

**Exploring the strategic application of virtual HRM (V-HRM) in a global organisation: A case study from the Australian finance sector**

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### **ABSTRACT**

Virtual human resource management (V-HRM) is emerging as an important area of research in the field of human resource management as Information and Communication Technologies (ICTs) change the way people and information are managed, developed and deployed. There are many claims in the literature about the strategic potential of virtual HR networks but to date there is little critical empirical research. Using Lepak and Snell's (1998) virtual HR model this paper presents a case study that examines the adoption of several virtual HR systems in an Australian bank. While the framework assumes that firms will adopt differential virtual strategies based on an assessment of the value and uniqueness of different human resource requirements evidence from this case study indicates this is not the case.

### **INTRODUCTION**

Rubery and Grimshaw (2001: 168) argue that ICTs have transformed organisations by reducing the transaction costs of organising, managing and controlling employees ( see also Rubery and Grimshaw 2001; Cascio 1999). The view of writers is that new organisational forms will have significant positive effects on the quality, knowledge and competitiveness of network capabilities as they permit more flexible and diverse work arrangements. However many of these advantages may be negated as the development of these systems becomes more complex and fragmented making them increasingly difficult to control and manage (Rubery and Grimshaw 2001).

These ideas may be understood in terms of the ability of organisations to develop ways to leverage knowledge through increasingly complex webs of social and technical systems remains an important issue facing networked organisations (Zahara and George 2002; Quinn Anderson and Finkelstein 1996; Gloet and Berrell 2003). In the case of V-HRM, it is not the application of technology that is the source of sustainable competitive advantage. Technological systems are easily imitated. It is the contribution of virtual HR systems to organisations through managing people and information across complex human resource systems (Miller and Cardy 2000). In particular

Cappelli and Crocker-Hefter (1996) and Coff (1997) argue employee knowledge and skills and the firm-specific systems through which they share knowledge and problem-solve are at the core of a firm's unique strategic advantage (see also Boxall and Purcell 2000). Coff (1997) also notes that the strategic management of human resources throws out particular challenges to organisations that base

their advantage on these resources. As such organisations need to fundamentally understand the architecture of their employment systems, human resource practices and organisational structure to ensure they capture these resources in this new 'virtual' environment (Hedlund 1994; Scarbrough et al 1999). However as many researchers are now identifying there is a lack of in depth research and understanding of the role of human resource management in managing human and social capital across virtual networks (Alveson 1993; Blacker 1995; Scarbrough et al 1999; Boxall and Purcell 2000).

While technology is a vital component or enabler of virtual organisational forms researchers argue that technology should not be the key driver of competitive advantage. In this regard writers (see for example Quinn Anderson and Finkelstein 1996; Lepak and Snell 1998; Boxall and Purcell 2000) point to the challenges and opportunities created by virtual networks within organisations for acquiring developing and deploying human capital across these structural and relational arrangements. But as Snow Lipnack and Stamp (1999: 25) indicate empirical research examining the contribution of ICTs to competitive advantage is relatively new and largely descriptive. Similarly studies in the area of virtual HRM offer little in the way of empirical or theoretical insight, tending to focus on the application of web-based technologies to HR activities (Hinton 2003).

In light of this gap in the research this paper focuses on the development of virtual human resource management (V-HRM) systems in a large Australian financial institution (OzBank). This case study research sought to examine the evolution and challenges faced by an Australian financial institution in developing V-HRM systems. In order to place our analysis in a theoretical context we draw on Lepak and Snell's work on human resource architecture (Lepak and Snell 1999 & 2000) and virtual HRM architecture models (Lepak and Snell 1998 & 1999) to frame our case analysis.

#### Virtual Organisations and Virtual HRM

Given the diverse and fragmented nature of modern organisational structures and attendant employment relations Lepak and Snell's (1998 & 1999) work on HRM architecture provides a framework for theorising about managing of human and social capital across traditional and virtual organisational structures. Drawing on concepts derived from transaction cost economics (Williamson 1993) and the resource view of the firm (Barney 1991). Lepak and Snell (1998) develop a dual framework of strategic value and uniqueness to examine firms' strategic 'make' or 'buy' decisions

about the configuration of their virtual HR architecture. According to this model, strategic value is defined as ‘...the strategic benefits derived from a particular activity relative to the costs associated with its deployment’ (Lepak and Snell 1998: 219). Uniqueness is calculated according to the specificity of an activity to the organisation and/or its scarcity in the external market (Lepak and Snell 1998:219). Firm choice regarding virtual HRM configurations will be based on perceived strategic value and uniqueness of particular human resource management processes and HR systems (virtual and otherwise) to manage them. Figure 1 below summarises Lepak and Snell’s model

