

Strategic Human Resource Management

Learning Objectives

AFTER STUDYING THIS CHAPTER, YOU SHOULD BE ABLE TO:

- 1 Describe why HRM (human resource management) is important to a company's performance.
- 2 List the six primary HRM functions.
- 3 Describe why it is important to align the HRM functions in support of common goals and objectives.
- 4 Explain why HRM is important for smaller as well as larger organizations.
- 5 Explain why HRM is important to every manager's career.

Effectively managing employees is critical to organizational success. If you disagree, then fire all of your current employees, replace them with the next people you see, put them on the job with no training, and pay them a low wage. Few successful managers would accept this challenge because they know that who they hire and how they motivate and treat their employees are essential to their performance and survival. A company has a **competitive advantage** when it does something differently from its competition that allows it to outperform them and succeed in its industry.

Competitive advantages can come from factors, including better technology, more innovative products or services, better locations, lower costs, or outstanding customer service, but these advantages don't happen by themselves. It is always the organization's employees who create, implement, or sustain a competitive advantage. Research has found that acquiring, nurturing, and retaining the best talent available is essential to firms' performance and viability, particularly for knowledge-based firms.¹ As Wade Burgess, VP of Talent Solutions for LinkedIn said, "Traditionally, what separated an average company from a great company had been technology. We're in the middle of a transformation. Today, what differentiates an average company from a great company is talent."²

So how do people make such a difference to an organization's success? At companies such as Google, successful products and services are created and delivered by the company's talent. Employees at Activision, Apple Computer, and Nike create, manufacture, and sell new and innovative product lines. Employees are responsible for creating the supply chains and manufacturing systems that produce low-cost, high-quality automobiles at Tata Motors and Hyundai. Finally, the high-caliber customer service at L.L. Bean, Marriott Hotels, and

Zappos starts with quality employee-customer interactions. None of these companies would be as successful without the talents and efforts of their employees. By making employees more effective at their jobs and the company better at executing its strategy, HRM can create substantial value within an organization if it is done strategically.³

In the first section of this book, *The Importance and Context of Human Resource Management*, we discuss the important role the management of human resources plays in organizations. This chapter gives an overview of how human resource management (abbreviated HRM throughout the book) influences organizational performance and business strategy execution, as well as how effective HRM can create a competitive advantage. The importance of flexibly applying HRM in different organizations and among different employees (functions, and performance levels) is also discussed. After reading this chapter, you will understand the role HRM plays in a firm and how it adds value. Because HRM policies are created by the company but are executed by managers and supervisors, we also discuss managers' roles in executing HRM strategies and policies. After reading this chapter, you will understand the role HR plays in a firm and how it adds value.

What Is HRM?

Human resource management is the organizational function responsible for attracting, hiring, developing, rewarding, and retaining talent. HRM is responsible for people-related issues as well as employment-related legal compliance. Effective HRM is critical to all organizations because it both manages risk and creates the system that acquires, motivates, manages, and retains the talent that determines the organization's success. In higher-performing companies, talent issues are a common focus of top leadership. Because employee costs are one of the largest components of an organization's operating budget, it is essential to properly manage the investments a company makes in its people. No organization will maximize its effectiveness without the acquisition, development, deployment, and retention of the right talent.⁴

HRM is also important to attend to as an employee or as a potential employee. Would you perform as well or be as satisfied in a company that invests in your development, gives you clear goals, rewards you for good performance, and gives you regular feedback about your performance as you would in one that does not? Most people wouldn't be able to perform as well and wouldn't stay very long in a company that doesn't motivate, develop, and fairly reward them. Companies differ widely in the rewards, training, and development opportunities they offer to employees. If you value developing your skills and advancing in your field, it is wise to choose an employer with HRM practices that will help you do this.

Our goal in writing this book is to help you to understand how to effectively use HRM tools to be a better manager and bring out the excellence in each of your employees. Effectively managing others is as important in marketing and accounting as it is in nursing, computer programming, construction, and every other field. We also want you to better understand how to leverage HRM to enhance your personal career success. Understanding how HRM policies and practices work can help you better identify a job or an organization you will enjoy working in, increase the chances of getting the job you want, and help you to be a more successful manager once you are there. An organization's HRM choices reflect a lot about its values and about what it is like to work there, and the better you understand HRM policies and choices, the better you'll be able to find a company that matches your values and motivations.

Table 1.1 illustrates how HRM affects the work processes that lead to competitive advantage, value creation, and organizational performance through strategic execution, the creation and maintenance of a positive work environment, and engaged employees. This model also illustrates the flow of this book.

table 1.1

How HRM Influences Organizational Performance



Essentially, HRM influences organizational performance through its influence on three key areas:

1. Influencing what employees *should* do.
2. Influencing what employees *can* do.
3. Influencing what employees *will* do.

These three forces lead in turn to effective work processes, including a positive work environment, engaged employees, and strategic execution that create a competitive advantage for the organization. This competitive advantage then positively influences organizational performance.

What Employees Should Do

Factors including organizational strategy, competitive environment, and legal requirements all influence what an organization's employees *should* do. After establishing a business strategy, managers identify the resources, skills, and quantity and quality of talent that will be needed to execute it. HR planning is an important HRM activity that involves designing work for optimum efficiency and performance as well as identifying the amount and types of talents the company will need to execute the business strategy. Because this aligns the HRM strategy, policies, and activities with the business strategy, it is essential to effective HRM. If a manager wants to grow the business, wouldn't it be helpful to know what skills and competencies employees need to possess and have enough time to develop them before they are needed? Analyzing work and human resource planning are covered in Chapter 4.

