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Corporate human resources and “bottom line” financial performance

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Abstract *This paper reports on a case study of an internationalized-industry Engineering Process Plant Contracting (EPPC). The study examines how a leading engineering contracting project management firm has responded to heightened competitive pressures through a process or organizational change. A key aspect of this focused on the contribution of the corporate human resource function to “bottom line” performance. “Exbeck” made its corporate function a full business partner in project management. The paper suggests two conclusions. First, the human resource function can become a full business partner without losing integrity to line managers. Second, examining competitive conditions faced by a particular firm can reveal how unresearched competitive practices may inform and challenge well rehearsed academic positions. Moreover, in particular sectors practitioner perceptions on “best practice” and competitiveness may be ahead of those presented by the academic community.*

Introduction

This paper examines how a leading US project management firm has responded to heightened competitive pressures through a process of organizational change[1]. A key aspect in the change process focused on the contribution of the corporate human resource function to “bottom line” economic and financial performance. This paper will argue that Exbeck introduced the change process in order to maintain its profile as a design engineer and project manager of “preferred choice”. The paper documents how Exbeck devised and evaluated a “Human Resources Agent for Change Programme” which was initiated in 1992. This programme re-positioned the corporate human resource function as a “Full Business Partner” in project management; as such Exbeck’s corporate human resource function became a central actor in project management, assuming full control of management development but more unusually responsibility for monitoring financial performance in a new framework for project management. This was not a fashionable step made in response to internal power plays among top management; alternatively, the move was presented as a matter of competitive necessity designed to sustain and improve Exbeck’s financial performance in tighter competitive conditions.

Recent survey evidence points to a direct positive link between “high commitment” or “high performance” approaches to HRM and the “bottom line” economic performance of the surveyed firms (Arthur, 1994; Becker and Gerhart, 1996; Dyer and Reeves, 1995; Huselid, 1995; Wood, 1996; IPD, 1997). However, the survey material appears unable to specify explicitly why the link exists; this space can be entered by case study work. A second limitation of the available

survey material centres on why “commitment and performance” HRM is favoured by the survey constituency. For, if firms are efficient performers and incidentally have “commitment or performance” human resource systems any positive association between the two may be overstated, that is, any direct link between the two cannot be established theoretically (see Huselid, 1995).

The research aim of this paper is to present case study material which evaluates the potential quantitative and qualitative contribution of a corporate human resource function to the firm's financial performance. Individual case studies cannot be prescriptive in the general sense because a particular human resources “strategy” (in Exbeck's case the human resources change agent programme) will be embedded in a sector specific economic context wherein overall organizational objectives are formulated. However, the direct financial contribution of HRM to economic performance can only be calculated specifically at this level. This is the case because it is possible to gather material on market pressures and a firm's financial situation; both of these will mediate in its perception of human resource issues. A third methodological issue centres around the types of data used to evaluate performance. Generic measures such as motivation, discretion, training, reduced turnover and improved productivity can be distilled into three economic measures: improved output, improved time measures and improved financial indicators. The latter can be grounded very effectively in case study material by examining the specific nature of the indicator in a competitive context (in Exbeck's case cost overruns on project bids).

The contribution of this paper to practitioner and academic debate is threefold. First, it asks questions of the value of academic writing and research and the way it informs practice; for example academic formulations of “high commitment”, “high performance” or strategically positioned human resource functions are often based on implicit arguments that go on to inform a generalized view of HRM. The explicit practitioner based evidence gathered in this case suggests that the corporate human resource function can contribute positively to the “bottom line” by reversing key elements within implicit arguments and models. In Exbeck's case this involved centralizing the corporate function and positioning it as a full business partner.

Second, the paper contains some quantitative data to position the change process within the wider competitive context of Exbeck's market. This avoids presenting “popular management recipes” as normative templates for business strategy without a consideration of contemporary competitive pressures that face particular firms. This is of academic value because the “human resources agent for change programme” was not presented as an enactment of strategic choice alternatively it was presented as a “bottom line” imperative necessary to maintain the firm's competitive profile.

In economic terms the scale of Exbeck operations is determined by the value of booked work; the change process was designed to improve internal performance at whatever scale of operations prevailed, hence it was couched in marginal terms. On the margin quantitative or qualitative performance can be

significantly impaired by internal inefficiency, in Exbeck's case budget overruns on projects and the relationship of this to the peripheral role of the corporate human resource function in project management.

The third contribution relates directly to the previous issue. The nature of competition in EPPC has not changed during the contemporary period (1992-1998); however, as prevailing competitive conditions tightened Exbeck found it necessary to reform the balance of power in project management. Contrary to popular images of HRM this involved removing unilateral control from line managers by positioning the corporate human resource function in project management in a "producer" role whereas previously human resources had operated in a "go for" role.

