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Business Strategies and Human Resource Policies

**An interview with
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Lee Dyer is a Professor of Human Resource Management in the Department of Personnel and Human Resource Studies and Director of the Centre for Advanced Human Resource Studies, School of Industrial and Labor Relations, Cornell University. His teaching and research interests focus on human resource strategy, human resource planning and decision making, and comprehensive employee relations. Professor Dyer has served as a consultant in the development of human resource strategies, policies, and planning processes in several major organizations and has lectured widely on a variety of human resource management topics in the US, Canada, Europe, Venezuela and Australia. He has published numerous articles, book chapters, books and monographs.

During his visit to Queen's University to give the annual Don Wood Lecture in Industrial Relations, Professor Dyer kindly agreed to an in-depth interview to share his views on the role of human resource management in today's business climate.

How have organizations responded to the competitive pressures of the 1980s and 1990s? In other words, what competitive business strategies have they been following?

Business strategies in today's competitive climate are much more complicated than they have ever been in the past. After the Second World War, whatever an industry could produce it could sell! Later, with the increase in competition, particularly from Japan, if an industry could produce high quality goods at a competitive price, it could sell. Now, in more and more industries, having high quality goods at a competitive price is only the beginning. Other factors play equally important roles in the success of the organization - a unique product, an ability to respond to customers quickly, an innovative approach to your product, your production system and your market. In other words, business strategies are now customer driven.

Have organizations in Canada, the US, and Japan responded differently to competitive pressures? Are they under the same kinds of pressures?

The world is, indeed, getting smaller. In my travels in Europe, South America, Australia, and Canada, I hear much the same comments on the pressures in today's business climate that are made in the US. Although organizations in these countries are looking for unique responses to give them an 'edge', they are all taking much the same direction.

We have been hearing that strategic human resource management is the key to competitive advantage in organizations. Can you explain briefly what strategic human resource management means and how it helps organizations achieve a competitive edge?

Simply put, human resource policies and programs must be driven by your business and your business needs; an organization's business strategy must be the starting point. HR management must be approached in a systemic way, as a package of activities that reinforce the business strategy of the organization. There must be a synergy within the function and with other functions in the organization. HRM can no longer be a separate function with divergent activities.

Research is beginning to accumulate showing that companies able to get their human resource strategy internally consistent and to get a strategy that matches up with the business strategy are more effective than businesses that do not. There are, however, many factors at work in business success, only one of which is how you manage your people. Managing people well does not guarantee business success, but it increases the probability. Some estimates, to which I would not want to give too much credibility, suggest that, in the manufacturing environment, how well people are managed might explain 40 percent of the variance in total performance, in a service environment, more like 70-80 percent.

Have you seen an evolution from traditional to new approaches to human resource management? Can you describe some of them? Are we seeing new ways of managing workers?

Not as fast as I would like. The survey data, which is fairly good in the US for medium to large sized companies, tends to show that in those companies maybe 50 percent are experimenting seriously with different human resource management strategies. Within those companies, however, the penetration across employee groups tends to be fairly small, 20-25 percent. Keeping in mind those numbers and all the companies not being surveyed, you can see that new ways of managing workers are being considered seriously by a very small proportion of companies.

So we cannot say that there has been a transformation at the workplace.

Not at all. We are a long way from there!

How widely diffused are these innovations, how many are sustained or are we really just breaking ground in most organizations?

There is 'experimentation' going on, some of which succeeds, and some of which fails. Some experiments start in a small part of the company, are very successful and then diffuse across the company; others are not so successful and fall by the wayside. It is difficult to see a trend. Looking at it on the intellectual side, there is no question that the world is moving in a transformational direction, but on the practical side, what is actually happening is messier.

Probably a lot more is happening on the rhetoric side in academe than on the real-ity side in strategic human resource management?

Yes. And that is happening in companies, too. There is a lot of talk about human re-sources as a strategic business partner. But, as Will Rogers said about the weather, a lot of people talk about it, but nobody does anything about it.

