© Academy of Management Review, 1988, Vol 13, No 3, 454–470

Strategic Human Resources Management: A Review of the Literature and a Proposed Typology

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Past efforts to relate the management of human resources to a firm's business strategy have taken three approaches: matching managerial style or personnel activities with strategies, forecasting manpower requirements given certain strategic objectives or environmental conditions, and presenting means for integrating human resource management into the overall effort to match strategy and structure. In this article, the literature on each of these approaches is reviewed, and a typology is presented that posits a reciprocal interdependence between a firm's business strategy and its human resources strategy Implications for research and practice are discussed.

Competitive advantage encompasses those capabilities, resources, relationships, and decisions that permit a firm to capitalize on opportunities and avoid threats within its industry (Hofer & Schendel, 1978). Porter (1985) argued that human resource management can help a firm obtain competitive advantage by lowering costs, by increasing sources of product and service differentiation, or by both. Achieving competitive advantage through human resources requires that these activities be managed from a strategic perspective This article provides a framework for strategists who wish to make better competitive use of their firm's human resources and for human resource managers who hope to enhance the human resource function's contribution to the strategic objectives of the firm. We do not attempt to review or critique human resource practices in general. (Readers interested in the practice of strategic human resource management are referred to Schuler and Jackson, 1987.) Rather, we explore how human resource management activities might be considered in light of a firm's strategic objectives and competitive position Likewise this article does not evaluate strategy formulation or implementation techniques or alternatives. (Readers interested in strategy formulation are referred to Hofer and Schendel, 1978, or Porter, 1985. Readers interested in strategy implementation are referred to Galbraith and Kazanjian, 1986, or Hrebiniak and Joyce, 1984.) Instead, we propose a typology that guides researchers and managers in considering human resources as a way to gain an improved competitive position.

Some writers on strategic human resources management have focused in specific areas: (a) human resource accounting, which attempts to assign value to human resources in an effort to quantify this organizational capacity (Flamholtz, 1971, Frantzreib, Landau, & Lundberg, 1977), (b) human resources planning (Baird, Meshoulam, & DeGive, 1983, DeSanto, 1983; Galosy, 1983; Olian & Rynes, 1984; Russ, 1982, Stumpf & Hanrahan, 1984), (c) responses to a strategic change in the environment (Ellis, 1982; Fombrun, 1982, Lindroth, 1982, Maier, 1982; Warner, 1984), or (d) matching human resources to strategic or organizational conditions (Gerstein & Reisman, 1983; Harvey, 1983; Leontiades, 1982, Migliore, 1982, Snow & Miles, 1983, Sweet, 1982) In this last category recruiting, selection, and retention (Galosy, 1983); compensation systems (Migliore, 1982), domain choice (Snow & Miles, 1983); productivity (Deutsch, 1982), and other specific elements are examined. However, few offer prescriptions for global human resource strategies.

Other researchers have examined the broader scope of human resources strategies (Dyer, 1984 Smith, 1982; Tichy, Fombrun, & Devanna, 1982, Wils & Dyer, 1984). These researchers noted that the strategic management of human resources is a multidimensional process with multiple effects. They further pointed out that although strategic human resource management is beneficial, significant costs must be considered. Such costs stem from additional decision complexity, greater potential for information overload, commitments to organizational growth that are incompatible with industry conditions, commitments to employees regarding job security and work rules that may make the firm less competitive over time, allocating a disproportionate amount of the firm's financial resources to human resource activities, and an overconcern with employee reactions to a strategic choice at the expense of a concern with marketplace realities An accurate evaluation of costs as well as benefits is rarely presented by proponents of specific strategic human resource management practices. As a result, it is difficult to compare approaches. Further, it is difficult to evaluate strategic solutions to human resource problems or human resource solutions to strategic problems relative to the more traditional approach of using human resource management-based solutions to human resource problems and strategic solutions to deal with competitive threats.

The computer industry provides an example of using human resources to solve a strategic problem One of the forces that increases competitive pressure in the computer industry is low switching costs; in other words, customers face few prohibitive expenses or difficulties in changing from one manufacturer to another. In order to counter this, IBM has, for many years, taught programming skills to customers' employees (Schuler & MacMillan, 1984). As a result, loyalty and commitment of programmers is high and is shared by both IBM and the customer. The customer gains a stronger tie with IBM, and IBM gains a programmer that is intimately aware of their own and the customer's needs and corporate climate. The combination of these factors raises the switching costs of IBM relative to other manufacturers and, thus, improves the firm's competitive position. However, the stronger tie also may increase the customer's expectation of responsiveness from IBM and, over time, this responsiveness may become more difficult or expensive to provide. In addition, an important human resource precedent is set. Programmers are hired from outside the organization, and certain career paths are blocked for existing IBM employees. Again, the short-term outcome is beneficial, but the long-run evaluation is uncertain. Therefore, although integration between human resource management and competitive strategy often is proposed in the literature, this example illustrates the complex repercussions of such integration. Clearly, integration should not be a unidirectional process from either perspective if undesirable consequences are to be minimized.

Why is it desirable to integrate human resources management and strategic choice despite these difficulties? First, integration provides a broader range of solutions for solving complex organizational problems. Second, integration ensures that human, financial, and technological resources are given consideration in setting goals and assessing implementation capabilities. Third, through integration organizations must explicitly consider the individuals who comprise them and must implement policies. Finally, reciprocity in integrating human resource and strategic concerns limits the subordination of strategic considerations to human resource preferences and the neglect of human resources as a vital source of organizational competence and competitive advantage (MacMillian & Schuler, 1985). This reduces a potential source of sub-optimization.

