Linking Business Strategy and Human Resource Management: Issues and Implications

Patrick Gunnigle and Sarah Moore
University of Limerick, Republic of Ireland

Introduction

This article considers the idea of linking decisions on business strategy, product market characteristics and personnel/human resource management (P/HR) policies. It initially explores some theoretical aspects of business strategy-P/HR policy linkages and then considers some empirical evidence on strategy-P/HR linkages using empirical evidence from a survey of personnel management practice in Irish organizations. However, before looking at the empirical data, we consider some broad developments in the business strategy/human resource management literature.

Strategic Management

Strategic management is concerned with policy decisions affecting the entire organization, with the overall objective being to position the organization to deal effectively with its environment, and is seen as a vital ingredient in achieving and maintaining effective performance in a changing environment. In large, multi-business organizations, three levels of strategic decision making may be identified: corporate, business and functional (see Table I). For the single business organizations, corporate and business level strategies become synonymous. However, for multi-business organizations it is important to differentiate between business unit ("competitive") strategy and organization-wide ("corporate") strategy.

Corporate, business and functional strategy represent different levels of strategic decision making in an organization. Each level involves decisions which are strategic in nature. However, decisions at higher levels, such as those at corporate or business level, will guide subsequent decisions on functional strategy. Purcell[1] emphasizes this point by differentiating between *upstream* and *downstream* strategic decisions. Upstream or first order decisions concern the long-term direction and nature of the organization. Downstream decisions deal with the implications of first order decisions for organization structure (a downstream decision). Purcell argues that personnel policy choices are made in the context of downstream strategic decisions on organization structure. Such choices are strategic in nature since they establish the basic approach to workforce management. Thus personnel/human resource policy choices are seen as third order strategic decisions since they will be heavily influenced by first and second order decisions and by broader environmental factors.

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Table I. Levels of Strategic Decision Making

Multi-business		Corporate strategy (What business should we be in)	
Single/related businesses		Business/competitive strategy (How to establish competitive advantage)	
Business functions		Functional strategy (Role of component parts)	
Production/Operations	*Marketing*	*Finance*	*Personnel/HRM*

The Search for Competitive Advantage

A key factor influencing the upsurge of interest in linking business strategies and personnel/human resource policies is the quest for *competitive advantage*. The idea of competitive advantage has been championed by Michael Porter[2,3] and can be described as any factor(s) which allow(s) an organization to differentiate its product or service from its competitors to increase market share. Price and quality are common mechanisms by which organizations attempt to achieve competitive advantage. *Competitive strategy* is, therefore, concerned with achieving sustainable competitive advantage. Porter identifies two main generic strategies for achieving competitive advantage – cost leadership and differentiation.

(1) *Cost leadership* involves positioning the organization as a low cost producer of a standard "no frills" product for either a broad or a focused market. To succeed with a cost leadership strategy it is suggested that the firm must become *the* cost leader and not one of several firms pursuing this strategy. Cost leadership requires an emphasis on tight managerial controls, low overheads, economies of scale and a dedication to the learning curve.

(2) *Differentiation* strategy, on the other hand, requires that an organization's product or service becomes unique on some dimension which is valued by the buyer, thus ensuring a premium price. The basis for a differentiation strategy may be the product or service itself or other aspects, such as delivery or after-sales service. Unlike cost leadership, it is suggested that several firms can successfully pursue a differentiation strategy in an industry. An organization's choice of generic strategy specifies the fundamental approach to competitive advantage that the firm seeks to achieve and provides the context for policies and actions in each key functional area, such as personnel/human resource management.

While there are criticisms of Porter's work, there is no doubt that it clarifies the nature of some of the basic strategies that are available to organizations given varying external contextual factors. Each of Porter's generic competitive strategies identified warrants different skills and requirements for success. Of particular significance is the need to match personnel selection and workforce profile with the desired generic strategy. Different organizational cultures are also implied in each strategy. Personnel policy choice is a key influence in establishing and maintaining appropriate corporate cultures. In the differentiation strategy, culture should serve to encourage innovation, individuality and risk taking; in cost leadership, culture should encourage frugality, discipline and attention to detail. In deference to much of the prescriptive literature, it seems inappropriate to identify a good or bad culture. Culture is a means of achieving competitive advantage and should match the organization's business strategy. Culture is thus seen as a means to an end, not an end in itself.

Business Strategy and Personnel/Human Resource Policies

Turning to the specific links between business strategy and P/HR policies, it has been argued that organizations will experience severe problems in strategy implementation if it is not effectively linked with appropriate personnel policy choices[4,5]. Fombrun *et al.*[5] suggest that strategic management is seen to be concerned with three key issues:

(1) *Mission and strategy* – Identification of an organization's purpose and plan on how this can be achieved.

(2) *Formal structure* – For the organization of people and tasks to achieve mission and strategy.

(3) *Personnel systems* – Recruitment, development, evaluation and reward of employees.

This framework is represented in Table II and is seen to differ from traditional approaches to strategic management by incorporating human resource management considerations as an integral component of strategic decision making.

