UNIVERSITI INDUSTRI SELANGOR
40000 SHAH ALAM

Course Subject	: **Human Resource Management**
Subject Code	: **PMM 5133**
Credit Hour	: **03**
Lecturer	: **Prof. Dr. Khairul Baharein Mohd Noor**
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Course Objectives

(i) Participants will be able to understand the holistic concept on managing human resources and its important roles in organization.

(ii) To expose participants with the necessary knowledge on human resources process and the general perspective dealing with HR issues in today's organization.

(iii) Participants will be able to practically applied the knowledge in dealing with HR development and in a way help to improve organizational performance.

Learning Outcomes

(i) Able to apply human resources management knowledge in real work settings;

(ii) Understand the strategic role of HRM in supporting organization's business strategy;

(iii) Capable of analyzing and interpreting HR issues and applying the relevant HR principles in organization; and

(iv) Able to analytically understand the entire human resources processes and handling routine HR issues in organization.

COURSE OUTLINE SCHEDULE

Session	Topic	Content	Exercise/Case
Wk 1 and Wk 2	**Overview of HR Environment and the Challenges Faced by Organizations**	• Understanding the role of HR and the Competencies Requirements of HR Professional • Meeting Competitive Challenges through HR Practices	Reading Materials: "A New Mandate for HR" *Harvard Business Review, 1998.* "The Future of HRM" *Emerald, vol.52, No.4, 2003* Case Study Exercise – "Xerox, HRM Excellence Helps Company Rebound", 2004.
Wk 3 and Wk 4	**Strategic Human Resource Management**	• What is Business Model? • Strategic Management and Implementation •	Case Study Exercise : HR Issues at Valley National Bank
Wk 5 and Wk 6	**Human Resource Planning and Recruitment**	• Human Resource Planning Process • Forecasting Demand and Supply of Labor • HR Recruitment Process • Recruitment Sources •	Class Exercise: Recruitment at Hilton Hotel Assignment: HR Forecasting Exercise A Turnover Problem at Fort Lauderdale Herald
Wk 7 and Wk 8	**Training & Development of Employees**	• Leveraging on Training • Training Process/Cycle • Evaluating Training programs •	Case Study Exercise Case Assignment "What We Need Around Here is Better HRelations"

Wk 9	**Selection and Placement**	• Types of Selection • Types of Selection Methods	Class Discussion Case: Hiring Decisions: "What You Don't Know Surely Can Hurt You"
Wk 10 and Wk 11	**Managing Performance**	• Organizational Model of Performance Management • Approaches to Measuring Performance • Appraisal Methods and Problems in Appraising Performance	Purpose of Performance Management
Wk 12 and Wk 13	**Managing Compensation and Benefits**	• Developing Pay Levels • Basic factors in Determining Pay Rates • Types of Compensation • Types of Benefits and Incentives for Employees	Case Study Exercise
Wk 14	**Managing Safety and Health at Workplace**	• What is OSHA and Its Importance? • Establishing and Health Programs • Creating a Healthy Work Environment	Case Discussion
Wk 15	**Employee Rights and Discipline**	• Developing Employee Communication • Administering and Managing Discipline • Managing Dismissal • Labor Law in Malaysia	Case Discussion

Recommended Text

Noe, R., Hollenbeck, J., Gerhart, B., and Wright, P., (2008) *Human Resource Management: Gaining a Competitive Advantage*, 6th Edition. New York: McGraw Hill Inc.

Supplementary Readings

Bernadin, J., (2003) *Human Resource Management : An Experiential Approach.* New York: McGraw Hill.

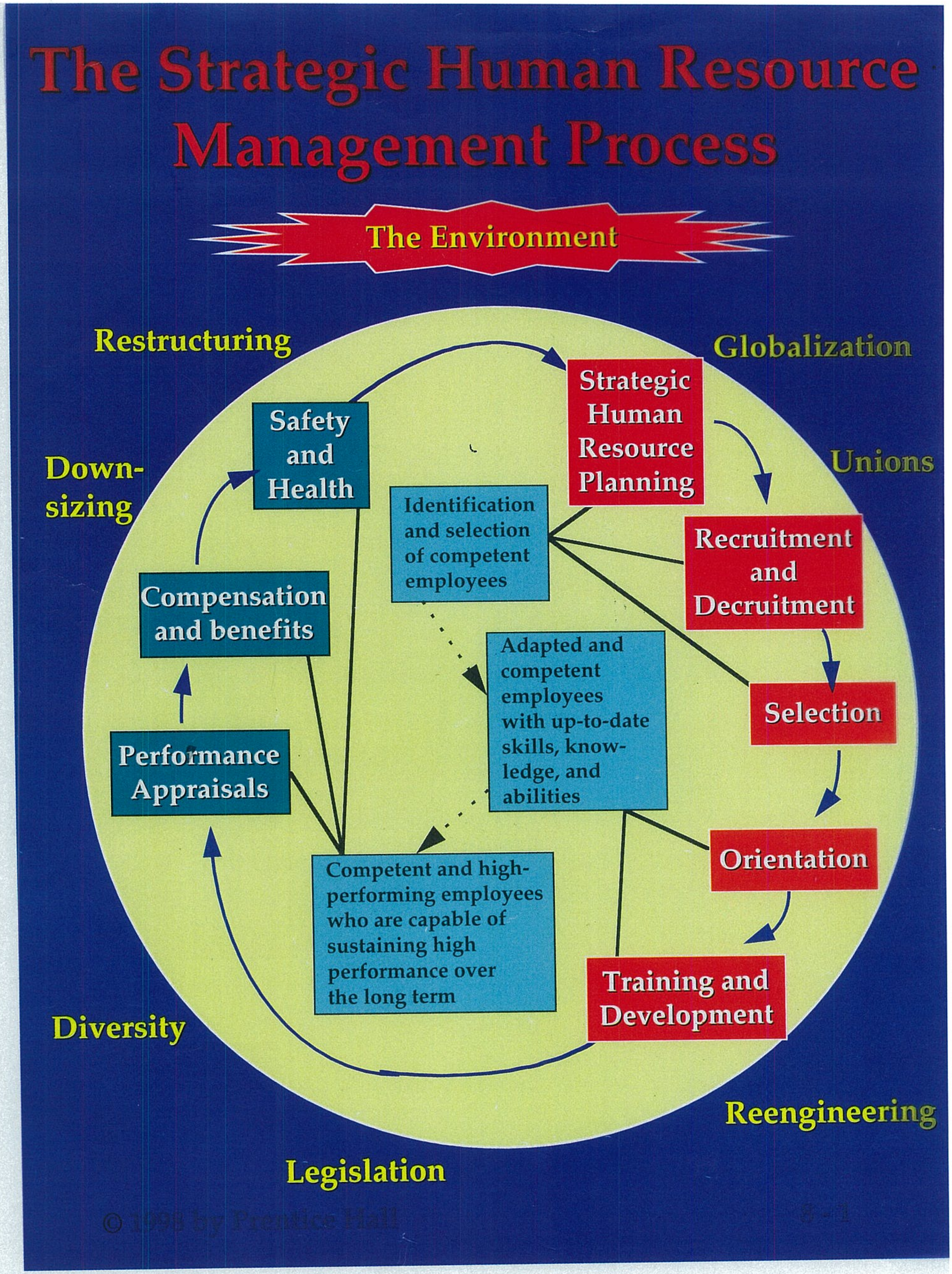
Jackson, S., Schuler, R., and Werner, S., (2009) *Managing Human Resources, 10th Edition.* Canada: South-Western.

Ivancevich, J., (2003) *Human Resource in Asia.* Singapore: McGraw Hill.

Cascio, F., (2003) *Managing Human Resource : Productivity, Quality of Work Life, Profits.* New York: McGraw Hill.

Class Assessment

Group Cases Presentation	= 15%
Mid-Term examination	= 15%
Project Paper	= 30%
Final examination	= 40%
	100%


The Strategic Human Resource Management Process
The Environment
Restructuring
Globalization
Unions
Down-sizing
Diversity
Reengineering
Legislation
Strategic Human Resource Planning
Recruitment and Decruitment
Selection
Orientation
Training and Development
Performance Appraisals
Compensation and benefits
Safety and Health
Identification and selection of competent employees
Adapted and competent employees with up-to-date skills, know-ledge, and abilities
Competent and high-performing employees who are capable of sustaining high performance over the long term
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TOPIC ONE

HUMAN RESOURCE ENVIRONMENT AND CHALLENGES

Definition

Human Resource Management (HRM) refers to the policies, practices, and systems that influence employees' behavior, attitudes and performance. HRM practices include determining human resource needs (HR planning), attracting potential employees (recruiting), choosing employees (selection), teaching employees how to perform their job and preparing them for the future (training and development), rewarding employees (compensation), evaluating their performance (performance management), and creating a positive work environment (employee relations). Effective HR practices are developed and used to support business goals and objectives. Good practice of HR also relate to improving company performance and contributing to employee and customer satisfaction.

What Activities Do HR Department Perform?

Activities that HR Department is solely responsible for include outplacement, labor law compliance, record keeping, testing, unemployment, compensation and some aspects of benefits administration. The HR Dept is likely to collaborate with other company functions on employment interviewing, performance management and discipline, and efforts to improve quality and productivity.

In today's environment the HR function is in transition from an administrative function to a strategic business partnership. Advances in technology such as development in intranet has decreased the role of HR in maintaining records. Some companies have outsourced part of HR activities. Outsourcing refers to the practice of having another company to provide services (third party provider or consultant). For e.g., outsourcing payroll activity, training and development, recruiting and selection.

Other roles of HR include such as development and strategic business partnering. One most comprehensive study on HRM concluded that " hr is being transformed from a specialized stand-alone function to a broad corporate competency in which hr and line managers build partnerships to gain competitive advantage and achieve overall business goals." Some companies even have the strategy of how hr leader could work on HR projects to support business initiatives.

Perspective	Q/Answer	E.g. of Critical Indicators
Customer Internal	How do customer see us? What must we excel at?	Timeliness, Quality, Performance, Service, Cost
Innovation and learning	Can we continue to improve? Create value?	Improve operating efficiency, launch new product, Cont Improvement
Internal Process	What must we excel at?	Process that influence customer satisfaction
Financial	How do we look to shareholders?	Profitability, growth, shareholder value

Quality Critical Indicators

Companies now have been implementing Total Quality Management (TQM). Although there are different approaches to TQM (Deming, Juran and Crosby), these approaches share some common principles. There are six common principles namely:

(i) Customer focus
(ii) Focus on process as well as results
(iii) Prevention vs inspection
(iv) Use of employees' expertise
(v) Fact-based decision making
(vi) Feedback

To ensure the success of TQM, companies need to create an environment that supports innovation, creativity, and risk taking to meet customer demands. Quality standards like ISO 9000 have been developed to help companies control the process and manage in a quality system.

In companies that successfully implemented TQM, the corporate climate emphasized collective and cross-functional work, coaching and enabling employees, customer satisfaction, and quality, rather than the traditional emphasis on individualism, hierarchy and profit.

HRM and Corporate Performance

Research shows that progressive HRM practices can have a significant effect on corporate performance. Studies indicated relationship between specific HR practices and critical outcome measures such as financial performance, productivity, product and service quality, and cost control. These have been characterized by the so-called **high performance work systems (HPWS).**

The high-performance work systems maximize the fit between the company's social system and its technical system. This had led to the changing in:-

(i) Employees' work roles and skill requirements – New technology causes changes in basic-skill requirements and work roles and often results in combining jobs. For e.g. the use of computer allows the production of different products that meet market demands.

(ii) Increase use of teams to perform work – work teams involve employees with various skills and assume many activities usually reserved for managers such as selecting new team members, planning work schedules, and coordinating activities with customers.

(iii) Nature of managerial work – managers must now change from a military model approach of planning, organizing, leading and controlling to facilitating employees to become more creative and innovative.

(iv) Increased availability of HRIS – improvement in technology has led major changes in recording and managing information relating to HR system. HRIS is a system used to acquire, store, manipulate, analyze, retrieve and distribute information related to company's human resources. This HRIS system might contain a program for tracking applicants, a skills inventory, a career planning program, and employee service program such as an electronic bulletin board.

Below is a list that depicts high-performance work systems.

Characteristics of High-Performance Work Systems

- Large number of highly qualified applicants for each strategic position.
- The use of validated selection and promotion models/procedures.
- Extensive training and development for new employees.
- The use of formal performance appraisal and management.
- The use of multiple (360%) performance appraisal and feedback.
- Link of merit increases to formal appraisal process.
- Above market compensation for key position.
- High percentage of workforce working in self-managed, project-based work teams.

- High percentage of jobs filled from within.

MAJOR ACTIVITIES OF HUMAN RESOURCE MANAGEMENT

Basically, the most commonly performed HRM activities in organizations can be categorised under five major domains:

(1) Organizational Design;
(2) Staffing;
(3) Performance Management and Appraisal;
(4) Employee and Organizational Development, and
(5) Reward Systems and Compliance.

Acquiring human resource capability should begin with organizational design and analysis. Organizational design involves work tasks arrangement, technology, ergonomics, organizational objectives and strategies and engineering design.

Staffing is about recruitment, hiring of staff, promotion, placement, employee orientation and so forth.

The performance management and appraisal includes assessing individuals, and measuring overall organizational performance.

Employee training and development concerns with developing individual employee in relation to his/her job function.

Reward system and compliance has to do with type of reward or benefit that maybe available, disciplinary procedures, and collective bargaining and trade union.

Major Dimensions of HRM Practices that Contributes to Organization's Competitiveness

Dimensions of HRM Practices

Managing HR Environment	Acquiring HR	Assessment and HR Development	Compensating HR

Competitive

- ***Managing HR Environment***

Managing internal and external environmental factors allows employees to make the greatest contribution to company productivity and competitiveness. Creating positive environment for HR involves

- Linking HRM practices to company's business goals.
- Ensure HRM practices comply with govt. laws.
- Design work that motivates and satisfies employees.

- ***Acquiring and Preparing Human Resources***

Managers need to predict the number and type of employees needed in the organization. This area of HRM deals with

- Identifying human resource requirements – HR planning, recruiting, and selection process.
- Training employees to acquire job related skills and knowledge.

- ***Assessment and Development of Human Resources***

Companies need to create a work environment that supports employees' work and nonwork activities. This includes area like

- Measuring employees' performance.
- Prepare employees for future work roles, and career development.

- Create employment relationship and work environment that benefits both the company and employee.

- ***Compensating Human Resources***

Offer employees interesting pay and benefits as reward and incentives in exchange of their contribution to productivity, quality, and customer service. The conducive environment and productivity improvement can be damaged if employees are not satisfied with the remuneration package or believe that they are unfairly rewarded. This area of HRM includes

- Creating right pay systems.
- Rewarding employee contribution.
- Providing employees with benefits.

STRATEGIC HUMAN RESOURCE MANAGEMENT

Strategic human resource management is defined as " the linking of HRM with strategic goals and objectives in order to improve business performance and develop organizational cultures that foster innovation and flexibility. In other words, it is "the pattern of planned human resource deployments and activities intended to enable an organization to achieve its goals.

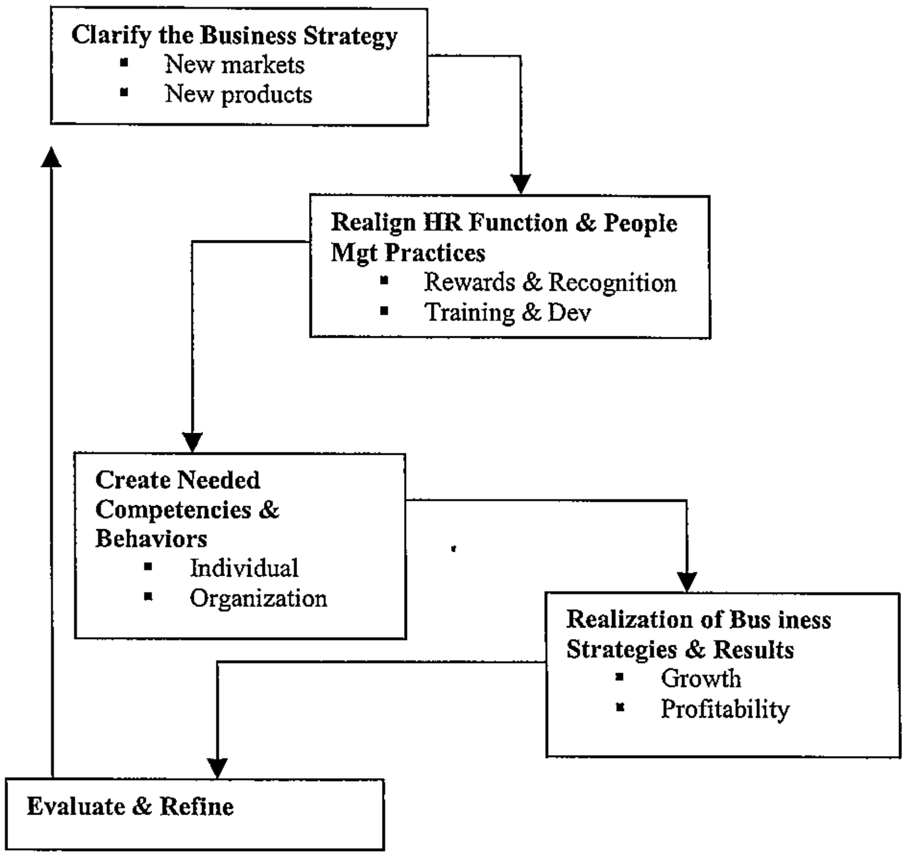
Strategic HR means accepting the HR function as a strategic partner in both the formulation of the company's strategies, as well as in the implementation of those strategies through HR activities such as recruiting, selecting, training, and rewarding personnel.

The HRM function today is not merely filing, housekeeping and record-keeping, but more important is to build strategies and plans that support and intergrate overall organizational strategy. The HRM strategies must reflect clearly the orgnaization's strategy regarding people, profit, and overall effectiveness. In this context, HRM function is viewed as improving the skills of employees and the firm's profitability and not as another administrative center.

The term HR strategies refer to the specific HR courses of action the company uses to achieve its aims. For e.g., one of FEDex's main aims is to achieve superior levels of customer service and high profitability through a highly committed workforce.

