A METHODOLOGY FOR THE DEVELOPMENT
OF A HUMAN RESOURCE STRATEGY

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Abstract

A human resource strategy is a critical component of the firm's corporate and business strategies, comprising a set of well-coordinated objectives and action programs aimed at securing a long-term, sustainable advantage over the firm's competitors. A human resource strategy should be consistent with the firm's corporate and business strategies, as well as with the other managerial functional strategies. A process and a structured methodology for designing such a human resource strategy is presented. This methodology has been successfully tested in actual business environments.
Introduction

Most top managers whom I have encountered, when asked what is the central priority of their offices and the activity which attracts most of their attention respond that it is the proper identification, development, promotion and reward of their people. Jack Welch, the current chairman of General Electric, said to a group of students at the Harvard Business School that if you define the right task, put the appropriate person in charge of it, and back it up with the right kind of reward system you don't need to be a good manager to obtain excellent performance.

The undeniable importance of human resources for every organization has been intensified in American firms due to the development of a number of firms requiring a broader, strategic oriented treatment of human resources. Beer et al. [21 summarize these recent pressures as follows:

- Increasing international competition, particularly from the Far East.
- Increasing complexity and size of organizations.
- Slower growth or declining markets in a great many industries.
- Greater government involvement in human resources practices.
- Increasing education of the work force.
- Changing values of the work force.
- More concern with career and life satisfaction.
- Changes in work force demographics.
These concerns have prompted a great deal of attention to the need of managing human resources in a strategic manner: that is, in a way which may allow the firm to establish and sustain a long-term advantage over its competitors. Excellent literature sources which discuss that subject have recently been published, particularly Barocci and Kochan [1], Beer et al [2], Fobrum et al [5], and Skinner [9]. However, in spite of all these considerations, strategic management of human resources is far from being a reality in most American enterprises. Although the formulation of corporate and business strategies is becoming commonplace, human resource issues do not seem to be addressed with an appropriate sense of priority. Rather, the personnel requirements of those strategies are identified after the fact, and pass along to the personnel managers for them to supply the necessary manpower at the various skill levels demanded by the strategic plans.

This practice not only diminishes the strategic role of human resources, but also fails to recognize that the accountability for human resource effectiveness involves every line manager in the organization and it is not a staff activity to be relegated exclusively to the personnel function.

This paper describes a methodology we designed for a major American corporation to facilitate the development of a human resource strategy in consonance with corporate and business strategies, as well as the other functional strategies of the firm. The proposed methodology is an extension of the work we have done for
the formulation of corporate and business strategies (Hax and Majluf [6] and [7]), and, particularly, for the development of a manufacturing strategy (Fine and Hax [3]).

The Proposed Methodology for the Development of a Human Resource Strategy

We recognize that any methodology to support the development of human resource strategies should be tailor-made to accommodate the idiosyncrasies of a given firm, the characteristics of its industry and competitive environment, and the managerial style and culture of the organization. However, we find there are enough common issues in the formulation of a human resource strategy that it is possible to generate a useful, general-purpose process to guide managerial thinking in this area. Moreover, we want to be as structured as possible in the specification of this methodology to allow managers to translate the basic concepts and principles of human resource strategy into pragmatic and concrete action programs.

The basic steps of the methodology we propose are summarized in Figure 1. Each step will be revised, with occasional presentation of some of the forms we use to facilitate the reporting of the results of a given step. Obviously, strategic planning is not a form-filling exercise and there are significant dangers in over-specifying the planning process with detailed forms. We use those forms judiciously and we include them in here simply to allow for a more explicit understanding of the objectives of each step of
A Framework for Strategic Decision Making in Human Resources

The foundation of a human resource strategy is the conceptual framework that organizes the thought processes of the managers involved in the articulation of that strategy. The framework we use consists of, first, defining the major categories of human resource strategic decision making and, second, identifying the performance measures to address the objectives of the human resource strategy.
A human resource strategy must be comprehensive, in the sense of addressing all the diverse personnel and human resource activities central to the long-term development of the businesses of the firm. We chose to encompass the totality of these activities within five major decision-making categories:

- Selection, promotion and placement: managing the flow of people in, through, and out of the organization.
- Appraisal: evaluation of the performance of people within the organization.
- Rewards: providing adequate compensation, fringe benefits and motivational support to employees at all levels.
- Management development: creating mechanisms to enhance skills, promotional opportunities and career paths.
- Labor/Employee Relations and Voice: establishing a cooperative climate between managers and employees.

The definition of these strategic categories linked to human resource management, as well as their corresponding strategic issues and strategic choices are summarized in Figure 2. The way in which these decisions are affected by the various stages in the business life cycle is presented in Figure 3.

