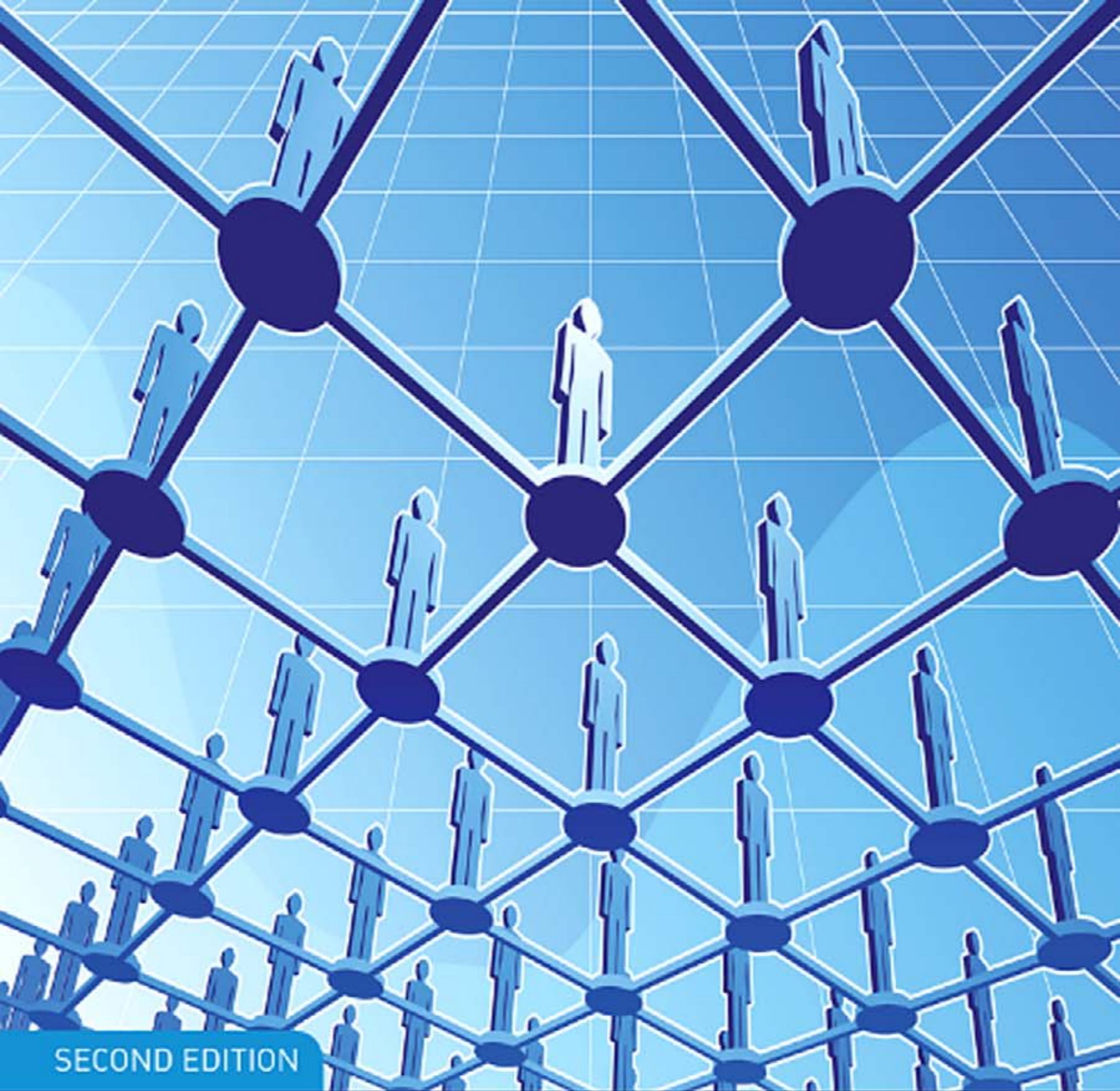

SECOND EDITION

HR STRATEGY

CREATING BUSINESS STRATEGY WITH HUMAN CAPITAL

Paul Kearns

HR Strategy

HR Strategy

(2nd Edition)

Creating Business Strategy with Human Capital

Paul Kearns

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Preface to the 2nd Edition

Having worked in the field of human resource management (HRM) for over 30 years all I have ever hoped to do is offer what I believe to be the best advice available. I encourage you to enter this book with a healthily, sceptical attitude though. Nothing can be taken for granted or at face value in HRM, there are no guarantees and no Magic Pills that actually work. So the first, golden rules of HR Strategy are work it out for yourself, use your common sense, make sure it fits your own particular set of circumstances and don't expect an easy ride.

I wrote the 1st Edition of 'HR Strategy: Business Focused, Individually Centred' back in 2002 (published in 2003) and took a very critical look at what was going on in HR departments; particularly in the US and the UK. I asked whether organizations had anything that could be accurately referred to as an 'HR strategy' and concluded they were all wide of the mark. I still hold to that worldview today but I think events in the intervening years have clearly demonstrated that organizations get the HR functions they deserve. The typical HR department is increasingly bogged down in transactional work and a legalistic bureaucracy that leaves little time for anything else other than reacting to immediate, day-to-day issues. Yet many of these issues would never arise if employee expectations, the demands placed on them, their development and the complete psychological contract were managed more strategically. The advent of 'e-HR' has done nothing to change the foundations on which HR operates and the savings claimed from the use of greater technology in personnel administration have yet to be substantiated.

One particular development that has made me think long and hard of course is that I am now writing in the middle (or even still the beginning?) of what will probably turn out to be the biggest global depression since the 1930s. So do events on this scale make me want to alter the thesis at all? The simple answer is no, even though I never expected to see so many companies imposing pay freezes and even my premier exemplar, Toyota, laying workers off, working short time and reducing salaries accordingly. These developments may well shake an organization to its roots but they do nothing to undermine the key principles that will always underpin HR strategy – it has to be dynamic enough to move with the business strategy and yet be anchored in some solid, unchanging principles that will stand the test of time. That is why I did not feel the need to change one word of the 'CEO's welcome letter' suggested in the 1st Edition (see again here in Chapter 4). It was designed to have perpetual relevance simply because no one can ever guarantee a job for life: it always anticipated that the worst could actually happen. Now it has.

Meanwhile, the most noticeable development in HR since the 1st Edition has been the increasing amount of rhetoric around the term 'human capital management' (HCM), but without any clarity of thought as to whether it marks a genuine departure from conventional HRM or not. I have tried my best here to provide such clarity but while sterile, academic debates will probably continue about the role of HRM and HCM, ad nauseam, they have been overtaken by the seismic, real world events we are now witnessing with quantitative easing and the re-capitalisation of the banks at huge long-term cost to economies and their future taxpayers. This has led to some forecasters predicting the death of capitalism as we know it but I think such reports are much exaggerated. Moreover, any strategist should beware of letting their fundamentals be swayed in the face of such upheaval; recessions come and go, but the one thing that does not seem to change over time is human nature and that is what HR-business strategy is aiming to harness, the best value from each of us for the greatest good of all concerned.

One big and embarrassing lesson that HR professionals have to learn from failed banks, and their CEO's who employed 'people' directors, heads of learning, leadership development, compensation and benefits, organisational development and diversity is that their methods obviously did not work. They are guilty as charged on two strategic, counts – failure to maximise value and failure to minimise risk. This is not just a banking phenomenon though and HR strategy failure can become a matter of life or death.

The National Audit Office (NAO) in the UK reported that more than 2000 people died as a result of NHS hospital errors or accidents in 2004–2005 (*The Times*, 3 November 2005). In 2007 another NAO study (2005 figures reported in *The Times* on 19 December 2007) revealed that premature babies in some areas were more than twice as likely to die as in others. Obviously many factors would contribute to these terrible statistics but the NAO criticized a failure 'to share lessons across the NHS', something an HR-business strategy would be designed to address. It would also ensure that processes and communications were working effectively that might have prevented another type of error (reported in *The Times* on 8 November 2007) identified by a Coroner, at an inquest into the death of a 19-year-old soldier in a roadside explosion in Iraq in 2004, who said the British Army's supply chain 'appeared chaotic and lacking in clarity' and the soldier would have survived if the bomb-jamming equipment, which had been in stock for two weeks, had been fitted. These are stories about dysfunctional organizations. No individual is to blame because the whole system is failing.