Figure 1 below illustrates the interplay between HR strategy and company's business plans and results. Ideally, HR and top management work together to formulate the company's overall business strategy.

Fig. 1 Key Components of HR Strategy Model



EMPLOYEE BEHAVIORS AND HR STRATEGIES APPROPRIATE FOR BUSINESS STRATEGY

Practically, strategic HRM means getting everybody from the top of the organization to the bottom doing things to implement the strategy of the business effectively. The idea is to use people most wisely with respect to the strategic needs of the organization.

Innovation Strategy

Under a competitive strategy of innovation, the implications for managing people may include selecting highly skilled individuals, giving employees discretion, using minimal controls, making greater investment in human resources, providing more resources for experimentation, and appraising performance for its long-run implications.

Firms pursuing this strategy are likely to emphasise long-term needs in their training programs for managers and to offer training to employees throughout the organization.

Quality Enhancement Strategy

The profile of behaviors appropriate for a quality-enhancement strategy includes : a modest amount of cooperative, interdependence behavior, a high concern for quality with modest concern for quantity of output, a high concern for how goods and services are made or delivered, and commitment to the goals of the organization.

It is known that the productivity gains resulting from improved selection or training can be expressed in various ways: in dollars, increase in output, decrease in hiring needs, or savings in payroll costs.

Cost-Reduction Strategy

Firms pursuing a cost-reduction strategy are characterized by tight fiscal and management controls, minimization of overhead, and pursuit of economies of scale.

The primary objective is to increase productivity by decreasing unit cost of output per employee. Strategies for reducing costs include reducing the number of employees; reducing wage levels; using part-time workers or automation; changing work rules; and permitting flexibility in job assignments.

Speed Strategy

Under this strategy, management is to select highly skilled individuals who are committed to speed management and whose beliefs, attitudes, and values related to time are consistent with those the organization look for.

A fluid, networked organizational structure, rather than old command and control is most appropriate for this strategy.

An example of speed strategy in action is Dell Computer's approach of B2B e-commerce. Dell apply customer direct sales practices using the Web.

THE 21ST CENTURY CORPORATION

Management systems that produce profits through people seem to share seven dimensions in common.

1. **Employment Security** – Innovations in work practices or other forms of worker-management cooperation or productivity can be threatening when workers can go out of jobs.

2. **Selective Hiring** – Organizations need to be clear about critical skills and attributes for the purpose of hiring. E.g. selecting flight attendants at SWA are made on the basis of initiative, judgement, adaptability, and their ability to learn. Additionally, skills sought should be consistent with particular job requirements.

3. **Self-managed teams and decentralization** – Teams substitute peer-based control for hierarchical control of work. They also make all the people in a firm feel accountable and responsible for the operation and success of the enterprise.

4. **Comparatively high compensation** – Companies pay their employees comparatively well based on organizational performance.

5. **Extensive training** – Training is an essential component of high-performance work systems. Companies like Motorola use training as a source of competitive advantage and mandates 40 hours of training per employee per year.

6. **Reduced differences in status** – Reducing the status distinctions that separate individuals and groups, helps make all members of an organization feel important and committed.

7. **Sharing of information** – The sharing of information on such things as financial performance, strategy, and operational measures conveys to an organization's people that they are trusted.

The future of human resource management

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The author

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Keywords

Human resource management, Change management, Motivation

Abstract

Human resource management must change as the business environment in which it operates changes. Outlines the key challenges facing human resources managers as they move from simply handling personnel issues to making a strategic contribution to the future directions and development of an organization. Demonstrates that human resources managers can contribute both to performance enhancement and cost reduction thus contributing directly to the productivity of the organization.

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Introduction

Human resource management (HRM) has to change as the business environment changes. It has to do this as a mixture of responding to changes in that environment and if predicting such changes and making proactive decisions about the nature of HRM. The future is unpredictable and it is hard to determine what it will bring. It is important to be flexible and to acquire as much knowledge as possible to help cope with these uncertainties. Human resource (HR) managers need to synthesize issues relating to their core personnel functions with the general economic and business issues, whilst remaining in touch with technological development. Successful HR managers and departments have a significant strategic impact on their organizations.

Of course, the core personnel functions relate to that most important of organizational resources – the workforce. Handling core personnel functions of recruitment, selection, appointment, induction, training, development, etc. directly impacts on shareholder return and productivity. Successful companies invariably attract and retain productive employees.

Personnel issues in human resources

The first "personnel" role is that of hiring suitable employees. How easy this is depends on a number of factors, perhaps chief of which is the state of the local labor market. In the late 1990s, in the USA, the declining unemployment rate was a key factor. Competition for talent was high. Managers needed to hire quickly or risk losing a potential employee. In the current environment, this has changed. A company may receive a large number of résumés. Of course, this gives different problems. Selection becomes a much more important issue, since there is a bigger pool to select from. It is important to have structures and processes in place to carefully evaluate each candidate's skills and experience to ensure that the right applicant is selected from among the many qualified people (Messmer, 2002). This presumes, of course, that the organization has first undertaken a structured and disciplined process to identify the skills and attributes they do need for the job under

Work Study
Volume 52 · Number 4 · 2003 · pp. 201-207
 · ISSN 0043-8022
DOI 10.1108/00438020310479045

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discussion. Notice that in both these situations, we refer to structured processes. Many managers feel that they have personal skills which allow them to select the right person for the job based on their "experience" or "wisdom" or just plain "gut feelings". It is unwise – if not foolish – to allow such managers to behave in such ill-disciplined ways. The role of the HR department is to impose discipline on the selection process – both to offer "a fair deal" to all candidates and to ensure that the organization really does get the best person for the job.

It is important to forecast needs and plan accordingly. The hiring process can take a significant time and decisions made in a panic situation can be disastrous (Mulling, 2001).

As the economy has moved more to a service and information economy, competition for the really talented individuals has become fiercer; recruitment and retention may be the most pressing challenge facing US business today (Marriott, 2001).

Successful companies or organizations will be those that are able to attract and retain highly skilled employees. In order to do so, they must be able to match what the employee wants with what the employer is willing to give. This "partnership" approach to HR comes from a realization among HR directors and executives that if you take care of your people, they will take care of you. Many companies are "taking care" by offering innovative and flexible benefits.

The changing expectations of employees pose several different challenges for HRM professionals. In order to retain good employees and keep them happy and productive, these challenges must be successfully met (Sims and Sims, 1994). Companies need to first identify what their employees need. This is not necessarily simple. For example, companies with more than one location should not assume that all employees at all sites have the same needs. This is particularly true for global organizations since employee needs may be a reflection of socio-economical or cultural influences.

After needs have been determined, the next stage is to establish a cost-effective plan to provide for these employees' needs. In doing so, HR professionals need to be aware that employee needs are not static; they are constantly evolving and changing. Many companies recognize this fact in their compensation and benefit packages. They provide benefits based upon the best particular "fit" for the employee. For example, one location may offer childcare benefits, while another may offer flexible hours or working from home. Of course, all may be offered within the same location to meet the different needs of different individuals.

Organizations need to constantly strive to build a better benefits package. They need to look at their total reward package as an important means of attracting, rewarding and retaining skilled workers, and need to constantly monitor to ensure that these programs really add value. Within the overall package, they should then where possible avoid being too rigid and try to customize benefits to the individual employee.

This is a major performance and productivity issue for an organization. Retaining a current employee is almost always a cheaper option than recruiting and training a new employee. There is a series of major expenses associated with a "new hire" (in addition to the obvious salary and add-on costs):

- HR "admin" costs associated with advertising, record keeping, job sizing, etc.;
- travel expenses and other costs associated with the recruitment process;
- relocation costs for the successful candidate, etc.

There may also be additional costs associated with office location, furniture, support facilities, etc.

Major costs are associated with bringing the new employee "up to speed" – induction, training, mentoring, etc. During such a period, there may be significant disruption to production processes, schedules, etc. – especially where the new employee is part of an inter-related team. It is very important to ensure that such disruption is recognized as being a "system issue" associated with the personnel changeover. For example, if it affects bonus payments of employees, they should be compensated since, otherwise, they may resent the new employee and that may cause performance problems in the medium to longer term. It is also counter-productive to issue incentives for speedy performance to a new employee who is still "learning the ropes". It is much better to train someone to

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the agreed quality standards and then allow them (and incentivize them) to accelerate rather than to ask for fast performance too early and hope quality will "catch up". Incentives should not only "motivate" performance, they should also create a "sense of worth" in the employee/team.

Employees in post obviously have a different set of needs from "new hires", though these needs overlap. Employees in post also need appropriate training and development, since most jobs change over time – especially as new technology is introduced.

Other costs associated with each employee include the costs of any "benefits" awarded as part of the contractual relationship between employer and employee. Benefits offered to employees in addition to salary can vary depending on the status of the employee and how long the employee has been in their position. These benefits typically include sick leave, vacation entitlement, public holiday leave; and may also include retirement and severance packages, medical and life insurance and other contractual benefits.

Healthcare is one area where thinking has changed in recent years. Escalating healthcare costs are a major problem for all employers (Willmott, 2001). One way in which employers have tried to keep costs down is by switching from a fully funded or traditional insurance plan to a self-funded (i.e. organization) benefit program.

In such a self-funded plan, the employer pays for the employees' medical claims directly. This is normally done by setting up an interest-earning trust fund made up of all of the (former) employers' and employees' contributions (Willmott, 2001). Normally these self-funding plans go through a network of doctors and hospitals that provide medical services at a discounted rate. In effect, the organization, via the trust, is accepting the risk it previously passed on to an insurance or healthcare company. Understandably, some employees become worried about what would happen if the money were to run out. With a "traditional" plan, employees had a more secure guarantee of cover. When the organization carries the risk, the smaller size of the "pool" paying into the contribution base, means that the risk is higher. There is a point at which organization size makes this risk unacceptable. With organizations of an appropriate size (sufficiently large), the "trust" already built into the employer-employee relationship will probably determine whether employees find a move to such self-funding acceptable.

It is important to remember that employees will value both financial and non-financial rewards; it is also important to remember that rewards that can be described as "non-financial" do carry costs for the organization. However, as with all "investments", the benefits to the organization must be balanced against these costs. The Marriott group recently completed groundbreaking employee research that is enabling them to refine their value proposition for the new economy. They have developed a system to address not only financial or monetary factors, but also non-monetary. Some of these factors include flexible schedules to tailored benefit packages and development opportunities. They believe that there is more to such a system than just retaining "associates"; the system also creates value for their customers (Marriott, 2001).

Since such benefits are increasingly expensive (even non-financial benefits and even with innovations such as self-funding), it may be that employees are offered a "menu" of options from which they choose their own benefits package within certain constraints. Employees who have selected (at least components of) their own benefits package will probably value those benefits more – they are more likely to view the overall compensation, reward and benefit package as "fair". Such choice within the process also recognizes that employee expectations have changed – they often understand their position in the job market, their degree of choice and their bargaining power. Allowing them to interact in the process is a small, empowering factor. It demonstrates that the organization recognizes them as an individual with "a voice".

Though perhaps it is less available these days, employees often seek assurances on "security". Though there is a general awareness that the "job for life" is no longer the typical working pattern, security can be a big issue. Naturally, for employees, it becomes particularly important at particular stages of their lives.

Layoffs and cutbacks are relatively common occurrences in today's economy – they are part of the flexibility we have suggested is important. Only by adapting to market shifts can an organization guarantee its longer-term

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survival and growth. However, this survival and growth is also affected by the ways in which organizations respond to a downturn in the economy (Frances, 2002).

Managers need to carefully weigh very important decisions in light of total organizational costs before decisions regarding cutbacks are made. Deciding too quickly can result in a decision that is made upon illusory or only short-term savings. The costs of staff reductions during economic slowdowns are not usually felt until the economy improves (Frances, 2002). This is why it is vital for management to carefully consider what the organization may lose, and compare the potential loss to any anticipated savings from planned job cuts.

Although some staff cutting may be inevitable, there are benefits from not using layoffs and cutbacks, or reducing them. One of the most important is keeping a good customer and vendor relationship (Frances, 2002). Long-standing business relationships can be lost with the employees that created or serviced them. This can cause a customer to wonder if the company is still reliable and capable of handling its needs.

Another important benefit of reducing cutbacks is the retention of high employee morale and efficiency. By maintaining a continuous staff level, morale is maintained. Indeed if the workforce is aware, or made aware of, the market conditions, morale may be boosted. This promotes higher productivity of operations (Frances, 2002).

One approach to the decision-making process is to find the value of each employee. Instead of looking at employees as salaries/costs, the organization should look at what value they bring to the business. For each position, it is important to arrive at some way of assigning a value to each job. In doing this, some businesses may find that some people do need to be replaced. If this does happen, it is key to remember to keep emotions out of the way. Some employees may just be in the wrong job for their personal talents (Mulling, 2001). A change of responsibility – rather than a layoff – could bring noticeable improvement.

Trust and loyalty, and inter-personal relationships (both formal and informal) are important parts of the fabric of a company. These are all disrupted with layoffs. The layoff of one particular individual may have unforeseen repercussions due to the complex web woven by these inter-relationships. Other employees will begin to wonder if they will be next to go. This unease and uncertainty can greatly affect productivity and efficiency.

It is almost impossible for any organization to offer guarantees on the security of employment; what an organization can offer, however, is guarantees on the processes by which any "downsizing" may be undertaken, including the processes of consultation with employees and their representatives. "Loyalty" (a term once much used in the employer-employee relationship) thus becomes a relationship of mutual trust in how particular situations will be handled. When a process of downsizing is in place, employees (who have had the reasons for downsizing properly explained) are still likely to be very disappointed – and even angry – but they may at least recognize the "reality" and continue to work productively through this period. Certainly throughout this period of real tension, employees should be encouraged to share their questions and concerns (Messmer, 2002).

If morale is thought to be a specific problem at this time – to the point where it is having a significant effect on performance, organizations may additionally add "extras" into what employees are given as incentive to work productively through the critical period (Brimelow, 2002):

> Layoffs are disruptive and difficult for everyone and most organizations are taking steps to avoid them if possible. The majority of those companies that can't avoid layoffs are offering severance packages that include a variety of benefits (Drinan, H., SHRM president).

The other way in which morale might be helped is to offer services to employees to help them find alternative employment, or to help them plan for life on a reduced income. Some organizations have taken to adopting such "morale-boosting" tactics through both good times and bad. Yahoo!, for example, started offering personal finance seminars to its employees whose stock options had grown. They also have "parties" and visits from Ben & Jerry's ice cream trucks to create a positive morale for the workers. Perhaps what most workers want is simply to be taken seriously and valued – to be communicated with on a meaningful level. This applies at all times but especially in times of trouble where fear of the unknown is often worse than fear of the reality.

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> It appears most organizations are missing an important opportunity. They could and should do more to boost morale for employees remaining with the organization to stem further turnover and to increase productivity (Drinan, H., SHRM president) (Brimelow, 2002).

Of course, treating employees with respect, as mature human beings with a stake in the company has commercial benefits. Sears, Roebuck and Company, for example, provide their employees with training that gives them the skills they need to be empowered and take responsibility for authoritative decisions. Sears even started having employee meetings in town halls – "close to" their employees, away from "the office" – to seek input from their employees on ways in which the organization – and the employees – could better serve their customers. This program of employee consultation and empowerment worked through to the public having a more positive perception of the organization and seeing them as an "honest" company.

Additionally, if employees are treated as "partners" in the company – and its future – they are more likely to work in ways that will help the company face the next economic downturn with confidence and competitive action. Empowered employees are much more likely to be innovative employees. Innovative thinking and action spreads: innovators in the company can teach others to do the same (Frances, 2002). This can help organizations stay ahead of their competitors, stay alive during a downturn and stay prepared for when the economy does take a turn upward.

The changing role of HR

Because the business world is changing, the role of HR must change. Once HR departments were considered as "mechanical" agents, helping the organization to hire and fire (and possibly train) employees. The HR department was an administrative necessity but little more. Over the last 20 years, the importance of a highly skilled, well-motivated, flexible workforce has become clear. HR departments are now expected to "add value" to the organization – not simply incur cost.

Ulrich (1998) has suggested four ways for HR to deliver organizational excellence:

(1) Partner with senior and line managers to move planning from the conference room to the marketplace.
(2) In order to deliver efficiency to reduce costs and yet maintain quality, become an expert in the way work is organized and executed.
(3) Become a champion for employees while working to increase employee contributions, specifically commitment and ability to deliver results.
(4) Become an agent of continuous transformation, shaping processes and a culture that will improve an organization's capacity for change.

This makes the HR department much more than "policy police" and regulatory "watchdog". Even more advanced and empowered HR departments may only oversee recruitment, manage training and development programs, and design initiatives to increase workplace diversity. This is not what is required of modern HR professionals.

They must form partnerships with operating managers to rethink and reconfigure the HR function and become committed to outcomes. Line managers are answerable to the shareholders to create economic value; the customers for product or service value; and the employees for creating workplace value. HR managers must be part of this "agreement".

The challenges

In the current business environment, there are perhaps five critical business challenges that need to be faced:

(1) globalization;
(2) profitability through growth;
(3) technology;
(4) intellectual capital; and
(5) change, change and more change.

Globalization

Managers are more often being challenged to balance the demands of thinking globally and acting locally. People, ideas, products and information must be moved around the world to meet local needs. Volatile political situations, global trade issues, fluctuating exchange rates, and unfamiliar cultures now enter into business decisions. Managers must become schooled in the ways of their international customers. They must enhance their ability to learn to work together to

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manage diversity, complexity, and ambiguity across the globe. Within this environment, HR managers have a particular job to do in ensuring that HR policies and practices pay attention to the balance between consistency and co-ordination versus recognition of cultural and other differences.

Growth

Many western companies have already accomplished the easy gains that come from downsizing delayering and consolidation; they have also been through the rigours of reengineering. They are now looking at increased revenue through growth. This brings another set of issues and challenges for HR professionals:

- They must require their employees to be creative and innovative; and they must support those employees in being so by, for example, encouraging shared learning among them.
- Organizations who choose to grow through mergers, consolidations or joint ventures need the necessary HR skills to combine different work processes and cultures.

