STRATEGIC HUMAN RESOURCE MANAGEMENT

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INTRODUCTION: THE MANDATE FOR HUMAN RESOURCE MANAGEMENT

> The United States appears to be strewn with evidence of
> managerial failure. Whole industries - autos, steel,
> consumer electronics and others - have fallen victim to
> more aggressive, more efficient overseas competitors. The
> American economy is afflicted with stagnating productivity,
> high unemployment and the debilitating combination of
> surging inflation and high interest rates. The average age
> of the nation's plant and equipment is about 20 years, twice
> as old as Japan's. The rate of investment in research and
> development, the rate of new capital investment and the
> value of the dollar are all sliding with tangible
> consequences: a declining standard of living, more
> inflation and too few jobs (The New York Times Sunday
> Magazine, 3 January 1981).

Akio Morita, chairman of Sony, is blunt in describing the underlying

causes of these problems. "The trouble with a large segment of American

management is attributable to two misguided attitudes: American managers

are too worried about short term profits and too little concerned about

their workers" (The New York Times Sunday Magazine, 3 January 1981).

Clearly, both of these problems relate to the human resource management

of the firm. While the second is obvious, it is also true that the short-

run outlook of managers is rooted in less obvious human resource issues

involving the management of rewards and careers.

Four sets of factors account for the growing importance of human

resource management.

Economic Shifts: The 1970s brought the interacting problem of

inflation, sluggish capital investment and slim gains in productivity.

These trends are expected to continue to put pressure on productivity which

has been disastrously low from 1974 through 1980 - in 1979 there was a 2%

drop in productivity. In addition, the economy continues to be increasingly

service oriented and thus increasingly labor intensive.

Demographic Shifts: In the 1980s the post World War II baby boom

hits the workforce en masse. This is a well educated group with high

expectations about careers and satisfaction on the job. Furthermore, the existing workforce is aging. Changes in retirement laws lead to more rapid aging than would occur on the basis of demographics alone, putting pressure on the effective utilization of human resources. In the past, rapid growth was available as a solution to the rising expectations and the increasing professionalization of the workforce. This will not be so for most organizations in the 1980s. Beyond the 1980s there will be problems with shortages of younger people entering the workforce.

Entitlement and Regulation Laws: Another factor is the regulatory environment, in particular, affirmative action, health and safety, and eventually, some form of a corporate bill of rights.

Management Becoming More Complex and Difficult: The same forces which pressure human resource management make the general management job more complex and difficult. The selection, development and compensation of managerial levels will become a critical organization concern in the 1980s.

Despite these pressures for change in the human resource management area, little progress has been made. Corporations are increasingly struggling with human resource problems but few if any have created the strong proactive human resource function needed to respond to the demands.

The purpose of this article is to argue that the human resource concepts needed to deal with the changing environment and the strategic concerns of corporations are fundamentally different from personnel administration tools. Personnel administration is to strategic human resource management as bookkeeping is to strategic financial management. In this article, we attempt to provide new concepts for human resource management in order to make it part of the overall strategic process in organizations.

Specifically this article:

* Presents a framework for conceptualizing human resource management.

* Links human resource management to general strategic management.

* Describes some current applications of human resource management as a strategic tool in implementing corporate objectives.

STRATEGIC MANAGEMENT

Before continuing, we will first place human resource management into a framework which views the total management of the firm. Three core elements are necessary for organizations to function: 1) a mission and strategy, the organization has to have a reason for being, and a means for using money, material, information and people to carry out the mission; 2) a structure, people have to organize to carry out the mission; and 3) a human resource process, a way of recruiting and selecting people to the organization: getting them into jobs, seeing that they perform and are rewarded sufficiently to both remain in the organization and be productive. As simple and basic as these three elements sound, they each embody extremely complex problems and challenges which have been the subject of years of academic attention and managerial problem solving.

Insert Exhibit 1 About Here

Exhibit 1 presents these basic elements. In the past human resource management was largely missing from the strategic management process. Our aim is to help make it an integral part of the strategic arena of the company.
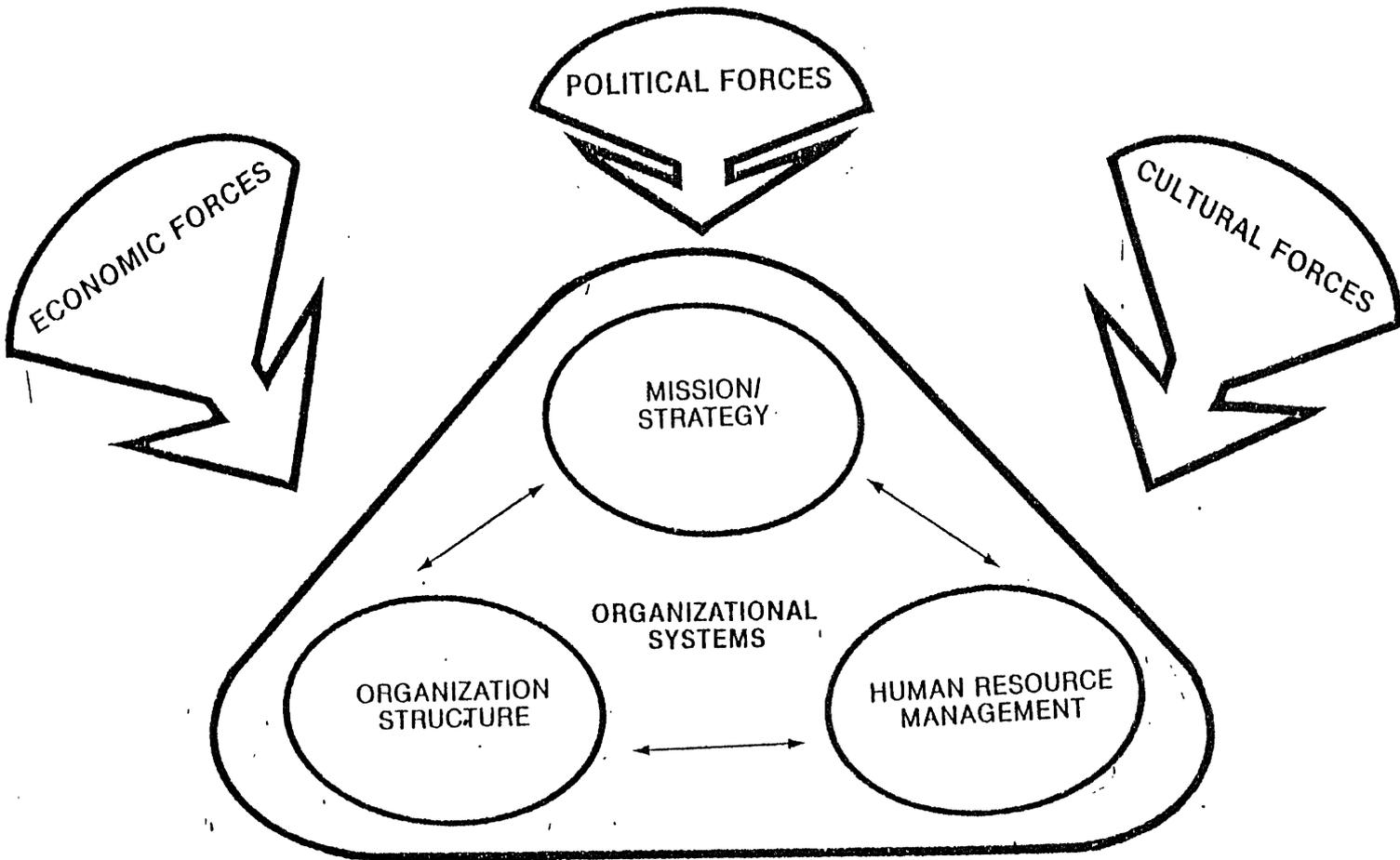
STRATEGY AND STRUCTURE