The picture is no rosier in manufacturing with the US automotive giants, Ford and General Motors, negotiating Government bailouts to make up for their management failings. We must also take note that two of these companies defined modern American management methods in the twentieth Century and employed many senior managers with MBAs from the most prestigious business schools, who are themselves having to take a long hard look at what they have been taught. Fortunately the 'creative destruction' built into capitalism means we will continue to learn from these failures and eventually a much stronger version of the model will surface. So there can be no better time to reconsider what the word 'management' should mean in the twenty-first Century. My own answer to that question is business strategy has to have a fully integrated HR strategy built into it – hence my new use this time around of the compound term **HR-business strategy**, a much better descriptor of the indivisible and inseparable nature of what is required.

Other developments that have been increasingly conflated with HR strategy are corporate social responsibility (CSR), business ethics, environmentalism and diversity. Whatever the laudable aims of such endeavours they have served to cloud the waters of organizational strategy and make the role of a CEO much more problematic because many more stakeholders now have to be considered. These issues have a natural appeal to the psyche of many HR practitioners, who have a preoccupation with fairness and societal concerns in their DNA. Some will promote these as part of what they see as the campaigning role of HR but rarely do they develop a coherent way of reconciling these valid societal issues with the harsh world of a globalized economy. I tried to offer some answers to this conundrum in the 1st Edition and I have re-doubled my efforts here (and in 2007 in 'The Value Motive'). No longer can any CEO just offer profit, or any purely financial ratios, as testament to their effectiveness or organizational success. If these societal issues are to play any strategic part at all they will have to be properly factored into the total equation.

In the 1st Edition I made the point that the ultimate owner of the HR strategy has to be the CEO; only they can make HR-business strategy work so why not put them centre stage? I am even more convinced now that this is the only way forward and so have borrowed Machiavelli's device (in *The Prince*) of writing the 2nd Edition from the standpoint of an adviser to the CEO. It is unlikely that many CEOs will purchase this book themselves, however, so I am hoping the primary audience of HR professionals and those who want to be HR strategists will hand it to them after digesting the lessons herein. Even though the book 'talks to' the CEO it is designed as an HR director's practical guide, an *aide memoire* or even a script for them to open up a more meaningful and focused dialogue with the board and the rest of the executive about what an HR-business strategy really means and, more importantly, what it could be worth in hard currency.

One trend that has not abated since the 1st Edition is the plethora of new management gimmicks, fads and supposed breakthroughs that continues to plague those who seek to become professional managers. An appetite for newness, as opposed to genuine innovation, is not only symptomatic of an unscrupulous consultancy market but also organizational 'leaders' who have actually run out of ideas themselves. I persevere with my long-running campaign against such Magic Pills in the hope that professional, evidence-based management will eventually become the predominant methodology. Interest in evidence-based management has grown significantly since 2002 and the American Academy of Management is now taking the subject seriously enough for it to counter such faddism (see Denise Rousseau's comment in Chapter 6). I hope that this book will further the cause of evidence-based, general management and be a sharp spur to evidence-based, strategic HR management.

As far as any additional content in this edition is concerned there are new sections on human systems (only covered very briefly in the earlier edition) and more on where and how human capital management fits into a holistic HR-business strategy. I have also added a section on learning strategy, for two reasons. One, organizational learning is probably the most fertile area for creating huge value from people and therefore demands much more attention at board and executive level than it currently attracts. Two, learning strategy has to be a subset of HR-business strategy; a viewpoint that is still not fully accepted by many who call themselves learning or organizational development specialists.

Finally, it is worth emphasizing that while the 1st Edition attempted to lay down a very solid, theoretical platform this edition provides much more practical, step-by-step guidance: or at least as much as any 'practical' guide to strategy can. In that sense the two editions could be more accurately described as Parts 1 and 2. I hope readers of both will see them as complementary even though there are significant areas of overlap. The 1st Edition led directly to me teaching a regular, elective, MBA programme on HR strategy for mature students (mainly non-HR). A significant number of them have since become convinced that the disciplines I teach, under the HR-business strategy banner, should be a mandatory part of the core MBA programme. I couldn't agree more and will now be teaching it as a core management programme from 2010 onwards.

I hope you enjoy this 2nd Edition, if 'enjoy' is the right word. Whether it makes you a more enlightened manager or not, it has been written in the hope that it should help you to create more value for yourself, your organization, your people and, most important of all, for your fellow human beings.

Paul Kearns
31 March 2009

Executive Introduction and Overview

WHICH DOOR DO YOU WANT TO OPEN?

The easiest way to get an instantaneous impression of what this book is all about is to imagine you turn up at your organization next Monday and you find there are now two entrance doors – one marked 'Your company – minus HR-business strategy' and the other 'Your company – plus HR-business strategy'. Read the scenarios of what you might encounter as you enter in Table A and then decide which you might prefer.

FIGURE A Which door do you want to use?

Door 1. Minus HR-Business Strategy	Door 2. Plus HR-Business Strategy
You come across someone you take to be a junior manager who is very polite but looks rather anxious. He says 'Good morning Mr. (insert your surname) – have you got a minute please?'	You come across someone you take to be a junior manager who is very polite and says 'Good morning (insert your preferred name) – have you got a minute please?'
You are not sure what to make of this, especially first thing on a Monday morning - it is unusual that a junior manager would come to you direct.	You see nothing unusual in this. You have always made time to get out and meet people, talking openly to them and listening.
You try to be as approachable as you can but are slightly worried so you say – 'sure, come into my office'. You are also conscious this could be a complete waste of time on what is already planned to be a very busy day.	You know this person will not be wasting your time because your managers are well versed in a system that says they can raise any important issue directly with whoever they deem it most appropriate. They also work in a culture where this is encouraged as perfectly acceptable behaviour.
As you both walk towards your office your PA gives the junior manager a strange look, wondering what is going on? You ask for two coffees.	The manager says it is quite a sensitive subject but should only take about 15 minutes. So you move into your office where your PA welcomes you both with a smile and asks if you want coffees – they are well used to this sort of thing.
You sit down with the manager and try to make him feel comfortable, he tells you his name is Bill and where he works. You ask him what exactly he wants to talk about?	Phil, the manager, says that he is worried that the new delivery schedules that were introduced two weeks ago are unworkable and something needs to be done about it – immediately.
The manager says he is worried that his own boss is paying lip service to the new delivery schedules that were introduced two weeks ago. This worries you because it looks like Bill is blowing the whistle on his boss and this strikes you as disloyal. You tell Bill you will look into it. Bill leaves the office looking even more worried than when he entered.	You quickly check that Phil has already done his best to get this sorted with the relevant people but experience tells you he probably has. Usually you are only asked to get involved as a last resort. Phil says this is one of those occasions. You do not perceive any of this as disloyalty, just the normal way of working.
Bill thinks his job might be on the line.	You thank Phil for bringing it to your attention. Phil is not worried about jeopardising his position.
Your first concern is to phone Bill's head of department to find out what sort of person he is. After that your main concern is that you do not want this issue to be blown out of proportion. You tell his boss to 'sort it out'.	You know this is a big issue so you call a short meeting to resolve it straight away. No one at this meeting feels Phil has let them down in any way or undermined their authority.

THE BASIC THESIS BEHIND HR-BUSINESS STRATEGY

This is a book on how to maximize the value of your organization by maximizing the value of your people – who we might refer to as your 'human' capital. The goal is always more value. The *means* for achieving more value from people we will call HR-business strategy – the title is completely irrelevant but we have to hang the idea on something. What really matters is that you fully understand what HR-business strategy means in practice. It is probably not going to be what you think it is and it is likely to be very different to what your HR director has been telling you. It is not a written document so much as a declaration of long-term intent; a relentless journey towards making every facet of your organization work in harmony.

HR-business strategy can also be defined as a conscious and explicit way of managing your organization's human capital to gain a competitive advantage. It can be viewed as a new, generic, business strategy in its own right. However, HR issues cannot be treated as a separate exercise from the development of the business strategy. HR-business strategy makes the two inseparable and indivisible.