Technology

It is a given that organizations must expect to constantly review and update their technology. Technology is one particular manifestation of change. All change is difficult and HR departments must consider themselves as agents of change. In particular, with respect to technology, they must minimize resistance to new technology by ensuring that employees are provided with the necessary training and support processes to be able to cope with the change.

Intellectual capital

The most successful organizations will be the ones which can attract, develop and retain individuals who have the ability to manage a global organization that is responsive to customers and the opportunities being presented by technology. It will be the HR department's responsibility to find, assimilate, develop, compensate and retain these talented employees. Once the workforce is in place, the HR department – in partnership with others – must ensure that the intellectual resources of those employees are fully utilized. They must also ensure that the fruits of the intellectual activity are properly recognized and protected, and appropriately shared and managed. In the "knowledge economy", superior talent is the key to the future "prime source of competitive advantage" (Aghazadeh, 1999). This resource must be nurtured.

Change

All the other factors are particular manifestations of perhaps the most important of all – change. The HR department must embrace and support change. This means, of course, that the HR department must itself change – it must be seen to be flexible, responsive and value-adding. It cannot drive and support change elsewhere in the organization if it itself cannot adapt. It must examine and adopt (adapting if necessary) new structures, new working processes and a new culture of business support.

HR managers need to be involved in the setting of realistic, reasonable, challenging, and attainable goals that enable the company to adapt and change as technology does. Such technology may be in the organization generally as, for example, automated manufacturing processes or in the HR department itself, as with new personnel or payroll software packages. In addressing such technological change, HR managers need to be aware of the "hidden" issues:

- The hidden costs of doing business in certain ways.
- Handling intellectual property rights.
- Communication within and surrounding the technology.
- The changing nature of collaboration as technology changes (Aghazadeh, 1999).

The Internet – and Internet-enabled software – is a particular aspect of technology of concern to HRM professionals as it can change ways in which employees relate to the organization. Internet-enabled software, which requires the user to work only through an established browser interface, may allow the employees to:

- update personal information, such as home address, emergency contacts, cell phone numbers, changes in dependants, bank details, etc.;
- self-enrol on benefits programmes;
- view pay data, including payroll deductions and tax information;
- input timesheet data.

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- apply online for promotion opportunities;
- register for in-house training courses;
- read the employee handbook, company newsletters and policy and procedure manuals online;
- update personnel information with newly acquired skills;
- view accrued paid time off.

Such facilities represent a win-win situation. They give the employee more personal and direct control over his/her relationship with the organization; and they save the organization time and money in conducting such transactions (Hoover, 2002).

In addition to helping the organization to implement technological change both in the HR department and in the wider organization, HR managers have a prior role of promoting such change and preparing the organization to accept it. The introduction of technology is often seen as a threat – to accepted ways of doing work, and even to jobs. However, the infusion of new technology must be seen as a necessity, as providing a controlled trajectory towards attaining a more competitive position and providing the essential interconnecting link between the enterprise and its potential partners and customers in the global chain of demand-driven entities of suppliers and markets. It may sound trite, but technology must be seen as an opportunity and not a threat. For example, IT provides new opportunities for product development, to generate innovative products in an environment of rapid change.

Conclusion

Sweeping changes continue to reshape the workplace. Today's HR professional needs to be more than simply an expert on personnel issues. He/she also needs to be an informed and skilled businessperson since HR professionals must play a key role in helping their organization remain competitive in the marketplace.

HR professionals need to use their sense of commitment, inter-personal skills and training to help make their company a success. The environment of constant change means that they must pay particular attention to cultivating competencies in communications and decision-making skills. They must be able to present the vision of their company clearly. Within this, they must also have a clear and functional perception of the operational management needs. They need to examine and review existing procedures to ensure that improved solutions can be designed and built. They need to emphasize the importance of continuous progress and managing change through goal setting. And finally, they must ensure that the resulting organization is populated and driven by empowered employees.

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A new mandate for Human Resources. (analysis of the functions of the human resources departments in increasing productivity and profits) *Dave Ulrich.*

Abstract: The effectivity of human resources departments lies in its mandate being aligned with present business realities of increasing employee productivity and caring their welfare. Human resources department should bridge the gap delineating management and the employees by helping employees work to realize the corporate g This role should be accompanied by a transformation work which will help increase employees' skills to cope with emerging and future business directions.

HR should be defined not by what it does but by what it delivers.

SHOULD WE do away with HR? In recent years, a number of people who study and write about business--along with many who run businesses--have been debating that question. The debate arises out of serious and widespread doubts about HR's contribution to organizational performance. And as much as I like HR people--I have been working in the field as a researcher, professor, and consultant for 20 years--I must agree that there is good reason for HR's beleaguered reputation. It is often ineffective, incompetent, and costly; in a phrase, it is value sapping. Indeed, if HR were to remain configured as it is today in many companies, I would have to answer the question above with a resounding "Yes--abolish the thing!"

But the truth is, HR has never been more necessary. The competitive forces that managers face today and will continue to confront in the future demand organizational excellence. The efforts to achieve such excellence--through a focus on learning, quality, teamwork and reengineering--are driven by the way organizations get things done and how they treat their people. Those are fundamental HR issues. To state it plainly: achieving organizational excellence must be the work of HR.

The question for senior managers, then, is not Should we do away with HR? but What should we do with HR? The answer is: create an entirely new role and agenda for the field that focuses it not on traditional HR activities, such as staffing and compensation, but on outcomes. HR should not be defined by what it does but by what it delivers--results that enrich the organization's value to customers, investors, and employees.

More specifically, HR can help deliver organizational excellence in the following four ways:

* First, HR should become a partner with senior and line managers in strategy execution helping to move planning from the conference room to the marketplace.

* Second, it should become an expert in the way work is organized and executed, delivering administrative efficiency to ensure that costs are reduced while quality is maintained.

* Third, it should become a champion for employees, vigorously representing their concerns to senior management and at the same time working to increase employee contribution; that is, employees' commitment to the organization and their ability to deliver results.

* And finally, HR should become an agent of continuous transformation, shaping processes and a culture that together improve an organization's capacity for change.

Make no mistake: this new agenda for HR is a radical departure from the status quo. In most companies today, HR is sanctioned mainly to play policy police and regulatory watchdog. It handles the paperwork involved in hiring and firing, manages the bureaucratic aspects of benefits, and administers compensation decisions made by others. When it is more empowered by senior management, it might oversee recruiting, manage training and development programs, or design initiatives to increase workplace diversity. But the fact remains: the activities of HR appear to be--and often are--disconnected from the real work of the organization. The new agenda, however, would mean that every one of HR's activities would in some concrete way help the company better serve its customers or otherwise increase shareholder value.

Can HR transform itself alone? Absolutely not. In fact, the primary responsibility for transforming the role of HR belongs to the CEO and to every line manager who must achieve business goals. The reason? Line managers have ultimate responsibility for both the processes and the outcomes of the company. They are answerable to shareholders creating economic value, to customers for creating product or service value, and to employees for creating workplace value. It follows that they should lead the way in fully integrating HR into the company's real work. Indeed, to do so, they must become HR champions themselves. They must acknowledge that competitive success is a function of organizational excellence. More important, they must hold HR accountable for delivering it.

Of course, the line should not impose the new agenda on the HR staff. Rather, operating managers and HR managers must form a partnership to quickly and completely reconceive and reconfigure the function--to overhaul it from one devoted to activities to one committed to outcomes. The process will be different in every organization, but the result will be the same: a business era in which the question Should we do away with HR? will be considered utterly ridiculous.

Why HR Matters Now More Than Ever

Regardless of their industry, size, or location, companies today face five critical business challenges. Collectively, these challenges require organizations to build new capabilities Who is currently responsible for developing those capabilities? Everyone--and no one That vacuum is HR's opportunity to play a leadership role in enabling organizations to meet the following competitive challenges:

Globalization. Gone are the days when companies created products at home and shipped them abroad "as is." With the rapid expansion of global markets, managers are struggling to balance the paradoxical demand to think globally and act locally. That imperative requires them to move people, ideas, products, and information around the world to meet local needs. They must add new and important ingredients to the mix when making strategy: volatile political situations, contentious global trade issues, fluctuating exchange rates, and unfamiliar cultures. They must be more literate in the ways of international customers, commerce, and competition than ever before. In short, globalization requires that organizations increase their ability to learn and collaborate and to manage diversity complexity, and ambiguity.

Profitability Through Growth. During the past decade, most Western companies have been clearing debris, using downsizing, reengineering, delayering, and consolidation to

increase efficiency and cut costs. The gains of such yard work, however, have largely been realized, and executives will now have to pay attention to the other part of the profitability equation: revenue growth.

The drive for revenue growth, needless to say, puts unique demands on an organization. Companies seeking to acquire new customers and develop new products must be creative and innovative, and must encourage the free flow of information and shared learning among employees. They must also become more market focused--more in touch with the fast changing and disparate needs of their customers. And companies seeking growth through mergers, acquisitions, or joint ventures require other capabilities, such as the finely honed skills needed to integrate different organizations' work processes and cultures.

Technology. From videoconferencing to the Internet, technology has made our world smaller and faster. Ideas and massive amounts of information are in constant movement. The challenge for managers is to make sense and good use of what technology offers. Not all technology adds value. But technology can and will affect how and where work gets done. In the coming years, managers will need to figure out how to make technology a viable, productive part of the work setting. They will need to stay ahead of the information curve and learn to leverage information for business results. Otherwise, they risk being swallowed by a tidal wave of data--not ideas.

Intellectual Capital. Knowledge has become a direct competitive advantage for companies selling ideas and relationships (think of professional service, software, and technology-driven companies) and an indirect competitive advantage for all companies attempting to differentiate themselves by how they serve customers. From now on, successful companies will be the ones that are the most adept at attracting, developing, and retaining individuals who can drive a global organization that is responsive to both its customer and the burgeoning opportunities of technology. Thus the challenge for organizations making sure they have the capability to find, assimilate, develop, compensate, and retain such talented individuals.

Change, Change, and More Change. Perhaps the greatest competitive challenge companies face is adjusting to--indeed, embracing--nonstop change. They must be able learn rapidly and continuously, innovate ceaselessly, and take on new strategic imperatives faster and more comfortably. Constant change means organizations must create a healthy discomfort with the status quo, an ability to detect emerging trends quicker than the competition, an ability to make rapid decisions, and the agility to seek new ways of doing business. To thrive, in other words, companies will need to be in a never-ending state of transformation, perpetually creating fundamental, enduring change.

HR's New Role

The five challenges described above have one overarching implication for business: the only competitive weapon left is organization. Sooner or later, traditional forms of competitiveness--cost, technology, distribution, manufacturing, and product features-- can be copied. They have become table stakes. You must have them to be a player, but they do not guarantee you will be a winner.

In the new economy, winning will spring from organizational capabilities such as speed responsiveness, agility, learning capacity, and employee competence. Successful organizations will be those that are able to quickly turn strategy into action; to manage processes intelligently and efficiently; to maximize employee contribution and commitment; and to create the conditions for seamless change. The need to develop those capabilities brings us back to the mandate for HR set forth at the beginning of this article. Let's take a closer look at each HR imperative in turn.

Becoming a Partner in Strategy Execution. I'm not going to argue that HR should make

strategy. Strategy is the responsibility of a company's executive team--of which HR is a member. To be full-fledged strategic partners with senior management, however, HR executives should impel and guide serious discussion of how the company should be organized to carry out its strategy. Creating the conditions for this discussion involves four steps.

First, HR should be held responsible for defining an organizational architecture. In other words, it should identify the underlying model of the company's way of doing business. Several well-established frameworks can be used in this process. Jay Galbraith's star model, for example, identifies five essential organizational components: strategy, structure, rewards, processes, and people. The well-known 7-S framework created by McKinsey & Company distinguishes seven components in a company's architecture: strategy, structure, systems, staff, style, skills, and shared values.

It's relatively unimportant which framework the HR staff uses to define the company's architecture, as long as it's robust. What matters more is that an architecture be articulated explicitly. Without such clarity, managers can become myopic about how the company runs--and thus about what drives strategy implementation and what stands in its way. They might think only of structure as the driving force behind actions and decisions, and neglect systems or skills. Or they might understand the company primarily in terms of its values and pay inadequate attention to the influence of systems on how work--that is, strategy execution--actually gets accomplished.

Senior management should ask HR to play the role of an architect called into an already-constructed building to draw up its plans. The architect makes measurements; calculates dimensions; notes windows, doors, and staircases; and examines the plumbing and heating infrastructures. The result is a comprehensive set of blueprints that contains all the building's parts and shows how they work together.

Next, HR must be accountable for conducting an organizational audit. Blueprints can illuminate the places in a house that require immediate improvement; organizational-architecture plans can be similarly useful. They are critical in helping managers identify which components of the company must change in order to facilitate strategy execution Again, HR's role is to shepherd the dialogue about the company's blueprints.

Consider a company in which HR defined the organization's architecture in terms of its culture, competencies, rewards, governance, work processes, and leadership. The HR staff was able to use that model to guide management through a rigorous discussion of "fit" – did the company's culture fit its strategic goals, did its competencies, and so forth. When the answer was no, HR was able to guide a discussion of how to obtain or develop what was missing. (For an example of the questions asked in this discussion, see the chart "From Architecture to Audit.")

FROM ARCHITECTURE TO AUDIT

After HR has determined the company's underlying architecture, it can use a framework like the one below to guide the organization through the discussion and debate of the audit process.

	Question	Rating (1-10)	Description of best practice	Gap between company's current practice and best practice
SHARED	To what extent			

MIND-SET	does our company have the right culture to reach its goals?
COMPETENCE	To what extent does our company have the required knowledge, skills, and abilities?
CONSEQUENCES	To what extent does our company have the appropriate measures, rewards, and incentives?
GOVERNANCE	To what extent does our company have the right organizational structure, communications systems, and policies?
CAPACITY FOR CHANGE	To what extent does our company have the ability to improve work processes, to to change, and to learn?
LEADERSHIP	To what extent does our company have the leadership to achieve its goals?

The third role for HR as a strategic partner is to I identify methods for renovating the parts of the organizational architecture that need it. In other words, HR managers should be assigned to take the lead in proposing, creating, and debating best practices in culture change programs, for example, or in appraisal and reward systems. Similarly, if strategy implementation requires, say, a team-based organizational structure, HR would be responsible for bringing state-of-the-art approaches for creating this structure to senior management's attention.

Fourth and finally, HR must take stock of its own work and set clear priorities. At any given moment, the HR staff might have a dozen initiatives in its sights, such as pay-for-performance, global teamwork, and action-learning development experiences. But to be truly tied to business outcomes, HR needs to join forces with operating managers to systematically assess the impact and importance of each one of these initiatives. Which ones are really aligned with strategy implementation? Which ones should receive attention immediately, and which can wait? Which ones, in short, are truly linked to business results?

Because becoming a strategic partner means an entirely new role for HR, it may have to acquire new skills and capabilities. Its staff may need more education in order to perform

the kind of in-depth analysis an organizational audit involves, for example. Ultimately, such new knowledge will allow HR to add value to the executive team with confidence. In time, the concept of HR as a strategic partner will make business sense.

Becoming an Administrative Expert. For decades, HR professionals have been tagged as administrators. In their new role as administrative experts, however, they will need to shed their traditional image of rule-making policy police, while still making sure that all the required routine work in companies is done well. In order to move from their old role as administrators into their new role, HR staff will have to improve the efficiency of both their own function and the entire organization.

Within the HR function are dozens of processes that can be done better, faster, and cheaper. Finding and fixing those processes is part of the work of the new HR. Some companies have already embraced these tasks, and the results are impressive. One company has created a fully automated and flexible benefits program that employees can manage without paperwork; another has used technology to screen resumes and reduce the cycle time for hiring new candidates; and a third has created an electronic bulletin board that allows employees to communicate with senior executives. In all three cases quality of HR work improved and costs were lowered, generally by removing steps or leveraging technology.

But decreased costs aren't the only benefit of HR's becoming the organization's administrative expert. Improving efficiency will build HR's credibility, which, in turn, will open the door for it to become a partner in executing strategy. Consider the case of a CEO who held a very low opinion of the company's HR staff after they sent a letter to a job candidate offering a salary figure with the decimal point in the wrong place. (The candidate called the CEO and joked that she didn't realize the job would make her a millionaire.) It was only after the HR staff proved they could streamline the organization's systems and procedures and deliver flawless administrative service that the CEO finally felt comfortable giving HR a seat at the strategy table.

HR executives can also prove their value as administrative experts by rethinking how work is done throughout the organization. For example, they can design and implement a system that allows departments to share administrative services. At Amoco, for instance, HR helped create a shared-service organization that encompassed 14 business units. HR can also create centers of expertise that gather, coordinate, and disseminate vital information about market trends, for instance, or organizational processes. Such groups can act as internal consultants, not only saving the company money but also improving its competitive situation.

Becoming an Employee Champion. Work today is more demanding than ever--employees are continually being asked to do more with less. And as companies withdraw the old employment contract, which was based on security and predictable promotions, and replace it with faint promises of trust, employees respond in kind. Their relationship with the organization becomes transactional. They give their time but not much more.

That kind of curtailed contribution is a recipe for organizational failure. Companies cannot thrive unless their employees are engaged fully. Engaged I employees--that is, employees who believe they are valued--share ideas, work harder than the necessary minimum, and relate better to customers, to name just three benefits.

In their new role, HR professionals must be held accountable for ensuring that employees are engaged--that they feel committed to the organization and contribute fully. In the past, HR sought that commitment by attending to the social needs of employees--picnics, parties, United Way campaigns, and so on. While those activities must still be organized, HR's new agenda supersedes them. HR must now take responsibility for orienting and training line management about the importance of high employee morale and how to achieve it. In addition, the new HR should be the employees' voice in management

discussions offer employees opportunities for personal and professional growth; and provide resources that help employees meet the demands put on them.

