

ONE

Pressures for Change

Organisations have been subject to enormous pressures over the past few years, with major underlying structural changes in industry sometimes concealed behind the short-term issues of recession. Every generation of managers since the Second World War, and possibly before, has felt that it has had to face more change in a more complex situation than did preceding generations. For each generation this is probably a true statement, which means that we have faced a trend of increasing difficulty and turbulence, which shows no sign of slowing.

I believe that organisations will face continuing pressures as we move further into the twenty-first century, and the problems that managers will have to cope with will be even greater than those we experienced in the turbulent 1990s.

There will be no simple solutions, and success will depend, as always, on the soundness of the strategic decisions taken by top management, and the ability of the organisation to implement those strategies. This would push the human resource aspects of the business to the fore, even without the added complication of continued change and the pressures that this brings. Human Resource Management, which is already very professional in many organisations, needs to become even more strategic in the way it operates. In effect it needs to be driven by the business needs of the organisation, but without losing sight of the critical value and importance of people in making strategies become reality. Top management also needs to give greater consideration to HR issues at the strategy formulation stage. These are not easy tasks.

Why Business Driven Human Resource Management?

Of course Human Resource Management (HRM) has always tried to contribute to business results. Most HR managers are motivated to play a part in achieving success for the organisations for which they work, and make this concern a driving force in their day-to-day operations. Like any other area of management, HRM involves setting policies, formulating plans, and trying to make the best decisions possible. All this is done in a context of how the organisation as a whole, and the HR manager in particular, see the role of HRM, the environment of the business, and the situation in which it operates. This creates a perception within which logical actions can be taken. But what if the perception is faulty? What if the world as we see it is not the world as it really is? Once you change the boundaries of perception, you also may destroy the logic that made sense of previous decisions.

This is the situation in which I believe many businesses now find themselves. The perceptual boundaries to business have changed and with that has come a need to look at HRM from a different perspective, so that it makes a greater strategic contribution to the business. I have used the term 'business driven' to describe the focus which I believe is needed, but which is not yet universally applied. Business driven means being proactive as well as reactive and playing a role in setting the strategy of the organisation. It means using the strategy as the driving force for all HR policies and plans, and ensuring that this thinking becomes a philosophy that stretches to the lowest level of decisions and actions in the HR department. It means ensuring that the human factor is considered by the chief executive and other managers in all important decisions. Above all it means that HRM must add value to the organisation.

Of course, there are organisations where a business driven approach to HR is practised. If this were not so, any book such as this would deal only with theory. There are many more organisations where only some of the concepts are applied. There are others

where the need has been recognised, but for one reason or another progress has been disappointing. The research evidence for these statements will be given later.

The aim of this book is to explore practical approaches that will enable an organisation to apply a business driven approach to HRM, and to support this with case studies and examples. Research findings will be used to add emphasis to the points made.

The starting point is to examine some of the forces for change which I believe are making it ever more necessary for organisations to examine the degree to which HRM is contributing to the strategic health of the business. To aid this process checklists of questions will be provided to enable readers to 'audit' their current HRM activities.

Forces for Change

Strong forces are shaping the environment in which we operate, and old concepts of management have to be re-examined against the challenge of the world we live in today, and the world we believe we will live in tomorrow. While there will always be many new issues in the external business environment which will affect the organisation from time to time, and which will impact both the corporate strategy and HRM, we can also see some long-running trends which have been with us for some years, and which will continue into the future. A feature of these forces for change is that they know no geographical boundaries, and few organisations and few countries are immune to them. Perhaps of more significance than the individual forces described here is the cumulative result: organisations face a period of almost continuous change. There is no escape from this, so the only solution is to learn to live with it, and this makes the people aspects of management even more significant than they have been in the past.

The forces described here are unlikely to surprise the reader, as they will fit the observations of most managers. However, they were not derived by guesswork, but from a number of studies undertaken in Europe and the USA. Those which I found the most useful include

Sullivan (1989) and Barham and Bassam (1989). The second work was an extension of an earlier study by Barham, Fraser and Heath (1988). The fact that these references are more than a decade old does not invalidate them. They have been repeated, and to a degree updated, in so many books and articles that the statements made here have become almost part of the body of knowledge which we all share.

