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Peter J. Dowling*

Human Resource Management and Economic Success: An Australian Perspective**

In this paper we examine the case for a link at the national and firm level between human resource management (HRM) and economic success in Australia. A brief history of the industrial development of Australia (and New Zealand) is presented and some differentiating factors noted (Dowling/Boxall 1994). A key factor with regard to Australia is the relatively small size of the population and economy and the disproportionate impact of globalisation and global political and economic events upon the performance of the Australian economy. Recent empirical research in the US which argues that there is evidence that positive employee relations effectively serves as an intangible and enduring asset at the firm level (Fulmer/Gerhart/Scott 2003) is noted, as is the December 2003 special issue of *International Journal of Human Resource Management* which focuses on Developments in Comparative HRM and concludes that there is evidence both for and against the hypothesis that there are no universal prescriptions for effective HRM. The editors (Wright and Brewster) argue that "the variety of views about what makes for 'good HRM' and the variety of understandings of which policies and practices lead to success is not only inevitable, but should be welcomed" (Wright/Brewster 2003: 1305). The author is in broad agreement with this conclusion.

Key words: **HRM, Australian Perspective, Firm Performance, Economic Success, German Companies Operating in Australia**

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Introduction

The focus of this paper is on the extent to which there is a connection between human resource management and economic success in Australia. Before commencing this analysis it is appropriate to provide some historical context. In doing so, it should be noted that Australia and New Zealand have a similar history and are an interdependent economic region so some information about New Zealand is also provided. While not attempting to reduce the impact of human resource management policies and practices on firm performance, this paper argues that human resource management is one of several key components of the equation in developing a business strategy that can be implemented effectively in an increasingly globalised market.

As Dowling and Boxall (1994) [1] have noted, Australia and New Zealand are small, resource-based economies with low populations (Australia, 20 million; New Zealand, 4 million) located in the geographically remote South Pacific. Both are former British colonies. They operate Westminster-style democracies and enjoy a strong reputation for political stability. Unlike most inhabitants of the South, however, Australians and New Zealanders have traditionally enjoyed high standards of living. In both countries, high agricultural productivity has traditionally been a major source of this wealth. New Zealand's success has largely been based on ideal conditions for sheep grazing (producing high quality meat and wool) and dairy farming (producing cheap butter, cheese and other dairy products). Forest products (e.g. pulp and paper) and fisheries have also added significantly to national income.

Australia is similarly famed for its sheep products but is also a major producer of grains (e.g. wheat, barley and sugar). Besides these agricultural strengths, Australia has historically exploited its major mineral deposits. Australia, with a large land mass of over 7.6 million square kilometres, has grown rich on iron, ore, coal, gold, alumina, lead, zinc, and other mineral resources. Unlike New Zealand, Australia is a drought-prone country, so the value of its profound mineral deposits cannot be underestimated as a factor in supporting national output. In both countries, the success of the resource-based industries has enabled governments to protect relatively inefficient manufacturing sectors. This protection has been vital to employment in Australian and New Zealand cities. As some have remarked, protection of manufacturing has enabled governments to spread the benefits of high agricultural and mining productivity 'to an increasingly urbanised population' (Blandy 1988).

As the post-war economic order began to change in the face of the oil shocks of the 1970s, this traditional success formula began to be seriously undermined in both Australia and New Zealand. Britain's entry into the European Community (now European Union) in 1973 began to force both countries to seriously consider major diversification of both products and markets. By the mid-1980s, both countries were facing major debt crises and finding it very difficult to sustain full employment and to maintain historically generous social welfare policies. More market-oriented economic

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[1] Much of the historical context for this paper is adapted from Dowling & Boxall (1994) – see the Reference list for publication details.

policies (known as 'economic rationalism' in Australia) began to dominate the political agenda of both countries from the mid 1980s (e.g. Marsh 1988).

