

## **Linking Corporate Strategy and HR Strategy**

**Rishiksha T. Krishnan**  
**Associate Professor of Corporate Strategy**  
**Indian Institute of Management Bangalore**

Recognition of the link between corporate and business strategies and strategies related to the people function is not new. McKinsey's 7-S framework that emphasised the need for the alignment of seven organisational variables (superordinate goals, strategy, structure, systems, staff, skills, and style) for organisational effectiveness is about twenty years old. But, during this time, the importance of people to organisational success has, if anything, only multiplied as businesses have become more knowledge- and technology-driven. As a result, even strategy gurus, who typically talk about esoteric topics like transnational corporations and integrated networks, today emphasise the importance of the "individualised corporation".<sup>1</sup> In this paper, we attempt to integrate multiple perspectives on the links between corporate strategy and human resources strategy with the objective of giving HR professionals working within an organisational context some pointers on how they can contribute to better integration of corporate and business strategy with HR strategy.

### **Corporate and Business Strategy**

Corporate strategy refers to decisions on what business to enter, what businesses to retain in the portfolio and those to exit from. It specifically directs attention at how the corporate office can add value to the diverse businesses in the portfolio so that their value as a part of the corporation exceeds the value they would have as free-standing businesses.

Business strategy focuses on achieving competitive advantage on a sustained basis. There are two generic routes to competitive advantage – through being the lowest cost producer, or through differentiation and a price premium.<sup>2</sup> The four generic building blocks of building a competitive advantage are superior efficiency, superior quality, superior customer responsiveness and superior innovation.<sup>3</sup> Companies achieve these drivers of competitive advantage through the creation of distinctive competencies. Distinctive competencies are built through resources and capabilities. Most resources are created by deliberate actions by the organisation. This is true of tangible resources like buildings, plant and machinery, as well as intangibles such as brands, patents and technological know-how. Capabilities are a company's skill at coordinating its resources and using them productively. These capabilities get embedded in an organisation's routines and processes. By their vary nature, capabilities are more difficult to copy or imitate as they are often the result of a complex interaction between the structure, systems and values of an organisation. Though it is sometimes difficult to explain *post facto* how exactly a capability was created, or for an organisation to re-trace the path traversed by another organisation that enabled the latter to create certain capabilities, it is possible for an

**Krishnan, Rishiksha T.** "Linking Corporate Strategy and HR Strategy: Implications for HR Professionals," In R. Padaki, N.M. Agrawal, C. Balaji and G. Mahapatra (eds.) *Emerging Asia: An HR Agenda*, New Delhi: Tata McGraw-Hill, 2005, pp. 215-223.

organisation to take deliberate actions to create capabilities.<sup>4</sup> The deliberate actions taken to create resources and capabilities spring from the functional strategies adopted by an organisation.

### **Business Strategy and HR Strategy**

The American steel manufacturer, *Nucor*, is an excellent example of a company that has integrated its human resource strategy tightly with other functional strategies to create inimitable capabilities and drive competitive advantage. *Nucor's* competitive advantage is based on cost leadership. It achieves this through all the four building blocks – efficiency, quality, innovation and responsiveness. At the base is a well-matched human resource strategy. *Nucor* hires goal-oriented, self-reliant people who are motivated by striving for continuous improvement that yields them increasing monetary compensation.<sup>5</sup> Since the production of quality steel depends on teamwork, workers within the plant are eligible for substantial incentives based on the output of their group. But, plant managers' compensation depends not only on the performance of the plant they are managing, but of the company as a whole – this is to provide an incentive to transfer best practices and innovations to other parts of the organisation. To keep costs down, it has very few layers, all managers travel by economy class, and even frequent flier miles are used by the company. *Nucor* builds small plants, close to locations where there is demand for its products – this is to reduce transportation costs, but also to be more responsive to its customers. Every time it has to build a new plant it assembles an in-house group to build it so that it can take advantage of its learning from earlier projects as well as prevent diffusion of its innovations to others. *Nucor* undertakes little research and development on its own, but maintains close links with technology suppliers the world over and keeps a close watch on developments that could affect its competitiveness. It is willing to experiment with new technologies that have been proven at the pilot plant level by using its plant design skills to scale these technologies up to a commercial scale.

