

The three-dimensional people strategy: Putting human resources policies into action

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Executive Overview

Everyone knows that good people management enhances corporate performance. Not so obvious is that successful people strategies are three-dimensional, each dimension requiring an equal amount of attention. Based on our ten-year study within seven different organizations, we propose a three-dimensional model that executives can use to determine the current state of their people strategies along the three dimensions, using a short questionnaire to aid in the diagnosis. Armed with this information, executives will then be able to address any apparent shortcomings along the three dimensions. A key factor to emerge is that the emphasis needs to be as much on making it happen in the day-to-day life of the organization as on developing good people strategies in the first place.

When we talk about people strategy, we mean a strategy, with its underpinning policies and processes, that an organization develops and implements for managing its people to optimal effect. Why is it that, despite their best efforts, organizations so often fail to develop and implement successful people strategies? We have just completed a ten-year study in seven large organizations: BT (a UK telecom company); Chelsea and Westminster NHS Trust (a public hospital); Citibank (a global bank); Glaxo (a global pharmaceutical company); HP (a computer company); Kraft Foods (a food company), and Lloyds-TSB (a UK national bank). The results from the sample of 4,500 employees we surveyed are not encouraging:

- 15% believed senior management was well-informed about what employees think and do
- 34% did not have a great deal of trust in management
- 20% agreed that their HR department had a clear strategy guiding its activities
- 35% thought the appraisal system enabled an accurate assessment of people's strengths and weaknesses
- 34% felt their HR department was competent at its job

- 48% thought people's work goals were clearly defined
- 36% agreed that people received the training they needed to do their jobs well

These discouragingly low percentages are the average responses for the total employee sample across three times studies (1994, 1997, and 2000). We did find that the people strategies of some companies were significantly stronger at some times than others. We shall later describe these results and how they were achieved. However, the average results do make depressing reading, and we have no reason to believe that better results would be obtained from other firms. If anything, these findings are likely to be more positive than most, since these organizations were keen participants in our study. Part of the problem is that most executives are unwilling to ask the difficult questions posed in our surveys, and so they never find out how successful their people strategy really is.

Our study of the development and implementation of people strategies has spanned seven different organizations and lasted the course of an entire decade.¹ During that time, we have witnessed line executives and their HR colleagues grappling with many of the complex situations that face all corporations at some time in their existence—

mergers, takeovers, corporate crises, large-scale redundancy programs, and significant product and service market changes. We have seen how firms have gone about leveraging corporate success, despite the odds, through creative and innovative people-management strategies. We have also borne witness to the many mistakes, frustrations, and traumas inevitably experienced by these executives and their organizations over the same period. It is from this unique study that we draw our examples, cases, and lessons.

In this article we introduce a three-dimensional model of people strategy. It is based on a *vertical alignment* dimension between people strategy and business goals; a *horizontal alignment* dimension between individual HR policy areas; and, finally, an *action* or *implementation* dimension to represent the degree to which the people strategy is put into effect through the day-to-day experiences of employees and the behavior of line managers. Using detailed case studies, we illustrate the possible variety in people strategies, highlight the ways in which companies achieved strength along each dimension, and demonstrate the dramatic differences between the roles, competencies, and aspirations of the different HR functions. A key message is that the bridging from business goals to employee performance requires not only policies but also a determination to act, as seen through actual practices.

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The Three Dimensions of a People Strategy

Should every company adopt a similar people strategy and simply aim to establish best practice in each of the HR policy areas? Over the last decade, there have been attempts to describe people strategy as an internally coherent set of HR policies and practices. This endeavor has proven to be both difficult and elusive. As one might expect, there appears to be no one single "ideal type" of people strategy with a set of HR policies and practices that can be adopted off the shelf by organizations seeking to manage their people more strategically.²

Vertical Alignment

The reality is that an appropriate people strategy must vary according to organizational circum-

stances.³ The key circumstances are business goals and strategies. Our argument is that, in order to play a strategic role in the organization, the HR policies and practices that make up an organization's people strategy should reflect, reinforce, and support the organization's business aims and objectives.⁴ A strong linkage is needed between the overall vision of the organization that is held in the minds of the senior executives and the aims, objectives, and underlying philosophy of the organization's approach to managing people. This linkage will ensure that HR interventions can become a creator, and not an inhibitor, of sustained competitive advantage.⁵ This link between people strategy and business-unit strategy we term *vertical alignment*.

We have chosen to refer to alignment and not fit; the distinction is fine, but significant. Fit implies a relationship between two discrete entities; alignment suggests a much more fluid dynamic that allows for variation and flexibility. We are *not* advocating a mechanistic "matching" exercise between business strategic objectives and people strategies; often, such matching is simply not feasible and, in any case, will act as a constraint.⁶ Instead, the process is evolving, based on an understanding of what the business's goals are, their people implications, and the translation of these into an overarching people strategy that can be used as a basis for detailed HR policies.

Horizontal Alignment

Vertical integration is a crucial dimension of a people strategy. But it is not sufficient. The second dimension is *horizontal alignment*.⁷ The first dimension, vertical alignment, is concerned with the link between the corporate and business strategy as a whole and the firm's people-management strategy. The second dimension operates at the level of individual HR policy areas. The aim here is the achievement of a coherent and consistent approach to managing people that permeates the entire activities of the HR function and other organizational functional areas, and we are talking here at the *policy* level, not the *practice* level. This distinction is important, because we treat putting people strategies into action as a separate dimension. Achieving a high degree of horizontal alignment implies that an organization has embraced the value of developing and articulating clear HR policies that consistently relate to one another. At a more fundamental level, the firm is able to communicate consistent and reinforcing messages to employees.