Orienting and training line management about how to achieve high employee morale can be accomplished using several tools, such as workshops, written reports, and employee surveys. Such tools can help managers understand the sources of low morale within the organization--not just specifically, but conceptually. For instance, HR might inform the line that 82% of employees feel demoralized because of a recent downsizing. That's useful. But more than that, HR should be responsible for educating the line about the causes of low employee morale. For instance, it is generally agreed by organizational behavior experts that employee morale decreases when people believe the demands put upon them exceed the resources available to meet those demands. Morale also drops when the goals are unclear, priorities are unfocused, or performance measurement is ambiguous. HR serves an important role in holding a mirror in front of senior executives.

HR can play a critical role in recommending ways to ameliorate morale problems. Recommendations can be as simple as urging the hiring of additional support staff or as complex as suggesting that reengineering be considered for certain tasks. The new role for HR might also involve suggesting that more teams be used on some projects or that employees be given more control over their own work schedules. It may mean suggesting that line executives pay attention to the possibility that some employees are being asked to do boring or repetitive work. HR at Baxter Healthcare, for example, identified boring work as a problem and then helped to solve it by redesigning work processes to connect employees more directly with customers.

Along with educating operating managers about morale, HR staff must also be an advocate for employees--they must represent the employees to management and be their voice in management discussions. Employees should have confidence that when decisions are made that affect them (such as a plant closing), HR's involvement in the decision-making process clearly represents employees' views and supports their rights. Such advocacy cannot be invisible. Employees must know that HR is their voice before they will communicate their opinions to HR managers.

Becoming a Change Agent. To adapt a phrase, Change happens. And the pace of change today, because of globalization, technological innovation, and information access, is both dizzying and dazzling. That said, the primary difference between winners and losers in business will be the ability to respond to the pace of change. Winners will be able to adapt, learn, and act quickly. Losers will spend time trying to control and master change.

The new HR has as its fourth responsibility the fob of building the organization's capacity to embrace and capitalize on change. It will make sure that change initiatives that are focused on creating high-performing teams, reducing cycle time for innovation, or implementing new technology are defined, developed, and delivered in a timely way. new HR can also make sure that broad vision statements (such as, We will be the global leader in our markets) get transformed into specific behaviors by helping employees figure out what work they can stop, start, and keep doing to make the vision real. At Hewlett-Packard, HR has helped make sure that the company's value of treating employees with trust, dignity, and respect translates into practices that, for example, give employees more control over when and where they work.

Change has a way of scaring people--scaring them into inaction. HR's role as a change agent is to replace resistance with resolve, planning with results, and fear of change with excitement about its possibilities. How? The answer lies in the creation and use of a change model. (For an example of a very effective change model, developed with and used extensively by GE, see the chart "Change Begins by Asking Who, Why, What, and How.") HR professionals must introduce such a model to their organizations and guide executive teams through it--that is, steer the conversation and debate that answers the multitude of questions it raises. The model, in short, must be a managerial tool

championed by HR. It helps an organization identify the key success factors for change and assess the organization's strengths and weaknesses regarding each factor. The process can be arduous, but it is one of the most valuable roles HR can play. As change agents, HR professionals do not themselves execute change--but they make sure that it is carried out.

Consider the case of a company whose senior management team announced that "valuing diversity" was a top priority in 1996. Six months into the year, the team acknowledged that the diversity initiative had received more rhetoric than action. The company's HR professionals asked the team to spend several hours profiling the diversity initiative using a change model. (See the graph "Profile of a Change Initiative in Distress.") The resulting analysis revealed that the diversity initiative would fail unless the senior management team explored several critical questions, among them: Why are we seeking diversity? What will be the benefit to the business and its customers? What is the ideal form of diversity for this organization: Who needs to be supportive and involved to make the initiative come to life?

HR leaders spent several more hours with the management team guiding a conversation that answered those questions. Shortly afterward, they were able to present the team with an action plan for moving the diversity initiative forward. Thus HR did not decide what changes the organization was going to embrace, but it did lead the process to make them explicit.

Perhaps the hardest and most important challenge facing many companies in this era of flux is changing their culture. In helping to bring about a new culture, HR must follow four-step process:

* First, it must define and clarify the concept of culture change.

* Second, it must articulate why culture change is central to business success.

* Third, it must define a process for assessing the current culture and the desired new culture, as well as for measuring the gap between the two.

* And fourth, it must identify alternative approaches to creating culture change.

HR played an important part in changing the culture at Sears, which underwent a transformation of its business beginning in 1994. In facilitating that change, HR first took on the task of getting the organization to define and clarify the concept of culture. It helped lead the top 100 managers through discussions and debates of the questions, What are the top three things we want to be known for by our customers, and What do we do that is world class in those things? Ultimately, those conversations led to a consensus that Sears would define its culture as "the identity of the company in the minds of the best customers." In addition, HR at Sears took on the responsibility of making the business case for a transformation of the company's culture. It compiled data showing that ever small increase in employee commitment led to a measurable increase in customer commitment and store profitability. The data illustrate conclusively that Sears's transformation affected employees, customers, and investors.

HR at Sears guided the company's culture change in numerous other ways.(1) The specific details, however, are not nearly as important as their implications. HR can be the architect of new cultures, but to do so, its purpose must be redefined. Virtually every imperative of the new mandate for HR requires such a redefinition. And for it to happen, senior managers must lead the way.

Four Changes for the Line

The new mandate for HR requires dramatic changes in how HR professionals think and behave. But perhaps more important, it also requires that senior executives change what they expect from HR and how they behave toward the HR staff. The following are four ways senior operating managers can create an era in which HR is focused on outcome instead of activities:

Communicate to the organization that the "soft stuff" matters. At Hewlett-Packard, managing people was one of the two hoshin [major objectives] of the CEO for 1997. At General Electric, CEO Jack Welch claims he spends 40% of this time on people issues. Southern Company, senior managers are working to create an empowered organization to ensure faster and better decision making. The point? For HR to be taken seriously, senior managers must demonstrate that they believe typical HR issues--the soft stuff like culture change and intellectual capital--are critical to business success.

Operating managers can signal this belief in several ways. They can talk seriously about how organizational capabilities create value for investors, customers, and employees. They can invest the time needed to make sure organizational changes are debated and implemented. They can include HR professionals in strategy discussions and state explicitly that without the collaboration of HR, strategies are more hopes than realities, promises than acts, and concepts than results.

Explicitly define the deliverables from HR, and hold HR accountable for results. It is one thing to tell HR that it is responsible for employee contribution and quite another to set specific goal--say, a 10% increase in employee morale as measured by a survey. And once such specific goals are set, consequences must follow if they are missed.

The new mandate for HR is like any other business initiative in this way. A company has a much better chance of achieving its goals if senior managers state specifically what they expect from HR and then track, measure, and reward performance.

Invest in innovative HR practices. Like every other area of business, HR gets its share of new technologies and practices, and senior line executives should be always on the lookout for such practices. Conferences and management literature are always good places to hear of new ways of approaching HR, but senior managers should also be aware of innovative HR practices going on at other companies and of new practices that are being advocated by respected consultants.

Investing in new HR practices is another way to signal to the organization that HR is worthy of the company's money and attention. It is also a way to make sure that HR has the tools, information, and processes that it needs to execute its new mandate.

As new practices are identified, line managers should expect HR to adapt to them, not adopt them. Too often, after learning about an innovative idea, HR immediately tries to copy it wholesale. Such efforts often fail, and at a high emotional cost. Instead, investment in new HR practices should focus on learning not only what works elsewhere but also how a new practice should work in the company's unique competitive situation.

Upgrade HR professionals. Finally, the hardest but perhaps most important thing senior managers can do to drive forward the new mandate for HR is to improve the quality of the HR staff itself. Too often, HR departments are like computers made up of used parts. While the individual parts may work, they don't work well together. When more is expected of HR, a higher quality of HR professional must be found. Companies need people who know the business, understand the theory and practice of HR, can manage culture and make change happen, and have personal credibility. Sometimes, such individuals already exist within the HR function but need additional training. Other times, they have to be brought in from other parts of the company. In still other cases, they must be hired from outside.

Regardless, HR cannot expand its role in an organization without the requisite expertise. Becoming a strategic partner demands a degree of knowledge about strategy, markets, and the economy. Becoming an administrative expert demands some knowledge of reengineering, as well as the intricacies of what the line actually does. If HR is to effect real change, it must be made up of people who have the skills they need to work from base of confidence and earn what too often it lacks--respect.

Hard Work Ahead

To meet the increased expectations of their organizations, HR professionals must begin to act professionally. They must focus more on the deliverables of their work and less on just getting their work done. They must articulate their role in terms of the value they create. They must create mechanisms so that business results quickly follow. They must measure their effectiveness in terms of business competitiveness rather than employee comfort and lead cultural transformation rather than consolidate, reengineer, or downsized in order to turn a company around.

Senior executives who recognize the economic value and the benefit to their customers intellectual capital and organizational capability need to demand more of the HR function. They need to invest in HR as if it were a business. And they must get beyond the stereotype of HR professionals as incompetent value-sapping support staff. It's time to destroy that stereotype and unleash HR's full potential.

[GRAPH OMITTED]

CHANGE BEGINS BY ASKING WHO, WHY, WHAT, AND HOW

HR staff at GE used this change model to guide a transformation process at the compa

Key Success Factors for Change	Questions to Assess and Accomplish The Key Success Factors for Change
Leading change (Who is responsible?)	Do we have a leader...
	who owns and champions the change?
	who publicly commits to making it happen
	who will garner the resources necessary to sustain it?
	who will put in the personal time and attention needed to follow through?
Creating a shared need (Why do it?)	Do employees...
	see the reason for the change?
	understand why it is important?
	see how it will help them and the business in the short term and long term?
Shaping a vision (what will it look like when we are done?)	Do employees...
	see the outcomes of the change in behavioral terms (that is, in terms of what will do differently as a result of

	the change)?
	get excited about the results of accomplishing the change?
	understand how it will benefit customers and other stakeholders?
Mobilizing commitment (Who else needs to be involved?)	Do the sponsors of the change...
	recognize who else needs to be committed to the change to make it happen?
	know how to build a coalition of support for the change?
	have the ability to enlist support of key individuals in the organization?
	have the ability to build a responsibility matrix to make the change happen?
Modifying systems and structures (How will it be institutionalized?)	Do the sponsors of the change...
	understand how to link it to other HR systems such as staffing, training, appraisal, rewards, structure, and communication?
	recognize the systems implications of the change?
Monitoring process (How will it be measured?)	Do the sponsors of the change...
	have a means of measuring its success?
	plan to benchmark progress against both the results of the change and the process of implementing it?
Making it last (How will it get started and last?)	Do the sponsors of the change...
	recognize the first steps in getting started?
	have a short-term and long-term plan to keep attention focused on the change?
	have a plan to adapt the change over time?

(1.) For more on the transformation of Sears, see The Employee-Customer-Profit Cha Sears, by Anthony J. Rucci, Steven P. Kim, and Richard T. Quinn, in this issue of HB

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Current people management activities in world-class organizations. *SUSAN OAKLAND; JOHN S. OAKLAND.*

ABSTRACT Many authors and practitioners now acknowledge that effective people management and development is one of the primary keys to achieving improvements in organizational performance. However, it is not always apparent just what activities constitute `effective people management'. This paper draws on the findings of a research project to describe some of the main people management activities that are currently being undertaken in the sample of world-class organizations, many of which are quality award-winning companies. It is argued that the organizations involved in the research invest in and value people through certain core activities, which include effective communication and teamwork, planned training and development, strategic alignment of human resource management policies, empowerment of employees and review and continuous improvement. Throughout, links are made between the activities and relevant management literature. The research findings should not only promote the spread of good practice in terms of people management, but also demonstrate the value, to business, of theory when it is put into practice.

Introduction

Over the past decade, the way in which people are managed and developed at work has come to be recognized as one of the primary keys to improved organizational performance (BQF, 1998; Collins & Porras, 1994; Kotter & Heskett, 1992; Marchington & Wilkinson, 1997; Phillips, 1997). This is reflected by popular idioms such as `people are our most important asset' or `people make the difference'. Indeed, such axioms now appear in the media and on corporate public relations documents with such regularity that the accuracy and integrity of such assertions have begun to be questioned (see, e.g. Maguire, 1995; Marchington & Wilkinson, 1997).

This paper draws on some of the results of a research project that was undertaken by the European Centre for Business Excellence (ECforBE), the research and education division of Oakland Consulting plc. Transco commissioned the research with support from both the British Quality Foundation (BQF) and the European Foundation for Quality Management (EFQM). Their remit was that the research should focus on world-class, successful and, in many cases, quality award-winning organizations. (See the Appendix for a list of the companies covered by the research.) This paper describes the main people management activities that are currently being used in these leading edge organizations.

Research background

For more than 20 years, organizations in the UK, Europe and beyond have come under increasing pressure to improve their business performance, measure

themselves against worldclass standards and focus their efforts on the customer. To assist this process, organizations have adopted various approaches or philosophies. These include total quality management (TQM) and business process re-engineering (BPR), whilst, more recently, many have turned to quality models such as the US Malcolm Baldrige National Award (MBNQA) or the European Foundation for Quality Management's Business Excellence Model (BEM)--promoted in the UK by the British Quality Foundation.

The BEM shown in Fig. 1 illustrates key business areas, `enablers' and `results', which are typically addressed by organizations striving for superior business performance. This particular model includes nine main categories, such as customer satisfaction, people satisfaction and impact on society achieved through leadership driving policy and strategy, people management, resources and processes, leading ultimately to excellence in business results--both financial and non-financial. Financial measures may include profit, sales, cash flow, working capital and liquidity; non-financial targets may include reduction of non-quality costs, service level achievements, market share, product delivery time, batch processing time or inventory turnover time. The Baldrige model is now very similar to the BEM, being based on seven basic criteria supplemented by business results and impact on society sections. Self-assessment to a model such as the Baldrige or BEM involves an organization in the regular and systematic review of its enablers and results, allowing the identification of strengths and areas for improvement.

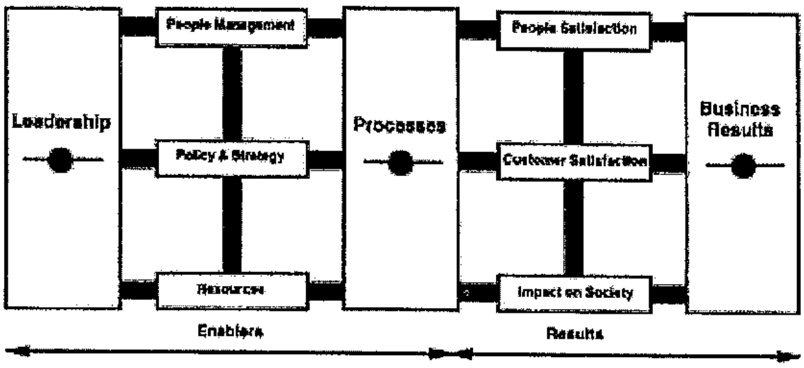

Figure 1. The Business Excellence Model (used by the European Quality Award and the UK Quality Award for Business Excellence—subsequently revised as The Excellence Model in 1999 (EFQM)).

Various awards have been set up to encourage adoption of business excellence principles and provide a platform for measurement or self-assessment against world-class standards--The MBNQA was launched in 1987, the European Quality Award was first awarded in 1992 and the UK Quality Award established in 1994. Guidelines for the implementation of business excellence and self-assessment are available from the EFQM and BQF.

Research objectives

The main objectives of the research were:

* To establish whether links exist between certain TQM/business excellence-type activities and sustained business results and performance. Details of the findings relating to this objective are described in The X Factor: Winning Performance through Business Excellence, published by the BQF in conjunction with the ECforBE (BQF, 1998).

* To identify current activities in areas recognized as criteria for quality management or business excellence, such as leadership, people management, policy and strategy and so on. This paper focuses on the findings relating to people management.

Methodology

The research methodology involved:

(1) A literature review comprising books, journal articles, papers and reports from the UK, Europe and the USA.

(2) Content analysis of 20 submission documents relating to European and UK Business Excellence Award winners (over the last 6 years). For this phase of the methodology, the research team was given access, at the EFQM offices, to 14 European Quality/ Business Excellence Award submission documents made up of all the 1996 and 1997 finalists plus the winners in 1994 and 1995. At the BQF offices, the team was also permitted to analyse the content of six award-winning submission documents, but for reasons of confidentiality it is not possible to name the companies. To maximize reliability of the content analyses, random sections from each document were independently analysed and coded by another member of the team (Patton, 1987).

(3) Structured interviews with senior managers in four award-winning companies: British Telecommunications plc, Hewlett Packard UK, ST Microelectronics (formerly SGS Thomson) and TNT UK Ltd. The interviews were designed to explore when, why and how quality management/business excellence principles had been introduced into the companies and to determine the benefits, potential drawbacks and plans for the future.

(4) The development of a `route to business excellence' was the final phase of the methodology in which the research team developed an affinity/interrelationship diagram or map called a `route to business excellence'. A detailed discussion of the route to business excellence can be found in BQF (1998), but for the purposes of this paper, suffice it to say that this phase of the research identified people management activities as central to, or the fulcrum of, achieving excellence in both business and results. This paper, therefore, focuses on the people management activities identified in this research that are currently being used in some leading edge organizations.

Current people management activities

The research identified an overwhelming amount of evidence that successful organizations pay much more than lip service to the axiom `People are our most important resource'. On a general level, successful organizations share a fundamental philosophy to value and invest in their employees (e.g. Anand, 1997; Kotter & Heskett, 1992; Maguire, 1995). More specifically, the research indicated that world-class organizations value and invest in their people through the following activities:

* strategic alignment of human resource management (HRM) policies;

* effective communication;

* employee empowerment and involvement;

* training and development;

* teams and teamwork;

* review and continuous improvement.

Strategic alignment of HRM policies

From the literature review and analyses of award submission documents it was clear that leading edge organizations adopt a common approach or plan, illustrated in Fig. 2, to align their human resource (HR) policies with the overall business strategy.

Key elements of the HR strategy (e.g. skills, recruitment and selection, health and safety, appraisal, employee benefits, remuneration, training, etc.) are first identified, usually by the HR Director, who then reports regularly to the Board. The HR plan, typically spanning 3 years, is then aligned with the overall business objectives and is an integral part of company strategy. For example, if a business objective is to expand at a particular site, then the HR plan provides the necessary additional manpower with the appropriate skills profile and training support. The HR plan is revised as part of the overall strategic planning process. Divisional boards then liaise with the HR Director to ensure that the HR plan supports and is aligned with overall policy.

