

# METHODOLOGICAL CHARACTERISTICS OF THE USE OF STRATEGIC ANALYSIS IN HR-RELATED DECISION-MAKING

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## ABSTRACT

*The purpose of this paper is to provide a methodological groundwork for strategic analysis of the external and internal environment for strategic decision-making in the area of HR management. Pursuant to this purpose, the author undertakes to resolve, one by one, the following key objectives: 1) providing a rationale for the issue's relevance, based on the present-day operation of Russian oil-and-gas companies; 2) providing a set of recommendations on adjusting existing methodological tools of strategic analysis to the special nature of HR-related decision-making across the stages in the development of personnel management strategy. The paper sets forth a set of factors that can be used to assess the internal factors influencing a company's HR policy and strategy. The author devotes special attention to exploring the potential for analysing a company's lifecycle and that of its business units. The paper brings forth a modified version of M.E. Porter's Five Forces Framework model, intended to analyse factors in the external microenvironment. The author points out the need to investigate, as some of the more crucial external forces, the current situation within the sector's market for labour; the current average pay in companies within the sector; the current state of affairs regarding the geographic dispersion of jobs in companies and the provision of their infrastructure with manpower; the current situation within the market for educational services and some others.*

**Keywords:** Strategic Analysis, HR Strategy, Oil-and-Gas Companies.

## INTRODUCTION

Strategic analysis, which incorporates evaluating a company's internal potential and assessing its external environment, is one of the more significant links in the process of working out strategic decisions. This is related to the conventional belief that management becomes strategic only when the external environment is not sufficiently determinate, is changeable (dynamic) and is hard to predict, with the company forced to organize its course of behaviour taking account of the changing environment. A tool employed to track all possible changes from without and assess the company's potential internal reactions to these changes is strategic analysis.

The relevance of the problem under consideration is proved by the fact that the research into the issues of strategic human resources management is currently carried out in many countries of the world (Fumasoli, 2014). Many of the works are devoted to studying the experience of strategic personnel management in Chinese corporations (Zhu & Su, 2014; Zhu & Xia, 2015; Sun, 2012; Zhang et al., 2009). Still, the authors justify the need for strategic analysis and personnel management differently: starting with the need to build competitive strategies (Zhang et al., 2009) and ending with the importance of preventing corruption (Soehari & Budiningsih, 2017). Some scholars consider common practices, their evolution and perspectives

(Siddique, 2004) individual studies highlight the philosophical component of the strategy (Gao, 2011). Many studies are devoted to the consideration of individual instruments of strategic personnel management (Hollenbeck & Jamieson, 2015; Seidel, 2011). There are a large number of applied researches, the authors of which are making attempts to adapt the general theoretical and methodological tools to the conditions of functioning of various branch subjects (Jain, 2005; Hitka et al., 2017).

When it comes to implementing strategic analysis in oil-and-gas companies, it is worth noting the high degree of its complexity, which is due to the following:

1. The complexity of companies' internal structure (there being multiple levels and multiple rearrangements-links in the technological chain), the scale of their activity (these are large businesses and joint-stock companies, most of which are public), the wide geographic dispersion of the business's strategic units and its business zones and business units, the technological complexity of most production processes and the latter's considerable capital intensity.
2. The great number of external (micro-and macro-level) factors which need to be taken into account in putting together a strategy: natural/climatic, geographic, communications, environmental, economic, political, technological, organizational/managerial, etc.

Further, the complexity of conducting strategic analysis is undoubted, regardless of what type or level of strategizing one is talking about. That is, it is as much hard work to analyse the environment in developing one's HR strategy as it is to put together one's overall corporate strategy, as all the above-mentioned circumstances, which determine the complexity of analytical procedures, apply to the HR sphere as well.

## METHODS

The current spectrum of tools for strategic analysis is quite sizable and can be structured around key stages in the strategic decision-making process (Deberdieva & Lenkova, 2011). Further, the findings from a detailed study and systematization of key existing approaches to the conduct of strategic analysis suggest that virtually all commonly known methodological techniques employed in putting together organizational strategies are applicable in the HR sphere as well. In some cases, one may need to adjust and adapt the tools to the special nature of the functional area in question, but, for the most part, these adjustments are quite plain and self-explanatory.

When it comes to the stage of analysis and determination of the company's mission and HR objectives, techniques and methods for establishing personnel's role and place in the mission, as well as for formulating the objectives in the HR sphere, are similar to general theoretical ones employed in classic strategic management (Lenkova, 2013). Among the more popular methods employed at this stage of the strategizing process are analysis of the company's goal-setting methodology, its system of objectives and the strategy it is currently pursuing, its model of the production/administrative system, its "*objectives tree*" and potential scenarios for its development; analysis of time series and extrapolation of trends; simulation models; expert assessment methods, etc.