There are also many laws and regulations that affect HRM practices and the employment relationship. Failure to follow them can be costly both financially and to your organization's reputation and future business success. Many of these laws are necessary because of past employment discrimination in the United States. Diversity, equal employment opportunity, and relevant employment laws are discussed in greater detail in Chapter 3.

What Employees Can Do

Influencing what employees *can* do is another way HRM influences organizational outcomes. By finding, attracting, and hiring the right talent, recruiting and staffing acquire the motivation and the abilities from which the company can draw. The HRM function of training and development influences the capabilities of an organization's employees by developing employees' skills to meet changing business needs. Imagine that you are a nurse trying to use a complex new machine without proper training. Would you expect to perform well? Even if you had the best intentions, if the company didn't develop your skills, it's unlikely that you would succeed on the job.

Similarly, if you were required to work in interdependent teams, but the company didn't attend to teamwork skills in the hiring process, would your teammates work as effectively as they would if job candidates were evaluated and hired based in part on their ability to work effectively in teams? Because staffing and development activities are responsible for an organization's skills base, they are the foundation of effective HRM. Even having a generous incentive plan won't matter if employees lack the basic ability to get their jobs done in the way the organization needs them done.

What Employees Will Do

Influencing what employees *will* do is the third way HRM influences organizational performance. By setting clear goals aligned with the business strategy, giving employees feedback on their performance toward those goals, and rewarding them for good performance, performance management and compensation influence employee motivation, effort, and persistence. If you were told to give customers high-quality service but were rewarded for the average number of customers you help in an hour, what would you focus on? Because people do what they're rewarded for doing, it is essential that rewards are aligned with desired behaviors and outcomes. Rewards include compensation (pay) but also praise, recognition, time off, or anything valued by the employee.

Compensation issues are often a contributing factor in unethical employee behavior. The bigger the potential reward, the greater the temptation for employees to cheat or even break the law, especially if they are close to earning the reward. One of the causes of the subprime mortgage crisis was the large incentive bonuses paid to mortgage brokers and loan officers for selling loans that carried higher interest rates than the borrowers were qualified for.⁵ Sometimes people's jobs are even on the line if they don't hit the unrealistic performance targets, putting them in a difficult ethical position. Wells Fargo fired over 5,000 employees in 2016 for opening fake customer accounts to meet the sales quotas required to keep their jobs. Opening these fake accounts never benefitted Wells Fargo, which lost money on the dormant accounts, lost customer trust, and lost shareholder value when the news got out that this happened, and it faces large regulatory fines.⁶ Thinking through possible unintended consequences of different compensation and incentive plans is clearly a good idea.

When what employees should do, can do, and will do are aligned in support of each other and are part of an organization's goals, work processes are most effective. Positive work environments help to generate engaged, committed employees who give the organization a competitive advantage through their increased effort and performance. Imagine what would happen if Google or Starbucks stopped investing in and rewarding their employees and creating a positive work environment. Do you think they would be as successful? Probably not. HRM creates value for an organization in a variety of ways, including reducing HR-related costs (e.g., turnover and lawsuits), improving customer service, creating stronger client relationships, and improving the cost and quality of the organization's products and services.

figure 1.1

Main Functions within HRM



What Does HRM Do?

In a sentence, HRM creates the system that acquires, motivates, develops, and retains talent and is a key source of competitive advantage. The core of HRM is designing systems that maximize the efficiency and effectiveness of an organization's use of its talent in accomplishing organizational goals. As shown in Figure 1.1, the main functions within HRM are staffing, performance management, training and development, rewards and benefits, health and safety, and employee-management relations. We next describe the role of each of these HRM functions and will be covering each topic in greater detail in later chapters.

Staffing

There are millions of employers in the United States, employing anywhere from one to tens of thousands of people. Millions of employees are hired or separated every month, making staffing a multibillion-dollar activity across the country. Staffing is the process of planning, acquiring, deploying, and retaining employees that enables the organization to meet its talent needs and execute its business strategy. This process supports the movement of talent into, through, and out of the organization in a way that enables it to compete successfully in its marketplace. Because an organization's people are central to its development of a competitive advantage and to the execution of its business strategy, strategic recruitment and staffing activities are cornerstones of organizational effectiveness. If you don't get the right people into the organization, no training or compensation program can make up for these initial talent deficiencies.

Effective staffing supports the organization's mission and objectives as well as its business strategy. After the nature and the requirements of the open job are identified, sourcing identifies potential recruits likely to meet or exceed the job's minimum personal and technical requirements. Recruiting then focuses on attracting these people to apply, retaining qualified applicants in the candidate pool while they are evaluated, and finally on enticing the chosen candidates to ultimately accept job offers. Once hired, efforts are made to retain successful employees

and move them throughout the organization as needed. Separations due to poor performance, layoffs, or restructuring as well as employees quitting are also part of the staffing function.

Staffing practices can have a tremendous impact on a company's bottom line. Caribou Coffee discovered that the most important district manager competency was his or her ability to effectively staff the store manager position. When a district manager took the time to find the best replacement for a store manager instead of automatically promoting the shift supervisor with the most tenure, the results had a strong impact on revenue.⁷ Recruitment is discussed in Chapter 5, and selection and hiring are covered in Chapter 6.

