

# Aligning Human Resource and Business Strategy

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## ABSTRACT

**Purpose** – The aim of this paper is to show that development of HR Managing needed to align with Business Strategy. **Design & approach** – The process to align HR with Strategy Busines obtained from literature reviews, including several papers. Ideally, the organization’s mission and goals should be translated into its business and strategic Plan. Employee performance needs to reflect the mission, goals and values. However, vision and other direction-setting messages are obscure and what people really get their steer from is the competency of people around them. **Findings** – There are several key findings for this study. First, the translating business strategy into action and identify corporate scorecard. Second, the corporate scorecard needs to be cascaded down to various directorates, departments, and individuals so that to create the line-of-sight. Third, system design Competency based human resource management which uses common information job competency requirement ang individual competencies. **Practical implications** – Findings from this study have important HR managerial implications for how to achieve business target through managing people. **Paper type** concept review

**Keywords:** Linking People , Strategy, Performance.

## 1. INTRODUCTION

In the new economy, competition is global, Capital is abundant. Ideas are developed quickly and cheaply. People are willing to change jobs often and people are main source of sustainable competitive advantage (Chambers E ,1998) . No organization is immune from the changing tides of economic,social, political and technological trends.

The World is Flat, Thomas Friedman (2005). Discusses how technology and the Internet are “leveling the playing field, human resources play a significant role in the success of business corporate. Efficiency and higher productivity are not enough to guarantee the competitive advantage of any organization. Those which are likely to be successful will be companies that continuously produce new products and services and where innovation is a ‘natural’ ingredient of every role, will not simply counterbalance the removal of ‘old’ jobs with the creation of new ones.

The important roles of Human Resource professionals in building organization’s capacity in the middle of growing emphasis on issues of “people” in many organization. Holbeche Linda (2001), HR practitioners and line managers perceive the need to move on from ‘traditional’ roles, but the emerging roles are still being developed. The distinctions appear to be broadly as Table 1.

Table 1: Transition in the HR Role

Traditional	Emerging
Reactive Proactive	Reactive Proactive
Employee advocate	Business partner
Task focus	Task and enablement focus
Operational issues	Strategic issues
Qualitative measures	Quantitative measures
Stability	Constant change
How? (tactical)	Why? (strategic)
Functional integrity	Multi-functional
People as expenses	People as assets

Source: Holbeche Linda (2001)

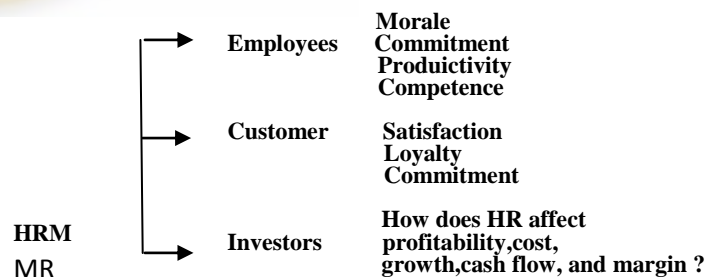


Figure 1: HR Create Value

Source: David Ulrich, Human Resource, champion, (1997), p.247

Any business activity should be reducible to a fundamental business proposition based on creating value for customers in economically viable ways. HR professionals must create an HR value proposition, aligning HR practices to simple business realities: serving customers, meeting deadlines, making profits, leveraging technology, and satisfying investors. Ulrich (2007), describe as Figure 1, how HR can create value.

John P. Righeimer, most organizations view the department of Human Resources (HR) as an administrative function and ignore the need and opportunity to align it with its strategic plans. In circumstances where HR is included in the strategy of an organization its alignment does not go beyond a forecasting function. The irony with HR being left out of strategy planning is that by its nature, HR is about people, which is the core of an organization and its strategic plan.

