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EMERGING STRATEGIC HR ISSUES: A QUALITATIVE STUDY

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Abstract

We examined five strategic HR issues using a qualitative methodology. Two of these are related to the two central organizational-level constructs - structure and culture. The other three pertain to three HR constructs - HR strategy, HR competencies, and HR outsourcing. We interviewed 35 managers (CEOs, line managers, and HR managers) of nine companies from two major industries in the manufacturing sector - electronic products and machinery/equipment - and found that top management enlightenment and level of HR competencies together determined the role and status of HR function in organizations. Companies pursued three types of HR strategies: informal and not communicated; formal but not communicated; and formal and communicated. HR strategy was found to affect both vertical and horizontal fits of HR function. Culture, HR strategy, and HR competencies influenced organizational propensity to outsource HR activities.
EMERGING STRATEGIC HR ISSUES: A QUALITATIVE STUDY

Human resource management is in transition. It is breaking away from its traditional micro-focused role to becoming a macro strategic paradigm in which individual HR functions (e.g., selection, training, compensation, and performance appraisal) are aligned with strategy of the organization and also with one another (Lundy, 1994; Martell & Carroll, 1995). This new approach – strategic human resource management (SHRM) - has generated much interest among scholars. This is evident by numerous books and research studies devoted to the topic. Swiercz and Icenogle (1992) identified more than 150 articles on the subject and current indications suggest that the number has more than doubled in the intervening years. Although this wealth of research has contributed much to the theoretical development of SHRM, the total body of accumulated evidence is still small and most of the key questions are notably in need of further attention (Becker & Gerhart, 1996).

Prior research in SHRM has several limitations. First, it lacks in-depth qualitative studies (Boxall, 1996; Becker & Gerhart, 1996; Guest, 1997). For example, Becker and Gerhart (1996:796) observed that “deeper qualitative research is needed to complement the large-scale, multiple-firm studies that are available in order to find out managers’ HR decision making processes”. Unfortunately, response to the calls for more qualitative research has been quite disappointing. Second, most of the studies are based in the Western context (Guest, 1997; Khatri, 2000). Boxall (1993) noted that globalization and increasing environmental complexity call for the development of a comparative and international stance on the subject. Finally, most of the studies have collected data from HR managers. However, information provided by HR managers may be both biased and insufficient. Lundy (1994) observed that organizational members such as CEOs, line managers, and HR managers have a specific and distinctive contribution to make to SHRM and recommended that data should be gathered from all these sources if possible. In this study, we collected data from CEOs, line managers, and HR managers using a qualitative methodology to investigate strategic HR issues in companies in an Asian context (Singapore).

The rest of the article is organized as follows. First, we provide a brief overview of the strategic HR issues that form the basic framework of our qualitative study. The second section describes methods used in the study. Third, major findings of the study are discussed in-depth. The final section draws out implications of the findings.

STRATEGIC HR ISSUES: BACKGROUND

Based on the review of SHRM literature, we have identified five strategic HR issues. Although organizational strategy is one of the most important factors affecting strategic HR activities, it was not included in the study as there already exists overwhelming amount of research on the topic. We focused our attention on how two important organizational factors, structure and culture, affect strategic management aspects of HR. Both these factors are much less researched topics in SHRM research.
In addition, we investigated how three HR factors – HR strategy, competency level of HR managers, and HR outsourcing - affect strategic management of human resources. Next, we explain briefly these five strategic HR issues and their underlying theoretical rationale.

First, organizational structure is an important variable that affects all organizational systems and processes including HRM. Unfortunately, the role of structure in strategic HRM has not been adequately addressed in the past research. One exception is the framework provided by Golden and Ramanujam (1985) showing various possible links between HR and strategic planning: administrative, one-way, two-way, and integrative. It would be interesting to see if organizations having different links have similar or different cultures. Other relevant questions for studying the impact of structure on HR function are: Is HR a separate department? What is the title of the head of the HR function? Whom does HR manager report to? Does HR manager participate in strategic planning meetings?

