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Towards an Integrated Model of Strategic Human Resource Management – An Australian Case Study

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ABSTRACT

Over the past twenty years much has been written on the need for contemporary organisations to adopt an empowered leadership style supported by innovative and integrated human resource management strategies. This paper examines a major Australian government owned energy company's leadership and HRM strategies in the context of a ten year campaign by the government to privatise the industry. A strategy to create a new and empowered culture is analysed in terms of its drive to not only prepare the workforce for a privatised industry, but to also develop a highly competent leadership team alongside a supportive and integrated competency based model for strategic human resource management. The primary aim of the developed model is to ensure that all leadership competencies and HR strategies flow directly from the organisation's strategic plan. A second aim of the model is to ensure that all HR strategies and processes are linked together creating a synergistic relationship with internal business partners alongside key external customers and suppliers. The third aim of the model is to ensure that all affected people are engaged in the change process by way of focus groups and individual interviews. Radical change, innovative leadership competencies and a supportive and an integrated human resource management model will be required if this company is to maintain its place in the new national market. The integrated HRM model developed as a result of this study also has general applicability across any medium to large organisation.

INTRODUCTION

More than a decade has passed since Richard Rudman, the then Director of Policy and Professional Development with New Zealand's Institute of Personnel Management, made the following comments.

HRM has been stagnant for 15 years with few ideas or innovative people practices — no matter how hard HR professionals try for their place in the sun, it will never get any better unless they align themselves with business strategy (Rudman 1997: 4).

Rudman's statement is still cause for concern and discomfort for many HR professionals and academics around the world, including Australia. His views were validated just a few years later when the 1999 State of the Art/Practice study involving over 200 HRM thought leaders from around the world gave Australian HR professionals a 'pass' grade, only (Tebbel 2000). Two years later, extensive research conducted in the small to medium size Australian business sector concluded that the HR profession's view of its organisational importance was not shared by their respective CEOs (Nankervis, Compton & Savery 2002). More recently, Dr John Sullivan, Professor of HRM at the San Francisco State University and a recent visitor to the Australian professional HRM conference circuit, echoed these same sentiments with a quite damning critique of the status of the HR profession in Australia. In particular he was highly critical of HR's lack of action when it came to building effective partnerships with their organisation's business managers, and specifically, their lack of direction when it came to retaining key talent. He reserved some of his sharpest comment on the welfare mentality that he believed to be at the root of this dilemma (Sullivan 2004). In simple terms, there is a wide gap between the rhetoric and effective HR strategies.

In what might be seen as reinforcement of these views espoused, Jo Mithen, former Executive Director of the Australian Human Resources Institute, implored the HR profession to take a long, hard look at itself. With the current Australian government determined to reform the workplace so as to provide more flexibility, Mithen argues that the task of turning the government legislation into reality will rest largely with the HR profession. However, it will be up to individual HR professionals to recognise the opportunity for what it is — a chance to reinvent itself (Mithen 2003). Finally, researchers at the University of Michigan have surveyed 29,000 HR professionals worldwide in a bid to determine those competencies that really matter to HR effectiveness. They concluded the 'big 5' as managing culture change, personal credibility with business managers, effectiveness in the traditional areas of HR, business knowledge, and finally, the use of IT to enhance the delivery of their HR outcomes (Keen 2004).

This paper, based on a ten year study, examines one organisation's ambitious attempt to determine their future leadership competencies, to link all major HR processes into one integrated competency based model, and finally, to link the business planning processes to its external customers and suppliers. No longer can HR professionals consider only their internal customers. It is argued that this type of model based approach appears to have been seriously lacking in this country until very recent times. The paper concludes that it is these very issues that have been the subject of much rhetoric, but little action in Australia over the past 30 years. The profession must claim this turf if it is to retain relevance.

