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CHAPTER TWO

STRATEGIC HUMAN RESOURCE MANAGEMENT

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The strategic management of human resources is an important idea whose time appears to have come. Many of the critical competitive issues that business face require addressing the organization's human resource policies, practices and capabilities. It is one thing however to state that human resource management needs to be done more strategically and that it is an appropriate time to focus on it, it is quite another to develop a tie between business strategies and human resource management strategies. This is clearly an evolving area, both in terms of theory and practice.

Creating an appropriate strategic human resource management direction in an organization is a complex process. There are a number of demands that can and should influence an organization's human resource management strategy. Both internal demands and environmental factors need to come into play. In addition, the general orientation of management and the corporate culture can determine how an organization decides to compete and whether it tries to use human resource management and organizational design as a basis for gaining competitive advantage.

A key difference among organizations is the degree to which they try to compete through their human resource management practices and strategies. Given the demands for for cost competitiveness, high quality, innovation, and speed, how organizations manage their human resources may be the difference between economic success and failure. Historically, few U.S. based corporations have used human resource management as a source of competitive advantage (Ulrich and Lake, 1990). Instead they have chosen to compete on technology, financial acumen, and access to markets (Lawler, 1992; Porter, 1985; 1990). This has often meant that the human resource department has not played a key role and that many organizations have not been particularly change oriented or innovative in their human resource management practices.

The role of the human resource department has changed in organizations over time. Historically, personnel departments were charged with processing people and paperwork. They acquired and maintained reports and performed routine employment functions. Personnel departments were passive and lacking in corporate influence. Over the past twenty years, many personnel departments were renamed human resource departments. This name change portrayed increased functional specialization. Human resource professionals became specialists with full responsibility for their functions, such as compensation and benefits or training and development. As awareness increased about the impact of human resource costs, especially the cost of benefits, many human resource departments viewed success in terms of reducing labor costs. The influence of human resource professionals increased as line managers perceived them as having control of key costs. Other human resource departments, particularly those with influential training and development functions, viewed people as assets to be developed and managed. Both these orientations are somewhat reactive and view people as separate from the business.

Increasingly however, the recent literature on organizations contains articles and books suggesting that human resources departments can be partners in the business and people can be a source of competitive advantage (Lawler, 1992). Some studies have suggested that this evolution of the human resource department from functional specialist to business partner has occurred (Towers Perrin, 1992). Indeed, the argument is sometimes made that organization and human resource practices can be particularly effective competitive advantages because they are hard to duplicate or copy and, therefore, may provide a sustainable and significant competitive advantage.

Despite the increasing popularity of this argument there is little evidence that it is changing the way organizations use their human resource departments and the way they operate. Are they, for example, becoming strategic partners? Changing their practices to adjust to the new realities of global competition? Adapting to the changing nature of the domestic workforce in order to increase organizational effectiveness? Does reality match the new rhetoric? Or is there a gap between theory and practice?

This chapter will address these questions. We will explore the strategic priorities of business today compared to the responsibilities of human resource departments. We will discuss the factors that influence and the barriers to change in human resource policies and attitudes. We will compare the practices of human resource innovators with those organizations that lag behind. Finally, we will explore the differences in firms' preparedness for dealing with the new workforce and look at human resource management priorities for the future.

Business Strategies and Human Resource Priorities

Strategic Issues for Business

The strategic issues for the corporations studied are presented in Chapter One. Global competition and the economy are the two most significant strategic issues.

Nested underneath are two classes of issues, those that are the purview of traditional human resource departments such as caliber of the workforce and organizational effectiveness issues such as improving quality and productivity.

Not surprisingly, global competition and the current condition of the economy are at the top of the list. The most frequently mentioned human resource oriented issue, "caliber of the work force", is the third most frequently mentioned strategic issue. One other clearly human resource management issue appears on this list, the cost of benefits. The list also contains a number of issues that focus on organizational effectiveness, such as quality improvement, productivity, efficiency, customer satisfaction, and the ability to be flexible.

Research shows that the organizational effectiveness issues are critically influenced by human resource management practices. Productivity improvements, quality improvements and customer satisfaction improvements do not simply occur through changes in accounting systems or through technology, they tend to occur only when multiple systems in an organization are changed. This means they almost always require changes in the human resource management systems of an organization. Because human resource management systems are critical drivers of behavior they must be in alignment with other management practices. It is very difficult to significantly improve the performance of organizations in any area except perhaps finance and work that can be contracted to vendors without paying attention to the human resource management area. The relatively frequent mention of performance issues such as quality suggests that these organizations are planning on competing through their ability to organize and manage people. This should mean that the human resource management department is central to their ability to compete effectively.

Human Resource Strategic Issues

If human resource departments have a traditional perspective toward their function, then they will believe that their focus is people and line management's focus is the business. If they have adopted a strategic viewpoint, then they will perceive the management of people as integral to the success of the business and perceive themselves as partners in running the business. What do the data suggest about the current human resource mission in the companies studied?

One possible test of how important the human resource management department is in a corporation and how much it has become a strategic partner concerns the overlap between the organization's strategic issues and the critical responsibilities of the human resource department. This can be a critical determinant of how central the human resource department is to the overall operations of the business and, of course, can impact the ability of the human resource department to implement its programs and influence strategy. In order to determine the overlap between the strategic issues for the business and the responsibilities of the human resource department, the respondents were asked to identify which important strategic issues are a major responsibility of the human resource department. Table 1 presents the results from this question. The most common response by far is "None." The fourth most common response is "Not sure. Taken together this means that the respondents from 27% of the companies are in effect indicating that none of the major business strategy issues are a major responsibility of the human resources department.

By a substantial margin the major strategic issue for the human resource department is caliber of the workforce. This is hardly surprising; selection, training, and development are the historical foundation of most human resource departments, workforce quality is clearly an human resource department issue. Given the changes that are occurring in the U. S. society and in the needs of organizations it is likely to continue to be a critical area as far as effectiveness is concerned and one where the possibility for competitive advantage exists. If anything is surprising it is that it is only identified by 15% of the respondents.

The issue getting the second highest number of mentions is benefits. This result is hardly surprising since it is usually the responsibility of the human resource department to design and administer benefit plans. It is surprising that it was not mentioned more frequently given that it was an issue mentioned by 13% of the companies. One can only speculate on who has responsibility for this issue in the 6% of the cases where it is not a major responsibility of the human resource department. The other major business issues are seen as a major responsibility of the human resource department by somewhere between 6 and 1% of the respondents.

A number of analyses were done to determine if there are systematic differences in the type of strategic issues which companies face and in the responsibilities of the human resource department. As a general rule there are very few systematic differences among companies. Factors such as company size, nature of the work force, geographical location of the company, the existence of total quality management and employee involvement programs, and the degree to which human resource practices are seen at the cutting edge were not related to strategic orientation factors.

One factor that does predict the type of strategic issues that concern a company is whether the company is a manufacturing or service company. Manufacturing firms were more concerned with global competition, and were much more likely to see this as an human resource department responsibility. Interestingly, this finding fits with other findings which suggest that manufacturing organizations are more rapidly adopting employee involvement and total quality management practices and committing to using human resource management as a competitive advantage (Lawler, Mohrman, and Ledford, 1992). The productivity of manufacturing firms also has increased in the last several years. This is probably due to the fact that, in many cases, they face tough offshore competition, often from Japanese organizations. In many cases the offshore competition is perceived to have a competitive advantage because of its superior approach to managing human resource issues and the way they organize their operations. Out of sheer competitive necessity, the manufacturing sector may be leading the way in the strategic management of human resources.

Best Strategic Human Resources Decision

Respondents were asked to think over the last five years and identify the best strategic human resources decision that their company made to prepare it for the next five years. Figure 1 presents these results. No decision was identified by more than one quarter of the companies. Twenty one percent of the companies identified changes and improvements to benefit and compensation plans as their best strategic human resource decision. The specific changes mentioned include installing flexible benefit plans, tying pay to performance and creating new pay structures. Other frequently mentioned decisions were investments in training and development (14%), restructuring or reorganizing management (10%), and increasing employee participation and empowerment (7%).

It should be noted that the two most frequently mentioned strategic human resource decisions overlap with the strategic issues viewed to be responsibilities of the human resource department--namely improving benefits and the caliber of the workforce. Clearly, investing in training is one way to improve the caliber of the workforce. Still, only a minority of the companies identified these decisions. In addition, these issues fall within the traditional scope of the human resource function. They do not reflect the type of decisions which indicate that the human resource function is a significant partner in increasing the firm's competitiveness.

On the other hand, both restructuring management and promoting employee involvement are usually intended as ways of increasing performance. Thus, the identification of these activities as the best strategic human resource decisions is promising. However, less than 10% of the companies surveyed cited these as best decisions.

Is Human Resources a Strategic Partner?

