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A study of strategic HR issues in an Asian context

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Abstract *Examines five strategic human resource management (HRM) issues using a qualitative methodology. Two of these are related to the central organisational-level constructs of structure and culture. The other three pertain to HR strategy, HR competencies, and HR outsourcing. The study employed the multiple-case design method proposed by Yin, with a view to extending theory in strategic HRM research. Semi-structured interviews were conducted with 35 managers (CEOs, line managers, and HR managers) of nine companies from two major industries in the manufacturing sector – electronic products and machinery/equipment. The research found that top management enlightenment and level of HR competencies together determine the role and status of the HR function in organisations, and that the companies studied pursue four types of HR strategies: informal and not communicated; informal and communicated; formal but not communicated; and formal and communicated. HR strategy was found to affect both vertical and horizontal fits of the HR function. Culture, HR strategy and HR competencies influenced organisational propensity to outsource HR activities.*

Introduction

The field of human resource management (HRM) is in transition. The existing debate in the field suggests that HRM is breaking away from its traditional micro-focused role and is moving towards a macro strategic paradigm in which individual HR functions (for example, selection, training, compensation and performance appraisal) are aligned not only with the organisational strategy but also with one another (see Budhwar, 2000; Lundy, 1994; Martell and Carroll, 1995; Ritson, 1999). The term strategic human resource management (SHRM) is an outcome of such an approach. It has generated much interest among scholars. This is evident by numerous books and research studies devoted to the topic (see, for example, Schuler and Jackson, 1999). 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 in need of further attention (Becker and Gerhart, 1996).

Writers and analysts in the field report a number of limitations with the existing SHRM research. First, it lacks in-depth qualitative studies (Boxall,

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1996; Becker and Gerhart, 1996; Guest, 1997). For example, Becker and Gerhart (1996, p. 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 such calls for more qualitative research has been quite disappointing. Second, most of the studies are based in the Western context (see Guest, 1997; Khatri, 2000; Shadur and Tung, 1997). Boxall (1993) noted that globalisation 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. Therefore, information provided by HR managers may be both biased and insufficient. Lundy (1994) observed that organisational members such as CEOs, line managers, and HR managers have a specific and distinctive contribution to make to SHRM and recommends that data should be gathered from different levels of employees if possible. In this study, data were collected 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 organised as follows. A brief overview of the strategic HR issues that form the basic framework of the study is provided first. This is followed by a description of methods used in the study. The major findings of the study are discussed next. The final section draws out implications of the findings.

Strategic HR issues: background

Based on the review of SHRM literature, five strategic HR issues were identified. Although organisational strategy is one of the most important factors affecting strategic HR activities, it was not included in the study, as an overwhelming amount of research already exists on the topic. The study was focused on how two important organisational factors, i.e. structure and culture, affect the strategic management aspects of HRM. Both these factors are less researched in the field of SHRM. In addition, it was investigated how three HR factors – HR strategy, HR competencies, and HR outsourcing – affect strategic management of human resources.

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

Culture is an important organisational factor influencing strategic management of the HR function (Buller, 1988; Aryee, 1991; Truss and Gratton, 1994). Truss and Gratton (1994) commented that the type of culture an organisation has exerts a strong influence on its strategy and also on its chosen HR strategy. Thus, it is logical to expect HR activities and practices to alter following a change in organisational culture. Evans (1986) noted that organisational culture is in part managed through HRM 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" need further research attention (Aryee, 1991; Lundberg, 1985). Likewise, we do not know what role the HR function plays in different cultural contexts. Walton (1985) described two types of cultures: control-based and commitment-based. The author 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 the HR function and HR strategy.

The role of HR competencies in managing human resources in organisations effectively is another important strategic HR issue. Many scholars argue that the human resource can be a source of sustainable competitive advantage for an organisation (Barney, 1991; Huselid, 1995; Wright *et al.*, 1998). Consequently, a firm's HR function that has much responsibility in managing this important resource should receive more commitment from the organisation. 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 the HR department, past research also suggests that the competency level of HR managers has a major influence on the level of integration between the HR function and strategy (Buller, 1988; Golden and Ramanujam, 1985; Truss and 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 has been 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 competency possessed by HR managers have on the HR function?" or "How does the level of competency affect the link between HR and organisational strategy?" or "What 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 the HR function and organisation strategy,

achieving a horizontal fit among individual HR practices is equally important. This is because the full impact of HR practices on a firm's performance arises when HR practices exist as a coherent system within a particular system strategy (Arthur, 1992; Grundy, 1998; Wright and McMahan, 1992). However, Grundy (1998) noted that HR practices lack congruency in most organisations. The author gave two plausible reasons: first, HR practices are viewed in isolation and second, 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 organisation 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 organisations is to outsource HR work, in particular, administrative and high transaction cost activities (Grundy, 1998; Klaas *et al.*, 1999). Much of the motivation originates from an organisational desire to minimise workload of regular workers, reduce cost, reap economies of scale, improve quality and efficiency, and gain expertise from outside vendors (Klaas *et al.*, 1999; Laabs, 1993; Lever, 1997).