- *Competition.* Competition has increased, and for most industries it is no longer possible to define competition within the boundaries of a particular country. There are few places where an organisation can shelter from competitors, and many industries have been shaken up because their competitors have taken a global view of their markets. The demise of the British motor cycle industry was in a large part due to the inability of the British firms to imagine that anyone could gain great production advantages by thinking of manufacture for a global market, instead of the traditional approach of producing for the local market and the exporting of any surplus, mainly to countries of the former Empire where there was a protective customs tariff. The trends identified in the 1989 research referenced earlier have been further enhanced by technological developments and the emergence of e-business. More and more organisations are compelled to think of their business in global terms, and most others are subject to ever increasing intensities of competition.
- *Customers are more demanding.* The lifestyle expectations of the whole population have increased steadily, and continue to rise. Many in the developed countries regard poverty as relative rather than absolute deprivation. With higher expectations, and more choice, it is not surprising that the individual consumer is less tolerant of poor products and service, and more vocal in expressing dissatisfaction. The industrial customer is more demanding, quite rightly so, in order to attain the cost levels and to supply the quality and timeliness of delivery that enable him/her to compete. While the new requirements bring opportunities for the whole supply chain to work in a more cooperative manner than may

have been traditional, there is much less willingness by industrial customers to condone failures. Few can afford to do so, if they are to succeed in their own markets. Customers who have embraced outsourcing as one of their responses to change today have vastly different needs from and expectations of suppliers than would have been the case a few years ago.

- *Accelerating pace of technological obsolescence.* Product life cycles are shortening. This has a positive advantage in that it keeps markets growing: these days we are unlikely to run into the old problem of Singer Sewing Machines who made products that would last for many years, but without the technological advances that would make people want to upgrade to the next level. It also means that the time to exploit a new product or innovation is much shorter than in the past, and if too long is spent in development, the product may be nearly obsolete before it is launched.

Plant and office equipment also becomes obsolete more quickly. Think of how we now process letters and reports. The forerunner of the typewriter was invented in 1843. Some 30 years later Remington began production of a 'proper' typewriter. The mechanical typewriter became the office staple until after the Second World War, and still had a use in many offices up until the 1960s. Of course there were improvements but it was not uncommon to expect a 20- or 30-year life from a machine. Around the 1950s electric typewriters began to appear, and had become the norm in modern offices by the 1960s. There were more frequent innovations, but again buyers could expect them to be long-lasting. Word processors using punched cards found their way into offices in the early 1970s, but were soon to become obsolete as computer technology developed. Later in the 1970s electric typewriters gave way to electronic machines. The big acceleration in obsolescence came in the late 1970s and early 1980s, when computer-based systems took over, expanding from typing to desktop publishing, and providing the ability to produce graphics and text as well as many other features. Innovation of software and hardware now

means that few office computer systems have a life of more than about five years. Certainly no one could contemplate going back to the long life cycles of the pre-computer age. Businesses which cannot afford to update, or which take too long in launching new innovations, have a great competitive disadvantage.

Technology advances bring opportunities as well as threats. One example close to the hearts of HRM managers is the new opportunities offered by advances in computer technology, making e-learning a real option, and providing opportunities for other forms of e-HRM.

- *Pressure to deliver shareholder value.* Top managements of public companies have always had to balance the needs of shareholders for dividends and share price growth against the needs of the business. What became apparent throughout the 1980s was that many strategic actions taken by organisations reduced shareholder value. Porter (1987) drew attention to the ways in which the diversified organisation could create value, and pointed out that many did not do so. Recent research (IFMG, 2001) showed that organisations still have problems in addressing shareholder value. In a study of acquisitions in 2001, it was found that only 30% actually added shareholder value.

Conglomerate organisations went out of fashion in the stock market, and evidence of their failure to deliver as much as the sum of their individual parts was provided by high-profile acquisitions which led to the sell-off of most of the parts, leaving the acquirer with either a handsome profit or retaining the plum business while recovering the full investment from the sale of the other businesses. An example is Hansen Trust's acquisition of Imperial, which meant that they retained the cash-generating tobacco business for a net cost of well below its true value. Hansen's shrewdness helped focus the minds of shareholders and managers on issues of shareholder value. Fuelled by a hostile bid, BAT Industries initially divested all activities except tobacco and finance, and later sold its UK insurance businesses to Zurich Insurance.

