Chapter 1

The strategic importance of human resource development

Introduction

We start this chapter by examining the reasons why human resource development has become a critical part of an organization’s competitive capabilities, and explaining why people are important in organizations. We will also discuss how human resource development has changed over time, and why it is important in the modern competitive arena.

The next section explores how human resource management has been modified to reflect the step changes in markets and production requirements over time. We will describe the nature of the changes to major business eras, leading to an appreciation of how skills requirements have reflected these major changes.

After explaining what is meant by strategy, the third section develops key strategic issues in human resource development. We will also investigate how human resources can play a profoundly important part in developing and implementing strategy within an organization.

Next, the emergence of human resources as a strategic issue is explored in greater depth. This section explains the critical differences between many Western firms’ and Japanese approaches to human resource development. We will show that human resource development needs to be in place alongside other important human resource issues, including industrial relations, and describe how human resources can become part of the core competence of an organization.
The final section looks at how some firms have developed a set of best practices, thus enabling reconfiguration in order to improve performance in innovation, quality and other important competitive variables. We will explain some of the key requirements in developing best practice in human resource development, and how firms have had to reconfigure themselves—which can only be done as part of wider human resource development.

Objectives

By the end of this chapter you will be able to:
- Appreciate why human resource development is of strategic importance in the current business world
- Realize how human resource development has changed over time
- Understand why some firms have problems in viewing human resources in a strategic manner
- Have a basic insight in the key areas that will then be explored further in subsequent chapters.

The strategic importance of human resource development

Why people are important in organizations

It should be self-evident: organizations consist of people, and so the development of these people should be a key task for organizations. If you were to speak to senior-level managers within firms they would, typically, state how important their staff are. Sadly, however, these same senior-level managers will often concentrate on slashing budgets related to human resource development. They may also have no qualms about downsizing the number of employees at the same time. What is sometimes not clear, though, is that people really do matter in organizations. People matter because in the highly competitive environment which firms now face, human capital has become a precious commodity in gaining any sort of advantage over other
The strategic importance of human resource development

A culture that values curiosity is inventive and exciting. Walk into the headquarters of USA in San Antonio, Texas, 3M in St Paul, Minnesota, or Lockheed Martin in Fort Worth, Texas, and you can feel the heat of originality cooking in the organizational oven. What you later learn is that you’re in a place with an everlasting focus on perpetual growth. The popular label for such an environment is a learning organization. A more accurate description is a discovering organization. The term learning can imply the act of adding to or increasing what’s already there; discovering means uncovering or finding. Learning can happen through osmosis, in which you’re passively the recipient of growth, without much effort. Discovering suggests an active search and a deliberate exploration.

(Bell and Bell, 2003: 57)

Human Resource Development is a vital area for firms because ideas for innovation, quality and continuous improvement, as well as other critically important inputs needed to compete in the modern, highly competitive business world, come from people and not from machines. The extent to which people will provide suggestions for improvements – in all forms – will depend, to a large extent, on human resource development strategies within firms. The need to develop human resources on an ongoing basis has not always been so prominent. For example, the eminent management writer, Peter Drucker described how ‘My ancestors were printers in Amsterdam from 1510 or so until 1750 … and during that entire time they didn’t have to learn anything new’ (Business 2.0, 22 August 2000).

Drucker is not being critical of his ancestors, nor is he accusing them of not caring about their employers or stating that such an approach was ‘wrong’. Indeed, it might well be argued that in previous times such an approach would have been entirely appropriate. The issue is: in today’s competitive arena it is not appropriate.

The need for both the employer and employee to understand the role of human resource development is important. For the employer, the following is pertinent:

Survival isn’t just a matter of smart machines. Workers have to get smarter as well, and show a willingness to learn new technologies’, says John A. McFarland, CEO of Baldor Electric Co., the largest
maker of industrial electric motors in the US. A versatile corps of workers has helped Baldor ride out the manufacturing recession without a layoff.

(Business Week, 5 May 2003)

For the employee, it has become eminently clear that the notion of a ‘job for life’ is now an outdated and unsustainable proposition. Thus the terms of engagement have to change when a new employee applies for a job opportunity, and this was captured by Davis and Meyer (2000: 12):

You must realize that how you invest your human capital matters as much as how you invest your financial capital. Its rate of return determines your future options. Take a job for what it teaches you, not for what it pays. Instead of a potential employer asking, ‘Where do you see yourself in 5 years?’ you’ll ask, ‘If I invest my mental assets with you for 5 years, how much will they appreciate? How much will my portfolio of career options grow?’

However, the overwhelming evidence seems to be that organizations do not fully understand the strategic importance of human resource development. Many firms are too quick to downsize or ‘rightsize’ in the pursuit of cost-cutting initiatives. Other strategic decisions, including mergers and acquisitions, may threaten the culture that had human resource development as part of its core capabilities:

Many of us Hewlett-Packard retirees and former employees agreed with Walter Hewlett when he opposed the acquisition of Compaq. He wisely anticipated the questionable value and performance described in Adam Lashinsky’s ‘Wall Street to Carly: Prove It!’ (First, Jan. 12). But of equal significance was the sad absence of Hewlett-Packard from the 100 Best Companies to Work For list in the same issue. We also remember when HP was at or near the top of that list because of our proud adherence to the culture called ‘the HP Way’. That culture, perhaps HP’s greatest invention, continues to thrive in Silicon Valley and beyond, but not, regrettably, at HP.

(Fortune, 9 February 2004)

There may well have been good reasons for the merger between HP and Compaq; what is important here, though, is that this threatened the very culture of the organization that had served HP in the past, and a key element of this was commitment to human resource development.
Academics, researchers and practitioners alike do not urge the need for human resource development strategies within firms because they think it is a ‘nice thing to do’. Rather, they advocate human resource development because they recognize the vital role that humans can play within organizations. For example, back in 1978 Peter Drucker, whom we cited earlier, wrote, prophetically: ‘To make knowledge work productive will be the great management task of this century, just as to make manual work productive was the great management task of the last century’.

Firms are becomingly increasingly dependent on their human resource capabilities. This is because much of the tacit, as well as coded, formal or documented, knowledge that a firm possesses centres on human resources. A firm can accumulate this knowledge and general know-how, related to processes, over time. However, such development does not come about by chance; instead it comes from having a strategy for such development. A motivated, highly trained, workforce must form the backbone of any would-be world-class firms. As Grindley (1991) observes:

> The skills base is one of the firm’s main assets. It is hard for competitors to imitate … this calls for an attitude to encourage learning and to reward efforts which add to the firm’s knowledge. Skills go out of date and need constant replenishment. In the long term what is most important may not be the particular skills, but the ability to keep learning new ones.