It is disappointing if not surprising that few respondents indicate the human resource department has a major strategic responsibility for operating effectiveness issues in the organization. In addition, few respondents view the best human resource decisions in the last five years as focused on improving business competitiveness. Clearly, most human resource departments do not see productivity, customer satisfaction, quality improvements, and costs as major responsibilities of theirs. This suggests that in many corporations, despite all that has been written and said about making the human resource department a strategic partner in the business, in many corporations the HR department does not have a high level of responsibility for organizational effectiveness. The human resource department in the typical company does not seem to have on its plate the dominant strategic issues which these corporations face. It is asked to provide qualified employees but is not expected to be involved in how they are organized and managed. The human resource function has not moved as fast or as far as is needed or it should. The gap between theory and practice is considerable (Towers Perrin, 1992). Are organizations taking actions to address this gap?

Upper Management's Investment in Human Resource Issues

Senior level management provides leadership for significant corporate changes. Thus, senior level attention to human resource concerns is needed if the role of human resources is to change toward becoming a partner in operating the business. If upper level managers view human resource policies and practices as potential leverage points for gaining competitive advantage, then they are likely to devote time and energy to human resource concerns. Historically, upper management has not paid that much attention to human resource issues, because the human resource function was not seen as having any leverage over business success. Is this changing?

The data strongly indicate that senior management has increased its involvement in human resource concerns. In response to a question asking about upper managements' time and energy devoted to human resource issues over the past five years, 86% of respondents said that their company's upper management has increased the amount of their time and energy that is devoted to human resource issues, with 51% indicating a significant increase (see table 2). This trend is promising because it suggests that upper management views the management of human resources as a potential competitive advantage, and is willing to devote time and energy to it. The increased human resource involvement of senior level management may be a step toward transforming the role of human resources.

A number of analyses were performed to see whether there are systematic differences among companies in the investment of their senior level managers in human resource concerns. Two comparisons stand out:

1. Senior level managers from larger companies are more likely to have increased their time and energy spent on human resource issues than senior managers from smaller companies.

2. Senior managers are more likely to have increased their time and energy on human resource issues in companies that expect workforce changes as compared to senior managers from companies that expect their workforces to be stable.

Sixty one percent of the companies with over 10,000 employees say upper management has significantly increased its involvement and only 4% say that senior management involvement stayed the same. In contrast, only 41% of companies under 1000 employees say senior management has significantly increased its involvement and 17% say its involvement remained the same. This finding suggests that in the largest companies, human resource management is more likely to be viewed strategically, requiring time and energy from senior managers.

Senior managers tend to increase their attention to human resource concerns in those companies that expect significant workforce changes, with 58% reporting a significant increase, 33% some increase, and 8% staying the same. Senior managers are less likely to increase the time and energy they spend on human resource issues in companies that do not expect significant workforce changes, with 45% reporting a significant increase, 41% some increase, and 14% staying the same. It can be argued that expecting workforce changes signals human resources to be important. Thus it is not surprising that companies which expect workforce changes are the same companies in which senior level managers are most involved in human resource concerns.

Another manifestation of the importance of human resource concerns is the reporting relationships of human resource managers. Having human resource managers report directly to senior line executives can facilitate a strategic human resource orientation. It also suggests that senior line executives will stay abreast of their company's human resource concerns. Do human resource managers report directly to senior line executives? Forty-six percent of the survey respondents report directly to the President or Chairman of their company.

In summary, two indicators of companies transitioning to a strategic orientation to human resources are the amount of direct involvement of senior level managers in human resource concerns and the reporting relationship of human resource managers. Senior level managers appear to have increased their focus on human resources, particularly in the largest companies and those that are expecting significant changes in the composition of their workforces. Approximately half of the companies in the sample have human resource managers reporting to the chief executives or presidents of their companies.

Position of Company in Adopting New Human Resources Policies

Respondents were asked to describe the position of their company in adopting new human resource policies that respond to changes in the labor market by using the following descriptions: 1) At the cutting edge, usually trying to lead; 2) advanced, adopting policies to stay ahead of other companies; 3) thoughtful, adopting policies when a consensus had been developed; and 4) prudent, adopting policies after they are proven effective. Figure 2 depicts the distribution of companies surveyed in terms of these dimensions. Companies appear to be normally distributed along this continuum with

11% describing themselves either as leaders or laggards and approximately 40% describing themselves as either advanced or thoughtful.

This distribution depicts the pattern of diffusion for innovations. The cutting edge companies tend to be the leaders, followed by those guided by theory, then by evidence and demonstrated success, and finally those that lag behind. Innovations typically move through this chain. What the curve suggests is that the practices of the most innovative companies will eventually be adopted by others lagging on the innovation cycle. It is important to identify any predeterminants of innovativeness to be able to select the companies in which diffusion is likely to take place. In addition, it is critical to identify the practices of the innovators. What is a human resource innovation today may become common practice tomorrow.

Whether or not a company leads or lags in its adoption of human resource innovations is not related to company characteristics or demographic characteristics. Small companies did not differ from large companies, manufacturing from service, unionized from non-unionized, and so on, in terms of their willingness to be innovative. Similarly, the current or expected future composition of the workforce had no relationship to the willingness to take the lead in implementing new human resource policies. Thus, the diffusion of human resource innovations is not likely to be constrained by company and demographic factors.

On the other hand, human resource innovativeness is related to several practices intended to improve competitiveness. Companies that lead in making human resource changes are more likely to invest in new computer technology, the redesign of work methods, advancement of employee involvement practices, and implementation of total quality programs. For example, almost twice as many of the cutting edge companies made significant as compared to moderate investments in employee involvement (64% significant spenders versus 36% moderate spenders). There is not much difference among the advanced companies (52% significant spenders versus 48% moderate spenders). However, among thoughtful adopters, 38% made a significant investment versus 62% that made a moderate investment in employee involvement. Finally, 36% versus 65% of the prudent companies are high versus low spenders. This same pattern holds for investing in new computer technology, work redesign, and total quality management. Figure 3 presents these findings.

Influences on Human Resouce Policies and Attitudes

When human resource executives develop human resource policies and practices, what features of the external environment and what internal corporate practices do they view as critical? In Chapter one, Mirvis identifies three major external factors that increase the demands placed on businesses today: 1) Changes in the market--including competitive pressures, competitive demands, and other economic pressures; 2) changes in the workforce such as the entry of more women and the aging of the population, and 3) changes in the societal infrastructure such as soaring health care costs. These factors may shape human resource strategies, policies, and attitudes. In addition, as was mentioned earlier, the internal culture of an organization and the management style of its senior executives also may be critical determinants of human resource policies and practices.

In order to determine what forces shape human resource policies and attitudes, the respondents were presented with eight features of a company's external and internal environment and asked how much of an impact each one has had in their company. Because this question did not include any features pertaining to changes in the societal infrastructure, this dimension could not be assessed. Using a statistical technique we were able to identify the following three major groupings of features: 1) Changes in the market--including customer demands, competitive pressures, and technology changes; 2) Changes in the workforce and company staffing requirements; and 3) Changes in a company's culture and management. This analysis suggests that respondents view the influences on human resource policies and practices in terms of these three major factors.

Companies differed in the relative importance they placed on these general factors and the specific issues that comprised them. As Figure 4 illustrates, more companies viewed external changes in the marketplace and internal changes in corporate culture and management as having some or a great deal of impact on human resource policies and attitudes. It is striking that despite concerns about the quality of the education of the U.S. workforce and its growing diversity, these demographic factors received the lowest impact ratings.

It is both good news and bad news that human resource executives view internal changes in the attitudes of their management and corporate cultures as playing an important role in shaping human resource policies and attitudes. On the one hand, it is critical that the human resource function respond to business needs. Thus, aligning human resource policies and practices with the changing attitudes of management and corporate culture may indicate an appropriate focus on business requirements. On the other hand, human resource executives can be too internally focused, relying on signals from management as the basis for human resource policies and practices, instead of providing an independent perspective. This concern is mitigated by the data indicating respondents' beliefs that both marketplace demands and internal company changes shape human resource policies and attitudes.

Several analyses were done to assess whether companies varied systematically in the factors that influenced human resource policies and attitudes. Several characteristics had no effect. For example, where a company was located, whether it was manufacturing or a service company, or whether the workforce was unionized made no difference. However, two characteristics had a strong impact on the factors that influenced human resource policies.

1. Larger companies were more likely than smaller companies to have their human resource policies influenced by changes in the market and changes in the workforce and staffing requirements.

2. Companies that expected workforce changes were more likely than those that expected their workforce to remain stable to have their human resource policies influenced by changes in the workforce and staffing requirement, changes in a company's culture and management, and changes in the market.

The size of a company, as indicated both by its sales revenues and number of employees, influences the degree to which several factors are viewed as having an impact on human resource policies and practices. The largest companies, those with 1 billion or more in revenues and more than 10,000 employees, regard customer demands and actions of competitors as having a greater impact on human resource policies and attitudes than do smaller companies. The largest companies also view changes in the educational level of the U.S. workforce and changes in the demographic mix of its workforce as having a greater influence on human resource policies and attitudes than do smaller companies.