Others argue that HR outsourcing represents a strategic tool for achieving a competitive advantage. Their argument is that outsourcing transaction-based HR activities (for example, benefit administration) frees HR managers to grapple with strategic business issues (Switser, 1997). There is only limited research on what factors cause firms to outsource more or fewer of their HR activities and also which HR activities are most frequently outsourced. Thus, we need to understand the "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? In short, this study examines the following five strategic HR issues:

- (1) the relationship between organisational structure and the HR function;
- (2) the relationship between organisational culture and the HR function;
- (3) types of HR strategies companies follow;
- (4) HR competencies needed to manage the HR function for competitive advantage; and
- (5) the what?, how? and why? of HR outsourcing.

Methods

A key concern of this study is to obtain richer and deeper insights into SHRM issues using a qualitative research method. The qualitative method is able to provide a deeper understanding (Berg, 1998) and fuller contextual information of the phenomena studied, in addition to enabling the foundation for more complete theory development (Berg, 1998; Eisenhardt, 1989; Tashakkori and Teddlie, 1998; Yin, 1994). Strategic HRM research is in dire need of a qualitative approach, which provides many ideas for further research as well as deeper

understanding of the phenomenon already studied using quantitative methodology (Purcell, 1999; Hunt and Boxall, 1998; Becker and Gerhart, 1996; Guest, 1997; Lundy, 1994). Specifically, Hunt and Boxall (1998, p. 770) noted that "there is an obvious need to conduct more open-ended research to complement and corroborate the sort of highly structured material which quantitative surveys tend to gather". This study employed the multiple-case design method proposed by Yin (1994). Nine cases were studied permitting investigators both literal and theoretical replications.

The research design follows the three rationales below:

- (1) *An industry-based study comprising a number of companies within the industry.* Past SHRM studies were mostly conducted in an inter-industry setting based on large-scale cross-sectional data (Purcell, 1999; Dyer and Reeves, 1995). However, the influence of context and environment differs across industries. Inclusion of many industries in the sample ignores the rich vein of contextual data pertinent to a specific industry and does not control extraneous variables such as market and environmental peculiarities. Several scholars note that future research needs to shift the focus to an industry-specific or firm-specific context to restrain variations contributed by such extraneous factors present in inter-industry studies (Becker and Gerhart, 1996). 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 (Electronics and Components, and Machinery and Equipment), which will be discussed later.
- (2) *Multiple sources of evidence.* Analysis was based on data collected from interviews of Chief Executive Officers (CEOs), line managers (managers who head the core functions other than HR in the company), HR managers and also secondary sources such as internal documents and newspaper reports. Past HR research has not focused on the important information that could be obtained from CEOs and other senior line managers (Becker and Gerhart, 1996). Tapping into these resources can hasten the development of a cumulative body of knowledge that offers a new strategic lever for senior management. The use of respondents other than HR managers helps in understanding the complexity of macro issues such as a company's competitive dynamics and its strategic direction (Boxall and Steeneveld, 1999). In addition, Lundy (1994) noted that organisational members such as the chief executives, line managers and HR managers have a specific and distinctive contribution to make to strategic HRM, and recommended that data should be gathered from all these sources if possible.
- (3) *Semi-structured interviews.* The main source of data was through face-to-face interviews with senior managers of the organisation. The interviewees were given a set of open-ended questions. The questions were supplemented with probing questions. The probing questions

allowed for further examination of the issues. Interviews assumed a conversational manner.

Sampling and data collection

The statistical data published by the Singapore Department of Statistics, Singapore Ministry of Trade and Development Board, and the *Singapore 1000 – 1998/1999* directory provided information for the sample selection. The manufacturing sector is considered as a strategically important sector to the Singapore economy. Moreover, companies in the manufacturing sector are facing greater challenges in their constant quest to progress their value chain of activities and innovate continually while reducing their costs. Thus they require more strategic deployment of their human resources. It would be interesting to examine SHRM issues in the light of the manufacturing sector.