The vital importance of human resources is indicated in a telling quotation from the Managing Director of British Chrome and Steel who, in 1998, stated: ‘There is no other source of competitive advantage! Others can copy our investment, technology and scale – but NOT the quality of our people …’ (in Brown et al., 2000).

Chief Executive Officers (CEOs) will often go on record stating how important their people are for the success of their firms. For example, General Electric’s former CEO, Jack Welch, mentioned in an interview in Fortune how: ‘We spend all our time on people … The day we screw up the people thing, this company is over’ (Fortune, 21 June 1999).

Clearly this is an over-simplification of what human resource development is about, but it does serve to illustrate how CEOs will go on record regarding the importance of their staff. A motivated, highly trained workforce must form the backbone of any would-be world-class company. The need for innovation, new idea generation, flexibility and inventiveness comes, essentially, via the human
input, not via ‘machinery’ and, as Lazonick (1991: 78) observes: ‘… the enterprise must plan its human resource needs not only to facilitate the production and distribution of existing products, but also to generate new processes [and] … new products that will permit the *long-term stability and growth of the enterprise*’ (italics added).

The fact is that people matter. This apparently obvious statement underpins one of the key lessons that firms aspiring to be world-class learned in the latter part of the twentieth century, and are continuing to do so today. From a position in which people were seen simply as factors of production, as ‘hands’ to work in factories and offices, there has been a change to recognition of the enormous potential contribution that human resources can offer. Whether in systematic and widespread problem-solving (such as helped the Japanese manufacturing miracle), in the flexibility of teamworking or in the emerging role of ‘knowledge workers’, the distinctive capabilities of human beings are now being recognized. In the ‘resource-based’ view of strategy, organizations are encouraged to identify and build upon their core competencies; what is now clear is that a major (but still often under-utilized) resource is the people involved in the organization – the development of ‘human resources’.

**Why people are important: the evidence**

If any of us had been asked to predict the stocks that would perform best in the USA between 1972 and 1992, it is unlikely that we would have chosen a small regional airline, a small publisher, an unknown retailer, a poultry farmer or a video rental business. Yet each of these outperformed the rest of the stock market, including some of the most glamorous and high technology stocks (Pfeffer, 1994). The scale of expansion is shown in Table 1.1.

**Activity 1.1**

- Why might we be surprised by the types of firms listed in Table 1.1?
- Why are people vitally important in organizations which provide services – such as Wal-Mart and South West Airlines – two firms that appear in Table 1.1?
- Why do human resource capabilities need to be developed and not simply ‘bought in’ for temporary periods?
The performances of the firms listed in Table 1.1 are significant achievements, but this takes on even more importance when set against the performance of the rest of the sectors in which these firms operate. They do not compete within niche businesses; the industries are highly competitive and overcrowded – with the result that many firms in these fields have gone bankrupt, and all face serious challenges. Perhaps the greatest single challenge for these firms is how best to develop human resources in a way that will enable them to out-perform other firms. To perform well under these highly competitive conditions takes a particular kind of competitive advantage – one that is highly firm-specific and difficult to imitate. In doing so such firms have a ‘distinctive’ capability or competence, and much of this depends on human resources (Kay, 1993).

### Table 1.1

High-performing firms and the increase in their stocks between 1972 and 1992

<table>
<thead>
<tr>
<th>Company</th>
<th>Increase (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plenum Publishing</td>
<td>15 689</td>
</tr>
<tr>
<td>Circuit City</td>
<td>16 410</td>
</tr>
<tr>
<td>Tyson Foods</td>
<td>18 118</td>
</tr>
<tr>
<td>Wal-Mart</td>
<td>19 807</td>
</tr>
<tr>
<td>SouthWest Airlines</td>
<td>21 775</td>
</tr>
</tbody>
</table>


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### The vital role of human resource development

In the firms listed in Table 1.1, it was not the possession of specific assets or market share or their size or advanced technology that accounted for their success. They achieved (and more to the point, they attribute) their growth through the ways in which they managed to organize and work with their people to produce competitive advantage. This is evident in both manufacturing and service sectors. Example 1.1 provides an illustration.

Although SouthWest Airlines is outstanding, it is not an isolated example. There are other studies that point to the same important message. For example, research on the global automobile industry in the 1980s showed that there were very significant performance
Example 1.1: The case of SouthWest Airlines

In his research on outstanding firms that develop human resources, Pfeffer (1994) quotes the case of SouthWest Airlines. This firm did not have specially designed aircraft, but used industry standard equipment. It did not have access to major international reservation systems, and for many years its aircraft were unable to fly in and out of its primary regional airport – Dallas-Fort Worth – for a long time having to make do with smaller local airports. Their chosen market segment was not in a small niche but in the mainstream business of trying to sell a commodity product – low price, no frills air travel. Yet SouthWest achieved significantly better productivity than the industry average (79 employees vs 131 average per aircraft in 1991), more passengers per employee (2318 vs 848) and more seat miles per employee (1,891,082 vs 1,339,995). One of its most significant achievements was to slash the turnaround time at airports, getting its planes back in the air faster than others. In 1992, 80 per cent of its flights were turned around in only 15 minutes against the industry average of 45; even now the best the industry can manage is around 30 minutes. All of this is not at a cost to service quality; SWA is one of the only airlines to have achieved the industry’s ‘triple’ crown (fewest lost bags, least passenger complaints and best on time performance in the same month). No other airline has managed the ‘triple’, yet SWA has done it nine times!

Activity 1.2

- What specific human resource developments do you think need to take place within firms in order to achieve the sort of success evident at SouthWest Airlines?
- Why do firms often ignore the importance of human resources and, consequently, fail to invest in developing them?

differences between the best plants in the world (almost entirely Japanese-operated at that time) and the rest. The gaps were not trivial: on average the best plants were twice as productive (based on labour hour per car), used half the materials and space, and the cars produced had half the number of defects. Not surprisingly, this triggered a search for explanations of this huge difference, and people began looking to see if scale of operations, specialized automation equipment or government subsidy might be behind it. What they found was that there were few differences in areas like automation – indeed, in many cases non-Japanese plants had higher levels of automation and use of robots – but there were major differences in the way work was organized and in the approach taken to develop human resources. (Womack et al., 1990).

In a major Department of Trade and Industry Report in the UK, published in 1997, of a study of high performance organizations (by that it is meant those organizations which scored in the
upper quartile on various financial and business measures), similar conclusions were made. Factors such as size, advanced technology and other variables were not listed as particularly significant, but ‘partnerships with people’ were. Of the sample of around 70 firms, the details listed in Table 1.2 came to light.

A telling quotation came from one manager in the DTI study:

“Our operating costs are reducing year on year due to improved efficiencies. We have seen a 35% reduction in costs within two and a half years by improving quality. There is an average of 21 ideas per employee today compared to nil in 1990. Our people have accomplished this.