It has been suggested that human resources are often under-utilized within organizations in comparison with the attention paid to financial and technological resources areas[6]. Such under-utilization can allow organizations which have a coherent HR strategy to achieve advantage over competitors which do not optimally utilize their human resources. It may be argued, therefore, that the route to competitive advantage requires the optimal

Economic forces	Political forces	Cultural forces
	Mission and strategy	
Organization structure		Personnel/human resource management
Source:[5]		

Table II. A Framework of Strategic Management utilization of all its resources: human, financial and technical. It is also apparent that organizational personnel policies and practices symptomize managerial assumptions about employees and "appropriate" workforce management practices[5-7]. Fombrun[7] identifies four key aspects of organizational approaches to workforce management which give valuable insights into the managerial approach to employees:

(1) *The nature of the psychological contract.* This may vary from, at one extreme, a managerial perspective which views employees in instrumental terms and emphasizes high levels of control of both employees and the work environment to, at the other extreme, an approach which sees employees as intelligent and committed beings who should be afforded challenging and meaningful work in a more benign work environment.

(2) *Level of employee involvement.* Here, organizational approaches may vary from those with high levels of employee involvement in decision making to those where decisions are solely a management prerogative.

(3) *Internal/external labour market.* This addresses the relative emphasis on internal versus external recruitment and related differences in emphasis on employee development.

(4) *Performance evaluation.* This factor addresses the relevant managerial emphasis on group versus individual performance.

From an organizational perspective, different market and cost considerations influence the appropriateness of different personnel policy choices[5]. In particular, Schuler and Jackson[8] use product life cycle phases to evaluate product market influences on both business strategy and personnel policy choice. In the *growth phase*, the attraction of high calibre employees is seen as the main priority. The key organizational need is for technical talent to transform ideas into saleable products or services. The major source of human resources is the external labour market. The organization attracts employees by differentiating itself using innovative personnel policies such as employment tenure and high levels of employee participation. Various categories of part-time, temporary or subcontract labour may be used to buffer full-time employees during economic downturns. Employee relations issues are handled via various communications/participative mechanisms. Wages are normally high and tied to profitability and/or employee skills. This phase is felt to parallel closely the dynamic growth strategy. In the *maturity phase*, the organization has a large internal labour market and the emphasis is on manpower retention. Jobs tend to be more narrowly defined and wages tend to be based more on grade definitions than profitability or skills. There is less employee participation and downturns in profitability may result in layoffs. Employee relations issues are handled through collective bargaining. This phase is felt to parallel closely the extract profit strategy. In the *decline phase* the organization needs cuts in both costs and employee numbers. There is downward pressure on wages and a need to agree criteria on which to base redundancy decisions. While this phase is not seen as a parallel to a turnaround strategy, it is clearly a precipitating factor. In such a crisis situation, the future direction of the organization is uncertain.

Schuler and Jackson[8] concluded that there are predictable relationships between business strategy and personnel policy choice. However, there is little proof that these choices were systematically selected to fit particular strategies and no conclusive evidence that personnel policies which fit business strategies contribute to greater organizational effectiveness. In general, it seems that personnel policies are an important aspect of organizational effectiveness but that numerous other factors must also be taken into consideration. Integrating personnel management considerations into strategic decision making represents "a true frontier" for senior management[5]. However, while some organizations may seek to include personnel issues in strategic decision making, the traditional approach has been to consider these issues only after strategic decisions have been taken[5,6]. Very often, the major emphasis in strategic planning has been on strategy formulation, with very little thought being given to *strategy implementation*. This has resulted in the failure of strategic planning at the operational level. Such lack of attention to strategy implementation is seen as a major challenge to organizations and serves to give a central role to personnel policies in ensuring employees work to make strategies happen. In particular, attention has focused on personnel policies in the areas of employment, reward systems, employee development and appraisal. *Selection/promotion/placement* incorporates the external hiring of employees and all activities related to the internal movement of employees across positions. This policy area has been characterized by Beer *et al.*[6] as "human resource flow" and is seen a prerequisite of effective performance. The role of an effective *reward system* is to encourage a balance of priorities between the achievement between long- and short-term goals. *Employee development* helps ensure the organization has an adequate supply of human resource talent. An important facilitator of effective employee development is an adequate manpower planning system which provides an accurate inventory of human resources and makes accurate forecasts of manpower needs. Fombrun *et al.* feel that few organizations have effective manpower planning systems. A major reason is that data on employees are often inadequate. This is partially attributed to inadequate *appraisal*, which is seen as the weakest of all personnel activities. It is suggested that the key to effective *appraisal* at a strategic level is the commitment of "quality managerial time to systematic examination and evaluation of executive talent"[5].

The Changing Nature of Organizational Contexts

Because of the globalization of business and the increasing speed with which change appears to be taking place, it is inevitable that there will be a corresponding increase in the number of contextual factors which must be considered as relevant when strategic decisions are being made[9-12]. The context of any organization refers generally to the environment from which it has emerged and in which it exists, and can be seen as a fundamental and complex dimension in any strategic decision. External context can be seen as the environment which surrounds any organization with respect to society, economy and politics. Internal context can be defined as the structural, cultural, economic and political framework which exists within the organization itself[13]. Therefore, external context can be seen to incorporate aspects such as culture, geographical location, political conditions, government regulations, legislation, economic factors, client profile, activity of competitors, the existence and focus of public pressure groups, the labour market, and so on. Internal context would incorporate specific aspects of the organization itself, such as its structure and how functional areas interact, the internal corporate culture (as opposed to the local culture), the political conditions existing between the main internal players, managerial choice constraints (such as resource availability and union activity), the framework of strategic alliances, the internal labour market, top management team structure, tenure and so on.

