CHAPTER III

BUSINESS STRATEGY AND HUMAN RESOURCE STRATEGY -
THE INTERACTION

Introduction

Literature review highlighted that successful strategies emerged in response to environmental turbulence. ‘Strategy’ is the matching an organisation makes between its internal resources, and opportunities and risks created by its external environment for competitive advantage. Strategy alignment is the integration of vision, mission, objectives, and goals with day to day decision making. Strategy alignment facilitates continuous monitoring, reviewing and updating of strategy according to environmental changes. The process of strategy alignment helps to ensure quality, up to date information for decision-making. To have successful strategic alignment, there is a need to create a strategic culture that combines the behaviour, norms, beliefs, and values with the way organization performs. For strategy alignment to be achieved it is vital to involve as many employees as possible in the process of implementation as it will help to energize and motivate employees to feel involved rather than being imposed upon.
There existed three aspects in relation to integration between Business Strategy and Human Resource Management. The first was relational aspect of the integration between Business Strategy and Human Resource Management which referred to the relationships between factors and actors involved. It has been stressed that senior Human Resource managers should take part with organization’s top management in the strategic decision-making processes. The classical work by Golden and Ramanujam on relational aspects discussed the evolutionary stages between Business Strategy and Human Resource Management. The second aspect reflected the content of both Business Strategy and Human Resource Management. Authors like Wright and McMahan; and Lengnick-Hall and Lengnick-Hall had discussed the assumptions regarding the kind of the relationship between Business Strategy and Human Resource Management. These studies demonstrated the clear connection between Business Strategy and Human Resource Management. But these theories were regarding the content of the integration between the two and contributed very little knowledge to the ways in which this integration takes place. Finally the third aspect was process aspect which referred to the ways in which the integration between Business Strategy and Human Resource Management was realized and continued. This aspect provided ways by which Business Strategy and Human Resource Management was actually realized. So far, Business Strategy and Human Resource Management were considered as independent entities. Under process aspect Baird and Meshoulam; and Storey emphasized the role of Human Resource professionals as a proactive role. This aspect provided knowledge concerning the strategy formulation and implementation. Giving attention to the process aspect, the Chapter attempts to provide clues for the alignment between the Business Strategy and Human Resource Management.
Human Resource Strategies need to support business initiatives in areas like customer care, organizational re-structuring, process re-engineering, new product development, new technology or process of production. The core of Human Resource Strategy should be that it should serve the business objectives of an organization. Thus, there is a need to formulate Human Resource Strategies within the context of overall business mission and objectives. Taking a few cues from the detailed literature review it will be appropriate now to further discuss specific aspects of Business Strategy and Human Resource Strategy interaction process.

**Business Strategy and Human Resource Strategy - Alignment**

Business Strategy emphasizes how it intends to succeed in its chosen market place. It mainly focuses on competitive advantage. Business Strategy helps to establish the direction in which the organization is going in relation to its environment. The Business Strategy of an organization must reflect the intentions of managers about what they expect to achieve over a stated period of time. Business Strategy is therefore, about beating competitors in meeting customers’ needs, but this does not mean that a Business Strategy is the same thing as a marketing strategy. Business Strategies should take into account the changing needs and critical resources needed to carry out the strategic aims. Thus, organizations must unavoidably make choices about how they would pursue competitive advantage.
Business plans are prepared to work on three to five years cycle and annual business plans are formed within this. These plans consist of strategies like innovation, cost reduction, quality leadership, cost leadership, value added, customer focus, growth through acquisition, joint venturing etc. Business strategy answers three basic question: what (vision, mission, goals), how (organization design, functional strategies, resource and cost allocation, budget requirements, planning) and who (workforce planning, performance management, development).

The components that make up Business Strategy are business scope, distinctive competencies and governance. Business scope is referred to as environmental factors that influence business. This included markets, products, services, customers and the location of the business, buyers, suppliers, competitors, and potential competitors. The distinctive competencies referred to all the things that make a business successful in the market place. This included the core competencies of the business that allowed it to compete with others. This would include the brand, product and new product development, cost and pricing, and sales and distribution channels. The business governance referred to the relationships that existed between the stockholders and board of the directors, government regulations and relationship with other business partners.