From the *Economic Survey of Singapore*, published by The Ministry of Trade and Industry (MTI, 1999), we selected an industry with the highest sales and employment within the manufacturing sector. Total sales and employment size provide a good gauge of the importance of that industry in the sector. Selecting the largest industry offered two advantages: first, the study remained focused and the industry effect could be controlled and second, the findings would be useful to an industry that contributes significantly to the economy. The electronic products and components industry has the highest output figure of approximately SG\$63 billion and an employment size of 127,700 workers. Therefore, electronics products and components were identified as one potential industry for the study.

The list of organisations in the 1998/1999 edition of the *Singapore 1000 Directory* (DP Information, 1999) formed the sampling frame of the study. The directory contains the names, addresses and profit and sales figures for the largest 1,000 organizations in Singapore. The business classification found in the directory follows closely the Singapore Standard Industrial Classification (SSIC) developed by the Singapore Department of Statistics. SSIC conforms to the basic principles and guidelines as provided in international standards. Moreover, it ensures consistency and comparability of data compiled by different statistical units and facilitates data sharing in the government statistical system. In total, 95 companies from the electronics product and components formed our potential sample.

Letters describing the study's purpose and requesting permission for interviews were sent to CEOs of all 95 companies. This was followed by phone calls to them one week later to answer their queries. Faxes were sent immediately when a company indicated that it had not received the questionnaire. After several attempts, five companies agreed to participate in the study. This fell short of the target of about ten companies. We then wrote letters to 66 companies in the machinery and equipment industry, the next industry with 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 four and ten cases usually works well. With fewer than four cases, it is often difficult to generate theory and its empirical grounding is likely to be unconvincing. With more than ten cases, it is difficult to cope with the complexity and volume of data. The sample size is within the limit as suggested by Eisenhardt (1989) and Yin (1994) to facilitate theory building and to verify similar results or highlight contrasting results.

Data were collected through separate, semi-structured interviews with CEOs, senior or line managers, and HR managers. Prior to interviews, all the interviewees were given a copy of the interview questionnaire (see Appendix). Giving questions to interviewees in advance has both pros and cons. It was intended to help them articulate their ideas better and as a result provide more comprehensive answers. The likely bias arising was checked in three ways: first, by asking probing questions, second, by using a team of two interviewers, and third, by cross-checking views of an interviewee with other interviewees in the same company (Tashakkori and Teddlie, 1998). The experience and practice of investigators helped to overcome the bias in replies of interviewees to some degree. The interview questions were the same for CEOs, line managers and HR managers. They were open-ended and were supplemented with appropriate probing questions to gain further insights into the issues. Interviews were tape-recorded. Before the start of the interview session, managers were assured that their responses would be kept strictly confidential. Each interview lasted between 60 to 90 minutes. Data were collected from June to December 1999. Apart from questions in the interview questionnaire, additional questions were asked to explore broader issues such as the history of the organisation, its competitive environment, and the series of critical historical events leading to the decisions taken by the organisations. Interviewees were also asked to describe their personal history with the firm and their job roles. Secondary sources such as external sources (e.g. newspaper reports) and internal documents (e.g. organisation charts and company annual reports) complemented the data collection process.

To control potential bias and to reduce inherent subjectivity, two interviewers were engaged in conducting interviews. Having multiple interviewers ensured that interviews were being conducted in a consistent manner. At the same time, the second interviewer could confirm and contrast observations made by the first interviewer.

CEOs are very busy people. It was not always possible to schedule an appointment with them. In companies where the CEO was away or not available for a long period of time, the most senior managers who had been working in the company for a considerable amount of time were interviewed. For some companies, as many as four line managers were interviewed. The total number of respondents was 35. Table I shows a breakdown of managers interviewed, industry by industry.

Data analysis

Following Miles and Huberman's (1994) proposals for qualitative data analysis, the conceptual development was done continuously in a way that followed a process of concurrent data collection and analysis. Interviews were transcribed verbatim. Two researchers read the transcripts thoroughly. Qualitative data were content analysis analyzed. In such analysis, researchers were careful in interpreting what the interviewees meant with their statements. Observations of two interviewers were in agreement in the majority of cases. Wherever differences existed, they were resolved by discussion and a consensus was achieved. To guard against bias in qualitative data analysis, each manager's transcription was content analyzed at least twice; the second analysis served to verify or contrast the initial set of results.

The thematic analysis procedure for grounded theory recommended by Glasser and Strauss (1967) was followed. In this method, there are two steps: categorization and coding. Categories were developed according to research questions to provide labels in order to group the issues and themes identified. The qualitative evidence was systematically content analyzed and sorted under relevant categories. The categories represent items of common meaning (Cunningham and Debrah, 1995). For example, under the category "competent HR managers", respondents may describe a competent HR manager as "professional HR people", "skillful manager", or "experienced manager" and so forth. These descriptions were grouped into the same category.