Second, culture is an important organizational factor influencing strategic management of HR function (Buller, 1988; Aryee, 1991; Truss & Gratton, 1994). Truss and Gratton (1994) commented that the type of culture an organization has exerts a strong influence on its strategy and also on its chosen HR strategy, and one would expect HR activities and practices to alter following a change in organizational culture. Evans (1986) noted that organizational culture is in part managed through human resource management practices such as selection, training, compensation, and employee retention. Unfortunately, despite the importance of the link between HR and culture, there is little empirical research on the issue. Issues such as “What type of impact culture has on HR practices and how great that impact would be” are sorely in need of further research attention (Aryee, 1991; Lundberg, 1985). Likewise, we do not know what role HR function plays in different cultural contexts. Walton (1985) described two types of cultures - control-based and commitment-based – and noted that firms are experiencing a transition from controlling employees to eliciting commitment from employees. It would be interesting to examine how control-based and commitment-based cultures affect HR function and HR Strategy.

The third strategic HR issue is related to HR competencies. Many scholars argue that human resource can be a source of sustainable competitive advantage for an organization (Barney, 1991; Huselid, 1995; Wright et al., 1994). Consequently, firm’s HR function, which has much responsibility in managing this important resource, should receive more commitment from the organization. However, Barney and Wright (1998) pointed out that the real scenario is quite contrary to the above view and noted that one of the reasons why HR executives are not invited to the strategic planning table is that they are unable to display required competencies. Cunningham and Debrah (1995) found that when HR managers lacked the necessary skills to perform their duties competently, line managers and executives took over some of the functions of HR managers. Apart from enhancing the status of HR department, past research also suggests that competency level of HR managers has a major influence on the level of integration between HR function and strategy (Golden & Ramanujam, 1985; Buller, 1988; Truss & Gratton, 1994). Golden and Ramanujam (1985) commented that the demonstration of expertise by HR managers resulted in a significant uplift of HR stature and also tightened HR and strategy linkage. There is
limited research on HR competencies so far. We think that more research effort is needed to address important questions such as, “What impact does the level of competence possessed by HR managers have on HR function?” or “How does the level of competency affect the link between HR and organizational strategy?” or “What type of competencies do HR managers need?”

HR strategy is the fourth strategic HR issue examined in this study. Although HR strategy lies at the heart of SHRM, it has not received due attention from researchers. Previous research in SHRM suggests that apart from seeking a vertical fit between HR function and organization strategy, achieving horizontal fit among individual HR practices is equally important. This is because the full impact of HR practices on firm performance arises when HR practices exist as a coherent system within a particular system strategy (Wright & McMahan, 1992; Arthur, 1992; Grundy, 1998). However, Grundy (1998) noted that HR practices lack congruency in most organizations. The author gave two plausible reasons: (1) HR practices are viewed in segregation and (2) HR strategy is frequently owned by HR managers and not shared with other functional managers. Massey (1994) suggested that HR strategy serves as an “over-arching” framework that guides the integration of individual HR practices and one would expect an organization having an HR strategy to have consistent and non-fragmented HR initiatives.

The final strategic HR issue is HR outsourcing. An increasing trend in many organizations is to outsource HR work, in particular, administrative and high transaction cost activities (Grundy, 1998; Klass et al., 1998). Much of the motivation originates from organizational desire to minimize workload of regular workers, reduce cost, reap economies of scale, improve quality and efficiency, and gain expertise from outside vendors (Laabs, 1993; Lever, 1997; Klaas et al., 1998). Others argue that HR outsourcing represents a strategic tool for achieving competitive advantage. Their argument is that outsourcing transaction-based HR activities (e.g., benefit administration) frees HR managers to grapple with strategic business issues (Switzer, 1997). Firms may vary in their propensity to outsource the number and type of HR activities. However, there is only limited research on what factors cause firms to outsource more or less of their HR activities and also which HR activities are most frequently outsourced. Thus, we need to understand ‘what’, ‘how’, and ‘why’ of outsourcing. In particular, to what extent do structure, culture, HR strategy, and level of HR competencies affect outsourcing of HR activities?

**METHODS**

We used a qualitative approach in this study. The qualitative methodology offers several advantages including the provision of a deeper understanding and fuller contextual information of the phenomenon studied, in addition to enabling the foundation for more complete theory development (Eisenhardt, 1989; Yin, 1994; Berg, 1998). Strategic HRM research is in dire need of such an approach which provides many ideas for further research as well as deeper understanding of the phenomenon already studied using quantitative methodology (Lundy, 1994; Guest, 1997; Becker & Gerhart, 1996).
Past strategic HR studies have been conducted mostly in an inter-industry setting (Purcell, 1999; Dyer & Reeves, 1995). However, contextual and environmental factors influence various industries quite differently. Inclusion of many industries in the sample ignores the rich vein of contextual data pertinent to a specific industry and do not control extraneous variables such as market and environmental peculiarities. Our goal was to select a single industry for the study. However, because of the problem of getting access to a sufficient number of companies in a single industry, we selected two industries as discussed next.