(Chief Executive, Leyland Trucks; in Brown et al., 2000)

From these and from other evidence that we will provide throughout the book it will become clear that competitive advantage is occurring not through scale of operations, or special market position, or the deployment of major new technologies, but rather from what these organizations do with their people. Teamworking, employee involvement, decentralization of many decisions, training, flexibility – all of these become meshed into a pattern of behaving (‘the way we do things around here’) and then become ingrained within the company culture. Although ‘soft’ and intangible, the evidence is clear that possessing such a culture is as powerful a strategic resource as a major patent or an advantageous location. However, such cultures do not emerge by accident; they must be built, maintained and developed.

We have already cited a number of studies that have demonstrated the importance of human resources on subsequent performance within the firm but, as the Economist (28 September 1996) has rightly pointed out, human resources are important

### Table 1.2
Key findings of the 1997 DTI Report on UK firms

- 90% said that management of people had become a higher priority in the past 3 years
- 90% have a formal training policy linked to the business plan
- 97% thought training was critical to the success of the business
- 100% had a team structure
- 60% formally train team leaders so the team system becomes effective more quickly
- 65% train their employees to work in teams – this is a skill that has to be learned; it does not come about by chance
on a national level as well as being of significance for individual firms:

The rich economies are coming to depend increasingly on the creation, distribution and use of information and knowledge involving both technology and human capital. The most distinctive feature of the knowledge-based economy is not that it churns out lots of information for consumers though it does that too but that it uses knowledge pervasively as both an input and an output throughout the economy.

How human resource management has changed over time

The three major eras in production

One of the major reasons behind the importance of human resources development in the current competitive arena comes to light when we see how human resources have changed over time. The major changes over time are shown in Figure 1.1, and we shall discuss each in turn.

Figure 1.1
The change of requirements from human resources over time (from: Brown et al., 2000).
The craft era

The first major era is now referred to as ‘craft’ manufacturing. This system was European in origin, and was linked to the way in which specific skills were developed. The apprentice–journeyman–master progression led to the creation of guilds of skilled people who sought to control the supply of their speciality, and the consolidation of skill within a particular sub-sector of society (as, for example, skills were passed on from father to son). Human resource development was largely a ‘lock-in’ process so that, having completed an apprenticeship or other qualification that indicated a level of expertise, a person would remain closely tied to a particular firm and, in turn, an industry. The craft era was noted for low-volume, high-variety products, where workers tended to be highly skilled and quality was built into the very process of operations. It was also appropriate for largely national markets, supplied internally with minimal imports and exports. Some craft manufacturing still remains today, in markets where exotic products and services can control demand through some unique feature or high level of desirability. For instance, some house building, furniture making, clock and watch making is still carried out by skilled craftsmen/women working on a single or few items of output at a time.

Activity 1.3

Although it is a very small part of the modern economy, craft production still takes place today.

- Give three examples of where craft production takes place today.
- What are the key areas of human resource development that need to take place in craft production today?

The craft era has been largely replaced by subsequent changes related to mass production and other processes that are discussed later in this chapter. In the craft era, the need for human resource development was clearly apparent. However, under mass production the need for developing human resources appeared to diminish.

The mass production era

The second major era is that of mass production. This system developed in North America and is often associated with two major figures in production: F.W. Taylor and Henry Ford. Both
of these were able to deal successfully with three major challenges of the USA, which were:

1. The need to export
2. The need to become established as a world player, which meant infiltrating other regions with ideas clearly associated with the USA
3. The need to provide employment for a massive, but largely unskilled, workforce.

In short, the Americans could not play by the European rules, so they reinvented the game. In essence, standardization was the key issue: standardized products were made by standardized operations practices, mass produced in order to standardize the market requirements, too. Fortunately, the market was immature and would do what it was told. Thus, mass production reversed the paradigm of craft production: volume was high with little variety. The system was massively successful and changed the working and buying practices of the world in the first few decades of the twentieth century. The marketing ploy was exemplified by Henry Ford’s famous declaration, from now on: ‘a customer can have a car painted any colour he likes, as long as it is black!’ In mass production, workers were typically unskilled. This was the era that owed a great deal to the contribution of F.W. Taylor’s *Scientific Management*, whereby workers had very narrowly defined jobs, involving repetitive tasks, and quality was left to ‘quality experts’ at the final stage of the overall process rather than being an integral part of operations at each step.

Taylor enabled firms, for the first time, to control costs, times and resources, rather than relying on skilled craftsmen and women to decide what was appropriate. Coupled with the developments made in mechanization and employee co-ordination during the European industrial revolutions, Taylor’s ideas provided an entirely different way of operating. Although our text focuses on the need for ongoing human resource development and this was not part of Taylor’s system, we should not be overly critical of Taylor’s approach – he did, after all, inherit a largely unskilled workforce, and his main task was to make the best possible use of this largely unskilled group. However, time caught up with the Taylor system and this was brought to light by the following speech to a group of US executives, where Konosuke Matsushita stated the following:

We will win, and you will lose … Your companies are based on Taylor’s principles … You firmly believe that good management
means executives on one side and workers on the other; on one
side men who think, and on the other side men who can only
work. For you, management is the art of smoothly transferring the
executive’s ideas to the workers’ hands … For us, management is
the entire workforce’s intellectual commitment at the service of
the company.

(Shores, 1990: 270)

This highlighted the key differences between the Japanese (who
were disciples of human resource development) and the major-
ity of Western firms (who clearly were not so committed to
human resource development).

Activity 1.4

• What would be the extent of human resource development
under mass production?
• What possible problems might this approach provide for
managers and workers alike?

In 1926 Encyclopaedia Britannica asked Henry Ford to christen his
system, and he called it mass production. He meant ‘mass’ in the
sense of large-volume production. Perhaps he did not see the
other meaning of mass as ‘heavy, cumbersome’, which is what
the system turned out to be (in terms of management systems
and superstructure), once the market no longer bought what it
was told.

The modern era

The third era (the current and, for the foreseeable future at
least, the likely scenario) is more difficult to name, and has been
called various things. The terms used to describe the current era
are listed in Table 1.3.

Whatever it is called, the paradigm for the current era
addresses the need to combine high volume and variety, together
with high levels of quality as the norm, and rapid, ongoing innov-
ation in many markets. It is, as mass production was a hundred
years ago, an innovation that makes the system it replaces largely
redundant.
As each era appeared, however, it did not entirely replace the former one. As we have seen, a few pockets of craft manufacture still exist. Mass production is still apparent in chemical plants and refineries and other high-volume/low-variety environments.