Findings

The major findings of the study are as follows.

Structure and HR

The interview data reveal that the HR function is increasingly playing an important role in organisations. The majority of chief executives and line managers were seeking much greater and more proactive involvement of the HR function in organisational activities. In three of the nine organisations, the 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 the managing director of an electronics company corroborates this point: "I'm expecting more from them . . . more, more, much more. More active, more proactive role."

Industry	Number of companies	Number of CEOs	Number of HR managers	Number of line managers
Electronics products and components	5	4	6	8
Machinery and equipment	4	2	4	11
Total	9	6	10	19

Table I.
Details of the
managers interviewed

We observed a consistent trend of HR evolving into a more strategic function. These findings contrast with those of the study conducted by Yuen and Yeo (1995) on a sample of 182 companies in Singapore (a large proportion were large manufacturing companies with established HR functions). Yuen and Yeo reported that the HR function was playing a traditional "personnel" role rather than being an active strategic partner.

A summary of findings of our study on various dimensions linking organisational structure with the HR function is presented in Table II. Of the nine companies, three had administrative links, three had a one-way link, and the remaining three had integrative linkage. When analysed 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 a 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 happened to be in the meeting by accident.

If the HR manager was involved in a strategic meeting whereby HR issues like recruitment were brought up for discussion, he would normally provide only

Industry/ company	Head office location	No. of employees	Title of the head of the HR function	Is HR a separate department?	Reporting relationship of the HR manager	Does the HR manager participate in strategic meetings?	Type of linkages
<i>Electronics products and components</i>							
Company 1	USA	60	HR executive	No	Financial controller	No	Administrative
Company 2	USA	2,000	HR director	Yes	CEO	Yes	One-way
Company 3	USA	1,000	HR director	Yes	CEO	Yes	Integrative
Company 4	Europe	3,800	HR director	Yes	CEO	Yes	Integrative
Company 5	Japan	735	HR manager	Yes	MD	Yes	Integrative
<i>Machinery and equipment</i>							
Company 6	Singapore	160	HR manager	No	Line manager	No	Administrative
Company 7	Japan	480	HR manager	Yes	MD	Yes	One-way
Company 8	Europe	250	HR manager	Yes	Senior VP of Asia-Pacific	Yes	One-way
Company 9	Singapore	250	Personnel manager	Yes	GM	Yes	Administrative

Table II.
The organisational
structure and the HR
department

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.

On the whole, interpretation of interview data of these companies suggests that they were adopting a traditional approach to managing their HR function.

One-way linkage

Three companies in the sample had one-way linkage. HR managers participated in strategic planning meetings and reported directly to the chief executive of their organisations. The HR department was a separate department in all three companies. However, the role of HR was reactive and secondary. Although HR departments in these companies were competent in the administrative area, they were in an early stage in strategic management of HR.

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 the HR function. They felt that, with recent changes in business environment and increased erosion of their firms' competitive advantage (due to the recent Asian economic crisis), there was a strong need for greater integration between strategic planning and HR activities. The general manager 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.

An interesting observation is that HR managers of these companies believed that the HR function was playing a strategic role in their companies. On the other hand, senior managers of the same company had been calling for more timely and proactive HR moves rather than treating it just as a function which is playing a supportive role, lagging behind and watching what the line people were doing. Thus, there were discrepancies between the views of HR managers and those of other managers about the role played by the HR function.

Integrative linkage

Three companies with integrative linkage were all in the electronics industry. These companies had long been leaders in the industry. Their competitive environment was characterised by rapid changes and fast technological innovations. The HR function was closely integrated with strategic planning.

Mission statements, goals and business strategies were built on an explicit philosophy such as "being up-front with people", "people are critical to us" and "we build humans before products." Moreover, HR managers were viewed as being credible and integral to business process by top management. An R&D manager remarked:

I have worked with many companies in the world and I find that the HR function in this company is competent. They [the HR department] listen and are very professional. I have complete trust in them. In a company, various functions perform differently and you start realising which ones are efficient. In this company, HR is very respected and professional . . . I think the HR function is very integrated into the whole organisation and most probably the most important function since we are so people-oriented.

The HR manager of this company corroborates the above views. This manager noted that HR was no longer seen as a separate entity from the line but was part and parcel of the whole organisation. HR managers had developed informal relationships with senior and line managers of their companies. They were consulted not only in implementation of HR initiatives, but also for providing input on general operational issues.