Although at first sight vertical and horizontal alignment may appear to go hand in hand, our research has shown that this is not necessarily the case.⁸ Firms that achieve high levels of vertical alignment may not exhibit strong horizontal alignment, and vice versa. This is because the two dimensions operate at different levels. Vertical alignment is concerned with whether or not the overarching people strategy pursued or implicit in an organization's actions supports the organization's strategic direction. Horizontal alignment, on the other hand, is concerned with the degree of internal coherence and consistency in the firm's stated HR policies.

These first two dimensions are depicted in Figure 1. The upper-left quadrant represents an organization whose HR policies are, though inconsistent with each other, still aligned with the firm's business goals and strategies. In the lower-left quadrant, HR policies are neither coherent/consistent nor aligned with business goals/strategies. For the firm in the lower-right quadrant, HR policies are internally coherent/consistent but not aligned with the firm's business goals. The ideal situation—consistent and coherent HR policies aligned with business goals and strategies—is depicted in the upper-right quadrant. Now let us see what happens to these as yet theoretical or paper concepts when they are put, or not put, into action.

The Action Dimension

The third dimension is *action* or *implementation*. Much writing about HRM at the strategic level has tended to assume that the vertical and horizontal dimensions are sufficient. The mere existence of HR policies and a people strategy is believed to be sufficient to ensure action. The question of what actually happens once the strategy statement has been written or the policy document signed off has received scant attention.⁹ Yet, as our research has shown, translating HR policies into action would appear to be absolutely fundamental to the question of whether an organization is delivering in the area of people management. For this reason, we separate out action as the third dimension of people strategy.¹⁰

This action dimension has two separate but closely interrelated aspects. The first concerns the *experiences by employees* of HR policies. For example, the policy on appraisal may state that employees have four performance feedback sessions with their manager every year and that they are appraised on five different competencies. If this is, indeed, the experience of employees, then policy has been turned into action. If, on the other hand, employees are rarely party to performance feedback and if, when they are, the manager concentrates on only one criterion, then the organization has failed to put policy into action. The second aspect of action is subtler and focuses on the be-

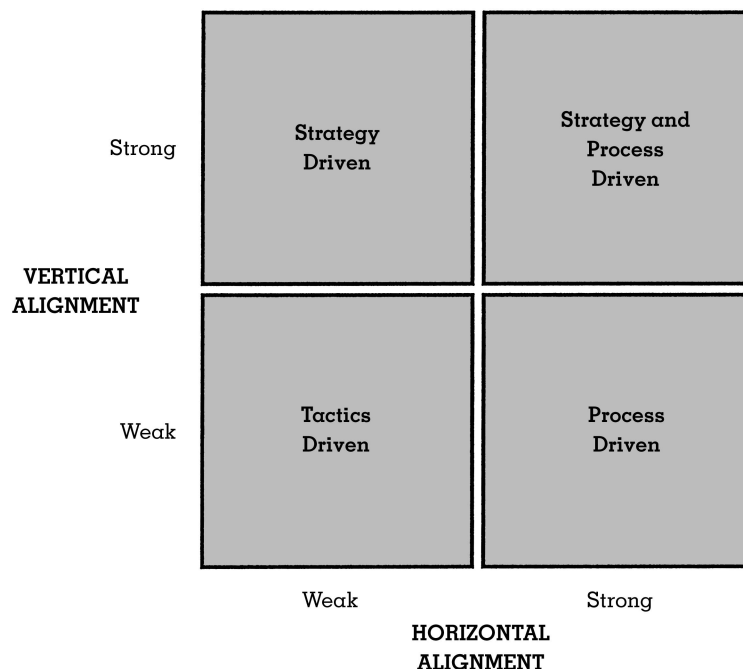


FIGURE 1

The Two-Dimensional Model of People Strategy

haviors and values of the managers as they are implementing policy. In their attitudes, conversations, and body language, managers send out very clear messages about their attitude toward and support of policy.¹¹

The Three-Dimensional Model of People Strategy

Figure 2 adds the action/inaction dimension to Figure 1. Our research has shown that there is much variety among companies in this three-dimensional model of people strategy. We found that at any point in time a company has its unique dimensional signature in terms of where it stands on the three dimensions:

Vertical Alignment: the alignment between the business goals and the people strategy.

Horizontal Alignment: the internal alignment between the set of HR policies making up the people strategy.

Action: the degree to which HR policies are enacted or put into practice, as judged by employee experience and management behavior and values.

Our research also shows that organizations move about within the three-dimensional space. As our examples demonstrate, external events can occur and internal decisions can be taken that create new scenarios and shift the people strategy into a new dimension.

At the front of the three-dimensional cube shown

in Figure 2 are the four variations of the two-dimension model in which HR policies—in all their forms—are achieved. However, at the back of the cube are four corresponding variations of people strategy characterized by a total lack of action. We have termed these “mere tactics speak,” “mere process speak,” “mere strategy speak,” and “mere rhetoric.” We have found that executives benefit significantly from gaining a thorough understanding of these eight people-strategy variants and the continuums along which they vary. Often, executives are aware that their current people strategy has weaknesses as well as strengths, but they are unable to pinpoint the underlying reasons. Knowing their relative position in the cube enables them to identify precisely the source of the problem and take appropriate action.

We first turn to the non-action variations of people strategy. HR policies may (or may not) be internally consistent and may (or may not) be aligned with business strategies, but *nobody does anything about it*.