These findings suggest that larger companies focus more on external conditions when planning human resource strategies than smaller companies. They may be more likely to systematically assess and react to changes in business conditions when developing new human resource initiatives or elaborating upon the systems and programs already in place. In contrast, smaller companies seem to be most concerned with doing the human resource basics such as salary administration, benefits, and selection. Smaller companies may not have the time, inclination, or staff to do more than basic personnel administration. Having a strategic human resource orientation may be, in part, a function of company size and its stage of development (Baird and Meshoulam, 1988).

Not surprisingly, companies that expect significant changes in the demography of their workforce in the next five years, are more likely to view changes in the demographic mix of their workforce, changes in the educational level of the U.S. workforce, and changes in their job mix and staffing requirements, as having a greater impact on their human resources policies and attitudes than those companies that do not expect their workforce to change. In addition, those companies expecting significant demographic changes evaluate changes in the attitudes of management, changes in corporate culture, and demands from customers or the marketplace as having a greater impact on human resource policies and attitudes than those companies that expect the composition of their workforce to remain stable. Perhaps, companies that expect their workforce to change are more attuned to a variety of constituency groups -- customers, managers, and employees.

In summary, approximately 75% of the companies perceive changes in the marketplace and changes in a company's internal culture and management as influencing their human resource policies and attitudes. As shown in table 3 larger companies are more likely to have their human resource policies influenced by changes in the market and changes in the workforce. Companies expecting significant demographic changes in their workforce are more likely to have their human resource policies affected by changes in the market, changes in the workforce and staffing requirements, and changes in a company's culture and management.

Barriers to Making Desirable Strategic Changes

Certain barriers may prevent companies from making desirable changes to human resource policies and practices. Figure 5 presents the findings from a question that presented seven potential barriers to making strategic changes in human resource policies, and asked how much of a barrier each one is. We were able to group these seven barriers into three major categories through the use of statistical analysis. These three major categories of barriers are: 1) An efficiency and crisis orientation including the cost of making changes, the company's need to address crises and more immediate issues, and the company's focus on short-term goals; 2) Lack of support from employee constituencies including lack of support from middle management and opposition from unions or employees; and 3) corporate culture and management including a corporate culture that doesn't emphasize human resources issues and getting the attention of top management.

As Figure 5 shows, an efficiency and crisis orientation is the most significant factor that inhibits desirable strategic human resource change. In particular, 82% of the companies surveyed view the costs of making changes as a barrier, with 32% describing this as a major barrier. Similarly 73% of these companies perceive the need to address crises and more immediate issues as a barrier, with 29% stating this is a major barrier. Only 47% of these companies describe their focus on short-term goals as a barrier, with 14% viewing it as a major barrier. The other two factors--a corporate culture and management not focused on human resources and a lack of support from employees--are viewed by approximately half of the companies as barriers to making strategic changes. Forty seven percent of the respondent indicate that getting the attention of top management is a barrier, with 14% mentioning this as a major barrier. Fifty six percent describe a corporate culture that doesn't emphasize human resources as a barrier, with 20% citing this as a major barrier. Sixty nine percent view the lack of support from middle management as a barrier, with 16% perceiving it as a major barrier. Finally, 47%

describe opposition from unions or employees as a barrier with 10% evaluating this opposition as a major barrier.

Table 4 summarizes the results of several analyses to see whether company characteristics, current workforce composition, or expected demographic changes in the workforce influence the degree to which companies experience these barriers to change. Several company characteristics influence the degree to which companies experience lack of support from middle management and opposition from union and employees as barriers to change. Manufacturing, unionized, and larger companies are more likely to experience lack of support from middle management and from unions or employees as obstacles to change than are service, non-unionized, and smaller companies respectively. Interestingly, privately-held companies are more likely than publicly-held companies to point to their organizational cultures as not emphasizing human resources as barriers to change.

Workforce composition also influences companies' perceptions of the obstacles to change. Companies with a greater percentage of women find the lack of middle management and opposition from unions and employees as less of a barrier to human resource changes than companies with fewer women. Companies with racial diversity are no different from companies without racial diversity in their identification of barriers to change. Clearly, having more of a gender balance in the workforce contributes to experiencing fewer obstacles to change from employees, unions, or middle managers. Employing a racially diverse workforce does not increase or decrease the seriousness of the barriers to human resource change.

Companies that expect significant future changes in the composition of their workforce are more likely to be concerned with barriers to change than companies that expect their workforce composition to remain stable. Companies that expect demographic changes are more likely to experience lack of middle management support and opposition from unions or employees as barriers. Also, they are more likely to identify a short-term goal focus and a corporate culture that does not emphasize human resources as obstacles to change.

Companies that expect significant workforce changes are aware of the need to change human resource policies and practices. This awareness of the need for change may make these companies more cognizant of the barriers to change. Thus, expecting workforce changes puts more focus on the barriers to change. In contrast, when a workforce currently has a high percentage of women or minorities, companies either describe fewer obstacles to change from constituency groups or no differences in the barriers to change. Perhaps, the fear of change is greater than the reality of change when workforce demographics are considered.

The current and expected future demography of the workforce shapes companies' perceptions of inhibitors of change. If a workforce is currently diverse, then barriers are perceived to be no more serious than if a workforce is homogeneous. However, if companies expect future demographic changes, then barriers to change are perceived to be more serious. We would argue that companies expect to have to make changes in their human resource policies and practices if they anticipate changes in the composition in their workforce. This need for change focuses attention on the barriers. However, companies either surmount the barriers or discover that they do not need to make as many changes as they thought, once the workforce actually becomes diverse.

Cutting Edge Versus Laggards

As discussed earlier, some companies are at the "cutting edge" usually trying to lead in the adoption of human resource innovations, while others are laggards, waiting to adopt new policies only after they have been proven to be effective in other companies. Do the companies that lead in the adoption of human resource innovations differ in their perceptions of key influences on human resource policies and in the barriers to change they experience?

Influences on Human Resource Policies

Cutting edge companies are more likely to view customer demands and changes in technology as having a greater impact on human resource policies than companies that are slower in their adoption of human resource innovations. Cutting edge companies also view changes in the demographics of the work force as having a greater impact on human resource policies than other companies. Cutting edge companies pay attention to the factors that influence competitiveness and orient their human resource strategies to meet competitive challenges. Figure 6 shows these results.

What differentiates cutting edge companies from more conservative companies is the degree to which they invest time and money in innovations intended to improve competitiveness. As mentioned earlier and illustrated in Figure 3, the data reveal an association between human resource innovativeness and investments in advanced technology, work process redesign, employee involvement practices, and total quality programs. Companies that invest in these programs view human resource strategies as potential competitive advantages and will be attuned to the environmental factors that influence competitiveness.

Companies that have made significant investments in introducing advanced computer technology perceive changes in technology as having more influence on human resource policies than moderate spenders. The companies that invest significantly in redesigning work methods and processes evaluate actions of competitors and changes in technology as more critical factors in shaping human resource policy and attitudes than those companies that invest less. Those companies that have made a significant investment in employee involvement view customer demands and changes in employee education as having more influence on human resource policies than other companies. Finally, the companies that have invested a significant amount of time and money in total quality programs think changes in corporate culture have a higher impact on human resource policies than companies that have not invested as significantly. In short, the companies that have invested in improving competitiveness pay the most attention to external marketplace demands when developing human resource policies. Table 5 summarizes these findings.

Barriers to Human Resource Change

Whether a company leads or lags in its adoption of new human resource policies influences its perceptions of barriers to change. In general, cutting edge companies are less likely to experience each of the seven barriers to change. They are less likely to view an efficiency and crisis orientation, a lack of support from employee constituencies, and their management and corporate culture as obstacles to change. Figure 7 presents these results.

Cutting edge human resource companies differ from other firms in the degree to which they view the costs of making changes, the need to address crises, and a focus on short-term goals as obstacles to change. Cutting edge companies are least concerned with each of these barriers. In fact, whether companies describe themselves as cutting-edge, advanced, thoughtful, or prudent in their adoption of human resource policies predicts the degree to which they experience the cost of making changes and the need to address crises as barriers to change. Cutting edge companies are least likely to experience these factors as obstacles to change, followed by advanced, thoughtful, and prudent companies respectively.

As mentioned earlier, cutting edge and advanced companies are the most likely to make significant investments in promoting employee involvement and total quality. They view the cost of making changes and focus on short-term goals as less of an obstacle than companies that have not made these investments. These companies are willing to invest in long-term change and are not stymied by an efficiency or short-term orientation.

Cutting edge companies evaluate opposition from unions or employees as less of a barrier than more conservative companies. However, cutting edge companies are not different from more conservative companies in perceiving the lack of support from middle management as an obstacle to change. Sixty one percent of cutting edge companies view unsupportive middle management as an obstacle to change. Even companies that take the lead in implementing human resource innovations experience the lack of support from middle management as a key barrier.

Cutting edge organizations differ from other firms in the degree to which they perceive their corporate culture and top management as obstacles to strategic human resource change. For example, cutting edge companies evaluate corporate culture as a barrier to change the least, prudent companies the most, with advanced and thoughtful companies falling in the middle. Similarly, cutting edge companies see getting the attention of top management as less of a barrier than prudent companies.