From the Economic Survey of Singapore (1999), we selected an industry with the highest output (sales) and employing the largest number of workers within the manufacturing sector. Total sales and employment size provide a good gauge of the importance of the industry in the economy. Electronic products and components industry had the highest output of $63 billion and employed 127,700 workers. Thus, we identified electronics products and components as the potential industry for our study.

The ‘Singapore 1000’ directory provided information for the sample selection. The directory contains the names, addresses, and profit and sales figures for the largest one thousand companies in Singapore. The business classification found in the directory follows closely the Singapore Standard Industrial Classification developed by the Singapore Department of Statistics. The Singapore Standard Industrial Classification conforms to the basic principles and guidelines as provided in the international standards. Moreover, it ensures the consistency and comparability of data compiled by different statistical units and facilitates data sharing in the government statistical system.

In all, we wrote letters to the CEOs of all 95 companies from the electronics industry listed in the ‘Singapore 1000’ directory and requested for interviews with them and other senior managers in their companies. This was followed by phone calls to them one week later, answering their queries if any. Five companies from the electronics industry agreed to participate in the study. This fell short of the target of about ten companies. We, then, wrote letters to all 66 companies in the machinery and equipment industry that were listed in the ‘Singapore 1000’ directory, the industry next in the highest output in the manufacturing sector. Four companies from that industry expressed their willingness to participate, while the rest declined. Together these nine companies formed the sample of the study. Eisenhardt (1989) argued that a number between 4 and 10 cases usually works well. With fewer than 4 cases, it is often difficult to generate theory and its empirical grounding is likely to be unconvincing. With more than 10 cases, it is difficult to cope with the complexity and volume of the data.

CEOs are a very busy bunch of people. It was not always possible to schedule an appointment with them despite our best efforts. In companies where CEO was away or not available for a long period of time, we interviewed the most senior managers.
who had been working in the company for a considerable amount of time. The total number of respondents was 35. Table 1 gives the breakdown of managers interviewed according to industry and title.

Prior to interviews, interviewees were given a copy of the interview questionnaire (see Appendix). Interview questions were open-ended and supplemented with appropriate probing questions. Interviews were taped-recorded and transcribed verbatim. Each interview lasted about an hour or more.

THE STUDY FINDINGS

The major findings of the study are as follows:

Structure and HR

Our interview data reveal that HR function is increasingly playing an important role in organizations. The majority of chief executives and line managers were seeking much greater and more proactive involvement of HR function in organizational activities. HR function was being accorded more priority than in the past. In three of the nine organizations, HR function was critical and integral to their operations, while in two other companies, chief executives and line managers were crying out for greater HR involvement in transforming their obsolete structure, strategy, and culture. The following quote from managing director of one electronics company corroborates this point: “I’m expecting more from them...more, more, much more. More active, more proactive role.”

We observed a consistent trend of HR evolving into a more strategic function. Contrast these findings with those of the study conducted by Yuen and Yeo (1988) on a sample of 182 companies in Singapore (a large proportion were large manufacturing companies with established HR functions). In their study, the authors reported that HR function was playing traditional ‘personnel’ role rather than being an active strategic partner.

A summary of findings of our study on various dimensions linking organizational structure with HR function is presented in Table 2. Of the nine companies, three had administrative link, three one-way, and the rest three had integrative link. When analyzed by industry, all three companies with integrative linkage were in the electronics industry. Companies in the machinery and equipment industry were having either an administrative or one-way link. A more detailed analysis is as follows:

Administrative link
Of the nine companies, three were in this category. HR was not a stand-alone department and did not report directly to the CEO. In cases where HR participated in strategic planning, it was merely by chance as one HR manager commented: “for strategic planning, the top management would discuss it among themselves. I happen to be in the meeting by accident”. If HR manager was involved in strategic meeting whereby HR issues like recruitment were brought up for discussion, he/she would normally provide only updates and feedback regarding HR matters. A senior manager from an electronics company having an administrative link observed: “HR is very administrative. And there is no link between HR activities. HR activities are quite isolated. As and when a problem arises, they would solve it reactively.”