Aligning HR and strategic plans is an important endeavor for every organization. Studies strongly support the alignment between strategies, HR, and performance and thus show the potential role HR can play in implementing strategy and developing an organization's competitive advantage (Wright, Smart, McMahan, 1995).

To align HR with the business strategy, it is essential to determine what the strategy is and what type of employee is most suitable for that strategy. Thus understanding an organization's business strategy is important because people need to fit the strategy, one size does not fit all. The Organization needs the right people, not just the best people and need the right policy. To determine the proper frame of business strategy in mission statement, determine the type of employees and improve performance also keep cost under control could alligning HR.

## **2. THE PROBLEM IF HR IS NOT ALIGNED WITH BUSINESS STRATEGIC (John P Righeimer) :**

### **2.1 Too Focused on Administrative**

There are two functions of HR. First is HR strategic effectiveness, which is the HR function and development of an organization's employees to support its business goals. The second HR function of administrative effectiveness on which most HR departments spend their time. (Huselid, Jackson, & Schuler, 1997).

The HR need to realize that strategic and administrative functions are equal important. The administrative functions are the basic building blocks that keep order with the function of HR and, when done correctly, maintain a level of credibility within the organization.

### **2.2 Poor HR Individual Competencies**

The encouraged duty of HR requires a change in how HR professionals think and act. HR can play an important strategic role beyond administrative duties and HR must upgrade themselves. Organizations need HR people who know business, can influence the culture, and make positive change happen within an organization; doing so will bring personal credibility to HR (Ulrich, 1997).

To contribute in a strategic manner, HR must earn respect. HR must measure its effectiveness in terms of business competitiveness, rather than employees' good feelings. HR must lead an organization's culture, rather than consolidate, or downsize in order to contribute value. To be considered a strategic function, HR must escape its perception of an incompetent support staff (Ulrich, 1997).

### **2.3 HR is not measured in dollars**

Most organizations that do not pay attention to the HR due to the perception that HR is group of clerks . Beyond these administrative functions running smoothly, there is no strategic accountability (Galford, 1998). The HR department will never achieve its full potential until it can demonstrate the role it plays in creating organizational value and its ret run on investment (Frangos, Fitzenz, 2002). Usually, HR's value is reported from cost savings in the HR process, rather than on what HR achieves from a business return on investment. It is this fundamental lack of business measures to determine what HR brings to the bottom line that is visibly missing. Leading research from the consulting industry cites that 40% of HR executives are asked to sit at the strategy table, while 60% play a passive role (Frangos, Norton, 2001). This leads to the conclusion that HR lacks the tools to describe and measure the value of the HR role. Without an effort to measure HR's strategic contribution, organizations can not manage HR and/or human capital as a strategic asset.

### **2.4 HR lack's alignment with other departmental goals**

HR needs to be aligned with to be involved with the over-all strategy. One Harvard survey found that 80% of HR departments lack a strategic planning process that aligns it spending with the organizations strategy (Norton, 2001).

HR needs to become interdependent with the rest of the organization. The motivation to correct these HR problems is high because the strategic integration of HR into an organization achieves a competitive advantage. HR has much to contribute in a strategic supporting role. The ultimate goal is for HR to support an organization through the management of human capital, which is the major division of the broader organization's strategy.

In order for HR to effectively align itself with the strategy of an organization, it must present top management with solutions that address the strategic need and support of the organization (Freedman, 2004).

### 3. STUDY ALIGNING HR TO THE BUSINESS STRATEGY AND EXECUTION

HR alignment means to integrity decision about people with decision about result an organization. The principle of alignment is that every aspect of an organization’s activities should be integrated and pull in the same direction – to the achievement of corporate goals. The organization mission & goal should be translated into its business and strategic planning Model HR Aligning to the Business Strategy can be shown as Figure 2:

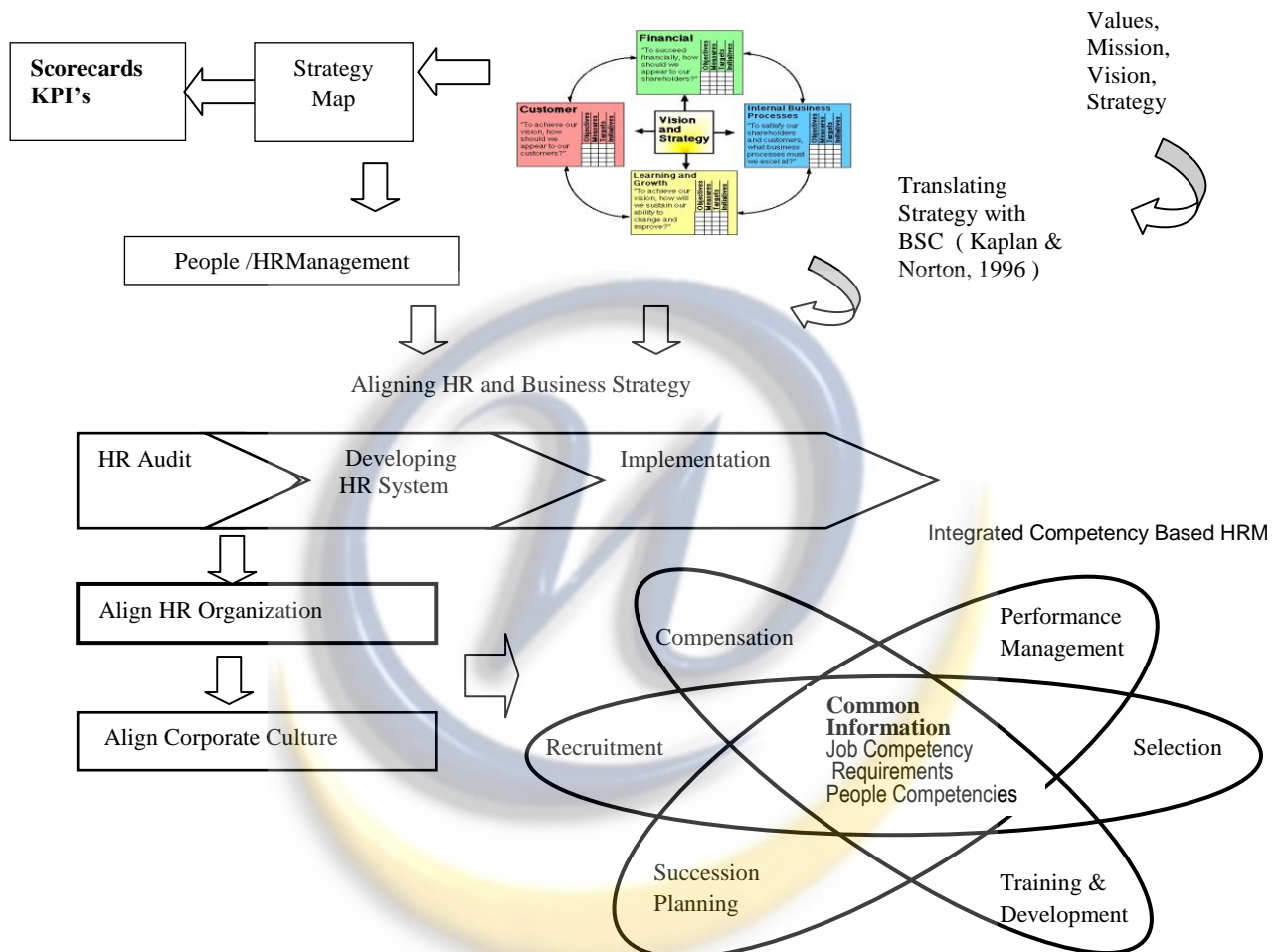


Figure 2 : Model HR Aligning to the Business Strategy

#### 3.1 Steps to Alignment Process :

##### 3.1.1 Step 1 : Translate Business Strategy from Vision to Action

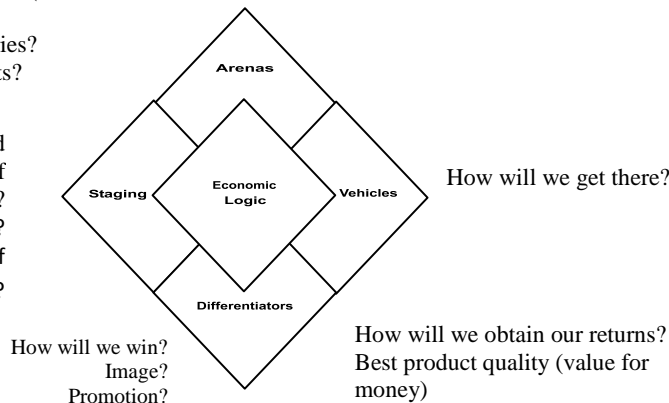
The successful organizations will be those that are able to quickly turn strategy into action: to manage processes intelligently and efficiently; to maximize employee contribution and commitment; and to create the conditions for seamless change (Ulrich, 1998). Famous Quotes on Strategy: “Without a strategy the organization is like a ship without a rudder” (Joel Ross and Michael Kami), “Management’s job is not to see the company as it is. But as it can become” (John W. Teets), “Before executives can chart a new strategy, they must reach common understanding of the company’s current position“ (W. Chan Kim and Renee Mauborgne), “Strategies most often fail because they aren’t executed well” (Larry Bossidy and Ram Charan).

Donald Hambrick & James Fredrickson (2001) present a five elements framework for strategy design, which providing answer to five questions. *Arenas*: where will we be active?. *Vehicles*: how will to get there?. *Differentiator*: how will we win in the marketplace? . *Staging*: what will be our speed and sequence of moves?. And last, *Economic logic*: how will we obtain our returns? Strategy must necessarily have parts. What are those parts? As Figure 3 portrays, a strategy has five Elements Firstly need review Strategic for each Mission. And then Creating Organizational Capabilities, any change in strategy requires a thoughtful assessment and realignment of the organization to the new strategy. Provide