THEORETICAL FRAMEWORK

Early Australian and international researchers and writers on strategic human resource management such as Collins (1988), Dunphy (1987), Guest (1987), Schuler and Jackson (1987), and later Delery (1998) argued that HR strategy must link much closer with corporate strategy. This approach is the concept of fit or sensitivity to context. Specifically, Collins (1988) counselled HR professionals into focusing on knowledge transfer, intellectual capital and other more cerebral and creative activities whilst introducing the concept of value migration where he encourages HRM people to reformulate and reposition their role so as to enhance their impact in the face of change. Schuler and Jackson (1987) argued that an organisation's growth depended on its ability to retain competitive advantage, which in turn can be linked in part, at least, to its HRM practices. Some ten years later Delery (1998) again focussed the debate firmly on the concept of fit in pointing to a growing body of research showing that effective management of people can impact on organisational performance. Delery discusses two levels of fit, horizontal and vertical. Horizontal

fit refers to the alignment of HR practices to form an integrated package. Vertical fit relates to the extent that HR practices align with the organisational context.

What is abundantly clear is that Australian HR professionals have some critical decisions to make, one of which will involve their approach to HR strategy—hard or soft? (Storey 1992). Different perspectives of HRM emphasise either the effective management of employees through greater accountability and control (hard HRM), to the greater involvement and engagement of employees in decision making processes (soft HRM), or a combination of both approaches where applicable.

Respected international writers have indicated a more integrated approach with HRM. For instance Legge (1995), and Ulrich (1998) implored HR professionals to take on the role of full business partner with the business managers and to more enthusiastically and effectively grasp the business of business rather than perceive HRM's role as being somewhat peripheral to the main game. According to Tyson (1995: 30), the roles of HRM practitioners become those of "... strategic integration ... culture management ... winning [employee] commitment ... investment in the employee resource ... flexible organisations ... total quality ... partnerships with trade unions ... [and] managerialism". Thus, the overall themes of SHRM — the integration of all HRM processes, adherence to broad organisational goals and responsiveness to the external environment remain, but the ways in which this integration may be achieved will differ from organisation to organisation. The following quote highlights these views.

Over the past two decades ..., the concept of human resource management (HRM) has become the focus of professional practice. HRM assumes that all personnel activities are integrated and strategically linked to organisational objectives. This perspective views employees as 'human resources', 'human assets', 'intellectual capital', or 'human capital' and that HR managers should strive to utilise them as 'critical investments' in an organisation's future: '... people are the key strategic resource, and strategy must be built on human-resource foundation' (Bartlett & Ghosal 2003: 13).

Strategic human resource management (SHRM) emphasises the need for HR plans and strategies to be formulated within the context of overall organisational strategies and objectives, and to be responsive to the changing nature of the organisation's external 'environment' (i.e., its competitors, the national and international arenas). A strong implication of SHRM theory is that HR plans and strategies should be developed on a long term basis, taking into account likely changes in the society, industrial relations systems, economic conditions, legislation, global and technological issues as well as new directions in business operations. SHRM is a model for practice, which, like all models, requires interpretation and adaptation by HR practitioners to ensure the most suitable alignment or 'fit' between HR and business strategies and plans.

While it is difficult to predict the nature of HRM in the future, there are strong indications that its theory and practice will be transformed as a consequence of globalism, new technology and associated fundamental changes in the nature of work and jobs. It is sufficient, at this stage, to suggest that earlier concepts of HRM and the roles of HR professionals will need to change significantly in order to remain relevant in the knowledge era. Indeed, Ulrich (1987), Beer (1997), and Prahalad and Ramaswamy (2003) argue that an organisation's competitive advantage may well depend upon its investment in HRM. Some contemporary observers of HRM theory and practice (e.g., Patrickson & Hartmann 2001, Bartlett & Ghosal 2003, Zanko 2003, Lansbury 2006, Nankervis, Compton & Baird 2008), suggest that the implications of global economic forces such as the shift to low inflation economies, widespread tariff reductions, and the current growth in multilateral and bilateral free trade agreements (e.g., Australia Singapore, New Zealand Singapore, Australia New Zealand, Australia US, APEC) demand more attention to international HRM models. In addition, it has been argued that communication and information technology changes such as the digital revolution, involving satellite links, cellular telephone networks, and high speed fibre optic cables will require the adoption of strategic international or global HRM models implemented through radical new approaches to HRM strategies, structures, organisational cultures, HRM

practices, and employment relationships as a whole.