In the 21st century, Australians and New Zealanders find themselves in a different kind of world economy. Business has increasingly 'globalised' (Dowling/Welch 2004). Firms must fight harder to hold and expand market-share in both foreign and domestic markets. Advanced production and communication technologies have raised the intensity of competition, enabling multinational firms to site facilities in a variety of desirable locations. Newly industrialised, high growth economies in Asia have escalated the pressure to perform or face further relative decline. Quality management has become increasingly important as customers - both industrial and consumer - have been increasingly socialised by highly competitive firms into expecting quality products and services.

In Australia, the two mainstream political parties now accept that the exploitation of natural resources and export of traditional commodities will not sustain historical levels of affluence. Protection of manufacturing has increasingly been dismantled, with major job losses, but also with beneficial effects as the more robust firms have survived the restructuring process and found new competitive strengths that have expanded their exports. Through its membership of the Asia Pacific Economic Forum (APEC) and the World Trade Organisation, Australian political leaders of both parties have consistently endorsed policies which emphasise open markets and the reduction of market protection. The Closer Economic Relations agreement between Australia and New Zealand and the recent bilateral Free Trade Agreements between Australia and Singapore (2003) and Australia and the USA (2004) are evidence of this trend.

It is important to note the impact of foreign companies on the Australian economy. The top 500 foreign companies employ 4.2% of all employees and account for 12.3% of total revenue of all Australian companies. Of the top 500 foreign companies in Australia there are 176 US, 67 Japanese, 66 British, 31 German and 25 Dutch companies (BRW 2004). In addition to their financial contribution, these companies are also influential in terms of their contribution to innovation and management practice. Nevertheless, as the Australian economy and its labour market matures in a global sense, the nation faces a variety of challenges to remain globally competitive within a geographically and culturally diverse region.

Most business leaders in Australia would endorse the view recently expressed in *The Economist* (2003) that China can compete for the next 50 years on labour costs. Like a number of the advanced economies, Australia cannot compete on a cost leadership model and many of Australia's unskilled and semi-skilled jobs (primarily concentrated in the footwear, clothing and textile sectors) have moved offshore to the nation's neighbours in South East and North Asia. While resource-based industries will remain important and continue to offer opportunities for further downstream processing, there is a growing recognition that human capital must be developed and utilized in more powerful ways. The new era of intensified competition and advanced technologies calls for much greater recognition of human assets which requires more demanding education and training systems and relatively cooperative labour relations to enable firms to exploit more of the competitive possibilities opened up by a globalised economy.

An example of policy at the macro level which reflects the nation's orientation to competing effectively in the globalised market is the Australian Government's 2003 Innovation Statement titled *Backing Australia's Ability* (Commonwealth of Australia 2002). The Innovation Statement covers a wide range of areas of the Australian economy relevant to innovation and commercialisation, particularly focusing on the development and retention of skills, research and development, and the commercial application of research. Given Australia's ageing population and the shortage of semi-skilled and skilled workers, these policies will become more important as Australian companies are increasingly exposed to the complexities of operating in a culturally and geographically diverse market.

Recent trends impacting on Australian business enterprises

Facing an increasingly competitive global business environment, Australian business enterprises (both private sector and government enterprises) have increasingly utilised a range of business and human resource (HR) policies and practices to manage the impacts of various trends shaping their behaviour. Seven trends have had a particularly powerful impact on Australian enterprises:

1. ***Restructuring***. The diversification boom of the 1980s saw many large Australian companies diversifying away from their core operations (Hanson/Dowling/et al 2005: 220). The extent of the diversification boom ranged from companies such as BTR Nylex and Pacific Dunlop being involved in 56 of Australia's 465 classes of industry in 1988 to Adsteam's involvement in 91 classes of industry in 1992 (Ruthven 2004a). Following the demise of Pacific Dunlop and Adsteam during the 1990s, many companies moved away from conglomerate business structures and unrelated diversification towards more focussed businesses with links and relationships between business units (Hanson/Dowling/et al 2005: 277).
2. ***Increasing Market Size***. Despite research by the Australian Bureau of Statistics indicating that Australian direct investment in the US, Britain and Japan failed to produce returns above the bond rate during 2002 (Ferguson/James 2003; Roberts 2004), Australian companies have little choice but to continue to grow their businesses beyond the relatively small market of 24 million customers in Australia and New Zealand. Predominantly, Australian companies have attempted to establish new operations in Asia and Europe and to a lesser extent, in the US. (Hanson/Dowling/et al 2005: 302). For example, by marketing the Breville brand of electrical appliances, Housewares International was able to earn 12% of its sales revenue from North America (Walker 2005). Similarly, Amcor has released a limited range of its Australian brands in the overseas market and now derives three-quarters of its revenue and 70% of its profits from overseas operations (Ferguson/James 2003). German companies operating in Australia have also followed this trend, as evidenced by the export operations of Bosch Australia. During 1993, Bosch's exports were about A$2 million. By the end of 2003, Bosch's exports had increased by approximately 2,000% (Way 2003a).
3. ***Outsourcing.*** Following the failure of over-diversified conglomerate business structures in Australia during the 1990s, widespread use of outsourcing of non-core business activities continues to grow at the national level (Han-

son/Dowling/et al 2005: 115-6). The impact of outsourcing on the domestic economy is evident when growth of total national revenue is compared to growth of the top 1,000 Australian companies. While national revenue has grown by 73% from 1988 to 2004, real growth of Australia's top 1000 companies has been comparatively smaller at 51%. Similarly, the top 1000 companies' share of national revenue has fallen from 57% of $851 billion in 1988, to 51% of total national revenue of $2.23 trillion in 2004. The trend toward outsourcing that has swept over large Australian corporations has effectively added more revenue to the nation while diluting the top 1,000 companies' share of national revenue each year (Ruthven 2004a).

4. ***Movement of businesses and jobs offshore***. A state of oligopoly exists in many sectors of the Australian industry base, limiting opportunities for Australian businesses to sustain profitability by concentrating solely on domestic market share (James 2003). Moreover, Australia is expected to reach full employment (where unemployment is less than 5%) by 2007 for the first time in 30 years, with skill shortages already appearing in many sectors, such as business services/accounting and mining (Ross 2005; Ruthven 2004b). Growth will become harder to achieve as Australian firms operate at, or near, full capacity (Richardson 2005).

   Many companies have moved their businesses and jobs to Asia (see Figure 1) to reduce operating costs (commonly known as "offshoring"). For example, Telstra intends to move 400 information technology (IT) jobs offshore (ABC 2004) and Qantas has announced the possibility of moving 7,000 jobs or 30% of its staff offshore (AAP 2005) to take advantage of lower wage costs and greater access to skills. According to a survey of 201 major Australian companies conducted by the Australian Productivity Commission (2002), 50% of respondents currently have or are planning offshore investments.[2] However, only 4% of respondents have or intend to move their headquarters offshore – although these are among the largest Australian firms. As Figure 2 shows, most Australian firms are engaged in operations offshore that are similar to core Australian activities rather than engaging in new or unrelated activities.

5. ***Privatisation***. During the 1990s, various government business enterprises owned by the federal government and state governments across a range of sectors including banking, energy generation and air and rail transport were privatised. This wave of privatisation has had a major impact upon the domestic economy (see Figure 3).

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[2] In a more recent survey (see Washington 2005) 68% of respondents were considering opportunities overseas.

Figure 1 Location of Offshore Operations (%)
(Figure adapted from: Productivity Commission 2002: 19)