Training and Development

Training and development is an important HRM function focused on developing employee capabilities through both formal and informal activities. The training and development function is also responsible for career planning, organizational development, and often legal compliance as well. For example, supervisors must be trained in how to properly conduct job interviews and terminations in ways consistent with a variety of state and federal laws.

Because training is often expensive, it can be a huge waste of resources if a company fails to hire people able to succeed in the organization's development programs. Large investments in training and development also might not be the right choice if employees tend to leave the organization before it recoups the cost of training them. For example, some retailers have turnover rates approaching 200 percent. It doesn't make sense to invest a lot of money in employees who are likely to leave before training investments are recouped.

Performance management and rewards must be aligned with training goals. If you are not rewarded for using skills on the job that were learned in training, and if you are likely to experience a drop in your productivity while you practice and master those skills, are you likely to use what you learned in training while on the job? What if you received no feedback on how well you were doing or how you could better apply the new skills? Would your motivation to use what you learned in training be very high? Clearly, it is important to think of HRM as a system of different functions that must be mutually reinforcing while at the same time supporting the organization's goals and strategies.

Any organization's future success depends on its next generation of leaders. Unfortunately, CEO succession planning tends to be an overlooked governance risk, and most firms lack succession plans for their top leaders.⁸ Because Citigroup's directors didn't start identifying a possible new CEO until after CEO Charles Prince stepped down, the company was left directionless at a time when it had already fallen behind rivals and was facing huge mortgage-related losses. Starbucks, on the other hand, planned for its CEO succession and took the time to prepare its incoming CEO for the role. The company announced in December 2016 that the current Starbucks president, Kevin Johnson, would be taking over the CEO role from Howard Schultz in April 2017, after Johnson had been on the Starbucks board of directors since 2009 and on its management team since 2015.⁹ Succession planning and career development activities can help ensure that an organization has people ready to assume leadership positions as soon as they become available. Training and development are discussed in Chapter 7.

Performance Management

Performance management involves aligning individual employees' goals and behaviors with organizational goals and strategies, appraising and evaluating past and current behaviors and performance, and providing suggestions for improvement. Staffing influences the effectiveness of a performance management system by providing the raw talent that the system will manage. Even the best performance management system cannot replace important capabilities that employees must have to do their jobs well. Similarly, development programs are necessary to improve the skills identified in the performance management process. It doesn't do much

good to let an employee know that she needs to improve her leadership skills if no opportunities for improving them are made available. Organizations also frequently tie compensation to performance management ratings. How would you feel if your bonus was determined by a supervisor's biased evaluation of skills and behaviors that weren't really related to your job performance? The authors know that this type of system wouldn't do much to motivate us!

Without performance goals, employees do not know what aspects of their jobs to focus on or what performance level is expected of them. As a result, they will tend to underperform, and some will quit or need to be replaced, potentially bogging down the staffing system. Without feedback, employees cannot adjust their behavior when necessary to reach their goals. Even if highly talented employees are hired, they can't perform at their best if they get no feedback or inaccurate performance feedback. If they perceive the feedback they've been given about their performance is unfair, they will not be motivated to contribute as much as they could. Performance feedback is also important to maintaining ethical behavior and communicating organizational expectations. You will learn more about performance management in Chapter 8.

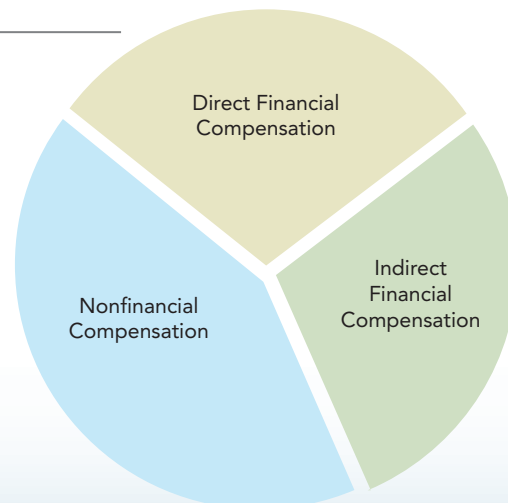
Rewards and Benefits

Compensation and benefits perceived as both adequate and equitable that reward employees for their contributions to organizational goal attainment are important to employee motivation, performance, and retention. As shown in Figure 1.2, **total rewards** refers to the sum of all of the rewards employees receive in exchange for their time, efforts, and performance. Total rewards are comprised of:

- **Direct financial compensation:** Compensation received in the form of salary, wages, commissions, stock options, or bonuses
- **Indirect financial compensation (benefits):** Any and all financial rewards not considered direct financial compensation, including health insurance, wellness benefits, paid vacations, and free meals
- **Nonfinancial compensation:** Rewards and incentives given to employees that are not financial in nature, including intrinsic rewards received from the job itself or from the physical or psychological work environment (e.g., feeling successful or appreciated)

figure 1.2

Total Rewards



When evaluating an employer's job offer, it is important to consider the total rewards package, not just the salary level. When the value of other rewards including retirement contributions, continuing training and development, health and dental care, wellness programs, vacation time, and bonus programs are considered, a lower salaried job might be worth much more than one with a higher base salary.