The HR function in these companies was considered as "one of the core pillars" of the business and was regarded as important as being the main profit-generating department in the company. HR managers were involved in strategic planning and were sometimes the people who came out with five-year plans and discussed them with other managers. These firms had realised the importance of aligning their HR function with the corporate goals.

Culture and HR

In this study, we used two broad categories of organisational culture – control-based and commitment-based – as a guiding framework. Qualitative data gathered suggest that the role played by the HR function differed from one culture to the other. A summary of the link between culture and the role played by HR in strategic planning is presented in Table III. Results lend support to Buller's (1988) argument that a people-oriented culture fosters a natural link between strategy and HR. The companies with the commitment-based culture

Company	Culture	Type of link with strategic planning
Company 1	Control-based	Administrative
Company 2	Transition from control-based to commitment-based	One-way
Company 3	Commitment-based	Integrative
Company 4	Commitment-based	Integrative
Company 5	Commitment-based	Integrative
Company 6	Control-based	Administrative
Company 7	Control-based	One-way
Company 8	Transition from control-based to commitment-based	One-way
Company 9	Control-based	Administrative

Table III.
Impact of culture on
HR-strategy link

were found to have an integrative linkage between HR and strategic planning, and strategic HRM was widely adopted. On the other hand, in the control-based culture, HR had an administrative or one-way linkage with strategic planning.

In companies with the control-based culture, HR activities were limited to administrative aspects and union issues (if the company was unionised). Line managers usurped major 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 standardised and reactive. HR played the traditional "personnel" role.

In companies with an 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 practised. Other HR initiatives included items such as information sharing and provision of communication channels, lifelong learning, extensive benefits, formal dispute resolution procedures, and training and retraining even at the time of the Asian economic crisis, instead of redundancies.

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

HR competencies

Whether HR managers were performing a mediocre or a professional job, CEOs and line managers were seeking improvements in the competency levels of HR managers. The four of the nine companies under study had qualified HR managers. HR managers in the other five companies lacked HR competencies. They were especially deficient in strategic HR skills. Cunningham and Debrah (1995) and Yuen and Yeo (1995) had also found that HR managers in Singapore companies lacked specialised skills to manage the HR function and this was stated as one of the major reasons why the HR function was not performing up to expectations. As one line manager noted:

My assessment is that the HR department is doing an extremely average job. HR failed to recognise 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 now become an area of professionalism and requires certain instincts and skills. The present HR manager is seriously lacking in strategic skills. I think we need to bring in professional HR people from the industry as a necessary exception.

Similarly, a senior manager of operations from another company felt that there was a gap between the role performed by his company's HR manager and the expected role of a professional HR manager. The HR department in his

company was more reactive (for example, doing only what other managers told them to do). It was found that CEOs and line managers took over important HR decisions themselves, as HR managers lacked requisite competencies and had a "personnel" mindset.

HR managers felt that their competencies were important in gaining trust and strategic involvement in the organisation. To achieve this, they had to be competent. The HR managers also felt the need to convince the upper management that they were capable of managing the fundamental HR functions well before being invited to the strategic table. It would be too simplistic to say that HR managers themselves can determine entirely their role in the organisation. There are factors beyond their control that impact on the status of the HR function. For example, if the top management feels that HR should be administrative, then HR would be administrative in its initiatives. One important factor influencing the integration of HR with organisational strategy was identified. It was labelled "management enlightenment". Management enlightenment means whether the organisation has recognised the important role that the HR function can play in formulating and implementing company strategies. For example, top management in one of the companies recognised that internal were as important as external customers. To support the corporate policy of doing things right first time, the company recruited a highly qualified person as an HR director to head the 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 when it believes that the HR function would only add to bureaucracy in the company.

Figure 1 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 their HR function. These companies demonstrated an integrative link between HR and strategic planning. In the other three companies, management was