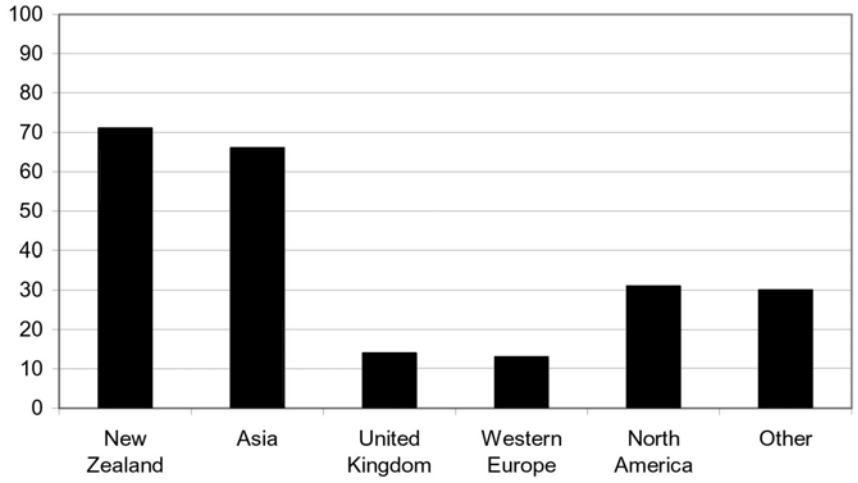
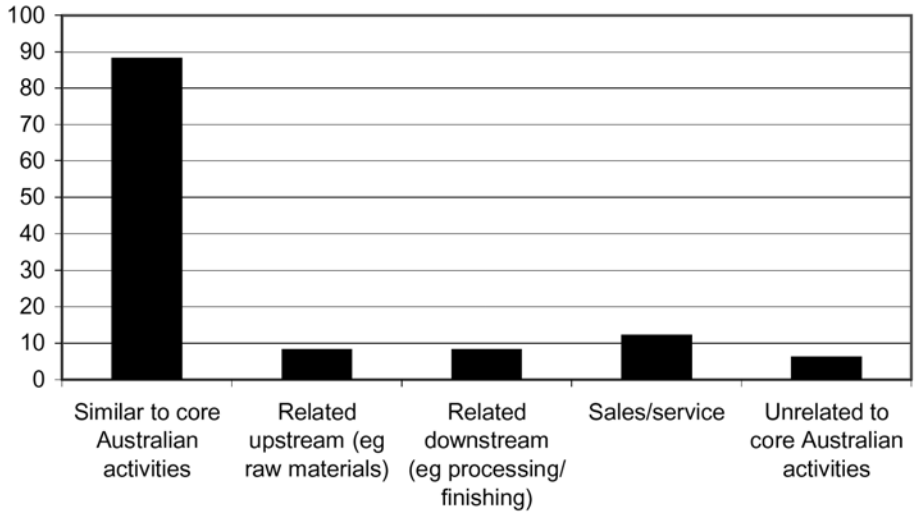


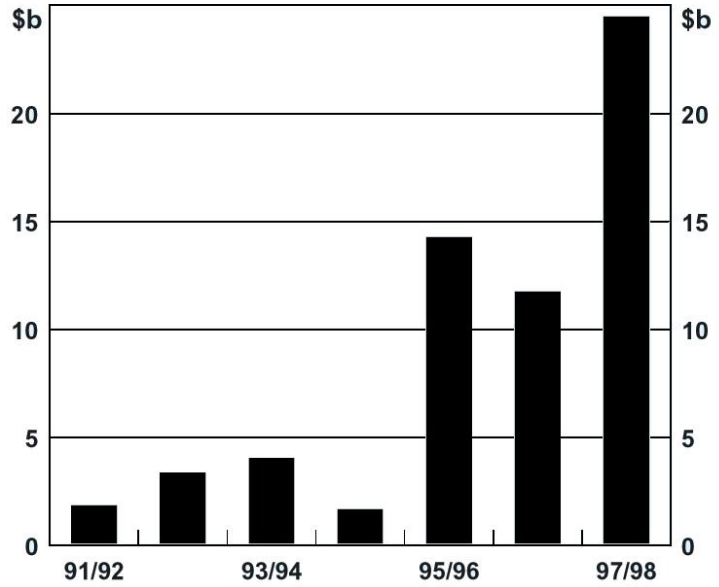
Figure 2 Nature of Offshore Operations Relative to Operations in Australia (%)
(Figure adapted from: Productivity Commission 2002: 17)