While the aims are simple and clear the formulation, development and implementation of HR-business strategy is a highly complex and difficult process to instigate. Over time though, with determination and leadership, everyone in the organization will begin to understand the founding principles of the strategy (e.g. only do things that are fit for purpose, only do things that will create value) and these will guide their actions and behaviour every day. You will have to manage them less. They will want to contribute more and will obtain much more satisfaction from doing so.

Most organizations that have a sizeable HR function think they already have an HR strategy and if you believe this to be the case then you can check this now by applying this quick but rigorous test.

HR-BUSINESS STRATEGY CHECKLIST – DOES YOURS PASS THE TEST?

1. Do you have a clear vision and mission that has been communicated to all employees?
2. Do you have a clear business strategy, if so what are the top three strategic objectives?
3. Do you work to clear principles that every employee will find easy to understand and simple to follow (e.g. honest feedback is crucial)?
4. When you developed your business strategy was anyone allocated, at the same time, the specific task of considering all of the strategic HR implications?
5. Does that person have a full seat on the team that produced the business strategy?

6. Could you state clearly what key HR issues stem from each of the strategic objectives? For example, if increasing market share is a key strategic objective are the people driving this objective working well as a team? Do they have all the necessary skills? Does one person own this objective and have total accountability for it? Have you communicated what will happen if the objective is not achieved?
7. Have you identified and resolved any conflicting objectives (e.g. increasing market share while cutting advertising spend?)
8. Have you specifically communicated to key people how they have to add value in order to achieve these objectives? (e.g. the marketing team have to get greater brand exposure with a much smaller budget?)
9. Have you communicated to all employees that the achievement of the existing strategic plan will move the baseline to a higher level of expectation? If so do you think they welcome this challenge?
10. Have you ensured that you will get honest enough feedback and useful information to monitor how well they are all doing?

If you do not pass this test comfortably then read on but this is how the text is structured from here.

STRUCTURE OF THE TEXT

Because of the highly complex nature of HR-business strategy the book is structured in as logical sequence as possible covering:

- The purpose of having an HR-business strategy
- It's potential value
- It's use as an additional, generic strategic option
- How it would start to work in practice as part of the strategic planning process
- The need to re-visit conventional models of people management
- Replacing management fads with organizational maturity
- Identifying who might help produce HR-business strategy and what skills they need
- How measures of performance will have to change
- What other indicators reveal how well the organization is doing at a very deep, sustainable level
- How to produce a human capital report
- Where HR-business strategic thinking might develop in the future

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Chapter 1

What is the Purpose of HR-Business Strategy?

PREDICTING THE FUTURE FOR YOUR PEOPLE

Producing a strategy is all about predicting the future or, more accurately, winning the argument about what the future might hold. Yet life is so complex that boards of directors can prove to be just as fallible in this endeavour as any other, mere mortals. The boardroom is not somewhere to expect absolute truths, only best guesses. The most we can hope for is that these guesses are based on the best evidence available. Furthermore, CEO's have to convince their peers they have a strategy for creating the greatest possible value from all of the capital at their disposal and that has to include achieving the greatest returns from their 'human' capital as well.

Whatever strategy you dream up though it will have to be competitive. We should not have to remind ourselves of this fact, but Kenichi Ohmae made it so plain in his classic book *The Mind of the Strategist* (McGraw-Hill 1982) and hinted at the need for a really effective people strategy when he said

> *What business strategy is all about – what distinguishes it from all other kinds of business planning – is, in a word, competitive advantage. Without competitors there would be no need for a strategy ….. Corporate strategy thus implies an attempt to alter a company's strength relative to that of its competitors in the most efficient way.*

What better way is there to '*alter (your) company's strength relative to that of (your) competitors*' than to ensure you manage your people better than they manage theirs? We will eventually push this case even further in suggesting that any business strategy that does not explicitly and consciously integrate with an HR strategy will no longer qualify as the best strategic option. Stakeholders will not be getting the value they should expect if you fail with your people.

As with all 'simple' advice though let us not be fooled into thinking this will be easy. Really serious issues quickly mount up as soon as you try to put a strategy for people management into practice. Consider, for example, what difficulties you would face in telling all your employees that you now expect as much value as possible from everyone, and your chagrin at realising you have not already done so! Never mind, we will come back to that later. For now the first step, or should we say hurdle, is how will you predict what the future holds for your employees whilst also ensuring they might want to take this journey with you?

How good are you already at making predictions about your business, its markets and customers? However impressive your track record might be there are no guarantees your next prediction will be well founded. Stakeholders should expect that your strategic predictions are at least based on the best information available and have been subjected to the most rigorous analysis. Only then can your strategy provide a robust springboard for action. It is self-evident and inevitable that organizations with the most accurate predictions will enjoy the highest rates of success.

Yet history has a habit of reminding us that we get predictions horribly wrong. One only has to look at the global credit crunch of 2008–2009 to realize that even the experts – economics professors, investment analysts and financial regulators are all fallible human beings. Spot-on prophecies are sometimes uttered, but because the news is not what the crowd wants to hear, they are drowned out. Peter Schiff, President of Euro-Pacific Capital, famously predicted in a television debate on America's CNBC in August 2006 http://www.youtube.com/watch?v=LfascZSTU4o that the USA was heading for a debt crisis. His co-debater, a previous adviser to the Reagan government, took precisely the opposite view declaring that the US economy was in great shape. They could not both be right, of course, and history duly declared Schiff the winner, but only when it was too late to prevent the disaster.

It is because life is precarious that we crave some semblance of certainty and direction from our leaders. One prediction we can make, with absolute certainty, is that having the wrong strategy will always lead to disaster. The only matters left open to debate are how long it takes before catastrophe strikes and how much longer before we acknowledge our mistakes and learn some painful lessons. In times of societal upheaval and change we can be talking very lengthy timescales indeed before we realise some of society's worst mistakes: take political strategies of socialism versus capitalism, or how to tackle global warming.

The determined leader will never dodge or shy away from the sheer size of the challenge though. Trying to avoid making predictions is not an option because you stop being a leader and become a victim of circumstance. So any prediction is better than none and to choose the best option you need to be a prescient predictor of human behaviour over substantial periods of time. Fortunately, this is not half as difficult as it sounds. Human nature is highly predictable, particularly the combined behaviour of large numbers of people, in fact worryingly so.

Psychologists Solomon Asch and Stanley Milgram, in the 1950s and 1960s, performed some of the most infamous experiments on human behaviour. Asch just confirmed much of what we already knew that social pressures on individuals to conform can result in them consciously providing incorrect information. The guinea pigs in his groups were the only persons who were not aware of the experiment and so conformed against their own common sense and better judgement. Milgram's experiments in obedience found that, in a controlled experiment, participants would obey instructions to administer electric shocks to people they had never met, simply for failing in a laboratory test. These findings are still controversial today, but we need to be alert to the possibility that organizational culture can be such that bizarre and dangerous behaviour can be exhibited by employees in the work environment, who would not behave in such a manner in their own home or when left to their own devices.

However we behave, it took many thousands of years for us to evolve into what we are today and this is not likely to be undone or undergo any radical change within one or two generations. It might seem distasteful to have to remind ourselves of what human beings are capable of but we can predict with a high degree of confidence, based on historical evidence, that we will still be witnessing wars, famines, genocides and totalitarian regimes in the future simply because we have not found a way to eliminate them yet.

We are also likely to have more asset bubbles and financial crashes if we do not do something to prevent them, but what can we do ? The same, primal, human urges that caused the Dutch tulip mania of 1637, the South Sea Bubble of 1720 and the Wall Street 'crash' of 1929 are the very same as the human behaviours that led to the asset bubble and the credit crunch of 2007. Nothing much changes when we are talking about man's most basic instincts and there will always be those, in the absence of any external constraint, who will allow their desires to rule their lives without considering the consequences of obesity, indebtedness or infidelity. This is not intended to infer any moral or value judgement on such individuals, simply to accept that these 'weaknesses' pose serious challenges, if not threats, to the way we all live.