A detailed analysis of the context of any organization should reveal key aspects of both external and internal settings and their relationships with each other. Problematic areas are likely when there is a mismatch between internal and external factors. However, such problems are not nearly as serious as when there is a mismatch between the overall context of the organization and the content or process of proposed or existing strategies. It would seem clear that human resource management issues form an important and fundamental part of contextual considerations, and perhaps one of the areas in which HRM skills are most appropriately applied is towards an increased understanding of the match between internal and external contexts (an aspect of strategy which has been seen to be of fundamental importance, at least since the 1960s – e.g.[14]).

The Influence of the Product Market

An organization's business strategy will be developed within the context of its position within the market(s) into which it supplies its goods or services. The characteristics of a particular organization's product market will be influenced by factors such as the cost of entry, nature of competition, technology, and the customer base. Marchington[15] evaluates an organization's product market position along two dimensions:

(1) *Monopoly power*: the degree to which the organization has power to dictate market terms, particularly price, to customers. An organization may possess a high level of monopoly power due to the dominance of a few organizations, high barriers to entry, proprietary technology or unique product.

(2) *Monopsony power*: the degree to which customers exert power over the organization and thus can dictate market terms, particularly price, to the supplying organization(s).

Marchington argues that the relative levels of monopoly and monopsony power which an organization has/experiences provide a measure of the power of the market over employers and consequently influence the degree of *management discretion* in making strategic policy decisions in all functional areas, including personnel/human resource management. He suggests that favourable market conditions (high monopoly power as might be indicated by high market share, growing market, stable demand) afford managements greater discretion in choosing a particular personnel policy configuration and are likely to facilitate the adoption of resource-based and benign P/HRM practices such as tenure commitments and gainsharing. However, where product market competition is intense (i.e. high monopsony power), managements are likely to have considerably less scope to make choices on their personnel approach and may adopt more control-oriented P/HRM approaches.

For such organizations, the approach to P/HRM may be largely prescribed by product market conditions. However, managements will still retain some scope for policy choice; they may choose which markets they wish to operate, which products/services they wish to emphasize and which competitive strategy they wish to pursue in order to gain competitive advantage. However, once the choice of market is made, business unit management must respond to product market conditions and adopt management styles and policies which best achieve corporate goals. This analysis does not necessarily imply that employers will always adopt "soft" HRM type policies in favourable product market conditions. Rather, such conditions provide management with greater scope to choose from a range of personnel policy choices; the actual choices will be further influenced by factors such as top management ideology. On the other hand, for organizations operating under high levels of market pressure, the scope for choice may be limited and a "harder" cost control approach necessary. Another important factor influencing the link between an organization's product market and its approach to HRM identified by Marchington is employee exposure to the state of the product market. In some sectors, employee exposure is direct via extensive customer contact, for example in retailing. In others, the contact is indirect with a heavy reliance on management information and interpretation. In such instances, it is important that managements establish effective mechanisms to increase employee awareness of the product market through exposure to customer responses.

Business Strategy and Personnel/Human Resource Policy: Some Empirical Evidence

A particular issue of interest to practitioners and researchers in the Republic of Ireland and elsewhere is the evidence for change in management approaches to personnel/HR management. A notable characteristic of the personnel literature over the past decade has been the suggestion that workforce management practice at organization level has undergone extensive change. Such commentaries normally focus on various contentions, such as the suggestion of a diminution in the role of trade unions, a growing trend towards greater individualism in management-employee relations and the idea that organizations are developing closer linkages between business strategy and personnel policy choice. Despite the persuasiveness of such arguments, there remains some confusion about the nature and extent of change in the context of personnel/HR management practice.

Historically, personnel management practice in the great majority of medium and large organizations in Ireland has traditionally been associated with a strong collectivist, industrial relations emphasis – generally referred to as the "pluralist" model[16]. In this model, HRM considerations rarely concerned strategic decision makers and relations between management and employees were grounded in the pluralist tradition, with a primary reliance on adversarial collective bargaining. Thus, personnel policies tended to focus on short-term issues, with little conscious attempt to develop linkages with business policy. Manifestations of this pluralist tradition are high levels of union density, highly developed collective bargaining institutions at establishment level, and industrial relations as the key role of the specialist personnel/HR function. However, the 1980s were a decade of reappraisal of the HRM role in many Irish organizations. The onset of recession lessened the need for many core personnel activities such as recruitment and, particularly, industrial relations. Trade union membership fell by almost 9 per cent in the period 1980-1985 and industrial unrest also declined significantly over the decade[17-19].

At the same time increased market competition forced many organizations to seek ways of establishing competitive advantage including improved approaches to the management of human resources. It has been argued that competitive pressures, reduced trade union power and new models of management practice have encouraged Irish organizations to consider the adoption of more innovative personnel/HR practices[20]. However, a problem with many analyses of change in HRM in Ireland is that there is little consensus on the precise nature and extent of such change or how new developments contrast with more traditional approaches to personnel management.

