceptual terms and illustrated this with case material from the financial services industry, we will explore this further with a more tangible case study on Dyson, the carpet cleaning appliance company (see Chapter 3).

Inevitably (and unavoidably) this chapter is slightly more conceptual than Chapter 1 and the rest of this book. Nevertheless, at each stage we will pull out the key implications for HR strategy practice.

THE ORIGINS AND DEVELOPMENT OF HR STRATEGY

HR strategy was spawned from HR management (HRM) in the early/mid-1980s, especially in the USA. HRM offered the attraction of doing for personnel management what competitive strategy had done for business policy. It offered a coherent and prescriptive framework for 'doing things strategically in Human Resources'.

A number of areas offer natural linkages with corporate strategy, including:

1. Mission – through publicly approved organizational values
2. Implementing strategic change
3. Fostering organizational learning
4. Summarizing how organizational competencies support competitive advantage.

Despite the obvious importance of the above areas, HR strategy may not have fulfilled its initial promise due to a combination of factors. For instance, HR strategy is evidently complex and is less obviously tangible. Also, its effects are relatively hard to measure (especially in economic value terms), and it may not be clearly aligned with the existing organizational structure and culture. It might be hard to evolve HR strategy owing to confusion within the competitive strategy and the value chain.

In defining the 'competitive position' for a specific business, HR strategy supports competitive advantages such as skills, responsiveness, service quality and innovation. Porter's generic strategies (1985) suggest that in general there should be more emphasis on innovation for differentiation strategies, rather than for cost leadership strategies. However, we suggest that there should be greater emphasis on process innovation within cost leadership strategies. (A 'differentiation' strategy is one where there is superior product and service, and a premium price; a 'cost leadership' strategy is one where your costs are the lowest in the industry, prices are more competitive, and reasonable quality standards are still met.)

So innovation as a part of HR strategy supports both forms of competing. Focus strategies suggest greater *specialization of distinctive skills.*

Whilst these strategic imperatives are clear (if not necessarily appropriate), many (if not most) organizations operate with unclear and highly emergent strategies, many of which are aimed in conflicting directions. This may make it exceedingly difficult to evolve an effective HR strategy.

The human resources factor is clearly a critical ingredient in any organization's key sources of competitive advantage (and, equally, competitive disadvantage). Human resources figure importantly in the 'resource-based' theory of competitive advantage – for example, in shaping how Porter's value chain will be configured. Yet, oddly, HR has frequently played a secondary role in strategy formulation, relegated as part of the 'implementation' issues, to follow on once the external strategy has been set.

There are therefore a considerable number of disparate linkages between corporate and HR strategy that need to be unravelled in order to address the question: How are corporate and HR strategy linked? Certainly there should be a very strong influence of HR issues on *corporate strategy itself*, as the corporate skills and mind-set define the most national sources of successful future strategies. HR strategy should not, in our view, be seen as something that comes after the overall strategic direction has been set.

For a more detailed overview of the academic literature on this topic, especially for students studying for HR-related examinations, please see the Appendix.

EXPLORING THE LINKAGES – KEY THEMES

The core part of this chapter is based on the authors' research into the links between corporate strategy and HR strategy within the financial services sector. Particularly important in this discussion is the realization that, both at the corporate/business strategy levels and at the HR strategy level, strategy often manifests itself through different forms (the 'strategy mix'). This means that the linkages are likely to be quite complex rather than one-to-one.

A number of key themes that focus on linkages in practice between corporate and HR strategy were found in our earlier research. These include:

1. *Theme one: complexity*. Although organizations may have defined an HR strategy, this HR strategy may not have a significant impact on organizational effectiveness simply because of the diversity of complex linkages that need to be managed. (Not only are there many dimensions to HR strategy; there are equally many in corporate strategy.)
2. *Theme two: identity*. HR strategy may not be sufficiently self-contained to have a separate identity. The number of interdependencies may suggest it is more fruitful to dissolve HR strategy back into the core strategic/operational management process. (HR strategy overlaps considerably with other resource strategies, such as IT, marketing and

operations, in the value chain.) Not calling it 'HR strategy' might actually be to its advantage.

3. *Theme three: emergence*. HR strategy formulation may be inhibited because those managers involved may be 'awaiting a deliberate business strategy' rather than being prepared to work with an emergent strategy.
4. *Theme four: the intangible*. The core strategy process may be overly concerned with more tangible strategic issues, rather than the less tangible aspects of human capability. It may thus result in a situation of there being 'too little', within competitive strategy, to graft HR strategy onto.
5. *Theme five: turbulence*. Organizational politics and organizational turbulence may simply prevent links from cementing, however fluid and flexible these may be.
6. *Theme six: ownership and structure*. Who should HR strategy be owned by, and how does it sit in the organizational structure? This appears to be absolutely central to linking corporate and HR strategy.