1. Mere Tactics Speak

Weak vertical alignment

Weak horizontal alignment

Weak action

At its worst, this variation occurs when the organization has no discernible people strategy and,

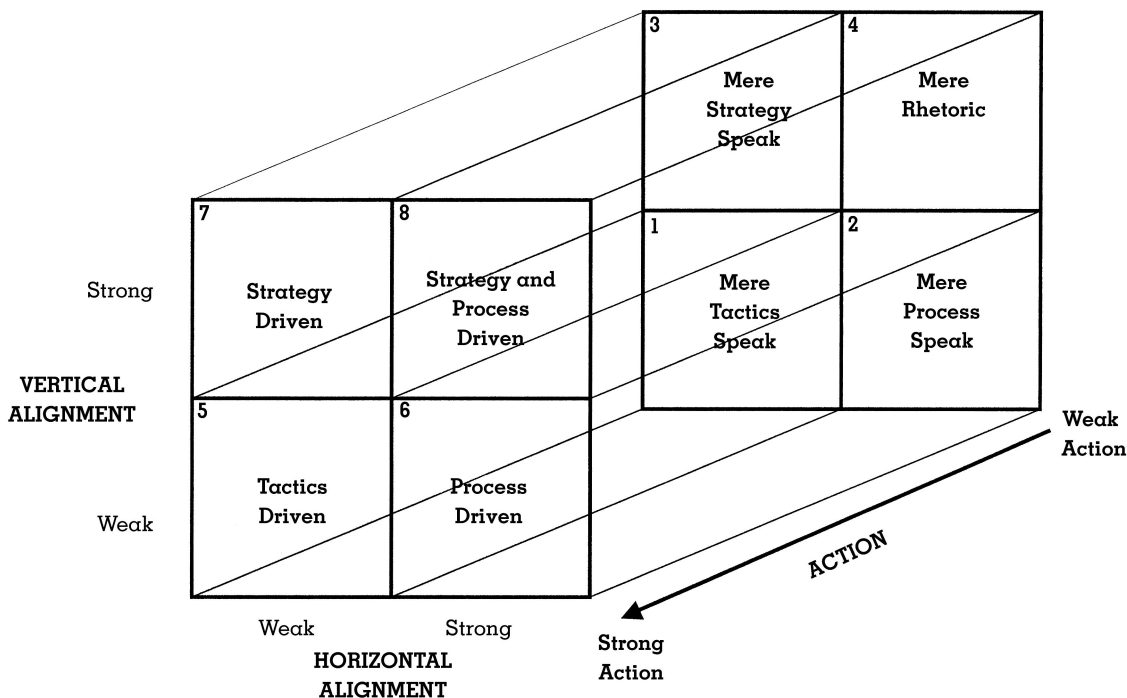


FIGURE 2
The Three-Dimensional Model of People Strategy

therefore, there is no relationship (or only a very tenuous one) between people strategy and business unit objectives. Moreover, there is little discernible relationship between the various HR policies themselves, and in some cases, policies in one area may act to undermine those in another. This situation would hold, for instance, in an organization which evaluates employees on their deployment of a particular skill set in their work but then fails to provide them with the opportunity to acquire these skills. In such a situation, productive action is almost impossible. This type of people strategy is most often found in small organizations with no dedicated HR function or where HR is in an embryonic state, viewed as someone's part-time responsibility.

Chelsea and Westminster Hospital in 1994

In the 1993–94 study of the Chelsea and Westminster Hospital, the situation was "mere tactics speak." The incoming HR director was faced with a scenario where she had a workforce of over 2,000 staff but no statement or shared understanding of the people strategy. Only 27 per cent of employees thought the HR department had a clear overall strategy guiding its activities. There were few formalized HR policies, and no systematic attempts had been made to link them to each other or to the hospital's goals. For example, only 26 per cent agreed that people's work goals were clearly defined, and only 36 per cent agreed that people received the training they needed to do their jobs well. As a result, the hospital was failing to recruit and retain the individuals it needed at all levels, morale and attitudes towards the HR department were negative and, crucially, patient care needs were not being met in some areas. Only 23 per cent of staff surveyed agreed that the hospital inspired the very best in job performance from them. However, as we shall see, by the time of the 2000 study, this new HR director had significantly strengthened both the second dimension, the horizontal alignment of people policies, and, more significantly, had put them into action.

2. Mere Process Speak

Weak vertical alignment

Strong horizontal alignment

Weak action

We saw this variation in firms where the HR function has a strong, integrated set of HR policy goals that are disconnected from the overall objectives of the business. Additionally, these well-described policies are inadequately put into effect.

This situation can occur when there is a strong disconnect between the senior HR team and the business managers or where the senior HR team has weak strategic or business skills but high levels of process expertise. As a consequence, HR policies are developed in a sophisticated manner in isolation from the business imperatives. This expertise then fails to be translated into action, most often because of lack of line support for HR initiatives which are seen to be unrelated to business goals.

Citibank in 1997

In the 1997 study, Citibank was pursuing a strategy of organic growth through building strong relationships with key clients, a move away from its strategy in the early 1990s of a focus on products. The HR function in 1997 was undergoing a period of transformation: from administrative support to creating stronger horizontal alignment across its policy areas. A key plank in this change was the Talent Inventory, a new process with 10 key performance indicators to aid in employee selection, leadership, development, and succession planning. On the face of it, the Talent Inventory represented a significant step toward achieving horizontal alignment within HR.

However, we discovered that while the policy and instruments were well developed, the Talent Inventory was not being systematically used by line managers. Only 29 per cent of employees thought the appraisal system enabled the company to gain an accurate understanding of people's strengths and weaknesses. By the time of the 2000 study, the Talent Inventory had failed to gain traction in the company. It may have been the right tool, but those managers who had to make it work didn't think so. A sound and potentially beneficial process stayed at the level of "talk."