Because the human resources management and strategic management literatures are vast, we placed our investigation at the intersection of both streams of research. Dyer (1985) suggested that two dichotomies are important to consider: (a) *separating organizational level from functional level* strategic human resource concerns, and (b) differentiating content issues from process elements. The former contrasts corporate direction from strategy operationalization at lower levels in the hierarchy Such distinctions partition much of the strategic management literature. Content concerns specific choices, that is, policies and practices in strategic human resource management, whereas process focuses on the means by which these policies and practices are derived and implemented. Content versus process distinctions prevail throughout both streams of research Our typology concentrates on the organizational level of analysis. It is directed toward strategic human resource content, but the interaction effects between process and content also are considered.

We observed four common characteristics of organizational strategic human resource management models based on a literature review and interaction with managers *First*, strategic human resource management models emphasize implementation over strategy formulation Human resources are considered means, not part of generating or selecting strategic objectives. Rarely are human resources seen as a strategic capacity from which competitive choices should be derived. When human resources are used to determine strategic direction, the approach is unidirectional from human resource problems to strategic solutions, rather than interactive. Consequently, the potential contribution that human resources might make to the competitive position of the firm is unnecessarily limited. *Second*, traditional models focus on matching people to strategy, but not on matching strategy to people. This assumes that people are more adaptable than strategy. It also implies that cause and effect relationships are unidirectional. When firms occasionally attempt to match strategy to people, the causal direction is merely reversed. The process does not become more multidirectional. Means-ends reversal is a likely consequence of this characteristic. *Third*, many models rely too heavily on organization or product life cycles as single and uncontrollable catalysts of change. This implies little management choice and an external dominance of the firm. Although life cycles are part of organization climate, organization stages are derived from rather than shape strategic choices (Chandler, 1962; Rumelt, 1974; Scott, 1971). Consequently, organizations may underestimate their potential for choice and influence. *Fourth*, most strategic human resource management models emphasize fit, or congruence, and do not recognize the need for lack of fit during organization transitions and when organizations have multiple and conflicting goals. Organization change then becomes difficult to implement and is perceived as less desirable. Additional information on these characteristics is provided in the following literature review.

Background and Literature Summary

Human Resources Valuation

In many firms labor costs account for more than 50 percent of the total costs of doing business (Fombrun, 1982). Russ (1982) argued that "human resources are probably the last great cost that is relatively unmanaged." Cheek (1973) indicated that personnel departments cannot effectively manage cost improvements through productivity increases due to inadequate staff and an inability to channel resources to alternate undertakings. Human resources valuation considers the economic risk and opportunity losses caused by ineffective manpower management.

There are two human resource accounting methods: (a) those using a cost approach, or (b) those using a value approach (Cascio, 1987b). The difference centers on whether an employee is viewed in terms of costs-to-date or in terms of expected contributions. These differences reflect quite distinct organization cultures. Cost approaches focus on historical costs incurred to hire, train, and maintain employees, or on replacement costs that would be incurred if an employee were replaced. Value approaches consider present value of the employee's stream of net future contributions to the firm Salary frequently is used as a proxy for expected contribution. These approaches do not provide for comparison of human resource costs with costs of other, perhaps mechanical, resources which could be used to accomplish similar objectives.

There are difficulties in assessing human costs and contributions. Experts do not agree on who should judge an employee's worth to the organization. It is unclear how employee valuation information will improve managerial decisions. Methods that comprehensively consider both costs and benefits of employee contributions are cumbersome as well as expensive. Finally, it is not clear that the information benefits of valid and reliable human resource valuation data are worth the costs involved in obtaining such data. As a result, this method of approaching strategic human resource issues permits either an evaluation of implementation costs or a comparison of various strategic options relative to human costs, but does not provide insight into valuation of human resources given competitive strategy. More important, no information is provided on benefits of using human resources in one way versus another, nor is information obtained on improving the value of human resources within the firm. Valuation approaches are limited to providing partial answers to strategy implementation questions.

Human Resources Planning

Human resources planning is broadly defined as anticipating future business and environmental demands on organizations and meeting the personnel requirements dictated by those conditions (Cascio, 1987a). This implies that human resources planning could be an important input into strategic plans. Unfortunately, evidence suggests that the link between human resources planning and strategic management often is not emphasized in practice (Baird et al., 1983; DeSanto, 1983; Olian & Rynes, 1984; Rowland & Summers, 1981).

A partial explanation for this lack of use may be found in the focus of human resources planning literature. Most research focuses on human resource supply and demand forecasting (Zedeck & Cascio, 1984) Many statistical techniques are available for making such forecasts (e.g. Markov analysis), but political issues involved in fostering their use generally are ignored. For example, great care may be taken in designing a statistical model of manpower planning, whereas little thought is given to gaining managerial acceptance of the model's output. Thus a large gap exists between available techniques and their use because important organizational realities are not incorporated in the models (Zedeck & Cascio, 1984).

Managerial succession planning, however, has been linked with strategic business planning (Stumpf & Hanrahan, 1984). Identifying potential managers and providing developmental career sequences has long been the practice of many firms, but as discussed earlier, managers are chosen to implement strategy. Less effort is aimed at adapting strategy to managers than vice versa, and almost no effort is aimed at selecting managers to devise a strategy. Such practices are particularly evident in multidivisional firms that have products at various stages of the product life cycle. Managerial succession planning in these firms seems unduly dependent on having sufficient start-up projects for the firm's entrepreneurs and having sufficient mature products for the firm's efficiency experts. Achieving *fit* appears to be the guiding premise underlying much of the work in managerial succession planning Fit can be counterproductive from a competitive perspective because it may inhibit innovativeness and constrain the firm's repertoire of skills Fit approaches to strategic human resource planning often create as many problems as they solve. Hence, managerial succession planning also has been underutilized as an input in the strategic business plan (Gutteridge & Otte, 1983, Reypert, 1981).