These themes of complexity, identity, emergence, the intangible, turbulence, and ownership and structure, suggest that linking HR strategy to corporate strategy is likely – even in the most favourable environment – to be very difficult. But how do these difficulties manifest themselves? This is discussed now, and the effects of these difficulties at work are illustrated. The central thesis is:

> To make effective linkages in practice between corporate strategy and Human Resources strategy and to thus close the people gap requires an ongoing shift from a separate HR strategy in which the HR department is responsible for developing and coordination, to a unified 'organization and people' or 'HR' strategy owned and developed by line managers with facilitation by the HR department.

Table 2.1 highlights the evolutionary phases that span from traditional personnel management through to HRM, HR strategy and 'organization and people' strategy. It helps to explain the evolution of HR strategy, and is also useful as a diagnostic tool.

To be genuinely effective, an HR strategy process must not be based on out-of-date, bureaucratic planning processes that are there to cover everything, so that it all looks 'ticked off'. Instead, an issue-based process that has a more selective focus and is championed by top management, facilitated by HR, and integrally linked to corporate strategy/business strategy development, might be far more fruitful.

Equally, HR strategy (or organization and people strategy, as it might be redefined) could well be a joint starting point for developing at least some areas of corporate strategy. For example, IKEA's central competence is in flat-pack assembly furniture at unbelievably low prices. Given that, would not an interesting strategic line of enquiry be self-assembly of flat-pack cheap housing, to alleviate the housing crisis for the young in the UK and elsewhere?

Table 2.1
Evolution of HR strategy

	Personnel management Stage 1	*HR management Stage 2*	*HR strategy Stage 3*	*HR strategy Stage 4*
Main focus	Stability	Improving performance strategy	Reactive to business	Proactive and interactive with business strategy
Status	Fragmented and routine	Partially integrated programmes	Fully integrated HR programmes	HR programmes integrated with operational change
Plan process	Short-term reactive	HRM planning: short/medium term	Short-, medium-, longer-term separate strategy	Interwoven with operational/ business strategy
Ownership	Personnel department	HR department-driven, with line clients	Line manager-driven, strategy, HR department supporting and advising	Line-championed with HR as change catalysts

The above thought suggests a parallel review of:

- The businesses we are in (or want to be in) and their competitive positionings and prospects
- Our distinctive human capabilities, which can achieve a distinctive competitive advantage.

We now turn to our research findings on HR strategy, and will look at their implications.

A STUDY IN HR STRATEGY

Research within a major UK bank and a major UK insurance company is used here to explore the possibilities of linking corporate and HR strategy much further. Interviews were conducted with a number of senior operational managers and human resource managers in ‘Bank 1’ and ‘Insurance Company 2’. The technique used during data collection and analysis was that of ‘critical incidents’. This helped managers to focus on whether and how HR strategy (and the links to corporate strategy) might have added to (or avoided detracting from) organizational effectiveness and performance. These critical incidents focused on how the HR strategy either added a significant amount of economic value to the strategy, or destroyed it through specific events.

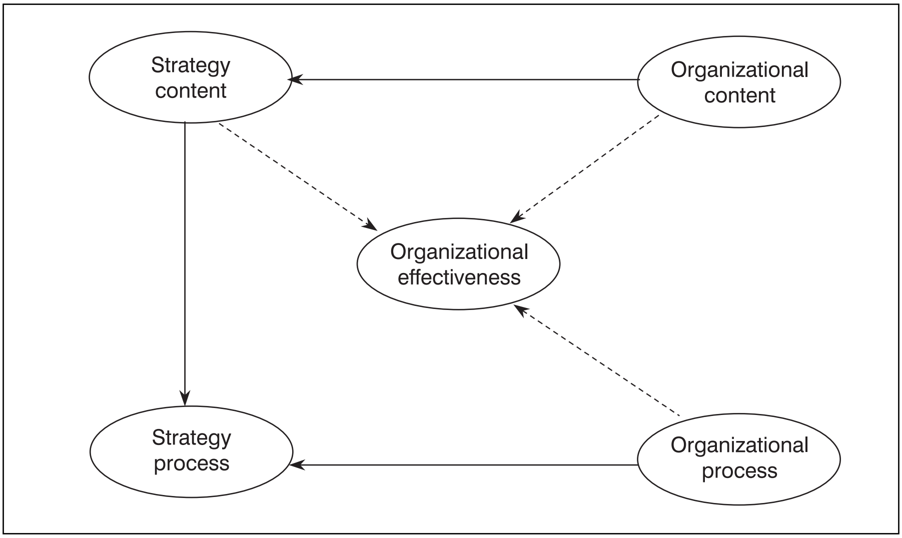

Figure 2.1
Links between competitive and organizational strategies

Categories of linkages between corporate and HR strategies

Figure 2.1 illustrates the linkages apparent in Bank 1 and Insurance Company 2.

