

HUMAN RESOURCES AND BUSINESS STRATEGY

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Abstract

In strategic management it is already accepted that the knowledge which employees possess is the most valuable resource of a company and the key source of competitive advantage. Business strategy demands from human resources to possess relevant knowledge, expertise, experience, skills and enthusiasm, while the credible managerial team, with the clear vision and the ability to motivate their subordinates is the basic arm for implementing a strategy. Strategic management of human resources deals with relevant aspects of human resources management in the process of formulation and implementation of business strategies. Possession of human resources doesn't necessarily mean their automatic transformation into value. In order to transform human resources into value the existence of a strategy is essential. The essence of a strategy is turning investments into immaterial assets into value. In order to turn investments into human resources into value it is necessary that the human resources "carry" certain human capital.

Key words: Human resources, business strategy, management, knowledge.

INTRODUCTION

Human resources greatly define actualization of competitive advantage of a company. Consequently, number of questions and the way they are dealt with, which are related to human resources, represent integral part of strategic management. Business strategy demands from human resources to possess relevant knowledge, expertise, experience, skills and enthusiasm, while the credible managerial team, with the clear vision and the ability to motivate their subordinates is the basic arm for implementing a strategy. The fact that human resources represent valuable and specific resources reflects on the way they are managed. Human resources management represents activities of recruiting human resources, performance monitoring, preserving and developing their competence, career development and rewarding. These activities, because of their character and importance, are closely connected to other activities. Human resources, apart from procurement, development of technology and infrastructure activities, create one of the basic activities of support in so called "chain of value". Conceptual basis of altered focus in the process of formulating, evaluating and implementation of a strategy represents the attitude towards the company based on

resources, which is actuated by altered role and the importance that human resources in modern business conditions have.

In strategic management it is already accepted that the knowledge (and phenomena related to it) which employees possess is the most valuable resource of a company and the key source of competitive advantage. Knowledge is a vital element of so called "immaterial asset". The importance of immaterial assets is growing in the way that in the propelling companies it greatly exceeds the value of material assets. That is why strategic management in a company can be defined as a learning process which is directed towards development and maintaining of employees' key competences. The essence of successfully formulated and implemented strategy is presented by ability to learn, i.e. to gather, create and use the knowledge. Learning is a constant process, and it is demanded from the employees to change a lot, which is conditioned by demand to increase their knowledge. Immaterial assets are composed of human capital, technological capital (intellectual possession), organizational capital and relational capital. Human capital is connected to human resources and represents the most potent component of immaterial assets. Consequently, human resources are

actuators of future performances of a company. In other words, company's high rate growth of market value related to book-keeping value is a result of investment into human capital, as well as in other elements of immaterial assets.

Each strategic position is connected to the set of intellectual resources and abilities. Choices organizations make, which are related to technology, products, services, market and processes have a deep impact on knowledge, skills and the core of competence which are crucial for competitiveness of a company. On the other hand, what a company does and know how to do can become a restrictive factor in achieving competitiveness. Considering what the organization knows, it has to identify the best productive and market abilities. However, success, i.e. achievement of competitive advantage depends on matching the knowledge which is chosen, positioning of the demands and available knowledge within the organization. Approach to the position of organized knowledge requires cataloguing of intellectual resources by creating a knowledge map. What guarantees a unique competitive advantage is matching the knowledge with the strategy of the organization.

HUMAN RESOURCES MANAGEMENT-BUSINESS STRATEGY

Comparative HRM deals with research of HRM politics in national, that is regional context and it is usually focused on trends and differences which exist in the field of HRM between different countries or regions [6]. The differences between cultures greatly influence the differences in organizational behavior, which are manifested in the field of work motivation, communication, appearances and dealing with conflicts, job orientation, setting goals, evaluating performances and rewarding, making decisions and management style. Implementation of multi-national strategy means that the demands of local market are answered with focusing, as much as possible, on key business functions where the offering is shaped by local demands. Implementation of multi-national strategy implies organization which is characterized by high level of decentralization and organizational structure which is based on small need for integration

and coordination of activities between organizational parts. Global strategy tries to use the advantage of lower costs by leverage and economy of scale. Organizational structure is centralized with the lowest number of hierarchical levels and resembles of centralized network.

Human resources as factor of competitive advantage

It was stated many times that the competitive advantage, along with strategic focus and synergetic effect, one of the basic elements of the business strategy. Different factors influence competitive advantage. One of the factors is heterogeneous resource combination. Heterogeneity is a consequence of the usage of the resources which are unique (new, specialized and unsustainable) and/or superior (valuable, rare and hard to imitate). Homogeneous resource combination leads to easier identification and imitation of competitive advantage. Human capital, as well as other components of immaterial assets, vitally influences heterogeneity of resource combination. Specialized knowledge, specific experience, relations with clients and reputation are characteristic examples of human capital.