Response to Strategic Changes in the Environment

Environmental factors such as uncertainty (Ellis, 1982), technological innovation (Maier, 1982), and demographic changes (Fombrun, 1982) affect human resources strategy Numerous environmental characteristics have been investigated to determine how they constrain human resources or strategy formulation. Fombrun (1982), for example, studied how changes in information processing, automation, inflation, productivity, demographics, elitism, and interest-group politics affect organizational structure and human resource issues. Fombrun contended that changes in the technological environment have the greatest effect on service jobs and on general retraining. He saw changes in the economic environment as having the most direct effect on compensation alternatives and initial employee training. Changes in the social environment are related to shifts in organizational development, to promotion, and to formal appraisal systems, whereas the political environment is hypothesized to have the strongest effect on definitions for success, on organizational commitment, and on career counseling

A generalist approach to managing human resources in the face of environmental change also has been explored. Ellis (1982) identified environmental challenges such as raw material price increases, supply shortages, rapid changes in demand, international competition, and social activists and recommended a generic solution rather than differential responses to specific problems. He advocated a management style that is pragmatic, active rather than passive, sensitive rather than stoic, and based on a philosophy of generating numerous alternatives and initiatives. He viewed managing human resources as creating an organizational climate that is conducive to flexibility, practicality, and participation.

Other researchers, such as Lindroth (1982) and Maier (1982), studied a specific environmental change and posited appropriate human resource management responses. Lindroth (1982) noted that according to the Bureau of Labor Statistics, the rate of increase in the work force will be less than the rate of increase in new jobs (typically created by technological advances) in the 1980s and 1990s. She claimed this will lead to a labor shortage particularly in lower paying, less desirable jobs. Lindroth suggested utilizing the fringe labor population (e.g., retirees, part-time workers, temporary help). Maier (1982) investigated innovation cycles and the qualitative and quantitative labor force requirements at each stage of the cycle. He recommended reallocation of educational resources, increased worker mobility both within firms and from organization to organization, and increased industrywide coordination of technological innovation.

Several problems emerge from past efforts to manage environmental change through human resource management strategies. When a comprehensive environmental perspective has been adopted, the research has been limited to correlation studies of environmental conditions with various elements of structure or organization processes. For example, Dimick and Murray (1978) discussed the effect of competitive markets and lack of special advantages on recruiting and manpower planning. They did not, however, explore how the resulting human resource policies interact with other organization processes or influence strategic position. The more narrowly environmental conditions are defined, the more problematic the recommended solutions become. Lenz (1981) discussed several contingency relationships, but offered no conclusions regarding how an improved fit between particular environmental and organization process contingencies affects economic or competitive performance. In a turbulent environment, the search for fit involves a constantly moving target. Miles, Snow, Meyer, and Coleman (1978) argued that if the firm permits the environment to dictate its strategic choices in a reactive manner, the chances of long-term survival are reduced. If, on the other hand, a firm develops a coherent strategy which considers, but is not solely dependent upon, environmental conditions, a more successful strategy is likely to result. Further, they argued that a firm may be able to influence its environment and that this potential should not be ignored In a similar manner, a firm's human resources policies may alter its market position and, thereby, change the contingencies that should be accommodated.

Matching Human Resources to Strategic or Organizational Conditions

Gerstein and Reisman (1983), Harvey (1983), Leontiades (1982), Migliore (1982), Sweet (1982), and many others have described human resources strategies as developing a match between certain strategic or organizational conditions and certain specified aspects of human resource processes or skills. Although the notion of fit, or congruence, is appropriate, narrow focus seriously limits its usefulness. Most studies deal exclusively with managers, often looking no deeper in the organization than the chief executive officer or top management team.

One approach involves matching managerial skills and interests with the general characteristics of the product/market environment. Such approaches assume that the environment will change very slowly, if at all. Gerstein and Reisman (1983), for example, recommended a diagnosis of the "business situation" primarily in terms of the product life cycle as a precondition for matching executive characteristics to situational requirements. Their approach included using role descriptions of executive function, technical and managerial responsibilities, key relationships, and a list of skill requirements for the executive position. Although these authors provided steps for implementation, they did little to overcome the problems of identifying and analyzing the appropriate information to either characterize the strategic situation or clarify the manager's role under a specific set of conditions. Further, they did not consider the inevitable need for change as new products and technologies enter the marketplace (Cooper & Schendel, 1976) or as cost drivers, factors that define the cost structure for a firm, or sources of differentiation, factors that contribute to a product's unique value, shift (Porter, 1985).

Other researchers (e.g., Leontiades, 1982) focus on expansion strategy (Chandler, 1962) rather than product life cycles. These researchers look at vertical integration (engaging in more activities along the chain from raw materials to distribution of the product), related diversification, or global expansion, for example, rather than emerging, growing, and maturing product cycles. However, the managerial characteristics that receive attention do not vary as substantially as the types of expansion efforts and strategic conditions vary. Gerstein and Reisman (1983), Migliore (1982), and Sweet (1982) claimed that one intent of this approach is to diminish belief in the "universal manager" myth, yet nearly all studies reveal similar clusters of successful managerial talents. Although the "universal manager" may have lost credibility, the "universal management team configuration" seems to have gained popularity

An alternate approach to creating fit is to match the firm's human resources policies and processes with specific strategic choices (Smith, 1982a). Smith pointed out that although financial, marketing, and technical plans frequently are altered to reflect changing strategies, the human resources management function often appears to have been forgotten. He argued that human resource policies should be tailored to reflect the needs of the future, rather than mirroring current conditions or past practices. An important problem is identified, yet little is offered toward resolution. Milkovich and Newman (1987) furthered this approach, but adopted a more restricted focus. They argued that the compensation mix, comprised of base pay, incentives, and benefits, should be uniquely constructed for each phase of the firm's expansion cycle. Here a specific solution is offered, yet the option is not sufficiently comprehensive to influence the total human resource strategy of the firm.