It shows that the competitive and organizational strategies are very closely linked, as it is the organization strategy that enables the company to compete, both now and in the future. Both of these factors then contribute to defining the ongoing organizational process. In addition, the process of developing the business strategy in itself would improve organizational effectiveness. Organizational processes (for example, change management and management development) might provide support both to the strategy process and by improving organizational effectiveness.

The 'so what?' from this is that organizational (or 'HR') strategy plays a key role in both the business strategy development process and other processes, generally and proactively.

Strategy content

'Strategy content' (see Figure 2.1) shows how external change might shape the formulation of more fluid and emergent business strategies. Also at work are the polar forms of deliberate strategy in the guise of differentiation and cost leadership. Organizational strategy is a central input into both differentiation strategy (through superior service and product innovation) and cost management via flatter structures.

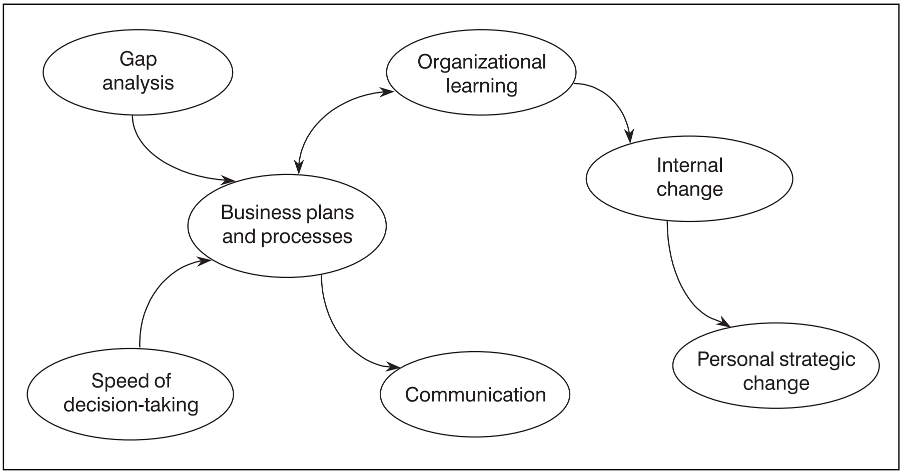

Figure 2.2
Business strategy and organizational processes

The 'so what?' from this is that 'organizational strategy' (sometimes called 'HR strategy') is absolutely central to competitive strategy, whatever generic form it takes, and is not something that comes at the rear.

Strategy process

Figure 2.2 shows both the 'harder' processes (business plans, etc.) and the 'softer' processes (organizational learning, internal change and communication at work) as an aligned system (Senge, 1990).

The 'so what?' from this insight is that without organizational strategy, business strategy is likely to be hard, sterile, and unimaginative.

Organizational process

The main issues that emerged from the research were of the linkage between mission and values, and HR management processes. There was a great concern for consistency of treatment of staff in terms of career and developmental treatment, and also in reward and recognition of performance.

The 'so-what?' from this insight is that without organizational strategy, things like 'mission and values' will sit as ornaments within corporate strategy, and will not really add value through changing actual behaviour.

Organizational context

A few very important and 'softer' issue areas emerged here. These included the style through which power is managed in the organization, and its positive (or negative) impact on the performance of its human resources. A further key ingredient was the extent to which HR-related issues were owned by the HR department rather than by line management (or jointly by both) – a major issue flagged up in Chapter 1. In addition, we found important linkages between the organizational context and the business planning process.

The 'so-what?' from these insights is that the relative success of organizational strategy is very likely to be determined by the extent to which it is well positioned/appropriately aimed/perceived as genuinely value-added and relevant within the top levels of the organization. These factors were perhaps more influential than the inherent quality of thinking within the organization (of 'HR') strategy itself.

In conclusion, Figures 2.1 and 2.2 confirm our earlier findings that HR strategy is very much a part of an open system with many interdependencies – especially with business strategy issues.

To put some flesh on and colour into these ideas, let us now illustrate them through a financial services case study. The quotations provide the data, with commentary following, by issue area.

Some of the most important areas of existing or potential linkage from the data collected included:

- Deliberate versus emergent strategy (see earlier Theme three)
- Differentiation versus cost leadership
- HR's role in business planning
- The ownership of HR strategies.

Bank 1 is one of the top ten UK banks, and Insurance Company 2 is one of the top five UK insurance companies.

A study of financial services

Deliberate versus emergent strategy

When asked about HR strategy, a very senior Bank 1 line manager responded with feelings of ambiguity:

> Although I have deliberately not tried to find out, I have to say that I cannot remember seeing a piece of paper which sets out Bank 1's Human Resources strategy. And that's not to say that there isn't a strategy.

The apparent degree of ambiguity surrounding Bank 1's emergent strategy may have inhibited some HR activities, and thus diluted their economic value. According to an HR manager:

> In this environment you could say things but not be able to make them actually happen. I think that our lack of strategy affected a lot of people's ability to do things. Yes, it did affect our ability to get things done in HR.