Another legendary company that has matched its business strategy to its human resource strategy is the *Lincoln Electric Company*. A producer of electrodes and welding machinery, *Lincoln* is also a cost leader. *Lincoln's* cofounder James F. Lincoln believed that everyone could develop to his or her full potential through a system of incentives designed to encourage both competition and teamwork.<sup>6</sup> This system has four components: wages for most factory jobs based on piecework output; a year-end bonus that could equal or exceed an individual's regular pay; guaranteed employment and limited benefits. Like *Nucor*, *Lincoln* focuses on hiring individually motivated, high performers. These individuals have their compensation tightly linked to their output with laid-down minimum quality levels. A substantial portion of the company's profits is also distributed to employees at the end of the year based on an individual merit rating that is computed from output, ideas and cooperation, dependability and quality. *Lincoln's* innovative HR strategy enabled it to gain, by 1995, a market share of 36% in the otherwise fragmented US market for welding equipment and supplies. Interestingly

**Krishnan, Rishikesh T.** "Linking Corporate Strategy and HR Strategy: Implications for HR Professionals," In R. Padaki, N.M. Agrawal, C. Balaji and G. Mahapatra (eds.) *Emerging Asia: An HR Agenda*, New Delhi: Tata McGraw-Hill, 2005, pp. 215-223.

though, *Lincoln* found that applying this same system in ventures acquired outside the United States was not effective. In fact, large-scale expansion through acquisition and a rigid application of the US system to the acquired companies almost resulted in disaster for *Lincoln*. Thus the choice of a human resource strategy also depends on cultural factors, both at the societal and organizational levels.

In both the examples we looked at above, the companies adopted cost leadership strategies and were able to align their human resource strategies to their business strategies effectively. Cost leadership typically involves a focus on volumes and efficiency with a close relationship between producing more and earning more. In such cases it is relatively easy to structure incentive systems that align individual and business interests. Typically, human resource strategies for companies competing on a differentiation plank tend to be more complex. Differentiation is much more dependent on value created through research and development and product development, and on the marketing end of the value chain. Performance measurement takes place on many more dimensions and it is therefore more challenging to align individual and business interests.

*McKinsey and Company* is a good example of a differentiator. It offers premium management consulting services to clients internationally. This is a case in which people are really at the core of the value proposition. *McKinsey* hires the best people out of the top business schools (and in recent years, engineering and other disciplines as well). To ensure that it can have a steady inflow of such new talent, it follows an "Up or out" policy; associates who don't make the grade have to leave the firm after a few years. Yet, this policy has not created an army of embittered ex-*McKinsey*ites. This is because of the extensive feedback *McKinsey* employees get almost from the day they enter the firm, as also the close mentoring by senior *McKinsey* partners. *McKinsey* puts tremendous emphasis on the credibility and integrity of its performance measurement and feedback system because they have recognised that this is critically important to running a meritocracy. And it doesn't hurt business either – many *McKinsey* assignments come through the *McKinsey* alumni network who are often senior managers in large corporations.<sup>7</sup>

### **Changes in Business Strategy & HR Strategy**

Changes in business strategy pose interesting problems for HR strategy. Consider the case of *Tata Consultancy Services (TCS)*, India's largest and highly successful software company. *TCS* has always been well known for its good training programmes that enabled engineers from diverse disciplines to become productive software programmers within a short period of time. In the days of bodyshopping, *TCS* was seen by students on engineering campuses as a passport to the US. After a few assignments with *TCS*, many of them found jobs in the US, often with the very companies where they were working for *TCS*. *TCS* did take action against some of these people, filing cases to recover bond amounts, but on the balance did not seem exceedingly concerned by the constant outflow and the need to replenish the stock of software professionals. However, with the increase

**Krishnan, Rishikesh T.** "Linking Corporate Strategy and HR Strategy: Implications for HR Professionals," In R. Padaki, N.M. Agrawal, C. Balaji and G. Mahapatra (eds.) *Emerging Asia: An HR Agenda*, New Delhi: Tata McGraw-Hill, 2005, pp. 215-223.

in size, the shift to the offshore mode, and the need to increase value added per employee, employee retention and a higher skill profile have become more important. Today TCS is making a transition to hiring experienced people from the top business schools with competitive salaries and to shedding the image of being a relatively poor paymaster and merely a passport to the US. Yet, the old image continues to linger.