### **FIGURE 1 ABOUT HERE**

The relevance of the four quadrants to virtual HRM systems can be described as follows. Where human resources are considered ‘core’ to the firms activities (Quadrant 1) that is they are unique to the firm and provide significant competitive advantage we would expect HR managers would invest resources and deploy customised ICT solutions to achieve superior alignment between core human resource outcomes and strategic business needs (Lepak and Snell 1998 & 2002). Where human resources are considered to be of high strategic value but low uniqueness (Quadrant 2), we would expect that HR Managers would buy in vendor software to automate and standardise HR transactions such as record keeping/human resource information systems (HRIS) at relatively low cost.

Human resource activities that are generic (low uniqueness) and of low strategic value are considered peripheral (Quadrant 3) to the organisation. These activities are most likely to be outsourced because they do not provide significant competitive advantage hence their management is most likely to focus on contractual compliance and cost control. HR managers would in this context use ICTs to ‘buy’ in outsourced HR services such as labour hire firms for staffing or professional services firms that provide specialist benefits such as administration or payroll services. Finally where activities have a high level of uniqueness but are relatively low value to the overall strategic business needs (Quadrant 4) we would also expect HR managers to opt for a ‘buy-in’ solution. For example companies may buy in technical expertise required to design and customise virtual HR systems

We argue this model is a useful tool for analysing the development and implementation of virtual HR systems because it recognises the challenges faced by HR managers in the face of growing organisational complexity and the increased use of ICTs to acquire assimilate and develop knowledge

and human resources. Moreover it allows us to theorise and analyse the bases on which firms decide to 'make' or 'buy' virtual HR systems by examining firms' choices in relation to the development and implementation of virtual HRM systems.

### **Case Study: Virtual HRM at Ozbank**

OzBank is one of the largest companies in Australasia and a prominent player in international banking and financial services employing over 25 000 staff. The HR Services Group (HR Services) at OzBank operates as a shared services unit that provides operational and strategic HR services to the bank's business and functional units on a cost recovery basis. In addition to this, the HR Services Group is involved in developing and managing the bank's HR information systems.

Over the last 5 years, OzBank has undergone a whole-of-business strategic initiative aimed at creating a 'paperless', e-enabled business environment. It is within this context that HR Services has developed and deployed a range e-enabled HR activities such as OzBankPay (payroll information and self-service) E-Learn (training program) People-Recruiter (graduate recruitment program) and EmployeeAssist (self-service HR information kiosk). HR services has developed a range of HR reporting tools with linked web-interfaces with external providers such as occupational health and safety insurers and employee superannuation managers. These systems are built on a common HRIS platform purchased from a global vendor (HR vendor) and delivered through OzBank's intranet utilising a range of web-based communications tools, including email.

When the project team visited OzBank, the HR Group were reviewing a number of aspects of the virtual HR system. After a review of the bank's payroll operations with a view to outsourcing the function, a decision had been made to keep the payroll in house. This was largely because OzBank had purchased an off-shore bank and there were concerns about merging the payroll systems. Another issue occupying the HR group was that the central HRIS platform was not providing flexibility needed across OzBank's business units. For example, business unit managers found the recruitment module attached to the system to be overly complex, not user friendly and difficult to customise to accommodate their specific needs.

## **METHODOLOGY**

Case study methodology was adopted for this project because of its suitability in addressing the complexity and dynamic nature of organisational research. Undertaking case study methodology also provides the opportunity to use multiple sources of data to capture the dynamics of a changing organisation as well as the role and perspectives of the stakeholders as they interact evolve and change over time (Larson 1993; Miles & Huberman 1994). The case study approach is especially appropriate in new areas of research in this case the development of virtual HRM systems allowing for the theory development (Eisenhardt 1989) particularly where the research focus is exploratory and theory-testing (Yin 1994).

Because of the exploratory nature of the study semi-structured interviews were undertaken with key senior HR personnel in OzBank. The interviewees had expert knowledge in the areas of Corporate HR services Payroll and Graduate Recruitment for the banks operations in Australia and New Zealand. In addition archival material and contemporary information from OzBank's website and intranet were used. The interviews were analysed in Nvivo a qualitative data analysis program using various coding techniques. The main themes were identified, coded and reviewed by the project group to ensure the themes were not idiosyncratic but representative of issues raised by interviewees. Subsequent recoding resulted in refining the themes presented in this paper.