A surprise was the response to the question 'does this matter [that the HR strategy is emergent and not explicit]?'. A senior Bank 1 line manager vigorously replied (in a very strong tone):

> Yes, I do, I really do think so.

At Insurance Company 2, the HR manager compared the setting up of First Direct with Insurance Company 2's own relocation of a major centre to another part of the country (as a critical incident):

> . . . when Insurance Company 2 moved its operations function to location X, I said don't move people from Y to X, which I thought was a big mistake – taking a century's established culture and just plonking it down in X and kidding yourself that it was a greenfield site. Sure enough, two or three years on, the danger now is that we have a Y mentality lingering around in some parts of X, which I don't think is as healthy as if we had a totally X-based culture.

He hinted strongly that an appropriately deliberate strategy, with more explicit and rigorous choices, could have been a more effective approach for his own company, and could have reduced its costs.

In summary, in both organizations our sample of managers saw a largely emergent HR strategy as being in place. They also saw a number of 'disbenefits' from having an emergent strategy in terms of lack of attention to HR issues during strategic decision-making. The implications of this are that having an emergent HR strategy does seem significantly to undermine organizational effectiveness, and thus value creation, especially as the potential resource-based competitive advantages are not being captured.

A further practical implication here is that a primarily emergent HR strategy greatly undermines the corporate strategy and also dilutes its value, and is therefore best avoided.

Differentiation versus cost leadership

At Bank 1, one HR manager drew very clear linkages between differentiation strategy, marketing and brand strategy, and people values and behaviour. People values and behaviour also underpin competitive advantage, and create the necessary alignment to create economic value:

> I think that the two (brand and HR strategy) go hand in hand. If you regard HR strategy as in part about values, about how people interact, then certainly you are now talking about it being very clearly tied up with the brand, certainly in a service industry.

Although much conventional thinking in strategic management views HR strategy as a follow-on from competitive or marketing strategy, rather than *vice versa*, an alternative and reversed view was put forward at Bank 1 by an HR manager (in his first statement):

> I am not sure, it is a bit chicken and egg (*re.* the links between corporate strategy and HR strategy). In terms of our culture and the skills of our staff, this leads us to a take a certain positioning in the market. The fact that we are taking that positioning has implications for the way we operate in the HR side.

Here, culture is seen as potentially the basis for designing a competitive strategy, rather than *vice versa*.

The possible importance of differentiation strategy was then weighed by the Bank 1 line manager:

> This business is not about the price of the product, it is about the quality of what we do. You can't differentiate in financial services industries in the same way as you can in the motor industry, by building in features. The cost parameters will stop you.

Differentiation and customer service were obviously very important influences on HR strategic issues. However, cost management (even if falling short of a situation of full 'cost leadership') plays an equally important, but sometimes opposing, role. At Bank 1, cost management was linked to the need to simplify the business and to the skills that underpinned this:

> This business is actually simple. The skills are not of an exceptional order.

Another line of thought was put forward by Bank 1's senior line manager, who believed that cost management and differentiation were in tension with one another:

> I think we have some schizophrenia here. We would see ourselves as being differentiated. Our Chief Executive might see us as cost leaders. He has a very strong bottom line focus. That can set up some tensions, and will do. I think that there is a need for both, it is not necessarily so destructive to have them simultaneously.

[Interestingly, one of the authors then had a mortgage with that bank, which proved itself on its differentiated sales approach in its front office. When redeeming the mortgage, the letter that came through from the low-cost bank office located in some obscure and probably lower-cost part of the UK stated: 'There is a £1000 early payment penalty'. This was accompanied by a page of misspelt, unintelligible financial gobbledegook that the author – a Chartered Accountant – could not understand. The result: the author would never again use the bank. So, is it really possible to segment your HR support according to a given differentiation/cost leadership strategy? Well, there must be some doubts . . .].

There was also a long and detailed discussion on cost ratios with one of Bank 1's HR managers. An obsession with the short term to the detriment of longer-term value creation may actually undermine economic value creation, and this was linked to HR issues as follows:

> I think there is a feeling at the moment about driving our operating costs down. We are seeing our operating costs ratios stay static. The way in which we are diversifying may alter the comparisons of our ratios. One of our objectives is to be a low-cost provider in the markets in which we operate. Not the lowest cost. But I am not sure whether they specify who we are targeted to be lower than.

This is interesting thought from several points of view. First, Bank 1's pursuit of a differentiation strategy was based on brand, customer service and quality people, but supporting skills and values seemed to be in tension, with an increasing drive for cost management. This might well eventually undermine its corporate brand value. This drive to reduce cost was not targeted at cost leadership as such (and from Michael Porter we appreciate that a differentiation strategy should be supported by good cost management). This conflict may then ultimately result in a confused HR strategy as it gets pulled in polar directions.

The bigger point from this discussion is that facilitators of HR/organizational strategy development should question and challenge the logic, completeness and consistency of the corporate/business strategy, rather than simply accept this as a given.