each of the capabilities identified before with one sentence describing what the capability, example: Internet Technology Utilization, Align human resource assets.

Where will we be active? (and with how much emphasis ?)  
 Which product categories?  
 Which market segments?

What will be our speed and sequence of moves?  
 Speed of promotion?  
 Sequence of initiatives?



How will we win?  
 Image?  
 Promotion?

How will we get there?

How will we obtain our returns?  
 Best product quality (value for money)

Figure 3 : The Five Major Elements of Strategy

Source : Donald Hambrick & James Fredrickson (2001)



Figure 4 : Translate to Balance scorecard framework

To develop Strategy map, similarly, the balanced scorecard ‘translates an organization’s mission and strategy into a comprehensive set of performance measures that provides the framework for a strategic measurement and management system’ (Kaplan and Norton, 1996) can be shown Figure 4. First and foremost, all these key areas need to be pulling in the same direction – that of the vision and strategy of the organization. Strategic goals, critical success factors and measures need to be established in all scorecard areas. The Scorecard perspectives are:

- Customers and The activities required to ensure that service matches customer needs as well as the vision
- Learning and growth, and the activities required to build sustainable growth
- Internal business processes and the careful prioritization of key business processes at which the organization can excel
- Financial, and the activities required to succeed financially in the eyes of shareholders.