The main arguments of the paper suggest two conclusions. First, the human resource function can become a full business partner without losing its integrity to line managers. Second, competitive conditions are influential in determining the position and profile of human resources; by examining the competitive conditions faced by a particular firm it is possible to illustrate how competitive practice might inform and challenge comfortable and well-rehearsed academic positions that link the de-centralization of the human resource function to its marginal role in the formulation of business strategy. Equally, in particular sectors perceptions of how to improve competitiveness may be ahead of those presented by the academic community.

The research methods that were employed in this study together with the types and number of employees interviewed and the nature of data capture are summarised in the Appendix.

Competitive conditions in EPPC and the position of Exbeck's corporate human resource function

The period since the early 1980s has witnessed a general intensification of competitive pressures in virtually all sectors of economic activity (see Legge, 1995; Sisson, 1994, p. 7). Intensification is manifest in the globalisation of market opportunities and hence competition. Equally, in particular industries international recession and sector specific developments have reduced market opportunities to place additional pressures on individual firms in terms of maintaining their sector specific profile; EPPC is one such sector. However, structural factors cannot provide a complete explanation; chief executives and personnel directors can have a critical input. At Exbeck the chief executive's interest in personnel issues was perhaps greater than that which is typical, for example it was his idea to make the corporate function a full business partner. Equally, the chief executive met regularly with the head of human resources to monitor and provide direct input into innovations such as project task forces.

The EPPC industry is a collection of about 100 firms worldwide whose primary business function is to design, construct, procure and test investment projects for process producers. Process producers operate in a variety of sectors: oil and gas (oil and gas refineries), chemical production, for example, ethylene or plastics, steel production (steel works), and the construction of gas,

oil or coal powered electricity generating stations. In addition contractors work on unique civil engineering projects, for example, bridge construction, the Channel tunnel or extensions to underground railway systems. Lastly, some EPPC firms work on nuclear power stations.

Project management firms design projects, select project constructors, procure the necessary technologies and arrange and manage project finance. Project managers sell their technical expertise and person hours to the client, they oversee construction and process testing and manage, monitor and oversee the entire project. In 1992 Exbeck employed 21,000 administrative, clerical and technical staff and 10,000 craft workers including engineers, project managers, specialist process engineers, chemists and physicists. The value of work performed in 1991 was \$7.5 billion[2].

The central theme in much of the original and derived literature on human resource management focuses on how management at corporate level can enact a strategic choice in the administration and regulation of its employed labour force (Kochan *et al.*, 1984; 1986; Purcell and Ahlstrand, 1994, pp. 37-42; Boxall, 1992; 1996). The strategic choice thesis suggests that management must react to emergent competitive pressures by renewing business strategies to compete on the alternative bases of reducing costs or enhancing quality (Arthur, 1994). These two pathways are prescribed as alternatives and it is suggested that management has discretion in terms of formulating a particular response (Kochan *et al.*, 1986). However, Tyson (1997) has recently argued that in many sectors firms must compete on the basis of cost and quality; this does not necessarily imply that an individual firm can employ cost and quality strategies simultaneously yet independently. Rather, Tyson's proposition suggests that sector specific pressures will manoeuvre a firm in the direction of reducing costs or enhancing quality, depending upon which pathway will contribute most effectively to its competitive advantage, thereby incorporating the less dominant pathway into its overall strategy.

In EPPC the nature of competition and the technological complexity of projects rules out competition merely on the basis of cost. Technological complexity derives from the sheer size of many projects. This can be measured two ways: cost and capacity. The average cost of an Exbeck project is \$85 million, however, some super projects can reach the order of \$300 million where contractors often develop project specific consortia (Clark and Ball, 1991). In capacity terms steam generators for nuclear power stations can weigh up to 460 tons whereas aluminum smelters can have a capacity of 200,000 tons per year. Equally, technological complexity leaves no room for error, for example, flow or process technologies such as oil refineries will only work if the combinations of chemicals and raw materials flow in the specified mixes.

The Exbeck board recognized that although the firm was able to consistently win project tenders it was experiencing persistent operational difficulties in completing projects to or near to budget. An internal business review concluded that a significant factor in diagnosing Exbeck's erosion of profitability and cost overruns was the under utilization of the firm's human

resource function in project pre-planning, project tendering and project management. It was on this basis that the corporate human resource function was promoted to a full business partner. A further significant innovation was Exbeck's determination to evaluate this promotion beyond "best practice" measures such as staff motivation, reduced turnover and productivity. Over a five year period cost overruns on projects were audit traced and apportioned in order to gauge the quantitative and qualitative financial benefits of the renewed approach to human resources; here the accuracy of project tenders was measured against cost overruns on completed projects.

Capital projects are initiated by producer firms through a process of project tenders. Process producers prefer to offer tenders for "lump sum turnkey" contracts. These are where the price is specified for hardware, process technology and labour. The price may be "fixed" or alternatively it may be subject to variation by an agreed formula for changes in the rate for materials or labour.