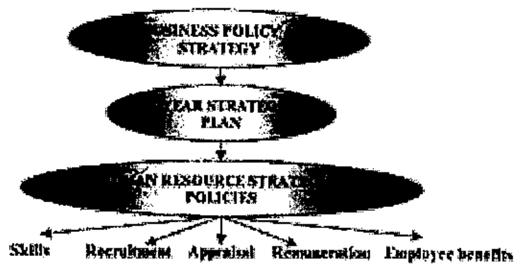

Figure 2. Strategic alignment of HRM policies.

In addition, the HR Director holds regular meetings with key personnel from employee relations, health and safety, training and recruitment, etc. to review and monitor the HR plan, drawing upon published data and benchmarking activities in all relevant areas of policy and practice. Divisional managing directors and the HR Director report to the quality committee or Board on the progress of how the HR plan is supporting the business. An overview of this HR process is illustrated in Fig. 3.

Although it was beyond the scope of the research project to make a detailed examination of HR policy, it is prudent to outline briefly some of the common practices that emerged from the research relating to selection and recruitment, skills and competencies, appraisal, and employee reward, recognition and benefits.

Selection and recruitment. The following practices were common amongst the organizations studied regarding selection and recruitment:

(1) Ensure fairness by using standard tools and practices for job descriptions and job evaluations.

(2) Enhance 'transparency' and communication through jargon-free booklets that provide detailed information to new recruits about performance, appraisal, job conditions and so on.

(3) Ensure that job descriptions are responsibility rather than task-oriented.

(4) Train all managers and supervisors in interviewing and other selection techniques.

(5) Align job descriptions and competencies so that people with the appropriate skills and attributes for the job are identified.

(6) Compare the organization's employment terms and conditions (on a regular basis) with published data on best practice and documents such as the Institute of Personnel and Development circulars to ensure that the highest standards are being met.

(7) Review HR policies regularly to ensure that they fully reflect legislative and regulatory changes together with known best practice.

Skills/competencies. Since the publication of The Competent Manager (Boyatsis, 1982), the terms competence and competency have been widely used and underpin the work of the National Council for Vocational Qualifications in the UK as well as that of bodies such as the Employment Occupational Standards Council. In line with this, the organizations involved in this study had skills/competence-based HRM policies underpinning selection and recruitment, training and development, promotion and appraisal.

Although numerous lists of generic management competencies have been published (e.g. Mathis & Jackson, 1991; Schuler, 1992; Woodruffe, 1992), in essence they are very similar and are closely allied with the core management competencies identified in this research underpinning HR policies: leadership, motivation, people management skills, team-working skills, comprehensive job knowledge, planning and organizational skills, customer focus, commercial and business awareness, effective communication skills, oral and written, change management skills coupled with drive for continuous improvement.

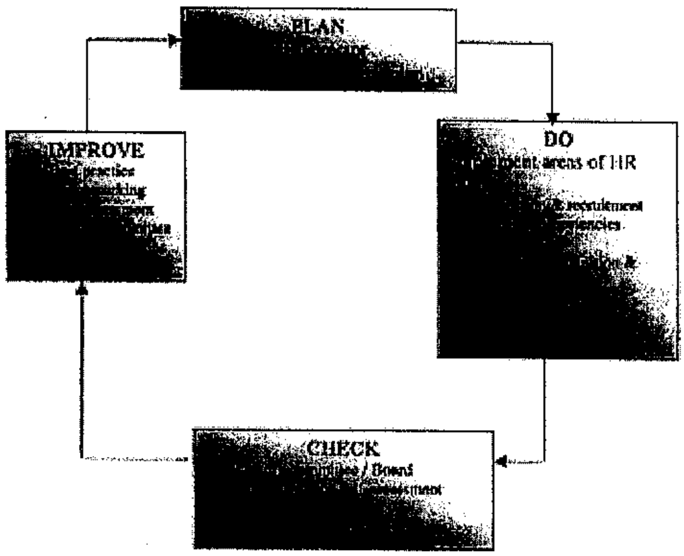

Figure 3. Human resource process.

Appraisal process. As with other HR policies, the main thrust of the appraisal process in the organizations studied, was alignment--alignment of personal, team and corporate goals coupled with appraisals to help individuals achieve their full potential (see Fig. 4).

Without exception, the appraisal systems described in the award-winning submission documents were based on objectives. Agreed objectives were also time-based so that completion dates provided the opportunity for automatic review processes.

Typically, employees are appraised annually and the managers conducting appraisals attend training in appraisal skills. Before each appraisal, the appraisee and appraiser each complete preparation forms, thus making the interview a two-way discussion on performance against objectives during, say, the previous 12 months. Training and development work to achieve the objectives is agreed and, if necessary, additional help is available in the form of advice and counselling.

Employee reward, recognition and benefits. Although an in-depth study of the policies and practices relating to financial reward and recognition was beyond the scope of the research, it is possible to highlight activities that were common amongst the organizations studied in the research. For employee reward and recognition these were:

* Rewards are based on consistent, quality-based performance.

* Awards are given to employees but also to customers, suppliers, universities, colleges, students, etc.

* Financial incentives are offered for company-wide suggestions and new idea schemes.

* Internal promotion, for example from non-supervisory roles to divisional managing directors, encourages a highly motivated workforce and enhances job security.

* Commendations include ad hoc recognition for length of service, outstanding contributions, etc.

* Recognition is given through performance feedback mechanisms, development opportunities, pay progressions and bonuses.

* Recognition systems operate at all levels of the organization but with particular emphasis on informal recognition ranging from a personal `thank you' to recognition at team meetings and events.

With regard to employee benefits, it is well documented that benefits are seen as a tangible expression of the psychological bond between employers and employees. However, to maximize effectiveness, benefits packages should be able to be selected on the basis of what is good for the employee as well as the employer (Marchington & Wilkinson, 1997). Moreover, when employees can design their own benefits package both they and the company benefit (Shapiro & Sherman, 1987).

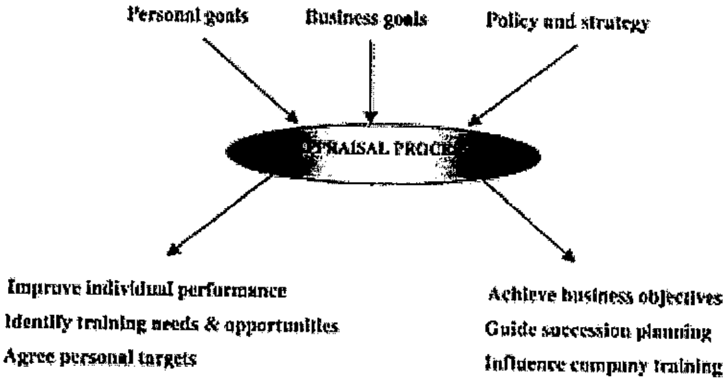

Figure 4. Appraisal process.

In line with theory, the research showed that leading edge organizations favour a `cafeteria' approach to employee benefits to good effect. In recent years there has been increasing interest in this idea of cafeteria benefits to maximize flexibility and choice, particularly in the area of fringe benefits, which can make up a high proportion of the total remuneration package. Under this scheme, the company provides a core package of benefits to all employees (including salary) and a `menu' of other costed benefits (e.g. personal medical care, dental care, company car, health insurance, etc.) from which the employee can select their personal package.

Some of the ideas underpinning cafeteria benefits sit well with the literature on motivation to emphasize that different individuals have different needs and expectations from work. Moreover, through communicating the benefits package and providing employees with benefit flexibility, the positive impact is increased further; not only are employees more likely to get what benefits they want, but also communication makes them more aware of the benefits they are gaining thus informing and increasing morale (Murino, 1990).

Effective communication

Effective communication emerged from the research as an essential facet of people management--be it communication of the organization's goals, vision, strategy and business policies, or the communication of facts, information and data (Collins & Porras, 1994; Larkin & Larkin, 1994; Purser & Cabana, 1997; Yingling, 1997). For business success, regular, two-way communication, particularly face-to-face with employees, was identified as an important factor in establishing trust and a feeling of being valued (Fourtou, 1997; Mumford & Hendricks, 1996). In the organizations studied, two-way communication was regarded as both a core management competency and as a key management responsibility. For example, a typical list of management responsibilities for effective communication is:

* regularly to meet all their people;

* ensure people are briefed on key issues in language free of technical jargon;

* communicate honestly and as fully as possible on all issues which affect their people;

* encourage team members to discuss company issues and give upward feedback;

* ensure issues from team members are fed back to senior managers and timely replies given.

In all the organizations studied, however, regular two-way communication also involved customers, shareholders, financial communities and the general public.

Communications process. Content analysis of the award-winning submission documents revealed that successful organizations follow a systematic process for ensuring effective communications, as shown in Fig. 5.

PLAN

Typically, the HR function (e.g. the HR Director) is responsible for the communication process. He/she assesses the communication needs of the organization and liaises with divisional directors, managers or local management teams to ensure that the communication plans are in alignment with overall business policy and strategy. A communication programme accompanies any major changes on organization policy or objectives.

DO

The organizations in the research used a comprehensive mix of diverse media to support effective communication throughout their organization. These include:

Videos Surveys Magazines Newsletters Appraisals Posters Campaigns Briefings Conferences Meetings Open-door policies E-mail Notice boards Internet/Intranet Focus groups

It was evident that the introduction of electronic systems has brought about radical changes in communications. In some of the organizations studied, all employees are able to access databases, spreadsheets, word processing, e-mail and diary facilities. Information on business performance, market intelligence and quality issues can also be easily and quickly cascaded. Further, video conferencing is used to facilitate internal face-to-face communications with major customers across the world, resulting in substantial savings on costs such as passenger miles. Furthermore, provision is made for depots, units, regions, divisions, departments, etc. to hold meetings and conferences. Feedback questionnaires then check that events are valuable and help the planning of future events.

CHECK

Quality steering or review committees, people surveys, appraisal and company-wide self-assessment are used to review the effectiveness of the communications process. Appraisal and staff survey data are analysed to ensure that the communications process is continuing to deliver effective upward, downward and lateral communications. Reports are then made on a quarterly, 6-monthly and/or annual basis to the Chief Executive and/or the Board on the effectiveness and relevance of the communications process. The people survey data are also used to ascertain employee perceptions and to keep in touch with current opinion.

IMPROVE

The results of the various review processes highlight areas for improvement and results are verified by benchmarking against, for instance, a MORI survey.

Quality steering committees then put forward recommendations for future planning and continuous improvements.

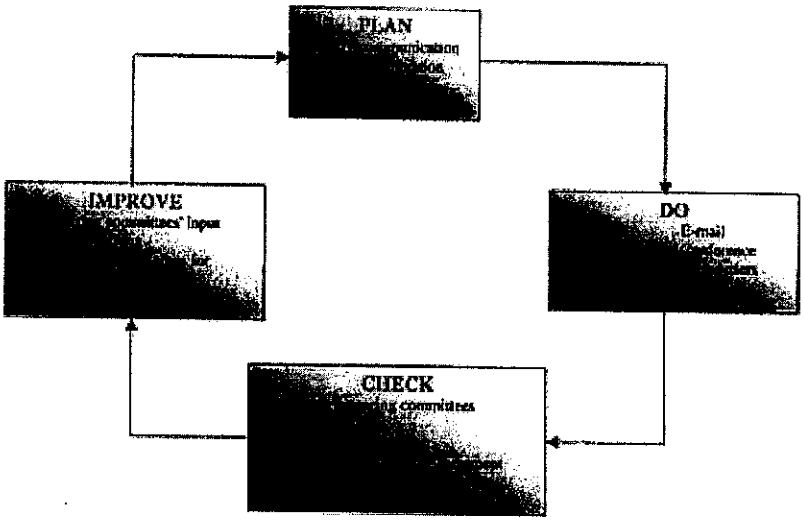

Figure 5. Best practice communications process.

Communications structure. The successful organizations involved in this research place great emphasis on communication channels that enable people at all levels in the organization to feel able to talk to each other. Consequently, managers are not only trained but "are committed to being open-minded, honest, more visible and approachable" (TNT, 1998). Many formal and informal communication mechanisms exist, all designed to foster an environment of open dialogue, shared knowledge, information and trust in an effective upward, downward, lateral and cross-functional structure such as the one illustrated in Fig. 6.

TNT, for example, winners of the 1998 European Quality Award and the 1994 UK Award, have a regional structure that provides a link between local and central management which ensures that the chain of communication is complete so that information can cascade down and rise up. Briefings of senior managers by executives are followed by briefings of middle managers and so on all the way down the line. The same chain also works in reverse to facilitate bottom-up communications.

Employee empowerment and involvement

To encourage employee commitment and involvement, successful organizations place great importance on empowering their employees. The positive effects of employee empowerment are well documented in the management literature (e.g. Kotter & Heskett, 1992; Milliken, 1996; Mumford & Hendricks, 1996; Scotto, 1996). However, the notion of empowering people has also been challenged, with some writers claiming that it is not possible to empower people--rather, it is possible only to create a climate and a structure in which people will take responsibility. None the less, it was clear that the organizations studied in this research considered empowerment to be a key issue and made efforts to create a working environment that was conducive to the employees taking responsibility.

The Dana Commercial Credit Corporation (DCC), for example, a 1996 Baldrige winner, subscribes to the importance of employee empowerment for its impressive customer satisfaction scores, which are two points higher than the industry average (on a five-point scale). DCC empowers people by encouraging

employees to:

* set their own goals;

* judge their own performance;

* take ownership of their actions;

* identify with DCC (e.g. to become stock shareholders).

In their 1998 award submission document, TNT report that "All employees are empowered to respond to normal and extraordinary situations without further recourse" and that they have "worked hard to create a no blame culture where our people are empowered to take decisions to achieve their objectives".

People empowerment is also a key issue in Texas Instruments (TI) Europe, the Transnational Excellence winners (see European Quality, 1995, Vol. 2, No. 5, pp. 40-46). Here empowerment is built into the TI operational approach, organized around processes, by stimulating creativity and encouraging quality teams.

Along the same lines, the 1997 UK Award winners, Hewlett-Packard, advocate teamwork and high levels of empowerment combined with a strong setting of objectives and freedom for employees to achieve them. Similarly, the Eastman Chemical Company, another Baldrige winner, describe how they focus on employee empowerment and have learnt that a company cannot empower employees who do not care, do not have authority and do not have the appropriate skills.

To address the above issues, management mapped out processes to provide employees with the necessary authority and skills. In addressing the issue of not caring, an employee survey revealed that the appraisal system was a major roadblock and the appraisal process was duly revised (Milliken, 1996).

Common initiatives for empowerment/involvement. Three common initiatives emerged from the research. Successful organizations place great store by:

(1) Corporate employee suggestion schemes: these provide a formalized mechanism for promoting participative management, empowerment and employee involvement.

(2) Company-wide culture change programmes: in the form of workshops, ceremonies and events used to raise awareness and to empower individuals and teams to practise continuous improvement.

(3) Measurement of key performance indicators (KPIs): whereby the effectiveness of staff involvement and empowerment is measured by improvements in HR KPIs such as labour turnover, accident rate, absenteeism and lost time through accidents. Typically, KPI measurements, coupled with appraisal feedback and survey results, are regularly reviewed by the HR Director who uses the information as the basis for reports and suggestions for improvements to the Board.

On a more general level, the research showed that successful organizations increase commitment by empowering and involving more and more of their employees in formulating plans that shape the business vision. As more people

understand the business and where it is planning to go, the more they become involved in and committed to developing the organization's goals and objectives (Bemowski, 1997; Collins & Porras, 1994; Huselid, 1995; Mumford & Hendricks, 1996; Oakland, 1997; Purser & Cabana, 1997; Storey, 1992; Pfeffer, 1994; Wood, 1995).

Training and development

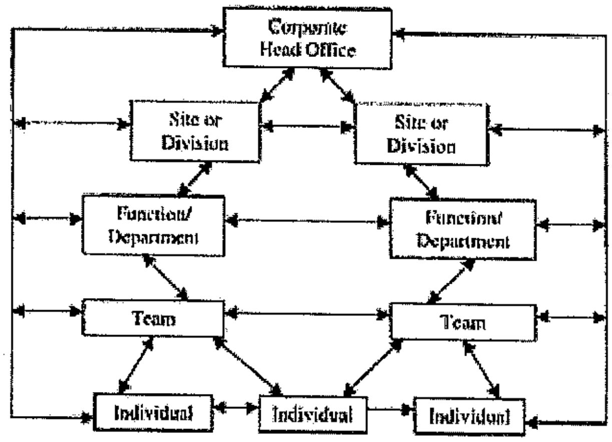

Figure 6. Multi-directional communication structure (adapted from TNT's 1998 Award Submission Document).

The training and development of people at work has increasingly come to be recognized as an important part of HRM. Through the 1980s, major changes in many organizations resulted in increasing workloads, the introduction of new technology and wider ranges of tasks, all of which required training provision. During the 1990s, initiatives such as TQM, BS 5750, ISO 9000, Investors in People and benchmarking and self-assessment against models such as the BEM have further highlighted the need for training employees (DeToro & McCabe, 1997; Marchington & Wilkinson, 1997).

It is widely acknowledged that many writers and practising managers sing the praises of training saying it is a "symbol of the employers' commitment to staff", or that it shows an organization's strategy is based on "adding value rather than lowering costs" (Storey & Sisson, 1993). However, others claim that a lack of effective training predominates in many organizations today and that serious doubts remain as to whether or not management actually does invest in the training of their human resources (Marchington & Wilkinson, 1997).

It is perhaps not surprising then that this research on successful and award-winning organizations revealed an ongoing commitment to investing in the provision of planned, relevant and appropriate training. Training was found to be carefully planned through training needs analyses processes that linked the training needs with those of the organization, groups, departments, divisions and individuals. To maintain training relevancy and currency, databases of training courses are widely available on site and, to encourage diversification, employees are able to realize their full potential by training in quality, job skills, general education, health and safety and so on through exams, qualifications, NVQs, Assessor NVQ training, etc. Typically, training strategies in these organizations required managers to:

* play an active role in training delivery (cascade training) and support (including quality tools and techniques);

* receive training and development based on personal development plans;

* fund training and improvement activities to allow autonomy at `local' levels for short pay-back investments;

* co-ordinate discussions and peer assessments to develop tailored training plans for individuals.