They require complex, strategic solutions and, like love, the course of true strategy is unlikely to run smooth. If it were easy everyone would be doing it, but then it would offer no competitive advantage. It is precisely because strategy is so difficult that it offers such great opportunities. Its value lies in its complexity and the inability of the majority of CEOs to master it. Any CEO can produce an operating plan, but that is a very distant cousin to strategy and from a much lower order. Moreover, how many CEOs can develop a sustainable business strategy when the average tenure of a FTSE 100 CEO is less than 5 years? Fewer still could produce an HR-business strategy.

Large supermarket chains such as WalMart or Tesco can make an educated guess as to what their customers will buy every week. Most of their shelves would be stacked according to historical experience and their logistics would operate likewise. Business and operating plans work reasonably well when customer behaviour does not change too much in the short term. Plans can be cruelly exposed though when the world around them starts to change. Tastes can change, as with organic foods or when customers prefer ethical or Fairtrade products. Such developments force changes that demand a well-conceived, coherent HR-business strategy.

Supermarket policies on the quality, standard and shape of vegetables they think customers want will change when prices rise steeply: knobbly carrots and oddly shaped bananas suddenly become acceptable. Bureaucrats and legislators in the EU also changed their regulations to allow these, previously prohibited, misshapen produce onto the shelves but neither the supermarket managers nor the Brussels bureaucrats could be said to be acting strategically: a strategist would have stuck to some solid principles. Not so the EU, the arguments that justified laws outlawing the ugly and defenceless vegetables of yesteryear were suddenly unceremoniously jettisoned in the face of economic reality. No wonder the EU does not command the respect of all its citizens, when they act in such a fickle and decidedly un-strategic way.

A strategic change in the way supermarkets operate would acknowledge that a change in vegetable policy affects many aspects of the business, not just the shelf stacker. The procurement teams would not just buy different quality produce they would develop a different contract and relationship with their suppliers. This would require them to move away from their previous, rigidly enforced, standards and towards adopting an alternative negotiating stance. If they just ditched their high quality farmers for lower quality producers what would happen when low prices and higher incomes returned? New strategies always involve fresh thinking and different behaviours.

New strategies invariably mean moving into uncharted waters and this comes with risk, management paradoxes and apparent contradictions – neatly summed up in the oft-quoted phrase – 'the biggest risk of all is to take no risk'. Any CEO could be forgiven for wanting as much of a steady state income stream as possible, especially as they realise that change is likely to lead to disruption and cost. So strategy is as much about managing these risks as it is about opening up new opportunities. Trying to avoid risk stifles innovation. This is the very same dilemma that faces banking regulators, who have to weigh the cold hand of regulation against the wealth-generating advantages of unfettered entrepreneurialism. HR-business strategy should be viewed in precisely these same terms, needing to control employees whilst simultaneously wanting to allow them full rein to realize their greatest potential.

This will always be a complex balancing act because there is no such thing as a perfect strategy and all strategies, by virtue of the dynamic environment in which they exist, have to be dynamic. Conventional, textbook, economic theory produces a construct of perfect competition where customers have perfect knowledge of products and prices and can express their buying decisions through the existence of perfect markets bringing purchasers and suppliers together, in perfect equilibrium. Yet, in reality, we all know how imperfect markets are and many organizations make good profits from those imperfections. The Internet has certainly provided much better market and price information for purchasers, but the range of features and options on many products and services are just too complex for ready comparisons to be made, whether they are insurance policies or digital cameras. Some companies could even be accused of having a deliberate policy of confusing customers so that they cannot always find the lowest price comparisons so easily. This criticism could justifiably be laid at the door of most mobile/cell phone companies' tariffs.

Not all CEOs will see life as a series of bear traps though. They will relish the buzz that comes from taking risks, while their more conservative executives take a step back. Shareholders' expectations might impose pressures on a CEO to exploit all market opportunities, but even they know that there is a thin dividing line between acceptable risk taking and outright gambling. CEOs should never be tempted to gamble though, especially if they are tempted by big bonuses that pay out if they win but incur no consequence if they lose. Gamblers never make effective managers, even if their gambles sometimes pay off. They might talk about their successful 'strategies' and dedicated gamblers will try and convince you they have 'foolproof' systems but when the coin is tossed or the roulette wheel spun they can do absolutely nothing to influence the outcome; they are as much the victims of luck as anyone else.

Dedicated strategists are still subject to the same laws of probability but will consciously manage probability to increase their likelihood of winning, including contingencies to ensure they make more winning calls than duds: such as intelligent hedging on foreign exchange transactions and commodities. Hedge fund managers take manipulating probability to the extreme, with highly mathematised risk models but they can also get it wrong and anyone who eschews any sort of formula would be rightly regarded as a mere punter. No CEO would see that as a compliment.

We should not move on, however, without acknowledging that there are other serious schools of thought that suggest strategizing itself is a pointless exercise. Proponents of chaos theory intimate that strategists can never hope to control all of the external variables (e.g. competitors, innovations, environmental issues, natural disasters) and are therefore doomed to suffer the vagaries of the famous 'butterfly effect'; where the smallest and innocuous occurrence a long way away can throw all their calculations out. Chaos theory is correct in reminding us that we live in a chaotic world but chaos, by definition, cannot be managed. We can only react to it, as with a tsunami, and even if we accurately predict it we do not have the technology to prevent it.

So when it comes to getting the best out of people, this is the starting point for our journey along the road towards HR-business strategy. People cannot give of their best in a chaotic organization; it has to be a conscious effort. It might prove to be a Herculean effort, but it should be worth it as long as we ensure we are as well prepared for the battle as possible. What better place to learn some important lessons then than from some of the best strategic thinkers that ever existed, those engaged in the art of war? Let us also stress the word 'art' here because however scientific we try to make the subject of strategic people management, it is always likely to be as much art as science.

HR-BUSINESS STRATEGY AND THE ART OF WAR

The Concise Oxford Dictionary is very clear what strategy is:
strategy n.

1. *The art of war*
2a. *the management of an army in a campaign*
2b. *moving troops into favourable positions*

This definition is entirely concerned with military matters and yet we can easily read straight across to the notion that we should regard our employees as our 'troops' in a 'war' or campaign against competitors or potential opponents, some of whom we do not even know exist yet. So our aim should be to move them into a position where they can perform at their best. Managers have a great deal to learn from military strategists and probably the most important lesson is that *the ultimate effectiveness of any individual 'soldier' is determined, primarily, by the strategy they are working to rather than their own capabilities*. The wrong strategy renders everyone ineffective and risks lives. The American 'shock and awe' tactics used at the start of the Iraq war in 2003 was part of a strategy guaranteed to result in a significant number of casualties, on both sides. The British troops' tactics in Basra were part of a different type of strategy. General Petraeus is now widely regarded as having completely rewritten military strategy in the way he mounted a 'surge' to deal with embedded insurgents. These represent three different strategies with different probabilities of survival, irrespective of the inherent capabilities of the soldiers concerned. This is a very serious matter – all strategies are essentially 'people' strategies and always have serious consequences for peoples' lives and livelihoods.

All organizations work in the same way. Many good workers end up redundant because their CEO gets the business strategy wrong. Retailer Woolworths, in the UK, shut down in 2009, after 99 years in business, with the loss of thousands of jobs after the failure of a series of CEOs to produce a successful strategy. It might be instructive therefore to try and imagine just what it might feel like for you to be a military leader in a war zone, not as an academic exercise, but to encourage you to think long and hard about the burden of responsibility that making 'people' decisions should impose on a CEO.

So imagine that you are an army general and have just been dropped into a war zone with a thousand troops at your disposal. All you can see in front of you is a ridge about half a mile ahead and you have been told that on the other side of this ridge is the enemy. You do not know what they look like. You have no idea how many there are. You have no intelligence about their arms, equipment, positions, their battle readiness or the state of their supply lines. One thing you know for certain though is that they are aware of you and if you do not defeat them first they will be doing their utmost to defeat you. Is this any different to any commercial 'war zone' with many unknowns? So what do you do?