3. Mere Strategy Speak

Strong vertical alignment

Weak horizontal alignment

Weak action

We observed this combination when the people strategy is clearly articulated but is not translated into a coherent set of HR policies nor implemented by line managers. The senior HR team may be very close to the business and have high-level strategic skills, but for whatever reason they are not able to translate these business objectives into HR policies. For them, people strategy remains "mere strategy speak."

Glaxo, 1997–2000

We saw a number of companies migrate to this space in the early phases of a merger. Glaxo Pharmaceuticals was a case in point. During the 1997 study, the company experienced a major internal restructuring through the merger with Wellcome. The focus of the HR team was on partnering with the senior management team to manage the merger and on integrating one or two of the HR practices with the business goals. But this effort took time and, for a period of years, although the policies were aligned with the new business goals, the practices were far behind. As one member of the HR team put it, "We've come to a situation where none of our standard ways of doing things work any more, because they have rusted due to lack of use or because they don't reflect the new organization." The strategic intent was there, but without HR policies focused action was impossible. It would take focus and resilience for the company to realign itself over the coming years to become driven by people strategies and HR policies.

4. Mere Rhetoric

Strong vertical alignment

Strong horizontal alignment

Weak action

Here, there is a strongly articulated people strategy that is linked into the business strategy and also demonstrates strong internal HR policy linkages, but the whole is not put into action in the day-to-day behavior of managers nor reflected in the experiences of employees. The HR team may be highly skilled in policy development but either may have weak implementation capability or may have senior line management who fail to support their activities. The people strategy looks good on paper but is nothing more than a paper reality.

BT in 1994

We observed this "mere rhetoric" clearly in the people-management strategies at BT Payphones in 1994. The strategies were geared toward achieving significant cultural change in order to enhance customer focus and individual performance in an organization previously characterized by a "jobs for life" mindset. Faced with severe competition and the threat of product substitution through the mass expansion of mobile telephone, the HR function aggressively pursued a number of interrelated initiatives. First, a change program reinforced the new set of values which was backed up by a Corporate Scorecard for measuring performance. Next,

a series of extensive training and development programs was developed, including a Leadership Program, Total Quality Management, and "Involving Everyone." Finally, the Payphones People five-year plan was designed which included a staff attitude survey and a sophisticated performance management system. Each of these separate policies had been designed to achieve vertical alignment by linking into the business goals and horizontal alignment by linking to each other.

However, by the time of the 1997 study, the implementation problems were apparent. The sheer number and complexity of initiatives and policies had overwhelmed line managers and, as a consequence, the impact of each individual initiative had been lost. People were more confused than motivated. Perhaps more crucially, the cost-containment strategy pursued by the corporate center meant that annual redundancy targets were set, targeting between 17–20 per cent of managerial-level jobs. This redundancy program was supported by yet another program, termed Release. Clearly, the ethos of running a large redundancy program was at odds with the other, value-driven initiatives. We found that, as a consequence, the inability to put the values program into action had irreparably damaged the psychological contract between individual employees and the organization. As a consequence, cynicism about the gap between rhetoric and reality grew. By 1997, only 10 per cent of the employees we surveyed agreed that management cared about the needs and morale of employees. The gap between the strong rhetoric of the values program and the reality of weak action-taking had created suspicion and mistrust in the minds of employees.

Later in the article we explore the means by which these inert or "shadow" people strategies can move into the action dimension. We now turn to the four variations of the action dimension.

5. Tactics Driven

Weak vertical alignment

Weak horizontal alignment

Strong action

This combination characterizes the traditional "administrative" HR function that focuses on the implementation of individual HR policies with limited relationship to the overall aims and objectives of the business or to each other. We found this variation associated with HR teams who were not regarded as a core business function but rather as "clerks of works" administering the support function, often for a set of business goals which is no longer appropriate.

Lloyds Bank in 1994

In the 1994 study, Lloyds Bank was the UK's most profitable clearing bank, pursuing an aggressive and very successful strategy of growth through acquisition. Massive changes in business goals during that era saw the automation of banking jobs combined with a renewed emphasis on selling. Like other HR functions in the banking sector at that time, many of the HR team had come from line management banking roles. As a consequence, the function historically had diligently followed the protocols and policies of the bank, focusing on day-to-day administration of personnel activities.

However, they were woefully ill-prepared to meet the significant structural changes that were occurring in their sector at that time. Employees, worn down by "change fatigue" and concerned about their jobs, failed to perceive any underpinning rationale to the changes. The traditional policies and practices of lifetime employment and stability which had so successfully supported the bank's relationship with its staff began to fall apart, and the incumbent HR team had neither the skill nor the experience to create policies and practices more fitting to the competitive environment of the bank. As one frustrated senior manager commented at that time, "Trust levels are devastated; we have betrayed them." By the time of the 1997 study, much had changed. The HR team had been significantly professionalized and by 2000 was working as a key part of the strategic team of the business.

6. Process Driven

Weak vertical alignment

Strong horizontal alignment

Strong action

This combination occurs in organizations where the HR team has weak business or strategic skills but excellent HR process skills, coupled with the capability to translate these skills into practice. We found this to be a natural evolution from the Tactics Driven combination.

Chelsea and Westminster Hospital 1997–2000

At the Chelsea and Westminster Hospital, as the 1990s progressed, the new HR director, working alongside the chief executive, began to effect some major changes. Her No. 1 priority was to establish the credibility of the department by improving the delivery of platform services, moving the hospital from *mere tactics speak* to *tactics driven*. The next

phase was to examine in detail the HR policies and practices within the hospital and to ensure that they were mutually reinforcing. Key to this effort was developing an integrated people-strategy statement built around an "Employee Pledge." This Pledge was developed in consultation with the hospital employees and consisted of a set of "promises" that the hospital undertook to honor in the treatment of its staff. It included such matters as providing an Employee Assistance Program, providing staff with accessible information on all aspects of the hospital and its strategy, and helping to support staff in balancing home-work commitments. However, throughout this time, vertical alignment remained weak, hampered in part by the complexity of the hospital's business goals and the conflicting interests of the many stakeholders it served. Without a unifying goal, it was difficult for the team to establish strong vertical integration, and throughout the study they remained Process Driven.