## **ANALYSIS & DISCUSSION**

The aim of this case study is to explore the strategic development of virtual HR using Lepak and Snell's (1998) Virtual HRM model to generate theoretical insights into Ozbank's development and implementation of a virtual HRM system. The analysis presented here is used to develop insights into the bases on which Ozbank determined 'make' or 'buy' decisions in the development and implementation of its virtual HRM systems. In particular the analysis examines whether the decisions made by the bank to implement virtual HR systems are based on a strategic evaluation of the value and uniqueness of the function.

Due to the word limitations of this paper our analysis and discussion reports in detail on one major aspect of OzBank's virtual HRM initiatives - the graduate recruitment program (People-Recruiter).

Based on the Lepak and Snell Virtual HR model Table 2 below summarises what we expected to find in our analysis of the Ozbank data. Of interest to this paper is the location of the graduate recruitment program in the model. We argue, with reference to the model that the development of a graduate management recruitment (People-recruit) program will reflect a high uniqueness (given the diversity of the needs of OzBank's business units) and high value (given the relative competitive advantage of recruiting high quality, skilled and motivated employees) approach, placing it in Quadrant 1 of the model.

## **FIGURE 2 ABOUT HERE**

### **People-Recruiter (Graduate Recruitment Program)**

Ozbank's graduate program is an Australia-wide program designed to identify graduates with the potential to be fast-tracked into the management levels of the bank within 2 years. Ozbank has an estimated 10,000 applicants for approximately 120 positions annually (in other words about 80 applicant for every position). As such it would be expected that the initial process needs to be relatively standardised to reduce the applicants to a manageable and potentially employable applicant pool.

As this process moves into the selection stages we would expect to see this as a high value HR function, becoming much more resource intensive as the organisation selects their future management talent. We would expect that extensive internal resources would then be dedicated to the final stages of the process as OzBank recruiters matched applicant details with key selection criteria - placing it in quadrant 1 of the model.

The case study indicates that this is not how OzBank defined the recruitment process. The graduate recruitment, selection and orientation program has been outsourced since 1999. The graduate program is an amalgam of external providers who provide a number of specialist recruitment and selection services to OzBank. These services are project managed by OzBank's graduate recruitment manager. The recruitment manager described the program as follows;

... the recruiting team is actually off-site – what I mean by that is that element has actually been outsourced to 'Recruitment Company' – I project manage it It's a consultancy that does it...

The recruitment company manages the recruitment process from initial inquiries to applicant shortlists via the contractor's virtual recruitment website which is linked to OzBank's home page. At the end of the process successful applicants participate in a 12 month orientation program. This program is run by another external provider. Again the graduate recruitment manager describes the program;

The orientation program... it is actually outsourced... LearningCo provide the training and development so the design is actually theirs but its housed under OzBank ... it is meeting the requirements of where we want our graduates to go...

The outsourced graduate program has been perceived as very successful in meeting OzBank's graduate recruitment requirements. However when pressed, managers acknowledged they have no comparative data on which to assess the success of those recruited through the program. Further investigation reveals that information held by OzBank's graduate program such as recruits' attributes and performance data (gathered from the selection process), subsequent internal job allocation and early job performance is not collected and integrated with Ozbanks's HR Vendor platform or other HR system. Further discussions reveal that this makes tracking graduate experience and performance very difficult for line managers. In addition, the in-house, online recruitment site developed and customised by HR services to address line managers' day to day recruitment needs (in response to dissatisfaction with the HRIS recruitment module) does not 'talk to' the graduate program.

In explaining the development of the graduate program in terms of the Lepak and Snell's (1998) model, OzBank's approach to recruitment appears to define graduate recruitment as a traditional job related HR activity (quadrant 2 high value low uniqueness) rather than as we suggest a more strategic activity characterised by high uniqueness high strategic value (quadarant 1). It appears that of the cost reductive benefits of the external providers are seen as significant in the analysis of the partnerships developed between the bank and recruitment consultants with regard to successful management of the recruitment program.

However taken beyond this point, it appears the relationship is less than optimal from a strategic perspective. The integration of the graduate program with other HR functions breaks down very quickly, leaving the bank open to gaps in the knowledge it holds about its graduate recruits. As such it

appears to affect the ability of Ozbank to manage information about its human capital pool strategically. In terms of the knowledge management literature, the absorptive capacity of the recruitment process has been compromised by severely limiting Ozbank's ability to effectively and strategically manage information about these highly skilled and sought after recruits. As such Ozbank's approach appears under-estimate the importance of managing the information embedded in the outsourced recruitment system.