You mentioned integrating human resource management into business strategy. Have human resource management issues really been secondary to business strategy? Is human resource management having to align itself to pre-determined business strategies or is it actually involved in formulating some of those strategies? To what extent are human resource strategies driving competitive strategies or is it the other way around?

In most cases, business strategy drives human resource strategy. There have been cases where an HR strategy has evolved and become a business strategy, but not many. I personally don't have a problem with this approach; human resource strategy, in my view, ought not to drive business strategy. These strategies, however, should be congruent and developed together.

Although companies vary in their approach, usually products, services, markets, customers etc. are considered first and then human resource management. However, if it is not an interactive and ongoing developmental approach, there will be situations where the business strategy is not feasible from a human resource standpoint. The dialogue and the process must be ongoing.

Human resource practices and policies emerging in a lot of organizations are employee involvement, more participatory management, or trying to improve labour relations. At the same time, there is concession bargaining, massive downsizing, and greater use of just-in-time employment. How can organizations achieve high levels of commitment and motivation and performance from their employees in an environment where there are strong pressures to cut costs or downsize?

They can't. Many large corporations in the US and many other countries, including even Japan, have built up big, bloated bureaucracies that today's competitive conditions just will not support. So, they have to downsize. Some of them, General Electric being one of the best examples, 'slashed and burned' and got it over with. Others, such as IBM and Kodak, have been dragging it out. In the end, however, they will all be trimmed down, focused operations. They will develop human resource strategies to get the improvements and performance needed for market success. With this will come the realization that in the end there are no guarantees. You will never hear IBM talking about a full-employment practice, or any company saying, 'We are a no-layoff company.' Most companies that said that could not maintain it. The nature of the contract with employees will be different; there will be more contingent contracts, even with core employees. Once everyone understands this, a company can develop mutually beneficial strategies. There will, of course, be some fundamental differences; companies will have to give a little and employees will have to give a little. Unfortunately, right now companies are asking employees to 'give', without guaranteeing anything in return. That is an unrealistic approach. Anxiety and fear can drive people to conform, but will not achieve the creativity and full commitment needed for success.

From some of the research we have done, organizations with progressive or innovative practices were often able to introduce them under an umbrella of security of employment. But as you have said, that safety net is being taken away.

Yes. That is a fundamental flaw. Ed Lawler, at the University of Southern California, is one of the most vocal and influential advocates of employee involvement. A few years ago when he and others were writing about this topic, they put employment stability as the bedrock on which the strategy was to be built. Now, they too see that employment stability is not the reality; they now say 'maximum effort has to be made' to promote employment stability. That seems to be a more realistic position to take. The employment stability issue is really the Achilles' heel of the employee involvement approach and, except for a few isolated case, is the reason that employee involvement has not gone far.

How can organizations achieve some of their business strategies in terms of quality, innovation and flexibility with their workforce when many of their strategies are focused on cutting costs as a first resort and not a last resort.

Often times, now, the key to success is to drive the manufacturing costs down while get-ting the product quality up. That can be achieved with a relatively small core of people who tend to be more highly skilled than manufacturing people used to be. Thus, employment in manufacturing

is going down all the time. Professional and technical employees, rather than the typical blue-collar employees, are key to the organization.

Once the initial downsizing is done and the understanding that there are no employment guarantees is established, companies and their employees can work together to make a more effective organization. They can put money into training and development. Employees will then have a set of skills that make them very marketable. There are risks associated with this approach, of course. A company may invest large sums in training its employees, only to lose them to competitors. It seems there are no alternatives, however. There are some examples of success with this approach. The Corning Company has had good results with some high-involvement plants and Saturn, although having some problems, has a reasonable chance of success. But the approach is not widespread.

To what extent are organizations measuring and evaluating some of the successes or failures of their human resource strategies?