A competitive strategy identifies how to build and strengthen the business long-term competitive position in the marketplace. Competitive advantage is any factor that allows an organization to differentiate its product or services from those of its competitors to increase market share.
Competitive advantage could be attained if organization creates value for its buyer along with profit maximization of the organization. To attain competitive success organizations must possess a competitive advantage in the form of either low costs or differentiated products that command premium prices or by providing higher quality products and services or by producing more efficiently. Organization’s today have capital and technology but, it is its human resource and its capability that act as a major source of its unique competitive advantage. Even though the most technologically automated facilities are available, employee’s skills and commitment help to create competitive advantage. Thus, to attain competitive advantage organizational resources must: add positive value to the organization; be unique; be imperfectly imitable; and not be substituted with another resource by the competing organizations.

Human Resource Strategies seek to manage the human resource in order to achieve the organizational goals. It focuses on what the organization intends to do in relation to its Human Resource policies and practices. Hence, the way human resource is deployed, motivated, managed and retained will impact upon the Business Strategy implementation. Human Resource Strategy serves Human Resource professionals who want to add value to their business. These are devised in respect of recruitment, employee deployment, and engagement by considering the mission and objectives of organizations. By doing this organizations put itself in the position of being able to achieve its goals through its human resources. Human Resource Strategies play an implementation role and are valuable means of obtaining path, uniformity and consistency in human resources efforts. The process of linking Human Resource Strategies with Business Strategies serves investors, customers and employees of the organization who want the business to deliver results.
Thus, main focus of Human Resource Strategy is to have operational linkages to fit Human Resource Management with the strategic thrust of the organization. Interaction between Business Strategy and Human Resource Strategy of organizations also need to particularly take care of uncontrollable factors which exist in external environment. External environmental factor’s impact needs to be understood and Human Resource professionals should try to minimize their adverse impact during implementation process of strategies. External environmental factors could be controlled or minimized with the help of leadership and direction provided by departmental managers, training and instructions given to employees, key implementation tasks and activities which must be defined with enough details, and information systems used for monitoring the process of implementation which also should be adequate enough.

Organizations must focus on its Human Resource Strategies as these are less likely to be imitated by competitors as these are not visible to competitors. Even if visible, it might not be favourable as different organizations setting requires different strategies. The use of Human Resource Strategies to build employees commitment and morale would result into providing excellent customer services by employees. This would in turn generate profits and would help in obtaining sustainable competitive advantage with high quality workforce. A framework for aligning Business Strategies and Human Resource Strategies could be provided by competitive strategy approach that relates the different Human Resource Strategies to the organizations competitive strategies (Table III. 1). For instance, organization which focuses on service need to identify and support ways to empower employees to serve customers better.
### TABLE III. 1
**LINKING HR AND COMPETITIVE STRATEGIES**

<table>
<thead>
<tr>
<th>Competitive Strategy</th>
<th>Human Resource Strategy</th>
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</thead>
<tbody>
<tr>
<td><strong>Resourcing</strong></td>
<td><strong>HR Development</strong></td>
</tr>
<tr>
<td>Innovation</td>
<td>Recruit and retain high quality people with innovative skills and a good track record in innovation</td>
</tr>
<tr>
<td>Quality</td>
<td>Use sophisticated selection procedures to recruit people who are likely to deliver quality and high levels of customer service.</td>
</tr>
<tr>
<td>Cost-leadership</td>
<td>Develop core periphery employment structure; recruit people who are likely to add value; if unavoidable, plan and manage downsizing humanely</td>
</tr>
</tbody>
</table>

Source: Purcell

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The role of organization’s cycle in the formulation of strategies is significant. To achieve successful interaction between Business Strategy and Human Resource Strategy, Human Resource professionals need to consider the lifecycle stages of their organization and each stage to be linked with Human Resource Strategies such as: starting phase needs to attract the best technical and professional talent with attractive compensation. Human Resource professionals in this phase need to define future skill requirements and design career ladder map for their employees. Organizations in starting phase need to set basic employee relations philosophies as well; growing phase needs to recruit adequate number of employees with multi-skills so as to build up talent pool. In this stage organization has to meet external market status and need to provide compensation and benefits to their employees according to that. In this stage professionals need to mould an effective employee training and development programme as well; maturity phase needs to encourage sufficient turnover to minimise redundancies and provide new openings along with mobility of employees by shifting of jobs. In this phase organization needs to control compensation structure and control labour costs with improved productivity; and decline phase needs to plan and implement redundancies and reallocations with tight cost control measures. In this phase employees need to be retrained and career counselling need to be provided 12.