As Lepak and Snell (1998: 223) point out in developing external relationship such an approach should come with:

...an important caveat for outsourcing and partnering: externalizing parts of an overall HR configuration may diminish the uniqueness of the entire system thereby jeopardizing its strategic contribution

The silos created by OzBank's graduate program and the future partnership to manage the PeopleRecruit program raise a number of issues regarding the integration of the bank's recruitment programs with its other HR activities. Knowledge management and organisational learning issues lay at the centre of these issues. While the bank appears to be very successful in aligning outsourced activities with business objectives it faces problems in managing information flows from these external partnerships into the bank's internal HRM systems. Horizontal integration (and absorptive capacity) seems to be a casualty of OzBank's graduate programs. OzBank has created a graduate management recruitment silos which may compromise graduate recruitment program's strategic contribution to OzBank's competitiveness. As a 'buy in' system it is easily imitated by competitors and as an in house system it is poorly integrated into the bank's other recruitment programs.

## **CONCLUSION**

The aim of the study was to explore the strategic development of virtual HR in an Australian bank using Lepak and Snell's (1998) Virtual HRM model to generate theoretical insights. The findings from our analysis of Ozbank's People-Recurit system are, as we have argued not consistent with Lepak and Snell's (1998) virtual HR model. The findings are however consistent with much of the literature on virtual HRM where cost and convenience considerations appear to outweigh strategic

value and uniqueness arguments for automating particular HR activities (see also Mayson and Storen 2003).

The decision to outsource OzBank's graduate program while perceived to be successful for the bank from a cost and process perspective has no comparative basis for this perspective and does not appear strategic in its management of this human resource management process. It is acknowledged by the graduate recruitment manager that the recruitment program is not integrated into Ozbank's virtual HR platform and information management systems. As such information flows are compromised. This will potentially dilute the competitive advantage derived from the current success of the program particularly if the bank fails to leverage knowledge derived from the graduate program to add value to the HR function for example the future deployment of graduates within the bank.

The research presented sought to identify trends current issues and challenges faced by firms developing and implementing Virtual HRM in the finance sector. The analysis aimed to move beyond descriptive accounts of systems implementation and add to the theoretically informed literature on virtual HRM by using Lepak and Snell's (1998) virtual HRM framework to provide a theoretical basis for understanding the development and implementation of OzBank's virtual human resource management system.

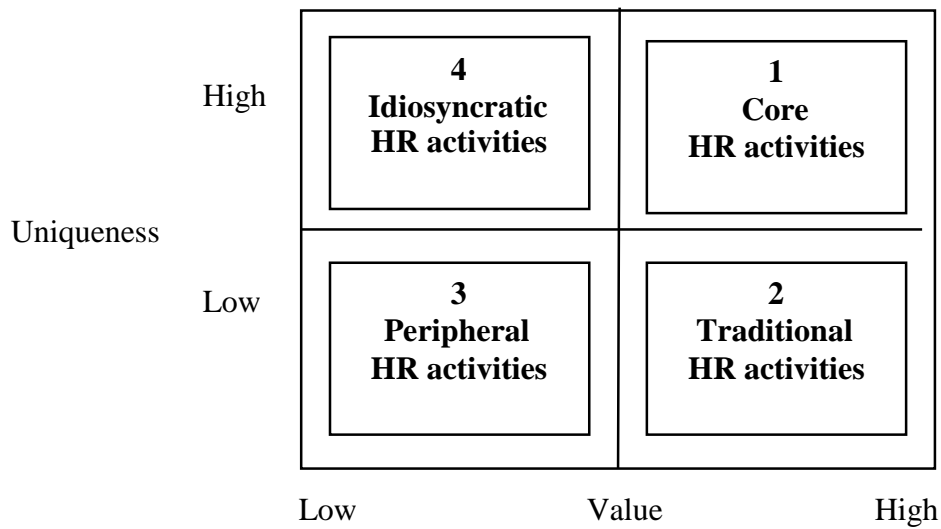
The analysis presented here is limited in that it is based on one dimension of the model and it presents data from one case study in a single (global) industry. It does however go some way toward addressing the gap in our knowledge about the factors that influence the configuration of HR systems in virtual organisations. In the absence of critical research in the area more research needs to be done. It also indicates further empirical study to investigate the divergence and convergence of virtual HR systems within and across industries is required as these Virtual-HRM platforms become increasingly integrated within organisational processes and systems. Similarly it would be useful to investigate the role of human resource management virtual HRM and knowledge management in contemporary organisations.

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**Figure 1 Lepak and Snell's (1998: 224) Virtual HR model**



**Figure 2 OzBank Virtual HR model**