Thus, although approximately three-quarters of the companies indicate that the cost of making changes and the need to address crises are obstacles to change, these obstacles do not stop certain companies from making changes. Companies willing to invest in long-term change and to be innovators evaluate these barriers as less significant and are not paralyzed by them. These leaders in adopting human resource innovations are willing to invest in long-term change to meet competitive challenges. They find that change is supported by the compatibility of their organizational cultures and interested top management. They are less likely to experience opposition from unions or employees as a barrier to change. The real force behind human resource change centers in management's attitudes and the prevailing corporate ideology.

Workforce Changes and the Ability to Compete

A number of analyses of the U.S. business scene have pointed to changes in the nature of the workforce that will occur in the next decade (see, for example, Johnston, 1987; 1991). These include, for example, the aging of the workforce, the growing proportion of women and minorities in the workforce, and the increased movement of labor across national boundaries. As mentioned in the last chapter, these workforce changes have implications for competitiveness.

Ability to Compete

In order to determine whether important workforce changes are seen by companies as impacting their ability to compete a three part question was asked. The first part of the question asked how much will each of seven issues affect their company's ability to compete over the next five years. The second part asked whether companies have plans to address the seven work force issues. The third part asked the companies with plans how optimistic they were that their plans could work. Table 6 presents the results. Out of the seven issues presented, two stand out as critical in the eyes of the respondents. The cost of health benefits is seen as a particularly critical issue from a competitive perspective. Less critical, but still of great importance, is the poor quality of education among job applicants. The other five issues are rated significantly lower. Two of them - family responsibilities and attitudes of entry workers - are seen as the next most important.

An analysis of the relative importance of these factors in different kinds of companies showed a few significant differences. Given the traditional role of women in U.S. society, it is not surprising, for example, that the higher the percentage of woman in an organization's work force, the more family responsibilities are seen as an important competitive issue.

A relationship also exists between concern over the cost of U.S. workers and the percentage of a company's sales that are outside the United States. The more sales an organization has overseas, the more it is concerned with the cost of U.S. labor. This follows logically from the likelihood that these organizations often compete with products from lower labor cost countries.

There is also a relationship between the percentage of jobs in an organization that require a college degree, and concern about the higher cost of U.S. workers. U.S. labor costs are less of an impact issue when companies have fewer college level jobs and fewer college educated employees. It is not entirely clear why this relationship exists. It may be that organizations that employ more educated workers do more complex value added work, and that this type of work is increasingly becoming internationally competitive. Thus, labor costs, like all other costs, are particularly critical to these companies.

More easily explainable is the relationship between concern over the cost of U.S. workers and the type of work that an organization does. It is substantially more important for manufacturing organizations than it is for service organizations. This, undoubtedly, reflects the fact that manufacturing work is particularly likely to be internationally competitive, and as was noted earlier often labor costs are lower in other parts of the world. Similarly, there is a relationship between the cost of health care benefits and the degree to which an organization is a manufacturing organization. Manufacturing organizations are much more concerned about it than service, again most likely because they compete internationally and increases in U.S. health care costs can put them at a significant disadvantage.

Finally, U.S. costs of labor are particularly likely to be an issue for large companies and for companies that have substantial overseas sales. This finding, too, follows from the apparent disadvantage that high labor costs can produce for companies that have to compete globally for business.

Overall, the results highlight the fact that large organizations which compete internationally are particularly concerned about their U.S. labor costs rising. The reason for this is undoubtedly that it could put them at a competitive disadvantage. For those organizations that do not compete globally the situation is quite different, they are unlikely to be at a relative disadvantage because conditions in the United States effect all competitors equally.

Table 6 also indicates whether or not companies have plans to address the seven workforce issues. One result stands out in this table. The vast majority of companies have a plan to address the cost of health benefits. Most companies also have plans to address the increase in workforce diversity, changes in family responsibility, and poor education of the work force. Only about half the companies report having specific plans to deal with the other two issues. This question fits the pattern in most earlier questions, that is, most organizations seem particularly concerned about health care benefits and the quality of their workforce.

Finally, the respondents were asked to indicate how optimistic they were that their company plans can effectively address the seven strategic issues. As is shown in Table 6 once again, the answer concerning the cost of health benefits stands out. Only 48% of the respondents are optimistic about the ability of their plans to effectively address this issue. Also a relatively low level of optimism is expressed with respect to the ability to deal with poor education. Thus, it seems that those issues which are most likely to be high impact ones, are also the ones that the respondents are the least optimistic about. This undoubtedly reflects the fact that education and health benefits are often very difficult for companies to influence. Because they are national social agenda items rather than company items, human resource executives seem to have concluded that, unless national change takes place, there is relatively little that they can do to improve the situation of their company.

Attracting, Retaining and Motivating Employees

The results so far clearly identify the availability of quality employees as a key strategic issue for most companies. This raises the issue of whether companies need to make changes in their human resource policies in order to attract the kind of employees that they need. A question which addressed this issue directly produced a strongly affirmative response. Over 70% of the respondents said that their companies would have to make changes in their human resource management policies in order to attract, retain and motivate the quality employees they will need in the 1990's.

The kinds of changes that need to be made are suggested by a question which asked about the importance of nine factors in attracting, motivating, and retaining quality employees. Table 7 shows the answers to this question. As can be seen from the table, interesting work is rated as most important. It is followed closely by compensation and opportunities for advancement. These three factors are highly correlated with a fourth factor, opportunities for participation in decisions. Together, these four factors make up the most important overall factors in attracting, motivating and retaining quality employees. The next most important set of factors basically focuses on fringe benefits: it includes health benefits, retirement benefits, and job security. Finally, the least important factor includes family support policies and flexible work schedules.

Perhaps the best overall summary of these results is to say that the survey respondents believe that the classic issues of pay and the nature of the work are still the most important factors in attracting and retaining quality employees. Other factors are important, but not as important as the traditionally highly rated factors of pay and work. This fits with the findings of the many studies which have asked employees to rate the importance to them of a variety of job factors (Vroom, 1964, Lawler, 1973, Pinder, 1984).

Interestingly, respondents did not differentiate between the nature of work and compensation. Statistically they are strongly related and both quite important. This finding is in contrast to some of the writings on work place change which have tended to argue for the importance of one over the other. In many cases, for example, they have argued that work and participation in decision making are more important than financial rewards. Clearly this view is not held by this sample of respondents. In general, the evidence from the research on work motivation supports the view of our respondents. For most people it is not an issue of high pay or interesting work, it is a matter of seeking situations where both are present, because both are important.

As discussed earlier, human resource departments view their responsibilities as including attracting and retaining qualified employees. They always have managed compensation, so viewing pay as critical for attracting people fits within their traditional mandate. However, this recognition that interesting work is important is suggestive of an expanded role. Helping their companies with job design and organizational design may support efforts to attract and retain personnel.

The nature of the workforce in the organizations interviewed did have an impact on the relative importance assigned to different factors. Particularly powerful is the percentage of the workforce that is female. Companies with more female employees tend to see retirement benefits as less important, and to see family support policies and flexible schedules as more important. Interesting work also tends to vary in its perceived importance in some systematic ways. Specifically it is seen as more important in those organizations that hire college educated employees and have work that requires higher educational levels.

Finally, the more companies emphasize employee involvement and total quality management, the more they feel that opportunities to participate in decision making and interesting work are important in attracting and motivating employees. In contrast, companies that spend more on employee involvement and total quality are no different than other companies in their feelings about the importance of various benefits, family support policies, and flexible schedules. Table 8 presents these results.

These findings, like the earlier ones, illustrate the point that, depending upon the kind of work that organizations have and the kind of people that they need to attract, different factors may provide leverage. What works for one type of work situation may not work for another. The challenge for companies is to identify those factors which are likely to be most effective for them and to change their human resource policies so that they end up attracting and retaining the type of employees that fit their work situation.

Human Resource Management Priorities For The Future

Respondents were asked to identify their two highest human resource priorities for the next 5 years. Given the results reported so far, it is not surprising that the most commonly mentioned ones involve medical costs and the general area of work force capability and competency. As can be seen in Table 9, the most frequently mentioned priority was medical benefits. The next four all have to do with attracting, retaining and developing a competent work force. Organizational redesign and management programs that are designed to affect productivity, quality, innovation, and motivation are mentioned by a relatively small percentage of the respondents. This continues the pattern identified earlier of human resource management departments identifying themselves as largely being responsible for containing costs in the area of labor, and providing individuals who are capable of performing well. They typically do not give a high priority to influencing how individuals are utilized, managed, nor do they focus on programs that reduce costs, improve speed to market and organizational effectiveness. As noted earlier, this suggests that they are not full strategic partners in the business, but rather providers of a specialized service to the business.

A comparison among different types of companies showed few systematic differences in the identification of the two highest priorities. One significant difference did appear. Financial service and other service organizations are significantly more likely than manufacturing firms to identify the caliber of the work force as a high priority for the next 5 years. This may well reflect the growing awareness in service organizations that they ultimately compete and can gain competitive advantage primarily through the quality of people that work for them. It may also reflect their concern about the nature of the domestic work force since these organizations draw most of their employees form the United States.