Much of this confusion seems to stem from the tendency to view human resource management as an essentially distinct and homogeneous approach, incorporating a specific philosophy and combination of personnel policies. However, practice seems to indicate there are numerous variants of HRM, incorporating different approaches to workforce management[21,22]. Possibly the most visible form of HRM in Ireland equates to, what the literature terms, "soft" HRM. This approach is characterized by a resource perspective of employees incorporating the view that there is an organizational pay-off in performance terms from a combination of HRM policies which emphasize consensualism and mutuality of management and employee interests. However, it would appear that the most pervasive form of HRM in Ireland is less discrete and may most appropriately be labelled "neo-pluralism". This approach is characterized by the use of HRM techniques such as direct communications with employees and performance-related pay systems alongside established collective bargaining procedures and is indicative of approaches in a number of Irish organizations, such as the Electricity Supply Board, Aer Rianta and Analog Devices. However, there also seems to be some growth in the incidence of what has been termed "hard" HRM: this approach is based on managing human resources in such a way as to ensure the maximum contribution to business performance. Examples of this approach are most obvious in the adoption of "atypical" employment forms (particularly use of subcontracting and temporary/part-time employees) and intensive performance management techniques to improve cost effectiveness while meeting required performance standards. While there are obvious differences between these HRM variants, it is significant that they are all characterized by greater integration of human resource considerations into strategic decision making and the development of complementary policies to improve human resource utilization, and differ significantly from the traditional pluralist-adversarial model where P/HR considerations rarely concern strategic decision makers.

This section considers the evidence for change in managerial approaches to human resource management in Irish organizations using data generated through the Price Waterhouse Cranfield Project on International Strategic Human Resource Management[23]. The Price Waterhouse Cranfield Project on International Strategic Human Resource Management in Europe was originally established in 1989 to study developments in human resource management in Europe. In 1992, a postal survey of some 6,000 organizations was undertaken in collaboration with a leading business school in some 12 European countries. A novel component of the research process was the consideration of the research findings by panels of senior personnel/HR practitioners from a cross section of private and public sector employers.

The sample frame used for the Price Waterhouse Cranfield Project in Ireland was the Business and Finance list of the top 1,000 trading companies and the top 500 non-trading bodies in Ireland. Companies are ranked according to the level of turnover, financial institutions by the size of their assets and non-trading bodies by the number of employees. A questionnaire addressed to either the personnel manager or chief executive was mailed to 1,180 companies and a total of 269 usable questionnaires were returned, giving a response rate of 26 per cent. If one excludes establishments employing less than 50 employees, the size distribution of establishments in the sample is similar to the size distribution in the relevant population. While there is a slight bias in the sample towards large establishments, compared with the population, these differences are small and the sample can therefore be considered to be approximately representative of the overall population.

Strategic Involvement of the Personnel/HR Function

As can be seen from Table III, less than half the firms surveyed had a written mission statement or corporate strategy while 29 per cent of firms had a written personnel/HR strategy. However, in terms of personnel/HR involvement in the development of corporate strategy, the picture is quite positive from a personnel perspective with over half the firms surveyed reporting personnel involvement from the outset in the formulation of corporate strategy (see Table IV).

The Irish national panel considered these issues at length and their analysis centred around three key areas:

(1) where corporate strategy is derived and the differences between strategy formulation and implementation between indigenous companies and multinational subsidiaries;

(2) personnel/HR involvement in strategy formulation; and

(3) the incidence of written HR strategy in Irish organizations.

Turning first to the issue of strategy origination, there is clearly a need to distinguish between the indigenous and multinational sectors. In the panel discussions on this issue, the majority of personnel practitioners felt that, for multinational subsidiaries (MNSs), corporate strategy is a given, something that is determined by the corporate centre with minimal, if any, local involvement. However, others commented that, while this was true up to a point, it needed to be qualified in that the nature of strategy determination will depend on the amount of autonomy given by the corporate centre to the subsidiary. Some firms felt that this appears to have changed in recent years, with more autonomy now being accorded to some subsidiaries than was the case in the late 1970s and early 1980s. While it was difficult to provide a rationale for this, one suggestion was that it related to the stage of development of the subsidiary and its track record. Others argued that it was influenced by the degree to which the corporate centre itself engaged in strategy formulation: the suggestion being that if the corporate centre was not heavily involved in strategy formulation itself, subsidiaries were allowed a higher level of autonomy to formulate strategy and make related decisions locally. It was also suggested that decentralization provided greater scope for subsidiaries to influence strategic decisions or, as one practitioner (a senior manager in the multinational sector) suggested:

> The drive towards profit centre creation may, in the future, lead to a decentralization of HR policies and local differences arising.

Table III. Corporate Strategy, Mission Statement and Personnel/HR Strategy

	Yes			
	Written (%)	Unwritten (%)	No (%)	Don't know (%)
Mission statement	49.8	9.4	29.2	11.6
Corporate strategy	47.6	25.5	15.4	11.6
Personnel/HR strategy	28.8	28.8	31.5	11.6
$n = 267$				

Table IV. Personnel/HR Involvement in Corporate Strategy

Personnel/HR involvement	(%)
From the outset	52.6
Consultative	24.7
Implementation	11.9
Not consulted	10.8
$n = 194$	

It was also suggested that the level of autonomy accorded to multinational subsidiaries differed with country of origin. Some respondent personnel practitioners felt there was a difference between the approach adopted by UK-owned and US-owned subsidiaries. It was suggested that UK-owned subsidiaries operating in Ireland tended to accord a relatively high level of autonomy to their subsidiaries. They simply set general targets for achievement centrally and the Irish subsidiary was free to act as it saw fit in order to achieve these targets. However, it was suggested that the experience with many US-owned subsidiaries was somewhat different. In these, corporate culture was felt to be all important and a universal set of values was often deemed necessary by corporate management. Consequently, much tighter control mechanisms were preferred, resulting in a minimum amount of autonomy being ascribed to the subsidiary.