At Insurance Company 2, the Head of Corporate Development identified cost management and leadership versus differentiation as issues, if not as polar choices:

> The bulk of our costs is actually people cost. It isn't really easy to just define our organization as if it were an 'efficient and economic' machine. It is not just about lowering our costs and trying to follow a cost leadership strategy. At the same time we have to differentiate, and we need to do this via our people. We must always be trying to differentiate ourselves from some of these players. What we don't want to see is a 'slash and burn' approach to attacking our cost base. We can achieve a lot simply by better management, to achieve the savings we need.

At no point, however, did any of the Insurance Company 2 managers suggest that costs (and HR-related costs as a subset) needed to be competitively targeted. At both Bank 1 and Insurance Company 2 there seemed to be emergent pressures and programmes to cut costs, but these costs processes did not appear to be integrated with an overall strategy for organizational change. Neither were there explicit trade-offs between benefits and costs (organizational effectiveness).

Furthermore, no discussion of the merits of in-sourcing versus out-sourcing took place. There may be arguments for in-sourcing those aspects of the business (and people) value chain that add disproportionate value (or what we might call the 'motivator' factors). Aspects that are more routine, and need to be managed at a lower cost, are frequently those that deliver value to standards, which are taken for granted by the customer. These what might be called 'hygiene' factors could, it may be argued, become possible candidates for outsourcing. Where out-sourcing decisions do not think through the long-run effects on distinctive organization value and cost management, this too might destroy economic value.

Differentiation and cost leadership strategies thus pose major dilemmas for both competitive strategy *and* HR strategy (as we will see in the Marks and Spencer case study in Chapter 5). By pursuing both differentiation and cost leadership strategies simultaneously, with little clarification and coordination, and without particular focus on key areas of the value chain, service organizations run real risks of a self-cancelling strategy. This is another reason why HR strategy may have in the past (in many organizations) played only a weak contribution in adding to organizational effectiveness and to economic value.

A key practical implication of this is that tensions between differentiation and cost leadership strategies do need to be resolved to prevent HR strategy confusion.

HR's role in business planning

The question recurs, what is driving what in the planning process? Is it the business strategy/plans, or is it HR plans? At Bank 1:

> I think that the decisions will be driven off the business strategy, but the options and the opportunities for the business strategy, will be conditioned by what has happened on the HR side, and what the organization can accept.

Similarly, in terms of creating formal business cases (which provide an opportunity to target economic value):

> They [the HR issues] would be put there if the business managers put them . . .. But we have a process called the strategic planning process which is due to start next Monday. They tend to be driven by product and/or distribution . . .. The appraisal panel [for business cases] would be unlikely to pick up HR issues.

At Insurance Company 2, the definition of the boundary between business and HR strategies was somewhat ambiguous, as suggested by the Head of Corporate Development:

> You asked about what is or isn't HR strategy. There do seem to be some

grey areas, for instance changing how we do things in some areas is seen as really a part of the business strategy, not the HR strategy.

This would seem to be a rather obvious area of linkage or integration between HR strategy and business strategy.

'Simplicity' is also perceived to be very much a desirable quality of any HR strategy at Insurance Company 2. A manager suggested that:

Human Resources strategy doesn't have to be particularly complicated, it doesn't require a bureaucracy. What we now need is not just an understanding of the HR tools but how to get the benefits of them. I don't think the HR strategy should be rocket science, it should be fairly easy to understand, something that a particular person (a line manager) could relate to. I don't think that the HR function has done itself any favours by trying to overcomplicate things.

It is easy to see how HR issues can be de-emphasized in importance by senior line managers partly because they are seen as being on a kind of strategic pedestal by HR. Also, where HR strategy becomes fuzzy and too general, this will tend to dilute its economic value.

The senior line manager at Insurance 2 rejected the notion of a stand-along HR strategy as follows:

We don't believe that it should be [put in a separate plan]. We believe that it is an integral part of the plan, and not separate. If you are doing succession planning and other things then that is a separate issue, but we're saying that our Human Resources side of it and the change that we need to take on board, that is at a different level.

In addition, the Bank 1 line manager suggested that whether HR strategy exists separately from other areas of functional strategy is also seen as debatable:

I suppose that if we compare HR strategy with IT strategy as a stand-alone, then it doesn't make sense [to have a separate HR strategy] – in IT you have lots of different things which are interdependent [with the business strategy]. For example, if you look at unsecured lending, we were doing some things which could use people elsewhere – for instance in mortgage lending.

This was closely paralleled at Insurance Company 2:

To develop an HR strategy within each part of the business separately based on what they see should be part of it . . ., well, that is the wrong way around in terms of how the business actually operates.

The Insurance Company 2 line manager was also aware that by not confronting the downsides of HR having an emergent strategy, this might pose some very major pitfalls:

> But the fact of the matter is, it absolutely does matter. It is having a clear idea of what part of the organization, of what sort of plan you want to have. That should be clearly about the actions, also the people that deliver them, and the skills that they need, and if you don't have that, then that is where you fall over.