There is an increasing number of companies that are achieving competitive advantage thanks to human resources, instead of using certain technologies, rank annuity or availability of financial capital. Hence today more attention is paid to nature and characteristics of this resource. Main functions related to human resources management are: planning, recruiting, selection, performance monitoring, rewarding and development [4]. Independent variable in this functional dependence is behavior. Different programs of changes, independent from their specifications, in the end lead to behavioral changes with the employees (managers and executives). Hence the important aspects of human resources management are related to understanding the behavior and discovering the possibilities for improvement. In the same time the accent is on team activities and adjusting the interests of an individual to the interests of a team.

In the industrial era, a clear duality is created between two groups of employees. The first

group consists of intellectual elite, such as managers and creative executives, who use their abilities to create a business model, products and processes, for selection and management of relations with clients, monitoring certain processes and evaluating performances. The other group is consisted of people who work in production and providing services. In the information era the content of many jobs is changed a lot. Machines are automatized and integrated, and each employee is directly involved in production and providing services, quality improvement, lowering the costs and shortening of the production cycle. The ability of improvement of existing processes and implementing the new ones is created through learning process. Learning through adding the values or creating it again represents the basic competitive advantage.

In order to evaluate the effectiveness of the usage of human resources, researchers from Harvard recommended the model “CCCC” (engl. *Competence – commitment – congruence – and cost effectiveness*) [10]. The analysis of competence implies understanding the knowledge and skills that employees need for jobs they are doing or for taking new roles and jobs if there is a need. The analysis of commitment implies determining in what extent are the employees dedicated to their work they do in the company. Discrepancy is manifested by lack of cooperation, compliance of certain goals and company’s goals, dissatisfaction, conflicts between managers and employees and strikes. Cost effectiveness implies that costs for human resources, such as salaries, different benefits, paid trainings etc., in the level or beneath the competition.

The role of human resources in business strategy

Human capital of a firm doesn’t consist only of employees seen only as a working force with a kind of formal qualifications, but of all the things that those people carry with them, what they are and what they can become in the imminent or far future. This includes knowledge, skills and abilities, but also ideas, as well as the abilities to notice and solve existing problems of available employees, but also of available people

that the firm can engage [3]. The content of human capital includes specific skills of individuals, talents which make them different, but also overmastering the units of organizational behavior in the roles, as well as the education levels of entire categories of employees.

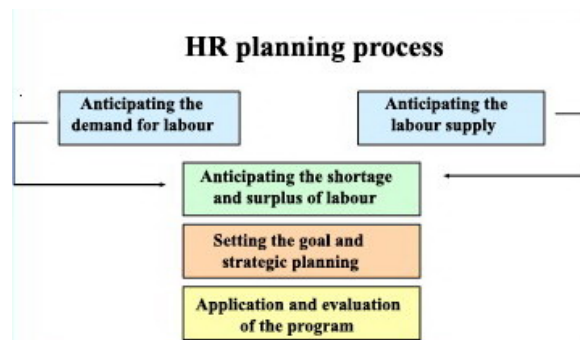


Figure 1: Planning process LJR

Possession of human resources doesn’t necessarily mean their automatic transformation into value. In order to transform human resources into value the existence of a strategy is essential. The essence of a strategy is turning investments into immaterial assets into value. In order to turn investments into human resources into value it is necessary that the human resources “carry” certain human capital. Human capital implies creative implementation of knowledge in every creative activity and it consists of: intellectual (human), structural (organizational), and market (consumer’s) capital [4]. It consists of human characteristics (knowledge, motivation, experience etc.) and business culture, human relations and cooperation with business partners. Only valuable human resources carry human capital. Human capital, as well as other immaterial resources, is not in the market, but under the roof of a company. Resources which are widely available are never the source of competitive advantage. Valuable human resources are not only rare but they also create with difficulty critical mass. Behavior of the competition towards their acquisition lowers their effectiveness because of growth of costs, transition prevention, and loss of critical mass or high transition costs.

Human resources have the ability to learn. Thanks to knowledge and the ability to learn human resources is the basis of implementing changes. Following the challenges and the possibilities of strategic changes and their usage in their own strategy demands from the company permanent learning. Hence the appearance of the concept of so called “organization that learns”. Individual learning speed determines the learning speed of the organization as a whole and vice versa. A company that learns expresses the ability to create and acquire new knowledge, new concepts, and to adjust them successfully to its business environment and its intentions. Also, the necessity for restructuring created additional need for different knowledge and it implies the existence of dynamic organization which is able to adjust to new circumstances and challenges. With the development of information and communication technologies, operational and easily accessed data bases were created, which enable easy and simple access to needed knowledge and information. Through the exchange of knowledge among the employees, new knowledge is created, that is the fund of knowledge grows. Knowledge management is used to make the concept of the organization that learns operate [8]. Deduction from investments into human resources ultimately leads to impoverishing of knowledge quality, staff, health and cultural values which are the basis of the future economic growth with calculated effects on work productivity, profitability of investments, saving and welfare. That is the meaning of human resources research, as a modern scientific discipline which needs to answer the question if we have the people we need today, and if we have people we will need tomorrow.