The historical focus on strategy and structure as the key to strategic management has its roots in a machine view of organizations. The underlying

EXHIBIT 1

STRATEGIC MANAGEMENT
ENVIRONMENTAL PRESSURES

POLITICAL FORCES

ECONOMIC FORCES

CULTURAL FORCES

MISSION/
STRATEGY

ORGANIZATIONAL
SYSTEMS

ORGANIZATION
STRUCTURE

HUMAN RESOURCE
MANAGEMENT

assumptions of this approach were built on a belief that organizations were rational entities to be molded and shaped for the use of the owners and/or managers. As cybernetic systems thinking began to influence organization theorists and managers, a new era evolved in which organizations were conceived of as open systems with dynamic interdependent parts constantly evolving to respond to their environment. Strategic planning grew up in this era as did modern day organization design theory. The basic premise is that alternative organizations are needed to meet environmental challenges and organizational tasks.

Strategy: Strategy is defined as a process through which the basic mission of the organization, its objectives are set and how the firm will use its resources to achieve its objectives. A strategy statement for a firm would have the following characteristics according to Hofer and Schendel [3]:

1. It should describe each of the components - scope, resource deployments, distinctive competencies, competitive advantages, and goods or services which will be produced and the intended synergy.

2. It should indicate how the strategy will lead to the accomplishment of the organization's objectives.

3. It should be described in functional terms, rather than physical terms (a railroad company should consider itself in the transportation business, not the railroad business.)

Robert Anthony distinguishes strategic level activities from managerial and operational levels. The strategic level deals with policy formulation and overall goal setting with the major concern being the positioning of the organization in its environment.

The managerial level is concerned with the availability and allocation of resources to carry out the strategic plan. In order to be in the business(s) specified by the strategic plan, what capital, information, and human resources does the company need?

At the operational level, the day to day management of the organization is carried out. Operational activities are ideally carried out under the umbrella of the managerial plans.

Structure: Chandler defines structure as "the organization of work into roles such as production, finance, marketing and so on; the recombining of the roles into departments or divisions around functions, products, regions, or markets and the distribution of power across this role structure." [6] The structure component of the strategic management process is the arena in which such organization design policy choices as functional versus business focus, centralized versus decentralized, group versus individual job design, etc. are addressed.

Structure Follows Strategy: Chandler [5] provided a convincing argument that the structure of an organization follows from the strategy. He identified four major strategies which resulted in structural or organization design changes. These were: 1) expansion of volume, 2) geographic dispersion, 3) vertical integration and 4) product diversification.

Chandler traced the history of such American firms as General Motors, DuPont, and Sears, Roebuck as their strategies changed and observed the structural changes which followed. As a new strategy was formulated to respond to changes in the environment, new administrative demands provoked a change in the old structure.

Chandler's work was very helpful in focusing attention on the structural supports needed to drive a strategy, that is, how the design of the organization is used to implement strategy.

Galbraith and Nathanson [7] expand upon Chandler's analysis by focusing on some of the human resource issues, such as performance measures, rewards, careers and leadership styles as they relate to a business' strategy structure.

EXHIBIT 2

HUMAN RESOURCE LINKS TO STRATEGY

STRATEGY	STRUCTURE	HUMAN RESOURCE MANAGEMENT			
		SELECTION	APPRAISAL	REWARDS	DEVELOPMENT
Single Product	Functional Structure	Functionally oriented, subjective criteria used	Subjective measure via personal contact	Unsystematic and allocated in a paternalistic manner	Unsystematic largely through job experiences, single function focused
Single Product vertically integrated	Functional Structure	Functionally oriented, standardized selection criteria	Impersonal based on cast and productivity data	Related to performance and productivity	Functional specialists with some generalists largely through job rotation
Growth by acquisition (holding company) of unrelated businesses	Separate, self-contained business structure	Functionally oriented, but varied from business to business in terms of how systematic	Impersonal based on return on investment and profitability	Formula based and includes return on investment and profitability	Cross functional but not cross business
Related diversification of product lines through internal growth and acquisition	Multidivisional structure	Functional and generalist selection criteria systematic	Impersonal based on ROI, productivity and subjective assessment of contribution to overall company	Large bonuses based on profitability and subjective assessment of contribution to overall company	Cross functional, cross divisional and cross corporate/divisional formalized

HUMAN RESOURCE MANAGEMENT

STRATEGY	STRUCTURE	SELECTION	APPRAISAL	REWARDS	DEVELOPMENT
Multiple products in multiple countries	Global organization structure (geographic center and world wide)	Functional and generalist oriented criteria systematic	Impersonal with multiple goals like ROI, profit tailored to product and country	Bonuses based on multiple planned goals with moderate top management discretion	Interdivisional intersubsidiary to corporate, formal, systemati

Adapted from: J. Galbraith and D. Nathanson Strategy Implementation: The Role of Structure and Process St. Paul Minn: West Publishing Co., 1978

Insert Exhibit 2 About Here

Exhibit 2 modifies their analysis somewhat and presents some of the differences which we would expect to find in four generic human resource activities across different strategies and structures. The strategic management problem is to keep the strategy, structure and human resource dimensions of the organization aligned.