The level of pay and total rewards an organization is willing and able to invest in employees can both determine and be determined by its ability to hire people with the necessary qualifications. If an organization is willing to pay premium wages, then its staffing effort can focus on identifying and attracting the most qualified candidates. If an organization would like to pay lower wages but is unable to hire the candidates it would like at its preferred salary levels, it may be forced to raise its salaries to be competitive in the labor market or make investments in training and development.

The success of incentive pay programs that reward employees for individual, group, or organizational performance is influenced by performance management systems. Clear and accurate performance feedback lets employees know how they are performing. Also, the performance-enhancing potential of reward and incentive programs will not be fully leveraged if employees' skills are lacking. Performance incentives are only effective if the individuals have the potential to perform well in the first place. Staffing and training must therefore be aligned with the behaviors and performance motivated by the incentive pay programs.

It should also be noted that paying top dollar to hire the highest quality candidates is not always the best strategy if the company doesn't really need top talent to meet its needs. In other words, sometimes the greater productivity of the most talented applicants fails to offset their higher salaries. For example, does every marketing employee really need an MBA? On the other hand, high pay can create a competitive advantage. Warehouse retailer Costco relies on its loyal customer base, high-quality supply chain, and engaged employees to give it a competitive advantage. Although Costco pays its employees twice the market rate and higher than its closest competitor, Sam's Club, Costco's lower turnover and higher employee productivity results in similar financial returns on its labor costs.¹⁰ This, in turn, leads to a higher quality customer experience and a competitive advantage.

Direct financial compensation is discussed in Chapter 9, incentives and bonuses are discussed in Chapter 10, and nonfinancial benefits are discussed in Chapter 11.

Health and Safety

Workplace health and safety includes topics ranging from wellness, fire and food safety, ergonomics, injury management, disaster preparedness, industrial hygiene, and even bullying and workplace violence. Workplace accidents such as the Iowa pipeline leak of nearly 140,000 gallons of diesel fuel in 2017¹¹ and workplace violence incidents often make headlines. Workplace safety involves protecting employees from work-related toxins, accidents, and injuries. Workplace health refers to employees' physical and mental health. Reduced job stability and increased workload demands can increase stress and increase employees' risk for physical and mental illness. More than 83 percent of businesses in the United States with 200 or more employees have some form of wellness program, including exercise, stop-smoking classes, and stress management.¹²

A healthy and safe work environment is not only ethical, but it benefits organizations by increasing employee productivity, lowering health care and workers' compensation insurance premiums, and decreasing health-related lost work time. Societal pressures for healthy and safe work environments have led to federal and state legislation covering many aspects of health and safety. Creating a healthy work environment is discussed in Chapter 12.

Employee-Management Relations

At its core, employee-management relations reflect societal beliefs about the relationship between employees and the capital owners of the organization. Employee-management relations ultimately determine the employment rights of both employers and employees. Labor participation programs, employee surveys, and other tools are used in managing employee-management relations. Positive employee-management relations improves communication, problem solving, and performance in both unionized and nonunionized organizations.

The field of employment relations (or industrial relations) focuses on unionized employment situations. By law, if employees want a union to represent them, then the company must recognize the union and bargain with it in good faith. The company and the union negotiate collective bargaining agreements that cover the terms and conditions of the employment relationship. In 2017, 34.4 percent of workers in the public sector belonged to a union, whereas only 6.4 percent of private sector employees were union members.¹³ Labor unions and unionization rates have been declining for years, but they are still common enough that it is important to know about them and their influence on the practice of HRM. Creating positive employee-management relations is discussed in Chapter 13.

Alignment of the HR Functions

As the numerous examples above illustrate, if HRM functional areas' goals conflict, then influencing employee behaviors and organizational goals in desired ways will be much more difficult. Each of the functional areas of HRM must be consistent in what they reinforce, and care must be taken to ensure that they do not undermine each other.

Understanding how to implement various HRM practices to match different situations is essential to maximizing organizational effectiveness. No matter what the challenge, there are HRM tools that will help.

We now turn our attention to better understanding how HRM influences organizational performance.

How Does HRM Influence Organizational Performance?

Human resource management policies and practices add value to organizations and influence organizational performance by either improving efficiency or contributing to revenue growth.¹⁴ Because strategic interest in HRM is relatively new, it is a source of competitive advantage that many firms have yet to fully leverage. As shown in Table 1.2, effective HRM systems increase the organization's ability to meet its goals, enhance the organization's ability to grow and manage change, and increase employee engagement, effort, and performance.

Workforce issues can impact a company's revenue and earnings. Managing human resources strategically helps organizations manage four primary types of risk:¹⁵

1. *Strategic risk*: HRM initiatives can affect business strategy through the overall talent strategy, company culture, ethics, investments in people, and the implementation of change initiatives.
2. *Operational risk*: HRM affects the speed and the effectiveness of talent acquisition as well as the development of employees' skills and the identification and retention of top performers. These and other HRM activities can directly influence the organization's success or failure.
3. *Financial risk*: HRM performance affects the organization's workforce costs and productivity directly through compensation, benefits, turnover, overtime, and time-to-hire and indirectly through errors, accidents, delays, and lost production.
4. *Compliance risk*: Every employment-related decision can have legal ramifications, particularly in the areas of diversity, health and safety, union relations, whistleblowers,