The whole issue of fit deserves reassessment. Research has shown that achieving fit is not always desirable. Further, a focus on maximizing fit can be counterproductive if organization change is needed or if the firm has adopted conflicting competitive goals to correspond to a complex competitive environment (Lengnick-Hall, 1986; Lengnick-Hall & McDaniel, 1984).

Summary of the Literature

In summary, then, past approaches to strategic human resources management have suggested ways to match managerial style or personnel activities with strategic efforts, have offered methods for forecasting manpower requirements given certain strategic objectives, and have presented ways to achieve fit among human resource management processes, strategy, and structure. Each of these approaches has three assumptions in common. They assume strategic direction has been decided. They assume that strategy implementation deals solely with means to achieve strategic ends and has no explicit role in strategy formulation. They assume that the basic issue—whether it is employee skills, forecasting, processes for career planning, retention, or training—remains the same; only the answer changes as strategic conditions change

Assumptions Leading to the Proposed Typology

The proposed typology relies on a different set of assumptions. *First*, we assume that the choice of strategy has not been made *Second*, we assume the management of human resources should contribute directly to strategy formulation and to strategy implementation. We do not, however, assume that human resource considerations should be the sole, or even the primary, factor considered in selecting a firm's strategic direction. *Third*, we assume that as strategic conditions vary, the fundamental questions that must be addressed also vary because strategic issues reflect strategic contingencies. Conditions that influence what types of questions should be asked are not the same contingencies that determine the answers to those questions. The questions which are asked primarily reflect organizational outcomes and environmental threats and opportunities. These issues vary with bottom-line expectations and prior organization choices. The answers to these questions depend heavily on organization strengths, weaknesses, and culture, and the firm's ability to implement change. Both asking the right questions *and* making acceptable choices are necessary for sustained high performance. Further, this typology suggests ways to address the limitations of prior approaches while integrating their contributions.

Human resources valuation approaches were limited by expense, the difficulty of putting a dollar value on human resources, and problems with using results. We suggest substituting firm- and industry-specific skills versus firm- and industry-nonspecific skills (Perry, 1986) as a proxy that overcomes these obstacles. Firm- and industry-specific skills have value only within a particular context. For example, knowing a firm's filing system is firm-specific. Technical jargon is often industry-specific. Neither of these skills is valuable in a different firm or different industry context. To the extent that an employee's skills are specific to a certain organization, their mobility and transferability are reduced, their value to the firm is enhanced, and their replacement costs are increased.

A major problem with human resources planning approaches is overreliance on supply and demand forecasting and response at the expense of other organization realities. We propose specific consideration of a firm's values, philosophy, and culture in strategic human resource management decisions to help alleviate this difficulty. This recommendation is linked with the concept of human resource valuation. If, for example, a firm values long-term employment and does not expect major strategic shifts, an investment in creating firm-specific and industry-specific skills is wise. As Perry (1986) pointed out, firm-specific skills increase the costs of turnover to the employees as well as to the firm. Agencies such as NASA and private firms such as Hewlett-Packard use this approach. Other firms in which greater tenure flexibility is desired, such as McDonalds and many universities, may invest in creating industry-specific skills to enhance their current competitive position, but are wise to avoid investing in substantial development of firm-specific skills that inhibit mobility

Approaches that focus on responding to environmental change or matching human resources to existing conditions suffer from an excessive concern with developing fit and presume fixed goals and directions. We suggest that fit be considered the opposite end of the continuum from flexibility, and that firms explicitly choose a position along the continuum to coincide with their assessment of upcoming competitive conditions.

A Typology for the Strategic Management of Human Resources

The "Growth/Readiness" matrix depicted in Figure 1 captures the basic features of our typology. Corporate growth expectations are a proxy for the goals of the organization (Chandler, 1962; Leontiades, 1982). High growth generally means increased opportunities, multiple strategic and competitive options, high cash flow, and expansion. Much strategic management research centers on goal selection and attainment (Porter, 1985). Organizational readiness measures availability or obtainability of human resources skills, numbers, styles, and experience needed for strategy implementation Readiness is a proxy for implementation feasibility and indicates how well resources meet the needs of the situation. The four quadrants represent four conditions under which organization strategy and, we recommend, human resource strategy are formulated.

Evolutionary forces, such as industry and product maturation, apply pressure to move the strategic situation from left to right (from high readiness to obsolescence) as technologies and strategies change. In most industries, technological change makes current skills or techniques less competitive over time (Hofer & Schendel, 1978). Industries also change from a focus on marketing and research and development in emerging industries to a focus on production and manufacturing in more mature industries (Porter, 1980). Evolution also moves conditions from top to bottom (from high growth expectations to lower growth goals) as markets become saturated and as new competitors enter the marketplace. As industries and products mature, growth becomes less feasible because there are fewer opportunities, because these are more expensive, and because market share must be taken away from competitors. Although these evolutionary forces are well documented (Day, 1986; De Kluyver, 1977, Hayes & Wheelwright, 1979; Porter, 1980), in prior research they have been considered in a deterministic manner. We contend that movement from one quadrant to another results from an interaction between environmental conditions and organizational choice. In past research on

