

MAVERICK ENERGY



Aligning Human Resources & Strategic Plans

John P. Righeimer
Maverick Energy

Contents

Introduction.....	pages 3-4
The Problem: HR is not aligned with strategic planning.....	pages 4-7
The Solution: Aligning HR with organizational strategy.....	pages 7-12
Conclusion.....	pages 12-13
References.....	page 14

Introduction

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 main reason that HR is not aligned with the strategy of an organization is that it does not hold a seat at the strategic planning table. 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.

The HR function not aligned with an organization's strategy. My hypothesis is that it is hard to measure HR success and thus it is considered "soft" and not important in the strategy development. What gets measured gets done and/or receives the authority to contribute to an organization's strategy. HR is often viewed as the organization's "cop", ensuring that benefits are properly administered and hiring/firing is handled to the letter of the law. In contrast to the HR administrative function, strategic HR practices are more contemporary concepts. Consequently, organizations are less likely to expect these practices to have an impact on bottom line business results (Huselid, Jackson, & Schuler, 1997). A definition of strategic HR management is the design and implementation of a set of internally consistent practices that ensure an organization's human capital contributes to the achievement of its business objectives (Huselid, Jackson, & Schuler, 1997). I propose the HR person is responsible for receiving their lack of creditability in gaining business respect. I have experienced that HR personal are often not suited as business people and are unable to contribute to an organization's strategy.

The essence of HR is strategic. When properly aligned, HR contributes to a successful strategy and the financial bottom line. HR needs to maintain a strong administrative foundation and use this respect to help earn a seat at the strategy table. To gain access to the full involvement with strategy development, HR needs to acknowledge what it does now, with what it needs to do to provide value to the organization's bottom line. Once the gap is recognized, HR needs to measure itself to guide itself, and prove its worth as an ongoing strategic unit. Ongoing monitoring and evaluation of HR strategic role expansion will prove itself to be worthy or not as a benefit to the bottom line. HR is viewed as the people department and/or resource. The organization's people ultimately determine the effectiveness of strategy development, implementation, and subsequent competitive success. A strategic approach that is aligned with HR ensures that an organization's employees, skills, and abilities contribute to the achievement of its business goals (Huselid, Jackson, & Schuler, 1997).

The Problem: HR is not aligned with strategic planning

Too Focused on Administrative

There are two distinct functions of HR. One is HR strategic effectiveness, which is the HR function and development of an organization's employees to support its business goals. However, it is the second HR function of administrative effectiveness on which most HR departments spend their time. These administrative functions are the activities traditionally associated with HR, such as, recruitment, selection, training, performance appraisal, and compensation plans (Huselid, Jackson, & Schuler, 1997).

The choice for HR between strategic or administrative functions is not an either/or questions. Rather, HR needs to realize that both are equally important. HR administrative functions are the basic building blocks that keep order with the function of HR and, when done correctly, maintain a level of creditability within the organization. It is not so much that HR is recognized for a good administrative job, as it is important not to be known for doing a poor administrative job. Once the foundational administrative functions are in place, HR needs to expand into the strategic arena, where its personal are uncomfortable.

Poor HR Personal Competencies

HR's beleaguered reputation is well deserved. It is often ineffective, incompetent, and costly. The improved duty of HR requires a change in how HR professionals think and act. In addition, it requires that senior management change what they expect from HR. For HR to be taken seriously, senior management must show that they believe HR can play an important strategic role, beyond administrative duties. Further, HR professionals 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 creditability 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).

HR is not measured in dollars

HR lacks accountability because often organizations do not pay much attention to it. The prevailing perception is that HR is a group of clerks processing benefit forms and tracking vacation days. 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 return on investment (Frangos, Fitz-enz, 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.

Dr. Jac Fitz-enz, author of The ROI of Human Capital cites five ways to evaluate an HR process: 1) How much does it cost? 2) How long does it take? 3) How much was accomplished? 4) How many errors occurred in the process? 5) How did employees respond (Frangos, Fitz-enz, 2002)? These measures may be new to HR, but they are not new to business evaluation. If HR wants to be respected as a business value, then it must measure itself in a business manner.

HR lack's alignment with other departmental goals

To be involved with the over-all strategy, HR needs to be aligned with the organization. One Harvard survey found that 80% of HR departments lack a strategic planning process that aligns its spending with the organization's strategy (Norton, 2001). HR needs to become interdependent with the rest of the organization. HR needs to take a comprehensive approach that aligns its actions with the entire organizational strategy.

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 subset of the broader organization's strategy.

HR needs to be part of the organization's strategy development. 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).