The Scorecard is dynamic and should reflect the specific needs of an organization at a point in time. Indeed, different parts of an organization may have different scorecards depending on their circumstances and priorities. In some organizations, the scorecard notion is used to develop real-time personal scorecards then analysis define what are resource required for each of the capabilities and put into learn and growth perspective, analyze and define what are result could be expected from each of the capabilities and put into customer or financial perspective . Then identified for measure successful strategy with scorecard, KPI’s and finally create action plan. The corporate scorecard needs to be cascaded down to various directorates, departments and individuals so that to create the line-of-sight, as shown illustration :

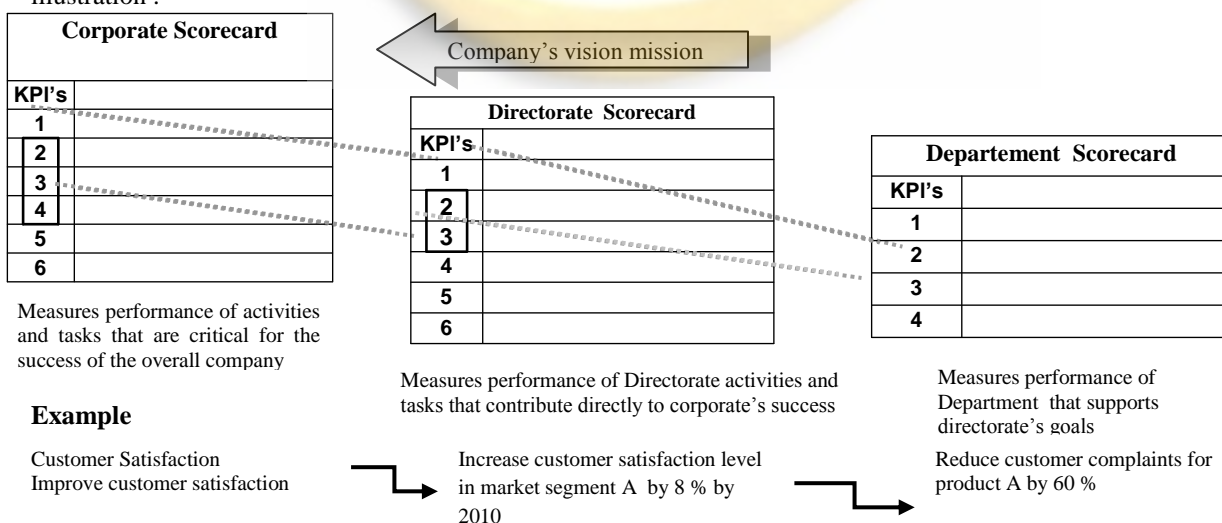


Figure 5: Cascading Corporate Scorecard

### 3.1.2 Step 2 : Aligning HR with buss strategy .

Developing integrated HR system need HR audit to identify the gap between HR management current and HR Program is needed, because HR program is critical to the effective development of strategy since it should identify gaps and surpluses in capabilities as well as issues of use of competency. For example HR audit can be shown table 2.

Table 2 : HR Audit, Illustration

No	HR Program	Current	Desired
1	Coporate Culture	To Be Assessed	Need to determine the desire culture and to identify the culture change plan to close the culture gap.
2	People Strategy	Example : Not well defined, HR Management lean to be administrative rather than HR strategic	Aligment with the organization strategy and objectives Short & long-term development plan to support the people strategy. HR Service Delivery Model should move from “ Administrative Center “ toward “ Business Partners
3	Competency Model	Does not exist in the organization, HR departments focused on administration	Core competency derived from vision, mission, values and business strategy. Conduct Individual assessment to identify competency gap.
4	Performance Management	Gap between performance management and the organization strategy	Alignment with the organization strategic direction and vision & mission ( “line-of-sight”) Balanced Scorecard based and measuring KPI & Competency training & career development
5	Job Evaluation & Compensation	Not linked with the overall strategy objevtives of the organization.	Job Grading derived from the result of the competency-based job evaluation system, Compensation strategy will be determined based on business strategy, value, culture, and market best practice. Alignment with the Performance Management System.
6	Career &Development	Does not exist in the organization	Should be integration with Performance Management System and Training.
7	Training &Development	Not linked between the Development programs and organizational strategy	Development of training policies, Training Need Analysis , implementation and evaluation .