Conclusions: Strategic Human Resource Management in the Future

Our findings suggest that the time of strategic management of human resources has not yet arrived. Despite all that has been said and written, the human resource function in most corporations views itself as responsible for traditional human resource activities and not as a full strategic partner in operating the business. On its agenda is reducing the costs of health care benefits and improving the caliber of the workforce. Missing from its agenda in the vast majority of companies surveyed is the design and management of practices intended to reduce costs, improve quality, increase speed to market, and in general, to increase organizational effectiveness.

The findings regarding the costs of health care benefits are worth noting. Thirteen percent of companies surveyed identify it one of the top 2 or 3 strategic issues of concern to top management. Ninety-four percent assert that the increasing cost of health care benefits will have an impact on their company's ability to compete. The most commonly cited human resource priority for the next five years involve medical costs. Finally, almost all companies state they have a plan to address the rising costs of health care, although only half are optimistic that their plans will work. Clearly, the issue of the cost of health care has captured both national and corporate attention. However, human resource executives, on balance, seem to think that unless national change takes place, their efforts will not adequately contain the costs of health care benefits.

Improving the caliber of the workforce also has attracted the attention of human resource executives. It is the third most frequently mentioned strategic issue confronting senior managers and the most frequently mentioned business issue perceived to be a responsibility of human resource departments. Eighty-four percent of the respondents state that the poor quality of education of new job applicants influences their firm's ability to compete. Seventy percent of the companies assert that human resource policies and practices need to change to attract and retain qualified employees. What they recommend is doing the basics--providing interesting work and adequate compensation. The majority of respondents direct their attention to selecting and retaining qualified employees, not to making sure that they are organized and managed in a way that maximizes their contributions.

Although human resource departments have not become strategic partners in operating the business at this time, the findings reveal certain hopeful trends. More and more senior level managers are paying attention to human resource concerns. In addition, the companies that stand out as as innovators of human resource policies and practices tend to be strategically focused and are willing to invest in practices intended to increase long-term competitiveness. Given the pattern of diffusion, these innovative practices of the human resource leaders today are likely to be practiced by the majority of companies tomorrow. Cutting edge companies consider the design and management of the organization and its human resource systems as leverage for gaining competitive advantage. These innovators experience fewer barriers to changes in human resource policies. They have an effectiveness rather than an efficiency orientation supported by the compatibility of their organizational cultures and an interested top management. This human resource focus on organizational effectiveness, the exception today, is likely to become more common place in the next decade.

The changing trend toward becoming a business partner was identified in a Towers Perrin (1992) study. Their findings suggest that human resource practice in the year 2000 will be: responsive to a highly competitive marketplace and global business structures, closely linked to business strategic plans, jointly conceived and implemented by line and human resource managers, and focused on quality, customer service, productivity, employee involvement, teamwork, and workforce flexbility. The seeming inconsistency between their findings and ours is explained by their focus on the year 2000 and on what should be. Their respondents expect changes to occur by the year 2000, but there is a gap between the present and the future and between what should be and what is.

Given this gap, transforming human resources from a specialized function to a partner in running the business is a significant challenge. However, it is apparent that an increasing number of human resource executives want the transformation to take place and that the opportunity exists for companies to be leaders in adopting a strategic approach to human resource management. The 1990s can still be the decade in which a growing number of companies discover that competitive advantage can be obtained through organization design and human resource practices.

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Table 1

Percent Identifying Issue

	Strategic issue	HR Responsibility
Competition global	34	6
Economic recession	31	5
Caliber of workforce	20	15
Cost management	17	6
Profitability	15	4
Government regulation	14	4
Benefits medical	13	7
Quality control	13	4
Productability	10	4
Customer satisfaction	10	4
Technology	6	2
Changing business climate	6	1
Management development	3	1
Acquisition buyout	3	1
Diversity	3	2
Employee motivation	3	3
Restructuring	3	2
None	-	21
Not sure	-	6

Table 2

Change in Amount of Upper Management's Time and Energy Devoted to Human Resources Issues

	Percent of Companies
Increased Significantly	51
Increased Somewhat	35
Stayed the Same	11
Decreased	1
Not Sure	1

Table 3

Factors Influencing HR Policies and Attitudes
Key Comparisons

Comparative Variables	Changes in the Market	Changes in the Workforce and Staffing Requirements	Changes in a Company's Culture and Management
Larger Companies	Customer Demands Action of Competitors	Educational Mix Demographic Mix	
Companies With Expected Workforce Changes	Demands from Customers or Marketplace	Changes in Demographic Mix of Workplace Changes in Educational Level Changes in Job Mix and Staffing Requirements	Attitudes of Management Changes in Corporate Culture

Table 4

Predictors of Barriers to Change in Human Resources Policies

	Efficiency and Crisis Orientation			Lack of Support		Culture and Management	
Predictors	Focus on Short-Term Goals	Costs of Making Changes	Need to Address Crises	Lack of Support from Middle Managers	Opposition From Unions and Employees	Get Attention From Top Managers	Culture Not Emphasizing HR
Company Characteristics							
Privately Held vs. Publicly Held							+
Manufacturing vs. Service				+	+		
Unionized vs. Not				+	+		
Size (No. of Employees)				+	+		
Size (Total Sales)					+		
% of Domestic Sales							
% of Overseas Sales				+			
Workforce Composition							
% of Women Employees				-	-		
% of Men Employees				+	+		
Predominantly White vs. Racially Diverse Workforce							
Expected Future Workforce Composition							
Expect Workforce Demographic Changes	+			+	+		+

Note: For all the categorical variables (e.g. private vs. public) the relationship is with the first variable.

Key: The '+ - ' indicate positive and negative relations between the predictor variable and barrier statistically significant at $p< .05$

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Table 5

Competitive Investments and Influences on Human Resource Policies

Competitive Investments	Influences on Human Resource Policies
Technology	Changes in Technology
Redesigning Work Methods	Actions of Competitors Changes in Technology
Employee Involvement	Customer Demands Changes in Education Level
Total Quality	Changes in Corporate Culture

Table 6

Impact of Workforce Changes and Effectiveness of Coping Plans

(% = Percent of Companies)

	Total Has Impact	Has Coping Plans and Optimistic	Has Coping Plans But Not Optimistic	No Coping Plans
Aging	50%	24%	2%	24%
Minorities	47%	29%	4%	14%
Family	79%	47%	4%	28%
Worker Cost	41%	17%	4%	20%
Poor Education	83%	36%	14%	33%
Bad Attitude	56%	23%	4%	29%
High Health Benefit Cost	93%	48%	37%	9%

Table 7
Importance In Attracting, Motivating and Retaining [1]

	Mean
Health benefits (a)	7.3
Retirement benefits (b)	6.0
Family support policy (c)	5.8
Having flex work schedule (d)	5.6
Job Security (e)	7.2
Compensation (f)	7.8
Opportunities for advancement (g)	7.7
Opportunities for participation in decisions (h)	7.4
Interesting work (i)	8.0
Factor 1 (f,g,h,i)	7.8
Factor 2 (a,b,e)	6.9
Factor 3 (c,d)	5.74

1. Scale 1 (Low) to 10 (High)

Table 8

Importance in Attracting, Motivating, and Retaining Employees

	Employee Involvement		Total Quality Program	
	High Spender (Mean)	Low Spender (Mean)	High Spender (Mean)	Low Spender (Mean)
Compensation	7.8	7.7	7.9	7.7
Opprotunities for Advancement	7.8	7.7	7.9*	7.6
Opportunities to Participate in Decisions	7.6*	7.4	7.9*	7.1
Interesting Work	8.2	8.0	8.3*	7.8
Health Benefits	7.3	7.4	7.3	7.3
Retirement Benefits	6.2	6.0	6.0	6.0
Job Security	7.2	7.3	7.3	7.1
Family Supportive Policies	6.1	5.9	6.0	5.7
Having Flexible Work Schedules	5.9	5.7	5.8	5.6

* Significant at $p < .05$

• Importance is rated on a scale from 1, least important to 10, most important

Table 9

Two Highest Priorities for The Next 5 Years

	Cases	Percentage
Benefits Medical	131	32
Caliber of workforce	118	29
Staff training	94	23
Management development	75	19
Retention	59	15
Diversity of worker	59	15
Employee motivation	34	8
Innovation/relevant	34	8
Productivity	29	7
Downsizing	18	4
Government regulation	14	3
Costumer satisfaction	13	3
Cost management	11	2
Strategic planning	8	2
Work family issues	7	2
Technology	7	2
Quality management	6	2
Women in work place	6	2

Figure 1

Best Strategic Human Resources Decision Made by Companies to Prepare Them for the Next Five Years