Further, the toolbox employed should be focused, in putting together an HR strategy, on the area of human resource management. In particular, for instance, in modelling the production/administrative system, it may help to focus more on the communicative component. One may want to subject to time series extrapolation and analysis those indicators which most comprehensively characterize the company's personnel (size, turnover, productivity, employee

ROI, etc.). Decomposition analysis of objectives (constructing an objectives tree) should, likewise, be conducted based on HR-related objectives.

At the same time, the author is of the view that it may help to ensure that methodological techniques which, evidently, have a mediated relation to developing an HR strategy, are excluded from the toolbox for designing HR-related strategic decisions. It may be possible to adjust them based on the object of management in question. For instance, in conducting a SWOT-analysis, one could identify, among external environmental factors, blocks that have the greater impact on HR potential specifically (social, managerial, economic, political, communications and some others). It could be possible to act in a similar way in analysing the internal components of HR potential. Table 1 lists the more popular internal environmental factors governing the choice of HR strategy.

<b>Table 1</b>	
<b>KEY INTERNAL ENVIRONMENTAL FACTORS INFLUENCING THE CHOICE OF HR STRATEGY</b>	
<b>Factor</b>	<b>Description</b>
Objectives pursued by the enterprise; time perspectives for them; extent to which they have been worked out	Organizations keen on generating a quick profit and then terminating the project will typically require a totally different team of professionals compared with those oriented toward the gradual development of large-scale production with lots of branches.
Management style, entrenched in the structure of the organization	Comparing highly centralized organizations with decentralized ones suggests that these enterprises require different teams of professionals.
Working conditions	Some of the key characteristics of the job which attract or repel people.
	Amount of physical or mental effort.
	Harm to health.
	Location.
	Duration and structuredness.
	Interaction with others.
	Amount of freedom in resolving objectives.
	Degree to which one comprehends and accepts the organization's objectives.
How good the team is	Being part of a successful team may be an additional stimulus for one to engage in sustainably productive work and be happy with their job.
Objectives pursued by directors (managers)	Making the maximum use of the expert workmanship and experience of each and every employee.
	Ensuring constructive interaction among group members.
	Obtaining proper information on personnel which will facilitate the formulation of HR policy goals and objectives within the organization's programs.

Worthy of separate attention are methodologies grounded in the concept of the lifecycle (of a product, a technology, an organization, etc.). It is worth noting that large oil-and-gas companies are characterized by so-called lifecycle nesting (Gazeev et al., 2013). That is, within a holding there, normally, are organizations that at different stages in their lifecycle. These organizations may consist of business units that, likewise, are at different lifecycle stages, while some of the business units may, in turn, contain entities that, from the perspective of lifecycle theory, are at different lifecycle stages as well. Therefore, one of the key strategic objectives with respect to this kind of structurally complex, multitier entities is to ensure a balance in the development of the elements that make them up.

When analysing the external environment, the key components of competition in the labour market should be comprehensively evaluated. For these purposes, in particular, it seems reasonable to use "*Model of the Five Forces of Competition by M.E. Porter*" as the basis and adapt it to the characteristics of the personnel sphere (Table 2).

<b>Table 2</b> <b>MODEL OF THE FIVE FORCES OF COMPETITION BY M.E. PORTER ADAPTED TO THE CONDITIONS OF SELECTION OF PERSONNEL STRATEGY</b>	
<b>Competitive Power</b>	<b>Forms of Manifestation, Estimated Parameters</b>
Potential (new) competitors	Foreign companies, companies from related industries.
Suppliers of personnel	Educational institutions, companies of a similar profile.
Intra-industry competition	Companies of a similar profile.
Substitute goods	Opportunities for replacing manual labor (mechanization, automation, computerization, robotics, etc.).

The personnel strategy of oil industry enterprises is also influenced by macro-environment factors (Table 3).

<b>Table 3</b> <b>THE MAIN FACTORS OF THE EXTERNAL MACRO ENVIRONMENT, AFFECTING THE PERSONNEL STRATEGY</b>	
<b>The Sphere of External Macro Environment</b>	<b>Factors</b>
Natural-climatic and communication	Natural factors have a large enough influence on the personnel strategy, for example, in the harsh conditions of the northern regions, it is very difficult to work in oil and gas complexes because of the low air temperature, low pressure, harsh climate, large territorial dispersion of enterprises and their structural sub-divisions. Therefore, most employees of the oil industry work on a rotational basis, in order to minimize the damage to health.
Socio-political	Factors of the socio-political environment have an impact on the level of unemployment. Many people can't leave their hometowns for the sake of moving up the career ladder in the oil and gas industry due to certain social customs and traditions. Insufficient development of the social infrastructure of oil-producing areas also affects the lack of the desire of employees to work in the oil industry.
Scientific-technical and technological	The technological progress, as a rule, leads to the increase in labor productivity and, as a result, the decrease in the number of personnel. At the same time, the requirements to the level of personnel qualification grow.
Economic-financial	The market's conjuncture has an indirect impact on the personnel strategy of oil companies. For example, when a crisis occurs due to the volatility of the balance between the supply and demand for oil, companies seek to cut costs in various ways, including reducing the wages of oil workers.