The Solution: Aligning HR with organizational strategy

When HR expands its traditional administrative role, it can have a significant impact on an organization's value creation. To properly align HR with an organization's strategy, it first needs to be organized so that it can play a role in the strategic planning of the organization. It is human capital that leverages all other areas of an organization. Therefore the HR department needs to ensure the human asset is effectively aligned with the strategy that is chosen by the organization. To capitalize on this leverage, organizations need to adopt a new perspective of HR (Becker, & Huselid, 2001).

The first step in aligning HR with strategy is to recognize that the HR department and its duties are a strategic asset, instead of the traditional administrative function of being a cost center, focused on compliance. This administrative role works on efficiency and is therefore a commodity. If an organization fails to recognize this commodity, it misses the opportunity to allow HR to become strategic. This administrative mindset needs to evolve into a focus on value creation. In order to achieve this focus, HR must first recognize that it needs to play a strategic role, and top management must support HR's role by accepting HR into the strategic planning initiatives.

The alignment between HR and the strategy of an organization begins with a strategy-focused professional. Secondly, the HR system needs to be created in alignment with the organization's strategy. HR needs to ensure that employees are strategically focused (Becker & Huselid, 2001). Every element of the HR function, from hiring, compensation, reviews, training, etc., needs to be developed in order to enlarge the human capital in the organization.

Moving away from administrative duties and expanding into strategy

Becoming more strategic does not mean that HR can ignore its administrative duties. Rather, to become more strategic, HR must not only recognize its administrative role, but also expand its influence beyond administrative towards a strategic role. Efficient administrative work builds HR's credibility and remains the foundation upon which to build a strategic influence in the organization (Galford, 1998).

To enable HR staff's to focus on more strategic initiatives many of the routine administrative duties can be automated or out-sourced. Obviously, HR cannot abandon

its administrative duties, especially employee health benefits and personal legal issues; however instead HR needs to operate at both administrative and strategic levels (Galford, 1998).

In order to be strategic, a longer view of HR resources is needed (Mills, 1985). Too often the perspective of HR is internally focused. For example, it is common for HR departments to measure their value to the organization by the amount of hires made, performance reviews completed, or training courses delivered (Ulrich, 2000). If HR is to work as an equal partner in the organization's strategic efforts, it must be able to successfully manage the administrative side of its duties, along with being able to talk at a strategic level to others in the organization about the HR responsibility in supporting strategic objectives.

Increasing HR personal competencies

Traditionally, HR personal is not considered to be a central strategic player in most organizations. HR has so much more to contribute towards the success of an organization's strategy and doing so requires an upgrade in personal (Galford, 1998).

An organization needs to acknowledge that HR is important to its business success. In order for HR to achieve this recognition, it must have the right people in place to carry out a strategic initiative. HR needs to define the competencies and skills that it will need to be a strategic contributor. Outstanding HR personal will need to build their business knowledge, financial skills, as well as consulting skills. Furthermore, HR personal will need to become technologically oriented, so they can be free from routine administrative work, as well as leverage information about the workforce. Enabled by technology, HR will be able to play a more strategic managerial role (Frangos, 2002).

Equipped with the skills mentioned above, HR departments will derive their goals from the business objectives of the organization and become more strategically involved.

Measuring HR from a cost/benefit analysis

To overcome the resistance to HR having a say in organizational strategy, HR needs to measure and identify the benefit from being a part of the strategic process (Mills, 1985). Most organizations will agree that HR plays an important part in its success, but continue to prevent HR from being included in the true strategic objectives of an organization. Being able to describe the strategic benefit HR provides will help in being recognized as valuable contributor.

HR needs to measure is its impact on organizational strategy and its efforts to build programs to better manage the development of an organization's human assets.

Specifically, HR needs to measure the organization's: competencies, leadership, culture, alignment, and learning (Norton, 2001). Measuring these issues provide a framework for describing the drivers of an organization's strategy. When assessing its value added to the organization, HR must look to these strategic drivers as their point of reference. In each measurement, HR will be accountable for the organization's readiness for each component of the strategy. Below is an example of a chart to assist in measuring these HR/organization issues (Norton, 2001).

HR Objective	Measure of Strategic Readiness
1. Strategic Competencies: understand what competencies needed, available, and plan to close the gap.	* Strategic Talent Gap * Key Employee Retention
2. Leadership: build leadership pipeline	* Leadership Gap * Employee Survey of Leadership
3. Culture: internalize a shared vision, aligned with strategy.	* Cultural Alignment Survey * % of personal the understand strategy
4. Alignment: personal goals linked to org. goals.	* % of Goal Alignment * % of Incentive Alignment
5. Learning/Knowledge: sharing of knowledge & experience needed by the strategy.	* Sharing across departments: best practices, key people, teams, rewards.