Beginning with the partial privatisation of the Commonwealth Bank of Australia in 1990 and followed later by Qantas (Australia's international airline) and Telstra (Australia's largest telecommunications provider), Australia's privatisation program has been one of the largest among OECD countries in recent times (see Figure 4). The trend towards privatisation is likely to continue with the current conservative Australian government gaining control of the Senate, Australia's up-

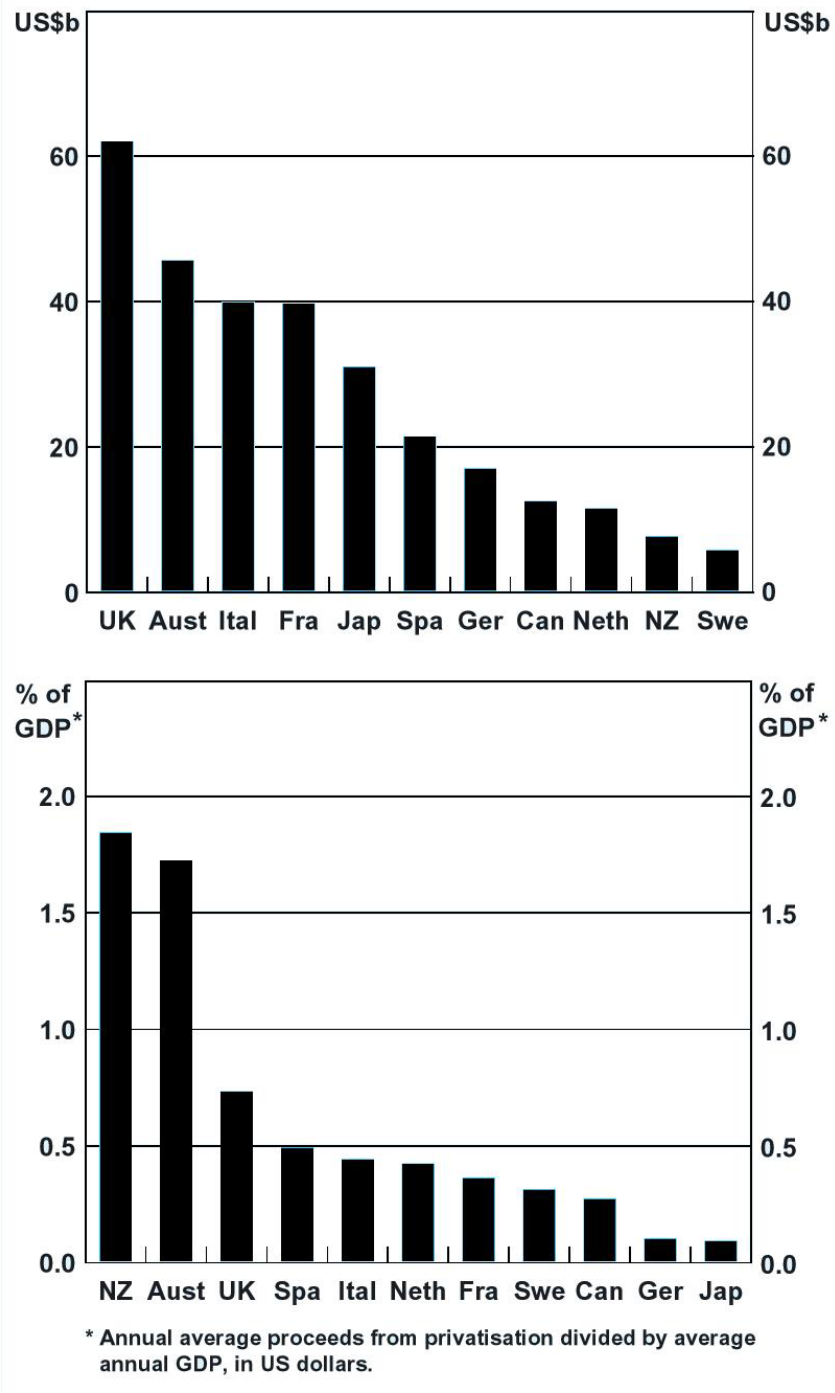
per house, from 1 July 2005 for the first time in over twenty years. The sale of the federal government's controlling 50.9% holding in Telstra during 2005/06 is likely to raise more than A$30 billion and will have a significant impact upon the domestic economy (Skotnicki 2005).