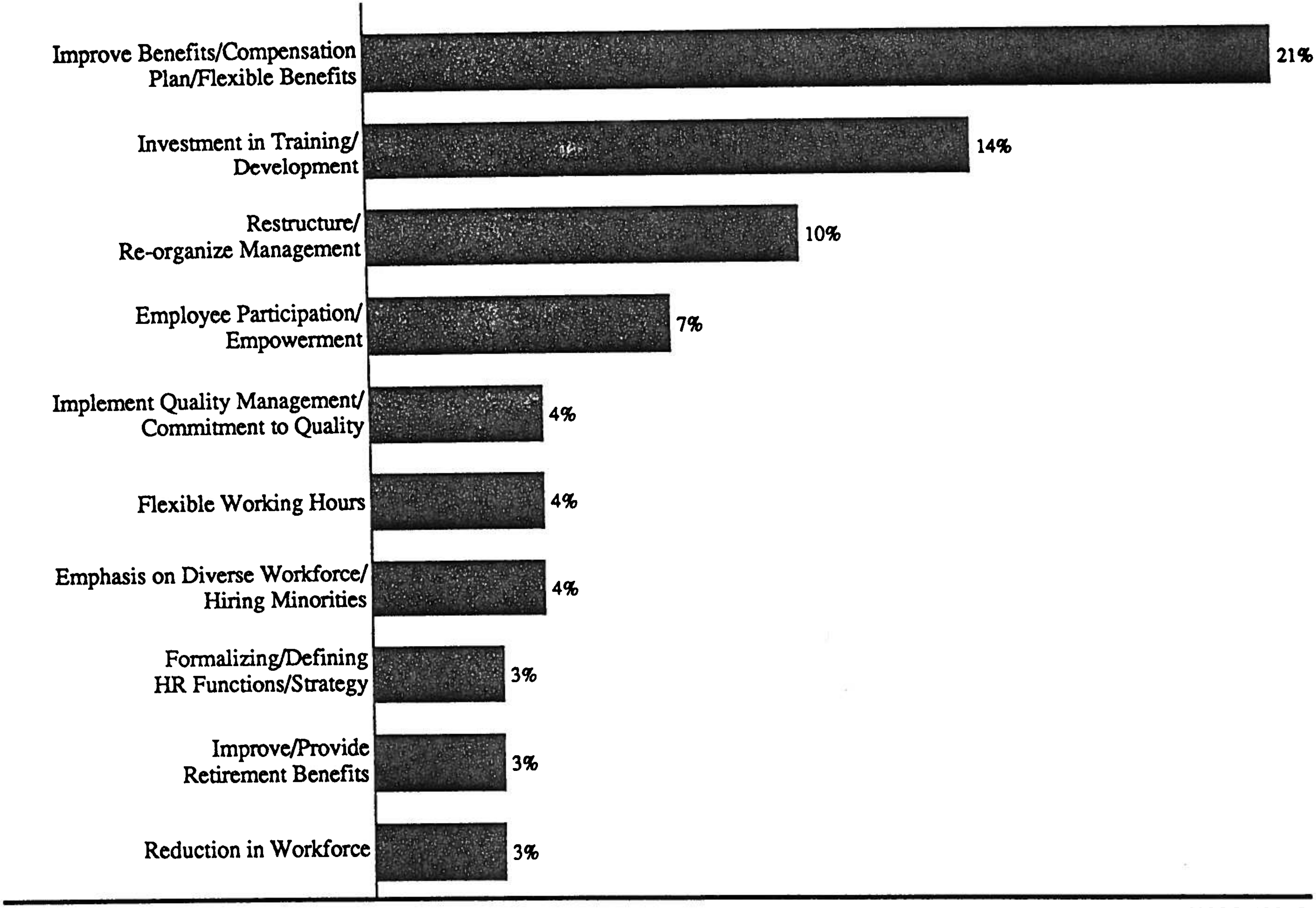

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Figure 2

Position of Company in Adopting New Human Resources Policies

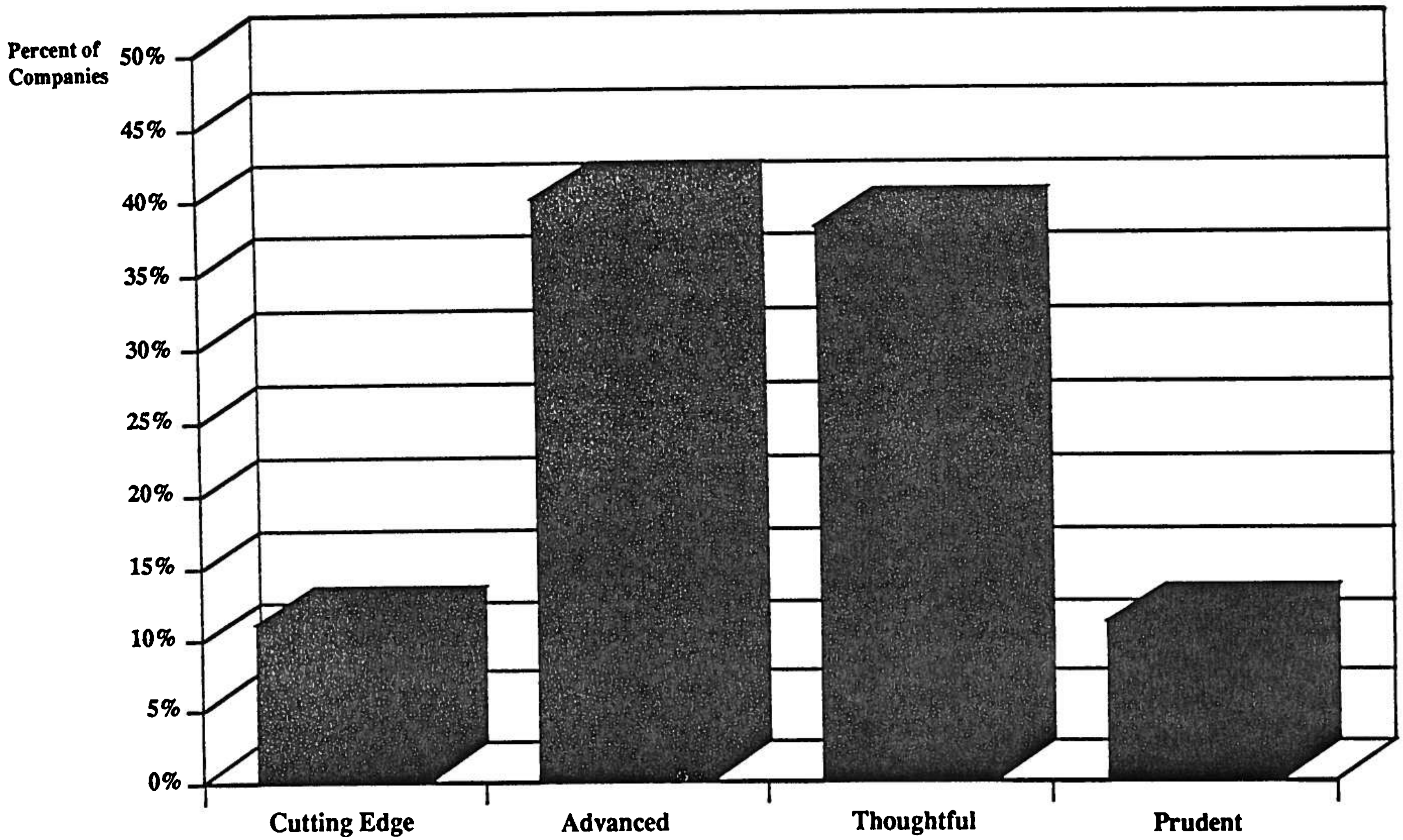

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Figure 3

$ Spent to Improve Competitiveness and Companies HR Innovativeness

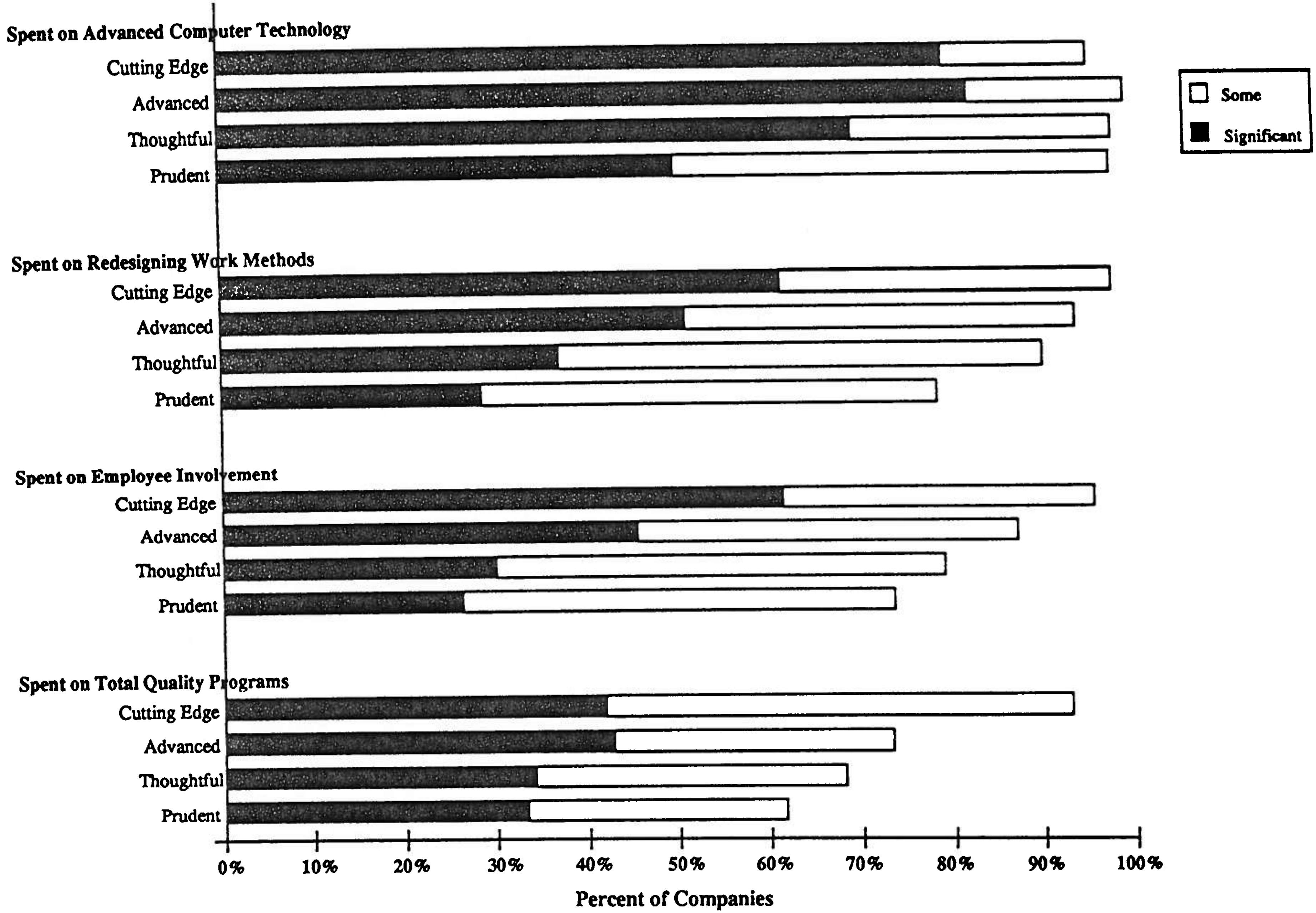

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Figure 4

Factors Influencing Human Resource Policies and Attitudes
Percent of Respondents Saying Some or More Impact