When this scenario was put to a group of HR directors on a strategy workshop some years ago the first reply given was 'I'd retreat'. This might tell us something about the courage, character and determination of the average HR director, but she was told that retreating was not an option because not only would the enemy be in hot pursuit they would also have the psychological 'upper hand'. Sitting there and doing nothing was not allowed as an option for the same reason; they might attack at any minute and catch you unawares and unprepared (a bit like Google et al. creeping up on Microsoft). No, the only answer to getting you safely and successfully out of this situation is to devise a better strategy than your enemy, to be at least one step ahead. Strategists take the initiative.

No one ever knows how many strategic options are available, but one thing is for certain: if a computer model presented you with all of the possible permutations then one of them would have to be the first choice because it would be *relatively* better than all the others. Of course, no one is ever going to present you with such a clear-cut answer on a plate. In the world of financial derivatives the scientific, computer-generated, mathematical models used for trading proved to be just as fallible as the people who programmed them. Computer geeks who want to get their revenge on their colleagues often take great delight in telling them that one day computers will be more intelligent than we are. If that is so, it might be a good idea to teach them how to plug themselves in first. In the meantime, there is no higher authority or absolute arbiter available to tell you whether you have chosen the 'right' or 'wrong' strategy.

Asking a CEO whether they have the right strategy is the wrong question. No one will be able to answer it without the benefit of 20:20 hindsight. Was 3G a successful strategy for most mobile telecommunications companies that paid billions for the licences? They failed to generate as much revenue as anticipated. So while we can never judge the success of a strategy until after the event (ex post), the impartial observer (and shareholder) can still legitimately ask in advance (ex ante) whether the strategy chosen was deemed to be the best of all the available options at the time. Strategy is a very unforgiving subject. It demands that we think extremely carefully and apply as much foresight and wisdom as we can muster.

Returning to the war zone scenario, other workshop participants, when put under pressure to respond, feel inclined to say that it is just not realistic. Generals and their troops do not just get dropped into war zones without military intelligence and, even if they did, they would only be able to act 'tactically' rather than strategically. You might have some sympathy with those who try to wriggle out of difficult situations in this way; it is only to be expected from most human beings who do not like to make difficult decisions. 'Military intelligence' is often referred to as a perfect oxymoron and history books are replete with military blunders that arose out of poor intelligence. The Charge of the Light Brigade was a classic example, but Vietnam was hardly a great success and the then Defence Secretary Robert McNamara later admitted (in the documentary 'The Fog of War', 2003 – absolutely required viewing for all

HR-business strategists, on how not to do it) that one of the great 'lessons' learnt, after the event, was ''know your enemy' – doh!'

There are two crucial points that these HR directors had not acknowledged. First, many companies face 'unfair' questions and find themselves in situations that are not of their own making, but they cannot just walk away. Think of food producers who suddenly find a crank has laced one of their products on the supermarket shelves with poison. Second, whilst there will always be a need for short-term tactics, the whole point of studying strategy is to minimize the occasions when the organization is likely to leave itself open to such risks (i.e. the food producer has a tamper-proof packaging policy, tightens up security procedures, ensures every part of the supply chain process is watertight etc.). So no one is allowed to duck these issues.

The ones who still do not want to play this game sometimes adopt a 'gung-ho strategy' (an oxymoron if ever there was one) where they give the order to fix bayonets and mount a full-scale attack by charging over the ridge. As with any gamble, this sometimes pays off, but the laws of probability are not on their side. Moreover, what sort of esprit de corps is generated by a general who always has this as their preferred modus operandi? So perhaps we do not need to spend too long discussing the strategic merits of gung-ho HR strategies either. One workshop participant, with a more intelligent and reflective approach, suggested they would immediately send out a small reconnaissance party to see if they could see what was going on over the ridge, which sounds eminently sensible. In fact, you do not really need to have any military experience to at least consider this common sense option. Strategy without intelligence will always be a rather hit-and-miss affair.

One type of very relevant intelligence, for the general who knows that looking after their troops is the best way to fight the enemy, is their readiness and preparedness for action. For example, how about their existing field positions? Are they all in one tight group or are they spread out over the surrounding area? A tight formation makes you susceptible to heavy casualties from an unseen mortar attack. Are there any natural defences or cover at your disposal, such as rocks, ditches or trees? If you do have to retreat where will you retreat to? Have you got any idea in which direction you would need to head and what obstacles or terrain you might face? What about communications with your own troops? What is their present frame of mind? Are they hungry and tired? Are they well aware of the threats that face them and psychologically prepared? Also, are you a general that already inspires confidence due to a successful track record in military campaigns behind you?

Another dimension we have not covered yet is the context in which you have to operate. If this scenario were set in the early nineteenth century the expectations of the troops would be very different from those in World War II and different again from troops sent into conflicts in the present day. Modern armies may well have the world's media watching their every move and this would influence their behaviour and actions, as was only too apparent in the Iraq war of 2003 and the treatment of prisoners at Abu Ghraib. A true strategist should never underestimate the importance of context, particularly cultural context.

HR-BUSINESS STRATEGY IS INHERENTLY COMPLEX

This simple scenario is intended to offer a very small insight into the complexities of strategic thinking with an emphasis on the people dimension. Anyone of reasonable intelligence can understand all of the *tactical* considerations that were highlighted in this example. The complexity comes from having to understand the interrelationship between all of the various variables; the separate elements that have to work together to make up a complete strategy. It is a rare combination of science and art, of joining all the separate elements into one coherent whole that is the real, intellectual challenge. It is a challenge that sorts the mere managers from the leaders. HR-business strategy, as with any type of strategy, is not about the individual 'battles' but the waging of a complete war against the competition. It is the common thread that ties each individual's actions into a common cause. Effective strategies should, by definition, produce effective MOs (modus operandi). The ethos, principles, values and objectives of the organization should all be encapsulated within an HR-business strategy.

War can be a very dirty business though and discussing morality might seem irrelevant when someone is in a situation of kill or be killed. Machiavelli, infamous for espousing a philosophy of the ends justifying the means, appeared to be devoid of any morality when advising his masters on just such matters. In 'The Prince' http://www.constitution.org/mac/prince12.htm he raises the question of how a prince should hope to be regarded by the populace in a newly won territory:

> *… whether it is better to be loved than feared or feared than loved?*

and responds to his own question by saying

> *… one should wish to be both, but, because it is difficult to unite them in one person, it is much safer to be feared than loved, when, of the two, either must be dispensed with.*

When reading such apparently cold and cruel sentiments the student of HR-business strategy could be forgiven for thinking Machiavelli has little to teach us about getting the best out of people, but this would probably be a misinterpretation of Machiavelli's genius. For example, he refers to the relative merits, or otherwise, of using mercenary troops when conducting a campaign:

> *Mercenaries and auxiliaries are useless and dangerous; and if one holds his state based on these arms, he will stand neither firm nor safe; for they are disunited, ambitious and without discipline, unfaithful, valiant before friends, cowardly before enemies…they have no other attraction or reason for keeping the field than a trifle of stipend, which is not sufficient to make them willing to die for you.*
>
> The Prince, 12

He adds that he '*should have little need to labour this point*' probably because it is so obvious that any 'employer' who hires mercenaries is never likely to get the best out of such people compared to regular, loyal, committed workers. A lesson that was obviously not learnt by the subprime mortgage and banking industry when it employed mercenary, mortgage salespeople and derivatives traders.

Machiavelli is as relevant today as he ever was because he had that rare quality of teaching us some fundamental, universal truths, but many still find his bleak picture of human nature unpalatable. Anyone holding to a more rose-tinted view is unlikely to address the most serious human issues though. HR-business strategy is not about being nice to people, it is about turning man's most basic, selfish and often belligerent instincts to the good of mankind. It is about encouraging people to use their most admirable qualities and values to create as much value for society as possible, whilst subduing their worst, natural inclinations. This presents HR-business strategy in its true light, as part of a grand, master plan for society; a point that will become more obvious as we progress through each chapter. However, for now, we need to keep our feet firmly on the ground at an individual organization level. You, as a CEO, have an organization to run today, so what might a working definition of HR-business strategy be? What will lend it immediate relevance and import?

An HR-business strategy is a conscious and explicit attempt to maximize organizational value by gaining a sustainable competitive advantage from human capital.

This is a definition that should serve you well for the foreseeable future assuming you want your organization to have as high a value as possible.