In relation to the issue of HR input into strategy formulation, the picture emerging from a personnel perspective is quite positive, with over half the respondent companies reporting personnel involvement from the outset in the development of corporate strategy. In the panel discussions on this issue there was general support for the view that HR involvement in strategic areas had increased in recent years. However, a concern raised by some practitioners was that we may simply have witnessed an increase in participation of personnel practitioners in this area, rather than an increase in the all important area of influence.

Where HR input at the strategic level had increased, an interesting issue is the reason for this development. Some practitioners felt that increased influence had occurred as a result of the prolonged recession. It was suggested that the recession has forced the personnel function to move from a support role to a more strategic "change agent" role, involving itself in recessionary led influences such as the increased need to restructure, decentralize, downsize, etc. This role was felt to be particularly prominent in the commercial state and banking sectors.

Turning to the issue of personnel/HR strategy, the survey findings suggest that some 29 per cent of respondent organizations had a written personnel/HR strategy. A number of personnel practitioners felt that an important factor facilitating the development of a written personnel/HR strategy occurred where organizations are faced with the issue of competitive pressures and organizational change/restructuring. It was felt that the greater the amount of change and uncertainty, then the greater was the likelihood of the emergence of a written personnel/HR strategy.

The final area for consideration was the skills needed by personnel practitioners to operate effectively at a strategic level. The research findings indicate that most senior personnel practitioners were "career personnel specialists", having worked in personnel for most of their career, and had little general management experience. It seemed that the general consensus was that specialization in the personnel/HR area function was actually increasing rather than decreasing and that this facilitated, rather than inhibited, HR involvement at the strategic level, particularly through the development of "expert" power.

Communications
Differences in organizational approaches to communications with employees tend to focus on the nature and content of management-employee communications and the range of mechanisms used to facilitate such communications. The most notable development arising from the Irish survey data was the increase in direct verbal and written communications with employees (see Table V).

There was unanimous agreement among members of the Irish practitioners panel that the methods of communication employed by organizations and the type of information being communicated to employees had changed in recent years. Various reasons were suggested to explain this development, notably:

- the presence of a more educated workforce – "a new kind of person" who desires to be involved and informed as much as possible;
- a move towards flatter organization structures which facilitated greater and more informative communication at lower levels in the organization; and
- the increase in quality enhancement initiatives.

The impact of contemporary quality initiatives was generally felt to be significant in the area of management-employee communications. On the whole, the panel seemed to agree that recent quality initiatives facilitated the passing on directly of relevant information on workplace-related issues. Some practitioners from "high-technology" multinational firms suggested that, in relation to the process of team development as part of enhanced quality initiatives, managements introduced a new kind of language in communicating with employees, namely a quantitative type of language concerned with "What are the costs involved? What is the payback?". It was suggested that this translates into a more informed employee, and consequently serves to act as part of this overall direct communication scenario which was seen to be developing in some firms.

Generally, top-down communication involves not just the presentation of a set of directives, but also requires the communication of a rationale on which the pursuit of a given strategy is based. At one extreme, this rationale can be

	Change in level of utilization (%)			
Mode of communication	Increased	Decreased	Same	Don't know/ missing
Through representative staff bodies, e.g. TUs	14.2	11.2	44.2	30.3
Verbally, direct to employees	49.8	1.5	38.2	10.5
Written, direct to employees	36.0	3.0	41.9	19.1
n = 267				

Table V.
Communications with Employees

presented in a coercive manner, on the other it can involve the positive presentation of underlying rationale, based on careful strategy formulation. It would appear that, even in cases where the adoption of a certain strategy is not appealing to those required to implement it, the articulation, communication and championing of a well-constructed strategy is more likely to lead to successful implementation. The increase in quality initiatives has had the generally beneficial effect of facilitating more people in the consideration of the rationale on which strategies and their supporting activities are based.

In considering the role of trade unions in the communications process, the survey data present a quite stable picture, with a majority of organizations reporting little change in the union role. The practitioner panel considered the degree to which direct communications with employees were being used as a means of circumventing and/or marginalizing trade unions as a forum for management-employee communications. It was generally agreed that organizations cannot suddenly cease to use established collective bargaining mechanisms but rather that management-employee communications will increasingly occur through parallel mechanisms. Thus it was felt that organizations will continue to communicate through trade unions where appropriate, but that this will be augmented by more direct communication to employees where circumstances allow.

The following comments are indicative of the views of the personnel practitioner panel on this issue:

> You will find in the third paragraph of the bulk of management-union agreements a clause which reads "management retain the right to communicate directly with employees", but we (management) were in dread of our lives to ever use this clause: that fear is now gone.
>
> (Personnel manager – financial services)

> There is now a conscious management concern that people hear important issues from us first (management), rather than from the unions.
>
> (Personnel manager – manufacturing)

However, it was interesting that the panel members generally felt that increased emphasis on direct communication, on equipping line managers with sophisticated communications skills and on installing mechanisms to facilitate greater employee involvement may well serve to marginalize trade unions' role and influence in the workplace. Specifically, one senior manager from the foreign manufacturing sector suggested that:

> the monthly meeting with the union was now almost redundant, because all of the issues due for discussion have been dealt with previously.

Turning to the actual content of management-employee communications, the survey data suggest that most Irish firms communicate formally on both business strategy and financial performance with managerial and professional/technical employees (see Table VI). However, the level of communications on these issues falls dramatically for clerical and manual grades. The most dramatic contrast arises in the area of communication on financial performance where over 90 per cent of organizations claim to communicate formally on this issue with managerial grades, but only 33 per cent do so with manual grades.