We felt that CEOs of all three companies were adopting a traditional approach to managing HR function. One of the CEOs commented “I have no interest in expanding the current HR activities and no plans to send HR people for training. There are other more important activities in the company and HR should remain administrative.”

One-way link

Three companies in our sample had one-way link. HR managers participated in strategic planning meetings and reported directly to chief executive of their organizations. HR department was a separate department in all three companies. However, role of HR was reactive as suggested by the following quote from one of the CEOs: “HR department is secondary here. It is not proactive. Most HR departments are like that.” Similarly, a senior operations manager in one of the companies commented: “They (HR department) are competent in administrative area but still like an infant in HR development.”

Top management and line managers handled some HR activities themselves. Although HR managers were involved in strategic planning meetings, they more often implemented HR initiatives supported by CEOs and line managers. When asked if HR was involved in actual strategic planning, comments from line managers were that “there is no real impact of HR on strategy planning”. However, top management and line managers in these companies were seeking more proactive contributions from HR function. They felt that, with recent changes in business environment and increased erosion of their firms’ competitive advantage, there was a strong need for greater integration between strategic planning and HR activities. General manger of operations from one of the companies noted: “Even if they are not involved in strategic planning, they still need to find an opportunity to be involved because they are human resource managers. If they don’t know the business, then their direction won’t be aligned with business direction. HR managers have to be in strategic planning meetings so that they could give their perspectives and contributions from an HR point of view.”
One very interesting observation is that HR managers of these companies believed that HR function was playing a strategic role in their companies. For example, an HR manager commented that “as far as HR is concerned, we have been playing a strategic role for many years.” However, senior managers of the same company had been calling for more timely and proactive HR moves rather than just a function which is “playing a supportive role, lagging behind and watching what the line people are doing.” Thus, there were discrepancies between views of HR managers and those of other managers about the role played by HR function.

**Integrative link**

Three companies with integrative linkage were all in the electronic industry. These companies had long been leaders in the industry. Their competitive environment was characterized by rapid changes and fast technological innovations. HR function was closely integrated with strategic planning. Mission statements, goals, and business strategies were built on explicit philosophy such as “being up-front with people”, “people are critical to us” and “we build human before products.” Moreover, HR managers were viewed as credible and integral to business process by top management as reflected in the following quote from an R&D manager: “I have worked with many companies in the world and I find that HR function in this company is competent. They (HR department) listen and very professional. I have complete trust in them. In a company, various functions perform differently and you start realizing which ones are efficient. In this company, HR is very respected and professional...I think HR function is very integrated into the whole organization and most probably the most important function since we are so people-oriented.” The following comments from HR manager of this company corroborate the views expressed by R&D manager: “I would say that HR is no longer seen as a separate entity from line but now is part and parcel of the whole organization.” HR managers had developed informal relationships with senior and line managers of their companies. One HR manager noted: “my working and personal relationship with CEO is superb. He would consult me on implementation of HR initiatives as well as general operational issues. Sometimes if he is not around, I would be the acting CEO”.

HR function in these companies was considered as “one of the core pillars” of the business and was regarded as important as main profit generating department in the company. HR managers were involved in strategic planning and were sometimes the people who came out with 5-year plans and discussed them with other managers. As noted by a senior operations manager: “HR plays as important and strategic role as other functions in our company. We have to align HR towards our corporate goals. Leaving them out is just like a table short of one leg, and HR is one of the legs that supports the table.”

**Culture and HR**
In this study, we used two broad categories of organizational culture, control-based and commitment-based, as a guiding framework. Our observations suggest that the role played by HR function differed from one culture to the other. A summary of the link between culture and role played by HR in strategic planning is presented in Table 3. Our results lend support to Buller’s (1988) argument that a people-oriented culture fosters a natural link between strategy and HR. We found that companies with commitment-based culture had an integrative linkage between HR and strategic planning, and strategic HRM was widely adopted. In control-based culture, on the other hand, HR had an administrative or one-way linkage with strategic planning.

In companies with control-based culture, HR activities were limited to administrative aspects and union issues, if the company was unionized. Line managers usurped many of HR programs and activities. Training investments were on the lower side, communication was mostly top down, rewards were based on fixed guidelines, and there was little employee involvement. HR practices were standardized and reactive. HR played the traditional ‘personnel’ role.