Common Responses to the Forces for Change

The response to these trends has been the triggering off of a number of remarkably similar actions across many organisations and industries. The 1990s have been called a decade of restructuring, and this process did not stop with the dawn of a new century. Common actions taken by many organisations have included:

- seeking a reduction of costs, with more attention being given to competitive positioning;
- attention to time as a strategic issue, and attempts to reduce cycle times throughout the organisation;
- giving more attention to customer relationships;
- new forms of relationship with suppliers, for quality, costs and strategic reasons;
- attempts to change the culture of organisations to enable them to react faster and more effectively to market requirements.

It is worth exploring the reactions in more detail. The headings encompass many of the new pieces of jargon which have crept into our vocabulary, and the descriptions will help to emphasise that few, if any, of the new actions can be successfully implemented without careful attention to human resource issues.

Cost Emphasis

Businesses have always been concerned about their costs. The new emphasis has been on costs compared to competitors, and much of the new thinking has been about ways of achieving comparative advantage. One of the manifestations of this was the emphasis on becoming a world class manufacturer. The concept embraces more than costs: it covers also quality and innovation. Hayes *et al.* (1988) define world class: 'Basically, this means being better than almost any company in your industry in at least one important aspect of

manufacturing' (p. 21). For most organisations it was no longer enough to gain an improvement over their own previous year's activities. Long-term success is only possible if organisations do better in some way than their competitors.

Hayes *et al.* argue that 'soft' infrastructural decisions, in which they include 'human resource policies and practices, including management selection and training policies', are critical to the achievement of a world class position. They argue that it is almost impossible for an organisation to spend its way to world class performance by concentrating only on the hardware, such as new plant and equipment.

The most important thing was the recognition that the criteria for success lay outside the business, and that meeting internally-generated targets was irrelevant unless they happened to be as good as or better than the performance of competitors. In the UK we learned this lesson the hard way, with many previously successful industries disappearing because the competitors offered better products at lower cost.

The 1980s also saw a rise in popularity of benchmarking (which is described in more detail in Chapter 12). Many organisations misunderstand benchmarking and see it as just a comparison of ratios. In fact it should be a comparison of the processes that caused the ratios. There are many stories of successful benchmarking projects, including companies such as Ford and Xerox. Lessons can be learned from organisations that are not competitors: for example, Motorola was reputed to benchmark against motor racing pit stops, to gain insight into ways of improving changeover time on assembly lines (see Hill, 2000, pp. 503–5 for further examples).

Benchmarking does not itself cause change, but it is a means to deciding where changes are needed. Karlöf and Östblom (1993) argue that benchmarking should be part of an approach to the learning organisation.

Even more fashionable, and much more widely applied, are the sweeping 'downsizing and delayering' actions which swept through most organisations on both sides of the Atlantic particularly during the 1990s. A more recent attempt at a politically correct description is

'rightsizing'. The aims are usually to reduce costs, to push decision making further down the organisation to the closest possible point to the customer, and to change culture. Despite all the hype, my impression is that most such initiatives are really for cost reduction, and that comparatively few organisations are really serious about the other aims. The human resource implications of 'rightsizing' are immense, in terms of dealing with the selection and termination of those who are to leave, the retraining of those who are to stay, minimising the impact on morale of large redundancies, and helping to change culture in the required direction.

Business process reengineering came into fashion during the recession years of the early 1990s, although it has declined in popularity since. BPR is about the complete rethinking of how processes are undertaken, and the result of a successful BPR exercise is fundamental change. Johansson *et al.* (1993) describe BPR as '... the means by which an organisation can achieve radical change in performance as measured by cost, cycle time, service and quality ...' (p. 15). The change in emphasis is the focus on the business '... as a set of related customer oriented core business processes rather than a set of organisational functions' (p. 16). Not surprisingly, a BPR initiative has many HR implications, both for the running of the initiative and the implementation of any conclusions.