The dangers of competitive failure and the presence of monopoly technology holders preclude the use of large scale sub-contracting; hence within consortia, joint venture or single firm projects the opportunities for externalization to cut labour and materials costs are limited. Where sub-contractors are used it is usual for project managers to build up "Partnering" arrangements. These are strategic alliances between project management firms, constructors and process technology holders that guarantee an annual workload in return for "ranged prices" for the work (see Ball *et al.*, 1992).

Contemporary competitive pressures in EPPC

Contemporary market conditions have tightened in the industry for four reasons. First, the market price of oil has fallen considerably. Second, industrial recession in western Europe has reduced orders for new plant. Third, German unification and the collapse of the Eastern Bloc has changed the nature of business. Contractors are now bidding for clean up work to make previously unregulated chemical plants more environmentally friendly. Equally, "new capacity" in eastern Germany has further reduced the demand for new starts in western Germany. Lastly, environmental disasters, for example, at Harrisburg, Chernobyl and Bophal have sharpened contractors awareness of potential legal liability and public concern in general. These tighter market conditions have significantly reduced mark-ups for project managers' profits; in the early 1980s the mark-up was in the region of 20 per cent whereas in 1995 it stood at around 10 per cent.

Prior to 1992 Exbeck's business strategy revolved around an internal power balance that saw engineers and project managers as the central actors, "kingpins". As Exbeck approached the contemporary period the central role of kingpins became problematic. In particular budget overruns on projects often centred on employee development and employee resourcing problems that kingpins did not recognize as "significant" issues. Interviews and

questionnaires indicated that staff in human resources felt the management by objective's structure in independent project management was breaking down, therefore overstretching the human resource function.

Exbeck compromised its human resources through a process of project ranking; "hot projects" could appropriate staff from "cold projects" at short notice. The internal business review concluded that the overall effect of this was the implicit acceptance of cost overruns on some projects; equally, the management and deployment of human resources was completely reactive.

Senior executives at Exbeck recognized that the human resource function was currently what Purcell and Alhstrand (1994) term a functional third order priority. Purcell and Alhstrand (1994) demonstrate that in large M form firms, functional areas operate "downstream" from decisions on the long-term direction of the firm and internal operating procedures that constitute first and second order levels of decision making, both of which have an upward influence on strategy. Hence, in the human resource function emphasis is placed on enacting and responding to higher levels of strategy. In Exbeck this manifested itself as responding to the unilateral demands of project managers and maintaining personnel and employee relations systems for administrative and clerical staff in the corporate HQ and divisional offices.

By promoting the corporate human resource function to a second order priority (via the PTF system) the board sought to improve internal operating procedures and improve the operating relationship between project management and functional management. This development had significant resource and financial implications for Exbeck's system of project management.

The contemporary competitive strategy – the significance of the human resource function

As a response to the crises of cash flow and cost overruns the executive board initiated the internal business review in conjunction with a well known management consulting firm. However, the board were unconvinced by the "HRM rhetoric" and immediate (transformation) action plan presented to them by the commissioned management consultants. The head of human resources referred to much of the US academic and consultant-based work on HRM as "designer HRM", arguing that it represented an "American tale" of good over bad. These views bear out British critiques of US models (Guest, 1990 and Legge's review of the "American dream", 1995, pp. 85-7). In essence, Exbeck wanted to harness its human resources more effectively in order to maintain its competitive profile within a tighter competitive environment. In contrast the consultants formulated a programme that was designed to raise Exbeck's competitive profile; the board felt this to be inappropriate. The board argued that attempts to raise Exbeck's competitive profile would add to their present difficulties. In consequence any attempt to raise the competitive profile was seen as misguided in the absence of rooting out internal failures in the firm's business procedures. The board rejected the consultants' recommendations and devised their own programme of internal restructuring and management development.

Internal restructuring and management development

The emergence of executive sponsors and project task force groups

To address its tighter competitive environment Exbeck introduced two innovations at corporate level. First, Exbeck identified its competitive strategy to improve project management operations and second, Exbeck streamlined its divisional structure into five coherent divisions. Each division has an “executive sponsor” who is a member of the Exbeck executive board.

The most significant aspect of these innovations was that human resources became a corporate division in its own right whereas previously it had been an operational unit responding to the resource and development needs of line management. In order to do this the management development programme and the technical excellence programme focused on the communication and competitive benefits of “project task forces” (PTF).

The PTF programme was introduced in a week-long training session for project managers, corporate human resource staff, the heads of human resources in the five operating divisions and engineering design, construction and site staff. The intention was to bring a senior member of each division into the planning stage of any particular tender. Under the PTF system the construction and contracts project manager prepares a briefing document on the technical and process requirement of a project and provides a forecasting plan for human resource needs over the length of the project. PTF members from the other four divisions then formulate their own costed plans for construction, materials, human resources, and process licences for patented technologies etc. These are then fed back to the project manager in order for the bid to be costed accurately.

Initially there was considerable resistance from engineering and process technology staff who did not consider human resources “up to the job” of live operations. Figure 1 illustrates how a PTF operates.