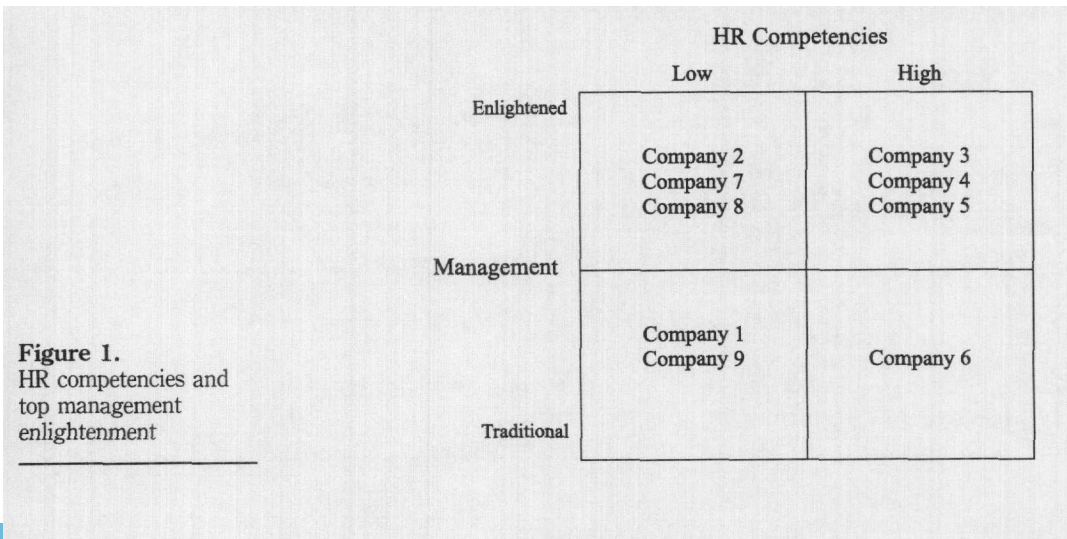


Figure 1.
HR competencies and
top management
enlightenment

enlightened but HR managers did not possess sufficient competency in HR. These companies had a 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 a traditional top management philosophy but having higher HR competencies. This company was also playing a traditional (personnel) role for the 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 bottle-neck 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 recognise the competitive advantage arising from managing human resources strategically.

What competencies or skills do HR managers need? The respondents were asked to describe skills and competencies needed by HR managers. All responses were grouped into broad categories. Table IV shows competencies HR managers must possess to manage the HR function effectively. Some typical quotes from respondents on HR competencies are given below.

A senior manager of operations in one electronics company stated:

I feel that ideal HR professionals should know the business well, understand where the company's competitive advantage lies, and should be able to understand what motivates/drives people.

A general manager of operations observed:

At all times HR managers need to understand the business strategy.

The CEO of one of the companies commented:

The 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), the study 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 per cent of

Competencies/skills needed by HR managers	CEOs		HR managers		Line managers	
	Freq.	%	Freq.	%	Freq.	%
Business knowledge	2	33.3	4	40.0	10	52.6
Technical HR knowledge	2	33.3	9	90.0	17	89.5
People management skills	2	33.3	7	70.0	10	52.6
Analytical and visionary skills	5	83.3	2	20.0	3	15.8
Passion and liking for people	2	33.3	5	50.0	2	10.5

Table IV.
HR competencies/skills

the line managers noted that HR managers should possess sound technical HR knowledge. A total of 52.6 per cent 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. To conclude, 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 V presents the summary of how HR strategy affects the link between HR and strategic business planning. From the interviews, it was found that HR strategy existed in four forms: informal and not communicated; informal and communicated; formal and not communicated; and formal and communicated. Further, there was a relationship between HR strategy and the extent of HR and strategy integration. For example, companies with integrative linkage had an HR strategy that was formal and widely communicated. Further description of the four types of HR strategies follows.

HR strategy: informal and not communicated

In companies with informal and poorly communicated HR strategies, line managers managed HR activities and the HR department merely handled daily administrative work. Although not written down formally, CEOs and line managers had some ideas of 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 organisation. HR initiatives were often detached from one another and differed significantly across departments.

The managers interviewed felt that it was essential to have an HR strategy, even if it was informal, although they would want to have an explicit HR strategy. HR strategy enabled the company to be clear on its HR initiatives. Thus, HR initiatives would be less fragmented. Companies having an informal

Company	Informal and not communicated	Informal and communicated	HR strategy Formal and not communicated	Formal and communicated	Type of linkage
Company 1	◆				Administrative
Company 2			◆		One-way
Company 3					Integrative
Company 4				◆	Integrative
Company 5				◆	Integrative
Company 6	◆			◆	Administrative
Company 7			◆		One-way
Company 8		◆			One-way
Company 9	◆				Administrative

Table V.
HR strategy and
HR-strategy integration

and improperly communicated HR strategy had a traditional role for the HR department. HR activities had weak vertical and horizontal fits.

HR strategy: informal and communicated

One company had implicit HR strategy, but no well-documented HR plans. Rather, HR strategy was developed from the overall business strategy. The HR manager of the company having such a strategy commented:

HR strategy is not written down in black and white. Missions and values of our company guided the directions of the HR function. Through strategic planning meetings, we communicated to all managers in key positions.

A business operations manager added:

I do not see the need for HR plans to be written down . . . and I have not seen any formal plans but we know what we need to do with our HR function from our broad strategy. That tells the plans implicitly.