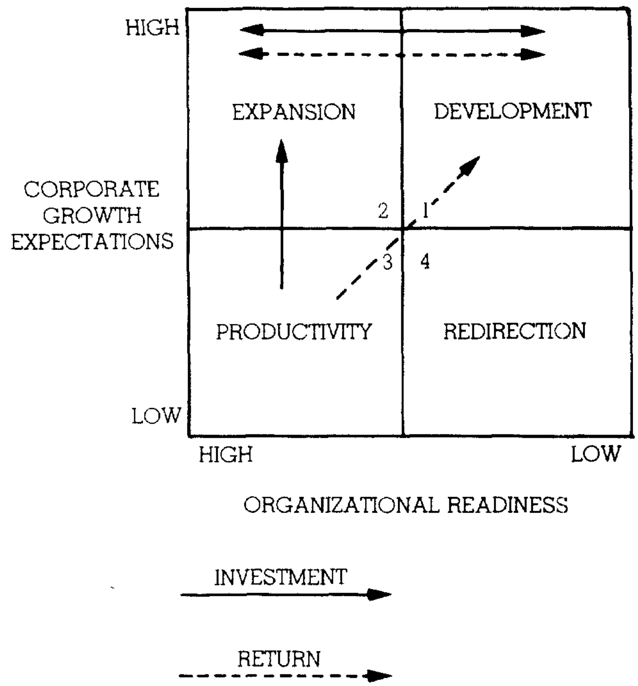

Figure 1. **Growth readiness matrix.**

organizational life cycles the manager's responsibility determines the current stage of development. Once that has been accomplished, the appropriate response is relatively fixed. We propose a contingency approach in which organization choices influence the rate and direction of organization life stages.

In summary, the construct of strategic human resource management has two dimensions: organizational goals and availability/obtainability of human resources. Organizational choice has a dominant effect on organizational goals and investment decisions. Environmental constraints and opportunities have a dominant effect on potential for return. Both choice and environment influence human resources availability and obtainability. This typology explores these complex, multivariate relationships in a systematic fashion. The normative statements regarding strategic human resource management decisions can be translated into hypothetical statements to allow for further refinement and future empirical testing. In fact, we propose that case studies examining the issues we describe may further illuminate relationships and lead to improved strategic human resource management theory construction and testing

Quadrant 1: Development

The Development quadrant is characterized by high growth expectations and a poor level of readiness between strategy and human resource skills. The first-order choice is strategy formulation (Pitts & Snow, 1986). There are three options: (a) a firm may choose to invest heavily in its human resources to improve implementation feasibility, for example, Hyatt's investment in retraining Braniff employees after acquisition; (b) a firm may decide to change corporate goals to reflect the lack of readiness, such as Sambo's shift in focus from growth to profit after 1983 financial difficulties; or (c) a firm may choose to change the corporate operating strategy to capitalize on the skills and resources that are currently available. Anheuser-Busch's withdrawal from the soft drink industry and entry into the bakery and snack industries provides an example of this decision. The last option retains the growth goals by altering the competitive advantage used to achieve such goals.

Effective strategy formulation is based on assessments of functional and technical capabilities, strengths and weaknesses of the firm, and realistic goals (Pitts & Snow, 1986). If a firm is not meeting its objectives, a number of analytic steps should be taken. First, the cause of poor readiness should be diagnosed. This determines whether or not current goals can be obtained with additional investment in human resource capabilities. Anheuser-Busch determined that they could not "train" employees to become more competitive in the soft drink industry. Sambo's management decided there was insufficient time to make the major changes needed and still achieve the original goals. If increased readiness is not feasible, goals or strategic approaches to goal attainment must be changed. This is an example of reciprocal human resource and strategic decision making.

Second, the reasonableness of corporate growth expectations given product life cycle, industry conditions, and the competitive position of the firm must be determined (Porter, 1980). A firm that attempts to grow rapidly in a mature industry, Safeway for example, will require greater resource expenditures and a more significant competitive advantage than a firm such as Genentech, a genetic engineering firm, that intended to grow rapidly during early phases of industry development.

Third, if the firm is not in a single business, choices regarding a particular business and the overall growth and diversification pattern of the company need to be reconciled (Day, 1986). Valuation concerns suggest that compatibility of industry-specific and firm-specific skills across businesses should be considered. Investments have a greater potential for payoff if businesses and, consequently, skills are related.

Fourth, the potential for long-term investment effectiveness needs to be determined (Perry, 1986) Here the organization's culture should be considered. If the skills are firm-specific, but not unit-specific, they provide greater flexibility. This is a plus if the firm is committed to employment security and promotion from within. If culture demonstrates a preference for external hiring, reliance on firm-specific skills should be reduced because such investments provide only short-term benefits.

Finally the fit/flexibility continuum should be considered. If goals represent a long-term commitment and if strategic conditions are supportive, greater investments in achieving organizational readiness are warranted (Hrebiniak & Joyce, 1984). Under these conditions, working toward fit is desirable. If, on the other hand, goals are temporary or if strategy is likely to change, large investments in fit are unwise. For example, it may be shrewd to invest in developing capabilities for dealing with a consolidation in the supplier industry or a major technological shift, but wasteful to invest in skills designed to deal with a temporary shortage or distribution problems resulting from a strike. These five analytic steps provide a template for strategic human resource management under "development" conditions.

Quadrant 2: Expansion

The Expansion quadrant is characterized by high growth expectations and good readiness indications between strategy and skills. These conditions apply to firms in established competitive positions in the mainstream of a growth industry, for example, McNeilab's position in the ethical drug industry or the position of Target Stores in the retail industry. Under these conditions, the first-order question involves resource allocation. What proportion of resources should be devoted to achieving continued growth, and what proportion should be channeled into managing the effects of growth (e.g., updating planning systems, managing information, socializing new employees)? Resolution depends on (a) the level of human resource investment required to maintain desired growth and continued readiness, (b) profitability, and (c) other performance measures that are important to the firm.

Again organization culture and the need for firm- and industry-specific skills play a crucial role (Perry, 1986). Culture places both demands and limits on organization processes (Galbraith & Kazanjian, 1986). For example, military organizations can expand rapidly without substantial changes in organization systems because their cultures are relatively uniform and rely heavily on standardization, division of labor, hierarchy, and socialization to coordinate and control activities Such organizations can devote most resources to achieving growth. Other firms, for example, Apple Computers, have a culture that presumes individuality and idiosyncratic behavior. As the firm expands, organization processes are expected to change to reflect the personalities and skills of new members. In this type of firm, more resources must be allocated to managing the effects of growth and the organization systems needed to accommodate expansion. A high need for firm-specific skills (e.g., fighter pilots) or industry-specific skills (e.g., negotiating defense contracts) makes a given level of growth more expensive to achieve, leaving fewer resources available for managing growth.