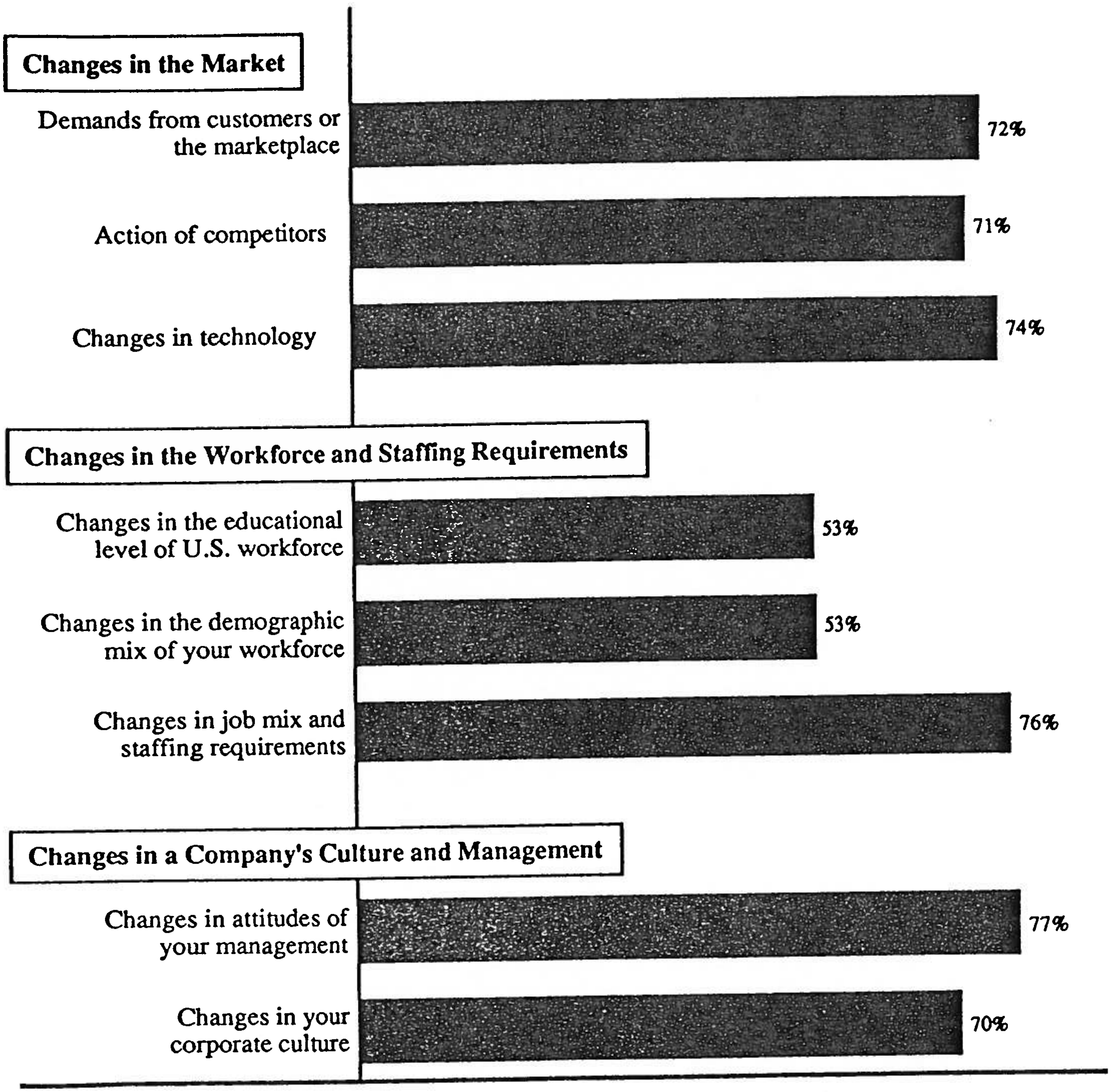

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Figure 5

Barriers to Making Desirable Strategic Changes in Human Resources Policies

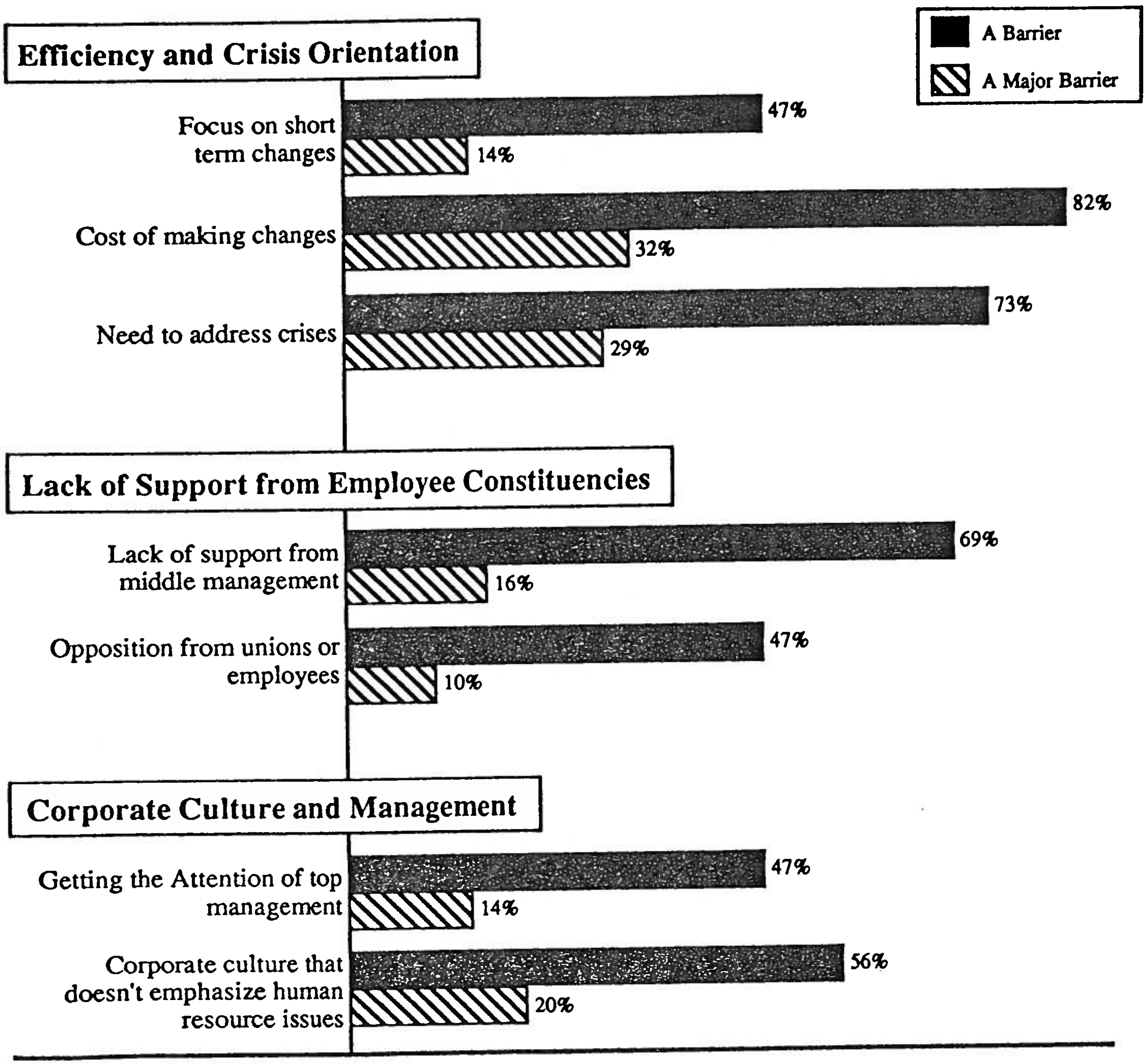

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Figure 6