### Table 1.3
Paradigms of the modern business environment

<table>
<thead>
<tr>
<th>Name</th>
<th>Reference</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mass customization</td>
<td>Pine et al. (1993)</td>
<td>Reflecting the need for volume combined with recognition of customers’ (or consumers’) wishes</td>
</tr>
<tr>
<td>Flexible specialization</td>
<td>Piore and Sabel (1984)</td>
<td>Related to the manufacturing strategy of firms (especially small firms) to focus on parts of the value-adding process and collaborate within networks to produce whole products</td>
</tr>
<tr>
<td>Lean production</td>
<td>Womack et al. (1990)</td>
<td>Developed from the massively successful Toyota Production System, focusing on the removal of all forms of waste from a system</td>
</tr>
<tr>
<td>Agile</td>
<td>Kidd (1994)</td>
<td>Emphasizing the need for an organization to be able to switch frequently from one market-driven objective to another</td>
</tr>
<tr>
<td>Strategic</td>
<td>Hill (1995), Brown (1996)</td>
<td>In which the need for the operations to be framed in a strategy is brought to the fore</td>
</tr>
</tbody>
</table>

### Activity 1.5

- Looking at the list of paradigms in Table 1.3, why do you think human resource development has become a central feature in modern production/operations management?
- In what ways do humans need to be developed if firms are to compete in the modern competitive world?
However, many are changing fundamentally as existing economies of scale are questioned – thus steel manufacturers face variety requirements and have to develop ‘mini-mills’ to lower economic batch sizes, and the same is true for brewers and pharmaceutical companies.

A telling example of the need to equip the workforce via human resource development comes from Compaq’s fortunes in the 1990s. Compaq’s problems began in 1994 when its former CEO, Pfeiffer, announced that Compaq would make all its PCs on a ‘build to order’ basis by 1996. At the time of the ‘build to order’ statement from Pfeiffer, Compaq built less than 5 per cent of its machines to order. By the beginning of the new millennium, Compaq was way behind Dell in build-to-order capabilities, and Dell had surpassed Compaq in desktop PC sales to US businesses for the first time. Perhaps more than any other single factor, it was the absence of customer-focused operations strategies that cost Compaq’s Pfeiffer his job. The reason why Compaq had failed to deliver on their customer promises was that no human resource development strategy was in place to enable workers to understand the shift from low-cost, high-volume production to a more customized approach.

The ability to achieve the wide-ranging requirements of the current era does not come about by chance: it is derived from accumulated learning and know-how gained by the firm over time. At the core of the current era is a view of human resource development as a strategic factor. While having a strategic view of human resources may not guarantee that firms succeed, treating human capabilities as a side issue to strategic areas is likely to mean the firm will suffer in the current era of rapid change and volatility.

**Human resource development and business strategy**

**Defining strategy, and the importance of human resources in its formulation and implementation**

Strategy is a complex issue (Mintzberg *et al.*, 2000; Whittington, 2002), but we suggest it is essentially about three things:

1. Satisfying and, where possible, delighting customers
2. Making the best use of limited resources, and leveraging these resources either alone or with partners
3 Developing capabilities that are superior to those of other competitors, and which other competitors either cannot, or will find it extremely difficult to, copy.

It is this third factor where human resource development can play a vital and central role. For example, Dell’s ‘secret’ of its phenomenal success is not a secret at all, but no other competitor can quite emulate what Dell does via its operations capabilities.

The term ‘strategy’, as used in the ‘corporate’ or ‘business’ strategy sense, clearly has strong associations with (and owes its origins to) military terminology. Strategy in the military includes devising plans in order to outmanoeuvre the opposition.

Human resource development is vitally important in the strategy process. First, an obvious – but often overlooked – point is that strategy formulation and planning are devised by human imagination and planning. Second, strategy implementation is dependent upon humans within the organization who need to own and manage the change process. Third, as we saw above, human resource capabilities can be a source of advantage for firms. The latest process technology can be bought and accumulated, but human-skills are more complex. In any event, an important ingredient in successfully managing technology is having appropriate skills levels in place.

Activity 1.6

Look at business journals such as Fortune, Business Week and the Economist, and search for five articles that are concerned with business strategy.

- Are human resources – in particular training and development – mentioned in the articles?
- If they are, in what context are they mentioned and how are they linked to the firm’s stated strategy?
- If human resource development issues are not mentioned, what does this say about how some firms devise their business strategies?

Very often you will find that companies look retrospectively at the organization’s success and then state how dependent this was on managing human resources. Very few, however, seem to go on record stating what their human resource strategy is and how it helps them to realize their overall business strategy.
Strategic human resource development in the firm’s human resource audit

There are several key developments that have taken place in recent years, and these all have relevance to human resource development. These key changes include:

1. **Downsizing within the workforce.** Clearly, this can be at odds with any notion of human resource development. This was a major factor that had an effect on many firms, especially in the USA during the 1980s and 1990s. Downsizing may be seen (in a cynical sense) as simply ‘getting more for less’. Alternatively, it may be seen as a necessary requirement to compete in highly volatile industries where rapidity, innovation and costs are requirements. What it must not be, though, is a short-term mechanism or excuse to cut costs – such short-sightedness seems to have become common in many firms, in the name of ‘re-engineering’ (Grint and Case, 1998). Human resource development is still a critical issue because the challenge for managers is how best to manage, nurture and develop those who remain in the organization. This is a difficult task, and calls for the best of managerial skills in knowing how to develop the staff who remain after downsizing has taken place.

2. **Reducing the number of levels of the management hierarchy.** This puts greater responsibility on operators to be more ‘managerial’ in their approach. Human resource development is important here because such reduction puts greater responsibilities on those managers who formerly might have been ‘hidden’ in very hierarchical organizations. In flatter hierarchical structures, managers’ contributions become more visible and more easily accountable than in organizations that have many layers of management (Cho, 1996).

3. **Empowering operators in order to elicit process and productivity improvements from the workforce.** A major development in recent times has been in developing and training operators so that instead of simply ‘doing’ operations they look at how they might improve processes. Again, this is a particularly difficult task in the light of any downsizing that may be taking place simultaneously with the
'empowerment' of those who remain in the workforce (Kendall, 2003; Bassi and McMurrer, 2004). Training the workforce is obviously a key factor here, and is discussed in depth later in the book.

4 Changing the role of managers from ‘policing’ to ‘facilitating’. This clearly changes traditional approaches – the ‘us and them’ mentality between workers and managers that we cited earlier under the Taylorist system – and calls for expert managerial skills in areas such as communication, motivation and leadership. Such skills need to be accrued and developed over time (Herzberg, 2003).

5 Organizational learning becoming a major feature. There is a number of ways in which a firm might learn (Burnes et al., 2003), and these are discussed later in this chapter.

Activity 1.7

Again, look at business journals such as Fortune, Business Week and the Economist, and search for articles on downsizing.