It is necessary for organization’s to choose appropriate strategy to encounter challenges and convert them into opportunities to survive and flourish in today’s hyper competitive business environment. Human Resource Strategies must be matched to the Business Strategy with the same care as the financial control systems or marketing plans are implemented.
Developing and implementing Human Resource Strategy ensures that actions in managing human resource are aligned with competitive demands which need to be reflected in the strategic planning. The integration between Business Strategy and Human Resource Strategy and planning is very closely linked. As organization’s human resources are utilized more frequently as a source of competitive advantage, Human Resource Planning has become important to the successful formulation and implementation of strategies. Through planning, organizations prepare to match resources with the requirements needed for the implementations of strategies. Figure III. 1 outlines the basic process of integration.

**FIGURE III. 1**

**HOW TO ALIGN HR STRATEGY AND ACTIONS WITH BUSINESS STRATEGY**

<table>
<thead>
<tr>
<th>Process</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>Formulate Business Strategy</td>
<td>“What are the strategic goals of the business?”</td>
</tr>
<tr>
<td>Identify workforce requirements</td>
<td>“What employee competencies and behaviours must HR deliver to enable the business to reach its goals?”</td>
</tr>
<tr>
<td>Formulate HR strategic policies and activities</td>
<td>“Which HR strategies and practices will produce these employee competencies and behaviour?”</td>
</tr>
<tr>
<td>Develop detailed HR scorecard measures</td>
<td>“How can HR measure whether it is executing well for the business in terms of producing the required workforce competencies and behaviour?”</td>
</tr>
</tbody>
</table>

Source: Walker and MacDonald
Human Resource Planning needed to be carried in sequential manner which include environmental scanning and an interface with strategic planning, forecasting human resource demand and inventory, examining external supplies of labour, and developing plans to deal with shortage and surplus of manpower. Human Resource Planning signal the need for change and serves to guide the activities within Human Resource Management towards better compatibility with the business. One of the ways in which recruiting can be more strongly linked to Business Strategy is to focus on those sources that provide the greatest number of desirable employees. Thus, this would require Human Resource executives to be able to forecast the future availability of manpower having knowledge. Human Resource Planning requires Human Resource professionals to communicate with other managers, senior executives and staff members about the future human resource environment and other associated staffing issues. This will help to have complete integration of every Business Strategy with Human Resource Strategy.

Even board level management must treat Human Resource as an important contributor. Senior management’s support need to be ongoing and visible towards Human Resource Departments. The active leadership from top management is considered to be a critical source to maximize the returns from human resource. A visible involvement of senior management sends message to other employees that top levels are committed to strategy and strategic objectives. Alignment of Human Resource Strategy and Business Strategy required not only occasional verbal acknowledgements but it also required active participation to ensure progress. Board level involvement in the process of alignment would ensure sensitivity to issues and help to minimize potential resistance to share mutual information.
The extent to which the Human Resource functions are involved in both organizational and Human Resource Strategy development would be dependent on whether the most senior Human Resource person was a member of the board of directors or not. But at the same time the board membership of Human Resource professionals would not guarantee the involvement of specialists in strategy as it is not necessary that they would act as active members. Perhaps, that is why currently attention has been paid by organizations to assess the percentage of Human Resource Directors and professionals as policy makers. A recent study by Kennedy Information, a research firm found that 40 percent of Human Resource executives were asked to sit at the strategy tables, while 60 percent were still playing passive or reactive roles. Aligning board level challenges and Human Resource goals provide great opportunities for Human Resource professionals to put their hands into it. This would transform Human Resource role from a business partner to business leader.