In summary, there does not seem to be a strong case at all for decoupling HR strategy (or separating it out) from business strategy. This is because of the increasing interdependency between operations, people, and competition and marketing strategy in many industries, as exemplified here through financial services. By separating it out it is likely to be seen as being (a) more peripheral; (b) less well integrated with other initiatives, and (c) actually implemented by only part of the organization – the HR function – thus diluting its potential economic value and its follow-through.

The key practical implications of this are that:

- There should not be a separate HR-strategy planning document; it should be a central theme within the business strategy.
- HR issues should then be grouped into an Appendix, perhaps along the lines of the detailed format contained in Chapter 1. This document should be an extract of and fleshed-out version of the organizational issues and breakthroughs already contained within the business strategy.

So whilst in Chapter 1 we gave you a possible format for an HR strategy as a stand-alone output, ideally this is a memorandum to give HR a focus, and should be interwoven with the business plan. We would like to flag this up as a non-obvious and highly relevant conclusion.

The ownership of HR strategies

Returning to the dilemma of stand-alone versus weaved-in HR strategy (our earlier Theme six, which impacts on Theme five – turbulence), HR managers in Insurance Company 2 commented:

> So is the HR strategy stand-alone, or is it weaved in? It is a separate meeting just to discuss it but do I call it stand-alone?

In Bank 1, a perceived constraint was that of the strategic planning department (paradoxically). This is perhaps because this department is seen as the home of 'strategy' and thus it may potentially crowd out HR's involvement. According to a senior line manager:

> I think it might be something possibly to do with the structure, because we do have the corporate planning area which tends to be the area from where the strategic things come, there is no wish, no perceived need to put HR into that environment. Therefore HR strategy is not thought through.

At Bank 1, we heard from the same manager that:

> Planning tends to go with the pragmatic things, acquisitions, distribution, it would tend not to be things that are supportive of those main strategies with the exception of IT. We have not got to the point where we should go with HR. We spend a lot of time working on it [i.e. HR] but I still don't think we are very clear what our strategy is.

Discussing this at greater length, the above quotations from Bank 1 suggest that the very name 'Human Resource' tends to locate HR as being a 'personnel concern' in both organizations. Where personnel is not particularly influential, this tends to marginalize HR strategy. Also, where the department 'Corporate Planning' has come into being, this department may tend to have its principal (if not exclusive) focus on competitive strategy and financial planning. Softer, strategic issues like HR may then fall down a gap between departments. This may be appreciated where corporate strategy is seen as an exclusively top team affair, rather than involving senior management.

Coupled with the ambiguity of the role of line managers in operational HR/personnel issues, it is hardly surprising that no real forum for HR strategy debate exists in this and many other organizations. This is particularly the case as business planning processes are largely (financial) numbers-driven – for instance at Bank 1. In summary, a further 'strategy trap' for HR strategy is for it to be seen to be owned by HR or the personnel department. Also, where a strategic planning department exists, it does need to have sufficient skills (and inclination) to analyse the organizational issues surrounding strategy implementation.

Implications drawn from the financial services case study

From the case study, we can now suggest that:

1. Where corporate strategy is particularly emergent, then HR strategy is also likely to be emergent (see Theme three, above). For example, at Bank 1 the senior manager felt he could not evolve a deliberate HR strategy because of ambiguity at a corporate strategy level.
2. Where HR strategy is emergent, there is likely to be inadequate management of the interdependencies between HR programmes to provide the necessary (but not necessarily sufficient) conditions for improving organizational effectiveness (Themes one, two and three). Here we can distinguish between emergent strategy *content* and emergent strategy *process*. Even where there is a deliberate HR strategy (content-wise), if the ongoing process is highly emergent and relatively unguided, it is very likely to find itself rooted in the organizational structure in a most haphazard way – thus neutralizing its effectiveness.

3. Where HR strategy is highly emergent:
   - HR as a source of competitive advantage may not be given the attention it deserves by senior management (it did not appear prominent in the strategic planning processes of either Bank 1 or Insurance Company 2). Although this is not a particularly surprising finding, it does underline the need to reposition HR strategy in terms of (a) what it is called; (b) where it is found in the planning outputs; (c) how it is evolved within the process; (d) who it owns it and facilitates it, and (e) how explicitly it is targeted to generate economic value.
   - Differentiation and cost leadership may sometimes be pursued, in effect, simultaneously. (See again the cost material from Bank 1 and Insurance 2.) However, this may result in HR policies or decisions that are in tension or conflict, and may also result in considerable confusion in managing the value chain, ultimately destroying value at a micro-level. Organization and people (formerly HR) strategy could play a significant role here in addressing in- versus out-sourcing decisions – if this analysis is closely linked to competitive strategy.
   - Brand strategy may easily become decoupled from plans to develop staff's behaviour, values and skills (again, see Bank 1). This can produce significant economic value dilution and destruction as the entire resource base becomes mal-aligned in achieving an overall brand strategy through differentiation *and* financial effect through cost cutting.
   - Business plans may be destitute of thinking on softer issues, such as people's implementation capability (see Theme four). Their implementation may then be partial and uneven, diluting or destroying their economic value.