McKinsey & Co. [8] compared the characteristics of excellent or well managed companies. They studied a sample of what they defined as 50 well managed companies; companies which have long standing records of above average growth, profits and return on investment. Among the group were 10 which they focused on very closely: IBM, Procter and Gamble, Johnson and Johnson, Texas Instruments, Dana, Emerson Electric, Hewlett-Packard, Digital Equipment and McDonalds. Even though their findings are scientifically very tentative, they are clinically interesting. They found that there were eight common characteristics of these companies which are listed in Exhibit 3.

Insert Exhibit 3 About Here

What makes these eight characteristics particularly interesting is that each one is strongly influenced by human resource management. It is through the way people are selected, socialized and developed, appraised and rewarded that the eight attributes are shaped and molded. While these attributes have served some companies well in the past, we anticipate that it will be increasingly important for most companies to develop them as we move through the turbulent 1980s.

EXHIBIT 3

McKINSEY & CO.'S CHARACTERISTICS OF EXCELLENT CORPORATIONS

- A BIAS TOWARD ACTION
- SIMPLE FORM AND LEAN STAFF
- PRODUCTIVITY THROUGH PEOPLE
- CONTINUED CONTACT WITH CUSTOMERS
- OPERATIONAL AUTONOMY TO ENCOURAGE ENTREPRENEURSHIP
- STRESS ONE KEY BUSINESS VALUE
- EMPHASIS ON DOING WHAT THEY KNOW BEST
- SIMULTANEOUS LOOSE-TIGHT CONTROLS

EXHIBIT 4

THE HUMAN RESOURCE CYCLE

| SELECTION (1) | PERFORMANCE (2) | APPRAISAL (3) | REWARDS (4) | DEVELOPMENT (5) |
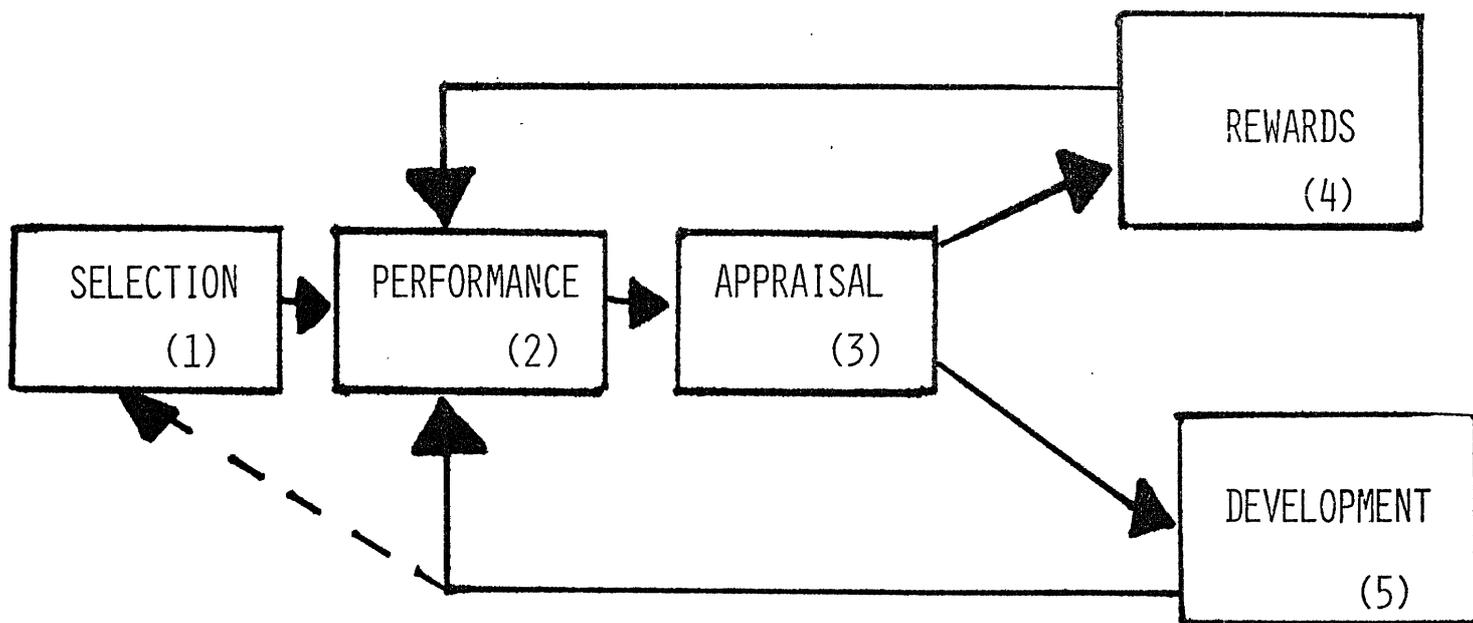
THE HUMAN RESOURCE CYCLE

There are four generic processes or functions performed by a human resource system in all organizations, selection, evaluation, reward and development. These four activities reflect a sequential managerial activity and Exhibit 4 represents them in terms of a human resource cycle. In the rest of the paper we discuss the cycle in terms of each of its components and and then as a dynamic system. It should be pointed out that human resource management is only one of the three components at the strategic management process diagramed in Exhibit 1. Such strategic issues as organization and job design fall within the structure component.