Corporate human resource strategy – human resources as a full business partner

The corporate human resource function has responsibility for the management development programme and monitoring the performance of other divisions (construction and contracts, chemicals and petroleum, public and legal relations) in the contemporary PTF framework for project management. For the executive sponsor of the human resource function this entailed three tasks. First, positioning human resource staff and services within PTFs in order to identify and cost the human resource needs of a project at an early pre-planning stage. Second, demonstrating the benefits of an upstream competitive and human resource strategy to line members in PTFs. Third, demonstrating to corporate human resource staff that their presence within a PTF system was valued and taken seriously.

By association the chief executive and the executive sponsor of human resources decided that at corporate level human resources must become a “profession” with an academic base[3]. Equally, the chief executive made it

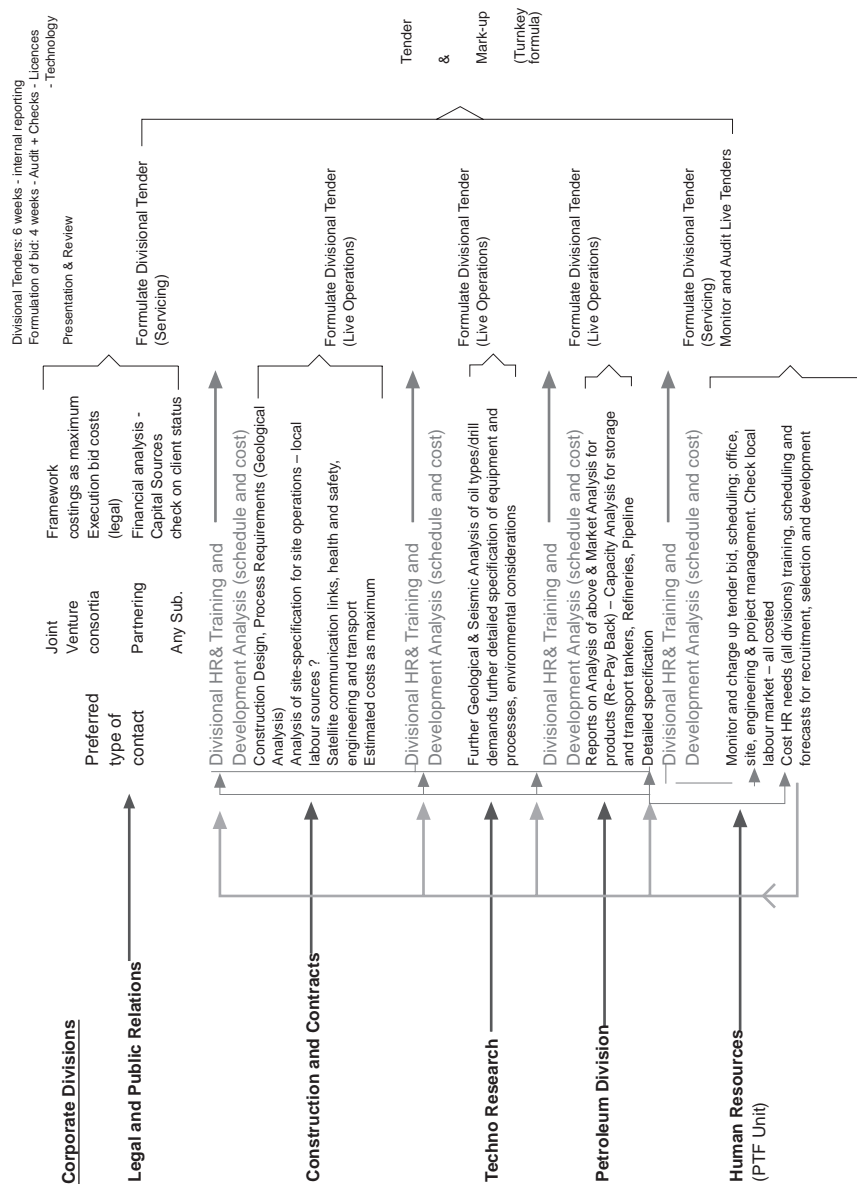


Figure 1. Project task force profile: oil refinery bid “Iceland”

clear that the renewed business strategy depended on effective reporting by PTF leaders on their human resource and development needs. In addition, the control of graduate recruitment for engineers was placed solely in the hands of the corporate human resources.

The monitoring and recruitment measures were pushed through in order to “persuade” engineers and project leaders to take the human resource function

seriously. However, the chief executive made it clear to the head of human resources that his job was not to exercise “fanciful” control. Rather, corporate level human resources was briefed to use its second order position to improve information and communication flows between themselves and project groups in order that the PTF system could operate effectively and to budget. The emphasis was on developmental human resource management with the aim of reducing cost overruns on projects. It would appear that this approach is designed to contain and manage embedded costs more effectively, that is, costs which a tender specification indicates Exbeck can meet. This appears to be different from what is often referred to as “hard” HRM, which in the Anglo-American context is designed to cut costs (see Storey, 1989, p. 8; Sisson, 1994, pp. 13-15; Kochan and Weinstein, 1994).