TI Europe, for instance, has a development and performance management (DPM) process that uses discussion and peer assessment to help create individually tailored training plans with business objectives through policy deployment. Similarly, Trident Precision Manufacturing Inc., a 1996 Baldrige winner, manages and motivates their employees through training. In Trident, training is provided in quality, skills related to the job, general education and safety and, since 1989, they have invested an average of 4.4% of the payroll on training--a figure that represents almost three times the average for all US industries. In addition, Trident encourages employees to diversify their abilities and, currently, 80% of their employees are trained in at least two job functions (Bemowski, 1997). As a producer of precision sheet metal components for office equipment, medical and other industries, Trident boasts business benefits such as:

* an increase in sales volume from 4.4 million [pounds sterling] in 1988 to 14.3 million [pounds sterling] in 1995;

* never losing a customer to a competitor during 18 years of business;

* a dramatic decline in employee turnover from 41% in 1988 to 5% in 1995.

What is particularly noteworthy about the training activities identified in this research is that they are almost identical to those processes and activities commonly found in the management literature on the theory of training. For example, many writers have developed models of the training process (e.g. Arnold et al., 1991; Storey & Sisson, 1993; Taylor, 1989), but basically these can be summarized into the four phases shown in Fig. 7.

The assessment phase identifies what is needed (the content of the training) at the organizational, group and individual levels. This may involve some overlap, e.g. an individual's poor sales performance may be a symptom of production problems at the group level as well as a need for more product innovation at the organizational level (Taylor, 1989). The assessment phase thus involves identifying training needs by assessing the gap between future requirements of a job and the current skills, knowledge or attitudes of the person in the job. So the organization looks at what is presently happening and what should or could be happening. Any differences between the two will give some indications of training needs.

The planning/design phase (see, e.g. Oakland, 1999) identifies where and when the training will take place and involves such question as:

* Who needs to be trained?

* What competencies are required?

* How long will training take?

* What are the expected benefits of training?

* Who/how many will undertake the training?

* What resources are needed, e.g. money, equipment, accommodation, etc.?

Typically, the organizations involved in this study planned their training programme (e.g. annually) according to the needs of the business and circulated a list of available courses well in advance of the training dates. Thus, the list ensures all managers are aware of what is provided and they are then able to schedule attendance by their staff. The strategic training plan is supported by an annual budgeting and planning system with quarterly board meetings to monitor and review performance. The budgeting and planning process with its integral HR element is cascaded throughout the organization to teams at all locations.

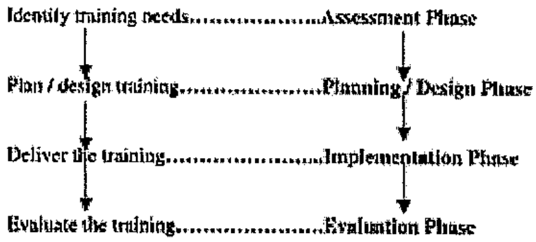

Figure 7. A systematic model of training.

The implementation phase involves the actual delivery of the training. This might be on site or away from the premises and will include training techniques such as: simulators; business games; case studies; coaching and mentoring; planned experience; and computer-assisted instruction. Demonstration or `sitting next to Nellie' is another commonly used training technique.

Moreover, the research revealed that induction and devolved training form an integral part of the training implementation phase. In the organizations studied, new employees attend induction courses and are issued with personal development documents giving details of what training and assessment will take place in the first few months of employment as well as copies of the vision and mission statements. At regular intervals throughout the induction period (e.g. every 3 or 4 weeks) new employees are then reviewed to identify training and development needs for the remainder of the year.

In addition, the research showed that much of the training is devolved to line managers through facilitation and facilitator packs. This requires the training and development of all levels of managers and supervisors in facilitation skills. Line managers then identify team members to be trained as facilitators. Adopting this approach is said to create an environment in which everyone is aware of training and development issues for themselves and their colleagues.

The evaluation phase is widely acknowledged as one of the most critical steps in the training process and can take many forms, such as observation, questionnaires, interviews, etc. For example, in this phase the overall effectiveness of training is evaluated and this provides feedback for the trainers, for future improvements to the programme, for senior managers and the trainees themselves. Providing trainees with a set of training objectives will help them know what they need to learn and give them feedback on their progress. This will then influence their attitudes towards future training and even the company itself (Taylor, 1989).

In sum, it seems that successful organizations approach training and development in a planned and systematic way involving training needs analysis, assessment of training content, carefully planned implementation and continuous

evaluation and review--a convincing argument for the value of theory when it is put into practice.

Teams and teamwork

It was clear from the research that leading edge organizations place great emphasis on the value of people working together in teams. This is hardly surprising as a great deal of theory and research indicates that people are motivated and work better when they are part of a team. Teams can also achieve more through integrated efforts and problem-solving (Beck & Yeager, 1996; Crom & France, 1996; DTI, 1997; Katzenbach & Smith, 1994; Kern, 1997; Milliken, 1996; Robie, 1997).

In her paper `No team is an island', Kern argues that teams are a management tool and are most effective when team activity is clearly linked to organizational strategy. For this, the strategy must be communicated to influence team direction, which then links to the production of team mission statements and the use of team agendas and scorecards. Importantly though, many writers emphasize the value of cross-functional teams, which proved to be a common feature in many of the organizations studied. Here, teams which had originally evolved out of the old functional departments or units within an organization gained experience and benefited from team building and become cross-functional. For example, as Milliken states when reporting on the Eastman company: "Over the past decade, the Eastman Corporation has developed a quality focus which has expanded from individuals to the concept of interlocking teams".

By 1995, 99% of Eastman employees actively participated in teams, some of which were cross-functional. Each team was required to identify its customers, the customer requirements and what measures needed to be used to ensure that those requirements were being satisfied.

Cross-functional teams are also an important feature in TI Europe. Here, almost every employee belongs to at least one team, ranging from managers on quality steering teams, to operators on quality improvement teams, to fully empowered, self-directed work teams. Cross-functional teams are used to address the entire process.

Review and continuous improvement

In all the organizations involved in the research, processes for reviewing performance and continuous improvement exist at the individual, team, departmental/divisional and organizational levels. These include such processes as:

* Annual staff surveys and subsequent actions, which are viewed as the cornerstones of continuous improvement. The people surveys are also critically reviewed against data from other world-class organizations and the Institute of Personnel Management to determine best practice and feed into the continuous improvement processes.

* Quality committees, the HR Department and cross-functional teams drawn from depots, regions and divisions review feedback from surveys as well as the format of the surveys.

* Ongoing performance feedback and development through on-the-job coaching plus regular one-to-one individual and team reviews.

Conclusions

This paper has highlighted the main people management activities that are currently being used in some world-class organizations. A general conclusion from the research reported here is that successful organizations pay much more than lip service to the popular idiom `people are our most important asset'. Indeed, this research shows that the successful organizations studied, value and invest in their people in a never-ending quest for effective management and development of their employees. This involves rigorous planning of processes, skilful implementation, regular review of processes and continuous improvement practices.

From a theoretical viewpoint, it could be argued that these findings about current people management activities in some successful organizations are hardly surprising, since the management literature is strewn with examples of the benefits of systematic planning, followed by strategic implementation, regular review and continuous improvement. None the less, from a practical viewpoint, the real value of the findings reported here is twofold. Firstly, the findings encourage the spread of good practice by fleshing out, in some detail, those people management activities that are currently being used to good effect in some world-class companies. Secondly, the research findings described in this paper present a compelling argument for the real value of putting management theory into practice.

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Appendix: Companies covered in the research

ABB Atoms
ADAC Laboratories
AT & T Transmission Systems
AT & T Universal Card Services
Armstrong World Industries
Borden Chemicals
Brisa
British Airways
British Telecommunications
BVQI
Cadillac Motor Car Company
Chrysler
Ciba
Corning TPD
Courtaulds
Credit Card Sentinel
Customs and Excise
D2D
Dana Credit Corporation
Dow Chemical Company
Eastman Chemical Company
Elida Faberge
Ericsson
Exxon
Federal Express Corporation
Ford
General Motors
Globe Metallurgical Inc.
GPT Business Systems
Granite Rock Company
GTE Directories Corporation
Halifax Building Society
Hewlett-Packard

IBM
Ispat
Kodak
Lloyds TSB
3M
Marks & Spencer
Marlow Industries Inc.
Meredith Corporation
Microsoft
Milliken
Mortgage Express
Motorola Inc.
Oxford Automotive Components
Procter and Gamble
Rover
Sainsbury
Samsung
Shell
Solectron Corporation
Tesco
Texas Instruments
Thorn EMI
Time Insurance
TNT Express
Trident Precision Manufacturing
Wallace Co. Inc.
Westinghouse Electric Corp.
Western Digital
UPS Europe
Xerox Quality Services
Zytec Corporation

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Article 111 of 873

Enter the World of Business

Human resources plays a key role in determining the competitiveness of a business. At Xerox, HR makes sure employees understand the company and how to achieve success there through its training and development programs.

At Xerox, Human Resource Management Excellence Helps Company Rebound

Anne M. Mulcahy, Xerox Chairman and CEO, explains, "At Xerox, our digital strategy is committed to world-class products and services for our customers, and a world-class work environment for our employees. . . . That means, we must attract and retain world-class people. Our new Employment Brand trademark, *eXpress yourself,* distinguishes Xerox as a place where the passion, diversity, ideas and contributions of every member of the Xerox family define our capability for bold innovation and a leading edge work environment. It's hard to believe that just a few years ago human resource management initiatives like employee branding were not at the forefront of Xerox human resource management initiatives, but company survival was!"

In 2000, Xerox was $17 billion in debt, and by 2001 the company's stock price had dropped from a high of $63 to about $4. Xerox suffered seven straight losing quarters. The company also faced an accounting investigation by the Securities and Exchange Commission into the way it accounted for customer leases on copiers. Today the company has shifted its main business from small copiers to desktop copiers for offices and high-quality printers for publishers. Xerox has experienced a remarkable comeback. Fourth quarter net income for 2003 rose to $222 million or 22 cents a share from $19 million or 1 cent a share in 2002. Recent stock prices have been in the $15 range and are expected to go higher. The company's operations are guided by customer-focused and employee-centered core values such as social responsibility, diversity, and quality and a passion for innovation, speed, and adaptability. How did the company save itself? Among the steps taken by the CEO included sales of international operations and business units, early retirements, attrition, layoffs—and the strategic involvement of human resource management.

Since 1993 Xerox has been one of the innovators in using technology for HR functions such as employee and manager self-service, benefits enrollment, and other employee transactional processes. The HR function is a shared services organization in which pay, bonuses, staffing, recruiting, benefits, diversity, learning, and HR systems are all part of corporate HR. When business became difficult in 1999, HR came through with several alignment workshops and retention incentives to help the company. The single biggest cost-savings

opportunity was the consolidation and expansion of the HR Service Center. The center started with transactional work (e.g., address and employment change information), web-based processes were added, and the center now provides research and analysis to HR professionals working in Xerox operating units and handles employee relations issues for most U.S. employees. This has enabled HR to reduce its staff without reducing the level of service it provides to managers and employees.

HR has also provided support for the business strategy as it evolved to help the company survive. HR played a key role in helping the company conduct workforce reductions and sell off businesses, which resulted in losing 30,000 employees. HR helped treat employees with dignity throughout the downsizing process. Xerox's separation package offered up to one year of salary, with full benefit coverage for employees with 30 or more years of service. The company also allowed employees close to retirement age up to a year of inactive, unpaid status to reach the required age or service needed for retirement. Despite the layoffs, Xerox continued with its yearly employee attitude surveys and focus groups designed to determine if employees understood the company's direction and their willingness to support the company. Results indicated that the employees understood the direction but they weren't willing to commit to it. Another key HR issue that Xerox faced was how to keep the most talented employees from leaving. The HR department created a series of strategies which included a "we really care" message communicated using town meetings, audio, and video. Another strategy was to offer a solid cash-bonus compensation package to employees who stayed.

Today, HR continues to ensure that talented employees get the right experiences, job assignments, visibility, and learning opportunities including international experience and general management positions to prepare them for leadership positions in the company. Internal training and development at Xerox includes a reliance on virtual learning and technology to increase the number of employees who have access to training, while reducing training time. For example, Xerox's new management development program is a two-month program that uses e-learning, virtual learning programs, coaching, and one week of classroom training. Another important role that HR plays is to ensure that employees understand the "new" Xerox and how to achieve success. HR has focused on building three key initiatives: an employee value proposition, building a high performance culture, and developing a pipeline of three candidates for every position within the business. The employee value proposition represents both the expectations that the employee has of the company and what the company can expect in return. According to the vice president of human resources, "Everyone says we want the best talent. We want to keep them. We want to motivate them. But how do you do that? It all comes down to the point of inclusion, and I mean inclusion in the broadest sense of the word, one that allows an employee to bring his or her uniqueness to the table and allows [him or her] to make a difference. All practices, policies, and initiatives must put forth those value propositions—if not we'll be in trouble."

Source: T. Starner, "Processing a Turnaround," *Human Resource Executive* (May 16, 2004), pp. 1, 16–24, www.xerox.com.

CHAPTER 2

Strategic Human Resource Management

Chapter Summary

This chapter describes the concept of strategy and develops the strategic management process. The levels of integration between the HRM function and the strategic management process during the strategy formulation stage are then discussed. A number of common strategic models are reviewed, and, within the context of these models, types of employee skills, behaviors, and attitudes are noted. Ways in which HRM practices aid the firm in implementing its strategic plan are described. Finally, a model that views the HRM function as a separate business within a given firm is presented, making it easier for the student to understand the need for strategic thinking among HRM practitioners.

Learning Objectives

After studying this chapter, the student should be able to:

1. Describe the differences between strategy formulation and strategy implementation.
2. List the components of the strategic management process.
3. Discuss the role of the HRM function in strategy formulation.
4. Describe the linkages between HRM and strategy formulation.
5. Discuss the more popular typologies of generic strategies and the various HRM practices associated with each.
6. Describe the different HRM issues and practices associated with various directional strategies.

II. What is a Business Model?

A. A business model is a story of how a firm will create value for customers, and more importantly, how it will do so profitably.

B. There are a few accounting terms to familiarize students with in order to understand a business model. Fixed costs are generally considered the costs that are incurred regardless of the number of units produced. Variable costs are costs that vary directly with the units produced. Contribution margin is the difference between what you charge for your product and the variable costs of the product. Gross margin is the total amount of margin you made.

C. The business model of Chrysler, from the opening vignette, is illustrated in Figure 2.1.

Competing Through Technology

Wal-Mart Leverages Technology to Lower Labor Costs

Wal-Mart is best known for using information technology to lower their inventory costs, but this same technology is also enabling them to reduce their labor costs. The company is taking advantage of their scheduling optimization system to allow their employees to have more flexible shifts that better match customer buying patterns. This system will allow Wal-Mart to reduce their labor costs by more effectively using their human capital. The intent of this system is to reduce labor costs and improve their customers checkout experience.

III. What Is Strategic Management?

A. Strategic Management is a process for analyzing a company's competitive situation, developing the company's strategic goals, and devising a plan of action and allocation of resources (human, organizational, and physical) that will increase the likelihood of achieving those goals.

B. **Strategic human resource management** is the pattern of planned human resource deployments and activities intended to enable an organization to achieve its goals.

C. Components of the Strategic Management Process—There are two distinct phases of this process (Figure 2.1 in the text).

1. **Strategy Formulation:** During this phase, strategic planning groups decide on a strategic direction by defining the company's mission and goals, its external opportunities and threats, and its internal strengths and weaknesses.

2. **Strategy Implementation:** During this phase, the organization follows through on the strategy that has been chosen. This includes structuring the organization, allocating resources, ensuring that the firm has skilled employees in place, and developing reward systems that align employee behavior with the strategic goals.

D. Linkage between HRM and the Strategic Management Process: The strategic choice really consists of answering questions about competition. These decisions consist of addressing the issues of where to compete, how to compete, and with what to compete (See Figure 2.2).

E. The Role of HRM in Strategy Formulation—Both strategy formulation and strategy implementation involve people-related issues and therefore necessitate the involvement of the HR function. Four levels of integration exist between the HR function and the strategic management function, as shown in Figure 2.4 in the text).

1. Administrative Linkage—This is the lowest level of integration, in which the HRM function's attention is focused on day-to-day activities. No input from the HRM function to the company's strategic plan is given.

2. One-Way Linkage—The firm's strategic business planning function develops the plan and then informs the HRM function of the plan. HRM then helps in the implementation.

3. Two-Way Linkage—This linkage allows for consideration of human resource issues during the strategy formulation process. The HRM function is expected to provide input to potential strategic choices and then help implement the chosen option.

4. Integrative Linkage—This is based on continuing, rather than sequential, interaction. The HR executive is an integral member of the strategic planning team.

III. Strategy Formulation—This includes five major components (see Figure 2.5 in the text).

1. A mission is a statement of the organization's reasons for being; it usually specifies the customers served, the needs satisfied and/or the value received by the customers, and the technology used.

2. **Goals** are what the organization hopes to achieve in the medium- to long-term future; they reflect how the mission will be operationalized.

3. **External analysis** consists of examining the organization's operating environment to identify strategic opportunities and threats.

4. **Internal analysis** attempts to identify the organization's strengths and weaknesses.

5. **Strategic choice** is the organization's strategy, which describes the ways the organization will attempt to fulfill its mission and achieve its long term goals.

   Example: Delta Airlines and HRM's Role in Strategy Formulation—Delta's employees were so loyal to the company that in the 1980's the employees pitched in and bought the airline a new plane. The "Leadership 7.5" program arguably got rid of Delta's only competitive advantage. Ideas could have been generated to find a more effective way of cost cutting in an alternative strategy.