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table 1.2

What Effective HRM Systems Do

- Improve organizational efficiency.
- Contribute to revenue growth.
- Increase employees' understanding of their responsibilities and how they relate to the organization's mission, business strategy, and goals.
- Develop and enhance employee capabilities and talents to enable strategic execution and goal attainment.
- Equitably link rewards to responsibility level and performance.
- Promote the efficient and effective utilization of employees' skills and knowledge.
- Increase employee engagement, effort, and performance.
- Increase the organization's ability to manage change.
- Decrease an organization's legal liability for compliance with employment laws.

and harassment. SEC regulations mandate the board of directors' responsibility for oversight of risk management policies. Boards must make known any material risks with the potential to affect company earnings. Because the acquisition, retention, and performance of talent have the potential to affect company earnings, it is essential that organizations identify and manage these risks through effective HRM.

HRM practices also influence the interest rate a company must pay to borrow money. Moody's is an internationally known corporate bond rating service whose bond rating can dramatically impact a company's cost of credit. After making a direct connection between companies' financial performance and their success in the areas of recruiting, retention, leadership development, and training, these types of HRM factors now influence Moody's bond ratings and subsequent corporate interest rates.¹⁶

Consulting firm Watson Wyatt found that good people practices can increase a company's value by as much as 30 percent. Russell Investments reports that firms on the Fortune 100 Best Companies to Work For list outperform the S&P 500 and the Russell 3000 by as much as 10 percent.¹⁷ Finding and keeping talent is often named as one of the biggest obstacles to achieving the growth global companies are hoping to achieve.¹⁸

The most effective HRM systems are based on solid research, identifying and implementing best practices, and aligning the HRM system with organizational goals and environmental realities. HRM strategies have the biggest influence on organizational performance when they are aligned not only with the business strategy but with each other. We discuss the role of HRM in business in greater detail in Chapter 2.

The Role of HRM in Executing Business Strategy

A company's **business strategy** defines how the firm will compete in its marketplace. A business strategy should reflect what the organization's customers want, what the firm wants, and what the firm can cost-effectively deliver. Business strategies are likely to differ across business units in a diversified corporation. Frito-Lay, Johnson & Johnson, and Colgate-Palmolive take different strategic approaches to ensure the success of their various business lines.

Developing a business strategy involves making choices about which products and services to offer and which strategies to pursue to gain a competitive advantage. Both choices depend on a company's competitive capabilities, strengths, and weaknesses. In other words, for a company to execute its business strategy, not only must its HRM policies and practices fit

with its strategy, but its business strategy must also align with the competitive environment and the immediate business conditions.¹⁹

Business strategies are created to leverage the firm's resources and capabilities in ways that result in superior value creation compared to their competitors. Competitive advantage results from the ability to leverage resources and capabilities that derive in part from its talent. How a company positions itself to compete in the marketplace determines the competitive advantage it needs to create and the HRM strategies it needs to pursue to acquire, develop, motivate, and retain the appropriate talent.

An organization's **talent philosophy** is a system of beliefs about how its employees should be treated, including:

- The value placed on diversity;
- Ethics;
- Whether the firm would like employees to stay for a limited time or for their entire careers; and
- Whether employees are viewed as assets to be managed or as investors choosing where to allocate their time and effort.

Typically shaped by company founders, the talent philosophy reflects how an organization thinks about its employees. For example, some organizations view employees as partners and important stakeholders in the company, whereas others view employees as easily replaceable. Some firms plan to develop and retain employees for their entire careers, whereas others encourage more frequent employee "churn" to reduce training costs, and some firms place a higher value on treating employees ethically and fairly than do other companies.

A company's business strategy can also influence how a company interacts with its employees, which then affects how it decides to manage the movement of people into, through, and out of the company. Reflecting this, Goldman Sachs states, "Our people are our greatest asset—we say it often and with good reason. It is only with the determination and dedication of our people that we can serve our clients, generate long-term value for our shareholders and contribute to the broader public. At the crux of our effort is a focus on cultivating and sustaining a diverse work environment and workforce, which is critical to meeting the unique needs of our diverse client base and the communities in which we operate."²⁰

A firm's **human resource strategy** links the entire human resource function with the firm's business strategy. Strategic human resource management aligns a company's values and goals with the behaviors, values, and goals of employees and influences the strategies of each of the firm's human resource functions, including staffing, performance management, training and development, and compensation. The alignment of these separate functions creates an integrated human resource management system supporting the execution of the business strategy, guided by the talent philosophy of the organization.

Global Issues

Effective HRM requires flexibility in matching HRM practices to the business strategy, internal and external labor market, and an appreciation that people's expectations and values differ around the world. The more an organization is able to tailor its HRM efforts to the different values and needs of its employees around the world, the more effectively it will attract, hire, motivate, and retain the talent it needs. Kevin Martin, the Chief Research Officer of human capital research and data firm Institute for Corporate Productivity believes that the business case to develop leaders with global competencies is very clear. "Business skills and acumen remain critical but are now table stakes. It's the ability to influence and drive collaboration across cultures, boundaries, and borders that has the greater variability on global leadership effectiveness and can make the biggest difference."²¹