The training and development programme is central to the whole scheme and is targeted on two levels. First, corporate level line managers in PTFs including the human resources PTF unit. The thrust of PTF training and development relates to Figure 1 where the PTF system is sketched out. The corporate human resource function briefs and trains up the five corporate divisions in how PTFs are designed to operate, in particular their internal reporting procedures. For the human resources PTF unit this involved attendance at day schools on project management in other corporate divisions whereas members of other corporate divisions had to attend HRM day schools. The object was to make members of each corporate division think beyond their own function. After attending four day schools beyond their specialist area PTF members were asked to work on a dummy bid “Iceland Refinery”.

The second target group is administrative and clerical staff. The chief executive and the head of human resources both argued that it was essential to include these staff in order to demonstrate a commitment to a financially informed human resource strategy that incorporated the contribution of all employees. The head of human resources sought to mirror the PTF approach at the operational level. A system of employee focus groups for clerical and administrative support staff was formulated.

The system of focus groups operates across divisions, whereby administrative and clerical staff working on a particular PTF have opportunities to liaise with staff in other divisions. Equally, focus groups meet periodically to discuss how projects are going and share problems they have experienced with PTF staff. PTF groups have a defined roll of members, thus focus group staff can identify particular staff they need to speak with. After each periodic focus group meeting a report is produced. The reports are picked up by the relevant task force with any defective or incomplete work requisitions sent back to the originator in the PTF. Further, focus groups report to the corporate human resource function on how effectively a PTF is conducting its internal business in terms of its paperwork facilitating accurate financial data.

Support staff are now encouraged, if a situation appears urgent, to act independently in sourcing service requests. For example, if a requisition is

marked urgent but is not correctly specified, costed or signed off focus group staff are encouraged to use their experience and discretion. If this action is deemed incorrect by the PTF project manager, but undertaken in the absence of essential information the PTF has the worked time added to their budget and bid costs.

The financial benefits of the change process are difficult to determine, but the chief executive made it clear that some efforts had to be made here to justify the position of corporate human resources as a full business partner in project management.

As Figure 2 illustrates, the potential competitive benefits of human resources as a full business partner are evaluated against competitive outcomes. The potential competitive benefits are measured quantitatively and qualitatively. To estimate the quantitative effects of organisational innovations on Exbeck's financial performance it was decided to sample aspects of financial and project performance for the year 1991 and compare it with 1992.

A contribution to the bottom line: financial performance under the PTF system

The average value of an Exbeck project is \$85 million. Currently, project management mark-ups are in the order of 10 per cent. In the operating year 1992 Exbeck booked new work to the value of \$7.2 billion. All new work booked in 1992 was costed and bid for under the PTF system. In crude terms the newly booked work would yield Exbeck \$7.2 million.