As Erwee (2003) explains,

... in the competitive process of globalisation and complexity, it is becoming critical to manage sustainable multinational organisations more effectively by using SHRM, and to link this with strategic needs in the larger organisational context. (However they) ... must also work within the confines of (their) local environment as well as a range of laws, politics, culture, economies and practices between societies (p. 59).

Perhaps the most dominant theme of the current stage in the development of SHRM is its emphasis on 'knowledge management', 'human capital management' or 'talent management'. Some authors argue that there has been a "... shift in the locus of economic power as profound as that which occurred at the time of the Industrial Revolution. Knowledge has displaced labour, materials and money as the key input into an organisation's income-generating process." (Delahaye 2003: 2). Others assert, that consequently, managing the knowledge capital (sometimes referred to as the knowledge asset or knowledge resource) of an organisation has become one of the key activities for organisations in the twenty first century (Patrickson & Hartmann 2001). More recently, Professor Ulrich has suggested that the survival of HRM demands that HR professionals are perceived to add value to four key stakeholders in organisations, namely:

- employee competence and commitment,
- line managers who want to make strategy happen,
- key customers who want to buy more products/services and
- investors who want stock price to rise (Ulrich 2006).

The implications of this paradigm shift in perceptions of the employment relationship for HRM professionals are likely to be significant. This notion has particular importance in relation to human resource planning, organisational structure and culture, and strategies for job design, recruitment and selection, human resource development, performance management, remuneration and the management of employee retention. It may also signal the reinvention, or at least the transformation, of the HRM concepts, roles and processes into an effective integrated model for SHRM as argued in this paper.

Concurrently, contemporary management and leadership researchers and writers have argued strongly for an end to the command and control type of leader and the rise of the transformational leader. This paradigm shift will require a new set of management and leadership competencies to cope with a changing national and global marketplace and workforce (Boyatzis 1982, Daft 2008, Lussier & Achua 2008).

METHODOLOGY

The Organisation

Located in eastern Australia the organisation is in the energy industry and has since 1998 responded to the new national competitive marketplace by downsizing and outsourcing. The workforce has, over the past ten years, been reduced from over 5000 employees to 2000 employees and this has been achieved by voluntary redundancy. Unfortunately, many of those departing the organisation have been those who could least afford to be lost. One of the challenges has been to ensure that all levels of leadership possessed the leadership competencies to take the organisation into the future where it will be able successfully to compete in the open marketplace for the first time. The second challenge has been to create an integrated and sustainable model of SHRM that will not only bring together all of the disparate HR processes, but to link each directly to the corporate plan, the newly developed leadership competencies and indeed to external

customer and supplier demands.

The company is government owned and union dominated. In the past it has enjoyed a geographic monopoly position, but now faces keen competition following decisions by the government to allow all business and domestic customers their supplier of choice, irrespective of location. Furthermore, the government has made it very clear its intention to sell off the industry to the private sector despite massive union resistance. The union, the Electrical Trades Union (ETU), one of the most powerful in the country, has lost many members through downsizing and has resisted any further attempts by management to reduce the workforce further. They have also resisted vigorously any attempt by the government to sell off the company. In 2008 the ETU was instrumental in the downfall of the Labor State Premier and his Treasurer over this issue.

A great deal of corporate memory and intellectual capital has been lost forever. Leadership predominantly is white, male, middle aged with a long history with the organisation. The seven man Executive group has no private sector experience. Each has come from the industry with three of the seven beginning their careers as cadets with the organisation. Of the seven, five are engineers and two are accountants. Leadership style could be described as transactional (Lussier & Achua 2008). The CEO is one of the former cadet engineers and the definitive transactional leader. He had little time for the 'soft' people approach of the new age leader. Generally, there has not been a sense of urgency amongst this group.