In companies with emphasis on commitment, employees were considered as assets. To encourage a commitment-based culture, companies had formed cross-functional teams and employee involvement was widely practiced. Other HR initiatives included such as information sharing and provision of communication channels, life long learning, extensive benefits, formal dispute resolution procedures, and training and retraining even at the time of the Asian economic crisis instead of retrenching employees.

Another interesting observation concerns companies in the transition stage. Two of the nine companies were transforming themselves from a control-based culture to commitment-based culture. In these companies, HR function was also seeing a corresponding transformation from an administrative and reactive function to a strategic and proactive function. Further, there is a general trend in Singapore companies toward commitment-based management philosophy.

HR Competencies

Whether HR managers were performing a mediocre job or a professional job, CEOs and line managers were seeking improvements in the competency levels of HR managers. In the nine companies studied, we felt that four of them had qualified HR managers. We were not quite convinced with the competency levels of other five. HR managers were especially lacking strategic HR skills. Cunningham and Debrah (1995) and Yuen and Yeo (1995) had also found that HR managers in Singapore companies were lacking in specialized skills to manage HR function. Lack of HR competencies was stated as one of the major reasons why HR function was not performing up to the expectations. As one line manager noted:
"My assessment is that HR department is doing an extremely average job. HR failed to recognize the scope and scale of its role. It is partly an expertise issue. I think this is because HR people are promoted from within and they do not have formal HR training. Most of the HR people were previously engineers. They are moved from one department to another based on the assumption that with the knowledge of production and engineering, one would be able to perform an administrative job such as HR. But HR has become an area of professionalism and requires certain instincts and skills. Currently there is a wide gap between our company’s HR manager and the expected role of a professional HR manager. The present HR manager is seriously lacking in strategic skills. Though the company has a promote-from-within culture, I think we need to bring in professional HR people from the industry as a necessary exception."

A senior manager of operations from another company commented: “I feel that there is a gap between the role performed by our company’s HR manager and the expected role of a professional HR manager. HR department in our company is more reactive (e.g., doing only what other managers tell).”

We also found that CEOs and line managers took over strategic aspects of HR onto themselves as HR managers lacked requisite competencies and had a ‘personnel’ mindset. HR managers could not proactively identify their company’s strategic HR needs and assumed that “it would be enough to implement policies of the top management”. As noted by CEO of the company that was undergoing a major change in its structure and culture:

“To enhance the cultural change, we want to know whether we can de-program and program our people to fit into the new culture. And if we can, what does it take to do that and how is it reflected in HR strategy and training programs? But once we asked ourselves these, we questioned if HR people had the knowledge to do it. We decided to handle the issues ourselves rather than giving them to HR as we felt that HR managers did not have the necessary competence.”

HR managers also felt that their competencies were important in gaining trust and strategic involvement in the organization. As one HR director put it: “HR manager has to be competent. I think that the competency level of an HR manager influences the status of HR department. HR manager must be able to convince the upper management that he/she is capable of managing well the fundamental HR functions before being invited to the strategic table.” Another HR manager observed: “One of the key HR competencies is the ability to influence top management. Sometimes, in a company, top management does not believe in HR. As a result, you start to do administrative work. I personally believe that HR manager is very important as to how an HR department is going to fare in a company. If you choose somebody who is administrative, then HR would be administrative in nature”. It appears that HR professionalism is the basic requirement for HR to play a strategic role in the company.
It would be too simplistic to say that HR managers themselves can determine entirely their role in the organization. There are factors beyond their control that impact on status of HR function. As commented by an HR manager, “if the top management feels that HR should be administrative, then HR would be administrative in its initiatives”. Based on qualitative data, we identify one important factor influencing the integration of HR with organizational strategy and label it as management enlightenment. By management enlightenment we mean whether the organization has recognized the important role that HR function can play in formulating and implementing company strategies. For example, top management in one of the companies recognized that internal customers were as important as external customers. To support the corporate policy of doing things right the first time, company recruited a highly qualified person as an HR director to head HR function although the company had only 50-60 employees. Management is not enlightened when top managers are ignorant of the role that HR can play. For example, management is not enlightened as revealed in the following quote: “HR manager is not able to contribute much to the company and it is not necessary to expand HR function as it would only add to bureaucracy in the company.”