## RESULTS

Based on the findings from the author's analysis of personnel management strategies pursued by major Russian state and private oil companies, a priority for the choice of vector for the development of human resources, equipment and technology in the long-run is innovativeness. At the same time, experts are noting the considerable impact of external factors on the ability of organizations to materialize their chosen innovative path of development. In

particular, in the area of organizational development and personnel management the following key trends are currently forcing oil companies to adjust their activity accordingly:

1. The changing geopolitical situation in the world, as well as the consequences of its influence on the world hydrocarbon markets. This factor predetermines the increase in the requirements for the qualification of the personnel, which, in the conditions of the sanctions, must have competence in the field of creation and operation of modern equipment and technologies at the world level. In addition, in the face of high uncertainty, oil and gas companies implement strict cost management, trying to minimize the social component in the estimates, automating and robotizing most production and management processes.
2. The development of the global market and, as a result, increasing requirements for the staff of oil companies (knowledge of international standards, foreign languages, ability to work in international teams). At the same time the lack of ability of Russian companies to compete in the global labour market is observed.
3. The emergence of new players in the market, increasing competition for talents. In the face of increasing demands for staff, there are cases of enticement of employees from one company to another, as well as identification of talented young people in the student environment and sometimes even in the school environment (creation of profile classes in schools by oil and gas companies, signing cooperation agreements with universities).
4. Geographic dispersion of the oil and gas companies, access to new remote sites (Eastern Siberia, the Arctic, etc.) dictates the need to increase the proportion of workers in the new formations, who would be oriented at mobility, distance communications and consumer outlook.
5. The general slowdown in the growth of the able-bodied population in the developed and the largest developing countries, as well as the personnel crisis forecasted for the Russian Federation in 2020, due to the "*demographic gap of the 1990s*" also entails a shortage of highly skilled personnel; a shortage of specialists in advanced technologies, as well as world-class experts.
6. The consequences of the reform of the educational system in the Russian Federation expressed in the inadequate level of the educational services provided to the needs of employers, as well as in the shortage of providers of training services in technical specialities (Moskalenko, 2016).

## DISCUSSION

Currently, there is plenty of research available on putting together an HR strategy in companies in general. These works mainly describe and discuss various types of strategy (Marchington & Wilkinson, 1996; Storey & Sisson, 1993; Armstrong, 2002; Vesnin, 2001; Gerchikov, 2012; Likhatskii, 2014; Bazarova & Eremina, 2002; Yurlov & Orlyanskaya, 2009; Fumasoli, 2014). In addition, a number of domestic and foreign scholars have explored issues related to strategic management (Miles & Snow, 1978; Gurkov, 2004), competitive analysis (Porter, 2005). Some sources are focused on issues of putting together HR strategies (Ivanovskaya, 2009).

When it comes to sector-specific approaches to exploring the above issues, there is some literature (Hollenbeck & Jamieson, 2015; Seidel, 2011) devoted to both particular aspects of the operation of oil-and-gas companies in general and their strategic management (Gazeev et al., 2013; Lenkova, 2013; Deberdieva & Lenkova, 2011).

Meanwhile, the applied issue explored in this paper has been examined through the prism of the theories of personnel management and strategic management concurrently.

## CONCLUSION

In summary, the intended purpose of this study, which is to develop the methodological foundations of strategic analysis for HR-related decision-making, has been achieved. The proposed recommendations are of a practical nature and could be employed by various oil-and-gas companies. Putting together an HR strategy using the author's modified approaches to



strategic analysis may well help take some of the workload out of managerial decision-making. The author has fine-tuned and further concretized a roster of conditions and factors that are subject to assessment and has also conducted a critical analysis and assessment of the applicability of conventional tools of strategic analysis to the objects under investigation. The paper brings forth, in a positing manner, a set of specific areas for transforming existing methodological techniques, which are going to be explored in more detail in subsequent research on said issues. In addition, the author finds it relevant to address the issue of boosting the objectivity of HR-related strategic decision-making, as the use of, mainly, expert assessments imparts to assessment results a subjective nature. Of interest also is the possibility of organizing and implementing strategic monitoring and control to ensure the timely identification of deviations or critical values of factors in adjusting one's HR strategy subsequently.

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