Although HR strategy was not written down, managers knew implicitly how to manage the HR function. Further, as explained by an R&D manager, implicit HR strategy formed the framework for them to follow, as implied from this quote:

Without HR strategy on training, career planning and development, we would have problems keeping our people challenged. For example, if the only career path for employees was to assume a supervisory role, and if these people do not possess those skills, then they would feel that they were being neglected. However, because I was very clear of how I am going to develop and retain my people, I have created career paths and equipped my people with the required skills.

In this company, HR programs and activities have a one-way link with business strategy.

HR strategy: formal and 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 organisational members, functional managers did not have much idea about the HR strategies of their companies. Inconsistencies in explanations of HR strategy by HR managers and line managers were observed. However, HR strategy was still aligned with corporate strategy, because HR managers were present in strategic planning meetings.

Further, it was observed that companies with a formal but poorly communicated HR strategy had one-way linkage 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 the sample had formal and well-communicated HR strategies. Widely known to all managers, HR strategies were integrated with

overall organisational strategy. HR strategy not only outlined how each individual HR activity should support company goals, but also emphasised people as the core asset of the company.

In these companies, HR strategy was also fundamental to overall strategy. For example, 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 organisational objectives. HR strategy also aligned HR goals with one another, as well as integrated HR goals with the 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.

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, the 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 organisational culture and to be able to succeed in higher positions. This was part of the 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 the HR function would always be performed within organisations, even if HR was playing a purely administrative role. The poor quality of service and competency levels of consultants constrained companies to outsource their HR activities. 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. Moreover, so far I haven't had good experience with head hunters. Only a few of them are good professionals. Most of them are average and very expensive.

Interviewees, however, did identify some potential HR activities that could be outsourced in future:

- mundane, administrative and no-value added activities;
- recruitment of contract workers and sourcing of high executive positions and specialists; and
- specialised or one-day training courses.

Organisational culture was found to be one of the major deterrents to outsourcing HR activities. It takes a long time and effort to develop organisational culture and it is quite difficult for consultants to "feel and

understand” culture. Consultants do not know the business context as well as organisational members. In the long run, some of the interviewees feared that consultants actually might do things that would have an adverse impact on their organisational culture. There were major concerns regarding the ability of consultants to perform HR activities professionally, if they were not able to understand the culture intimately. For example, a CEO expressed his concern:

Would vendors give their heart and soul to produce a culture that permeates the company?

Another CEO commented:

How do they (consultants) understand our business? We have 20 clients. How can the consultants know the culture, vibes, pressure of the job?

One very common reply to the question why organisations outsource their HR activities was that it was due to the lack of in-house HR skills. Competent HR managers were found to play an important role in linking the HR function with the firm’s strategy. Likewise, companies were less likely to outsource if they had needed HR competencies to perform the job. Another major consideration while outsourcing HR activities was the issue of confidentiality. The managing director of one of the companies remarked:

How can I trust the consultants with my strategy? 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 the companies with explicit HR strategies suggest that it was hard for them to outsource any HR activity, because it was related to other HR activities and they could do it in-house. Although companies were contemplating outsourcing some of their HR activities to reduce costs, in the long run, they were still sceptical about the competitive advantage outsourcing might bring. They considered outsourcing HR activities, if they 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 no longer an easy choice for outsourcing.

Companies with a 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 and conclusions

How to manage human resources strategically? To answer this question, we identified five strategic HR issues related to the five factors: organisational structure, organisational culture, HR competencies, HR strategy, and HR outsourcing. These were examined by employing a multiple-case design methodology in the Singapore context. The findings suggest that the HR function is increasingly playing a more significant role, although the role still

remains secondary in the majority of Singapore companies. The HR function is evolving fast and HR activities are increasingly being aligned and integrated with an organisation'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 the majority of companies realise that HR can play a strategic role. However, they are not sure how to go about doing it. One-third of companies in the 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 organisational 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 realise that the 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 the HR function can be managed by non-HR managers ignores the growing technical and analytical sophistication that HR managers now require, especially if companies expect HR managers to play a strategic role. Moreover, pursuing a non-specialist and pro-generalist path may be counter-productive in the long run (Khatri, 2000).

The study findings point towards divergent views on HR competencies. While CEOs are seeking more analytical and visionary skills in HR managers, line managers want HR managers to be sound in technical HR knowledge and business knowledge. HR managers think that technical HR knowledge and people management skills are more important HR competencies. The findings, therefore, raise an important research question for a quantitative study: do CEOs, line managers, and HR managers think of HR competencies differently? We think that it is critically important for HR people to understand what is expected of them by CEOs and line managers to manage the HR function effectively.