However, some principles of human resource strategy transcend business strategy concerns. At times of crisis or major environmental shift, it is the goodwill and commitment of employees that can be a major source of resilience. Such goodwill and commitment can not be engendered through a confrontational human resource policy. Transparency and fairness on a continuing basis are essential to create the reservoir of goodwill that makes employees willing partners in organisational transformation. This lesson comes out most clearly from the case of the legendary motorcycle company, *Harley-Davidson*. One of the top performers on the US stock market (its returns to investors in recent years exceed those of industry icons like GE), *Harley-Davidson* went through a particularly rough patch in the mid-1980s as its productivity levels and frequency of new product introductions fell behind those of Japanese competitors. A sense of complacency had crept in, inducing the then CEO Rich Teerlink to initiate a major organisational transformation. A part of this transformation included employees at all levels taking greater ownership for their respective activities and being more involved in the decision-making process. *Harley-Davidson* was able to make this transformation to a highly empowered and self-governing organisation because of the tremendous credibility the CEO and his top management team enjoyed with the rank and file of the organisation. This credibility was the result of years of plain speaking and a culture of openness and transparency.<sup>8</sup>

### **Corporate Strategy and HR Strategy**

HR has come centre stage in Indian traditional business houses which were exposed to global competition for the first time in the last decade. Increasingly, questions are being asked about what value the business group adds to each individual business. Most groups have focused on HR as an area for change – the *Aditya Birla* group and the *RPG* group are two examples of prominent business houses that have made visible and substantive interventions in the HR arena towards increasing professionalisation, independence in operational decision-making, greater transparency in performance measurement, and market-linked compensation. Some groups like the *Tatas* recognised early that HR initiatives were a powerful way for the group to create value – the creation and running of the TMTTC; the Tata Administrative Service; support for XLRI; and an industry-renowned graduate engineer training scheme at *Tata Steel* and *Telco*.

For companies with otherwise strong HR strategies like the software majors, the new challenges for HR are likely to be on a fresh dimension of corporate strategy - mergers and acquisitions. For the last two years, there have been persistent reports that *Infosys* is on the verge of making an acquisition. One of the concerns in the mind of *Infosys* CEO

**Krishnan, Rishiksha T.** "Linking Corporate Strategy and HR Strategy: Implications for HR Professionals," In R. Padaki, N.M. Agrawal, C. Balaji and G. Mahapatra (eds.) *Emerging Asia: An HR Agenda*, New Delhi: Tata McGraw-Hill, 2005, pp. 215-223.

Narayana Murthy must be the ability to effectively integrate any acquired company given the strong culture prevailing in Infosys. Research on the success and failure of M&A has consistently found post-merger integration to be a significant factor in the success of a merger or acquisition. Companies that have grown through acquisitions like *Cisco Systems* have specialised groups that focus on these integration issues.

## **Linking HR Strategies and Practices to Strategic Requirements: A 5-Point Agenda for HR Professionals**

For corporate, business and HR strategies to be integrated well, it is apparent that the top management, business heads and HR professionals need to work closely with each other. In most of the companies mentioned above, the lead and the philosophy have come from the vision and strongly-held beliefs of the CEO with HR professionals in an important, but essentially complementary role. There are five ways in which HR professionals can enhance their ability to contribute to this integration process.

### **1. HR professionals must spend more time and effort understanding the business environment and the key strategic issues faced by the company**

HR professionals need to be able to anticipate issues that will be of concern to the top management before they actually come on the table. They also need to build credibility with the top management. With the increasing uncertainty in the business environment, and the volatility of different markets, organisations are increasingly forced to take drastic decisions at short notice such as the rapid downsizing of the airline industry post-September 11, 2001. To be mentally prepared for all possibilities, to be able to give a clear picture of changes to fellow employees, and to be able to look ahead and foresee changes on the horizon that could involve changes in HR policies and practices, understanding the business environment and the key strategic issues faced by the company on a continuing basis is essential.