The issue of fit versus flexibility is also important. High growth and strong readiness are conducive to maximal fit. This is supported by human resources planners (Stumpf & Hanrahan, 1984) and those who recommend responsiveness to organization and environmental contingencies (Lawrence, 1984; Lenz, 1981). The price is an increased likelihood of means-ends goal reversal (MacMillan & Jones, 1986). Although good fit may make growth easier to achieve, it also makes continued growth the primary means to achieve organizational rewards. Thus, continued growth is likely to become a means to achieve financial and status benefits even if continued growth is no longer cost effective within the industry setting. Sambo's restaurants experienced this problem with their "fraction of the action plan" (whereby franchise owners participated in the rewards of expansion). The result was near bankruptcy and corporate takeover.

A number of analytic steps contribute to sound resource allocation decisions. First, relevant trends in product, organization, and industry life cycles need to be identified (Day, 1986; Porter, 1985). Planning horizons and profitability can be predicted from an asssessment of the industry's structure. Industry analysis, along with an evaluation of hiring and training needs, capacity expansion requirements, and so forth, allows a firm to assess the direct costs and benefits of achieving growth.

Second, a firm should identify indirect costs of achieving growth; among the most important of these is a consideration of fit versus flexibility (Pitts & Snow, 1986). As the need for firm-specific or unit-specific skills increases, personal power of successful employees also increases. Because this power is contingent on maintaining existing organization conditions, there is a strong incentive to resist change (MacMillan & Jones, 1986). Further, mobility of these employees is reduced. Resistance to change coupled with organization clout and few alternatives can make a firm uncompetitive as environmental conditions change.

Third, a firm should identify costs of managing growth (Porter, 1985). At this point a firm should identify specific structural and organizational process changes that need to accompany growth. Often while firms are growing, the seeds for future problems are being sowed if organization design does not keep pace with organization accomplishments.

Fourth, costs of achieving and maintaining growth should be compared with the revenue that additional growth is expected to provide (Porter, 1985). Reciprocity between human resources and competitive strategy is important It is not unusual for growth to be competitively feasible yet have little payoff due to implementation costs Nor is it unusual for growth expectations that are the outcome of prior human resource policies to become competitively undesirable If there is a resulting deficit, a reassessment of goals, or the means to achieve growth, is in order. If a surplus results, an appropriate allocation strategy for these resources is needed. For example, if a growth pattern is expected to be long-term and in a relatively stable environment, resources might be appropriately allocated to managing the stress of continued expansion and elevated performance expectation. If growth is expected to be long-term but under changing marketplace conditions, resources might be appropriately allocated to research and development or training in an effort to anticipate competitive trends. If growth is expected to be short-term, resources might be most appropriately allocated to preparing for organizational transition. These four steps provide guidelines for strategic human resource management under "expansion" conditions.

Quadrant 3: Productivity

The Productivity quadrant is characterized by low growth expectations and strong readiness for strategy implementation, for example, the positions established by Mercedes Benz or the Kroger Stores Because a firm has an established competitive advantage and is not trying to expand rapidly, operations usually are highly effective and efficient. There is less concern with establishing a position, as in the development stages, or with extending the market, as in the expansion stage. Rather, the key question is how to channel the results of productive activities (Day, 1986; Porter, 1980). Such firms are highly profitable and their resources should not be wasted Stated differently, the basic choice is where to channel resources and efforts that are no longer required simply to maintain growth objectives

There are several alternatives. The focus can be on preparing for anticipated changes in the particular business in question. Financial services firms such as American Express made this choice in the face of deregulation. Resources can be invested in related or unrelated businesses in the portfolio. General Electric provides a good example of this approach The focus can be on improving the current competitive position, a strategy taken by the major television networks that continue escalating investment despite low growth prospects. This last focus includes using resources to improve socialization, mentoring, developing of succession plans, and the like, in order to compensate for or correct organizational weaknesses. A firm can begin planning for exit from the business, often a choice if substitute products are serious threats. Under conditions of low growth and high productivity, a strategic focus predominates because choices concern trade-offs between current actions and future options.

Undoubtedly some degree of fit already has been established, and the issue becomes whether continued fit should be rewarded to increase profits and efficiency or whether the first steps toward organization change should be encouraged. The role a particular business plays in the overall corporate plan inevitably changes as the unit shifts from a cash user to a cash generator (Day, 1986; Hofer & Schendel, 1978). If diverse businesses are managed interdependently, businesses that receive investments to aid their own competitive position may, over time, be expected to contribute to the growth and competitiveness of other units. If fit, rather than flexibility, has been emphasized, this shift in perspective presents a monumental challenge (MacMillan & Jones, 1986).

Unit-, firm-, and industry-specific skills also contribute to or inhibit organization transition (Perry, 1986). If businesses are related and firm-specific and industry-specific skills have been emphasized, employees may feel more secure, even though their future prospects may be uncertain. If, on the other hand, businesses are unrelated and unit-specific skills have been emphasized, employees have a vested interest in maintaining an existing strategic posture for the business, even if it is suboptimal for the firm as a whole.

Several analytic steps are useful. First, evaluating competitive trends helps to determine a reasonable time horizon for planning (Porter, 1985) How to sustain the current competitive advantage should be assessed as the product and industry mature. Is the current competitive position viable with a flat level of investment (e g., Coke's position in the soft drink industry) or is competitive position dependent on escalating investments (e.g., research and development required to maintain position in the computer industry)? Can the current competitive advantage be protected and sustained? Because competition increases during low growth periods, mimicry and aggression also increase.