SO WHAT IS A HIGH-VALUE ORGANIZATION?

If you asked a market analyst to produce a list of high-value organizations they would probably use market capitalization (share price × number of shares) as their measure. This is a very conventional approach, but it is a very narrow view of what constitutes value and is susceptible to market fluctuations and can be influenced by questionable 'buy' and 'sell' notices from investment analysts. You might not be able to control many of these external factors, but you can have a significant effect on the human capital at your disposal.

'Making good profits' does not qualify you for the high-value league table. Take the reinsurance industry based in the city of London as an example. Until about 10 years ago, traditional reinsurance companies in the city were run along very similar lines to each other and then a very unusual CEO called Matthew Harding came along who took over Benfield Reinsurance and started to rewrite the reinsurance business rulebook. He started by making some very simple, but fundamental, changes to the way he did business: like listening to what customers really wanted and ensuring claims were settled promptly. He attracted a great deal of profitable business in the process. At one stage Benfield employed only 65 people and yet made a profit of £30,000,000; a profit per head of £461,000. One of their erstwhile nearest rivals employed 120 people and made approximately £1,000,000 profit (only £8,333 profit per employee) in the same year. Both companies worked in exactly the same market and both generated profits but the value comparison is stark and compelling.

Part of the ‘secret’ to Harding’s success was sweeping away old-fashioned, inefficient and ineffective processes, thereby enabling a significantly higher amount of value to be created by each employee. There was nothing intrinsically different in the people he employed; they were not imported from another planet. They may have had to adapt to new ways of working, but basically they were the same people who could only have generated £8,333 profit if they worked for a competitor. The value of troops is always dictated by strategy.

Despite such startling results though, Benfield might still not join the premier league. A high-value organization *maximizes* its potential value. Getting the competitive business strategy right, and the right people, made an incredible difference but there was no HR-business strategy at work here. An HR-business strategy at Benfield would have produced even more value. Who would be looking for an HR-business strategy though, when the business is already doing so well? Only those who are never satisfied will want both; ‘*the world belongs to the discontented’* (Robert Woodruff former Chairman, Coca Cola).

Only CEOs who have infinite ambitions will want to avail themselves of what HR-business strategy really has to offer and predicting how much value it could add should quickly check whether it is worth it. Those who talked about people being an asset never managed to put a value on it. So why not try to calculate what this ‘asset’ might actually be worth? It is a tough question, and one that most HR directors would duck, but it has to be addressed if we expect HR-business strategy to be taken as seriously as it needs to be.

Imagine that your company does not have an HR-business strategy. Now quickly calculate what a 1% increase in revenue or profit would be worth in £’s? Alternatively, what would a 1% reduction in your cost base be worth? If you work in a not-for-profit sector, such as health care or higher education, imagine what a 1% increase in patients treated or students educated would look like in terms of funding? These could be very sizeable figures, depending on the sort of business you are in, but they might still not be exciting enough. So we need to extrapolate these figures.

In Fig. 1.1 the value proposition of HR-business strategy is represented in terms of company performance on the *Y*-axis and a 10-year timescale on the *X*-axis. Graph 1 predicts how your company will perform over 10 years without an HR-business strategy. Graph 2 shows what might happen with a strategy. What it also highlights is the time lag involved. If you formulate an HR-business strategy today (year 0) the full effects will not really start to kick in for about 3 years. This makes sense when you think about it. If Continental Airlines wants to copy Southwest Airlines the pilots and staff who were used to one way of working would take some time to change.

This is not intended to be just another hypothetical, what if, exercise. This is a simple, and very practical, management tool. Its purpose is to find out where

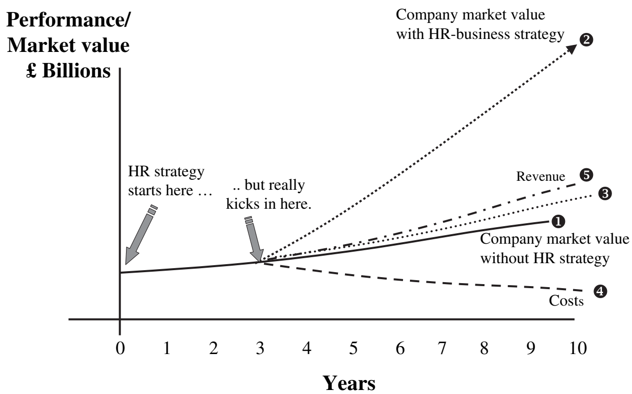

FIGURE 1.1 HR-business strategy is only interested in looking for maximum potential.

an HR-business strategy could have the biggest impact. It flushes out any assumptions and helps a CEO to articulate not only what might happen in the future but also what people practices might be required. In a European beverage company (soft and alcoholic drinks) this template was put in front of the new CEO who had, until recently, been the company's finance director. The sequence of questions shown below is a brief summary of a real dialogue that was held with him (in 2005) and how he responded on this particular occasion. It is worth remarking that the graphs drawn at the time were no more than a rough outline on a notepad – no technology, fancy graphics or 3-hour PowerPoint presentation required. HR-strategists just do it.

HR strategist to CEO: 'Draw a line (like 1) on this chart for how you hope the business will grow over the next 10 years'.

CEO: (draws a slightly steeper line – 5) 'I think we will do slightly better than that'.

HRS: 'I think we could do a great deal better if we had an HR-business strategy – so I would draw this line (2)'.

CEO: 'To get that increase in business would require a significant increase in CAPEX and I don't want to go down that road yet'.

HRS: 'OK, but can we look specifically at what you want to achieve on revenue then?' (draws line 3)

CEO: 'I'm happy with how sales and revenue are doing for the time being'.

HRS: 'OK, so what about reducing your cost base?' (draws line 4)

CEO: 'I think we are pretty cost conscious, don't forget I used to be the FD (laughs) and we constantly review costs'.

HRS: 'If you are happy with sales revenue and cost then I have only one more question – what sort of graph would you draw for how you want customer satisfaction to improve?'

CEO: 'Now that's the only issue that worries me at the moment – and what worries me even more is that we don't have any data to produce such a graph for what our customers think of us'.

HRS: 'Well regardless of the lack of data, why not try drawing a graph anyway and give your best guess as to the room for improvement?'

CEO: 'I don't need a graph, I think the opportunity is huge. One of our main customers has just informed me, personally, that we have serious problems with our relationship because a delivery was left *outside* his premises last week!'

That is all this tool is used for – a simple way of working through the broad options available for significantly improving the business. So in that sense it is a prioritizing tool. The rest of this dialogue then drilled down into all of the possible issues with improving customer service. At every step though, the mantra was – which of these will provide the most value in the long term?

But why does it have to be a 10-year view? Well, partly because training and developing people takes time, cultures do not change overnight; structures and processes all take time before the benefits really start to accrue. In this particular case one suggestion for the CEO was simply to go onto the shop floor and get some immediate feedback from staff about whether they knew how unhappy the customers were? If this were a huge supermarket chain and the question was asked 'how much more value could we get from every checkout operator?' a 1% improvement this year (e.g. a 1% take up in store cards following personal recommendations by the checkout operator?) might be achievable. As it really starts to take hold though, think what 1% more value would look like from mobilizing many thousands of employees? This is not just about saving money though. The saving could fund an all-out price war against slower moving competitors.

One of the key reasons Toyota has managed to move so far ahead of its rivals is that it has been getting more value out of every single employee, every day, for over 50 years. This is why Ford and GM have done their best to copy what Toyota has been doing. Ford themselves must have thought so at some stage because they have tried to do virtually everything Toyota does. They have tried to introduce total quality management, a philosophy of kaizen (continuous improvement) and if you visited a Ford or GM factory today you will find just-in-time deliveries, problem-solving techniques (Six Sigma anyone?) quality circles and many other techniques used so effectively by Toyota. Yet, despite all of their efforts, they have failed in their 'replication strategy'. Why? Well if they had listened to strategy guru Michael Porter many years ago they would have realized that

> *Sustainable advantage comes from <u>systems</u> (our emphasis) of activities that are complementary. Companies with sustainable competitive advantage integrate lots of activities within the business: their marketing, service, designs, and customer support. All those things are consistent, interconnected and mutually reinforcing. As a result, competitors don't have to match just one thing; they have to match the whole system. And until rivals achieve the whole system, they don't get very many of the benefits.*

Maybe this is something all of the other car companies still have to learn (although Honda seems to have got the message): the whole system has to work as one if you are to have any chance of achieving Toyota's levels of efficiency and effectiveness. A business strategy that does not incorporate an integrated HR strategy is never going to achieve a completely '*consistent, interconnected and mutually reinforcing*' system.