This is an area where, again, there is more talk than action. However, more and more human resource budgets are being questioned like all others. Human resource people must justify their expenditures, justify them in a costs/benefits sense. HR people, like others in the organization, are having to assess the real benefits of their policies and pro-grams. In other words, the concept of re-engineering is being brought into human resource organizations. The concept, which has probably not been fully implemented anywhere yet, is to suppose that the current human resource organization was scrapped and 're-engineered'. Questions asked at the outset of the process are: 'What do we really have to do and what can we afford not to do? How can we do what we have to do best?'¹ The process is very intimidating, threatening, and difficult. As a result, companies are cautious, playing around the edges with it, working toward a mindset that says justify everything we do or stop doing it.

The re-engineering process is not simply doing what you do more efficiently; it is questioning at a fundamental level what you do. HR managers may have to stop doing some of the low payoff activities. That is very threatening, but in the end, if you are being asked to make a bigger contribution to the business and you are not going to have any more people or any more money to do it with, there is only one way to get there. Re-engineering in the human resource function is one of tomorrow's growth industries.

In terms of empirical evidence linking strategic human resource management to firm performance or competitive advantage, what are some of the strategies that support high performance and what is some of this empirical evidence saying?

The amount of evidence is not enough to be totally persuasive to anybody. What is beginning to accumulate is some evidence to show that, in a manufacturing environment, a bundle of human resource activities reinforcing one another gets more results in terms of productivity and quality, than one or two isolated activities, for example, a new pay system or training. There is also some evidence emerging, although somewhat 'fuzzy' as yet, to indicate that what you do in human resources should fit your business strategy. For example, research for a Ph.D. dissertation at Cornell University found that in the steel mini-mill industry, which had essentially two types of business strategies and two types of human resource strategies, companies where the two strategies fit were much more productive and had much higher quality. If you look at the MIT automobile studies, they seem to suggest that the so-called lean production system or flexible production, which is a mixture of manufacturing technology and human resource practices, is more effective, more productive and produces higher quality in automobile assembly plants than a traditional manufacturing human resource approach. That is saying that there is one best way, at least in that environment, to do things. We do not know, however, if it is true in service industries or in so-called professional bureaucracies. This is being researched at the moment. If you look at the kind of research that is now being done in the human resource area it is very different from what we used to see. It is more macro in its perspective, much more strategically oriented, looking at the effects of things on productivity and quality – a fundamentally different type of research. In the past, people in this field were trained essentially in industrial or organizational psychology with a very micro perspective. Today, people, trained in economics and related areas, have a different perspective. This is encouraging. We will get the research, but it just takes a while.

**Are strategic human resource management and unionism/collective bargaining compatible?
Can they coexist?**

They can. For example, Saturn and both of the Corning plants are unionized plants. In some ways it is easier to do this kind of thing in a unionized environment if you have the unions on board, or get the unions on board; then you have pervasive information and influence to move things in one direction. Getting the unions on board is the big hook, however. In my view, most unions have been extremely reticent in this respect.

And very skeptical.

Yes, very skeptical and that is endemic in a way. In my view, unions must realize that giant strides have to be made by companies in productivity, quality, innovation, speed and flexibility, and that they have to help make these strides. Now, they have a membership to protect and to

service, and they should do that, but it has to be done with the mindset that either you have competitive businesses or you have no jobs. I cannot understand why it is taking them so long to understand this. I do not know about Canada, but in the US the most influential labour people at the AFL-CIO, who have been around a long time and know a particular model, are not quick to embrace change. They may think they can wait it out. But the evidence is there — jobs have been lost in the steel industry, jobs have been lost in the automobile industry, and unionized jobs have been lost just about everywhere except government and health care. These are smart people — how could they miss it? At the same time, I am certainly not saying that this is all the fault of the labour unions. If we had a system of malpractice in management, the way we do in medical care, courts would be full of example after example of total mismanagement of corporations. I am certainly not trying to suggest that management is all-enlightened and the labour movement is somehow in the dark ages. I think there is plenty of blame to go around.

What effect have innovative human resource practices had on unions? Have unions seen their influence or power undermined?

They have, but I do not think that you can attribute most of that to innovative human resource practices. There are many reasons for it. You can certainly find cases where unions and managements have worked together to make facilities competitive and keep the jobs in the US as opposed to perhaps letting them go to Mexico or elsewhere.