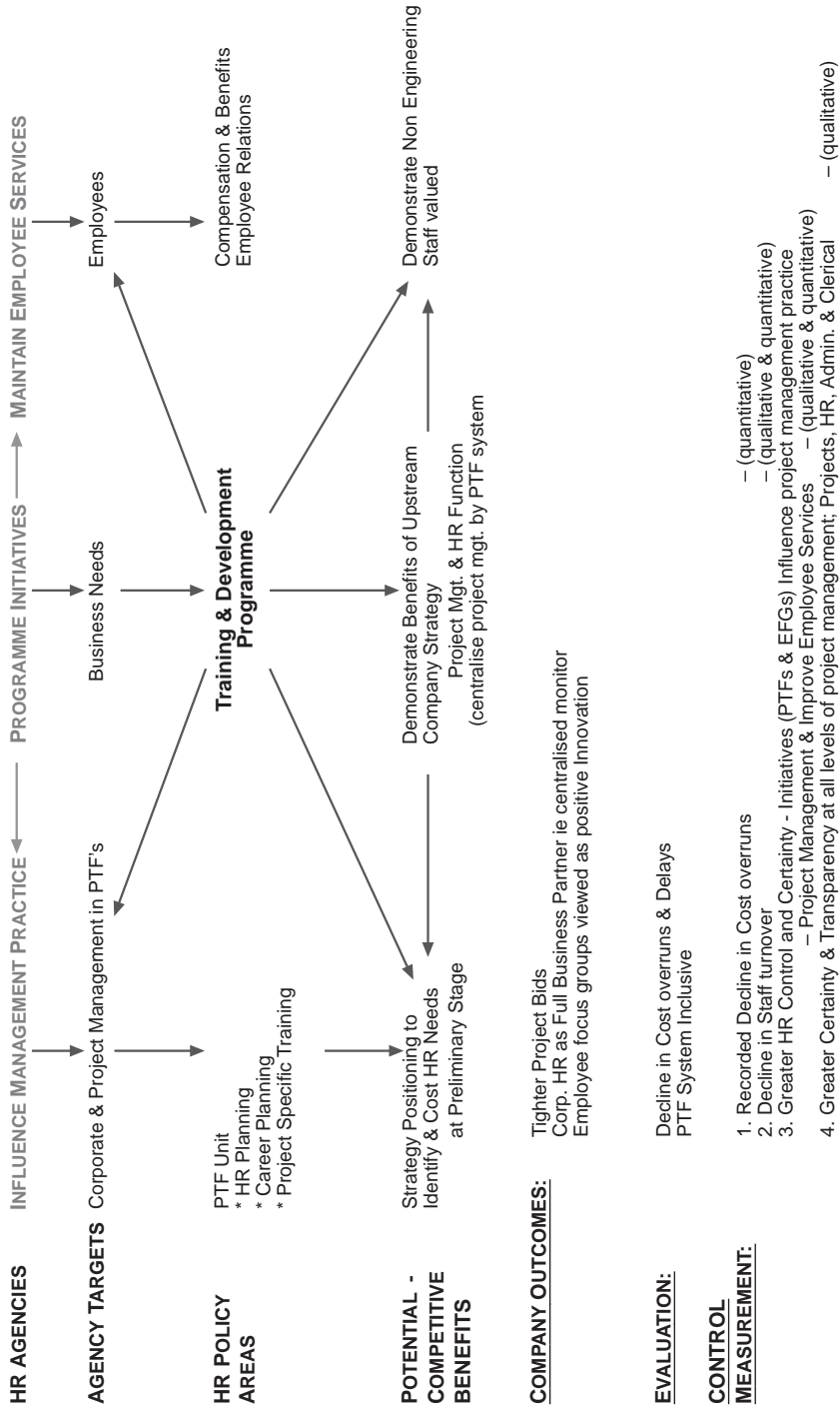
To evaluate the financial contribution of the PTF system, the management and staff development programme two courses of action were undertaken. First, for two projects that commenced prior to the PTF system the cost overrun was internally traced and diagnosed. The process involved checking original tender bids against work off costs and project profits.

Data on labour costs, training, human resource planning and scheduling and recruitment were traced by testing final costs against Exbeck book costs; the data were further grounded by examining individual project logs. The same process was used for materials, plant and other requisitions. Project data for the test cases were examined in Exbeck's corporate HQ and its UK office from where the particular projects were controlled. Further, several interviews with project managers and human resource managers were undertaken.

The data and figures on audit tracing are described in general terms at Exbeck's insistence; equally it is not possible to name the types of project or their locations. The second course of action involved audit tracing two PTF managed projects to evaluate any reduction in cost overrun to estimate the monetary value of including the human resources PTF unit in project pre-planning, bid tender formulation and subsequent live operations.

The four projects were for the same hardware, and represented the average for an Exbeck project. The construction and testing period for the projects was three years. Both 1991 starts came in with a 5 per cent overrun on the turnkey bid, that is, \$4.2 million or an annual average of \$1.4 million. In contrast the

Figure 2.
HR's agent for internal
change



PTF starts came in with turnkey overruns of around \$1 million each or an annual average of \$333,000. These particular projects were chosen for three reasons. First, the projects are by EPPC measures quite standardised, hence over the design, construction and testing periods the scale and scope of human requirements were comparable. Second, the two 1992 starts were the first Exbeck projects to be managed under the PTF system. Third, although the projects were for standardised plant it was this type of project where cost overruns had recently escalated. As a result of this Exbeck had accurate data on 1991 starts; equally, staff in the human resource function were able to recall their experiences on these projects.

The availability of financial data on projects in recent memory greatly assisted in the quantitative and qualitative aspects of the audit tracing. It could be argued that the four projects represent a biased sample; equally, measuring the contribution of human resources in financial terms may be limited. However, the availability of accurate data directed the evaluation. Further longitudinal investigation is necessary to examine the sustainability of improved financial performance.

For the two 1991 project starts the internal audit trace indicated four sources of cost overrun; first, site contractor failures (under subsequent litigation and an expected recovery of some extra turnkey costs borne by Exbeck). Second, adverse weather conditions which precluded construction and testing. Third, there were failures of process technologies. Lastly, in their second and third years both 1991 starts were behind schedule due to project management failures. These failures included the failure to book design engineers in advance, problems associated with process failures that were traced back to incorrect licence requisitions by Exbeck, which in turn held up construction by the process technologists. Further, Exbeck could not find enough design, construction and project engineers who were available and trained up for particular aspects of the projects. This failure triggered the crisis process of drafting in staff from other projects and in one case head hunting a named individual from another corporation.

The audit tracing process indicated that half of the 1991 start overruns were attributable to direct and indirect human resource failures, in the main an absence of human resource project pre-planning, office and site scheduling and associated training. In addition, the absence of the PTF system and employee focus groups meant that errors in or queries on requisition claims for process licenses, material and staff were not followed up or corrected. Not all of these led to cost overruns but several did so, some creating very large additions to costs.