The influence of business strategy on human resource strategy

If we take a look at a typical model of business strategy three directions can be noticed: economic growth or value, operative efficiency and focus on a customer. Economic growth or total value of services starts the innovation of products; the efficiency of internal management and knowledge sharing so it can be used. Focus on a customer starts the changes within the organization by

demanding innovation for the users, using the knowledge of the customers and ensuring profits by keeping the users.

Business strategy consists of general strategy (or strategy of a company) and generic strategy for the business level [11]. Volume and structure of human resources are always functioning as general strategies. For example, strategy of penetration which is accomplished by internal growth method implies additional employment and training. A company, which intends to increase greatly its scope of production by implementing new equipment, has to plan on staff employment and training that will be able to use it. The number and structure of employees are influenced not only by volume of operations increase, but also by changes within the organization. Joining and merging strategies usually have the opposite effect regarding the number and structure of employees. In fact, after the overtake the real evaluation of capital size, assets and number of employees takes place, which in the case of the number of employees usually means the decrease of that number. Strategy of restructuring requires firing the unnecessary and hiring the necessary staff at the same time. In conditions of universal networking the significance of full time employment for unlimited time is relativized. Companies increase the number of people who are employed only temporary, for limited time or hired under contract or do part-time jobs. People hired under contract are usually doing jobs that full-time employees used to do, because that option is cheaper and more flexible. Less employment contract and more work contracts are concluded.

In the conditions of external growth domination the need to determine the real size of assets, capital and employees after the merger and joining, is gaining more significance. People who are redundant can easily find another job only if they possess new knowledge, skills, energy, enthusiasm, etc. Permanent education becomes significant, not only because of painless transition to new jobs, but also career development in case one remains in the same company. According to one analysis, companies in the USA spend almost 60 billions dollars annually on courses, trainings and knowledge refreshment [2].

Companies function on global scale and they have to improve their work constantly. The use of information technologies changes the content of many jobs. Instead of internal standards or focusing on comparison of their earlier accomplishments, the employees have to put the accent on external standards and promotions planned ahead.

While formulating a general strategy one always starts with available resources and resources which are not used enough [11]. For a company with competitive generic resources (financial and material resources) and with unused immaterial resources there is a great possibility that, when choosing a general competitive strategy, it will strive towards the related diversification until there are possibilities for expansion on existing markets that gravitate towards the basic business. Reasons for such a choice are possible synergies. Firstly, the economy of scale that allows the division of immaterial assets expenses on larger number of products and markets. Secondly, the effect of experience curve in the field of immaterial resources by using the effect of experiences on larger number of businesses. Thirdly, the economy of width, that is usage of immaterial assets to speed up the entrance into new businesses. Because of synergies mentioned before, related diversification usually leads to increased profitability contrary to unrelated diversification. That is a logical consequence of the fact that this competitive strategy is based on better usage of immaterial assets. Synergy in related diversification which is based on immaterial assets is harder to imitate and it is a source of competitive advantage. Exchange of knowledge between companies is pretty difficult because of information asymmetry related to the value of knowledge that exists between a seller and a buyer of knowledge. Furthermore, proprietary of knowledge (or “intellectual property”) is not always well regulated. The alternative to this competitive strategy are variants of cooperative strategies, based on common investments and business alliances, because they are more successful than competitive strategies of unrelated diversification in solving problems of creating and knowledge transfers by using immaterial assets. After a

competitive strategy has been determined, a human resources strategy has to be determined. There is a general human resources strategy and specific human resources strategies [1]. General strategy contains a prevailing idea about the number and structure of human resources which enables implementation of business strategy. Specific strategies give concrete answers about how to attract, engage, improve and reward human resources in the way to solve typical problems, such as winning the “talent war”, knowledge management, career plan, system of compensation etc. Consequently, architects of human resources strategies must have a clear overview of demands which a business strategy puts in front of human resources. Human resources strategies should be adjusted not only to the general strategy, but also to generic strategies for business level.

Managing director as a carrier of general strategy of a company

Human resources strategy should eliminate the key man risk in the sense that a managing director is the agent and not the breaksman of changes. It is interesting that the basic trade and the set of competences of a managing director of a company are changing during the phases of company's living cycle [7]. Specifically, in the starting phases, which are characterized by products or/and processes, are usually managing directors (at the same time the founders of a company and important owners) of technical trade. With the development of a company, competences in marketing field (early growth) and financials (late growth and maturity) gain more significance. In the end, during the phase of decrease knowledge of all fields of restructuring (merging and joining, disinvestment, reengineering of business processes, financial consolidation, financial restructuring etc.).