7. Strategy Driven

Strong vertical alignment

Weak horizontal alignment

Strong action

Here, we observed that the enactment of the business goals is primarily a line management responsibility. As a consequence, there is a strong vertical driver, often enacted through the performance-management processes. However, some of the subtleties of reinforcing HR practices are lost through weak horizontal alignment.

HP in 1994

In the 1994 study, HP in the UK operated with an extremely low-key HR department. At the corporate level, the strategy for managing people was strongly articulated in the visionary statement, the HP Way, whose ownership lay very much within the line management of the organization. In this way, the overarching people-strategy objectives were closely embedded within the strategic direction pursued by the corporation. In the UK, the actual HR department was perceived to be relatively peripheral in the management of people, focusing more on implementation issues than strategy. However, this failure to draw on HR professional expertise had implications. First, the focus on the HP Way occasionally meant that some elements of the people strategy peripheral to it failed to be developed. Second, the HR team did not always pick up on best practice in other companies. Finally, the HR team sometimes failed to

configure the corporate initiatives to align with the specific nature of the changing UK context.

8. Strategy and Process Driven

Strong vertical alignment

Strong horizontal alignment

Strong action

In many senses, this represents the "ideal type" of people strategy: coherent HR policies aligned to business goals and strategies, the whole implemented effectively. Our study showed this ideal to be both difficult to achieve and hard to sustain.

Kraft Foods, 1994–2000

In Kraft Foods, we observed that over the period of study, the company achieved alignment and moved into action. In the early years of the decade, Kraft Foods went through a period of aggressive growth through acquisition. The HR team supported this initiative by developing an extremely efficient process for assimilating and integrating the HR systems of the acquired companies. As a consequence, the acquisition phase was dealt with rapidly, and new companies quickly became integrated into the parent firm. The firm's second strategic thrust of continuous improvement was supported by a coherent and highly embedded set of HR policies. These included recruiting and selecting people according to a clear set of criteria, providing targeted training and development, and offering line managers incentives to implement HR policy. At the same time, there was a strong performance-management process.

By the mid-1990s, the company experienced changed economic conditions, increased competition in their core brands, and a lack of potential takeover targets. In response to these developments, the business strategy changed to one of growth through innovation. This re-direction required a major cultural change, which was led by the HR team. A new vision and values statement was introduced and cascaded through the organization. Over a period of two years, the performance-management system was refined to align with the new values of creativity and risk taking. Programs were put in place to develop new leadership skills to support these values. Finally, recognizing that workforce diversity was becoming increasingly important to innovation, the HR team instituted location and time flexibility and work-life balance programs.¹²

Kraft's capacity to create a Strategy and Process Driven people strategy was reflected in extremely high levels of corporate performance in compari-

son with their peer group of companies in the food sector throughout the period of the study. We later return to examine the foundations of their success in more detail.

Our research has revealed many variations of people strategy which we have described along three dimensions. Knowing where your company is along each of these three dimensions enables you to understand the challenges you face. It also highlights those dimensions on which you should be focusing your attention.

The Appendix contains a short questionnaire listing the kinds of questions that executives can use to determine where the organization currently stands on each of the three dimensions. A scoring plan and guidance notes are also included. In the following section, we explore how certain companies strengthened their people strategy along each of the three dimensions.

Achieving Strong Vertical Alignment

Get Quick Wins

Faced with the need to strengthen vertical alignment, the most successful HR executives decided on a few key areas where they could quickly demonstrate a contribution and where the positive benefits of change would be readily visible to significant line managers. In establishing what interventions would be capable of delivering a short-term "quick win," they had a sophisticated understanding of which people processes would have a quick impact on the delivery of the business goal.¹³ Lloyds TSB in 1997 had created a professional HR team keen to establish a couple of quick wins by responding to the strategic proposition of building an innovative product offering. Within a couple of months, they had recruited executives from FMCG (fast-moving consumer goods) companies to realign what was the marketing function of a traditional bank around the skills demonstrated within an FMCG context. They were also able to kick-start the "innovation" business goal fairly quickly by rapidly designing and implementing short-term training programs which communicated the new business goals, key concepts, and their new behaviors to a large number of employees.

Gain Reputational Effectiveness

The temptation for many of the HR functions in our study was that, when faced with organizational turbulence, they focused their resources on their own needs. As a consequence, they failed to gain real traction in these difficult times. We heard HR

executives say, "We would do so much more if only we had more resources" or "We can't be strategic; we don't have time." However, the way that the most successful HR departments in our study secured the resources they needed was by meeting the business-goal expectations of their line-management colleagues (vertical alignment). By doing so they were creating "reputational effectiveness."¹⁴ As a counter example, in another organization the HR function failed over a long period of time to achieve any reputational effectiveness. When we asked one line manager what he thought the HR department did, his comment was, "I think they do some administration and sometimes get things wrong." Needless to say, this particular HR department saw a steady dilution of its resource base over the 10-year period.

Build a Business-Focused HR team

In those organizations where vertical alignment was weak, inevitably the HR team was configured in a manner that precluded them from working closely with the line. In some cases, the whole HR team was physically distant from the business units and, as a consequence, rarely interacted with them. Where vertical alignment was strong, this strength was echoed in the team's configuration. In Kraft Foods, the HR staff were assigned to the business units to work alongside line managers as they made and implemented strategic decisions.