A **global mindset** is a set of individual attributes that enable you to influence individuals, groups, and organizations from diverse socio/cultural/institutional systems.²² Because global mindset is learned, experiences can influence it in a positive or negative manner.²³ Every year, the financial services giant HSBC sends promising new hires and managers into long-term international business experiences to build a cohort of international officers. To make a career at HSBC, managers must perform these international missions in Western countries as well as in Saudi Arabia, Indonesia, and Mexico. This enables HSBC to develop a continuous supply of globally competent managers. Other multinationals pursue similar approaches to enable them to transfer expertise and know-how around the globe.²⁴

Although good pay and interesting work are motivating to most people,²⁵ people from different cultures have different traditions, are often motivated by different things, and communicate in different ways.²⁶ For example, some cultures communicate directly, and others are more reserved. Some cultures put a high value on family life, whereas others stress the importance of work. As Kofi Annan, former Secretary-General of the United Nations put it, “Tolerance, intercultural dialogue, and respect for diversity are more essential than ever in a world where peoples are becoming more and more closely interconnected.”²⁷ Motivating employees in a multinational organization can be particularly challenging, and it requires some degree of flexibility.

The effectiveness of HRM policies and practices is influenced by the role expectations, norms, and traditions in that society.²⁸ For example, countries including the United States, Sweden, and Germany have small variation in the distribution of power across supervisors and employees, whereas others such as Japan and Mexico have a large power difference. Research has found that managers in paternalistic and high power-distance cultures tend not to provide job enrichment and empowerment to employees.²⁹ If supervisors feel that large power differences are legitimate and appropriate, they may be uncomfortable implementing HRM policies promoting employee development and autonomy.³

Gaining a Competitive Advantage Through HRM

All organizations can benefit from effective HRM. Imagine the difference between a company with skilled, motivated employees with clear goals aligned with the business strategy and one with unhappy employees who lack the ability to do their jobs safely and well, and who are unclear about what they need to do. As NASCAR Senior Vice President and CMO Steve Phelps says, “It ends up being about people. . . . Give them the opportunity to be excellent. Each individual is an important part of the whole.”³⁰

According to Michael Porter, to have a competitive advantage, a company must ultimately be able to give customers *superior value for their money* (a combination of quality, service, and acceptable price). This could be due to providing either a better product that is worth a premium price or a good product at a lower price.³¹ Different competitive advantages require different approaches to HRM. Operationally excellent organizations operate with tight margins and rely more on teamwork than individual performance. They are typically not able to provide high pay or benefits, and they need to attract and retain employees willing to follow consistent procedures and control costs.

A competitive advantage based on product innovation requires employees to continually develop new products and services to create an advantage in the market. This strategy is common in technology and pharmaceutical companies. Apple, Nintendo, and 3M are good examples of organizations whose competitive advantage is based on product innovation. To protect their entrepreneurial environment, HRM must develop and reinforce an innovative culture. Instead of hiring based only on candidates’ related job experience, it is important to assess whether a candidate can work cooperatively in teams and whether she or he is analytical and creative.³² HRM in innovative companies also motivates employees to persist and overcome challenges.³³

A competitive advantage based on delivering unique and customizable products or services requires tailoring the company's offerings to meet the demands of different market niches. Employees must be able and willing to combine detailed knowledge about their customers with operational flexibility so they can respond quickly to almost any customer need, from customizing a product to fulfilling special requests. Consulting, retail, and banking organizations often adopt this approach.

Starbucks is able to command a high price for a cup of coffee because it focuses on customer relationships. Imagine if Starbucks reduced its HRM investment, cut back on its employee benefits, and began to hire cheaper labor, including people who don't enjoy interacting with customers. Starbucks' competitive advantage would quickly erode, and its performance would suffer. Starbucks would have to reduce its prices to keep customers coming back, which would further hurt profits. Talent is often considered to be the most critical element in building a customer-oriented company.³⁴ Hiring active learners with good customer relations skills and emotional resilience under pressure helps to ensure that an organization continually enhances its ability to deliver on promises to customers.³⁵

Pursuing a growth strategy requires the development of current talent and the acquisition of additional talent. For example, growth-oriented chains such as Chipotle Mexican Grill and Panera Bread regularly open new stores that require additional management, employees, and even product distribution staff. The success of a growth strategy depends on the firm's ability to find and retain the right number and types of employees to sustain its intended growth. Growth can be *organic*, happening as the organization expands from within by opening new factories or stores. If it is, it requires an investment in recruiting, selecting, and training the right people to expand the company's operations. Firms can also pursue growth strategies through *mergers and acquisitions*. Mergers and acquisitions have been a common way for organizations to achieve growth, expand internationally, and respond to industry deregulation. In addition to expanding the organization's business, mergers and acquisitions can also be a way for an organization to acquire the quality and amount of talent it needs to execute its business strategy.

It is important to consider the match between the two organizations' cultures, values, and organizational structures when using mergers and acquisitions as a way to implement a growth strategy. Mismatches between merged or acquired organizations can result in underperformance and the loss of talented employees. Mergers and acquisitions often fail because of culture issues rather than technical or financial issues.³⁶ The failed DaimlerChrysler, HP and Compaq, and AOL-Time Warner mergers are just a few prominent examples.

Retaining high-performing employees and keeping employees engaged helps to create and maintain any type of competitive advantage. Southwest Airlines' high employee engagement and fun culture contribute to low employee turnover, great customer service, and high company performance.³⁷ Software provider SAS created an award-winning work environment that makes the company a challenging, employee-friendly, and fun place to work. A casual dress code, training and career advancement opportunities, fitness center, flexible work schedule, and excellent health benefits help to keep SAS's turnover rate low and its employees productive.³⁸ Managing employee engagement and turnover is discussed in greater detail in Chapter 14.