- What is the rationale given for downsizing?
- Is any reason given, other than cost?
- Is there any mention of how remaining staff will be developed?

The enigma of human resources and the ‘quick-fix’ solution

We mentioned earlier how downsizing can be part of the audit for strategic human resource management and development. One of the strange enigmas of the traditional behaviour of many firms is the ease and readiness with which they will downsize the workforce. This provides insight into the lack of strategic human resource development within firms, because direct labour costs typically amount to only 10 per cent of costs in key industries such as the cars, telecommunications and computers. This cost is a fraction of the total – far less than the huge costs associated with inventories and bought-in components for these products. This provides one of the biggest clues to traditional manufacturing: firing people
takes little or no skill, and can be demoralising both for the ‘fired’ employee and for those who remain in the workforce (Kanter, 1995). Admittedly, there are those firms who have ‘job clubs’ and other supportive ideas in order to help the staff who are exiting to find new jobs; however, firing is, essentially, a ‘quick-fix’ solution. In contrast, Japanese firms have been loath to fire personnel – and this includes Japanese transplants in the West.

**How downsizing can damage human resource development**

We noted that in high-volume manufacturing, labour costs would account for less than 10 per cent of production costs. Even so, human resources are the first target under threat when cost reductions are to be made. Why is this? The answer must be because it is the easy, instant-solution approach to management. Firing people takes little or no skill. However, enormous damage can be done to the firm when it reduces staff (Sahdev, 2003). The organization has been likened to the brain, and in radical downsizing part of this ‘brain’ can suffer a ‘corporate lobotomy’ and entire firms (or specific plants within firms) can forget how to perform to world-class standards. There will be occasions when a firm has to reduce numbers: it must avoid becoming bloated, particularly in terms of hierarchy. However, it is the rationale behind and the motives for downsizing – together with how it is handled – that provide clues to how firms manage their most important asset: human resources. The reality is that frequently human resource development will be the first target in cost-cutting, and this was clearly evident in the epidemic levels of downsizing that took place in the early 1990s. As Hamel and Prahalad (1994) wrote:

> In 1993, large US firms announced nearly 600,000 layoffs – 25% more than had been announced in a similar period in 1992 and nearly 10% above the levels of 1991, which was technically the bottom of the recession in the United States.

At the same time, *Business Week* (9 May 1994) put the situation in a more dramatic fashion:

> The sight of so many bodies on the corporate scrap heap is sparking a corporate debate – about profits and loyalty, and about the benefits and unforeseen consequences of layoffs. Critics believe
massive downsizing has become a fad, a bone to throw Wall Street when investors begin baying for cost-cuts.

A sad example of downsizing came with GM’s closure of its Tarrytown, New York plant:

When Bob Stempel announced in early 1992 that Tarrytown would be among the plants scheduled for closing, there was stunned disbelief among the workers, followed by outrage. It was at least the fourth time in GM’s recent history that a particularly motivated group of workers tried to save their jobs by doing exactly what management asked, only to see the company fail them.

(Keller, 1993: 186)

There may well be occasions when a firm might have to make reductions. However, the rush to downsize that took place in the 1990s in many US and UK firms, and which continues to take place in the new millennium, highlights one of the major distinctions between Japanese and traditional Western approaches to manufacturing. In short, Western firms have often seen staffing as the first area in which to reduce costs: in doing so these firms reveal short-sightedness and tactical approaches rather than having a strategic vision of human resources in manufacturing.

Fortune (21 June 1999) stated how its CEO, Lou Gerstner, changed life at IBM:

When Lou Gerstner parachuted in to fix the shambles John Ackers had left of IBM, he focused on execution, decisiveness, simplifying the organization for speed, and breaking the gridlock. Many expected heads to roll, yet initially Gerstner changed only the CEO, the HR chief, and three key line executives – and he has multiplied the stock’s tenfold.

What Fortune omitted to say here, though, was that Gerstner did fire staff at IBM – over 100,000 of them, in fact. In an earlier article, Fortune (14 April 1997) stated:

… Gerstner became CEO of IBM in 1993 … Within 90 days, he made fundamental decisions about the company’s future course, completing the reduction of its workforce from 406,000 to 219,000 …

Interestingly, the degree of downsizing was not mentioned or explored to any great degree in Gerstner’s (2002) autobiography. No doubt the strategy worked in terms of making IBM prosperous again, but it fundamentally changed the culture of IBM forever.
IBM, once the firm that prided itself on never firing anybody, has now shown itself capable of downsizing like other firms. For sure, IBM’s culture had to change. It had become a victim of its own success in the mid-1980s, when extraordinary profits deflected attention from a new breed of aggressive entrants into the PC industry whose capabilities were superior to those of IBM. Part of the problem was also with not confronting issues:

Our culture was very congenial, so congenial you never knew where you stood … Meetings would always go fine. You’d go in, and everything would be very proper and well-dressed, and a bunch of people would sit around and have a nice chat. The results might be good, and people would say, ‘Thank you very much.’ Or the results might be awful, and it would still be, ‘Thank you very much; we know you tried your best.’

*(Fortune, 14 April 1997)*

IBM slimmed itself down from 406 000 employees in 1987 to 202 000 in 1995 – one of the most dramatic workforce reductions ever. Other developments were disturbing. For example, only 15 months after opening its plant in Tyneside in the north of England, Siemens of Germany closed the plant at a cost of around DM1 billion ($564 m). In 1995, AT&T announced that it was sacking 40 000 people – it shed 140 000 in the 10 years following deregulation in 1984. However, the announcement in 1995 was particularly painful for AT&T’s employees because it came at the very time when AT&T was prospering. What made matters worse was that at the very time of the downsizing announcement, AT&T’s CEO, Bob Allen, saw his salary increase to $5 million a year – although he was later ousted from AT&T in 1997 (Brown, 2000). In addition, just to complete the picture, Wall Street responded to the dismal news of AT&T’s downsizing by boosting the value of the company’s shares. Other headlines in the mid-1990s were equally alarming: 50 000 reductions at Sears, 10 000 at Xerox, 18 000 at Delta, 16 800 at Eastman Kodak, and a further 35 000 at IBM (Brown, 2000). The downsizing trend had not finished by the end of the decade either. In 1998, Motorola announced that it would lay off 15 000 staff and consolidate its manufacturing. The reason for this was that second-quarter earnings were expected to fall ‘well below expectations’. More alarmingly, Motorola did not say more specifically where the staff cuts and facilities consolidations would take place, and uncertainty was rife. It remains to be seen what impact such an announcement
will have on Motorola’s world-class quality performance, where six sigma quality has been touted as the norm within its plants.

In 1998, General Motors announced it would close a number of domestic factories, shed jobs and eliminate models in an effort to become more competitive. GM’s North American sales and marketing operations would be reduced to a single division, thereby reducing bureaucracy, costs … and jobs.