The typical senior and middle level leader could be described as bureaucratic, risk averse, conservative and mechanistic in outlook. There has been no clear understanding of what type of leader might be required for the future, seen as an extrapolation of the past. There is a cohort of young fresh and well educated middle managers with the ideas and drive to help turn the organisation around, but invariably they are blocked by their managers. Consequently, many have left or talk often of leaving. There is no succession planning or effective performance management processes in place. Most managers at all levels are working very long hours with little additional compensation, if any, and certainly little recognition.

The senior team spends much time selling the concept that people are our most valuable and sustainable resource, but the message received by the people is that they are the organisation's most expendable resource. Trust and loyalty largely have gone as people wait for the next round of redundancies. The predominant culture is bureaucratic although many people in lower level positions can see the need for a major culture shift if the organisation is to survive. The need for a customer focused culture is obvious to most, but little is being done to address the issues.

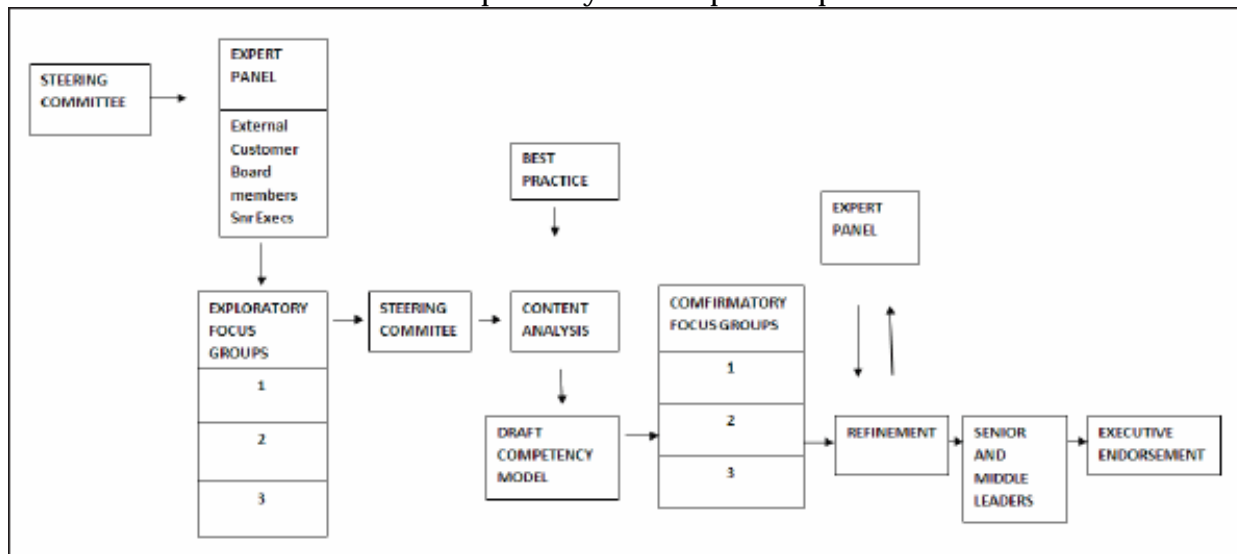
The bulk of the general workforce is long serving with 15 to 20 years service the norm. People with over 25 years service are common. The prevailing culture with this group is very paternalistic and this can be traced to management's past style. Their attitude can be summed up as one where the organisation owes them a living. If management wants a little extra then they will have to increase remuneration levels. Senior management is not trusted and whatever respect might have existed has now gone. Flexibility is talked of, but is not apparent in practice. The workforce and customer base are very diverse, but the senior team does not reflect this nor understands the concept of diversity management. The concept is seen as a fad that the HR people persist to support.

Remuneration policy is one size fits all. There is no clear link with performance although senior leaders have a risk component within their salary package, but the risk appears minimal. The industrial situation is sensitive with the majority of the workforce paid to an award, that by its operation, is extremely rigid and clearly is one of the main barriers to introducing flexible work practices. Finally, the HR department, which includes payroll, consists of some 30 persons and is centralised in Head Office. There are no obvious linkages between the various HR processes.