Insert Exhibit 4 About Here

While the focus of this article is on strategic level activities we recognize the vital role of day to day operations in a human resource function. Exhibit 5 describes some of the human resource concerns of each of the human resource areas and at each of Anthony's three levels of management.

Insert Exhibit 5 About Here

Exhibit 5 illustrates the kinds of activities associated with the strategic, managerial and operational levels for each component of the human resource cycle. For example, in the selection/placement area operational level activities include the annual staffing and recruitment plans. Managerial selection would be more concerned with manpower planning for the intermediate range future. For instance, a company about to open

EXHIBIT 5

HUMAN RESOURCE ACTIVITIES

MANAGEMENT LEVEL	Selection/ Placement	Appraisal	Rewards (Comp. and Fringe)	Development
STRATEGIC LEVEL	-Specify the characteristics of people needed to run business in long term -Alter Internal and external systems to reflect future	-In long term what should be valued? -Develop means to appraise future dimensions -Early Identification of potential	-In world as it might be in long term how will workforce be rewarded? -Link to the long term business strategy	-Plan develop-mental experiences for people running business of the future -Systems with flexibility to adjust to change -Develop long term career paths
MANAGERIAL LEVEL	-Longitudinal validation of selection criteria -Development of recruitment marketing plan -New markets	-Validated systems relating current and future potential -Assessment centers for development	-Five-year compensation plans for individuals -Cafeteria fringe packages	-General management development program -Organization development -Fostering self-development
OPERATIONAL LEVEL	-Staffing plans -Recruitment plans -Day to day monitoring systems	-Annual or less appraisal system -Day to day control systems	-Wage and salary administration -Benefits packages	-Specific job skill training -On the job training

two plants in different parts of the country would want to know the kinds

of people it will need and how to go about finding the people to run those

plants.

The strategic level activities look to the long term future. What

kinds of people will be needed to manage and run the organization in the

future? The implications of a long run position are then traced back to

guide current selection, placement, and training practices. For instance,

if a major oil company formulates a strategic business plan for major

diversification by the year 2000, what kinds of people should it be

recruiting now who will be capable of running the diversified company 20

years from now?

HUMAN RESOURCE POLICY

Before providing illustrations of how a number of organizations are

currently engaged in strategic human resource management, we will discuss

some organizational policies which provide the context for the human

resource cycle. These policies vary from organization to organization

and tend to limit or constrain the actual design of components in the human

resource cycle. They are not the focus of this article but are identified

below as important back drop issues for our human resource cycle examples.

Management Philosophy: One of the most basic policies which influences

the overall design of the human resource cycle is the organization's

management philosophy regarding the appropriate "psychological contract"

with employees. That is, what is the nature of the exchange between employees

at the organization. On one end of the spectrum is "a fair day's work for a

fair day's pay" purely an extrinsic quid pro quo contract. Many United

States blue collar jobs fit this description. Whereas, the other extreme would be "challenging, meaningful work that produces a sense of well being in return for a loyal, committed, and self motivated employee" thus an intrinsically oriented contract. Some of the Scandanavian companies committed to quality of work life fall on this end of the spectrum. This policy and the remaining ones can be thought of as a set of scales which require balancing. Depending on where each is balanced, it will affect the human resource cycle.

A second management philosophy policy is the extent to which the organization is "top down" or "bottoms up" driven. In a top down organization the human resource cycle will be designed so that all key selection, appraisal, reward and development decisions are highly centralized. Whereas, in a bottoms up system there is wide spread participation for each of these components.

Internal Versus External Labor Market: A central human resource policy is the extent to which the company decides to develop people from within the organization or rely on the external labor market to fill job openings. Companies such as IBM and GM are heavily weighted toward the internal labor market end of the scale, whereas, other companies hire people in at all levels to fill jobs. Each component of the human resource cycle reflects this policy.

Development Versus Selection Impact on Performance: Organizations vary in the degree to which they weight the impact of these two factors performance. That is only some companies do almost no training development. Others, such as AT & T, invest heavily on development. A company such as GE represents a management philosophy that stresses both careful selection and development.

Group Versus Individual Performance: The human resource cycle can be geared toward collective, group based performance, toward individual performance or

some mixture of the two. When the emphasis is group performance, then selection must take account of social compatability, appraisal must be group focused and rewards include group incentives. Also, development will be targeted at the work group.

The rest of the article stresses the strategic level of the matrix presented in Exhibit 5 and describes the activities of a number of organizations engaged in strategic human resource management activities.

PERFORMANCE

Performance (or productivity) is the bottom line for both the human resource system and the organization as a whole. One of the major purposes of the human resource system is to insure individual productivity which at the aggregate level results in organizational productivity.

Performance is a function of all the human resource components: selecting people who are best able to perform a job, motivating them by proper rewards, training and developing them to better perform and appraising them so as to be able to reward and develop them. In addition, performance is a function of the organizational context and resources surrounding the individual. Strategy and structure are the strongest contextual determinants of performance within the structure, the specific jobs being done, the specific form the division of labor takes in the organization strongly influences the levels of performance attained by any individual. Other factors include capital tools, physical space, social environment, quality of supervision and leadership.

Organizations must learn how to drive performance if they are to improve productivity. This is a major challenge for United States industry in general and one that clearly involves the effective management of human resources.

At the societal level the productivity problem in the United States is multifaceted. Part of it is an investment problem. The United States has

not kept up with Japan and West Germany in capital investment in plant and

equipment. Another facet of the problem relates directly to the human resource

cycle and is reflected in United States industry's learning curve. Lester

Thurow points out:

> The learning curve phenomenon first came into focus in the
> production of Liberty ships and airplanes during World War II.
> After the plants were built and in operation, the number of man-
> hours of work necessary to build a ship or airplane fell rapidly
> as more and more ships and airplanes were built. The capital
> equipment did not change appreciably but productivity rose
> dramatically. [10]

The same phenomenon exists in civilian production. Holding capital

equipment constant the learning curve is explained by the process of informal,

on the job acquisition of skills and team productivity when members learn

to improve their job skills. As Thurow indicates:

> The process is not automatic. It depends upon high quality
> management and a cooperative workforce. If the work force
> is unhappy, it can stifle the learning process. If managers
> are incompetent, opportunities for new labor saving procedures
> are missed. [11]

Numerous authors have suggested that Japanese companies are able

to move down the learning curve at a faster rate because of a more cooperative

workforce and better management. [11] A strategic challenge to improve

United States performance will be catching up in this area. The rest of

this paper looks at each of the components of the human resource cycle

in terms of its impact on individual and organizational performance.