High-tech firms were ravaged by downsizing at the beginning of the new millennium, and even those companies listed by Fortune as the ‘100 Best Companies to Work For’ were busy reducing headcount, as Fortune (9 February 2004) noted: ‘The tech downturn hasn’t left Cisco unscathed – it laid off 6,000 employees in 2001, and some stock options are still underwater’. Downsizing has been evident within more traditional sectors, and has impacted those firms which were previously against downsizing:

Schwab has a policy of giving news to employees almost instantaneously, sort of an internal transparency. So it was with the decision to downsize. It occurred at 8:45 on Jody Bilney’s very first morning last year. By noon the new marketing executive VP watched incredulously as Pottruck broadcast the news to the entire workforce. ‘Wow,’ she recalls thinking, ‘we are so forthcoming. We absolutely wear it on our sleeves.’

But the details would take weeks to work out, and that caused tremendous disruption and fear. ‘It became very hard for people to focus,’ says Eleccion, the broker, who is now at another firm. ‘With each successive layoff, you had to say goodbye to friends. This was a place where the jerks were few and far between.’ Donna Stapleton, a program manager, packed up her belongings and waited. ‘There were days when I thought I read signals that I would be laid off, and then days when it was obvious that I would not,’ she recalls. She did lose her job in October of last year. (This October, though, she became one of the few employees to be hired back.) Schwab soon found itself trapped in its own largesse. Last year’s $97 million in severance costs, along with other charges, wiped out the company’s fourth-quarter $86 million operating net, plunging the company into the red.

(Fortune, 8 December 2003)

Fortune provided interesting insight into how many US firms have simply downsized and outsourced much of their human resources:

The standard history of modern American manufacturing reads like a Rocky script. Pummeled by foreign competitors, out-of-shape American manufacturers rehabilitated themselves with massive
job sacrifices and clever technology. Today (cue the triumphant music), American factories are lean (with 12% fewer employees than at the 1979 peak), strong (producing 51% more stuff), and fast (increasing productivity at a torrid 3.5% annual rate). Dramatic, yes. If only it were true. Sure, American factories have cut costs and are making more widgets with fewer hands. But the manufacturing job outlook is nowhere near as grim – and productivity growth isn’t quite as marvellous – as is generally believed. How could this be? Simple. Many factory layoffs have really been ‘outsourcings’ in which workers returned as (not always cheaper) vendors or contractors. And many newly resurgent factories, loath to increase permanent payrolls, are paying temp agencies instead. (Fortune, 10 November 1997)

The concern is that not only does it make a nonsense of workforce figures, but that these firms then have dependence upon those very people who have been downsized and outsourced. The only difference can be that these ex-staff then have little or no loyalty towards the firms that have just fired them.

Activity 1.8

- Under what conditions might a firm be forced into downsizing?
- How does this impact on human resource development strategies?

The emergence of strategic human resource development

The failure of past approaches to human resource management

In the 1980s a number of Western manufacturing firms invested vast sums of money in technology, one aim of which was to reduce or replace labour costs. We need only look at the limited, or sometimes non-existent, improvements in the performance of the plants in which vast amounts of expenditure took place to realize that automation, by itself, is not the road to everlasting manufacturing success. Instead, massive reorganization is the only solution for many manufacturing firms whose structures
and methods are now obsolete in comparison with world-class organizations. The reorganization includes recognition of the importance of human resources as a key input to world-class, strategic manufacturing, as well as the abandonment of traditional ‘top down’ approaches to management. This is summarized by Hayes and Jaikumar (1988: 79) when they talk about the importance of human resources in new technology:

Traditional managerial attitudes, manifested in top-down decision making, piece-meal changes and a ‘bottom-line’ mentality, are incompatible with the requirements and unique capabilities of advanced manufacturing systems. Until their attitude change, companies will be slow to adopt the new technologies, and those that do will run a high risk of failure.

**Activity 1.9**

Search in business journals such as *Fortune*, *Business Week* and the *Economist*, and investigate a firm that has recently invested in technology.

- What has been the stated rationale for the investment?
- What costs were involved in the downsizing process?

**Learning from Japanese human resource management**

Kanter (1990) highlights the ‘rediscovery’ of the importance of human resource development to world-class manufacturing: ‘… the speed of workplace reform in the United States was significantly increased after the discovery of the importance of certain human resource management practices in Japanese firms’ (Kanter, 1990, in Erikson and Vallas, 1990: 381).

The difference between Japanese and Western manufacturing was highlighted by Keller (1993: 162):

One of the main factors that distinguished the Toyota Production System from Fordism was the amount of responsibility and individual control given to workers. In the West the assembly-line worker was a cog in a large machine … At Toyota … each worker was trained for a variety of jobs which they performed in teams. They were expected to think about how the tasks, parts, or equipment could be improved.

Clearly training was a major factor here, but it was not the only one: a culture of worker–manager respect and trust was also a
requirement for the ‘enlightened’ approach to succeed. Gleave and Oliver (1990: 55) point out how Japanese manufacturers have seen human resources as a core area that helps to shape their manufacturing strategy:

The major Japanese corporations appear to have succeeded in engineering a good ‘fit’ between their manufacturing strategy and their human resources strategy. They have manufacturing systems which are highly efficient but which require highly supportive employee attitudes and behaviour.

Hutchins (1988: 131) observes how this employee involvement is something that has been learned by the Japanese – the challenge for Western firms, then, is that they need to learn lessons, or ‘re-learn’ lessons that have not been adopted:

… it is obvious from {Toyota} that near total harmony has been achieved between workers and management, managers and other managers, workers and other workers. Contrary to popular opinion, this harmony is not the result of some genealogical feature inherited by the Japanese …

As we saw in above, in the past manufacturing has often had an association with repetitive, low-motivation tasks. However, this has changed to some degree. The change is due largely to learning about Japanese manufacturing practices both within Japan itself and in the Japanese transplants in the West. Workers are far more involved in the management of production/operations – both within Japan itself and in Japanese transplants in the West – which is in contrast to the more traditional Western approaches. Part of the reason behind the Japanese plants’ accumulation of skills has to do with the ongoing investment in training; another factor is learning gained within teamwork approaches. According to Gowen and Pecenka (1992), ‘Japanese compensation strategy for high technology firms has historically been more team oriented than most American systems’, and ‘Another Japanese human resource strategy implemented in high technological firms is the consultative decision-making process called nemawashi … The process involves the accommodation of employee input in middle-down-up collaborative style’.