Companies' Human Resource Innovativeness:
Impact on HR Policies and Attitudes

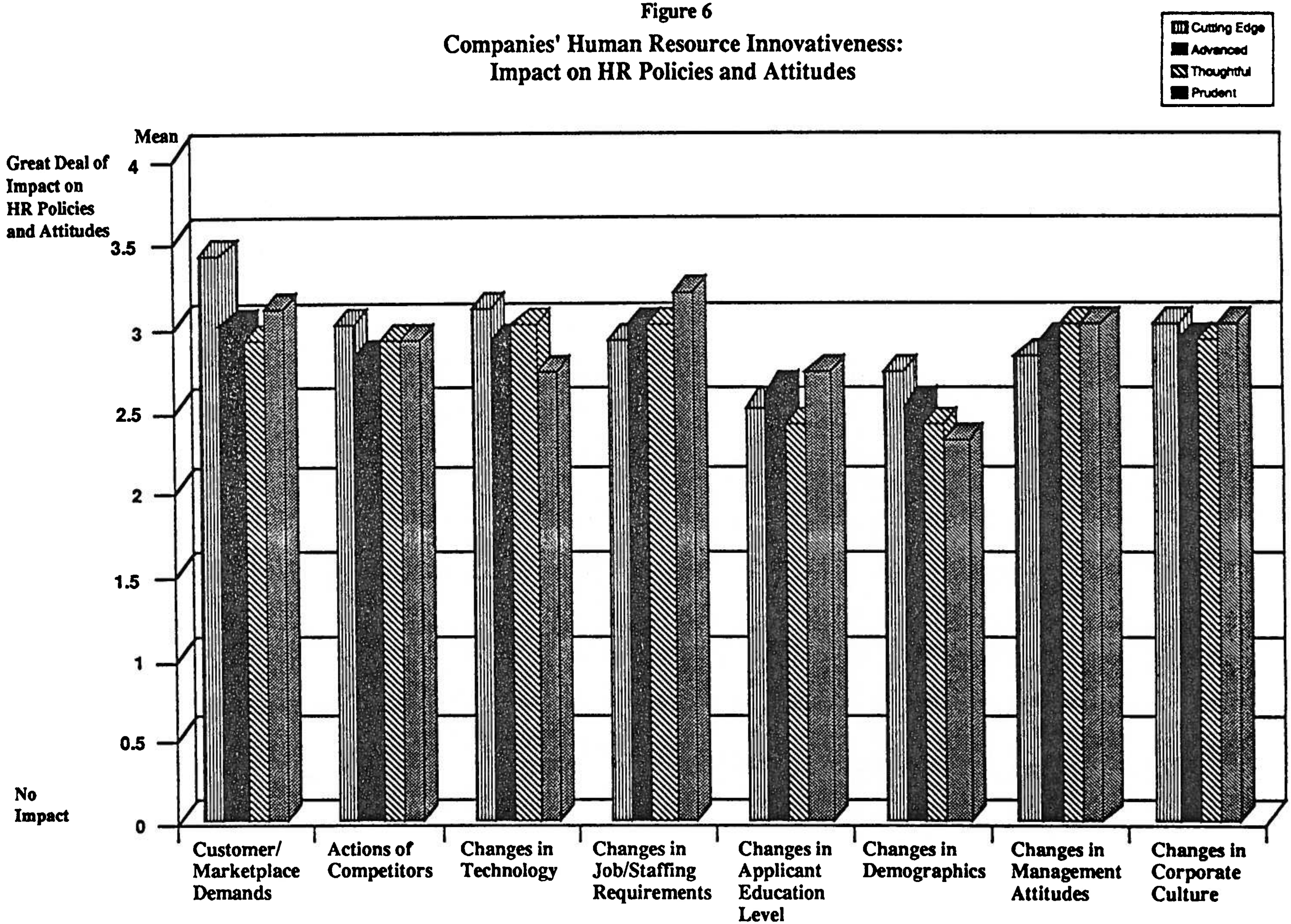

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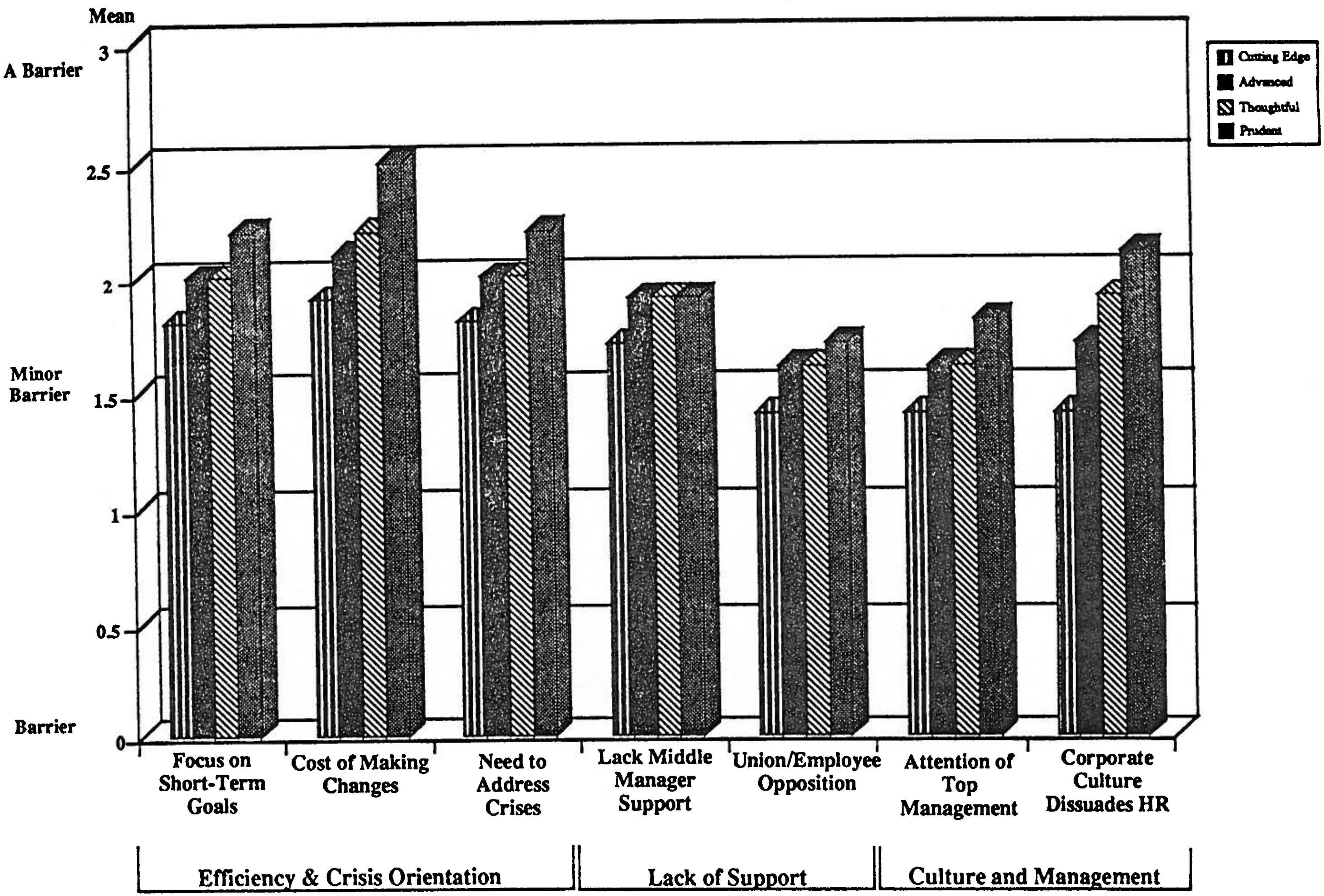
Figure 7
Barriers to HR Policies



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