Within (3) above, the second and third points are perhaps the most interesting. Where corporate strategies are emergent or where they go in apparently opposing directions, then HR strategy faces the dilemma of either seeking to accommodate those tensions or to question the basis of corporate (and competitive) strategy. However, this can also be read the other way. If HR strategy is emergent, then there may well be little steer from it as a creative force on *corporate* strategy. If we follow the argument that *implementation* is very frequently what lets corporate strategy down, then perhaps companies are well advised to *begin* the business strategy development process with at least some thinking about HR strategy, instead of starting off with product/market and competitive positioning. Sometimes they might even *start* with an HR/organizational strategy, and then look for possible competitive strategies that would be 'naturals' for the organization.

The absence of a clear and deliberate HR strategy linked to corporate strategy (and thus the 'people gap') may therefore have a negative impact on organizational effectiveness and economic value. This may occur through inattention to crucial HR issues, or through wasted effort on poorly implemented HR management (HRM).

In the absence of a robust (and largely deliberate) HR strategy clearly linked with corporate strategy, HRM programmes may therefore easily lack direction, clarity, coherence and the necessary critical mass to add real economic value, especially where there is a high element of emergence in HR strategy. In conclusion, therefore, a deliberate HR strategy is very much to be preferred to an emergent approach to HR strategy – certainly based on the experience within these two financial services organizations.

Implications for theory and practice

Figure 2.3 shows how a much closer integration of HR strategy with business strategy might look.

This framework highlights that, as HR strategy elements are so interdependent with operational initiatives and the people resource are only one part of the operational mix, it makes less and less sense to extract the pure HR element separately (see earlier Theme two). *Ergo*, it is best to position it as organization and people strategy (or more simply, organizational strategy), as being the internal counterpart of outward-focusing competitive strategy.
The practical benefits of redefining HR strategy in organizational strategy terms appear to be as follows:

- HR strategy will be seen less as being the prime concern of HR practitioners, helping dissolve the line management/HR barrier
- A joint organization and people (HR) strategy can be more nearly dovetailed into both competitive strategy and business plans