THE TOYOTA WAY

Toyota is an extremely rare example of just such a business. It is a complete system in every sense. This is why, if we are to use it as an exemplar case study, it should carry a WARNING: THIS CASE STUDY IS THE EXCEPTION! It is a perfect example of an integrated HR-business strategy, although this is a term that would not come from the lips of Eiji Toyoda, a member of the family that founded the company in 1937. Yet, he could not possibly have hoped to achieve the same success without having a workforce that was working for the company every step of the way. A workforce that valued secure employment; who could see their best mutual interests would be served by not having a confrontational industrial relations environment; who were willing to come to work always thinking of ways to work better and being prepared to learn various tools and techniques to constantly reduce costs. Sure, the same workforce wants a reasonable level of pay, terms and conditions, but is willing to ensure that its target number of cars is produced at the end of each and every shift, come what may.

The Toyota strategy is a complete and holistic strategy. The system is indivisible and cannot be deconstructed or copied piecemeal. When other manufacturing companies, not just automotive, try to copy the Toyota Production System (TPS), (such as Honeywell who, as late as 2005, called their version the Honeywell Operating System or HOS) they do not achieve anything like the same benefits because they have only a poor and pale imitation of TPS. The most glaring omission is usually an absence of people strategy and a culture created specifically to drive the TPS.

A management development specialist at a workshop in 1999, who was very proud to be working for BMW, made no attempt to hide his scepticism about the virtues of Toyota as an employer. He took great delight in pointing out that he, personally, knew several people who worked for Toyota who did not regard them as anything other than a hard-nosed, obsessive business that did not particularly look after their employees well and were planning to leave the company. Whether this anecdotal evidence has any veracity or not, the fact remains that Toyota continues to employ over 200,000 people (even after the recent cuts), mainly loyal employees, from whom it manages to create huge value when compared to its nearest, particularly American, rivals. BMW's success is built on totally different foundations.

There is no idealism at play here. No organization is likely to achieve a 100% employee satisfaction rating and working for Toyota might not suit a great many people, but then that is not the point. Toyota will themselves openly admit that it is not the sort of place that everyone wants to work. This is perfectly in keeping with an HR-business strategy that aims to attract and retain people who are most suited to the organization's objectives. HR-business strategies work better, more often, with more employees than poor or non-existent strategies. If the BMW manager had criticized Toyota in terms of its performance, relative to BMW, and suggested that BMW achieved more value from its staff he would have a much stronger and more convincing argument. It is unlikely he would have found any evidence to do so.

Anyone who works for Toyota, as a supplier, will soon realize that one of its key strengths is the clear set of simple principles that everyone in the business understands and follows: principles such as 'fit for purpose', which have been enshrined in Toyota's ways of working since the beginning. They have stood the test of time and still continue to guide their actions and their decisions every day. It is solid principles that form the strongest foundations.

In 2009, as with every other major automotive manufacturer, Toyota is facing probably the toughest market conditions for many years. It is no more immune to the downturn than any other company but, paradoxically, this is where its long-term strategy will reap even greater rewards. It had already been building up a significant proportion of its workforce from subcontracted agency staff in order to allow it flexibility as times changed. So it is now able to slim down with less pain than the severe redundancies inflicted on Ford and GM. More importantly, as the worldwide automotive industry adapts to a rapidly shrinking market, those companies that survive intact will 'steal' future business from the companies that disappear because their short-term plans could not cope.

Lessons in HR-business strategy from Toyota

There are several key lessons here for anyone wanting to develop an HR-business strategy:

- the business strategy and the HR strategy are one and the same
- the greatest benefits come from the holistic application of sound principles over many years
- the highest levels of management must not only understand the holistic, systemic, nature of the strategy but give their complete commitment to it
- the principles must be durable even in the face of the most difficult and unforeseeable circumstances
- simple principles can be explained to any level of employee and once they follow them their daily actions can be regarded as directly contributing to business strategy
- in this way a grand strategy also becomes a strategy for individuals in the organization

There is much more to be learnt from the Toyota way and many organizations are beginning to wake up to this, but none of them will be able to emulate Toyota unless they understand the HR strategy aspects of their business strategy.

It is a pity that more good examples are so hard to come by and that the intervening years since the first edition of this book have not unearthed many more success stories. This is certainly not because organizations do not try. The main reason is that organizations are bedazzled by initiatives rather than more contemplative strategies. The worst are proprietary and generic 'solutions' (try reading *Fish! A Remarkable Way to Boost Morale and Improve Results*, Hyperion, 2000) developed by someone else *outside* your organization. They usually follow a well-worn, tried-and-tested cycle of failure. They start with hype, followed by a big-bang launch and end in disillusionment and recrimination. Such initiatives never gain the requisite commitment and ownership from the people who have to make them work. A greater problem is that the use of outside consultants tends to make the whole process a detached and abstracted exercise. This flies in the face of the fundamental principles of holistic, systemic thinking. This might sound pretty sophisticated, but at least Toyota gives us plenty of confidence to try harder.

Chapter 2

HR-Business Strategy is a New, Generic Option

A 'NEW', GENERIC, STRATEGY

Strategy is a future-looking process, while its impact can only be assessed with the benefit of hindsight. You only know you reached a 'tipping point' after it tipped and you only realize where the peak of the Sigmoid Curve was when you are sliding down the other side of it. Neither of these concepts is of much practical use to the strategist. Sony's original Walkman may have changed the face of mobile entertainment, but its minidisk technology inaccurately predicted what future customers wanted.

Ever since Michael Porter wrote his seminal work *Competitive Strategy. Techniques for Analysing Industries and Competitors* (Free Press, 1980), it has been generally accepted that there are only a finite number of generic strategies. Porter originally referred to cost leadership and product, or value, differentiation as the two main, generic strategies with a third being a focused (or niche) strategy. Other writers, such as Hamel and Prahalad, have told us of a core competence strategy – concentrate on what you are good at – (in *Competing for the Future*, Harvard Business School Press, 1994) and more recently Renée Mauborg and W. Kim Chan would have us believe that you can create clear water between you and your shark-like competitors with a *Blue Ocean Strategy* (Harvard Business School Press, 2005) – a concept already known to most of us as a USP (unique selling proposition). World-weary executives, who have heard it all before, might just regard all of these as statements of the blindingly obvious dressed up in the latest design of Emperor's new clothes.

Formulating a strategy is one thing though, implementing it successfully is another. If you are happy enough with your present strategy you could pick up another book by Kaplan and Norton (*The Balanced Scorecard – Translating Strategy into Action*, Harvard Business School Press, 1996) to make sure implementation follows four generic perspectives (financial, customer, efficiency and innovation). Does any CEO really need all of this advice though? Strategic thinking is as old as civilization and has been practised in military, political and business contexts for many, many years. So is it likely that anyone has come up with any genuinely innovative strategies that have not been considered before?

Several decades of exponential growth in MBA programmes have plagued CEOs with 'new' fads and fashions and the vast array of management books available only serves to confuse anyone seeking a clear way forward. This is the classic paradox of choice; too much apparent choice creating uncertainty and prevarication. Perhaps this book could be seen as just another fad if it were not for the fact that we want to revisit some very old ideas, such as ‘look after your people well and they will look after the business’. We will not be following any lessons for military leaders in Sun Tzu’s ‘The Art of War’ though, because military leaders did not have to *ask* their troops to go into battle, they ordered them. Neither will we be looking to the ‘dark satanic mill’ owners of the industrial revolution for advice as their employees also had little choice in the matter. The only ‘employment’ legislation of the time was the Master and Servant Act, which tells us all we need to know.