The same was true at the Chelsea and Westminster Hospital. While the decision to co-locate the HR and line executives had symbolic value, it was also often accompanied by cross-functional career development. As a director at the Chelsea and Westminster remarked, "We have benefited enormously as a directorate by having people seconded from the HR department to come and work with us and work with us only." Only by sitting alongside line executives can HR practitioners take part in day-to-day decision-making about the running of business units. As a consequence, HR managers are able to alter their mindset and view people strategies from a line perspective. An additional benefit of working alongside line managers is that HR policy implementation can also be enhanced.

Look Up and Out

The tendency in those organizations where we observed weak vertical alignment was for the HR executives and managers to focus inward on themselves: the HR department, their processes and policies. There was often a myopic, almost "for-

ress" view of the world. This was in stark contrast with those HR groups who were willing to extend their horizons, to look up—at what was happening at the top of the organization—and out—to see what was happening in their industry, their profession, their neighborhood, and the world.¹⁵ We are thinking particularly here of the HR executives at Kraft Foods, who took the most active part in our Leading Edge workshops held over the course of the ten years. They attended more diligently than representatives from any of the other organizations, often with a large, international team. They contributed enthusiastically to the discussions and co-production of knowledge that was at the heart of our endeavor. They were willing to invest considerable time in engaging in an open and frank dialog with their peers from other organizations and with the research team, and to learning without a particular end-game in mind.

Achieving Strong Horizontal Alignment

Get the Balance Right

Getting the balance right is crucial to horizontal integration. In the 1994 study of Chelsea and Westminster Hospital, the ad hoc arrangements inherited by the incoming HR director meant that few clearly articulated HR policies were in place. Consequently, critical success factors such as the recruitment and retention of key staff fell down into the "black holes" within the overall people strategy. Only when she specifically focused on horizontal alignment did the source of these problems become apparent so they could be addressed.

Getting the balance right can also work in the opposite way. As we saw earlier, at BT Payphones the plethora of initiatives, programs, and activities they had developed under the banner of people strategy foundered because of their sheer complexity. This was compounded by the starkly conflicting messages being sent out by the enormous redundancy program, on the one hand, and the value change program on the other. The edifice of the people strategy crumbled because it was constructed on weak foundations. Attempting too many initiatives simultaneously also meant that it was impossible to track their relationships and implementation.

Foster Creative Dialog

The conversations that enable the continual, mutual adjustments that are crucial to horizontal alignment are an important feature of the most successful companies we studied. It was through these conversations that the HR teams and the business executives

were able to design, plan, and make decisions. We found that these companies fostered a context for productive talk by creating time and space for conversations and by legitimizing big, broad questions.¹⁶

In some companies, we saw both space and time fragmentation within the HR function. The experts in each of the functional processes remained isolated; for example, the pay experts rarely talked with the career or the performance-management experts.¹⁷ In those companies with strong horizontal alignment, the HR team worked closely together, even if they were geographically dispersed. When they did meet, it was not simply to reiterate known facts but rather to explore big, broad questions. The same was true of the relationships and conversations between the line and HR functions. A fine balance must be created between HR functioning as a cohesive team and yet operating as a business partner. In Kraft Foods, the balance was achieved by assigning HR staff to the business units. This enabled them to work alongside line managers as they made and implemented strategic decisions. At the same time, the HR team was kept together through regular meetings, sharing of best-practice initiatives, and e-communication. HR team members were appraised and rewarded for their achievements in support of the business and for their contributions to the HR team.

Think Systemically

One of the challenges of horizontal integration is the sheer complexity of representing the various HR interventions, their potential relationships, and intended and unintended consequences. As a result, the people-strategy document, if it exists at all, does so as a simple, linear description of interventions. Not so at Kraft Foods, where the HR team worked with the line managers to create a more complete picture of what the organization would look like if it had the business goal of Innovation as a key business driver. Together, they created a systems map of the practices and processes and, more importantly, the relationships between the two. They were also able to model the intended and unintended consequences of the behaviors and values which these practices and processes would reinforce. This visual picture of the horizontal alignment of the policies and practices provided crucial insights for the management teams. For example, they began to understand that if they wanted teams to be innovative, then it would not simply be sufficient to reinforce innovative behavior with reward. They would have to do more to encourage innovation through the way in which they created and structured teams, in the way they encouraged personal autonomy and risk

taking, and in the coaching and support they gave to managers.¹⁸

Achieving Strength in Taking Action

Build a Complete Picture of the Organization's Human Resources

In those companies that excelled in putting coherent HR policies into action, we observed the HR teams working to collect and review data with executives at three levels of description:

- a review of all HR documentation and communication of the organization's strategic objectives to measure the degree of alignment between the stated HR objectives (of the people strategy) and the business goals and needs
- measuring the enactment of the people practices
- measuring and appraising the behavior and values of managers

The methods involved collecting data from employee surveys, focus groups, and interviews, and data from appraisal and exit interviews. In our study, HP was particularly adept at data collection and review. Their complete picture of reality was built through consulting multiple stakeholders. For example, they made active use of peer assessment when teams from another business came to assess and comment upon the design and execution of HR policies and practices. This enabled the team to rapidly build a picture of where action was taking place—and where it was failing.