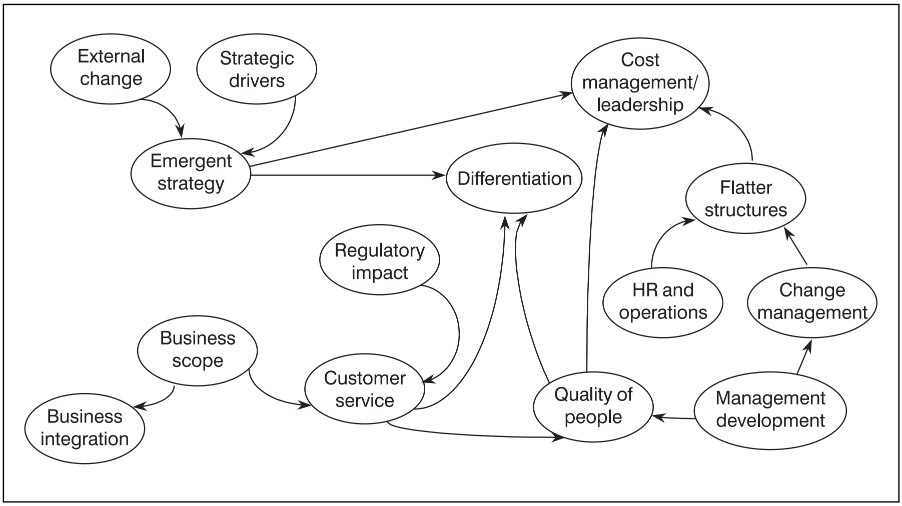

Figure 2.3
Business and HR strategies in financial services

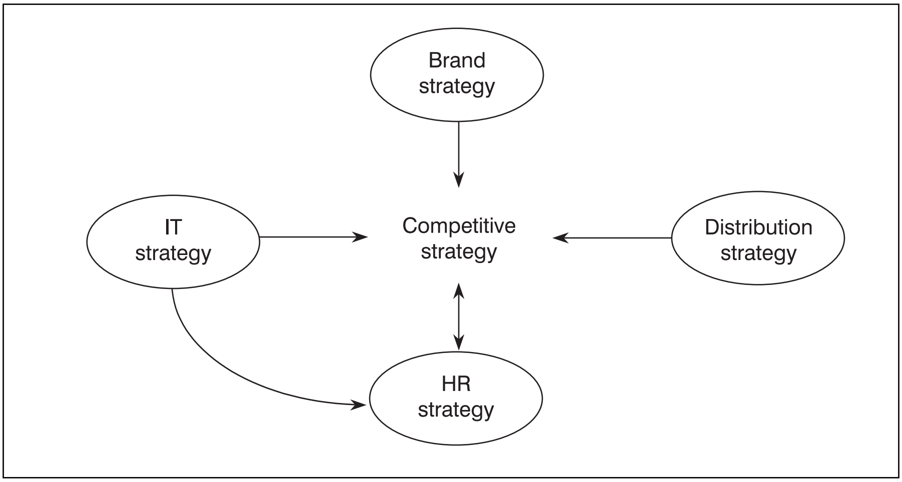

Figure 2.4
HR strategy and its fit with functional strategies in financial services

- Any ‘hard’ initiatives (like business process re-engineering) can be more easily integrated with HR initiatives (see earlier Theme four)
- It should become a lot easier to evaluate the business and (broad) financial effects of HR programmes because they would no longer be seen as stand-alones, thus helping to create value-based strategies targeted at economic value.

HR strategy should therefore be seen as the flipside to competitive strategy. To complete the picture, Figure 2.4 shows the fit to other areas of strategy, regarding the financial services environment.

Back to the links between corporate strategy and HR strategy

The existing HR strategy literature emphasizes an analytical approach to developing HR strategy. This is based on the notion of ‘fit’: between the HR base and corporate and business strategy. However, this ‘fit’ implies close integration of thinking on these two dimensions – yet in both Bank 1 and Insurance Company 2 there did not seem to be any longer-term, genuinely strategic HR planning process that supported the HR end of this linkage.

From what the managers told us, the idea that a very formal, analytical model that focuses primarily on HR issues would be workable appears rather doubtful. For instance, at Insurance Company 2 it seemed very unlikely that formal HR strategic planning of a comprehensive nature would prove workable because of its highly emergent corporate strategy. However, this does not necessarily rule out the possibility of an ‘issues-based’ process of strategic thinking about HR being viable even where the corporate strategy is still somewhat ambiguous. Here, an issues-based process would focus on maybe five to ten (maximum) more critical areas of economic leverage through HR.

CONCLUSIONS FROM THE FINANCIAL SERVICES RESEARCH

The linkages between corporate and HR strategies are clearly much more complex than suggested by the earlier HR literature, making notions of linking these through 'strategic fit' now seem rather naive and simplistic. However, we have seen that HR strategy (or other HR strategy) *could* nevertheless potentially play a major and proactive role in corporate strategy formulation even at the corporate level (and not merely, or primarily, during implementation).

We also found that the internal alignment and internal consistency of HR or HR strategy was of paramount importance, otherwise organizational effectiveness could be substantially impaired. There were a number of specific critical incidents that highlighted the importance of *interdependencies* in actually harvesting the economic value from improved organizational performance.

Doubt was thus cast on the *raison d'être* for a discrete HR strategy. There did seem to be very major disadvantages and drawbacks in keeping corporate and HR strategy as separate entities. Furthermore, there appeared to be a strong case for establishing an 'organization and people' function in organizations, rather than purely HR (providing, of course, that there is not merely a relabelling of the existing HR function). The HR role would be essentially one of HR strategy facilitation, together with joint coordination with line management of specific HR strategic programmes, such as succession planning and management development. This would also help move away from the potentially unsavoury connotations of the acronym HR (sometimes cynically referred to by managers as 'Human Remains' or, by one anonymous commentator, as 'Human Racehorse Department', hell-bent on producing theoretical super-beings).

Now that we have explored our framework for linking HR strategy with corporate strategy, Chapter 3 applies this to the case of Dyson Appliances. This brings home the importance of these lessons on the interdependencies and potential integration of HR strategy and corporate/business strategy.

CHECKLISTS

1. To what extent have you got a well-articulated and robust deliberate corporate/business strategy to link HR strategy to?
2. Might new corporate/business strategy ideas be generated by starting with your distinctive organizational competencies, or what would be a

most 'natural' strategy for you, rather than generating HR strategy from competitive strategy?

3. Is your competitive strategy internally consistent (e.g. are there opposing – and strong – themes of differentiation and cost leadership simultaneously)? Does this make it hard to formulate a coherent HR strategy?
4. How does HR strategy support brand strategy?
5. How might future changes in distribution strategies in the industry impact on HR strategy?
6. What key behaviours are implied by the businesses critical success factors (to compete effectively), and to what extent can you influence these via HR strategy?
7. How does the HR strategy support and enhance the company's service strategy?
8. Has the company really got the competencies to deliver any new (external) competitive strategies, and to do this very well?
9. Will product/market extensions make the company's organization simply too complex, pushing up costs disproportionately?
10. What have you called your HR strategy, and are there any better/more digestible ways of positioning it (e.g. as 'people' or 'organizational' strategy)?