### **2. HR professionals must get more involved in the nitty-gritty's of the business, i.e., in operational details and issues**

In many prominent companies, managers from line functions have taken over major responsibilities for HR and, by all reports, are doing a good job of it. Line managers with a good track record enjoy almost immediate credibility with people across the organisation. They are also seen as being able to focus more on performance issues. In a highly competitive environment, few organisations want to make any compromise on performance. In this context, HR professionals have no option but to get their hands dirty by understanding as much of operational issues as they can. If opportunities arise to move into a business or operational role, they should be pursued with alacrity. Better understanding of operational concerns will also help HR professionals play a more useful role in training and development, transcending behavioral training programmes and "leadership". This is particularly important in an era when domain knowledge and technical expertise are becoming more important.

### **3. HR professionals must move towards taking an integrated look at the people in the organisation, bridging the gap between HR and IR (Industrial Relations)**

**Krishnan, Rishiksha T.** "Linking Corporate Strategy and HR Strategy: Implications for HR Professionals," In R. Padaki, N.M. Agrawal, C. Balaji and G. Mahapatra (eds.) *Emerging Asia: An HR Agenda*, New Delhi: Tata McGraw-Hill, 2005, pp. 215-223.

Manufacturing organisations are becoming more compact and relying more on manufacturing technology (automation, CNC machines, cellular plant designs) to ensure output and quality. The worker on the shopfloor is becoming more qualified, multi-skilled and is operating more and more expensive equipment. In service organisations such as call centres and other remote service providers, in spite of the repetitive nature of the work, employees see themselves more as professionals than blue collar workers. This is therefore an opportunity for HR professionals to bring a single HR perspective to the organisation, and to cast aside the confrontational mindset often inherent in the IR paradigm.

#### **4. HR professionals must see themselves as knowledge workers and facilitators of knowledge flows within the organisation**

Organisations are increasingly dependent on leveraging knowledge from within the organisation to be competitive in the marketplace. Documentation and sharing of such knowledge helps organisations do this effectively. Performance appraisal processes and incentive systems need to reflect the importance of this activity. Besides creating such systems within the organisation, HR professionals need to first internalise the knowledge creation and dissemination mindset within themselves.

#### **5. HR professionals need to change from a support paradigm to a value creation paradigm**

To be recognised as an important contributor to the performance of the company, HR contributions need to be measured in the right framework. Unfortunately, HR professionals often measure themselves in a very limited way such as "we hired 120 people" instead of "we enabled the addition of an additional Rs. 5 crores to the EVA of the company". Human resource valuation may never enter balance sheets, but concepts like EVA are here to stay, so HR has to find ways of linking itself to such measurement concepts.

### **Notes and References**

<sup>1</sup> Sumantra Ghoshal and Christopher Bartlett *The Individualized Corporation* HarperBusiness, 1997

<sup>2</sup> Michael Porter *Competitive Strategy* Free Press, 1980

<sup>3</sup> Charles W.L. Hill and Gareth R. Jones *Strategic Management Theory: An Integrated Approach* Houghton Mifflin, 1998

<sup>4</sup> Dorothy Leonard *Wellsprings of Knowledge* Harvard Business School Press, 1995

<sup>5</sup> Nucor's business and HR strategy are taken from Pankaj Ghemawat and Henricus J. Stander III *Nucor at a Crossroads* Harvard Business School case No. 9-793-039 May 5, 1993

<sup>6</sup> Details of Lincoln's HR strategy are taken from Jamie O'Connell and Christopher Bartlett *Lincoln Electric: Venturing Abroad* Harvard Business School case No. 9-398-095, April 22, 1998.

<sup>7</sup> For more details of how McKinsey matches its corporate strategy and HR strategy, see Sumantra Ghoshal and Christopher Bartlett *The Individualized Corporation* and Christopher Bartlett *McKinsey & Company: Managing Knowledge and Learning* Harvard Business School case No. 9-396-357 April 20, 1998.

<sup>8</sup> See Rich Teerlink & Lee Ozley *More than a Motorcycle: The Leadership Journey at Harley-Davidson* Harvard Business School Press 2000.