Take Bold Actions

We found that firms with action-oriented people strategies were willing to take bold, and sometimes unpopular, actions to demonstrate to the organization the behaviors they wanted to support. One example was Citibank in the 1994 study. Up until that time, the goals of the business had been firmly focused on maximizing the financial engine of the company. This focus on value creation and profitability had led to the rise of "lone star" executives who generated the most wealth and, consequently, won the biggest bonuses and the most rapid promotions. As the business goals changed in the direction of "serving a billion customers," the relationships between country teams and business lines became more important. The "lone stars" could not cross-sell in the way that the new business required. The HR team created a policy of cross-appraisal and 360-degree feedback, designed to measure the capability and motivation of managers to build relationships within their own teams and colleagues, across functions, and with

other business lines. However, this goal of integration remained at the level of "rhetoric" for some time. Managers continued to behave as "lone stars," running roughshod across their team members and colleagues. Not until it became known that one of these "lone stars," who had indeed exceeded his financial target, had received only half of his anticipated bonus did people begin to take the creation of horizontal relationships more seriously. This "bold action" resulted in the "lone star" executive choosing to leave Citibank. But at the same time, it sent out a clear message that the business goal of building relationships would not simply remain at the level of rhetoric.

Keep the Best

In the most successful firms we observed, there was a clear focus on the importance of continuity of people and process to ensure that action was sustained over time. At Kraft Foods, for example, the basic structure of the key performance-management practices remained intact throughout the time of our study. Within this time, the focus of the process changed (with a greater emphasis on the behaviors and values which reinforce innovation), but the structure of the process remained rock solid.

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In the same way, continuity of people appeared to be a crucial factor. Throughout this ten-year study, we were able to track the membership of the HR teams. We saw clearly that changes in team membership could have an impact on both alignment and willingness to take action. On occasions, this change was positive. For example, at Chelsea and Westminster, the arrival of a strategic-thinking HR director to a team that had previously been administrative and tactical had a very positive impact on action orientation. Often, though, the impact of breaks in continuity, either through people changing or the new people coming in with a completely different perspective, had negative implications. At Kraft Foods, over the study period, there were only two HR directors. The first moved into a broader European role within Kraft Foods and was succeeded by his deputy, who had many years' experience in Kraft's HR function. This continuity ensured that the basic threads of the policies

remained intact, while the shifting business goals could be reflected through subtle changes.

Focus on Doing

In those firms most successful at achieving a strong degree of action-taking, we observed a clear ability to translate policies and strategies into definite action plans. While many of the companies in our study were adept at managing business processes, few were equally adept at managing people processes. Our study revealed this lack of planning. We observed HR teams developing a plethora of unrelated people-process projects with limited integration. We observed projects begun and then not completed, unsophisticated tracking processes, and ambiguity around budgets and timescales. Of the companies we examined, Kraft Foods and HP had developed and implemented the most sophisticated project-management practices.

At HP, the people strategy was part of the whole business-strategy process, and from this came a number of priorities in the people-strategy area. These priorities were then treated to the same project-management practices as any major project. Project plans were created, outcomes agreed upon, and timelines discussed. Perhaps the most impressive aspect of their people strategy was the "HR War Room." This was a single room in which all the people-imperative projects were shown visually in detail with three illuminating colors. The color green signified a project which was on track; orange showed it was beginning to get off track; and red highlighted those projects which were in danger of not reaching their goals. Within a minute of entering the room, any manager was aware of the action-taking associated with the people strategy at HP.

Building and Delivering Excellent People Strategies

Delivering business strategy through people was key to the long-term performance of all seven companies we studied over the last decade. At the heart of this delivery is the competence and will to build vertical alignment, to craft horizontal alignment, and to move from rhetoric to the reality of action. This is never easy, particularly if organizational shocks such as downsizing and mergers rock the company's very foundation. And yet, we observed that it is possible to withstand these shocks and to create and embed people strategies that remain meaningful both to managers and to employees. The challenge for the HR department is to relentlessly learn how to achieve excellence in *all three dimensions* of people strategy.

APPENDIX

The Three Dimensions of People Strategy

This short questionnaire is designed to help you to plot your people strategy in relation to the three dimensions.

For each question, please provide your own assessment of your organization on the scale:

- 1 = strongly disagree
- 2 = disagree
- 3 = neutral
- 4 = agree
- 5 = strongly agree

Score:

Section 1: Vertical Alignment

1. The senior HR director/manager is a full and equal member of the main board/strategic decision-making group. OR HR issues are actively represented on the main board/decision-making group. . . .
2. The senior HR director/manager (or equivalent) actively helps to develop the strategic objectives of the business. . . .
3. There is a clear statement of people strategy and how it supports the corporate strategy, either as a separate statement or contained within the general corporate strategy statement. . . .
4. Senior line managers are actively involved in developing strategic people objectives. . . .
5. Strategic people objectives are regularly reviewed to ensure their continuing relevance to strategic business objectives. . . .

Total for Section 1:

Section 2: Horizontal Alignment

1. The people-strategy statement clearly demonstrates how policies in each individual HRM area support the overall people strategy . . .
2. HR policies in each individual HRM area are always developed with reference to other HRM policies within the organization. . . .
3. The HRM team works closely together in developing HRM policies. . . .
4. HRM policies are regularly reviewed to ensure their continuing relevance to the overall people strategy. . . .
5. When new HRM policies are developed, every effort is made to ensure that they are mutually supportive. . . .

Total for Section 2:

Section 3: Action

1. If an outsider were to ask your senior line managers/directors how the people strategy supported the overall strategic objectives of the business, they would know the answer. . . .
2. Think of the major current business strategic objective for your organization. Do your people strategy and policies actively work to support it? . . .
3. Line managers in your organization are assessed or appraised against targets relating to the implementation of people strategy and policies. . . .
4. Line managers are provided with the training they need to implement people strategy and policies. . . .
5. Line managers know what their individual role is in implementing people strategy and policies. . . .
6. The effective implementation of people strategy and policies influences either the career progression or rewards of line managers. . . .
7. If an outsider were to ask your employees whether the organization was recruiting people with the most appropriate skills and abilities to help the organization meet its objectives, they would agree. . . .
8. If an outsider were to ask your employees whether they had the training and development they needed, they would agree. . . .
9. If an outsider were to ask your employees whether their appraisals provided an accurate assessment of their strengths and weaknesses, they would agree. . . .
10. If an outsider were to ask your employees whether their reward package was fair compared with that of others in the organization, they would agree. . . .
11. If an outsider were to ask your employees whether the organization delivers on its promises in the area of people management, they would say 'yes.' . . .
12. If an outsider were to ask your employees whether the way they are managed encourages them to help the organization deliver its strategic objectives, they would say 'yes.' . . .