Table 4 classifies nine companies according to HR competencies and management enlightenment. Three of the nine companies had competent HR managers and their management was enlightened about the strategic role of HR function. These companies demonstrated integrative link between HR and strategic planning. We found three companies where management was enlightened but HR managers did not possess sufficient competency in HR. These companies had one-way link of HR with strategic planning. Two companies could be classified as not enlightened (traditional) and low on HR competencies. Both companies had an administrative HR function. There was one company with traditional top management philosophy but having higher HR competencies. This company was also having traditional ‘personnel’ role for HR function. Thus, we see that while management enlightenment was the major hurdle in the way of HR playing a more strategic role in one company, lack of HR competencies was the major bottleneck in achieving tight HR-strategy integration in three companies. Two of the nine companies had traditional management and low HR competencies. In sum, it is necessary for HR managers to improve on their professionalism and for the top management to recognize the competitive advantage arising from managing human resources strategically.

What competencies or skills do HR managers need? In this study, respondents were asked to describe skills and competencies needed by HR managers. All responses were grouped into broad categories. Table 5 shows competencies HR managers must possess to manage HR function effectively. We include some typical quotes from respondents on HR competencies below:

A senior manager of operations in one electronics company: “I feel ideal HR professionals should know the business well, understand where company’s competitive advantage lies, and should be able to understand what motivates/drives people.”
Quote from an R&D manager: “Yes, HR is a technical job like R&D. HR people need specialized skills.”

Finance manager from one of the companies: “What I hope for is higher skills in HR area. They (HR department) have some understanding, but more is needed than the current level. For example, issues such as human behavior, change management and process, and implications of HR practices...I would like them (HR managers) to improve on their knowledge of psychology of people, behaviors, mindsets, and attitudes of people. I find that this aspect is something which is missing in HR function of most companies including my company.”

A general manager of operations observed: “At all times HR managers need to understand the business strategy.” CEO of one of the companies commented: “HR manager must be knowledgeable about the business we are in. When I talk about business, he must understand what I’m talking about.”

Consistent with Ulrich et al. (1995) and Cunningham and Debrah (1995), we found that technical HR knowledge, people management skills, business knowledge, and analytical and visionary skills were all critical competencies for HR managers. Further, both CEOs and HR managers indicated that HR managers must have passion for people and their general welfare. Surprisingly, while CEOs were seeking more analytical and visionary skills in HR managers, 89.5% of the line managers noted that HR managers should possess sound technical HR knowledge. 52.6% of the line managers also stressed the importance of business knowledge and people management skills. HR managers thought that technical HR knowledge and people management skills were more important. Thus, we see some divergence in views on HR competencies. Our conclusion is that HR managers should acquire thorough business knowledge, gain mastery in technical HR, and be analytical and visionary to manage HR and its constituencies (CEOs and line managers) effectively.
HR strategy

Table 6 presents the summary of how HR strategy affects the link between HR and strategic business planning. Based on our interviews, we found that HR strategy exists in three forms: informal and not communicated; formal and not communicated; and formal and communicated. Further, there was a relationship between HR strategy and the extent of HR-strategy integration. For example, companies with integrative linkage had an HR strategy that was formal and widely communicated. We provide further insights into three types of HR strategies in the following paragraphs.

HR strategy: informal and not communicated

In companies with informal and poorly communicated HR strategies, line managers managed HR activities and HR department merely handled daily administrative work. Although not written down formally, CEOs and line managers had some ideas how they should manage their employees. In a way, the implicit HR strategy was owned by line managers and was not being communicated across the organization. HR initiatives were often detached from one another and differed significantly across departments. As a line manager explained:

“There are some elements of HR strategy in our company, but just that they are everywhere, some of them done by operations people while some done by personnel department, in such a sense that they are not linked with one another. As and when an HR issue arises, we would solve it reactively.”

All the managers interviewed felt that it was essential to have an HR strategy even if it is informal, although they would want to have an explicit HR strategy. HR strategy enables the company to be clear of its HR initiatives. Thus, HR initiatives would be less fragmented. Companies having an informal and improperly communicated HR strategy had a traditional role for HR department. HR activities had weak vertical and horizontal fits.