What do you think human resource or industrial relations managers perceive as the role of unions and collective bargaining in the workplace? Do they recognize a role for the union in the workplace?

People who have worked most of their careers in unionized environments do not have any particular problem with recognizing a union role. Certainly they squabble at negotiations, have grievances, and have their differences of opinion, but they know how to work with that system. In countries like Germany or Holland where the labour union movements are very strong and very pervasive, managers have learned how to manage with that and are quite comfortable. But others, who have always operated in a non-unionized environment, much prefer to keep it that way. They do not see the potential benefits. They see recalcitrant unions digging in their heels and say, 'Why would any-body in his right mind want to get into that?' It seems to me that is a legitimate view. Labour unions are an important, critical part of the democratic society; it is better to have a strong union movement than a weak union movement. Although I firmly believe that, I do not see that in the cards, in the US anyway.

Have you seen a shift in the importance of the human resource function within organizations? Are they assuming a higher corporate profile than they have in the past? Are they involved more in business strategies?

The answer is definitely yes. Have they gotten to the point where they should be? Most of them have not, although some clearly have. There is progress. There are variations, however, not only across the economy but within organizations, especially in large companies with several business units, divisions, or operations. It can depend on who the line managers are, who the HR person is and the mindset, skills, drives, and so forth that they bring to their particular jobs. You can go into a corporation where at the corporate level the HR people are still wrestling over the need to be strategic business partners, while in the business units some of the HR people are already there. Given the base that they started from, which is zero, the trend has to be up.

Are many of them still playing a more reactive role where they are involved in the implementation of the policies rather than involved in the formulating of the business strategy?

That has been the traditional role. And although it is less so now — there is some movement in what I would consider to be the right direction — there is certainly no absence of a very operationally focused reactive, HR function.

Does HR have a secondary role in the organization to marketing, to finance, to operations?

Yes, but less so than in the past. However, much of the most creative human resource activities are being done by line people; human resource people are often not even aware of it, or if they are, have chosen not to be involved because it is a whole new way of operating. It is very threatening, there is a lot of risk involved, and they just do not want that. There are certainly cases where what the human resource function is doing is not indicative of what the company is doing in the human resource area. There are a lot of very creative things going on that HR people are not aware of or have chosen not to get involved in.

Is line management assuming a lot more HR activities? Would you say they are the drivers of change?

There are variations, but, by and large, line managers are the drivers of change, often including change in HR. In the process of changing business strategies, often HR issues have to be dealt with. In some cases, this is not done in a very thoughtful and systematic way. Occasionally, you

find a situation where the line people are really good at handling HR matters, and the HR people are functioning as true partners in helping them get the work done.

In those cases, then, is HR playing more of a coaching role, a facilitating/support role?

Yes, but in a very proactive way. For example, if the research and development function in an organization is changing its strategy to more basic and applied research, away from the more abstract research, that strategy change will make significant changes in the way you manage people. The minute there is any indication of changing the R&D strategy, the human resource people should be there with a human resource strategy to support that shift. Recruitment, training, compensation, etc. all have to be rethought. HR has to be right there advising and supporting the process, tying it into the business strategy. The problem is that they often are not there. This generation of human resource people were not trained that way, that is not how they got to be successful in their careers. As a result, they see threat and risk in the process and they just do not want to do it.

Are there moves in organizations towards more centralization or decentralization? Do you have any sense of what is happening there?

We are seeing both at the same time. There has been a decentralization of operations, with a lot of the power shifting from corporate to business units. This means smaller human resources' staffs at the

corporate level, with more people out in the business unit. At the same time, we are seeing a movement towards centralization of some activities and services to serve all the businesses rather than duplicating at all levels.

Given a higher corporate profile than they have had in the past and a greater integration of some areas between human resource management and the business needs of the organization, how is the human resource professional balancing the responsibility to the CEO and the strategy of the organization with the needs or interests of the employees? Can he/she be an effective agent for the employee interests as well as dealing with these business concerns?