Total for Section 3:

Analysis

Your responses

Section 1

This section tests the strength of vertical alignment. If you achieved a score of 19 or over, then you have a strong level of alignment.

Any scores below 19 indicate a weak level of alignment.

Section 2

This section tests the strength of horizontal alignment. If you achieved a score of 19 or over, then you have a strong level of alignment. Any scores below 19 indicate a weak level of alignment.

Section 3

This section tests whether or not your people strategy is put into action within your organization. A score of 40 or more indicates strong action. Any scores below 40 indicate weak action.

Scores:

Section 1	Section 2	Section 3	Result
Vertical	Horizontal	Action	
Below 19	Below 19	Below 40	Mere Tactics Speak
Below 19	Below 19	Above 40	Tactics Driven
Below 19	Above 19	Below 40	Mere Process Speak
Below 19	Above 19	Above 40	Process Driven
Above 19	Below 19	Below 40	Mere Strategy Speak
Above 19	Below 19	Above 40	Strategy Driven
Above 19	Above 19	Below 40	Mere Rhetoric
Above 19	Above 19	Above 40	Strategy and Process Driven

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Endnotes

¹ In each of the seven cases, we used a questionnaire, surveying the same business unit on three occasions: 1994 (1764 respondents); 1997 (1592 respondents); 2000 (1248 respondents). We also interviewed 20–35 employees in each firm and ran focus groups with the HR function.

² Becker, B., & Gerhart B. 1996. The impact of human resource management on organizational performance: Progress and prospects. *Academy of Management Journal*, 39(4): 779–801.

³ Baron, J. N., & Kreps, D. M. 1999. *Strategic human resources*. New York: Wiley.

⁴ See, for example, Ulrich, D. 1998. A new mandate for human resources. *Harvard Business Review*, 76(1): 124–134. Where we are extending this argument, however, is in the notion that people strategies have three separate, but interrelated, dimensions.

⁵ This perspective has been referred to as the “fit” approach, which has been contrasted with the “best practices” approach described above. These various theoretical frameworks on strategic HRM have been reviewed in Delery, J. E., & Doty, D. H. 1996. Modes of theorizing in strategic human resource management: Tests of universalistic, contingency and configurational perspectives. *Academy of Management Journal*, 39(4): 802–835.

⁶ See Wright, P., & Snell, S. 1998. Toward a unifying framework for exploring fit and flexibility in strategic human resource management. *Academy of Management Review*, 23(4): 756–772.

⁷ Baird & Meshoulam have provided a classic exposition of these two dimensions of alignment in strategic HRM. See Baird, L., & Meshoulam, I. 1988. Managing two fits of strategic human resources management. *Academy of Management Review*, 13(1): 116–128.

⁸ The findings from the 1994 and 1997 studies are described in Gratton, L., et al. 1999. *Strategic human resource management: Corporate rhetoric and human reality*. Oxford, UK: Oxford University Press.

⁹ For example, in Huselid’s influential work exploring linkages between HRM and organizational performance, the focus is very much on stated HR policy. Data were collected from one single informant in each organization, most often an HR representative, and few items in his questionnaire tapped into the reality experienced by employees. See Huselid, M. A. 1995. The impact of human resource management practices on turnover, productivity and corporate financial performance. *Academy of Management Journal*, 38(3): 635–72.

¹⁰ This point is debated further in Gratton, et al., *A decade of transformation at the Leading Edge* (to be published in 2003) and in Truss, C. 2001. Complexities and controversies in linking HRM with organizational outcomes. *Journal of Management Studies*, 38(8): 1121–1150.

¹¹ The literature of process fairness has explored this in great detail. For a useful overview, see Greenberg, J., & Cropanzano, R. (Eds.). 2001. *Advances in organizational justice*. Stanford, CA: Stanford University Press.

¹² The case of Kraft Foods is discussed in more depth in Gratton, L., et al., *A decade of transformation*, op. cit.

¹³ We have described these timelines of enactment in more detail in Gratton, L., et al. 1999. Linking individual performance to business strategy: The People Process Model. *Human Resource Management*, 38(1): 17–31.

¹⁴ Tsui, A. 1984. A multiple constituency framework of managerial reputational effectiveness. In Hunt, J., et al. *Leadership*. New York: Pergamon.

¹⁵ Amabile, T. M. 1998. How to kill creativity. *Harvard Business Review*, 76(5): 76–87, highlights the importance of allowing people to have a large “network of wanderings,” or intellectual space in which to explore possibilities and solve problems.

¹⁶ The role of conversation as a tool of mutual adaptation is described in Gratton, L., & Ghoshal, S. 2002. Improving the quality of conversations. *Organizational Dynamics*, 31(3): 209–223.

¹⁷ Abrahamson, E. 2000. Change without pain, *Harvard Business Review*, July–August: 75–79, describes similar examples of companies unwilling to share information across internal boundaries, with negative consequences for performance.

¹⁸ The visualization of horizontal alignment has been described by Lynda Gratton in Gratton, L. 2000. *Living strategy: Putting people at the heart of corporate purpose*. London: FT Prentice Hall.



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