HR strategy: formal but not communicated

In this case, HR strategy was written down and well documented. HR managers owned it. However, HR strategy was not communicated to line managers. Although HR managers made efforts to communicate HR strategies to other organizational members, functional managers did not have much idea about HR strategies of their companies. We also observed inconsistencies in explanations of HR strategy by HR managers and line managers. However, HR strategy was still aligned with corporate strategy because HR managers were present in strategic planning meetings.
Further, we observed that companies with a formal but poorly communicated HR strategy had one-way link between HR and strategic planning. HR was not a strategic partner, strongly linked with the success of the business. HR activities were managed mostly by functional managers but displayed greater consistency with one another because they followed closely the overall goals of the company.
HR strategy - formal and communicated

Three companies in our sample had formal and well-communicated HR strategies. Widely known to all managers, HR strategies were integrated with overall organizational strategy. HR strategy not only outlined how each individual HR activity should support company goals, but also emphasized people as the core asset of the company. Following quotes show belief of these companies in human resources: "to be a world-class human company" or "people development essential to continued growth and prosperity of the company".

In these companies, HR strategy was also fundamental to overall strategy. For example, in order for the company to compete in a fast innovating environment, there must be a pool of creative people. HR strategy formed the important guiding principles for recruiting, retaining, and training creative people to support organizational objectives. HR strategy also aligned HR goals with one another, as well as integrated HR goals with company's goals. One HR manager highlighted the importance of HR strategy:

"HR strategy plays a cohesive part. I think it is the 'glue' that brings all HR functions together. Without a clear HR strategy, we can't perform our individual HR functions in the most efficient way. I think there are times when things would fail then."

Another HR manager made a similar point: "We need to have a framework. What I mean by framework is that all HR staff and departmental heads should know what our HR strategy is. For example, we are trying to pay above market and everybody is informed that this is our strategy."

Companies with such formal and widely communicated HR strategies had a tight vertical fit with company strategy and also a strong horizontal fit among HR activities. Companies treated HR activities as a system, rather than individual HR activities. For example, HR director of one company noted that his company did not look purely at candidates' skills when recruiting. It assessed potential candidates in terms of their abilities to fit into organizational culture and to be able to succeed in higher positions. This was part of company's career succession plan.

HR outsourcing

Most of the respondents suggested that outsourcing of major HR activities was a fad and would pass. CEOs, HR managers, and line managers indicated that HR function would always be performed within organizations, even if HR was playing purely an administrative role. General manager of one of the electronics company commented: "It was hard to see how we can outsource the entire HR function. Our training is so specialized, customized, and optimized." Respondents were not satisfied with the quality of service and competency levels of consultants. For example, general manager of corporate services from one of the companies observed: "In fact.
personally I have tried with these consultants and find that it is very taxing on operations people. We tend to spend more resources by making them understand what we have.” Managing director of one of the companies made the following comments: “So far I don’t have good experience with head hunters. Only a few of them are good professionals. Most of them are not good. They are expensive.”

Interviewees, however, did identify some potential HR activities that could be outsourced in future: 1) mundane, administrative and no-value added activities, 2) recruitment of contract workers and sourcing of high executive positions and specialists, and 3) specialized or one-day training courses.

Organizational culture was found to be a major deterrent in outsourcing HR activities. It takes a long time and effort to develop organizational culture. Further, it would be difficult for consultants to “feel and understand” culture. For example, one CEO pointed out that it was very difficult for consultants to develop a coherent culture in the company because they do not know the business context as well as organizational members. In the long run, this CEO was afraid that consultants actually might do things that would have adverse impact on culture. There were major concerns regarding the ability of consultants to perform HR activities professionally if they were not able to understand culture intimately. Another CEO expressed similar concern: “would vendors give their heart and soul to produce a culture that permeates the company?” Still another CEO commented: “How do you understand our business? You have 20 clients. How can you know the culture, vibes, pressure of the job?”

One very common reply to the question why organizations outsource their HR activities was that HR activities would be outsourced if “HR people in the company do not have skills”. Competent HR managers play an important role in linking HR function with firm strategy. Likewise, companies were less likely to outsource if they had needed HR competencies to perform the job. A quote from one of the respondents corroborates this point: “If we have the ability and the skills to do it ourselves, obviously we want to do it ourselves.”

Another major consideration was the confidentiality as revealed in the following quotes:

Managing director of one of the companies: “How can I trust you with my strategy?”
General manager from another company: “I am not comfortable in letting people know my business.”