There is not very much conflict between the business partner role and the employee advocate role. Going back to the example of the research and development situation discussed earlier, when HR people are there very early in the change process developing the appropriate strategy,

they are in a position to influence that process in a way that maximizes the payoff, or at least minimizes the damage, for the employees. They are in a position to be an effective employee advocate right from the start. If they are not involved until it is three quarters finished, all they can do is come in with their broom and their shovel and clean up. How effective an HR advocate or an employee advocate can you be at that stage?

Many HR professionals must interface with the unions representing their organization's employees; they must manage the diverse interests of organized labour and the business needs of their organization. Can he/she be an effective agent here?

If the HR people are effective in establishing a good working relationship with the union and the union is willing to cooperate, then I would say absolutely, but otherwise, probably not.

Can you describe the human resource practitioner of the 1980s and 1990s?

It is much more difficult to put any single label on the practitioner of today. If you look within an effective HR organization, they are trying to play the business partner role, but to say that they are business partners is not enough. They still have to do program design work. They still have to do administrative work. They still have to look out for the interests of employees. They still have to do the so-called police work, the controlling kind of work. All of that work is still there. It is done with a different mindset than before; it is now tied to the business strategy of the organization, but the various activities are still there. It is a much more complex business than it used to be, there is no question about that. HR is more demanding than it used to be, with higher expectations and with fewer resources. It is a much tougher business.

Is managing change one aspect of the 1980s and 1990s that they have not necessarily had to deal with as much in the past.

Yes, it is. That is true of everybody. There are people who say that management of change is the responsibility of the HR organization. I do not believe that. It is the responsibility of all managers throughout the entire organization, all labour leaders and all politicians and everybody else. I do not like to dwell on the change aspect, but there certainly is constant change and that makes everybody's life more difficult.

Can you outline two or three of the major challenges that the human resource function/professional faces in the future?

The biggest challenge for people in human resources is to understand fully the businesses they are in while, at the same time, managing human resources to contribute effectively to the success of those businesses. They must bring human resources into the business strategy and do so effectively.

One of the interesting side effects of the changing role of HR professionals is that the demand for our graduates at Cornell has stayed quite high, even though the economic difficulties and downturn of the early 1990s. One of the reasons for this is that some companies are `transitioning out' a number of senior human resource people and replacing them with junior people. This is, in part, a cost measure, replacing more expensive people with cheaper people, but primarily it reflects management's need for something different from its human resource function, something it feels the current generation of HR people cannot provide. We did a survey of the corporate sponsors of the Center for Advanced Human Resource Studies at Cornell three years ago. One of the questions we asked vice presidents was, 'How do you evaluate the bench strength of the people in your HR function to meet the challenges of the future?' Fifty-one percent said the bench strength was just barely adequate or inadequate. That to me was shocking, but probably not too inaccurate.

What implications do some of these changes in human resource management have for teaching?

For industrial relations programs such as yours and ours it is a major challenge because human resource management is traditionally imbedded in a background of labour economics, organizational behaviour, and collective bargaining, but what is also needed in today's economic climate is an understanding of business. Not that knowing labour economics, organizational behaviour, and collective bargaining is not important, but it is also important, maybe even slightly more important at this point, to really understand business. The business schools do that. Their MBA students get a lot of business and some of them get a little HR. Our students get a lot of HR and related areas, but not much business. I believe the future of our industrial relations programs depends on providing, in our curricula, an understanding of how business works.

Should business schools put a little more focus on HR?

That would be important as well. You hear different companies saying different things. Some companies say, 'Give me somebody who understands the business and I'll train in the HR.' Others say, 'Give us somebody who is really solid in HR and we'll see to it that they get the business training.' I suppose you could say that if business schools or IR schools were really

doing their jobs, they should be able to train in both. However, they do not change any easier than others. In principle everyone agrees that a change is needed but the reality of changing the curriculum and teaching is another story! We are all wrestling with that problem.

Notes

¹ Michael Hammer, *Reengineering the Corporation: A Manifesto for Business Revolution* (New York: Harper Business, 1993).



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