The measures listed in the table above will link the organization’s strategy and HR strategy. With this type of measurement, HR has a means to discuss strategy with top management. These measures also highlight HR’s challenges and contributions to the organization’s strategy. Furthermore, the responses become a source of organizational alignment and allow HR to reposition their roles and become strategic partners in and organization’s strategy.

Achieving the link to the strategic plan

An emphasis on HR leads to understanding the role HR plays in strategically building a competitive advantage. There is a link between strategy and HR. The greater the congruence between strategy and HR, the more effective the organization will be. Different strategies require different skills. Thus, organizations pursuing different strategies will require different skills in personal and this is where HR needs to be aligned with strategy (Wright, Smart, McMahan, 1995).

The pattern of planned human resource deployments and activities intended to enable an organization to achieve its goals is strategic human resource management. In

essence, an organization's competitive advantage is more easily obtained when its HR is effectively linked with its strategy. The need to match strategies and HR has implications for both the recruitment of personal and organizational performance (Wright, Smart, McMahan, 1995). In other words, when HR is strategic and involved with and/or linked to organizational performance, it plays an important role in the success of an organization.

By measuring the key HR contributors to strategy, execution the HR function is transformed into a source of value creation for the organization. Measuring the key HR issues in strategy provide the alignment between HR and business process and ultimately, what can be used to link to financial business outcomes (Ulrich, 2000).

Conclusion

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).

Alignment between HR activities and strategy planning can be formed by HR. HR needs to expand beyond an administrative function and focus more on how it can support the organization in strategic planning and implementation. By increasing the competencies of HR personal, the department will increase its creditability and be integrated into a strategic role. When HR measures itself from a business perspective and by the value it brings an organization, top management will not ignore HR in the strategy process. Instead, top management will welcome HR input because it will have a clear understanding of how HR affects the bottom line from a business and/or strategic

standpoint. By inter-locking HR measures with items concerning the ongoing business, HR becomes aligned with strategy through dependent tasks that are accounted for inter-dependently.

In summary, an organization's people and their skills ultimately determine the effectiveness of strategic plans, and its implementation. In its purest form, HR is best suited for leveraging an organization's personal that implements the organization's strategic plans. In other words, HR resources are what drive an organizations' strategic process.

Maverick Energy, through its management consulting unit is a firm devoted to providing strategy, leadership training, and organizational development to energy trading & marketing companies.

John P. Righeimer is President of Maverick Energy. John founded Maverick Energy in 2000 and has been in the energy commodity industry since 1990. John earned his bachelor's degree in history from Eastern Illinois University and holds a Masters of Science in Management & Organization Behavior from Benedictine University.

References

Becker, B. & Huselid, M. 2001. The Strategic Impact of HR. *Harvard Business School Publishing, Balanced Scorecard*, May – June 2001

Frangos, C. 2002. Aligning Human Capital with Business Strategy: Perspective from Thought Leaders. *Harvard Business School, Balanced Scorecard*, May – June 2002

Freedman, A. 2003. Staffing Up. *Human Resource Executive*, December, 2003

Galford, R. 1998. Why Doesn't This HR Department Get Any Respect? *Harvard Business Review*, March – April, 1998

Huselid, M, Jackson, S, & Schuler, R. 1997. Technical and Strategic Human Resource Management Effectiveness as Determinants of Firm Performance. *Academy of Management Journal*, Vol. 40, No. 1, 171-188

Lengnick-Hall, C. & Lengnick-Hall, M. 1988. Strategic Human Resource Management: A Review of the Literature and a Proposed Typology. *Academy of Management Journal*, Vol. 12, No. 3, 454-470

Mills, D.Q. 1985. Planning with People in Mind. *Harvard Business Review*, July – August, 1985

Norton, D. 2001. Measuring the Contribution of Human Capital. *Harvard Business School, Balanced Scorecard*, July – August, 2001

Norton, D. 2001. Managing the Development of Human Capital. *Harvard Business School, Balanced Scorecard*, September – October, 2001

Ulrich, D. 1998. A New Mandate for Human Resources, *Harvard Business Review*, January – February, 1998

Ulrich, D. 2000. How the Human Resource Function Can Create Value and Drive Strategic Success. *Harvard Business School, Balanced Scorecard*, 2000

Wright, P., Smart, D., & McMahan, G. 1995. Matches Between Human Resources and Strategy Among NCAA Basketball Teams. *Academy of Management Journal*, Vol. 38, No. 4, 1052-1074