Procedure

Data collected for this section of the paper has been obtained using focus groups involving 150 senior, middle and front line managers. The information gained was then validated using one-on-one interviews with a cross section of those involved in the focus groups. Figure 1 outlines the

Figure 1
The competency development process



Initially, a Steering Committee was established to move the project forward. This committee comprised several Board members, the CEO, several members of the Executive, the Group HR Manager, and importantly, several key external major customers and suppliers. Having established the process the Steering Committee was renamed as the Expert Panel with the task of evaluating and endorsing the results of focus group output. The brief for all focus groups was to attempt to establish senior, middle and front line leadership competencies five years into the future, then link those competencies to an integrated HR model which in turn is derived from the company's strategic planning processes. Indeed, the Expert Panel became the first of the focus groups to meet under the facilitation of an external moderator who had the task of capturing all ideas from each of the groups and distilling those ideas into a 'manageable' number of leadership competencies. The Executive group was the last of the focus groups. In each of the initial set of groups, a brainstorming process was employed (de Bono 1993) so as to gain the maximum number of ideas, with members suspending judgement, later to be distilled by the moderator by way of content analysis (Easterby-Smith, Thorpe & Lowe 1991).

Focus groups were the chosen methodology as the Expert Panel understood that all those affected by the establishment of new leadership competencies must have a voice in the process. Focus groups consisted typically of four to ten persons with a moderator directing the discussions (Sekaran 2003). The task of the moderator is to facilitate a comprehensive exchange of views in which all participants are able to speak their minds and to respond to the ideas of others. The Expert Panel was clear that the groups needed a structure that would provide a cross section of leaders from the many functional and geographic areas of the organisation. It is seen as important that the views gained mirrored the entire target population. Finally, the Expert Panel communicated the process in advance so that each individual knew that which was expected of them. One set of focus groups would use brainstorming to generate ideas whilst another set of focus groups were to confirm or refute the findings of the initial groups. The external facilitator used the very basic technique of flip charts, paper and felt pens to set a relaxed environment to ensure that all ideas were captured. The final role of the moderator was to distil all ideas, by way of content analysis, into several themes which in turn were to form the new leadership competencies.

In essence, the first set of focus groups, including the Expert Panel, were exploratory whilst the second set, including the Executive, were confirmatory. The model developed in Figure 1 shows only three exploratory and confirmatory focus groups, which covers only the senior groups. The process was replicated for another 100 middle level leaders using identical methodology and the same moderator. Importantly, once the leadership competencies were refined by the confirmatory focus groups, they were fed back to the Expert Panel and then to the entire 150 senior and middle

level managers for their validation. In this way, it was felt that all those affected were involved in the process and had validated the findings prior to the competencies and the integrated HRM model being endorsed by the Executive. Each focus group consisted of six people representing a vertical and horizontal slice of the organisation.

The initial focus groups provided the Expert Panel with a great deal of information as to how current senior leaders perceived the organisation, but just as importantly, how the next layer of leadership perceived the organisation and its senior leadership. Subsequent focus groups explored these findings and extended the discussion to seek input into which leadership competencies would be required in five years time. All participants, including those on the Expert panel, were asked also for input into how the various HRM processes might be linked to support the organisation's people programmes, and thus, add value to the organisation rather than be viewed as an overhead as in the past (Ulrich 2006). Each group was briefed on the need for HRM to be more business driven whilst at the same time drive culture and attitude change (Nankervis, et al. 2008). This was the only brief provided so as not to overly influence or pre determine the results that would later be generated by the various focus groups. In summary, the first task of the moderator was initially to encourage each exploratory focus group to generate quantity in terms of ideas, issues and concepts. The task of refinement and validation was that of the Expert Panel and the confirmatory groups that followed. The moderator's second task was to take down all ideas and concepts on flip charts placed logistically where all could see. The hundreds of ideas and issues generated then had to be sorted by theme so as to arrive at a set of leadership competencies that would underpin a new strategic model of HRM.