Special challenge laid in front of human resources strategy is the election of a new managing director. The main task of the managing director is implementation of a company's new strategy (or general strategy) and strategy of parts of the company (or generic strategy), as well as the election of key managers who will enable this implementation

[9]. When a new general strategy requires radical changes in relations to existing general strategy managers with different competences (knowledge, skills, experience, motivation, energy etc.) are needed. These managers can be found by engaging managers with needed competences from external sources or by improving existing managers by learning abilities and evolutionary competence.

The question of electing managing director with adequate competences is additionally complicated by involving the dimension of availability of managers within the company. It is common that successful companies try to find the successor of leaving managing director within the group of several internal perspective managers, usually associates of leaving managing director. Main reasons for election of internal managers lie in the fact that they know the company well, while their promotion is a confirmation of their earlier results and it is an example that increases the loyalty of other managers [11]. Engaging managers outside the company is very risky because they, without enough knowledge about the company, can initiate changes in strategy and staff structure which are not necessary. Managers, who came to the position of a managing director from outside, usually stay briefly, contrary to the ones who came to this position from within the company. On the other hand, companies, which are in crisis, usually elect an individual from outside the company, with the experience in that field, for the position of managing director. Also managers who come from outside the company are usually elected for this position in cases when the previous managing director has been fired, when there is no internal manager who is willing to take that responsibility and when the board of directors is dominated by external and non executive managers.

Pairing business strategy and type of managing director is done in the following ways [12]. Implementation of a strategy of related diversification (vertical or horizontal type) as a general strategy needs dynamic managers with the experience in the field of company's basic business. In the case of a strategy of unrelated diversification as a general strategy, it is possible to engage managers, above all with

the technical and social competence which can relate to other businesses outside company's basic business. A company which has chosen a strategy of stabilization as a general strategy needs a manager with conservative style, usually from the field of production and engineering, with good knowledge of accounting and control of, more or less, standard procedures. In the case of a crisis, when a company is choosing a strategy of reversal, it is essential to elect a manager with the experience in crisis management, that is a manager expert in reversal. When a company is in liquidation a liquidation manager runs the company, and when a company is in bankruptcy the company is run by bankruptcy manager.

When a method of extreme growth (merging and joining) is used for realization of company's general strategy it is expected that some change are to be made in the certain position of several key managers and directors of the management top of merged company. Additionally, because of the need for integration of different cultures after the merger and joining, "integration managers" are usually engaged [5]. Main task of this kind of managers is the evaluation of competitive profile of a "target" company in the sense of reviewing its strength and weaknesses, planning of targeted competitive position, action plans for bridging the gap between targeted and actual performances etc. Integration manager's success is more probable if this manager knows the "target" company well, has the ability to change leadership style, is capable to work different teams and possesses high social and emotional intelligence.

CONCLUSION

Human resources greatly define the accomplishment of competitive advantage of a company. Consequently, a number of questions and many ways of dealing with them related to human resources represent integral part of strategic management. Business strategy demands from human resources to possess relevant knowledge, expertise, experience, skills and enthusiasm, while the credible managerial team, with the clear vision and the ability to motivate their subordinates is

the basic arm for implementing a strategy. The fact that human resources represent a valuable and specific resource reflects on the way they are managed.

Just like with other resources in a company, it is necessary to manage human resources too. Human resources management consists of activities which are used to recruit human resources, monitor their performances, keep and develop their competences, develop their career and reward them. These activities have to be closely connected in the function of business strategy. Consequently, human resource strategies should be adjusted to strategy of a company and strategies of certain jobs. This comes from the essence of a strategy which, actually, represents turning the investments into immaterial assets as an actuator of a value in a value. Considering that human resources "carry" certain human capital, because human capital represents possibility which can but doesn't have to be used, investments into human resources should be turned into values.

Human resources with their knowledge, skills, experience, energy and enthusiasm are the most valuable asset of a company and the only try basis for creating a competitive advantage. For the development of the products which offer a superior advantage in relations to competition, organization with deeply rooted knowledge and learning ability is needed. Thanks to learning new knowledge is obtained, in other words the result of learning is knowledge. Knowledge and the attitude towards knowledge represent one of fundamental determinant of organizational abilities and permanent basis of competitive advantage. In such conditions, the increase of values implies formulation and implementation of new strategies which respect the nature and importance of this recourse. Compatibility of strategy and knowledge is crucial element of organization's

strategy. In most organizations knowledge management is considered separately from strategic planning and realization. However, having an appropriate strategy based on knowledge, ensures that management of organizational knowledge supports competitive strategy of a company.

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