SELECTION/PROMOTION/PLACEMENT PROCESS

The selection, promotion and placement process includes all those

activities related to the internal movement of people across positions and

the external hiring into the organization. The essential process is one of

matching available human resources to jobs in the organization. It entails

defining the organization's people needs for particular positions and

assessing the available pool of people to determine the best fit.

Three strategic selection concerns are particularly salient. The first is devising an organization wide selection and promotion system which supports the organization's business strategy. For example, if a company will be diversifying over a ten year period, it is probably true that the types of people needed to run the new business will be different than in the past, requiring a redesign of the selection system. This process is beginning to occur in the oil industry as it starts a 20 years process of diversification.

The second is creating internal flows of people which match the business strategy. Companies which diversify or change their strategic direction need to alter traditional promotional patterns to move new types of people into key positions. AT & T's move into the competitive electronic communication and knowledge business has necessitated developing internal promotion systems for people able to innovate, deal with competitive markets and who are driven by profits. This is a major change from the regulated telephone monopoly which was service oriented, low on innovation and where profit was regulated, not managed competitively.

The third strategic concern is matching key executives to a business's strategy. There is a growing interest in meshing strategic planning with executive skills. This is especially true in companies which are using a product portfolio analysis approach to strategic management. The Boston Consulting Group's (BCG) portfolio matrix is the most common and simplest formulation. Using the BCG approach there are a set of prescribed business practices for managing each type of business. Several examples of companies already committed to using senior selection as a strategic management tool are presented below.

General Electric: GE uses a more complex portfolio matrix with 9 cells; yet the underlying concepts are based on the same product life cycle notions

represented in the BCG matrix. GE defines its products in terms of the

kinds of management practices required for success, thus, their products

are defined as "grow" for wildcats, "defend" for stars and "harvest" for

cash cows and "undertakers" for dogs. As indicated in the quote below:

> Its general managers are being classified by personal style or
> orientation as "growers," "caretakers" and "undertakers"...They
> [GE] have a shortage of growers but they are making a great effort
> to remove the undertaker types who are heading up growth businesses.
> The lighting business is mainly mature but we [GE] just designated
> international operations as a growth area to our five year forecast...
> John D. Hamilton, the manager responsible for manpower planning says
> he and the executive manpower staff at corporate headquarters looked
> at the whole pool of corporate talent. They decided to move in a
> manager who had an industrial rather than lighting background but
> who seemed to show entrepreneurial flair (Business Week, 25 February
> 1980: 173).

Corning Glass Company: At Corning an extensive effort is underway to

assess the company's top 100 executives for such qualities as entrepreneurial

flair. The goal is to have a clearer profile of the organization's pool of

executive talent specified in terms of capabilities for managing different

parts of the BCG matrix. An example of this in practice occurred in December

1979 when:

> Corning reshaped its electronic strategy, deciding that the market
> was starting to expand again, and that it needed a growth oriented
> manager. It placed a manufacturing specialist who had shown a great
> deal of flair in working with customers in the top marketing slot
> for electronics, and says Shafer, 'It looks like he's turning it
> around.'" (Business Week, 25 February 1980: 166).

Chase Manhattan Bank: During the period between 1975 and 1980 the

bank underwent major managerial changes. A key to the bank's successful

turnaround from a troubled bank in the mid-seventies was careful strategic

level selection and placement of executives. Historically in banking generally

and specifically, at Chase, senior level positions were decided upon based

on historical precedent with old boy networks playing a major role. Also,

the tradition in banking was to reward those with banker skills, not those

with managerial skills which were implicitly considered to be of less

importance. Under the stress of serious performance problems, Chase

Manhattan Bank had to re-examine these practices. As a result, a very

systematic effort was launched to strategically manage senior selection

and placement decisions. For example, "When the trust manager retired,

corporate management decided that the department, whose operation had

been essentially stable, should focus on a more aggressive growth strategy.

Instead of seeking a veteran banker, Chase hired a man whose experience had

been with IBM" (Business Week, 25 February 1980: 166) because it was felt

he brought a strong marketing orientation to the trust department which

the new strategy required.

> Similarly, when Chase reorganized its retail banking business
> from a low margin operation in which the stress was on keeping
> down costs to a more expansionary business offering broader
> consumer financial services, it hired, because of his entrepreneurial
> skills, an executive who had been a division chief for a small
> industrial firm and had a track record of entrepreneurial management
> experience. The former head of retail banking, who was viewed as a
> strong cost cutter, was matched with the bank's European strategy
> calling for tightening up expenses and getting the operation in
> better financial shape" (Business Week, 25 February 1980: 166).

Texas Instruments: At TI there is an explicit attempt to match

management style to product life cycles. "As a product moves through

different phases of its life cycle different kinds of management skills

become dominant." The mismatch of managerial style to the product life

cycle can be quite serious. For example a risk taking entrepreneurial

manager in charge of a cash cow business is likely to greatly reduce the

profitability of the business by trying to grow the business and take risks.

On the other hand, putting a cost cutting efficiency oriented manager in

charge of a growth business can stifle risk taking, innovation and prevent

the business from acquiring market share. In the past TI did not pay

adequate attention to the match between product life cycle and managerial

style and as a result it feels it lost its early lead in integrated circuits.

EXHIBIT 6

POTENTIAL REWARDS

*Pay in its various forms - salary, bonuses, stock options, benefits, perquisites.

*Promotion, both upward mobility and transfers laterally into desirable positions.

*Management praise.

*Career opportunities, longer term chances for growth and development.

*Appreciation from customers and/or clients of the organization.

*Personal sense of well being, feeling good about oneself for accomplishing things.

*Opportunity to learn, chances to expand one's skills and knowledge base.