In attempting to explain these findings on the nature and content of communications with different employee grades, the practitioner panel felt that employees, for the most part, are only concerned with, and interested in, a certain kind of communication. Comments included:

> Employees only want relevant information.
>
> (Senior manager – banking)

> For the most part, employees are most interested in immediate day-to-day issues.
>
> (Senior manager – financial services)

The range of communications forums through which management communicates with employees is also a useful indicator of the extent and sophistication of workplace communications with employees. The Irish data indicate a fairly traditional approach to communications, with primary reliance on line management and trade unions as the key communications mechanisms. Other communications devices, such as quality circles and attitude surveys, were used in only a minority of organizations (see Table VII).

In discussing the incidence of upward communication in Irish organizations, a number of panel members felt the whole process was one that was culturally bound. It was suggested that the culture in many established Irish

Table VI. Management Communications on Strategy and Financial Performance

Grade of employee	Level of communications/briefing on Strategy (%)	Financial performance (%)
Management	92.5	90.6
Professional/technical	64.4	57.3
Clerical	41.6	39.0
Manual	36.0	33.0
$n = 267$		

Table VII. Employee-Management Communications with Employees

Communication forums	Utilization level
Through immediate superior	92.5
Through trade unions/other representative bodies	63.3
Through regular workforce meetings	44.2
Through quality circles	9.7
Through suggestion boxes	16.1
Through an attitude survey	10.9
No formal methods	14.2
Other	8.6
$n = 267$	

organizations was one of non-employee involvement. Consequently, managements had now to change course considerably to facilitate employee involvement. In discussing employee involvement for different grades of employees, some practitioners felt that one finds different attitudes prevailing at different levels in the hierarchy, and generally speaking, at lower levels in the hierarchy, there are lower levels of motivation to become involved. Others felt that motivation and involvement was dependent on the employee's sense of ownership. Basically, it was suggested here that if individual employees feel that upward communication will not benefit them in any way, then they simply will not become involved.

The panel agreed that the actual extent of upward communication occurring in industry had increased in recent years, principally again because of the existence of a well-educated workforce. It was also suggested that the attitudes of employees had also changed dramatically. One senior personnel practitioner cited a dispute situation as a specific example. It was suggested that, traditionally in dispute situations, the approach adopted was to give little or no information to employees. It was argued that this situation is now changing and companies are communicating much more in such situations.

In general, it seems that the more sophisticated firms tend to use a range of communications mechanisms with particular emphasis on direct communications with individual employees. These approaches tend to focus on "cascade" approaches, with briefings for different employee levels augmented by communications through line management, general workforce meetings and extensive written communications. Such expansive approaches seem the exception in the Irish context. Indeed, the great majority of respondent firms seemed to adopt less sophisticated approaches and relied primarily on collective bargaining, basic written communications and normal line management-employee interactions.

The successful communication of strategy can be seen to form a fundamental part of the successful management of the *strategy process*: "Organizations which successfully manage change are those which have integrated their human resource management policies with their strategies and the strategic change process"[24]. Managing the process of strategy is where the role of the HRM function becomes most obvious. Some of the central themes evident in the literature on the management of process include the organization and distribution of information relating to strategy; the articulating, communicating and championing both the philosophy and the finer details behind formulation and implementation; regulating the patterns of activity that emerge during the course of the strategy; and responding to the varying levels of commitment that may arise. The final stage of the process is the implementation of the strategy.

A process analysis of strategy should include a review of the following types of questions:

(1) Was the activation stage of the strategy carried out as planned? If not, was the cause the result of any of the following:

- inadequate levels of commitment?

- inappropriate patterns of activity?
- unsuitable, misinterpreted or insufficient communication?
- inappropriate organization and distribution of information?

(2) If the levels of commitment were inadequate, what was the cause and how can this be improved?

(3) If the patterns of activity were inappropriate, how can such patterns be reorganized?

(4) If the communication was unsuitable or insufficient, why?

(5) Where does the responsibility for good communication lie?

(6) If the communication was misinterpreted, was this caused by the transmitters or the receivers of the communication?

(7) If the information was organized and/or distributed badly, how can this process be strengthened or made more appropriate?

Such questions may not always be easy to answer but it seems clear that, given the substance of the HRM role function, specialists from this area need central involvement and should be expected to make a significant contribution to the management and communication of any strategic process.

A Model of Strategic Management

One way to consolidate the linkages between strategic management and HRM is through the development of a coherent model. The search for a unifying model of strategy is still unresolved and some recent literature suggests that it is naïve to limit the horizons of the discipline by being "prematurely paradigmatic"[25]. However, there is also a strong belief that, due to increasing complexity and decreasing levels of predictability in practically all business environments, there is a greater need for the development of meaningful models that incorporate the diversity of thought and perspectives on the subject. In the eyes of many theorists, there is a strong need to have convincing models of strategy in order to come to terms with the complexities and seeming inconsistencies that have arisen throughout the literature[26,27]. Nowhere are the benefits of paradigms more clearly outlined than by Ansoff[28] who asserted that "a paradigm…puts the apparently contradicting theories into a common perspective, and frequently converts contradictions into complementaries. An equally exciting aspect is that a paradigm shows the way to previously unexplored and important research areas".

Figure 1 outlines a model which has been developed in order to facilitate a general overview of the elements of strategy and to clarify the general links between strategic management, product market conditions and HRM. All of the variables included in the model have been discussed from varying perspectives in the strategic management literature and include three central elements:

(1) *The context* within which a strategy is formulated (i.e. *Why* certain strategies should be pursued – given the environmental, cultural,

economic, legal and other constraints which operate within a given context).