RESULTS

Following the first set of focus groups, including the Expert Panel, key themes were identified from an analysis of the data, consistent with grounded theory (Glaser & Strauss 1967). Ten leadership competencies were identified as necessary for the medium to long term survival of the company. In addition, a draft SHRM model was drafted for later discussion. The leadership competencies and HRM model were then refined and validated by the Expert Panel and the second set of focus groups. The latter groups also had the task of writing a definition against each competency prior to being sent back to the Expert Panel, the entire group of 150 leaders and then to the Executive for their final endorsement. The competencies finally agreed and endorsed are shown as Figure 2.

Figure 2
Leadership competencies for the future

Competency	Descriptor
Customer focus	Involves the capacity to identify and anticipate customer needs and deliver value added products and services to exceed customer expectations.
Managing effective customer relationships	Effectively manage and develop customer relationships and perceptions to achieve business outcomes.
Thinking and planning strategically	The capacity to think conceptually and to develop plans, strategies and initiatives to exceed customer expectations and achieve business outcomes.
Business acumen	The capacity to successfully apply commercial expertise to achieve short and long term business objectives.
Managing change	The capacity to anticipate and manage organisational change to achieve alignment between the business and the broader environment.
Promoting purpose	The ability to develop, communicate and build commitment to achieving an inspiring relevant and understandable vision for the organisation.
Creating a positive workplace culture	The capacity to develop a strong customer service culture through team work and empowerment, a culture that includes personal development and success.

the newly deployed HR consultants as they were now known.

DISCUSSION

The Leadership Development Centre

All HRM strategies now flow from the leadership competencies. These strategies include recruitment and selection, education and development, performance management, succession planning, remuneration and finally, retention of key players. All such strategies are competency based. One key challenge that had to be addressed was how to assess the level of each of the competencies possessed by each member of the current leadership team. This challenge was addressed by the establishment of a three day leadership development centre within a major Graduate School of Management to which all 150 senior and middle leaders would be invited in groups of eight. The CEO was the first to volunteer. All assessments were developed by a consultancy specialising in development centre design alongside the Group Manager, Human Resources who also had prior experience in the conduct of such Centres. An integral part of the Centre's activities was a 360 degree feedback exercise whereby each participant nominated six persons — two above, two below and two peers — in addition to a self assessment and another completed by the participant's manager. Results were discussed one-on-one as part of the centre. In addition, in basket exercises, group problem solving and media presentations were amongst a range of very carefully simulated activities each participant was subject to over the three day centre. Every exercise was based on one or more of the newly established competencies.

Each participant emerged from the centre with two documents, a 360 degree feedback report together with a personal development plan to be discussed with their manager. Importantly, all members of the Executive have been instructed by the CEO to do all in their power to ensure that personal development plans are implemented swiftly. Performance reviews follow within six months utilising, once again, a 360degree feedback methodology, but interestingly the CEO has made it very clear that all managers would be reviewed, in part, against the programmes they had put in place to implement their people's personal development plan.

The Next Generation

The new SHRM model now in place has identified a further group known as the 'next generation' of leaders. Each handpicked by their managers in one of the group exercises used within the development centre. In all, 50 junior managers have been identified by senior managers as future leaders and have subsequently been invited to a new set of development centres in an effort to assess their competencies for future success in the new organisation. This group followed the same process as had their senior leaders. In addition, they have come away with a personal development plan and invited to key events such as a very successful leadership seminar series involving senior leaders from industry and academia.

The Group HR Manager has also arranged for them to join several 'skunkworks' sessions (Daft & Pirola-Merlo 2009) whereby the next generation went off site to work on projects where their senior colleagues had made little progress. One major project addressed has been to look at the core competency concept espoused by Hamel and Prahalad (1994) and to then report to the Executive on what the organisation's future core business competencies should be rather than those that were current.