Similarly, the HR programs developed based on an analysis of the HR audit and matching with business strategy

### 3.1.3 Step 3 : Developing HR system , alignment through competency based human resource application .

HR and line managers need to think through the kind of culture needed in each unit if the people in that unit are to be able to deliver the business strategy. HR needs to think through the behavioural character desired of employees. This includes both behaviours which the company wants to encourage and dysfunctional behaviours which the company wishes to stop. HR also needs to think through the HR processes which are aligned to that behaviour. A competency model is a useful way of aligning HR processes to the business strategy.

What is a competency?

Richard E.Boyatzis (2008), A competency is defined as a capability or ability. It is a set of related but different sets of behavior organized around an underlying construct, which we call the “intent”. The behaviors are alternate manifestations of the intent, as appropriate in various situations or times. For example, listening to someone and asking him or her questions are several behaviors. The competency approach to human resource management is based on identifying, defining and measuring individual differences in terms of specific work-related constructs, especially the abilities that are critical to successful job performance. The concept of competency lies at the heart of human resource management, providing a basis for integrating key HR activities such as selection and assessment, performance management, training, development and reward management, thus developing a coherent approach to the management of people in organizations (Lucia and Lepsinger,1999).

By designing and implementing HR processes which support the business strategy at a practical level, to create the conditions for high performance. Competency Based Human Resource Management processes need to be aligned such as:

Selection and Placement decision are based on the fit between job competency and person competency, Succession Planning & promotion, Extensive training and skill development, Contingent or performance-related pay, Employee share ownership, Benefits tailored to individual needs. Providing some degree of employment security, sharing information about a firm’s goals and results so that people know what to accomplish and how they are doing reducing status differentials, if teamwork is to be a reality.

#### 4. DISCUSSION

From the analysis of the process Aligning HR and Business strategy above, integrated CBHRM (Competency Based Human resource Management) is developed by using common information Job Competency Requirements and Competencies of people and then is used by all human resource functions: recruitment, selection, placement, compensation, performance management, succession planning and training development. All functions use the common language of competencies.

A job competency requirement is an underlying characteristic of an employee (that is, a motive, trait, skill, aspect of one's self-image, social role, or a body of knowledge) that results in effective and/or superior performance.

##### 4.1 Training & Development

Competency based training designed to teach new hires all the algorithms superior performers use to do well and competencies underlying superior performance. Competency Based Training programs are based on gaps between employees' competencies and the competency requirements of their present or future job, as defined by the competencies demonstrated by superior performers in these job. Steps In Developing A Competency Based Training : 1)Developing Competency Model ,2) Identify of which Competencies are cost effective to train ,3) Developing Assessment Methods & Training curricula, 4) Train Trainers ( where applicable), 5) Training Learners., 6)Evaluation Training Results

**4.2 Performance Management (PM)** should be linked with other HR function such as compensation, Training and Career Development, which is shown in the figure 7. Compensation systems refer to methods used to set fixed and variable pay for the jobs in an organization. Performance Management (PM) should be integrated with strategic management such Figure 6. Performance Evaluation also known as annual performance appraisal, is conducted once a year at the end of performance period to review, evaluate and finalize achievement/ result of KPI and competency. Performance area review is also the process to review of improvement and future development plan.