*Security, sense of job and financial security.

*Responsibility, providing individuals with a sense of organizational responsibility.

*Respect from co-workers.

*Friendship of co-workers.

During the growth stage it had a "cash cow manager in charge rather than

a grower or entrepreneurial type." The result was that "tighter controls

were introduced but TI failed to recognize that a research orientation

was really what the Integrated Department needed at that stage. TI has

redoubled its efforts to match management orientation with job needs.

Bucy, now president, personally reviews the records of the top TI managers"

(Business Week, 25 February 1980: 168).

Selection precedes performance. Once people are in jobs and perform,

they need to be rewarded for good performance. The incumbents should also

be developed to improve performance and/or prepare them for a new position.

REWARD PROCESSES

The list of rewards which exist in organizational settings is

surprisingly long. A partial list is presented in Exhibit 6.

Insert Exhibit 6 About Here

Most organizations do not do a very good job of managing these rewards

to produce desired organizational behaviors. As a result, rewards are one

of the most underutilized and mishandled of managerial tools for driving

organizational performance. As can be seen in the human resource cycle

exhibit, rewards are a major factor influencing performance. Assuming that

the organization can appraise performance, which will be shown below is not

always a good assumption, it then has a rationale for allocating rewards

based on how well people perform. In addition to the appriasal problem

preventing this from happening, organizations often think of rewards in too

limited a fashion and only try and manage pay.

A major strategic issue with regard to reward systems is how to use the

reward system to overcome the United States' problem of short sighted management.

EXHIBIT 7

COMPARING THREE LONG-TERM BONUS PLANS

COMPANY	EXECUTIVES IN PLAN	GOAL OF COMPANY'S LONG-TERM PLAN	POTENTIAL BONUS FOR CEO	ACTUAL 1979 LONG-TERM BONUS	TOTAL 1979 COMPENSATION
Crown Zellerbach CEO: C. Raymond Dahl	40	Aggregate 1975-79 E.P.S. of $18.69	$325,000	$ 97,335[1]	$518,335
Sante Fe Industries CEO: John S. Reed	60	Compound annual 1979-82 growth in E.P.S. of 8%, adjusted for inflation	3,095 common shares, taxes covered by additional cash payment	None. Bonus payable in 1983[2]	$529,686
Twentieth Century Fox CEO: Dennie C. Stanfill	1	Aggregate 1976-80 E.P.S. of $13.56	$1,500,000	$1,375,000[3]	$2,030,098

[1] Crown Zellerbach's aggregate earnings per share for 1975-79 amounted to $15.62; the minimum goal was $14.92, or 25 percent more than the 1971-74 aggregate earnings per share of $12.46. The target of $18.69 earnings per share is 50 percent more than the 1971-74 aggregate.

[2] Santa Fe's 1979 earnings per share, adjusted for inflation, were up 22 percent. To meet the 1982 goal, share earnings must rise an additional 4 percent, after inflation, or a total of 26 percent above the 1975-78 level.

[3] Twentieth Century's directors agreed to pay Mr. Stanfill a reduced amount in March, at his request, since the company had reached the long-term goal a year early. However, Mr. Stanfill must use the after-tax proceeds of the bonus to buy Fox common stock.

The rewards for this year's profits generally turn out to be both financial
incentives and promotions. Motivation of senior executives toward long term
strategic goals is difficult. The reason for this is that the reward system
often encourages short term achievement at the expense of long term goals.
As stated in The New York Times (24 April 1980: D1):

> Though bonuses based on achieving sales or earnings goals
> have long been common, the emphasis on long term is a new
> element. Top corporate executives, under pressure from Wall
> Street and stockholders have been rewarded with bonuses and
> stock options when immediate profits spurt. The auto industry,
> for example, is notable for its short term rewards.

It is unreasonable and unwise to recommend that managers only be rewarded
for long term strategic goals as businesses must perform in the present to
succeed in the future. Thus, the reward system should provide balanced support
to short term and long term strategic goals. Some examples of companies
working to explicitly and strategically manage this balance are presented in
Exhibit 7.

Insert Exhibit 7 About Here

Texas Instruments: One company which has thought long and hard about
the use of reward systems for driving the company's short and long term
goals is TI.

One major part of TI's strategy since the early 1960s has been to
rigidly adhere to the "learning curve theory." Simply put, it states "manu-
facturing costs can be brought down by a fixed percentage depending on the
product, each time cumulative volume is doubled" (Business Week, 18 September
1978: 68). The strategy involves constant redesign improvement of the product
and the processes of production so that prices can drop as fast as possible.
This strategy was implemented by organizing Product Customer Centers (PCCs)

which were essentially divisions of the company. This created decentralized profit centers which could be closely monitored for performance. The reward system was closely tied to the PCCs so that managers worked hard to make the "learning curve theory" operative. However, there were some problems.

The Product Customer Centers and associated reward systems worked at cross purposes to another organizational strategy, the development of innovations for future products. The rewards were structured to drive managers to be overly concerned with short run efficiencies and not with long term strategic goals.

The solution to this dilemma was to design a new organization which was draped over the existing PCC structure. It was called the Objectives, Strategies and Tactics (OST) organization at TI. It was created to supplement the PCC which remains intact. The OST structure is used for the formulation and implementation of strategic long range plans. The same people are members of both organizations. The company's total expenditures are divided between PCCs and OST. The top managers at TI wear two hats. With one hat they are bottom line efficiency focused managers working to drive the PCCs system and are rewarded and evaluated for accomplishing the efficiency objectives. The other hat is the OST hat. It involves working toward a strategic objective which may have a 10 to 20 years time horizon. There are separate monitoring and appraisal systems tied to the OST and these are used to drive performance in the long term strategic area. For example, a manager may be responsible for PCC while at the same time work in the OST toward a strategic objective for products in the computerized auto industry of the future. If 60% of his time was allocated to the PCC and 40% of the time to OST then his compensation would be split to reflect the short and long term aspects of the job.