(2) *The content* of the strategy (i.e. *What* strategy is being pursued, using what information, derived from whom and based on what business rationale).

(3) *The process* through which the strategy is formulated and implemented (i.e. *How* the strategy is being carried out, who is involved, and how the mechanisms for implementation have been activated).

The model is seen as relevant to each of the three levels of strategy in Tables I and II, with context roughly corresponding to corporate strategy, content to business strategy, and process to functional strategy.

The notion of differentiating between context, content and process is certainly not new[13,29]. Pettigrew[13] suggests that "a key and as yet unresolved problem…is creating the theoretical apparatus to link levels of analysis". Thus it is important that these levels of analysis continue to be incorporated into models which attempt to make sense of how they integrate and combine to create a coherent picture of their interactions.

Each of the three main elements can be seen as crucial to the framework within which strategy emerges. They focus on three separate but interdependent sets of issues. The management of any strategy may justifiably necessitate particular attention to one or other of the variables, depending on specific aspects of a given case, or different stages of strategic development. However, when the mechanisms of strategy encounter difficulties it may well be the case that one of the three central elements is receiving excessive attention at

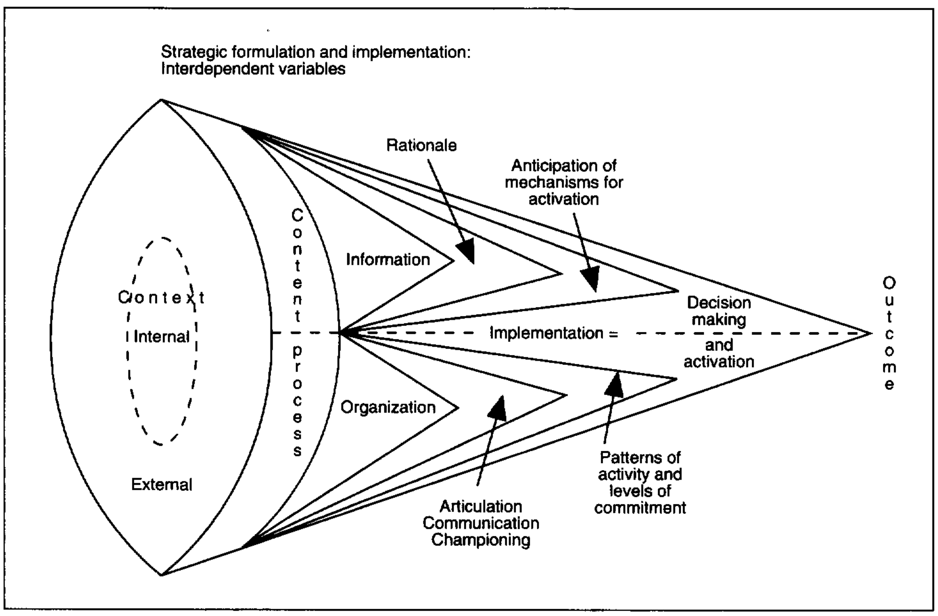

Figure 1.
Strategic Formulation and Implementation: Interdependent Variables

the expense of the other two, or that interactions between the elements are not being recognized or managed.

The results of any strategic process may emerge in a variety of different ways. Outcomes may be intended or unintended, direct or residual, immediate or delayed depending on the context, content and process of the strategy. It is important, in order to maintain control over strategic direction, that all outcomes are recognized and analysed according to the contribution they make to overall strategic success.

The model in Figure 1 is designed as a general guide for the analysis and improvement of strategic management. One of the intentions is the clarification of the central and crucial role played by the HRM function. An associated objective is the portrayal of strategy as a highly dynamic and iterative process, demanding constant re-evaluation and reformulation. While the overall direction of any strategy must progress, there is a continual need for returning to previous stages of the strategy in order to persist in testing its effectiveness in an often rapidly changing business environment. Reviewing current strategy by tracing the effects of different elements and stages on each other may represent one of the most important keys to strategic success.

Summary and Conclusion

This article seeks to explore linkages of business strategy and personnel policy choice. It is anticipated that, as a result of increased competitive pressures, organizations will emphasize the search for competitive advantage and strive to align better personnel policy choice with business strategy. Ireland's context as a small, open, export-dependent economy on the periphery of Europe reinforces this search for competitive advantage. Equally, product market conditions both in Ireland and abroad will heavily impact on P/HR policy choice. It is therefore felt that organizations will increasingly examine alternative personnel policy menus which might be used to complement different product market conditions and business strategies. Personnel policy choice is seen as largely dependent on product market conditions and business strategy. However, this is an interactive relationship where, for example, business strategy may initially be heavily influenced by product market conditions but may, over time, re-orient these conditions to give the organization a broader range of strategic choice. Equally, personnel policy choice may be broadly determined by product market conditions and business strategy but its results (e.g. improved quality) may serve to change product market conditions and subsequently business strategy. Thus, while personnel policy choice is generally seen as a lower order decision, it may also be an ingredient in the formulation of business strategy.