Who is Responsible for HRM?

Although larger organizations often have an organized HRM department, many smaller organizations do not. Some of the more administrative HRM tasks, including benefits management and payroll, are increasingly being outsourced for cost savings to allow the HRM function to focus on more strategic business issues. Technology is also making it easier for organizations to require supervising managers to perform more HRM activities, thus increasing the effectiveness and efficiency of various HRM activities. From global positioning systems to cloud computing, technology has influenced the way firms conduct business. Human resource

management has also been influenced by technology. Technology can be a training aid, a feedback and communication system such as instant messaging or e-mail, or a tool for sourcing and recruiting potential employees. Automated performance feedback, career portals, and online benefits and wellness management systems are just a few modern HRM tools made possible by technology. Throughout this book, we highlight ways technology is being used by organizations to execute various HRM activities, and we give you tips to use it most effectively.

HRM activities are performed by HRM professionals, managers, individual employees, shared service centers, outside vendors, and professional employer organizations. Let's take a look at the various functions and roles that are responsible for HRM, beginning with HRM professionals.

HRM Professionals

HRM professionals are not the organization's police. Their role, along with the HRM function, is to align the talent philosophy and HRM strategy with the business strategy and company values, develop supervisors' skills in managing and using HRM effectively, and serve as a resource for supervisors' questions and ongoing needs. Although focused on the "people" side of the business, HRM professionals are responsible for the effective running of the business and need appropriate business acumen. HR professionals must understand how their business makes money and understand the company's economic and financial capabilities to make sound business decisions. The HRM department is also the warehouse of the firm's expertise in all areas of HRM, including employment law, staffing, compensation, benefits, teamwork, communication, performance management, and employee development.

HRM professionals are also responsible for managing organizational change, including business expansion, restructuring, and downsizing. This requires good communication and influence skills as well as problem-solving and leadership competencies. The Society for Human Resource Management (SHRM) is the world's largest professional association devoted to HRM. SHRM's Code of Ethical and Professional Standards in Human Resource Management is available on its website.

The Manager

HRM is the responsibility of every supervising manager. In fact, the effectiveness of HRM systems often depends on the ability and the willingness of managers to execute HRM tasks and responsibilities. The HRM department is a support function that gives managers the tools needed to execute the firm's HRM strategy and helps them develop the skills in using these tools. For example, the HRM department might develop structured interview guides or performance management forms, but if the managers do not use these tools properly, their potential value to the organization will not be realized. Because HRM policies are created by the company but are executed by managers, the role of supervisors as well as the HRM department in executing HRM strategies and policies is important to understand.

The Employee

Employees are increasingly being held at least somewhat responsible for taking the lead in their own development and career management. It is always best to have your own career development plan and continually develop your skills to meet your career goals. Employees are also sometimes held jointly responsible for keeping the HRM system accurate and current with regard to their skills and certifications.

Communication and feedback between HR and employees are extremely important. Most employees' knowledge of HRM and associated legal issues is minimal, and it is up to the employer to ensure that employees have the HR knowledge they need. **Employee handbooks** document the organization's HRM policies and procedures, and they are very important in

helping employees learn about the company's HRM policies. Further, handbooks allow employees to easily research topics they need more information on later. Many organizations have put their HRM handbooks online, making it easy for employees to quickly find the information they need.

Shared Service Centers

A **shared service center** centralizes the routine, transaction-based HRM activities, including payroll, benefits administration, and employee exit surveys. A shared service center can prevent redundancies and save money, as well as improve the consistency and the efficiency with which these tasks are done. This can provide an alternative to outsourcing these tasks, and it can free up HR professionals' time to focus on more strategic issues. Some companies, such as Home Depot, are creating call centers to handle HR questions directly from both employees and managers throughout the company.³⁹

Outside Vendors

Outsourcing is the hiring of an external vendor to do work rather than doing it internally. When another company or provider can perform a task or service better, cheaper, or more efficiently, it can make sense to outsource work. Payroll processing, time and attendance records, and benefits management are some of the more frequently outsourced HRM tasks. A company can outsource one or many HRM tasks.

Outsourcing some HRM activities is particularly attractive to smaller companies. HR functions including payroll, benefits administration, and new hire relocation require special knowledge, and full-time employees may not be worth the expense to smaller firms. Because they specialize in human resources, outsourcing companies often know how to get employees the best HR services, including health benefits and retirement plans. They may also be able to provide rewards programs to your company for less than you would pay on your own. Also, if your company needs any kind of HR support in issues such as worker's compensation, outside vendors have this expertise and can also help you stay current on the most recent state and federal regulations to help your company stay compliant. It is critical to develop a strong relationship with external vendors to ensure they strongly support your organization's goals, strategies, culture, and philosophies.

Professional Employer Organizations

A **professional employer organization** (PEO) is a company that leases workers to companies that need them for a fee, ranging from 2 to 7 percent of the worker's gross wages.⁴⁰ The PEO is technically the employer of these workers, and it manages their administrative needs, including training, discipline, payroll, and benefits. Leasing workers helps companies acquire talent they may not be able to hire on their own, and it increases their flexibility. Instead of hiring permanent employees who may have to be let go in a business downturn, leased employees give the organization the option of not renewing the lease if the worker is no longer needed.