Time as a Strategic Issue

Time has always been seen to have business significance. Benjamin Franklin's advice to a young tradesman in the eighteenth century was 'Remember that time is money', and I am sure that the same sentiment has been expressed by even earlier sages. In modern business, when the development of new products or improvements in one company takes longer than in a competing company, there is a *multiple* impact. The opportunity to gain revenue from the product may be considerably reduced by the competitor who can respond quicker, costs are likely to be higher than when the product was conceived, and customers may feel let down because expectations are not met. Töpfer (1995) quotes an Arthur D. Little analysis which

showed that to exceed launch time by 10% causes a reduction of revenue for innovative products of 25–30%. Exceeding production costs by a similar 10% would reduce total revenue by 15–20%. The underlying issue is not just about keeping to schedules, but reducing the overall time on a continuing basis. Töpfer illustrated this with some comparisons. For example, in 1980 Brother took four years to develop a new printer: in 1990 it took only two. Honda's development time for cars over the same period came down from eight to three years. In 1986 Sony needed two years to develop a television set, but by 1990 took only nine months.

No doubt similar successes could be observed across a wide range of high technology industries. The pressure is not just to improve, but to improve enough to get ahead of competitors. Typical steps taken by organisations to achieve this include new approaches to project management, closer working relationships between internal functions, the involvement of suppliers and customers in the development, and simultaneous engineering. All of these steps have considerable HR implications, for culture, working methods and attitudes.

Closeness to the Customer

The more exacting demands of customers have led to a new industry: consulting and writing about customer focus. For many this has been no more than using a few words of the new jargon, or making some other cosmetic change. For example, most people who were commuting before the railways were privatised will remember how British Rail started calling us customers instead of passengers in their station public address announcements, but it was hard to find any accompanying improvement in customer service.

Carlzon (1987) triggered a revolution in thinking with the 'moment of truth' concept. This was each moment when a customer came into contact with an employee. At SAS, where he applied the ideas of customer focus when he became president in 1980, he calculated that there were 25 million such moments each year, as there were 5 million customers who each made contact on average with five SAS

employees. In fact the concept was not invented by Carlzon, and had previously been published in Normann *et al.* (1978) and other articles by this author. What Carlzon had done was to apply it very successfully through a mix of restructuring and training so that the front line people were seen as the most important, with the rest of the organisation as backup support. In order to give the front line greater ability to maximise the value of these moments of truth, levels of bureaucracy were removed, the rule book which had previously required matters to be passed upwards for decision was scrapped, and decision-making power was delegated to the front line people to enable them to act in the interest of the customers.

Many organisations have followed this lead of seeing the organisation as an upside-down pyramid, with the people who face the customers at the top, and everyone else, including the chief executive, being there to enable them to work effectively. A natural result was to remove blockages in the organisation to communication and decision making; blockages frequently identified as layers of middle management which were removed because in theory the role they played was now being undertaken by the people who shared the moments of truth with the customers. What we will never know is how many of the organisational restructures, ostensibly undertaken for this reason, were in fact a straight cost reduction measure with little thought about how the organisation would function in the future. If fashion is on your side, do you need to think? I would say yes.

New Forms of Relationship with Suppliers, for Quality, Costs and Strategic Reasons

There are several different drivers which have led to buyers and suppliers developing different forms of relationship. One has been TQM (total quality management), and for many this has been the only approach which has used training that has cascaded from top to bottom of the organisation.

Total quality management is an approach to improving the effectiveness and flexibility of business as a whole. It is

essentially a way of organising and involving the whole organisation; every department, every activity, every single person at every level. (Oakland, 1989)

There are variations on the theme, depending which authority inspired the approach, but all TQM approaches have a number of things in common. These include:

- moving responsibility for quality to the people who do the work;
- creating an immutable objective for the improvement of quality throughout the organisation;
- establishing a culture which makes quality a priority;
- achieving widespread cooperation in quality matters, which crosses the functional and departmental boundaries within the organisation (and sometimes the boundaries outside, between buyers and suppliers);
- using project teams to solve quality problems;
- finding ways of measuring quality and reporting back to the quality teams;
- creating an attitude of team and self control, rather than control through supervision and inspection.

TQM sparked a trend for suppliers and buyers to work more closely together, partly because this can reduce overall costs in the chain, and partly to take time out of development projects. Moving from an antagonistic relationship to one of cooperation is also one of the ways in which overall quality can be improved. Cooperation may include buyers nominating preferred suppliers, which gives both sides the opportunity to plan production more effectively, schedule investment, and work on quality and value. The preferred relationship is great if it is your organisation that is preferred, but tough on the former second and third source suppliers who do not make it to the first division. But it is only great as long as you stay in the preferred position, and to do this requires considerable attention to customer needs and the many 'moments of truth' that are the result of this sort of relationship. There are numerous structural,

attitudinal and cultural factors that have to be appropriate for the success of the new approach.