Its role in the implementation of strategy is, however, particularly clear cut. Previous research outlines this role quite emphatically. For example, Alexander[30] carried out two studies which identify common strategy implementation problems encountered by organizations. He identifies such difficulties as time factors, the surfacing of unexpected challenges, co-ordination errors, competing activities, insufficient commitment, inadequate competence and training of individuals and groups, uncontrollable environmental factors, inadequate leadership and the unclear definition of tasks and activities. A definition of implementation provided by the same author reveals the perception that human resources must be considered as central to the execution of strategy: "Implementation is that which addresses the issue of how to put a formulated strategy into effect – with constraints of time, a firm's financial and human resources and its capabilities"[30]. Owen[31] has proposed, more generally, that strategies often do not materialize due to the fact that the implementation of many strategies involves the "irreverent" cutting across of traditional lines of authority and structure and that there is inadequate information available for keeping track of implementation and its relative levels of success; that it is natural for the organization to resist change; and that "payment systems are geared to past achievements rather than to future goals".

Implementation, according to other writers, can often involve the skillful manoeuvring of certain decisions through the organization. It is often difficult to be sure that a decision made at any level of the organization will be able to overcome the barriers to implementation that may exist or arise until implementation has begun[32]. Overcoming barriers to implementation will also involve an awareness and understanding of politics within the organization, and a knowledge of the location and strength of the various bases of power[32].

It is thus suggested that personnel policies have a key role to play in effective strategy implementation since they are the key to implementing strategic choice and to achieving better alignment between strategic direction and workforce management practices. This view is also echoed in the work of Butler[33] and Purcell[1]. Purcell sees personnel policy choice as important "downstream" strategic choice which serves to implement "upstream" strategic decisions on competitive strategy effectively. It is felt that personnel systems need to become more flexible so as to "fit" strategic choice. Fombrun identifies four key areas of personnel policy choice: selection/promotion/placement, appraisal, rewards and employee development, and evaluates each in relation to its "fit" with business strategy.

In aligning business strategy and personnel policy, two areas are seen as particularly significant. First, manpower planning is identified as an important indicator of the strategic significance of human resource considerations. Organizations which place a strong emphasis on personnel policy choice would be expected to adopt a sophisticated approach to manpower planning, particularly in relation to identifying manpower needs and profile and manpower flow practices concerning the entry and progression of employees into, through and out of the organization. Second, employee relations is identified as a key aspect of personnel policy. The nature of the relationship between employers/management and employees influences broader human resource considerations such as employee commitment and provides the backdrop against which decisions on other aspects of personnel policy are taken (e.g. communications, rewards, appraisal).

This article also seeks to emphasize the importance of the dimensions of context and process of any organizational strategy. A third dimension mentioned earlier also requires further consideration: the content of strategy includes all of the information that is used during the formulation and implementation of any strategic activity. Most of the literature that focuses on strategy content does so with a good understanding of external context (e.g. Porter's generic strategies[34], Buzzell and Gale's[35] PIMS principles) but much of this kind of work fails to address internal context and process issues. One of the major problems with Porter's generic strategies for example is that the recommendations do not adequately address how such strategies should be implemented given certain organizational variables and procedures. It is increasingly being recognized that a detailed knowledge of *what* should be done is simply not enough for strategic success, and that, unless strategists consider *how* actions are to be carried out, difficulties may arise when it is too late. Traditional approaches to strategy have tended to over-emphasize the content element of strategy, and it is only relatively recently that critics to this approach have made their voices heard. Kiechel[36] was among the authors who launched attacks on "strategic planners who zealously promote unrealistic strategies at the expense of common-sense management". Similarly, Argyris[37], Braddick[38] and Kemball-Cook[39] have outlined the need for an approach which is considerably more practical than the conventional content-oriented approaches.

However, it is obviously important for strategists to have a detailed knowledge of the specifics of their business, and an understanding of both the general long-term and the more precise short-term directions in which their organizations are headed. The danger of an excessive focus on content is that strategy formulation will be separated from action. There is also a danger in assuming that strategy can always be deliberate, explicit and conscious, emerging as a completed set of plans which need only to be carried out. To focus on the content of a strategic plan without sufficient recognition of other crucial elements is to assume that formulation must precede implementation in sequential fashion. In reality, the realization of strategy is more dynamic and iterative and thus (as the model in Figure 1 suggests) any examination of strategy should include an analysis of the rationale on which plans are based and the anticipation of how the information will be exploited to its full advantage, how it will be implemented and by whom.

The need to incorporate these considerations further identifies HRM as an integral part of the development of strategy in that the respective activities of individuals and groups need to be a central part of the planning process both before that activity has begun, and while it is underway. Hendry and Pettigrew[40] promote the idea of a constant and active linking of HRM with strategy and put particular emphasis on the facilitation of a more "process centred agenda" in relation to strategic goals through the integration of the HRM function. This has been one of the aims of this article.

Personnel policy choice represents a key strategic decision for organizations. It has a major impact on competitive advantage[3], organization structure[41] and culture[42]. While much of the prescriptive personnel management literature suggests that organizations should adopt particular "best practice" modes in each personnel area, it is increasingly accepted that optimal personnel policy choice is linked to the unique characteristics of the individual organization (i.e. its internal and external context). Consequently, it is argued that organizations need to achieve a fit between personnel policy choice and broader strategic considerations, particularly product market conditions and business strategy. It is argued here that there is a range of personnel policy options from which organizations can choose, with the final choice guided by the need to ensure that the organization's approach to workforce complements overall strategic purpose. However, the Irish survey evidence presented in this article presents quite a mixed picture. While some organizations appear to be successfully aligning HR policies and business strategy, this development does not seem widespread and the research data indicate limited evidence of change in HR practices in the majority of Irish organizations.

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