Figure 3 Value of Privatisations of Public Trading Enterprises in Australia to 1998
(Figure adapted from: Reserve Bank of Australia 1997: 7)



6. ***Utilisation of Contractors***. The use of contractors has increased, both on a casual basis and for full-time employment, utilising fixed term Australian Workplace Agreements (AWAs). AWAs were introduced in new federal industrial relations legislation brought in by the current conservative Australian government during the late 1990s. The aim of the new industrial relations agenda was to decentralise industrial relations bargaining and reduce the impact of national pattern bargaining, thus placing greater emphasis on enabling workers to negotiate directly with employers. This new industrial relations legislation also reduced the traditionally dominant role of the Australian Industrial Relations Commission in arbitrating industrial disputes and setting national wage levels in key industries. Although vigorously opposed by the Australian trade union movement these industrial relations changes have been a key aspect of the conservative political party's last three federal election victories and part of their electoral mandate (Hanson/Dowling/et al 2005: 58-9). In this environment, effective human resource management policies and practices will be essential to avoid industrial disputes as the traditional power base of the unions is reduced. Bosch Australia is one company that has managed to avoid industrial disputes during its 49 years of manufacturing in the state of Victoria. Aside from state or national-based union campaigns, the German multinational has never experienced major industrial action (Way 2003a).

Figure 4 Value of OECD Privatisations from 1990 to 1997 in US$ Billion and as a % of GDP
(Figure adapted from: Reserve Bank of Australia 1997: 8)



7. ***Performance Management***. Australia's unfair dismissal laws have often presented a challenge to managers lacking the skills necessary to conduct effective employee performance through traditional employee appraisal systems (Way 2003b). Nevertheless, assessing employee performance by adopting performance management techniques in both the private and public sectors, especially among white collar workers, increased significantly during the 1990s (De Cieri/Kramer 2003: 286). Moving beyond the narrow focus of performance appraisals, performance management has developed in response to the globalisation of Australian industries. In its modern Australian context, performance management attempts to move beyond the traditional focus of employee appraisals in an attempt to align individual behaviour and outcomes with a firm's global business strategy. Given the difficulties of geographic and cultural distance faced by many Australian firms operating in the international market, performance management is now very much entrenched as part of a firm's overall management system (Dowling/Welch 2004: 235). By aligning individual behaviour and outcomes with global business strategy, managers expect these behaviours and outcomes at both the subsidiary level and at headquarters.

Discussion and Conclusions

There is no doubt that the trends outlined in this paper have helped to transform the Australian economy over the last decade and few would argue against the proposition that Australian managers have improved their performance, that more innovative HR policies and practices are now utilised by a larger number of enterprises and that the workforce is more flexible. However, it is important to note that it is often very difficult to disentangle the influence of macro and micro changes that are implemented simultaneously. As many HR scholars have noted, there are numerous methodological problems with attempting to empirically demonstrate the impact of HR policies and practices on firm performance.

Currency exchange rates provide a simple example of how exogenous global factors can impact on firm financial performance. In 2003, the 31 German companies operating in Australia (see Table 1) reported profits of A$451 million. This result is even better from a German headquarters perspective when the 16% appreciation of the Australian dollar against the Euro during 2003 (Roberts 2003) is taken into account. Many of these German companies also operate in the US and have experienced exactly the opposite effect when their US dollar revenues are expressed in Euros – confirming the fact that when assessing firm performance, multinational companies must not only take a global rather than local view of performance, they must consider the impact of external as well as internal factors.