The report currently is being implemented with the Call Centre the first unit to be outsourced to be followed by the internal Transport division which maintained the organisation's car fleet. The Training Division will be the next to be outsourced as it has shown that there was little being done that could not be done on demand by external providers at a fraction of the cost. The next generation team determined that internal training is not core business.

Remuneration

The individual competencies are being used to determine remunerate levels for the top 150 managers and in so doing, close the loop shown in the model. A major consultancy was used to conduct a salary survey across the entire industry and make recommendations accordingly. The outcome was an offer of increased performance based salaries with an 'at risk' component, alongside individual contracts. All 150 managers have signed individual contracts and abandoned the award system that had been in place for the entire company's history.

The case study is one of successful culture change based on a realistic scan of the dynamic external environment faced along with a realisation at the very top that many of its leaders did not have the competencies to take the company into the new marketplace. In addition, the senior team is well aware that it was only a matter of time before the energy sector is privatised as this move has been on the political agenda since the late 1990s.

The Concept of 'Fit'

Also accepted was the notion that the previous approach to HRM had been largely disjointed with no real link to strategic planning. The idea of establishing a new SHRM model based on commercial competencies appealed to top management. The models shown above clearly show the links between the external environment, external customers and suppliers, the internal strategic planning process, the competencies required for the future and the people strategies that would need to be developed to add value to the organisation. The external and internal environments of the organisation helped shape the skills, knowledge, attitudes, values and behaviours (competencies) that will be required for the future. The model links competencies to all HR strategies extending from recruiting to performance management, succession and retention strategies through to remuneration management strategies. There are two key points to be made here. If the competencies are established in haste or are invalid for any reason most of the strategies to the right of the model will most likely also be invalid and ineffective. Secondly, HR professionals cannot focus on a few of these strategies hoping that the others will fall into place. They must aim for best practice across the entire model.

Executive Representation

Without representation on the Executive and also on the corporate planning team, the HRM team had found progress very challenging in their efforts to ensure a tight fit between HR planning and corporate planning. As a result of this project, the People Plan is published as a subset of the overall Strategic Plan where every HR strategy can be seen to link directly back to the Strategic Plan. For the future, HRM must conduct only those processes and strategies that very clearly link to the Strategic Plan. As a case in point, one of the first 'casualties' was the total outsourcing of the Training and Development section which was seen to be conducting programmes that they were good at conducting rather than those with a strategic focus.

Much has been written about the importance of forming effective partnerships with internal customers and business managers (Grattan 2006). This model suggests that there is a key role for external customers and suppliers. In establishing leadership and core business competencies, key external customers and suppliers were included on the Expert Panel so their ideas on such competencies could be taken into account. In addition, the SHRM model shown in Figure 3 clearly shows that all HR processes must flow from the organisation's business plan which in turn is a result of a full external environmental scan involving key external customers and suppliers.

CONCLUSION

This case study highlights an organisation in need of radical culture change so as to survive the transition from a government monopoly to a privatised energy company. A key to the success of this programme has been an awareness and acceptance at the very senior levels of leadership that a new set of leadership competencies would be necessary and indeed, a new set of leaders if

necessary. The ready acceptance of the senior 150 managers and leaders can be largely attributed to the high level of engagement in the entire process. A 'soft' HRM approach is apparent as evidenced by the extensive use of focus groups and individual interviews with feedback distilled by way of content analysis and then communicated back to the leaders involved. The high level of acceptance and engagement with the new competencies and the integrated HRM model can be attributed to this approach.

The development of an integrated model of human resource management is also embraced to link business strategies, external customer and supplier needs and internal people strategies and processes for the first time in the organisation's history. HRM is relatively new as a profession and is still in its infancy by comparison with the older established professions of law, medicine and accounting but can learn from these older professions. At the same time ample evidence suggests that too many HR professionals fail to address the concepts consistent with the notion of a strategic mindset. This paper argues that, until the profession accepts its role as a full business partner and aligns itself with the organisation's strategic planning processes, the profession is in danger of drowning in a sea of trendy management rhetoric.

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