The second element of our framework consists of identifying effective measures of performance associated with human resource strategies. This is a particularly difficult subject to resolve, since there is no clear consensus on appropriate measurements to use. Beer et al [2] recommend what they refer to as the four Cs:
<table>
<thead>
<tr>
<th>Selection, Promotion, &amp; Placement</th>
<th>Appraisal</th>
<th>Rewards</th>
<th>Management Development</th>
<th>Labor/Employee Relations, Voice</th>
</tr>
</thead>
<tbody>
<tr>
<td>Includes all those activities related to the internal movement of people across positions &amp; to the external hiring into the organization. The essential process is one of matching available human resources to jobs in the organization.</td>
<td>Perhaps the least liked managerial activity. It contributes to three essential processes: - Rewards can be allocated in relation to performance. - Human resource planning &amp; development of current inventory of talent. - Development process.</td>
<td>Pays in various forms: promotion, management praise, career opportunities, appreciation from customers and clients, personal sense of well-being, opportunities to learn, security, responsibility, respect from coworkers, friendship with coworkers.</td>
<td>Activities designed to ensure that individuals are properly equipped with skills and knowledge to carry out their jobs.</td>
<td>Activities oriented toward establishing a degree of collaboration between management and labor/employee forces.</td>
</tr>
</tbody>
</table>

- Devising an organization-wide selection & promotion system to support corporate & business strategies. - Creating internal flows of people that match the business strategies. - Matching key executives to the business strategies.

- Designing an appraisal system supportive of the corporate & business strategies.

- Designing a reward system to reverse the tendency of short-sighted management, providing balanced support to short-term and long-term strategic goals.


- Developing a policy regarding the amount of influence employees have with regard to matters such as business goals, pay, working conditions, career progression, employment security, etc.

- Make vs. buy
- Little recruiting above entry level vs. sophisticated recruiting at all levels.
- Selection based on weeding out undesirable employees vs. careful initial screening.

- Process-oriented vs. result-oriented system.
- Identification of training needs vs. staffing needs.
- Individual/group vs. division/corporate performance evaluation.
- Time series vs. cross-section comparisons

- Compensation oriented toward position in the organizational hierarchy vs. toward performance.
- Internal consistency vs. external competitiveness.
- Total compensation driven by cash vs. incentives.

- Formal vs. informal development programs.
- Extensive vs. limited development programs.
- Skill building vs. skill identification and acquisition.

- Unionization vs. non-unionization.
- Minimize vs. share power and influence of labor force.
- Autocratic vs. participatory management systems.

- Development of employee influence mechanisms such as self-management groups, task forces, quality of work life committees, ombudsmen, etc.
### BUSINESS LIFE CYCLE

<table>
<thead>
<tr>
<th>Start-up</th>
<th>Growth</th>
<th>Maturity</th>
<th>Decline</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Appraisal</strong></td>
<td>Appraise milestones linked to plans for the business, flexible.</td>
<td>Linked to growth criteria, e.g., market share, volume unit cost reduction.</td>
<td>Evaluate efficiency and profit margin performance.</td>
</tr>
<tr>
<td><strong>Rewards</strong></td>
<td>Salary plus large equity position.</td>
<td>Salary plus bonus for growth targets, plus equity for key people.</td>
<td>Incentive plan linked to efficiency and high-profit margins.</td>
</tr>
<tr>
<td><strong>Management Development</strong></td>
<td>Minimum until a critical mass of people in business, then job related.</td>
<td>Good orientation programs for fast start-ups. Job skills. Middle-management development.</td>
<td>Emphasis on job training. Good supervisory and management development programs.</td>
</tr>
</tbody>
</table>

Figure 3: The Major Human Resource Strategic Categories and the Business Life Cycle

(Adapted from Barocci and Kochan [1]; and Fombrum and Tichy [4].)
commitment, competence, cost effectiveness, and congruence. We
found them to be rather ambiguous and difficult to assess. Instead,
we proposed two different sets of measurements: one dealing with
organizational outcomes and the other, with individual outcomes.
We believe this taxonomy to be a useful one since human resource
management basically attempts to seek congruency between organiza-
tional and individual objectives.

The performance measurements of organizational outcomes we
chose in the application of this framework were conditioned to the
characteristics of the firm involved in our analysis and were the
following:

- Cost (unit cost, total cost, life cycle cost)
- Delivery (percentage of on-time shipments, predictability of
delivery dates, response time to demand changes)
- Quality (return rate, product reliability, cost and rate of
field repairs, cost of quality)
- Flexibility (product substitutability, product options or
variants, response to product or volume changes).