Human Resource Management Systems

Employee data must be kept accurate, current, and private. Organizations used to rely on Excel spreadsheets to maintain this information, but the evolution of technology has created

a better way. Human resource management systems (HRMS) are technology-based platforms that help human resource management professionals securely house sensitive employee records, including benefits and payroll information; monitor the performance of the recruiting and staffing process; conduct analytics, and more. They can be cloud-based, such as Workday or Cornerstone OnDemand, or they can be maintained by the company.

Some organizations create secure private portals that allow employees to upload confidential information, and others allow for extensive analytics to be run. The HRMS platforms available today can have varying degrees of specialization, with some optimized for the management of a lot of hourly workers and others emphasizing specific talent management areas such as recruiting, compensation, or benefits. Because there are so many features and tools available, it is important that how a company will actually use its HRMS be identified and drive its HRMS selection decision. If employees and managers need to use the system as well as the HRM department for open enrollment or to approve time sheets, it is important that the system be easy for them to use as well.

HRMS platforms are increasingly able to integrate a variety of applications and conduct analytics and produce reports that have more relevant and deeper insights than ever before. The technology is also increasingly able to support continuous performance feedback programs rather than annual performance reviews.⁴¹

Why is HRM Important to Your Career?

Knowing how to design maximally productive and mutually rewarding work relationships with employees is important to every manager's success, even if your profession is something other than HRM. If you are unable to hire effectively, motivate employees, or retain your best performers, then your job performance will suffer. Hiring the right people, motivating and developing them, and ensuring that they are engaged in their work and committed to the company are some of the skills that define great managers. Knowledge of HRM and skills in practicing it will give you a competitive advantage in your own career, even if you are not going into the field of HRM.

Summary and Application

Why is it that some organizations perform better than others in the same industry? The answer is that it is not the buildings, chairs, or technology that make a company successful. It is the organization's *people* that really make a difference in how an organization performs. By acquiring the talent that is the foundation of any organization's performance, by developing the skills and teamwork needed to execute its strategies, and by motivating and rewarding employees for accomplishing company goals, HRM is critical in converting potential employee performance to actual performance and to strategic execution. Effective HR systems positively influence what people should do, can do, and will do for the organization.

Business strategies are intended to leverage the firm's resources and capabilities in ways that result in superior value creation compared to competitors. A competitive advantage depends on an organization's ability to leverage the resources and capabilities that derive from its talent. How an organization positions itself to compete determines the competitive advantage it needs to create and the HRM strategies it needs to pursue to acquire, motivate, and retain the appropriate talent. By influencing what employees should do, can do, and will do, effective and strategic human resource management aligns employees' talents, goals, and motivation with what the organization needs. Each of the HRM functional areas, including staffing, training, compensation, and performance management, must be consistent in what

they reinforce, and care must be taken to ensure that they do not undermine each other. Human resource management systems help organizations leverage technology to make HRM processes more efficient and enable analytics that generate accurate and relevant insights into what can be done to enable higher individual, team, and organizational success and enhance strategic execution.

As we said at the beginning of this chapter, understanding human resource management can help you succeed in whatever career you pursue. Studying this book can help you better understand how organizations differ, understand the role of human resource management in your own job performance, and improve your HRM skills. By studying the chapters and putting some thought into how you can use various the concepts in different situations, you are taking an important step in advancing your career.

Takeaway Points

1. HRM influences organizational performance through its influence on what employees *should* do, what employees *can* do, and what employees *will* do. HRM creates the system that acquires, motivates, develops, and retains the talent that determines the organization's success. Because employee costs are a large part of an organization's operating budget, it is essential to properly manage the investments a company makes in its people.
2. The six primary HRM functions are staffing, performance management, training and development, rewards and benefits, health and safety, and employee-management relations.
3. If even a single HRM functional area reinforces goals that are in conflict with the other functional areas, influencing employee behaviors in desired ways and executing the company's strategy will be much more difficult. For example, the performance-enhancing potential of reward and incentive programs will not be fully leveraged if the training and development and staffing functions do not acquire and develop the right skills. The alignment of these separate functions creates an integrated human resource management system supporting the execution of the business strategy, guided by the talent philosophy of the organization.
4. Even small organizations can effectively use HRM to improve their performance. Organizations of all sizes share a need to identify and hire the right people, motivate them to perform their best, develop their skills, and retain them. Investing in HRM improves productivity and profitability of smaller as well as larger organizations.
5. Knowing how to design maximally productive and mutually rewarding work relationships with employees is important to every manager's success. The job performance of someone unable to hire effectively, motivate employees, or retain top performers will suffer.

Discussion Questions

1. Describe some good and bad experiences you have had with HRM as a job candidate or as an employee. How could the bad experiences have been avoided?
2. Would an organization's HRM practices influence your decision to apply for a job or accept a job offer? Why or why not?
3. How would you prioritize what workers can do, what they should do, and what they will do in terms of their importance to the employer? Why did you rank them as you did?
4. If you worked in a small organization, how would you convince the CEO to invest more in HRM?
5. Which aspects of HRM do you feel are most important for the employee, supervisor, and HRM professional to be responsible for? Why?
6. How can HRM help you advance and succeed in your career?

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