The study findings on HR strategy are in agreement with previous studies by Massey (1994) and Grundy (1998). Massey notes that HR strategy serves as an "over-arching" framework that guides the integration of individual HR practices. The author did not empirically test this assertion, however. This study provides the necessary empirical test and indicates that formal and communicated HR strategies do achieve the horizontal and vertical fits of HRM. Grundy (1998) argues that HR practices lack congruency in most organizations, because HR practices are viewed in isolation, and that HR strategy is frequently owned by HR managers and not shared with functional managers. The study findings provide support to both the above arguments by Grundy. Specifically, the study findings indicate that six out of the nine companies in the sample did not have any formal and communicated HR strategies. In these companies, HR practices were fragmented. Further, although three out of the

nine companies had formal HR strategies, these were not communicated to the line managers.

HR strategy is central to SHRM, yet it has not received due attention from scholars. Strategic management research may guide us in this regard. For example, Mintzberg's notion of intended and emergent strategies is useful for understanding HR strategies too (Truss and Gratton, 1994). Do companies have formal or informal HR strategies? Are formal HR strategies better than informal HR strategies? The study findings indicate that not all companies have formal HR strategies. One-third of the companies had informal HR strategies. Another one-third had well-documented HR strategies, but these were not communicated throughout the organisation. The remaining one-third of the companies had formal HR strategies that were communicated to the entire organisation. Our findings should be treated as only tentative. Quantitative studies using significantly large samples should follow, if we want to understand the dynamics underlying HR strategies fully. Further, an issue that was not investigated in this study but is equally important, is the content of HR strategies. For example, the HR manager of one company noted that his company had a strategy to pay above the market rate and this was communicated to all managers. In short, HR strategy is a relatively unexplored but important area. Clearly, more research work is needed.

There was a perceptible trend from control- to commitment-based organisational cultures. Two of the nine companies were in transition as they were embracing greater flexibility and dynamism to meet the increased competition in their business environment.

The HR outsourcing issue was included in the study because of its popularity. Like so many other researchers and practitioners who have come to believe that outsourcing would become very prevalent in all organisations small or large, we also thought that outsourcing of HR activities increasingly and in a big way is just a matter of time. However, the interviews with CEOs, line managers and HR managers dispelled many of the misperceptions we had about HR outsourcing. The responses of CEOs and line managers were quite surprising, to say the least. We had thought that they would be very much in favor of outsourcing HR activities. On the contrary, their responses suggest that HR is evolving into an even more integral and strategic part of the organisation. Their experiences with consultants were not pleasant. Many problems with consultants, from their being expensive to being incompetent, were cited. Line managers had to spend a lot of their time communicating with the consultants. Further, these managers were convinced that consultants cannot manage organisational culture properly, because they do not understand the organisation intimately. The study points toward more research on outsourcing.

The study contributes to the field of strategic HRM by empirically testing some of its core theses. It also provides useful information (discussed above) to policy makers. However, to further confirm the findings of this study more research should be conducted in other industries.

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Appendix. Interview questions

A study on strategic management of human resources – interview questions

Structure and HR

- (a) Is HRM a separate department or is it part of some other departments such as Finance or Administration?
- (b) Does the HR/personnel manager participate in executive/strategic planning meetings?
- (c) Have any changes taken place in the HR department of your company over the last five years?

Strategy and HR

- (a) Please describe to us the strategy of your company.
- (b) Does HR play any significant role in implementing your strategies?
- (c) What role is HR supposed to perform in your organisation? Is the HR department able to perform the expected role?

Culture and HR

- (a) What is the culture of your organisation (e.g. informal values, beliefs, norms held by organisational members)? Is the culture different from that of your parent company/subsidiaries? Is the culture different at the corporate level and business level?
- (b) Do you see any link between the culture of your organisation and the HR function? Please elaborate.

Competency levels of HR managers

- (a) Do you think that HR/personnel managers need any specialized skills or competencies? If yes, what are those skills and competencies?
- (b) Do the HR/personnel managers in your company possess those skills and competencies? (In other words, are your HR/personnel managers professionally qualified to perform the HR/personnel activities?)

HR strategy

- (a) Does your company have any HR strategy? If yes, what are its major elements?
- (b) Does HR strategy or the lack of it affect the management of the HR function in any way? Please elaborate.
- (c) Do you see any linkages among HR functions/activities in your company?

HR outsourcing

- (a) Does your company outsource HR activities? If yes, what are the most frequently outsourced activities?
- (b) In the future, do you think that the entire HR function could be outsourced? Why or why not?
- (c) What factors are likely to affect your decisions related to the outsourcing of HR activities?