The performance measurements for individual outcomes
selected were:

- Job satisfaction
- Job performance
- Turnover
- Absenteeism
- Motivation
- Job security
- Career prospects
- Psychological stress
- Safety/health conditions
- Income.

Obviously, these performance measures could be expanded or modified to fit more closely the strategic position of a firm and its individual circumstances.

Linking Corporate and Business Strategies with Human Resource Strategies

The essence of strategy is to achieve a long-term sustainable advantage over the firm's competitors in every business in which the firm chooses to participate.

The corporate strategic planning process is a disciplined and well-defined organizational effort aimed at the complete specification of corporate, business, and functional strategies. It identifies all the major tasks to be addressed in setting up these strategies and the sequence in which they must be completed. These tasks are briefly described in Figure 4. (For a comprehensive discussion of this subject, the reader is referred to Hax and Majluf [6] and [7]). For the purpose of strategy formulation, we can concentrate on the front-end of the planning process.

First, the corporate level articulates the vision of the firm and its strategic posture; next, the business managers develop business strategies in consonance with the corporate thrusts and
1. The vision of the firm: corporate philosophy, mission of the firm, and identification of strategic business units (SBUs) and their interactions.

2. Strategic posture and planning guidelines: corporate strategic thrusts, corporate performance objectives, and planning challenges.


4. Formulation of business strategy and broad action programs.

5. Formulation of functional strategy: Participation in business planning, concurrence or non-concurrence to business strategy proposals, broad action programs.


7. Definition and evaluation of specific action programs at the business level.

8. Definition and evaluation of specific action programs at the functional level.


10. Budgeting at the business level.

11. Budgeting at the functional level.

12. Budgeting consolidations, and approval of strategic and operational funds.

Figure 4: The Formal Corporate Strategic Planning Process

(Source: Hax and Majluf [6] and [7])

challenges; and finally, the functional managers provide the necessary functional strategic support.

It is important, therefore, to assure the proper linkage between the business strategies and the resulting human resource strategy. To accomplish this, we start by identifying the human resource requirements imposed by the set of broad action programs of each strategic business unit (SBU). Figure 5 displays a form for this purpose. The collection of human resource requirements
SBU | BROAD ACTION PROGRAMS | HUMAN RESOURCE REQUIREMENTS
---|--------------------------|-----------------------------

Figure 5: Requirements Placed on Human Resources by SBU's Broad Action Programs

represents the demands placed by the business managers on the human resource or personnel function. Occasionally, disagreements might occur between business and personnel managers as to the effectiveness or even feasibility of some of these human resource requirements. If concurrence cannot be reached by a direct process of negotiation, the nonconcurrence issues escalate to higher levels of the organization for resolution.
Strategic Audit of the Human Resource Management Functions

We feel it is important to conduct a broad strategic audit of the human resource function prior to developing its functional strategies. This initial audit has several objectives. First, to assess the availability and use of human resource data in the organization; second, to measure the impact of human resource considerations on strategy formulation; and, third, to detect the extent to which human resource activities are used and should be used in strategy implementation to accomplish these purposes, we use the forms presented in Figures 6, 7, and 8, respectively.

<table>
<thead>
<tr>
<th>NOT AVAILABLE NOT USED</th>
<th>SYSTEMATICALLY AVAILABLE GREATLY USED</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. EXTERNAL MANPOWER STUDIES</td>
<td></td>
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<tr>
<td>2. INVENTORY OF MANAGERIAL TALENTS</td>
<td></td>
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<tr>
<td>3. FORECASTS OF INVENTORY OF FUTURE TALENT</td>
<td></td>
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<tr>
<td>4. INVENTORY OF TECHNICAL TALENT</td>
<td></td>
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<tr>
<td>5. HUMAN RESOURCE AUDIT OF CONSIDERED ACQUISITIONS</td>
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<tr>
<td>6. SUCCESSION PLANS FOR TOP MANAGEMENT</td>
<td></td>
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</tbody>
</table>

☐ = Data Availability
○ = Data Usage

Figure 6: Availability and Use of Human Resource Data

(Source: Fombrum, Tichy and Devanna [10, Chapter 7])
Figure 7: Impact of Human Resource Considerations on Strategy Formulation
(Source: Fombrum, Tichy and Devanna [10, Chapter 7])