Some employers still take the view though, that employees should be grateful they have a job and recessions only serve to reinforce this attitude, but treating people as expendable commodities is unlikely to provide a high value, sustainable strategy. High values and enlightened attitudes are never mutually exclusive, quite the opposite, they are perfectly complementary. So no CEO should think they are being asked to choose between a business strategy and an HR strategy; both are mutually inclusive.

Even when times were hard in the nineteenth century, enlightened leaders like Robert Owen in New Lanark in Scotland (see www.robert-owen.com) realized that a caring attitude to employees could make good business sense as well as creating a better type of society in which to live. If you have never heard of Robert Owen though, or of any of the other famous business philanthropists (Rowntree, Hershey, Cadbury – business philanthropists were often Quakers and seemed to like their chocolate), it is probably because their management methods did not become mainstream. Perhaps they were not entirely able to square the circle of hard-nosed capitalism with individual and societal benefit? Perhaps they were naïve or maybe just ahead of their time? Strategy involves such lengthy timescales it is often difficult to know the difference but there must be something in this idea of getting the best out of people by looking after them. It is just common sense.

In much of the recent academic literature on HR strategy and in HR circles generally, there has been great play made of the concepts of employee engagement and talent management. The simple notion that *how you manage your people* will influence your business performance is generally well accepted. However, like most blindingly obvious ideas, it is much easier to say than to do because it involves reconciling potentially conflicting forces. For example, hospital patients want to get well; nurses want to give excellent care; a ward manager wants to keep costs down; taxpayers want low taxes (until they become patients themselves) and governments just want the figures to look good. That is why a strategy is required in the first place; it is the only way to plot a course through a range of diverse perspectives. Then there is the issue of whether your people can deliver the strategy. Can that be taken for granted? Probably not, otherwise why did academics like Kaplan and Norton come to the conclusion that an *implementation* scorecard was necessary?

Even if you get this far, the toughest judges will be asking whether your strategy is the best option among all those available. We might guess that most 'successful' CEOs (in conventional terms) would just reply to this question by saying 'look at my results'. The only problem with that simplistic response is what results should we look at? Existing profits? The current cost base? Market share? Customer satisfaction? Or are there better indicators that offer deeper insights into longer-term, underlying strengths and weaknesses? For example, how innovative are you and what is your average product development cycle time? This could be a particularly telling point in industries like pharmaceuticals where any delay can cost billions in cash flow. Similarly, when Ford and General Motors used to make a profit, were their senior executives aware of the deep-seated malaise that had infected their business: a disease that eventually led to their junk bond, credit rating from Standard & Poor's?

REPORTING ON STRATEGY

The banking crisis of 2008–2009, the collapse of Lehman brothers, the Madoff Securities Ponzi scandal and many other recent events have only served to reinforce mounting concerns with the way we audit, analyse, manage and report on organizational performance. So we have to start reporting on organisations holistically, in much greater depth and, most important of all with a new perspective on the way human capital is managed. This approach will have to incorporate a full, rigorous and robust analysis and an assessment of what returns the organization is managing to accumulate. In doing so, we should be able to discern those organizations that are managing to achieve competitive advantage and high value *from their people* and those who still regard 'human resource management' as at best a tedious, administrative chore and at worst an annoying, operational irritant that gets in the way of running the business.

We are raising serious issues of corporate governance here that were already being discussed some years before the credit crunch of 2007 started. In the UK the government's Department for Trade and Industry did more than most to try and produce a workable framework for assessing the value of human capital. It created a special Accounting for People Taskforce to pull together current thinking on the subject with a view to making recommendations for a new, annual, Operating and Financial Review (OFR) to be completed by the top FTSE companies.

The first hurdle it had to overcome was to establish a clear definition of 'human capital management' (HCM). While the term had gained currency since Gary Becker's work in the 1960s (see *Human Capital: A Theoretical and Empirical Analysis*, with Special Reference to Education University of Chicago, 1994) there was still no common definition or proprietary model for

HCM and there has been no clear delineation between 'human capital management' and 'human resource management'. So, for now, we will use the terms 'HCM' and 'HR-business strategy' interchangeably, but we will adopt the definition of HCM offered by the Taskforce in its report published in October 2003 because this captures the very essence of both: (http://www.berr.gov.uk/files/file38839.pdf)

> *Human capital management is an approach to people management that treats it as a high level, strategic issue and seeks systematically to analyse, measure and evaluate how people policies and practices create value.*

Regardless of what else the taskforce did or did not achieve, this definition fits perfectly with the sort of HR-business strategy that we are suggesting any CEO might want to build. However, it is a definition loaded with meaning, so we need to really understand each of the key words as they set a very tough challenge:

High level – HCM is not something that can be delegated to the HR team or middle management. Its implementation demands sponsorship, ownership, commitment and involvement from the highest level possible.

Strategic – HCM is inherently strategic; it cannot be detached or bolted on, ad hoc or piecemeal.

Systematically – it has to happen systematically, which means its success will be entirely dependent on having effective HCM systems in place.

Analyse – without deep and incisive analysis the problems will be ill-defined and the solutions ineffective.

Measure – without a philosophy of accountability and management by measurement, and the selection of the right measures, HCM will be nothing more than a bureaucratic paper chase.

Evaluate – evaluation has to be a management mindset backed up by closed-loop, feedback systems and a willingness to hear not just the good news but the bad as well. The organization has to learn from its mistakes and evaluation is a crucial part of changing the culture from 'seeking-to-blame' to one of problem prevention and quality assurance.

Value – measures on their own say very little until true value has been assessed and this has to mean value with £ signs.

In the event, the government dropped the OFR reporting requirement. What really let the Taskforce down though was a complete absence of any meaningful HCM data supplied by the case study organizations in their report. All reported standard personnel data such as absence and staff turnover figures without any clear £ sign benefits attributed to HCM. The hype surrounding HCM had completely overtaken reality of HR practices on the ground; a very common problem.

A real HR-business strategist would never be taken in by such rhetoric as he or she would seek direct and causal connections to be made between a continuous trend in organizational improvement and human capital practices. If we look at the Royal Bank of Scotland as an example, this had been a darling of the stock market for its audacious takeover of Natwest bank and for taking a huge share in Bank of China in 2006. It is not surprising, therefore, that its Chief Executive, Fred Goodwin, was asked to join the Taskforce and add his endorsement:

> *Accounting for People helps provide organisations with the framework to demonstrate the effectiveness of their people strategies and their impact on business performance.*

This is the same Fred Goodwin who was known in the City as ‘Fred the Shred’ for making profits by brutally cutting costs and who reluctantly resigned in October 2008 after the UK government had, in effect, nationalized the bank to save it from collapse.

You do not have to be the shrewdest analyst to cut through this PR gloss, but to really get under the skin of an organization, to see how its heart is beating, how its major organs are functioning and whether it is in good general shape is a highly skilled job; the organizational equivalent of a neurosurgeon. Such analysts will not jump to the conclusion that the companies with the ‘best’ financial results must be the best managers of human capital and will not be taken in by spurious statistics. Their analysis will be evidence-based and the evidence they seek will have to be very convincing.

WHY MOST EXISTING HR ‘STRATEGIES’ ARE NOT WORTHY OF THAT NAME

There is still a widely held misconception that HR strategy is something that can be produced in isolation from the business strategy; with a life of its own. This type of thinking is best exemplified in this statement from a former VP of HR from US telecom company Verizon:

> *I worked with the business presidents and general managers running the lines of business. I said, “Here’s the HR strategy now let’s brainstorm what questions you need answered from a human capital perspective. What are the questions that are keeping you up at night?”*
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> (from www.HR.com, 18 June 2001)

Any CEO worth their salt should immediately be able to spot the ‘deliberate mistake’ here (have you?). This VP’s mental framework is completely upside down and the wrong way around. Shouldn’t the issues that are ‘keeping you awake at night’ have been the first questions the VP of HR should have asked, not the last? They should have been the very issues on which to focus the HR-business strategy, not something bolted on as an afterthought. This also begs the very obvious question – on what basis did the VP of HR originally formulate his own HR ‘strategy’?

One can only assume that he must have had some sort of HR strategy template to work to, regardless of the business strategy at Verizon: a generic