The designing and deployment of Business Strategies are done by top managerial people within the organization and Human Resource managers act as champions for Human Resource excellence. Human Resource managers are tasked with the primary responsibility of leading and strategizing to support Business Strategies. Human Resource professionals need to become strategic partners who focus on strategy and processes of an organization. As leaders Human Resource managers need to be visionaries and a relists. For instance professionals might forecast human resource needs and labour supplies, both within and outside the organization and side by side integrate these with the organization’s capacity to perform effectively over a period of time. It is essential that Human Resource Practices to have the potential to make a difference to organizational performance and specialists needs to organize people management arrangements to secure consistency and support.
Therefore, Business Strategy is seen as an essential to any organization, but any strategy will be worthy of it if good Human Resource Strategies also exist. Business Strategy and Human Resource Strategy are inseparably linked with each other and they both are mutually supportive. For instance, organization strategy may require employees to be reorganized or redeployed and in this case Human Resource Professionals will have to be involved closely to ensure involved workforce. Without Human Resource Strategies linked with business objective, high level of organizational performance is not likely to place. Thus, Business Strategy lays the route that the organization will take in the future and Human Resource Management acts as an instrument to almost every aspect of strategy implementation.

It has been recognized that high quality workforce enables organizations to compete on the basis of market responsiveness, quality, product and services differentiation and technological innovation. Hence, the starting point will be workforce planning strategies based on business plans leading to prediction of the future demand for different types of employees along with the analysis of current workforce present particularly in relation to its age profile, qualification, length of service, gender mix, training records, competency data etc. Based on business plans, workforce plans need to be regularly monitored and reviewed to respond towards the changing circumstances.
Resourcing strategies ensure that the organization has the right employee in the right jobs with the right competences, behaviour and attitude at the time required with the help of careful workforce planning. Likely changes in the number of employees needed in each part of the business need to be assessed; and whether a change in the skill mix is needed, need to be identified. Resourcing strategies also need to take into account the assessment of performance, job behaviour and competence and the development needed for existing employees, to prepare them for future jobs. Resourcing strategies are concerned with the retention of those employees who have the desired competence and attitude. This would involve monitoring turnover and reasons for leaving.

Whenever each time a request for a key position is raised, Human Resource professionals in partnership with line managers would need to map out the role, knowledge, experience required, behaviour expected for assigned task, current and future performance expectations and challenges. Each ‘key position’ filled needs to result into better aligned talent pool within the organization in terms of current competencies or future strategic needs. To fill key positions, next step would be to find the candidates with the required knowledge, skills, experience, behaviour and attitude. But it is difficult to chase for the ‘perfect candidate’ that is able to fit into the organization or has the potential to be developed into an ideal candidate through internal talent development efforts. Best fit candidate would be a candidate who displays a relatively stronger fit with the organizational culture and values, job requirements and expectations and ability to build mutual relationship with other employees.
Development strategies are concerned with those activities which develop employees for possible future roles in the organization. These development activities will include learning, education, on the job or off the job training, coaching, mentoring etc. The development activities help to ensure that the organization has the competent, motivated and committed workforce that is needed to deliver strategic aims. Similarly performance strategies aim to link performance and track their employee’s performance based on the objectives of the organization. Performance management strategies has a key role in the effective implementation of Business Strategies. Therefore, some organization’s had removed the old ways of performance evaluation which were paper based and time consuming with completely automated performance management system that allowed managers to easily connect organizational objectives to individual objectives and give managers a complete outlook of how effective is a particular employee’s performance.

Even compensation strategies must be anchored into Business Strategy along with awareness about the employees needs. There is a need to align employee’s costs with business results. Compensation and benefits must reflect the needs of the business, current as well as future. These needs are to be tied closely to the organizational strategies, performance, and needs of employees. For instance, organization’s aiming for competitive advantage need to give differentiated compensation packages to their employees and need to ensure the external competitiveness of the total compensation package, so that the level and mix of remuneration is positioned against the right competitor groups, at the right levels. Recognition of the value of individuals is not only achieved through pay but also by feedback to them. Employees’ relationship strategies are also required to deal union related issues. Flexible working arrangements and work-life balance issues will help to achieve
cooperative relationships with employees and help to minimize conflicts in the organization.

Effective communication strategy is a vital ingredient for an efficient organization. Organization’s need to have transparency in communication vertically as well as horizontally such that the whole organization understands the future strategy and employees are aware how they contribute to the organizations success and the implications for their current role and the future opportunities. Hence, improved communication will help to create a greater sense of corporate unity, belonging and commitment to values, aims and objectives of the organization.