TI has also used the reward system to encourage another set of desired strategic behaviors. TI discovered that managers were tending to set low risk objectives so as to enhance their chances of receiving a bigger bonus which tends to stifle creativity and innovation. TI altered the reward system to attack this problem. It did this by developing a method for funding more speculative programs which TI found were being underfunded in the initial OST system. The device is called "wild hare." It allows managers to rank speculative projects separately and hence give more funding to them. The bonus system is then tied into this process.

Another strategic reward mechanism for fostering organizational innovation is to provide any organization member(s) with a chance to obtain a grant from a pool containing several million dollars to fund innovative projects. The result has been the emergence of informal groups who apply for grants from the innovation pool, called IDEA, which they then attempt to turn into viable products.

DEVELOPMENT PROCESS

Activities designed to insure that individuals are properly equipped with skills and knowledge to carry out their jobs fall into this category. These activities range from simple job training for lower level employees to the long term development of senior executives. The longer term, strategic developmental process includes such activities as management education, the use of mentor relationships, job assignments and life experiences. The three major areas of the developmental process are: 1) job improvement, this is the development of specific job skills and competencies; 2) career planning, this is a longitudinal focus on individual growth and development in relation to organizational opportunities; and 3) succession planning is the organizational focus on insuring an adequate supply of human resource talent for projected needs in the future based on

strategic plans for the organization. Some of the strategic level developmental concerns are briefly discussed below.

Insuring that the organization has an adequate supply of human resource talent at all levels is no easy task especially when organizations are undergoing rapid strategic changes. The key is to have a human resource planning system which makes accurate forecasts. Such systems are not easily built and even though most large companies have manpower planning systems, they are very inadequate. The reason for the failure of most past human resource planning systems has been two basic flaws. First, the data about people which is input into the system has been very unreliable. Managers have generally not appraised employees well so that valid data about current performance levels for individuals is unreliable and data on future potential is even worse. In order to plan for the future it is necessary to have an inventory of current human resources. This should include both an assessment of current individual performance and future potential of key individuals. The appraisal process must provide this data. As pointed out below, the appraisal process is the weakest link in the human resource cycle, thus, planning systems built on these data are also going to be inadequate. The second basic flaw has been a missing link to the business strategy. Although many organizations have given lip service to such a link the reality is that it has been an afterthought usually delegated to the human resource staff without any line management involvement in the process. As a result the human resource plan is a paper exercise which does not get utilized by the strategic decision makers.

There are a handful of United States companies which have strategically managed the development of senior executive talent. Among these are such companies as General Motors, Exxon, General Electric, Texas Instruments, IMB, and Procter and Gamble. The emphasis has been on carefully developing managers by following such principles as:

1) Sustained interest and support for management development and succession planning on the part of top management.

2) Efforts are made to identify young high potential professionals deemed to have potential for top level management positions.

3) Comprehensive and systematic rewards are kept on managerial performance which include data from multiple sources and is used in making decisions about management development.

4) Specific recruiting efforts exist to provide appropriate raw material for general managers of the future.

5) Capable young professionals are given the opportunity to develop managerial skills early in their careers.

6) Compensation policies and salary administration help stimulate development and retention of key personnel.

7) Managers at all levels have clear developmental objectives and plans for their careers.

8) High potential personnel are likely to get effective coaching from their superiors.

9) The performance appraisal process stresses results.

Some of the following companies have been very strategic in developing managers.

Exxon: The Compensation and Executive Development (COED) system at Exxon is designed to insure a disciplined approach to the development of managerial talent for the company. The system is driven from the top of Exxon where a COED committee headed by the CEO, Clifford Garvin, and made up of members of Exxon's Board, are charged with reviewing the development and placement of the top 250 Exxon executives. This committee meets every Monday of the year with few exceptions. A senior staff group collects and collates data on the company's top executives for use in these meetings. The COED committee carefully reviews the performance of executives, examines the developmental needs of each individual, compares them with each other and makes decisions about future development so as to insure a continued flow of managerial talent for the company and to insure that all positions have back up candidates.

The COED system also exists within each of the Exxon subsidiaries where the President of each subsidiary has his own COED committee similar to the one which Mr. Garvin has at the top of Exxon. Also each subsidiary has a senior level staff for the COED committee. This enables the COED system to cascade down to the top 2000 or so managers at Exxon.

In discussions with senior Exxon managers it is rather striking to hear the universal acclaim given the system. Most all the managers state unequivocally that the system accounts for Exxon's overall success as a company and is unbeatable as a system for developing managers. Whether this is true or not, it is part of the Exxon management philosophy to believe that it is.

General Motors: Another company with an equally strong tradition which dates back to Alfred Sloan is General Motors.

> At General Motors, the supreme court of executive review in recent years included the top six executives in the company...during the week long sessions in the Board room of Detroit headquarters each February and July, they spend long days and nights listening to analysis of more than 600 managers from each of GM's 10 vice presidents and group executives.
>
> ...A variety of questions are covered to get an accurate picture of where the individual stands in his career development...we don't have jobs at GM, we have careers. Along with performance, the probing is centered on just what kind of potential the executive may have. Here are some examples. Does the executive seem to be developing at the rate expected? What is the job contributing to the person's ability? Is it rounding out a person as we intended? What should be the next job for this executive? Should it be in another division or involve greater responsibility? If so, who would we put in this executive's place? (The New York Times, 4 September 1980: D1).

General Electric: GE focuses a similar amount of attention on senior management development. Unlike both GM and Exxon who have one major line of business, GE has more than 240 businesses. The diversification of GE makes the development of managers more complex than most other companies. As a result GE has developed approaches to handling the development of managers.

One very important strategic activity is the slate system. Approximately the top 600 positions at GE are carefully managed and monitored by the

Chairman of GE. A special staff group under the direction of Mr. LeVino, provides analysis of these key executives. This staff works with line managers to develop slates of acceptable candidates for key managerial positions at GE. Positions can only be filled from among those on the approved slate. That is, a business head cannot select his own vice president of marketing unless the individual is among those on the official slate list for the position. The slate is approved by the human resource staff. If a manager wants to push strongly for an individual not on the slate the decision must ultimately be kicked up the hierarchy at GE to the Chairman. This is frowned upon and therefore few people not on the slate are selected for positions.