The Nissan plant in Smyrna, Tennessee, provides vital insight into the important contributions of humans in manufacturing. Nissan in Smyrna uses only 2.23 workers to build its vehicles, in contrast to the 3, 4 or sometimes more workers per vehicle at typical auto plants operated by the Big Three automakers. However,
The fact is that Nissan’s workers do not work harder; they seem to work more efficiently than their US counterparts:

There is little evidence to support UAW’s contention that Smyrna employees work harder than their counterparts at less-productive plants … [Nissan] doesn’t run shifts longer than nine hours, and it rarely asks employees to work more than one Saturday per month. Many unionized – and less productive – plants work longer shifts and far more weekends.

(Ward’s Automotive Yearbook, July 1999)

The key difference seems to be in the ongoing investment in developing skills and encouraging learning.

Activity 1.10

- Why might there be a conception that unions might be opposed to human resource development?
- In contrast, why do you think that unions might actually support human resource development initiatives within the organization?

Human resource development as part of the organizations’ core competence

Human resources can be closely linked with the firm’s core competencies, as described by Garavan et al. (2001: 48):

This perspective on human capital takes as its starting point, the view that human competencies are one of the resources available to organizations. The origins of this notion of human capital can be attributed to the work of Prahalad and Hamel (1990) who analysed the competitiveness of organizations and attributed it to the possession of core competencies. They postulated that an organization can possess unique clusters of factors that allows it to be competitive and human capital is one of these. This resource-based view represents a current paradigm on firm competitiveness and conceptualizes the organization as a collection of competencies and draws attention to issues of learning, HRD investment, knowledge accumulation and experience.

Hamel and Prahalad (1994) describe core competencies as ‘a bundle of skills and technologies rather than a single discrete skill or technology’. Although we cannot limit core competencies
to human resources only, it is clear that human resource development must form at least part of the organization’s core competence because ‘skills’ are grounded in human capabilities. These skills can be developed and nurtured over time in order to create a set of capabilities which other firms will find difficult to match or copy. Human resource management must be a key core competence for any world-class manufacturing firm. New ideas for innovation, new products, continuous improvement and so on, come from harnessing this creativity from humans, not via machines or ‘technology’.

The case described in Example 1.2 provides useful insight into one Chief Executive Officer’s view of strategic human resource development.

**Example 1.2: The strategic importance of human resources at Nucor – the views of CEO Ken Iverson**

I get calls from students at prestigious business schools all the time … The first thing they ask is, ‘May I have a copy of your mission statement?’ And I say, ‘We don’t have a mission statement.’ Then they ask, ‘Well, can we have a copy of your job descriptions?’ And I say, ‘We don’t have any job descriptions….’

If there is a Nucor success formula, the primary ingredients include:

- Maintaining a lean management structure – the corporate headquarters office in Charlotte has a staff of just 25 people, and there are just four management layers between the CEO and front-line workers.
- Pushing decision-making down to the lowest possible level – which means that the firm’s business-unit managers have a high degree of autonomy, and production workers are extensively involved in devising methods to improve operations.
- Encouraging experimentation and risk-taking – Nucor accepts that roughly half of its investments in new ideas and new technologies ‘will yield no usable results’ (Iverson says).
- A performance-based bonus system – one that rewards managers and other employees for improving return on assets, and production crews for increasing productivity. (Last year, the company generated a record $623,000 in sales per employee.)
- A commitment to fostering two-way loyalty – by cultivating a sense of ‘shared purpose’ among managers and workers. Not only do employees at all levels share in the financial success of their work groups or business units, but a ‘share the pain’ philosophy also dictates that everyone bears part of the burden during difficult times. (Although it has gone to reduced workweeks in slow periods, Nucor has never laid off an employee or shut down a facility for lack of work.)
- Cultivation of an egalitarian atmosphere – with few, if any, of the management perks common at many other firms. Everyone, including senior executives, flies coach on business trips. And there are no company cars, no reserved parking spaces, and no executive dining rooms.

(Source: *Industry Week*, 8 June 1998)

The Nucor story is almost textbook in terms of what can be done. The issue is that there aren’t many firms who have such policies in place.
Current ‘good practice’ in strategic human resource development

Towards best practice

A number of researchers have found compelling evidence which shows the benefits of human resource development strategies within organizations. Pfeffer (1998) and Pfeffer and Veiga (1999)**2 report on a study of high performance work practices of 968 US firms representing all major industries. The study found that a one standard deviation increase in the use of such practices was associated with a 7.05 per cent decrease in staff turnover and, on a per employee basis, a $27,044 increase in sales per employee, a $18,641 increase in stock market valuation, and a $3814 increase in profits. It is important to note two points in such studies. First, they are not saying that a single practice will change things overnight; rather, success comes through a systematic and integrated approach carried through over a sustained period of time. Changing the way an organization behaves is a matter of consistent reinforcement and the establishment of a different set of values.

The second point is that we can see a high degree of convergence in different studies around the key dimensions of high performance HR management. For example, Pfeffer (1994) lists seven key practices of successful organizations, whilst the UK ‘Competitiveness through partnerships with people’ study highlights five key areas for change. We can group the key factors into a simple model (Figure 1.2) that provides an overview of the challenges for strategic operations management in this field.

Under each of these headings there is a number of factors: Table 1.4 lists the key elements.
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The strategic importance of human resource development

Figure 1.2
Strategic human resource development (from: Brown et al., 2000).

Table 1.4
Elements of strategic human resource development

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<thead>
<tr>
<th>Area</th>
<th>Key elements</th>
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<tr>
<td>Commitment to people as strategic resources</td>
<td>Employment security</td>
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<td>Choosing the right people</td>
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<td></td>
<td>Valuing and rewarding them</td>
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<td>Wage compression</td>
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<td>Symbolic egalitarianism</td>
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<td>Shared purpose</td>
<td>Strategic leadership</td>
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<td>Shared planning processes</td>
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<td>Employee ownership</td>
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<td>Enabling structures</td>
<td>Appropriate organization design</td>
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<td>Job and work organization design</td>
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<td>Devolved decision-making</td>
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<td>Supportive communications</td>
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<td>Shared learning and development</td>
<td>Commitment to training and development</td>
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<td>Embedding a learning cycle</td>
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<td>Measurement</td>
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<td>Continuous improvement culture</td>
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<td>Shared involvement</td>
<td>Teamworking</td>
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<td>Cross-boundary working</td>
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<td>Participation and involvement mechanisms</td>
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<td></td>
<td>Stakeholder focus and involvement</td>
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</table>
Commitment to people as strategic resources

There is no ‘magic ingredient’ in the recipe for developing high performance organizations of this kind, but there is a need to develop some basic principles. At the heart of such organizations lies a belief in the importance and potential contribution that employees can make. As a result there is the belief in and, more to the point, the practice of human resource development strategies. From these a series of practices follow which reinforce the message and enable sometimes ‘extraordinary efforts from ordinary people’ (Joynson, 1994). One of the basic human needs is for security and, in an uncertain world, providing some measure of employment security is a powerful way of signalling the value placed on human resources. Of course this is not something that can be guaranteed, and there is a risk of ‘feather-bedding’ employees – but providing some form of contract that shares the risks and the benefits is strongly correlated with success. For example, one of the most successful US firms is Lincoln Electric, which operates on this basis:

... Our guarantee of employment states that no employee with 3 years or more of service will be laid off for lack of work ... this policy does not protect any employee who fails to perform his or her job properly, it does emphasize that management is responsible for maintaining a level of business that will keep every employee working productively. The institution of guaranteed employment sprang from our belief that fear is an ineffective motivator ... relief from anxiety frees people to do their best work ... (cited in Pfeffer, 1994)

However, on occasions firms will commit to such policies and subsequently things will change. For example, the UK car maker Rover pioneered an agreement in 1992 which promised no redundancies in return for commitment to change. This scheme proved critical in introducing new and flexible approaches to problem-solving and improvement across the company’s plants. It then came under threat with the takeover of the firm by BMW – an indicator that ‘cast-iron’ guarantees of this kind can never be made.

The converse of this is also true; if people feel their efforts are likely to have a negative impact on their employment security, they will not make them. So introducing programmes that engage employees in development activities that raise productivity will
only work if there is some form of reassurance that these employees are not improving themselves out of a job!

Much depends on ensuring that the right people are involved in the first place, and there is a clear trend towards more selective and careful recruitment practices within organizations – for example, SouthWest Airlines received nearly 100,000 job applications in 1993; 16,000 were interviewed and only 2,700 people were actually employed (Pfeffer and Veiga, 1999). Given the flexibility and creativity required and the increasing emphasis on teamworking in the competitive environment, a broad range of social skills has become an important part of the skills mix firms are seeking.

Reorganizing human resources

On occasions, firms have to entirely reinvent and reconfigure themselves. Such change often comes about by necessity rather than choice and, as we saw earlier with IBM, such reconfigurations can be dramatic, including a large degree of downsizing. However, this does not always have to be so. For example, before its merger with Daimler, Chrysler underwent change that was fundamental and company-wide. Chrysler embarked on a dramatic cultural change from a traditional, bureaucratic, vertically structured organization to one organized into four nimble, cross-functional platform teams – one for small cars, one for large cars, one for minivans, and one for Jeep vehicles and trucks. Teamwork was the pivotal issue here, and at Chrysler everyone focuses not on the just pieces of the car, but on the total vehicle. Communication flows are simultaneous and two-way, rather than sequential and one-way. This change enabled Chrysler to be very innovative. Between 1992 and 1995, Chrysler introduced more models than it had done in the previous twenty years (Brown, 1996). The reorganization resulted in development times that matched those of the Japanese.

Activity 1.12

- Why is that human resource development is an important issue in firms that wish to be faster in innovation?
- What specific skills need to be enhanced by such development strategies?
One of the major areas of learning from Japanese styles of organization is in the lack of levels of hierarchy within Japanese firms:

In contrast with their Japanese competitors, American firms have several extra layers of hierarchy arranged as an organizational tree. To communicate with one another, people working in different departments often have to go up the tree to their lowest-level common superior and then back down. In Japanese firms the hierarchy has fewer levels and it is layered rather than strictly treelike: people in one layer generally know and can easily communicate with people in the next-higher and next-lower layers, regardless of departmental boundaries.

(Dertouzos et al., 1989)

At one time, General Motors had 22 layers of management and Ford had 17, in contrast to Toyota, which had only 7. A number of Western firms have undoubtedly recognized the importance of reducing levels of hierarchy and promoting cross-functional teamwork. However, at NUMMI, the GM/Toyota joint venture, there are only four job classifications and workers enjoy frequent job rotation. Production is based largely on teamwork and other organizational initiatives, which GM has learned from the Toyota Production System. There have been no forced redundancies at NUMMI. Workers are called ‘Associates’ and regular meetings take place in order to review production processes and to make improvements. Staffing and materials sourcing decisions are made by teams, rather than by a personnel or purchasing function. There are indications that there is progress at other GM plants, although not as impressive as the NUMMI plants: GM’s Cadillac division has reduced job classifications from 18 to 7, each with its own pay scale, and teams of workers are evident throughout the plant, responsible for their own training.

Ford has undergone major change. Ford had to change in order to compete. Its Ford 2000 approach linked together the company’s European business with its North American one. This almost amounted to a merger, since Ford has separate management structures, products, factories and processes in the US and Europe.

Summary

Human resources are often seen as a core capability within firms. However, if this is the case it should be straightforward to think that all firms will nurture and develop such a key asset. As we
have seen in this chapter, not all firms remain committed to developing human resources. One of the reasons for neglect of human resource development is the way in which management has changed over time.

The three major eras provide major clues as to how human resources development has progressed over time. The problem for some firms is that they have remained ‘stuck’ in the mass production era in terms of how they manage staff. The mass production era was entirely appropriate for its time; however, in the current business era it is vital that human resources are properly developed. This is because the firm is dependent upon human resources for ideas for innovation, and for continuous improvement in all areas.

Strategy is concerned with long-term planning and implementation for the organization. Human resource development should form part of this planning process, and in world-class firms this is exactly what happens. For example, every new Japanese transplant in the West has staff who have been trained and developed, thus enabling the plant to compete on key variables such as delivery speed and reliability, quality and low cost. Downsizing is often a quick-fix solution to a firm’s current problem. There are major negative repercussions in firms that downsize radically. First, many firms attempt to be lean but end up becoming anorexic in the process (Brown, 2000). Second, the ‘brain of the firm’ – which is focused on human resource know-how – can suffer from what might be called a corporate lobotomy – i.e. the firm forgets how to do things. Third, getting rid of staff is easy, but dealing with the survivors is immensely difficult. It is remarkably difficult to motivate people in continuous improvement initiatives when staff are leaving and surviving personnel are in fear of losing their jobs.

Human resource development has emerged as a strategic factor within firms. One of the reasons for this is that firms have benchmarked against Japanese practices in human resources and have found that it is this factor – and not technology – that is central to their success. However, other important factors need to be in place. For example, the firm needs to rid itself of worker/manager problems. Once these and other issues have been dealt with, a firm can really begin to manage and develop human resources in a way that will allow it to utilize a key competitive component – its human resources.

There are tangible/financial benefits from developing ‘best practices’ in human resources. In addition, once a range of skills
has been developed this enables the firm to be more flexible and to reconfigure the way in which it is organized. These reorganizations then enable the firm to be more focused and, in turn, can allow the it to exploit what it does best.

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Pfeffer and Veiga (1999).


*Ward’s Automotive Yearbook* (1999).**6