Second, industry structure should be assessed (Porter, 1980). As growth slows, supplier firms and buyers often consolidate or further increase their segmentation. Substitute products often gain popularity while a firm is focusing on efficiency. The marketplace may become unattractive over time regardless of competitive position The natural tendency is for management to be internally focused to increase profits, yet low growth industries require extensive environmental analysis.

Third, an understanding of the current strategy's viability and the long-term attractiveness of the industry is important for allocating human and other resources (Day, 1986; Hofer & Schendel, 1978). If the planning horizon is short, fit should be de-emphasized, resources should be channeled to other units, and skills that are necessary for transition should be rewarded. If the planning horizon is long, fit should be balanced with flexibility, sufficient resources should be reinvested in the unit to maintain competitiveness, and unit-, firm-, and industry-specific skills should continue to receive rewards

Quadrant 4: Redirection

The fourth quadrant, Redirection, is characterized by low growth expectations and poor readiness. Typically, firms facing these conditions are in declining industries or have maintained obsolete products or manufacturing processes that are no longer competitive (Porter, 1980). Examples include small breweries and many family farms. This situation often arises in firms that focus on excessive fit between skills, culture, procedures, and strategy. Their choice is either turnaround or exit from the industry. Stated differently, a firm must decide whether to redirect employee activities or to alter the business focus. Both human resource and competitive considerations are paramount. If turnaround is chosen, retraining, restructuring, and realignment are needed. If exit is selected, turnover (both voluntary and involuntary) and relocation within the firm are often required.

Organization culture and employment philosophy (e.g., commitment to employment security) must be examined (MacMillan & Jones, 1986) Often when a firm reaches this stage of development, organization culture is firmly established. Equally often, values that have dominated during times of growth and implementation are maladaptive when the firm is faced with end-game choices such as harvesting, developing a niche, or preparing for quick divestment in a particular business (Porter, 1980). Most organization cultures do not help the firm avoid premature divestiture nor do they reduce the likelihood of creating a cash trap. If turnaround is infeasible, these are the likely outcomes. An additional cultural issue concerns diversification strategy. With related diversification, severe organizational conflict may arise from attempts to remain competitive in a product area that has undergone major technical changes. It is not uncommon for technical changes in a product or the production process to cause functional conflict rather than functional synergy in firms that have technically related product groups.

The need for human resources in other areas of the firm (e.g., are there growth areas that require new human resources?) should be considered (Day, 1986; Schendel & Hofer, 1978). If new employment options exist, the importance of firm-specific and/or industry-specific skills must be considered in evaluating costs and effectiveness.

A number of analytic steps are appropriate. First, it is important to determine whether the industry is experiencing widespread decline (e.g , has a substitute product curtailed demand) or whether the firm is poorly positioned (e.g., small textile mills facing industry consolidation). If the industry is declining, any turnaround strategy would have a short-term payback. Second, if lack of readiness reflects a poor organizational strategy, analysis to determine a source of competitive advantage is needed.

Third, an evaluation of turnaround and exit feasibility depends, in part, on the extent to which firm- and industry-specific skills are present and the extent to which these skills meet the needs of the current competitive environment (Perry, 1986; Porter, 1980). If firm- and industry-specific skills comprise a high proportion of the human resource skill base, and such skills are compatible with the competitive environment, turnaround feasibility depends on whether additional skills can be learned in a timely manner. Examples include hotels and restaurants that have improved service and made a comeback. Exit, under these circumstances, is less desirable. If firm- and industry-specific skills comprise a high proportion of the human resource skill base and do not meet competitive needs, turnaround will create grave organizational conflict, but exit will be quite difficult. This is, perhaps, the most painful choice, as the issues about what to do with family farms illustrate. If firm- and industry-specific skills comprise a low proportion of the skill base, but those that exist fit well with the competitive conditions (e.g., software development firms), turnaround is feasible if appropriate new skills can be acquired, and if not, exit is less complicated by organization values. If firm- and industry-specific skills are low but incompatible with competitive conditions, as in many steel companies, both competitive restructuring and a shift in firm and/or industry values is needed to effect a turnaround. Exit is a desirable choice in a multibusiness firm. In single-business organizations, merger or acquisition of new skills and new values is a typical response.

These three steps, evaluation of the industry condition, assessment of the competitive position, and analysis of feasibility, are key to strategy and human resource choices under conditions of low growth and poor readiness. Often, no choice is truly desirable, and most contain significant risks. If consideration of the future is incorporated during "productivity" phases, these problems can be reduced.

Concluding Comments

Reciprocal interdependence between a firm's business strategy and its human resources strategy underlies the proposed approach to the strategic management of human resources. This perspective is depicted in Figure 2. Both human resource strategy and business strategy are seen as composite outcomes because in each, many functions, events, and relationships influence organizational results. The crucial interaction is between multidimensional demand and multifaceted readiness: Each is an input to and a constraint on the other.

We propose a broader perspective of strategic human resource management than has been offered in the literature or in practice. Previous efforts have captured some of the important relationships among key variables, but have ignored the truly multidimensional nature of this process. In part, this can be attributed to meshing two areas that have developed independent of one another (at least in the academic arena). Related to this has been the temptation of researchers and practitioners in one field to gain only a superficial understanding of the other field before attempting to integrate the two. This produces inadequate theory formulation at best and does a disservice to the field (strategic management or human resources management) that is slighted. Greater cross-fertilization of ideas is justified at this stage of theory development to provide a better understanding of two complex processes.