For the projects started under the PTF system relatively little of the annual cost overruns were attributable to human resource failures; for example, problems with the accuracy of process licence requests, however, the system of employee focus groups picked this up. In two cases potentially costly errors were rescued when administrative staff queried the paperwork with the appropriate PTF leaders. In summary, the internal audit trace indicated that on

the two 1992 starts positioning the corporate human resource function in the PTF system for project management “saved” Exbeck in the region of \$1.8 million (2 per cent of the tender price) per project in terms of reducing “normal” cost overruns.

The chief executive suggested that the overall cost of the PTF system, the management and staff development programme was in the region of \$4 million dollars. In quantitative terms the cost of adopting a more strategic approach to human resources is relatively small in comparison to the potential impact of the human resource function on financial performance in project management under the PTF system. The chief executive suggested that if the PTF system improves financial performance in projects by only 2 per cent Exbeck could recoup the capital costs invested in corporate human resources in about two years. He added that direct effects are difficult to predict and standardise; for some projects they would be little improvement, for others a lot. Equally, a marginal saving of 2 per cent might appear small but in combination with other aspects of the quality programme beyond human resources the potential for overall financial improvement was significant.

Conclusions

This case illustrates that the corporate human resource function is a potentially significant, if marginal source of sustained, “bottom line” firm specific competitive advantage. Equally, the case raises a contentious issue for practitioners and scholars: “what is Best Practice”? Are firms such as Exbeck ahead of the practitioner and academic communities? To establish a positive link between a strategically integrated role for corporate human resources and Exbeck’s financial performance it was necessary to implement the change programme; the evidence suggests that the previously peripheral role of human resources did impair financial performance. The limited sample evidence from four recent projects indicates a quantifiable improvement in financial performance resulting from full business partnership. The magnitude of costs may be a factor in Exbeck’s case. The quantifiable improvements in project management vastly outweigh the actual costs of the programme; if firms do not operate at such a scale of costs corporate policy makers may find this evidence persuasive but uneconomic. The scale and scope of costs are determined by competitive conditions, in turn competitive conditions have some influence on formulating “best practice” and determining the contribution of the human resource function to the bottom line. Where a firm is engaged in cost containment rather than cost cutting, a centralized human resource function positioned as a fully-fledged corporate business partner may be necessary to engage this strategy; that is, the reverse of key elements within implicit arguments and models.

The Institute of Personnel and Development (IPD) and Society for Human Resource Management (SHRM) in the USA are concerned with the observed perception that the human resource profession is both undervalued and unable to justify a position at corporate levels. In the UK the IPD (1995, p. 2)

continually argues for a strong and influential human resource function as a key player at corporate level; yet the research evidence (Storey, 1992; Millward, 1994; Sisson, 1994; Kochan and Dyer, 1995) continues to suggest that the function is struggling to assert itself, that implementation of human resource initiatives is piecemeal, and that general line managers have as much influence in this area as human resource professionals. Equally, the literature on HRM and the financial and economic performance of the firm suggests that for the IPD's and SHRM's arguments to be empirically proven, practitioners and scholars must provide evidence of a link between HRM and performance if corporate policy makers are to take the "bottom line" contribution of human resource function seriously (see Guest, 1997; IPD, 1997)[4].

The findings of this case study suggest three issues for practitioners, academics and corporate policy makers in their respective evaluations of the contribution of human resources to the "bottom line". First, a consideration of the scale of operations and associated costs is necessary to "range" the cost of a well-developed and strategically-integrated human resource function within a firm's total costs. This may help identify the potential for quantitative improvement in internal efficiency that may also help to contain labour costs. However, in organizations that compete in low cost markets where functional specialists can add little value to production or cost containment a peripheral and disintegrated human resource function may represent "best practice". Second, scholarly analysis must be able to range competitive conditions against "independent strategic choice" enacted by management and the normative benefits of "strategic integration". This might provide more specific measurement and evaluation of actual cost structures that prevail under particular competitive conditions which are likely to inform "choice" and "integration" strategies. In isolation the latter provide only an abstract association between HRM and economic performance whereas quantitative data derived from market conditions may provide further clues as to why practice deviates from various conceptions of "best practice". Third, practitioners and scholars must recognize that inputs such as the human resource function do not have a scale impact but a marginal impact on efficiency and quality. The extent of this impact can be evaluated by examining competitive conditions against the benefits of "choice" and "integration". Here a key question for researchers, policy makers and practitioners is not so much how much do quantitative benefits cost? but how much is their absence costing in terms of the "bottom line"? and is it sustainable in prevailing market conditions? In a high cost, high productivity market such as Exbeck's where competitive conditions have recently tightened, a centralized corporate human resource function operating as a full business partner appears to be a necessary inclusion in effective project management.