IV. Strategy Implementation—Five variables determine success in strategy implementation (see Figure 2.6 in the text).

HR has responsibility for three of these: task, people, and reward systems. The role of the HRM function is one of (1) ensuring that the company has the number of appropriately skilled workers and (2) developing "control" systems that ensure that those employees contribute to goal achievement. This is accomplished through various HR practices (see text Figure 2.7).

Competing Through Sustainability

Patagonia's Passion for the Planet Attracts Talent

In today's market, companies are constantly trying to reconfigure their compensation packages to attract and retain top talent. Patagonia is attracting talented employees not because of high salaries, but rather because of their company's mission; to produce the highest quality products while doing the least possible harm to the planet. Employees receive perks such as a two month fully paid sabbatical to work for environmental groups. Patagonia's corporate philosophy proves that there is more to attracting top talent than just money.

A. HRM Practices—The HR function has six "menus" of practices from which companies can choose to fit their strategic direction (see Table 2.2 in the text).

1. **Job analysis** is the process of getting detailed information about jobs. **Job design** deals with making decisions about what tasks should be grouped into a particular job. Jobs can range from very narrow sets of tasks that demand a limited set of skills to a complex array of tasks that requires multiple, high-level skills. Many jobs today are being broadened.

2. **Recruitment** is the process through which the organization seeks applicants for employment. **Selection** refers to the process of identifying applicants with the appropriate knowledge, skills, and ability to help the company achieve its goals.

3. Frequently, employees need new skills when jobs are modified. **Training** refers to a planned effort to facilitate learning of job-related knowledge, skills, and behavior. **Development** involves the acquisition of knowledge, skills, and behavior that improves employees' ability to meet the challenges of a variety of existing jobs or jobs that do not yet exist. TQM programs require extensive training of employees.

4. **Performance management** is used to ensure that employee activities and outcomes are congruent with the organization's objectives.

5. Pay structure, incentives, and benefits have an important role in implementing strategies. High pay levels help to attract and retain high-quality employees. Performance-based pay plans help motivate appropriate performance. The pay system includes the base pay as well as incentives and benefits.

6. Labor and employee relations refer to the general approach the company takes in interacting with its employees, whether unionized or not. Companies can choose to treat employees as assets, resources to be invested in for the long term.

B. Strategic Types—Several different "typologies" of strategies exist.

Porter's Generic Strategies—Michael Porter has hypothesized that competitive advantage comes from creating value by (1) reducing costs (overall cost leadership) **or** (2) charging a premium price for a differentiated product or service (differentiation).

C. HR Needs in Strategic Types—Different strategies require different types of employees with different skills and also require employees to exhibit different "role behaviors." **Role behaviors** are the behaviors required of an individual in his or her role as a jobholder in a social work environment.

1. Cost strategy firms seek efficiency and therefore carefully define the skills they need in employees and use worker participation to seek cost-saving ideas.

2. Differentiation firms need creative risk takers.

D. Directional Strategies—Five types follow. The human resource implications of each of these strategies are quite different:

1. **External growth strategies** include vertical and horizontal integration as well as diversification.

2. **Concentration strategies** focus a company on what it does best in its established markets.

3. **Internal growth strategies** include market development, product development, innovation, or joint ventures.

4. Mergers and Acquisitions include consolidation within industries and mergers across industries.

5. **Downsizing** is the planned elimination of large numbers of personnel, designed to enhance organizational effectiveness. Table 2.3 lists the results of a survey that indicates that only about one-third of the companies that went through downsizings actually achieved their goal to increase productivity.

Downsizing presents a number of challenges and opportunities for HRM: careful reduction of the work force, boosting the morale of employees who remain, increasing fresh ideas, and changing the company's culture.

Example: Delta Air Lines and HRM's Role in Strategy Implementation—HRM seemed to play a significant role in Delta's "Leadership 7.5" strategy's implementation. Costs were cut $1.6 billion through workforce reductions because labor costs are the largest single controllable cost for an airline. The negative outcome of the strategy in terms of employee morale, customer service, and operational performance have stemmed from the strategy itself, but one wonders if the same strategy might have been implemented differently with less negative impact.

E. Strategy Evaluation and Control—This is the final component of the strategic management process that includes the monitoring of the effectiveness of strategic choice and implementation.

V. The Role of Human Resources in Providing Strategic Competitive Advantage

A. Emergent Strategies—Those that evolve from the grass roots of the organization: that is, what actually is done versus what is planned. HR plays an important role in facilitating the communication of emergent strategies between levels in the hierarchy.

Example: When Compaq Computer was founded, building compact computers that were free of defects was its *intended strategy*. In 1992, after a difficult period of price competition, Compaq's strategy was changed to being a low-cost producer.

B. Enhancing Firm Competitiveness—By developing a rich pool of talent, HR can assure the company's ability to adapt to a dynamic environment.

CHAPTER 2

Strategic Human Resources Management: a Review of the Literature and a Proposed Typology

Cynthia A. Lengnick-Hall and Mark L. Lengnick-Hall

Competitive advantage encompasses those capabilities, resources, relationships, and decisions that permit a firm to capitalize on opportunities and avoid threats within its industry (Hofer & Schendel, 1978). Porter (1985) argued that human resource management can help a firm obtain competitive advantage by lowering costs, by increasing sources of product and service differentiation, or by both. Achieving competitive advantage through human resources requires that these activities be managed from a strategic perspective. This article provides a framework for strategists who wish to make better competitive use of their firm's human resources and for human resource managers who hope to enhance the human resource function's contribution to the strategic objectives of the firm. We do not attempt to review or critique human resource practices in general. (Readers interested in the practice of strategic human resource management are referred to Schuler & Jackson, 1987.) Rather, we explore how human resource management activities might be considered in light of a firm's strategic objectives and competitive position. Likewise this article does not evaluate strategy formulation or implementation techniques or alternatives. (Readers interested in strategy formulation are referred to Hofer & Schendel, 1978, or Porter, 1985. Readers interested in strategy implementation are referred to Galbraith & Kazanjian, 1986, or Hrebiniak & Joyce, 1984.) Instead, we propose a typology that guides researchers and managers in considering human resources as a way to gain an improved competitive position.

Some writers on strategic human resources management have focused in specific areas: (a) human resource accounting, which attempts to assign value to human resources in an effort to quantify this organizational capacity (Flamholtz, 1971; Frantzreb, Landau, & Lundberg, 1977), (b) human resources planning (Baird, Meshoulam, & DeGive, 1983; DeSanto, 1983; Galosy, 1983; Olian & Rynes, 1984; Russ, 1982; Stumpf & Hanrahan, 1984), (c) responses to a strategic change in the environment (Ellis, 1982; Fombrun, 1982; Lindroth, 1982; Maier,

1982; Warner, 1984), or (d) matching human resources to strategic or organizational conditions (Gerstein & Reisman, 1983; Harvey, 1983; Leontiades, 1982; Migliore, 1982; Miles & Snow, 1978; Sweet, 1982). In this last category recruiting, selection, and retention (Galosy, 1983); compensation systems (Migliore, 1982); domain choice (Miles & Snow, 1978); productivity (Deutsch, 1982); and other specific elements are examined. However, few offer prescriptions for global human resource strategies.

Other researchers have examined the broader scope of human resources strategies (Dyer, 1984; Smith, 1982b; Tichy, Fombrun, & Devanna, 1982; Wils & Dyer, 1984). These researchers noted that the strategic management of human resources is a multidimensional process with multiple effects. They further pointed out that although strategic human resource management is beneficial, significant costs must be considered. Such costs stem from additional decision complexity, greater potential for information overload, commitments to organizational growth that are incompatible with industry conditions, commitments to employees regarding job security and work rules that may make the firm less competitive over time, allocating a disproportionate amount of the firm's financial resources to human resource activities, and an overconcern with employee reactions to a strategic choice at the expense of a concern with marketplace realities. An accurate evaluation of costs as well as benefits is rarely presented by proponents of specific strategic human resource management practices. As a result, it is difficult to compare approaches. Further, it is difficult to evaluate strategic solutions to human resource problems or human resource solutions to strategic problems relative to the more traditional approach of using human resource management-based solutions to human resource problems and strategic solutions to deal with competitive threats.

The computer industry provides an example of using human resources to solve a strategic problem. One of the forces that increases competitive pressure in the computer industry is low switching costs; in other words, customers face few prohibitive expenses or difficulties in changing from one manufacturer to another. In order to counter this, IBM has, for many years, taught programming skills to customers' employees (Schuler & MacMillan, 1984). As a result, loyalty and commitment of programmers is high and is shared by both IBM and the customer. The customer gains a stronger tie with IBM, and IBM gains a programmer that is intimately aware of their own and the customer's needs and corporate climate. The combination of these factors raises the switching costs of IBM relative to other manufacturers and, thus, improves the firm's competitive position. However, the stronger tie also may increase the customer's expectation of responsiveness from IBM and, over time, this responsiveness may become more difficult or expensive to provide. In addition, an important human resource precedent is set. Programmers are hired from outside the organization, and certain career paths are blocked for existing IBM employees. Again, the short-term outcome is beneficial, but the long-run evaluation is uncertain. Therefore, although integration between human resource management and competitive strategy often is proposed in the literature, this example illustrates the complex repercussions of such integration. Clearly, integration should not be a unidirectional process from either perspective if undesirable consequences are to be minimized.

Why is it desirable to integrate human resources management and strategic

choice despite these difficulties? First, integration provides a broader range of solutions for solving complex organizational problems. Second, integration ensures that human, financial, and technological resources are given consideration in setting goals and assessing implementation capabilities. Third, through integration organizations must explicitly consider the individuals who comprise them and must implement policies. Finally, reciprocity in integrating human resource and strategic concerns limits the subordination of strategic considerations to human resource preferences and the neglect of human resources as a vital source of organizational competence and competitive advantage (MacMillian & Schuler, 1985). This reduces a potential source of suboptimization.

Because the human resources management and strategic management literatures are vast, we placed our investigation at the intersection of both streams of research. Dyer (1985) suggested that two dichotomies are important to consider: (a) separating organizational level from functional level strategic human resource concerns, and (b) differentiating content issues from process elements. The former contrasts corporate direction from strategy operationalization at lower levels in the hierarchy. Such distinctions partition much of the strategic management literature. Content concerns specific choices, that is, policies and practices in strategic human resource management, whereas process focuses on the means by which these policies and practices are derived and implemented. Content versus process distinctions prevail throughout both streams of research. Our typology concentrates on the organizational level of analysis. It is directed toward strategic human resource content, but the interaction effects between process and content also are considered.

We observed four common characteristics of organizational strategic human resource management models based on a literature review and interaction with managers. *First*, strategic human resource management models emphasize implementation over strategy formulation. Human resources are considered means, not part of generating or selecting strategic objectives. Rarely are human resources seen as a strategic capacity from which competitive choices should be derived. When human resources are used to determine strategic direction, the approach is unidirectional from human resource problems to strategic solutions, rather than interactive. Consequently, the potential contribution that human resources might make to the competitive position of the firm is unnecessarily limited. *Second*, traditional models focus on matching people to strategy, but not on matching strategy to people. This assumes that people are more adaptable than strategy. It also implies that cause and effect relationships are unidirectional. When firms occasionally attempt to match strategy to people, the causal direction is merely reversed. The process does not become more multidirectional. Means-ends reversal is a likely consequence of this characteristic. *Third*, many models rely too heavily on organization or product life cycles as single and uncontrollable catalysts of change. This implies little management choice and an external dominance of the firm. Although life cycles are part of organization climate, organization stages are derived from rather than shape strategic choices (Chandler, 1962; Rumelt, 1974; Scott, 1971). Consequently, organizations may underestimate their potential for choice and influence. *Fourth*, most strategic human resource management models emphasize fit, or congruence, and do not recognize the need for lack of fit during organization transitions and when

organizations have multiple and conflicting goals. Organization change then becomes difficult to implement and is perceived as less desirable. Additional information on these characteristics is provided in the following literature review.

Background and Literature Summary

Human resources valuation

In many firms labor costs account for more than 50 percent of the total costs of doing business (Fombrun, 1982). Russ (1982) argued that "human resources are probably the last great cost that is relatively unmanaged." Cheek (1973) indicated that personnel departments cannot effectively manage cost improvements through productivity increases due to inadequate staff and an inability to channel resources to alternate undertakings. Human resources valuation considers the economic risk and opportunity losses caused by ineffective manpower management.

There are two human resource accounting methods: (a) those using a cost approach, or (b) those using a value approach (Cascio, 1987b). The difference centers on whether an employee is viewed in terms of costs-to-date or in terms of expected contributions. These differences reflect quite distinct organization cultures. Cost approaches focus on historical costs incurred to hire, train, and maintain employees, or on replacement costs that would be incurred if an employee were replaced. Value approaches consider present value of the employee's stream of net future contributions to the firm. Salary frequently is used as a proxy for expected contribution. These approaches do not provide for comparison of human resource costs with costs of other, perhaps mechanical, resources which could be used to accomplish similar objectives.

There are difficulties in assessing human costs and contributions. Experts do not agree on who should judge an employee's worth to the organization. It is unclear how employee valuation information will improve managerial decisions. Methods that comprehensively consider both costs and benefits of employee contributions are cumbersome as well as expensive. Finally, it is not clear that the information benefits of valid and reliable human resource valuation data are worth the costs involved in obtaining such data. As a result, this method of approaching strategic human resource issues permits either an evaluation of implementation costs or a comparison of various strategic options relative to human costs, but does not provide insight into valuation of human resources given competitive strategy. More important, no information is provided on benefits of using human resources in one way versus another, nor is information obtained on improving the value of human resources within the firm. Valuation approaches are limited to providing partial answers to strategy implementation questions.

Human resources planning

Human resources planning is broadly defined as anticipating future business and environmental demands on organizations and meeting the personnel requirements dictated by those conditions (Cascio, 1987a). This implies that human resources planning could be an important input into strategic plans. Unfortunately, evidence suggests that the link between human resources planning and strategic management often is not emphasized in practice (Baird et al., 1983; De-Santo,

1983; Olian & Rynes, 1984; Rowland & Summers, 1981).

A partial explanation for this lack of use may be found in the focus of human resources planning literature. Most research focuses on human resource supply and demand forecasting (Zedeck & Cascio, 1984). Many statistical techniques are available for making such forecasts (e.g., Markov analysis), but political issues involved in fostering their use generally are ignored. For example, great care may be taken in designing a statistical model of manpower planning, whereas little thought is given to gaining managerial acceptance of the model's output. Thus a large gap exists between available techniques and their use because important organizational realities are not incorporated in the models (Zedeck & Cascio, 1984).

Managerial succession planning, however, has been linked with strategic business planning (Stumpf & Hanrahan, 1984). Identifying potential managers and providing developmental career sequences has long been the practice of many firms, but as discussed earlier, managers are chosen to implement strategy. Less effort is aimed at adapting strategy to managers than vice versa, and almost no effort is aimed at selecting managers to devise a strategy. Such practices are particularly evident in multidivisional firms that have products at various stages of the product life cycle. Managerial succession planning in these firms seems unduly dependent on having sufficient start-up projects for the firm's entrepreneurs and having sufficient mature products for the firm's efficiency experts. Achieving *fit* appears to be the guiding premise underlying much of the work in managerial succession planning. Fit can be counterproductive from a competitive perspective because it may inhibit innovativeness and constrain the firm's repertoire of skills Fit approaches to strategic human resource planning often create as many problems as they solve. Hence, managerial succession planning also has been underutilized as an input in the strategic business plan (Gutteridge & Otte, 1983; Reypert, 1981).

Response to strategic changes in the environment

Environmental factors such as uncertainty (Ellis, 1982), technological innovation (Maier, 1982), and demographic changes (Fombrun, 1982) affect human resources strategy. Numerous environmental characteristics have been investigated to determine how they constrain human resources or strategy formulation. Fombrun (1982), for example, studied how changes in information processing, automation, inflation, productivity, demographics, elitism, and interest-group politics affect organizational structure and human resource issues. Fombrun contended that changes in the technological environment have the greatest effect on service jobs and on general retraining. He saw changes in the economic environment as having the most direct effect on compensation alternatives and initial employee training. Changes in the social environment are related to shifts in organizational development, to promotion, and to formal appraisal systems, whereas the political environment is hypothesized to have the strongest effect on definitions for success, on organizational commitment, and on career counseling.

A generalist approach to managing human resources in the face of environmental change also has been explored. Ellis (1982) identified environmental challenges such as raw material price increases, supply shortages, rapid changes in demand, international competition, and

social activists and recommended a generic solution rather than differential responses to specific problems. He advocated a management style that is pragmatic, active rather than passive, sensitive rather than stoic, and based on a philosophy of generating numerous alternatives and initiatives. He viewed managing human resources as creating an organizational climate that is conducive to flexibility, practicality, and participation.

Other researchers, such as Lindroth (1982) and Maier (1982), studied a specific environmental change and posited appropriate human resource management responses. Lindroth (1982) noted that according to the Bureau of Labor Statistics, the rate of increase in the work force will be less than the rate of increase in new jobs (typically created by technological advances) in the 1980s and 1990s. She claimed this will lead to a labor shortage particularly in lower paying, less desirable jobs. Lindroth suggested utilizing the fringe labor population (e.g., retirees, part-time workers, temporary help). Maier (1982) investigated innovation cycles and the qualitative and quantitative labor force requirements at each stage of the cycle. He recommended reallocation of educational resources, increased worker mobility both within firms and from organization to organization, and increased industry-wide coordination of technological innovation.

Several problems emerge from past efforts to manage environmental change through human resource management strategies. When a comprehensive environmental perspective has been adopted, the research has been limited to correlation studies of environmental conditions with various elements of structure or organization processes. For example, Dimick and Murray (1978) discussed the effect of competitive markets and lack of special advantages on recruiting and manpower planning. They did not, however, explore how the resulting human resource policies interact with other organization processes or influence strategic position. The more narrowly environmental conditions are defined, the more problematic the recommended solutions become. Lenz (1981) discussed several contingency relationships, but offered no conclusions regarding how an improved fit between particular environmental and organization process contingencies affects economic or competitive performance. In a turbulent environment, the search for fit involves a constantly moving target. Miles, Snow, Meyer, & Coleman (1978) argued that if the firm permits the environment to dictate its strategic choices in a reactive manner, the chances of long-term survival are reduced. If, on the other hand, a firm develops a coherent strategy which considers, but is not solely dependent upon, environmental conditions, a more successful strategy is likely to result. Further, they argued that a firm may be able to influence its environment and that this potential should not be ignored. In a similar manner, a firm's human resources policies may alter its market position and, thereby, change the contingencies that should be accommodated.