Although many have walked the TQM road, and spent vast sums to try to achieve the necessary changes, not every organisation has travelled the full journey. Many have underestimated the length of time that such major changes take, and many have not given the amount of management time needed to make them work (partly because managers underestimated the time they should spend on the initiative in the first place).

The other universal approach to quality has been BS 5750 (ISO 9000), which is endorsement that the organisation has the procedures in place to produce quality, but does not by itself create a quality culture, or ensure a quality product.

There is some empirical evidence that in the long run superior quality leads to superior profits. This comes from the PIMS database (Profit Impact of Market Strategy), which showed that businesses in the top third on relative quality received prices that were 5–6% higher than those in the bottom third (Buzzell and Gale, 1987). What is not revealed in these figures is the steady loss of competitiveness of those organisations which fall behind competitors in quality. We have already seen that customer expectations continue to rise. My expectation is that increasingly organisations will find that TQM cannot deliver when it is applied in an organisational vacuum, which asks people to behave differently on quality matters than they do on any other aspect of the business. Perhaps the secret for the future will be to move more towards a concept of the learning organisation within which TQM will be an element. Mayo and Lank (1994) state: 'A Learning Organisation harnesses the full brain power, knowledge and experience available to it, in order to evolve continually for the benefit of all its stakeholders'. There is clearly much here which is of concern to business driven HRM management, and the learning organisation is something which we will explore later.

However, it is not just TQM which has changed relationships between buyers and suppliers. Even more far-reaching is outsourcing. There have always been 'make or buy' decisions in organisations, leading to work being put out for cost reasons. However,

modern outsourcing is also about a more strategic approach. The concept is that if an organisation identifies its critical core competencies, and outsources other things, it will be able to focus effort and resources where it has a competitive advantage, and use the critical skills of other organisations for its other activities.

Some outsourcing arrangements require a strategic partnership between buyer and supplier, which triggers changes in structure, policies, systems and people in both the buying and selling organisations. Success often hinges on the attention given by both parties to HR issues.

Culture Change, Flexibility and Fast Reaction

Earlier we looked at one aspect of the strategic importance of time. There is another, which is the ability of the organisation to respond quickly to unforeseen events. Although some of the delayering initiatives have been intended to serve this purpose, there are also accompanying trends. One which has come to the fore in the last decade is the announced intention to change culture. The reasoning seems to be that a chief executive recognises a mismatch between the existing culture, which reflects the behaviours needed for the success patterns of the past, and the business situation the organisation now faces. One of the pioneers of this route was General Electric in the USA, where Jack Welch took action to make the whole organisation 'lean and agile'. Leanness might come from delayering, but agility is a cultural attribute. BP's now famous *Project 1990* was inspired by a new chief executive elect, who assembled a small team to assess the gap between existing culture and organisation and that needed for competitive success. When he took up office he was in a position to embark immediately on a high-profile, and to a large degree public, culture change initiative. It is not possible to be more public than to invite a leading business journalist to the board meeting where the need was debated and the intention to change culture confirmed.

The search for flexibility and fast response has taken other forms. Flexible working has become more than a minority activity, giving

the employer the ability to turn costs on and off like a tap. There are many consequences of this, and it has become a subject in its own right. Similarly, one of the reasons for outsourcing activities may be cost, although for many organisations it is to give greater flexibility, as it leaves someone else with the problem of adjusting capacity to a decline in work. There are also ideas, particularly those of Ansoff (see Ansoff and McDonnell, 1990, but see also Brown and Eisenhardt, 1998) about matching the way an organisation is managed to the degree of turbulence in the environment. At present these are used consciously by comparatively few organisations, so can hardly be considered to be a trend. However, this is an area of strategic importance to organisations and to HRM, and is something which will be explored later.

The picture I have painted is one that shows a business arena where human resources management is critical for strategic success. This, of course, is the general background before any consideration is given to the human resource implications of the particular strategies of individual organisations. The following chapters will move from the generalisation that HR should have a greater strategic role to the ways in which this can be achieved.