Notes

1. The contacts for this study were made as a result of work on the ESRC programme "The Competitiveness of British Industry" (contract no. W.F. 20250031). Subsequent follow-up

work and the costs of international travel were funded by a Leicester Business School Research Committee grant. Because of the highly competitive nature of EPPC, in particular the bidding process it is not possible to use the real name of the firm. Equally, information gathered from company documents has been disguised to maintain confidentiality.

2. All Exbeck products are priced in dollars, therefore dollar values have been used herein. One reason for this is that most process commodities are internationally traded and valued in dollars, e.g. oil.
3. In the UK Exbeck recruits IPD qualified candidates or places graduates who work in human resources on IPD part-time courses. In the corporate office in the USA all human resource staff are graduates who hold or are studying for membership of the Society of Human Resource Management.
4. The findings and broader analysis of the case study and survey material cited appear to be borne out by a recently published IPD survey undertaken by the Centre for Economic Performance at the LSE and the Institute of Work Psychology at the University of Sheffield. However, the study of 67 manufacturing firms found that only 6 per cent had a highly organized training strategy. Further, most firms gave personnel and human resource issues a "low priority" and in 50 per cent of the survey constituency no one had responsibility for personnel issues. For summary see *Flexible Benefits: Taking Stock*, IPD/ Arthur Anderson. Survey findings are summarised in the *Financial Times*, 20 October 1997, "Personnel strategy 'low priority' for companies".

Although the cited survey evidence appears convincing there is other case study evidence, perhaps equally as rare as this one which reports on the introduction of a coherent HRM strategy that makes a direct contribution to the financial performance of the firm (see Gennard and Kelly, 1991). The author is grateful to *Personnel Review's* referees for making this point.

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Appendix

Audit tracing

In order to undertake this aspect of the project quantitative data were examined from published company accounts; this was further grounded by examining individual project logs. The project data for the test cases were examined in Exbeck's corporate HQ and its UK office from where the particular projects were controlled. Further, several interviews with project managers and human resource managers were undertaken. The interviews with human resource staff were particularly valuable because it was possible to visualize their situation prior to and after the introduction of the human resources PTF unit.

This process involved checking original tender bids against work off costs and project profits. The system was accurate but blunt. For example, in some cases it was not possible to find data; here original tender bids were used in calculations, thus the trace may have under estimated cost overruns.

Data on labour costs, training, human resource planning and scheduling and recruitment were traced by testing final costs against Exbeck book costs. The same process was used for

materials, plant and other requisitions. Apportioning responsibility for overruns was contentious and in interviews with human resources and project managers there were irreconcilable differences. In the end the author completed the figures, they were agreed by the head of construction and contracts and the head of human resources. The data and figures on audit tracing are described in general terms at Exbeck's insistence, equally it is not possible to name the types of project or their locations.

Research methods

During the course of the project the author was given copies of all Exbeck's HR documentation and a copy of the commissioned consultant report. Equally, the author was notified as documents were updated, discarded or amended. Further, the author was given full access to the results of employee attitude surveys and allowed to generate data from an independent attitude survey. The attitude survey examined employee views on the division between kingpins and administrative and clerical staff, other weaknesses in work organization and other impediments to meeting performance targets under the kingpin system.

Financial data were made available from published company accounts and more particularly, project profile logs and initial tender documents. The author was able to measure these against internal contract requisitions and bills. Each project profile includes an office and site staffing plan. It became clear that for projects which commenced prior to 1992 many of these were either partially completed or completed with the phrases "details to follow" or "process and cost on the basis of" "X" i.e. a similar project. In this particular case it became clear from audit tracing that staffing plans had been costed but not fully processed in terms of training and development and HR planning more generally. Data on cost overruns were also included in project profiles.

A large number of interviews were conducted for this project, the majority in person but some near the end of the project were by telephone or video conferences. Formal interviews were conducted with the corporate head of human resources (five meetings) and the HR policy leaders in each section at this level (one meeting each). On average each meeting lasted approximately one hour where the author was able to ask a free range of questions on the firm's HR documents, the peripheral role of human resources and the anticipated impact of the PTF system. The author also interviewed clerical and administrative staff and project managers.

A particular line of questioning centred on why there was so much concern with financial performance and why the PTF system might fail; it was in this regard that interviewees at corporate level first gave the author information on the proposed system of employee focus groups.

Over the course of the project follow-up interviews were held after significant organizational innovations such as the PTF system. These became less formal as the individual managers recognized the author; the interviews were less formal in the sense that it was not always practical or preferable to meet across an interview table. However, all interviews were either taped and transcribed or the subject of detailed notes.

The author attended and participated in strategy meetings and briefing sessions. These meetings were chaired by the executive sponsor from human resources and ran to agenda items. From 1994 Exbeck held some strategy meetings in human resources via video conferences; in these cases the author was able to "attend" and "participate" from the European office.

The author was able to attend some employee appraisal and performance rankings for individual employees and employee focus groups. In both cases independent notes were taken which were later used in interviews between employees and the author.

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