Recent empirical research in the US argues that there is evidence that positive employee relations effectively serves as an intangible and enduring asset at the firm level (Fulmer/Gerhart/Scott 2003). This phenomenon is likely to become more apparent in Australia as full employment combined with an ageing workforce make it difficult for employers to attract and retain good employees. Australian firms seeking business opportunities offshore will also face a variety of challenges in aligning HRM policies and practices with business strategies. The trend of Australian firms increas-

ingly looking to the Asia Pacific region for new markets and the impact of globalisation and cultural diversity will make it more difficult to determine the extent of the link between effective HRM and economic performance.

Table 1: German Companies Operating in Australia
(Table adapted from: BRW 2004 Top 500 Foreign Companies)

Rank	Company	Total Revenue ($M)	Net Profit ($M)	Net Profit Change (%)	Total Assets ($M)	No. of Employees	ROSF (%)^^
13	Allianz	2,465.27	26.46	520.78	5,665.60	2938	2.25
17	DaimlerChrysler	2,121.76	100.00	88.35	2,310.14	916	23.43
37	Munich Reinsurance	1,288.08	21.90	337.23	2,178.17	135	7.35
41	Deutsche	1,239.84	53.11	8,304.11	13,067.88	1061	2.9
53	BMW	1,057.41	55.37	-18.89	366.06	369	37.89
66	Robert Bosch	869.18	26.42	20.97	379.90	1928	17.06
76	Baulderstone Hornibrook	795.85	6.40	-35.39	267.99	887	13.46
91	Siemens	704.57	-16.39	LTL	608.17	1634	-27.14
112	WALTER Construction	605.15	-42.01	PTL	188.34	1098	N/A
139	Alphapharm	493.56	40.80	10.71	228.23	649	29.31
147	Bayer	460.90	18.28	69.75	290.25	561	11.73
158	Hannover Life Re	418.88	14.22	42.22	566.87	43	8.71
170	RAG Australia Coal	377.05	69.92	320.95	478.61	N/A	33.72
177	BASF	362.44	3.42	LTP	213.99	186	15.25
184	DHL	350.12	7.43	72.42	74.53	603	36.19
289	Hella *	212.00		N/C		N/A	N/A
291	Thyssen Mining	209.62	13.42	-65.33	102.02	707	57.8
298	SAP	203.17	15.38	LTP	77.88	312	62.4
321	Bayer CropScience	182.61	-1.97	PTL	139.27	168	-6.93
322	Heidelberg Graphic	178.40	-10.68	LTL	190.94	250	-22.31
328	Schenker	170.65	3.29	-20.84	57.69	330	10.55
338	BMW Australia Finance	166.59	24.15	17.89	2,255.38	N/A	15.94
359	Schefenacker Vision	150.34	9.83	1.54	97.35	N/A	20.1
360	Tatiara Meat *	149.00		N/C		N/A	N/A
379	MTU	138.55	2.13	-26.30	143.05	564	4.87
395	adidas	129.36	-10.03	LTL	79.83	207	-134.61
401	Schering	125.83	9.10	7.30	45.26	111	28.47
417	Thyssen Mannesmann	120.48	3.15	20.03	49.72	21	26.67
455	Hans Schwarzkopf	106.04	5.18	-4.27	31.90	135	45.54
492	Siemens Dematic	88.84	1.88	N/C	74.04	277	10.67
496	Beiersdorf	87.52	1.50	LTP	53.49	162	6.58

Footnotes and explanations

Net profit: Operating profit or loss after tax, minorities and abnormal items but before extraordinary items.
* Estimated revenue
# Non std accounting period
^^ Return on shareholders' funds
N/A Information not available or not applicable
N/C Information not calculable
LTP Loss to profit
LTL Loss to loss
PTL Profit to loss

The December 2003 special issue of *International Journal of Human Resource Management*, which focuses on Developments in Comparative HRM, concludes that there is evidence both for and against the hypothesis that there are no universal prescriptions for effective HRM. The editors (Wright and Brewster) argue that "the variety of views about what makes for 'good HRM' and the variety of understandings of which policies and practices lead to success is not only inevitable, but should be welcomed" (Wright/Brewster 2003: 1305). Given the Australian experience, this paper is in broad agreement with this conclusion.

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