The workforce diversity has increased in the organizations, thus equal opportunity strategies need to be practiced by organization’s to demonstrate the sound image of an organization. Health and safety strategies need to be in place, and their implementation must be given a high priority to minimize accidents and absence from the work. Particularly in the service sector customer relationships are very evident and visible; thus, the impact of value creation is unique, and value is derived from the operational processes and quality of work that the employees generate. It is especially in these organizations that the alignment of Human Resource Strategy and overall Business Strategy of the organization matters the most. Various business related issues which would impact the Human Resource Strategies are organizational growth plans, acquisitions, mergers, diversification, service differentiation, improved quality and productivity.
It has been seen that the Human Resource Strategies sound great with grand plans and objectives, but lack the crucial attention towards the implementation. Human Resource professionals remain under dilemma about their roles that they need to play and, thus, they need to realize how significant their role is. The Human Resource professionals need to have clarity regarding: defining of mission and objective- the mission statement defines what the business is and what makes it unique and who the competitors are. From this a list of objectives, stating specific terms to be achieved and where the organization hopes to be at some point in future are derived. Here, Human Resource professionals need to offer their ideas and assist management in the process of generation of ideas and help top management to reach to a consensus; analysis of internal and external factors operating in the business environment- includes the strengths and weaknesses, opportunities and threats. Here also, Human Resource professionals can assist and provide facts and figures about the labour market; consideration of strategic alternatives- Human Resource professionals need to anticipate alternatives and evaluate its impact on workforce. Human Resource professionals need to show their readiness and alternative action plans for strategic alternatives; and evaluation of strategic plan regularly – Human Resource Department must keep ready access to key information and within Human Resource Department clarity is needed regarding what is to be done, by whom and with what resources. When there is a clear direction helping Human Resource professionals to see how they are contributing to the whole, it can create a sense of momentum, purpose and involvement.
Human capital is an intangible asset which influences an organization’s performance. It is necessary to align worker’s interest and organization’s interest. ‘Interest alignment’ is a measure of connection between individual and organizational goals. Organization’s interest alignment could be stated as the level to which the employee’s of the organization’s are motivated to act in line with organizational goals. Organization’s interest alignment depends upon the degree to which an individual is motivated and directed towards the implementation of organizational objectives. Worker’s interest alignment could be stated as the degree to which employee’s aspirations are meet in line with organizational objectives.

Matching the organizational and worker’s interest is possible by translating strategic priorities into functional areas of the organization. The individual Human Resource Strategies such as resourcing, development, performance management, reward, communications, employee-relations, equal opportunities, managing diversity, work-life balance, health, and safety need to be transformed into practices by extensive study on the current state of an organisation. Then Human Resource Practices to be matched and synchronized so that they aid and reinforce each other and eventually ensure the successful delivery of the Business Strategy as well. Here Human Resource professionals play an important role in resolving conflicts arising during matching of goals of organization and of employee’s. Conflict resolution is necessary because if conflicts are not resolved it might result into lower job satisfaction, loss of work time through absenteeism, and loss of skilled employee’s.
Human Resource policies and practices are required to achieve two types of fit i.e., external and internal. External alignment focuses on the association between business objectives and major Human Resource initiatives. As discussed already if organization focuses on achieving low costs than its Human Resource policies and practices need to reinforce efficient and reliable behaviour on the part of employees and enhanced productivity. On the contrary if the organization stresses on innovation and new product development, then Human Resource Practices would be more aligned with a view to promote creativity and flexibility. Apart from external alignment managers also need to ensure that their Human Resource Practices are aligned with each other internally. The entire range of Human Resource Practices from job design, staffing, training, performance appraisal and compensation need to be aligned. For this Human Resource Departments need to be organized so that it could play a role in the strategic planning for the organization. Human Resource Departments need to become interdependent with the rest of the organization and need to take a comprehensive approach.