<table>
<thead>
<tr>
<th>NOT USED</th>
<th>SHOULDN'T BE USED</th>
<th>USED GREATLY</th>
<th>SHOULD BE GREATLY USED</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. MATCHING EXECUTIVES TO STRATEGIC PLANS</td>
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<tr>
<td>2. IDENTIFICATION OF MANAGERIAL CHARACTERISTICS TO RUN FIRM IN LONG TERM.</td>
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<tr>
<td>3. MODIFYING REWARD SYSTEM TO DRIVE MANAGERS TOWARD LONG TERM STRATEGIC OBJECTIVES.</td>
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<tr>
<td>4. CHANGING STAFFING PATTERNS TO HELP IMPLEMENT STRATEGIES.</td>
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<td>5. APPRAISING KEY PERSONNEL FOR THEIR FUTURE IN CARRYING OUT STRATEGIC GOALS.</td>
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<tr>
<td>6. CONDUCTING DEVELOPMENT PROGRAMS DESIGNED TO SUPPORT STRATEGIC CHANGES.</td>
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<tr>
<td>7. CONDUCTING CAREER PLANNING TO HELP DEVELOP KEY PERSONNEL FOR STRATEGIC PLANS</td>
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= IMPACT THEY HAVE
= IMPACT THEY SHOULD HAVE

Figure 8: The Extent to Which Human Resource Activities are Used in Strategy Implementation and the Extent to Which They Should be Used
(Source: Fombrum, Tichy and Devanna [10, Chapter 7])
These forms were taken from a survey conducted by Fombrum, Tichy and Devanna [10, Chapter 2], which facilitates the comparisons of our business managers against the sample reported in the Fombrum study. Finally, the audit attempts to identify the strengths and weaknesses of the existing human resource policies in each of the five strategic categories. Figure 9 presents a format for this evaluation.

**Figure 9: Characterize Your Present Personnel Policies Regarding the Major Decision Making Categories**

<table>
<thead>
<tr>
<th>DECISION CATEGORY</th>
<th>DESCRIPTION OF POLICY</th>
<th>STRENGTHS</th>
<th>WEAKNESSES</th>
</tr>
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<tbody>
<tr>
<td>SELECTION, PROMOTION AND PLACEMENT</td>
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<tr>
<td>APPRAISAL</td>
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<tr>
<td>REWARDS</td>
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<tr>
<td>DEVELOPMENT</td>
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<tr>
<td>LABOR/EMPLOYEE RELATIONS, VOICE</td>
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**Note:** In the assessment of strengths and weaknesses try to have relevant competitors in mind and use proper organizational and individual outcomes.
Development of Human Resource Strategies

The preceding analysis gives the necessary understanding of the basic issues involved in setting up a human resource strategy. The next step is to state strategic objectives, articulated through broad action programs, for each of the human resource strategic decision categories. Figure 10 is helpful for performing this task.

<table>
<thead>
<tr>
<th>DECISION CATEGORY</th>
<th>OBJECTIVES</th>
<th>BROAD ACTION PROGRAMS</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>LONG RANGE</td>
<td>SHORT RANGE</td>
</tr>
<tr>
<td>SELECTION, PROMOTION, &amp; PLACEMENT</td>
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<tr>
<td>APPRAISAL</td>
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<td>REWARDS</td>
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<td>LABOR/EMPLOYEE RELATIONS, VOICE</td>
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Figure 10: Define Broad Action Programs for Each Human Resource Strategic Decision Making Category
Each broad action program has to be supported by a set of specific action programs that can be monitored easily and whose contributions are measurable. Thus, for each human resource decision category, we suggest spelling out the information pertaining to its corresponding specific action programs, as indicated in Figure 11.

<table>
<thead>
<tr>
<th>DECISION CATEGORY</th>
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<table>
<thead>
<tr>
<th>PROGRAM DESCRIPTION</th>
<th>PRIORITY</th>
<th>&quot;COST&quot;</th>
<th>MANPOWER REQUIREMENTS</th>
<th>SCHEDULED COMPLETION</th>
<th>RESPONSIBILITY</th>
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**CATEGORIZE AS FOLLOWS:**

A = **Absolute 1st Priority** - postponement will significantly hurt our position.
B = **Highly Desirable** - postponement will adversely affect our position in the market.
C = **Desirable** - if funds were to be available to enhance our position.

**Figure 11:** Define Specific Action Programs to Support Each of the Broad Action Programs Related to the Personnel Strategic Decision Category

**Conclusion**

Human resources can be a formidable weapon to achieve competitive superiority. In this paper, we have attempted to provide a conceptual framework as well as a set of pragmatic methodological guidelines to
design a human resource strategy for a business firm. For the sake of brevity, we have covered only the essential elements of this methodology. We recognize that much more sophistication is needed to embrace the details of strategy formulation and implementation in a complex, specific business environment.
References