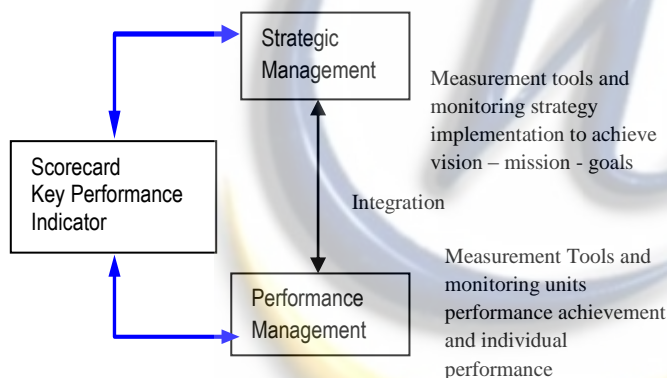


Figure 6: Performance Management

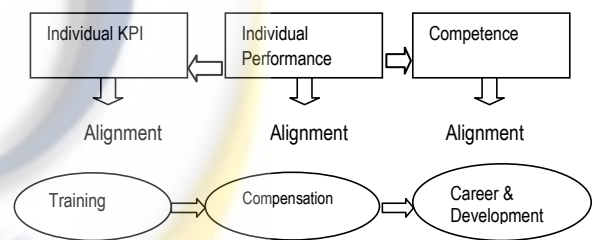


Figure 7: Link Performance Management with Training, Compensation and Career Deevaluation

**4.3 Compensation systems** refer to methods used to set fixed and variable pay for the jobs in an organization.

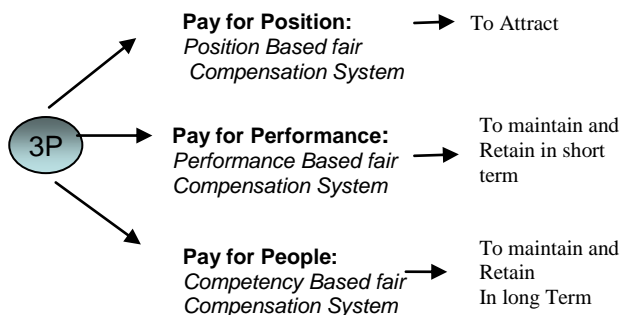


Figure 8: Pay for Position, Pay for Performance, Pay for People

The 3P approach to compensation management supports a company's strategy, mission and objectives. It is highly pro-active and fully integrated into a company's management practices and business strategy. The 3-P system ensures that human resources management plays a central role in management decision making and the achievement of business goals, The 3 Pay : pay for position, pay for performance, Pay for People Competency as shown Figure 8.

**4.4 Succession Planning & promotion:** Competency Based succession planning system identify the competency requirement for critical jobs, assess candidate and evaluate possible job person matches. Carrier path is progression maps. (Spencer & Spencer 1993)

#### 4.5 Corporate Culture

Bradley W.Hall (2008), Culture, like strategy, is often viewed as an ephemeral construct. Culture Change requires as clearly defined end state . Culture is the sum of set of shared values, values are composed of specifics beliefs.

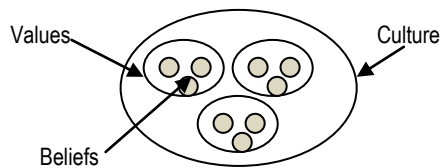


Figure 8: Culture, Values, Belief

If you want change culture, change values, if you want change values, change beliefs and behaviors , shown as Figure 8  
Moving from set values to defined set of behaviors: Managing the culture, needed change management- Great Leadership, Drive organizational change

Source : Bradely W.Hall (2008)

#### 5. CONCLUSION

In summary, HR can play in implementing strategy and developing an organization's competitive advantage. By increasing the competencies of HR personal, the department will increase its creditability and be integrated into a strategic role. In other words, HR resources are what drive an organizations' strategic process.

There are several important thing to need concern in Aliging Human Resource and Business Strategy :

1. Set the value which can be energy in running business strategy.
2. Translate business strategy into action plan. So that it can identify core competency which needed by organization business strategy, scorecard, and Key Performance Indicator ( KPI ) .
3. Human Resource is needed to knowing the different between Current Human Resource and business strategy needs.
4. Cascading Business Strategy and Human Resource function activity through CBHRM (Competency Based Human Resource Management)
5. Develop corporate culture and change management to execute the business strategy.
6. Build great leadership for driving organizational change and executing the business strategy.

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