Companies attested to the fact that it was difficult to outsource strategic HR activities. Responses from three companies with explicit HR strategies suggest that it was hard for them to outsource any HR activity because it was related with other HR activities. One CEO commented: “Removing any of the HR activities, which is the center piece of the integration to all the functions in the company, would be painful to the business.” General manager of operations from one of the companies also noted that
“if we want to be really good and if people play a major role in the company, then HR should be done in house”.

Although companies were contemplating outsourcing some of their HR activities to reduce costs, in the long run, they were still skeptical about the competitive advantage outsourcing might bring. They considered outsourcing HR activities if it would allow HR to play a more strategic role in the company. Of the many activities, routine HR activities were the most likely candidate for outsourcing. However, with advancement in information technology, potential outsourcing candidates such as payroll also had become important to the entire HR system and were not an easy choice for outsourcing anymore.

Companies with formal and widely communicated HR strategy were finding it hard to outsource any of their HR activities because these companies had established vertical and horizontal fits in their HR programs and activities and outsourcing any HR program or activity might disrupt the two fits.

SUMMARY OF FINDINGS AND CONCLUSIONS

How to manage human resources strategically? To answer this question, we identified five strategic HR issues related to five factors - organizational structure, organizational culture, HR competencies, HR strategy, and HR outsourcing – and examined them using a qualitative methodology in an Asian context (Singapore). HR practices in Singapore are a hybrid of east and west and there is roughly a lag of 5 to 10 years between Singapore and the United States. Other Asian countries also show a mix of management practices. However, the lag between less developed countries in Asia and the United States may be more than 10 years.

Our findings suggest that HR function is increasingly playing a more significant role, although the role still remains secondary in majority of Singapore companies. HR function is evolving fast and HR activities are increasingly being aligned and integrated with organization’s overall strategy. HR managers participate in strategic planning meetings in most of the companies. More and more companies are embracing strategic HR. Senior managers in majority of the companies realize that HR can play a strategic role. However, they are not sure how to go about doing it. One-third of companies in our study showed integrative linkage between HR and strategy suggesting that HR is becoming more strategic in Singapore companies.

HR managers need to acquire a new set of competencies to manage HR activities professionally and to play a more strategic role in achieving organizational goals. They cannot afford to be reactive in today’s competitive environment. CEOs and line managers expect them to be more proactive and strategic in their orientation. Of equal importance is the need for top management to realize that HR function has evolved into a complex and critical function, and that it could be used as a tool for competitive
advantage. Top management needs to know that professionally qualified people are needed to manage HR strategically. The assumption that anybody can manage HR programs and activities reflects ignorance and can be quite counterproductive. HR competencies and management enlightenment work hand in hand in managing HR strategically for business profitability.

We found that while CEOs were seeking more analytical and visionary skills in HR managers, line managers wanted HR managers to be sound in technical HR knowledge, business knowledge, and people management skills. Lack of strategic HR skills could be one major reason why HR function still plays an administrative role in many companies.

How important is HR strategy in managing human resources strategically? HR strategy provides the framework and guides the whole HR process. It creates a purpose and focus for HR. HR strategy serves HR professionals who want to add value to their business, and it defines the mission, vision, and priorities for HR function. It ensures that HR activities, programs, and initiatives are not fragmented. HR strategy needs to be explicit and widely communicated. Formal, well-articulated HR strategy forms an overarching framework guiding individual HR activities to exist in a coherent HR system and enhance tighter HR-strategy link. Findings of our study suggest that a well-documented HR strategy is not sufficient; HR strategy must be communicated to all key organizational members.

The outsourcing of entire HR function could be an overblown issue because HR is evolving to be an integral part of the whole business. Outsourcing of routine HR activities could actually help HR to play a more strategic role. For example, by outsourcing mundane and routine works, HR managers would have more time to concentrate on core HR functions. To outsource or not, companies need to consider their cultures and whether they have competent HR managers to manage HR activities in-house more efficiently. Further, an explicit HR strategy improves synergies among HR activities and thus reducing likely gains from outsourcing. Also many managers indicated that nature of HR function makes its outsourcing difficult. HR function requires close interaction with people. By outsourcing HR, company would lose the 'personal touch' with people. Gaining trust from people would become more difficult.
REFERENCES


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### TABLE 5. HR COMPETENCIES/SKILLS

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## TABLE 6. HR STRATEGY AND HR-STRATEGY INTEGRATION

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