The recruitment and selection process arises directly from the Human Resource Strategic Planning and ends once the new recruit has accepted the job offer. The process is also linked very closely with both the induction and probation processes. Thus, to respond to the organizational needs, it is needed to be conducted in a professional manner in accordance with the best practices and complied with all legislation. To place the right candidates at the divisional levels, it is essential to involve managers in planning for recruitment and selection as they are well aware of job specifications and competencies.
Human Resource professionals need to ensure that human assets are effectively trained not just to do specific jobs, but also to have a clear understanding of the overall strategy of the organization. Training and development provides suitable opportunities for personal and professional growth. This will allow achieving high productivity, job satisfaction and enhanced career development opportunities for workers. The performance targets set for employees need to be agreed jointly between employees and their respective managers. The enhanced contribution of employees to achieve organizational goals and objectives could be best achieved through role clarity. Appropriate mentoring could be an effective means of aligning individual aspirations with organizational goals. It would be mentor’s responsibility to bring out the talent within the individual and to ensure it is matched according to the employees and the organization’s objectives. Special attention need to be paid to link compensation to job performance and development linked to individual growth and improvement. If in case teamwork is desirable to achieve business goals, performance management system needs to be revised to reflect teamwork. Team rewards and performance measures need to be reinforced, messaging the importance of teamwork.

For matching interests of organization and of worker’s extensive communication is necessary to understand the directions needed. Information shared regarding employees accountability help employees to understand how their work contributes to organization’s success. Employees must be communicated about their work and efforts made by them along with its tangible aspects. Sharing information allow employees to visualize how their personal goals contribute to the achievement of organizational goals. This increases both the sense of accountability and contribution.
Thus, leaders and the management must use every opportunity including sales meetings, company meetings, or operational business reviews to allow each employee to understand the overall progress of organization. Telling employees what needs to be done is not enough to produce actions. Providing answers to the questions like ‘why’ to employees is key to attainment. This results into engaging employees and promoting initiatives of employees which benefits the organization. Workplace volunteerism becomes a part of the culture of an organization and employee’s interests are encouraged through initiatives such as recognition awards.

There is a need to project an image of fairness of management intentions in the minds of employees. Any variations or deviations in the practices will lead to wrong interpretation and frustration among employees. Equality of opportunities must be provided to all workers. Inequality of opportunities is not only illegal but also morally and socially unjustifiable. Access to family friendly policies, training and development, promotions, work-life balance must be equally available to all employees. Gender neutral languages must be used at the workplace. The practice of standardization of procedures reduces the amount of procedural clutter and gives clear guidelines and business criteria which also helps to encourage employee’s commitment. Consistency practised with respect to the way in which employees are treated is essential. Further, to know whether an employee is integrated with the organizational goals it could be identified by knowing the employee engagement. Employees engagement could be attained by: developing interest in the job, individual working on the job which is rewarding, and work which employee could identify with his personality well.
Success of aligning employee’s and organization’s goals relies on the ability to manage a diverse body of talent. The mixture of talents of diverse cultural backgrounds, ages, genders and lifestyles who respond to business objectives differently need to be managed. Realizing the advantage of diverse workforce, managers have adopted mindset to ‘think global, act local’. By adopting this frame of mind Human Resource managers would be able to organize the talent pool of diverse talents strategically for their organization. Workplace diversity should be utilized to its full potential to enable organizations to attain new markets and other organizational goals.

To integrate Human Resource Management into the Business Strategy, devolvement of Human Resource Management to line managers is a key prerequisite. Thus, Line managers and Human Resource professionals need develop mutual respect, while working towards common goals. Devolvement of Human Resource Management to line managers could motivate employees and provide more effective control. Command and control styles of management may need to be adjusted. In an ideal workplace, skilled and motivated employees should be directly involved in determining what work is performed and how it will be carried out. More participative styles of management may, therefore, be more appropriate.

It would not be incorrect to mention that Human Resource Practices are the outcomes which will be only effective when they are not seen separately, but are evolved on the basis of Business Strategy and Human Resource Strategy integration. Thus, the best Human Resource Practices are directly linked to Business Strategies. The Human Resource Strategy and Business Strategy integration ensures quality workforce for the future requirements.
Organization’s that engage in strategy formulation processes should equally consider Human Resource Strategy and Organizational Strategy. In case Human Resource Strategy and Business Strategy are not aligned then practitioners would need to identify those processes that should be redeveloped and bring in the needed change in order to align with the organizational objectives. Finally, it is essential that Human Resource Departments clearly examine what tangibles employees want to achieve and those must be seen as a part of Business Strategy via the Human Resource Strategy.
REFERENCES