One of the services that the human resource staff provide in developing the data base for the slate system is to conduct in-depth executive reviews of key managers. Highly trained human resource staff spend several weeks preparing a report on a single executive. The process involves interviews with subordinates, peers, bosses, and even customers of GE to get a composite picture of the executive and his or her strengths, weaknesses, accomplishments, failures and potentials. These reviews include estimates as to the future progress which the individual can expect at GE. The report is reviewed by the individual who can voice disagreement. The report becomes part of the individual's file. The review also includes extensive suggestions for further development of the manager. They only conduct about 40 of these reviews a year.

Another aspect of GE's strategic development system is the use of training. GE conducts a program for managers to provide the strategic management concepts and techniques. GE runs its own internal executive program in this area so that the complex strategic planning system of GE can be taught to managers. The program is given very high marks by GE

managers as the place they really learned the importance of strategic planning and first got exposed to the GE system.

Chase Manhattan Bank: A more targeted use of management development took place at Chase Manhattan Bank. In conjunction with launching the first formalized strategic planning process at Chase, a management development program was designed to support the new process. It was a two week program for the top officers of the bank and focused on awareness and frameworks needed to support the new strategic planning process. The program had the involvement of the then Chairman, David Rockefeller, and the then President, Willard Butcher. Both symbolically and substantively the program was a strong reinforcer of the strategic importance of the new strategic planning process.

Appraisal Process: Perhaps, the least liked managerial activity is doing performance appraisals. Most of the time the activity is a perfunctory paper exercise which contributes to the negative connotations of the personnel function which is seen as the perpetrators of the paper exercise. As was pointed out by one of our colleagues, performance appraisals are like seat belts, everyone agrees that they are important and save lives, yet no one uses them. There are many reasons for problems with appraisal procedures ranging from, poorly designed procedures, to the psychological resistance of managers to giving negative evaluations, to their invalidity. The important point is that the appraisal process is central to the human resource cycle. It contributes to three essential processes.

1) Rewards cannot be allocated in relationship to performance unless there is an appraisal system which is able to measure performance. Such appraisal systems range from subjective personal evaluations to impersonal systems based on profitability, return on investment, market share and other output measures.

2) Human resource planning for a company cannot be accomplished without valid appraisals. First, an assessment cannot be made of the current inventory of talent without a valid appraisal process which indicates who has been performing well and who poorly. In addition, future human resource projections cannot be made unless the appraisal process provides data on the future potential of people in the organization. Most organizations get low marks in both areas with future potential being the weakest. Without such data it is impossible to do any forecasting as all the predictions are likely to be built on invalid data.

3) The development process is also built on the appraisal process. Based on an assessment of an individual's performance and assessed potential both the individual and the organization can plan for future training and development. As with the reward and planning process, a weak data base leads to hit or miss training and development processes.

A strategic concern for companies is to develop appraisal processes which are supportive of the business strategy. One study which indicates that such a link influences total performance was carried out by Lorsch and Allen (12). They compared the appraisal systems in diversified companies with those in integrated companies. They found that the diversified companies placed more emphasis on objective and result measures such as productivity, profit, volume, etc. The integrated firms tended to rely on more operating and intermediate measures as well as more subjective evaluations of how well people performed along such dimensions as "planning," "controlling," "organizing," and "leadership." The diversified appraisal system worked because the divisions were more self-contained with little interdivisional or corporate contact. The integrated companies on the other hand had greater interdivisional contact and greater sharing of resources, making it hard to decide who exactly was responsible for how much of end results.

These two simple examples underscore some of the strategic issues involved in matching an appraisal process to the business strategy.

The key to an effective appraisal process at the strategic level is the commitment of quality managerial time to systematic examination and evaluation of executive talent. The descriptions of the Exxon, GE and GM development systems are in part descriptive of their appraisal systems as the two processes are interrelated. Thus, the COED system at Exxon and the slate system at GE are built on quality, in-depth appraisals with time and attention given to the strategic implications. Increased efforts along these lines will be required in these and other companies to support the strategic reward and development processes.

SUMMARY AND CONCLUSIONS

The human resource cycle is a major factor in driving organizational performance. When cries are heard regarding the malaise of United States management, they continuously underscore two major factors: 1) lack of long term perspective and 2) lack of skill in managing people. Both of these factors can only be changed with a concommitant change in the human resource cycle. That is, they require changes in the way people think and behave.

There are three concluding points to be made about the human resource cycle. These are:

1) The human resource cycle has a major impact on individual performance and hence on productivity and organizational performance.

2) The human resource cycle is made up of highly interdependent processes. The system is therefore only as strong as its weakest link.

3) The human resource cycle has a major role to play in the strategic management of complex organizations.

Implementation of Strategic Human Resource Management: In another article [13] we have presented a methodology which we developed for implementing a strategic level human resource function. The approach is based on a human resource audit which provides data to the organization regarding the internal capacity of the human resource function as well as data from the line as to what services it needs at the operational, managerial, and strategic levels. The audit aims to address the questions presented in Exhibit 8. Each organization needs to develop its own answers and hence its own strategy and structure for a strategic human resource management system.

Insert Exhibit 8 About Here

EXHIBIT 8

HUMAN RESOURCE MANAGEMENT AUDIT QUESTIONS

I. THE INTERNAL ORGANIZATION OF THE HUMAN RESOURCE FUNCTION

    -How should the human resource function be organized to effectively
    deliver services at each level:

            Operational?

            Managerial?

            Strategic?

    -How should the human resource function be staffed to effectively
    deliver services across all three levels?

    -What reward and control systems are needed to support human
    resource activities across the three levels?

II. LINKING THE HUMAN RESOURCE FUNCTION TO USERS FOR ACCOMPLISHING
    STRATEGIC ACTIVITIES

    -What are the specific human resource aspects of the strategic
    planning process?

    -What is senior management's role in dealing with human resource
    issues at the strategic level and what is the role of human
    resource staff?

    -How do you staff and develop human resource personnel to handle
    the link with users for accomplishing strategic activities?

    -What kind of external incentives and controls are needed for the
    human resource function to deliver strategic services?

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