The intent of this paper is not to argue that all firms should adopt a strategic human resources

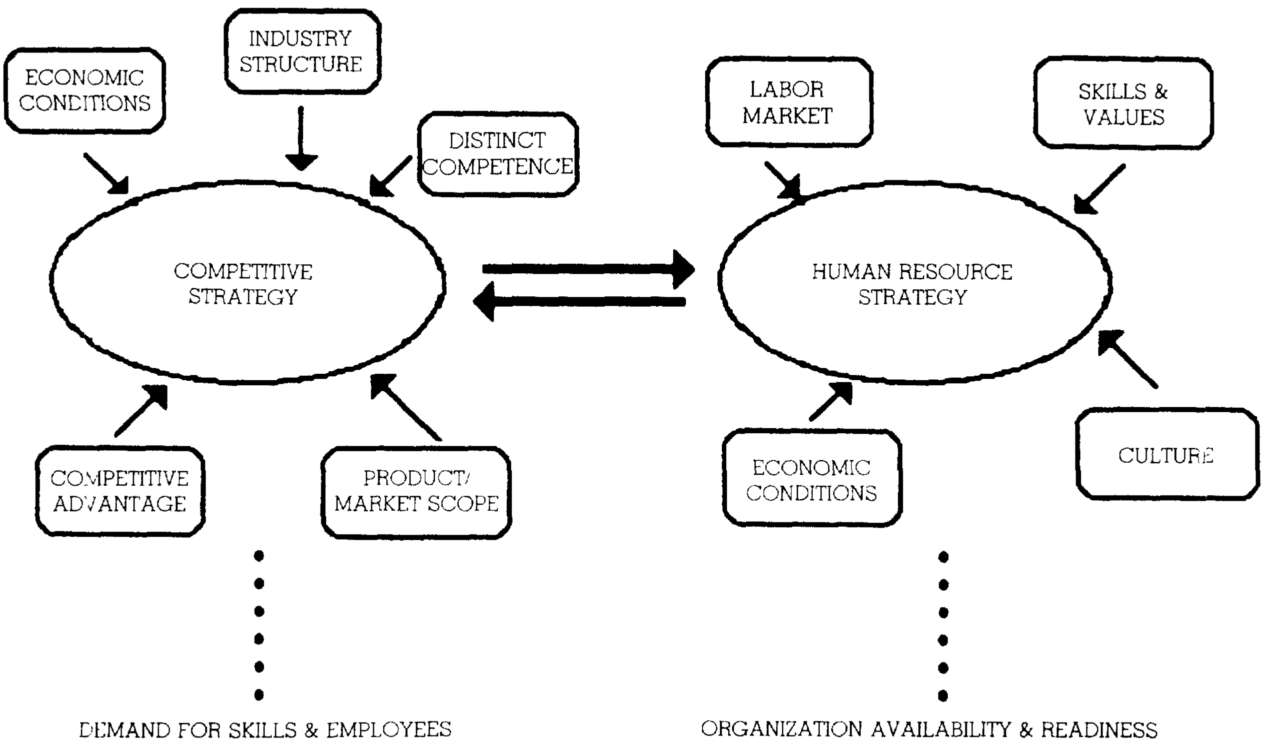

***Figure 2.* A perspective on business strategy and human resource strategy interdependence.**

management perspective, although Hypothesis 1 suggests this as a testable concept

> *Hypothesis 1: Firms that engage in a strategy formulation process that systematically and reciprocally considers human resources and competitive strategy will perform better (using multiple measures of effectiveness) over the long term than firms that manage competitive strategy and human resources independently of each other*

Rather, our intent is to highlight some of the advantages and disadvantages of integrating human resources management within the strategic management process. If a firm elects not to adopt a strategic human resource perspective, it must solve human resource problems through human resource means and, by implication, it must solve competitive problems with other types of resources. This view may, over time, deplete the human resources of the firm. From this approach, human resources are seen as constraints on business policy.

If a strategic human resource management perspective *is* adopted, then human resource considerations must be intimately linked with strategic choices. This view assumes that the human resources are critical to achieving competitive success. There are opportunity costs associated with this view as well, however. A firm's outlook often becomes more inwardly focused, making it more difficult to accurately predict and interpret environmental events. Further, if human resource considerations are used to determine strategic position, a firm may become less competitive than firms that have greater internal flexibility. Finally, linking human resources management intimately with strategic management may overemphasize human resource matters in strategy formulation. Excessive attention may prove to be as detrimental as the prior neglect. To limit these negative effects we argue that a reciprocal interdependence is most appropriate. This view is presented in Hypotheses 2 and 3.

> *Hypothesis 2: Firms that engage in a strategy formulation process that systematically and reciprocally considers human resources and competitive strategy will perform better (using multiple measures of effectiveness) over the long term than firms that manage competitive strategy primarily as a means to solve human resources issues.*

> *Hypotheses 3: Firms that engage in a strategy formulation process that systematically and reciprocally considers human resources and competitive strategy will perform better (using multiple measures of effectiveness) over the long term than firms that manage human resources primarily as a means to solve competitive strategy issues*

The typology proposed in this paper takes a broader perspective of strategic human resources management. It defines some boundaries of the concept and presents a set of propositions that need further testing. To date, there is little *empirical* evidence to suggest that strategic human resource management directly influences organizational performance or competitive advantage. However, there is much anecdotal evidence to suggest that such a relationship does exist. More attention needs to be paid to research issues that will provide the necessary support or disconfirmation (see especially Dyer, 1984). From the viewpoint of practicing managers, it is too early to adopt one theory of strategic human resource management and expect a blueprint for decision making. Our typology clarifies many of the issues that researchers and managers believe are important for sustained organizational performance. The typology suggests avenues of research that should yield a greater awareness of two complex organizational processes, better understanding of their interaction, and more informed decision making in the future. By classifying organizations through the proposed typology, researchers can explore how organizations facing similar contingencies create strategic plans, implement those plans, manage their human resources, and succeed or fail in the marketplace. Moreover, the classifications we propose allow the results of organization decisions within a single firm to be evaluated longitudinally because it is recognized that critical issues as well as desired outcomes change over time. Without some means of categorization, comparative and other methods of empirical research become difficult, if not impossible.

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The authors thank Robert Eder for his critique and comments on earlier drafts of this article