Matching human resources to strategic or organizational conditions

Gerstein & Reisman (1983), Harvey (1983), Leontiades (1982), Migliore (1982), Sweet (1982), and many others have described human resources strategies as developing a match between certain strategic or organizational conditions and certain specified aspects of human resource processes or skills. Although the notion of fit, or congruence, is appropriate,

narrow focus seriously limits its usefulness. Most studies deal exclusively with managers, often looking no deeper in the organization than the chief executive officer or top management team.

One approach involves matching managerial skills and interests with the general characteristics of the product/market environment. Such approaches assume that the environment will change very slowly, if at all. Gerstein & Reisman (1983), for example, recommended a diagnosis of the "business situation" primarily in terms of the product life cycle as a precondition for matching executive characteristics to situational requirements. Their approach included using role descriptions of executive function, technical and managerial responsibilities, key relationships, and a list of skill requirements for the executive position. Although these authors provided steps for implementation, they did little to overcome the problems of identifying and analyzing the appropriate information to either characterize the strategic situation or clarify the manager's role under a specific set of conditions. Further, they did not consider the inevitable need for change as new products and technologies enter the marketplace (Cooper & Schendel, 1976) or as cost drivers, factors that define the cost structure for a firm, or sources of differentiation, factors that contribute to a product's unique value, shift (Porter, 1985).

Other researchers (e.g., Leontiades, 1982) focus on expansion strategy (Chandler, 1962) rather than product life cycles. These researchers look at vertical integration (engaging in more activities along the chain from raw materials to distribution of the product), related diversification, or global expansion, for example, rather than emerging, growing, and maturing product cycles. However, the managerial characteristics that receive attention do not vary as substantially as the types of expansion efforts and strategic conditions vary. Gerstein & Reisman (1983), Migliore (1982), and Sweet (1982) claimed that one intent of this approach is to diminish belief in the "universal manager" myth, yet nearly all studies reveal similar clusters of successful managerial talents. Although the "universal manager" may have lost credibility, the "universal management team configuration" seems to have gained popularity.

An alternate approach to creating fit is to match the firm's human resources policies and processes with specific strategic choices (Smith, 1982a). Smith pointed out that although financial, marketing, and technical plans frequently are altered to reflect changing strategies, the human resources management function often appears to have been forgotten. He argued that human resource policies should be tailored to reflect the needs of the future, rather than mirroring current conditions or past practices. An important problem is identified, yet little is offered toward resolution. Milkovich & Newman (1987) furthered this approach, but adopted a more restricted focus. They argued that the compensation mix, comprised of base pay, incentives, and benefits, should be uniquely constructed for each phase of the firm's expansion cycle. Here a specific solution is offered, yet the option is not sufficiently comprehensive to influence the total human resource strategy of the firm.

The whole issue of fit deserves reassessment. Research has shown that achieving fit is not always desirable. Further, a focus on maximizing fit can be counterproductive if organization change is needed or if the firm has adopted conflicting competitive goals to correspond to a complex competitive environment (Lengnick-Hall, 1986; Lengnick-Hall & McDaniel, 1984).

Summary of the literature

In summary, then, past approaches to strategic human resources management have suggested ways to match managerial style or personnel activities with strategic efforts, have offered methods for forecasting manpower requirements given certain strategic objectives, and have presented ways to achieve fit among human resource management processes, strategy, and structure. Each of these approaches has three assumptions in common. They assume strategic direction has been decided. They assume that strategy implementation deals solely with means to achieve strategic ends and has no explicit role in strategy formulation. They assume that the basic issue – whether it is employee skills, forecasting, processes for career planning, retention, or training – remains the same; only the answer changes as strategic conditions change.

Assumptions Leading to the Proposed Typology

The proposed typology relies on a different set of assumptions. *First*, we assume that the choice of strategy has not been made. *Second*, we assume the management of human resources should contribute directly to strategy formulation and to strategy implementation. We do not, however, assume that human resource considerations should be the sole, or even the primary, factor considered in selecting a firm's strategic direction. *Third*, we assume that as strategic conditions vary, the fundamental questions that must be addressed also vary because strategic issues reflect strategic contingencies. Conditions that influence what types of questions should be asked are not the same contingencies that determine the answers to those questions. The questions which are asked primarily reflect organizational outcomes and environmental threats and opportunities. These issues vary with bottom-line expectations and prior organization choices. The answers to these questions depend heavily on organization strengths, weaknesses, and culture, and the firm's ability to implement change. Both asking the right questions *and* making acceptable choices are necessary for sustained high performance. Further, this typology suggests ways to address the limitations of prior approaches while integrating their contributions.

Human resources valuation approaches were limited by expense, the difficulty of putting a dollar value on human resources, and problems with using results. We suggest substituting firm- and industry-specific skills versus firm- and industry-nonspecific skills (Perry, 1986) as a proxy that overcomes these obstacles. Firm- and industry-specific skills have value only within a particular context. For example, knowing a firm's filing system is firm-specific. Technical jargon is often industry-specific. Neither of these skills is valuable in a different firm or different industry context. To the extent that an employee's skills are specific to a certain organization, their mobility and transferability are reduced, their value to the firm is enhanced, and their replacement costs are increased.

A major problem with human resources planning approaches is overreliance on supply and demand forecasting and response at the expense of other organization realities. We propose specific consideration of a firm's values, philosophy, and culture in strategic human resource management decisions to help alleviate this difficulty. This recommendation is linked with the concept of human resource valuation. If, for example, a firm values long-term employment and does not expect major strategic shifts, an investment in

creating firm-specific and industry-specific skills is wise. As Perry (1986) pointed out, firm-specific skills increase the costs of turnover to the employees as well as to the firm. Agencies such as NASA and private firms such as Hewlett-Packard use this approach. Other firms in which greater tenure flexibility is desired, such as McDonald's and many universities, may invest in creating industry-specific skills to enhance their current competitive position, but are wise to avoid investing in substantial development of firm-specific skills that inhibit mobility.

Approaches that focus on responding to environmental change or matching human resources to existing conditions suffer from an excessive concern with developing fit and presume fixed goals and directions. We suggest that fit be considered the opposite end of the continuum from flexibility, and that firms explicitly choose a position along the continuum to coincide with their assessment of upcoming competitive conditions.

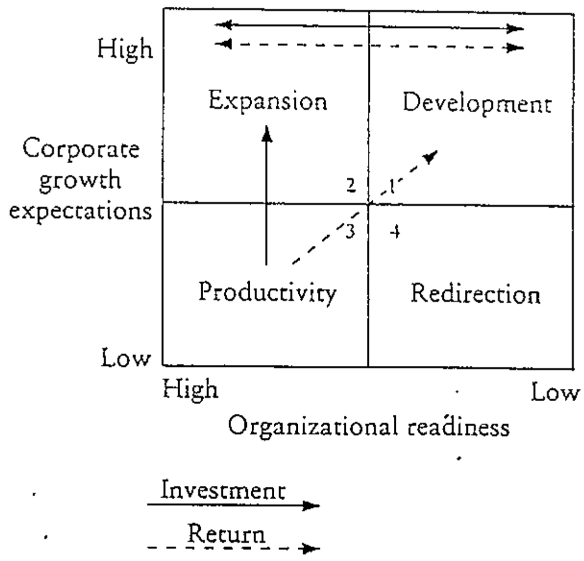

Figure 2.1 Growth readiness matrix

A Typology for the Strategic Management of Human Resources

The "Growth/Readiness" matrix depicted in Figure 2.1 captures the basic features of our typology. Corporate growth expectations are a proxy for the goals of the organization (Chandler, 1962; Leontiades, 1982). High growth generally means increased opportunities, multiple strategic and competitive options, high cash flow, and expansion. Much strategic management research centers on goal selection and attainment (Porter, 1985). Organizational readiness measures availability or obtainability of human resources skills, numbers, styles, and experience needed for strategy implementation. Readiness is a proxy for implementation feasibility and indicates how well resources meet the needs of the situation. The four quadrants represent four conditions under which organization strategy and, we recommend, human resource strategy are formulated.

Evolutionary forces, such as industry and product maturation, apply pressure to move the strategic situation from left to right (from high readiness to obsolescence) as technologies and strategies change. In most industries, technological change makes current skills or techniques less competitive over time (Hofer & Schendel, 1978). Industries also change from a focus on marketing and research and development in emerging industries to a focus on production and manufacturing in more mature industries (Porter, 1980). Evolution also moves conditions from top to bottom (from high growth expectations to lower growth goals) as markets become saturated and as new competitors enter the marketplace. As industries and products mature, growth becomes less feasible because there are fewer opportunities, because these are more expensive, and because market share must be taken away from competitors.

Although these evolutionary forces are well documented (Day, 1986; De Kluyver, 1977; Hayes & Wheelwright, 1979; Porter, 1980), in prior research they have been considered in a deterministic manner. We contend that movement from one quadrant to another results from an interaction between environmental conditions and organizational choice. In past research on organizational life cycles the manager's responsibility determines the current stage of development. Once that has been accomplished, the appropriate response is relatively fixed. We propose a contingency approach in which organization choices influence the rate and direction of organization life stages.

In summary, the construct of strategic human resource management has two dimensions: organizational goals and availability/obtainability of human resources. Organizational choice has a dominant effect on organizational goals and investment decisions. Environmental constraints and opportunities have a dominant effect on potential for return. Both choice and environment influence human resources availability and obtainability. This typology explores these complex, multivariate relationships in a systematic fashion. The normative statements regarding strategic human resource management decisions can be translated into hypothetical statements to allow for further refinement and future empirical testing. In fact, we propose that case studies examining the issues we describe may further illuminate relationships and lead to improved strategic human resource management theory construction and testing.

Quadrant 1: Development

The Development quadrant is characterized by high growth expectations and a poor level of readiness between strategy and human resource skills. The first-order choice is strategy formulation (Pitts & Snow, 1986). There are three options: (a) a firm may choose to invest heavily in its human resources to improve implementation feasibility, for example, Hyatt's investment in retraining Braniff employees after acquisition; (b) a firm may decide to change corporate goals to reflect the lack of readiness, such as Sambo's shift in focus from growth to profit after 1983 financial difficulties; or (c) a firm may choose to change the corporate operating strategy to capitalize on the skills and resources that are currently available. Anheuser-Busch's withdrawal from the soft drink industry and entry into the bakery and snack industries provides an example of this decision. The last option retains the growth goals by altering the competitive advantage used to achieve such goals.

Effective strategy formulation is based on assessments of functional and technical capabilities, strengths and weaknesses of the firm, and realistic goals (Pitts & Snow, 1986). If a firm is not meeting its objectives, a number of analytic steps should be taken. First, the cause of poor readiness should be diagnosed. This determines whether or not current goals can be obtained with additional investment in human resource capabilities. Anheuser-Busch determined that they could not "train" employees to become more competitive in the soft drink industry. Sambo's management decided there was insufficient time to make the major changes needed and still achieve the original goals. If increased readiness is not feasible, goals or strategic approaches to goal attainment must be changed. This is an example of reciprocal human resource and strategic decision making.

Second, the reasonableness of corporate growth expectations given product life

cycle, industry conditions, and the competitive position of the firm must be determined (Porter, 1980). A firm that attempts to grow rapidly in a mature industry, Safeway for example, will require greater resource expenditures and a more significant competitive advantage than a firm such as Genentech, a genetic engineering firm, that intended to grow rapidly during early phases of industry development.

Third, if the firm is not in a single business, choices regarding a particular business and the overall growth and diversification pattern of the company need to be reconciled (Day, 1986). Valuation concerns suggest that compatibility of industry-specific and firm-specific skills across businesses should be considered. Investments have a greater potential for payoff if businesses and, consequently, skills are related.

Fourth, the potential for long-term investment effectiveness needs to be determined (Perry, 1986). Here the organization's culture should be considered. If the skills are firm-specific, but not unit-specific, they provide greater flexibility. This is a plus if the firm is committed to employment security and promotion from within. If culture demonstrates a preference for external hiring, reliance on firm-specific skills should be reduced because such investments provide only short-term benefits.

Finally the fit/flexibility continuum should be considered. If goals represent a long-term commitment and if strategic conditions are supportive, greater investments in achieving organizational readiness are warranted (Hrebiniak & Joyce, 1984). Under these conditions, working toward fit is desirable. If, on the other hand, goals are temporary or if strategy is likely to change, large investments in fit are unwise. For example, it may be shrewd to invest in developing capabilities for dealing with a consolidation in the supplier industry or a major technological shift, but wasteful to invest in skills designed to deal with a temporary shortage or distribution problems resulting from a strike. These five analytic steps provide a template for strategic human resource management under "development" conditions.

Quadrant 2: Expansion

The Expansion quadrant is characterized by high growth expectations and good readiness indications between strategy and skills. These conditions apply to firms in established competitive positions in the mainstream of a growth industry, for example, McNeilab's position in the ethical drug industry or the position of Target Stores in the retail industry. Under these conditions, the first-order question involves resource allocation. What proportion of resources should be devoted to achieving continued growth, and what proportion should be channeled into managing the effects of growth (e.g., updating planning systems, managing information, socializing new employees)? Resolution depends on (a) the level of human resource investment required to maintain desired growth and continued readiness, (b) profitability, and (c) other performance measures that are important to the firm.

Again organization culture and the need for firm-and industry-specific skills play a crucial role (Perry, 1986). Culture places both demands and limits on organization processes (Galbraith & Kazanjian, 1986). For example, military organizations can expand rapidly without substantial changes in organization systems because their cultures are relatively uniform and rely heavily on standardization, division of labor, hierarchy, and socialization to coordinate and control activities. Such

organizations can devote most resources to achieving growth. Other firms, for example, Apple Computers, have a culture that presumes individuality and idiosyncratic behavior. As the firm expands, organization processes are expected to change to reflect the personalities and skills of new members. In this type of firm, more resources must be allocated to managing the effects of growth and the organization systems needed to accommodate expansion. A high need for firm-specific skills (e.g., fighter pilots) or industry-specific skills (e.g., negotiating defense contracts) makes a given level of growth more expensive to achieve, leaving fewer resources available for managing growth.

The issue of fit versus flexibility is also important. High growth and strong readiness are conducive to maximal fit. This is supported by human resources planners (Stumpf & Hanrahan, 1984) and those who recommend responsiveness to organization and environmental contingencies (Lawrence, 1984; Lenz, 1981). The price is an increased likelihood of means-ends goal reversal (MacMillan & Jones, 1986). Although good fit may make growth easier to achieve, it also makes continued growth the primary means to achieve organizational rewards. Thus, continued growth is likely to become a means to achieve financial and status benefits even if continued growth is no longer cost effective within the industry setting. Sambo's restaurants experienced this problem with their "fraction of the action plan" (whereby franchise owners participated in the rewards of expansion). The result was near bankruptcy and corporate takeover.

A number of analytic steps contribute to sound resource allocation decisions. First, relevant trends in product, organization, and industry life cycles need to be identified (Day, 1986; Porter, 1985). Planning horizons and profitability can be predicted from an assessment of the industry's structure. Industry analysis, along with an evaluation of hiring and training needs, capacity expansion requirements, and so forth, allows a firm to assess the direct costs and benefits of achieving growth.

Second, a firm should identify indirect costs of achieving growth; among the most important of these is a consideration of fit versus flexibility (Pitts & Snow, 1986). As the need for firm-specific or unit-specific skills increases, personal power of successful employees also increases. Because this power is contingent on maintaining existing organization conditions, there is a strong incentive to resist change (MacMillan & Jones, 1986). Further, mobility of these employees is reduced. Resistance to change coupled with organization clout and few alternatives can make a firm uncompetitive as environmental conditions change.

Third, a firm should identify costs of managing growth (Porter, 1985). At this point a firm should identify specific structural and organizational process changes that need to accompany growth. Often while firms are growing, the seeds for future problems are being sowed if organization design does not keep pace with organization accomplishments.

Fourth, costs of achieving and maintaining growth should be compared with the revenue that additional growth is expected to provide (Porter, 1985). Reciprocity between human resources and competitive strategy is important. It is not unusual for growth to be competitively feasible yet have little payoff due to implementation costs. Nor is it unusual for growth expectations that are the outcome of prior human resource policies to become competitively undesirable. If there is a resulting deficit, a reassessment of goals, or the means to achieve growth, is in order. If a surplus

results, an appropriate allocation strategy for these resources is needed. For example, if a growth pattern is expected to be long-term and in a relatively stable environment, resources might be appropriately allocated to managing the stress of continued expansion and elevated performance expectation. If growth is expected to be long-term but under changing marketplace conditions, resources might be appropriately allocated to research and development or training in an effort to anticipate competitive trends. If growth is expected to be short-term, resources might be most appropriately allocated to preparing for organizational transition. These four steps provide guidelines for strategic human resource management under "expansion" conditions.

Quadrant 3: Productivity

The Productivity quadrant is characterized by low growth expectations and strong readiness for strategy implementation, for example, the positions established by Mercedes Benz or the Kroger Stores. Because a firm has an established competitive advantage and is not trying to expand rapidly, operations usually are highly effective and efficient. There is less concern with establishing a position, as in the development stages, or with extending the market, as in the expansion stage. Rather, the key question is how to channel the results of productive activities (Day, 1986; Porter, 1980). Such firms are highly profitable and their resources should not be wasted. Stated differently, the basic choice is where to channel resources and efforts that are no longer required simply to maintain growth objectives.

There are several alternatives. The focus can be on preparing for anticipated changes in the particular business in question. Financial services firms such as American Express made this choice in the face of deregulation. Resources can be invested in related or unrelated businesses in the portfolio. General Electric provides a good example of this approach. The focus can be on improving the current competitive position, a strategy taken by the major television networks that continue escalating investment despite low growth prospects. This last focus includes using resources to improve socialization, mentoring, developing of succession plans, and the like, in order to compensate for or correct organizational weaknesses. A firm can begin planning for exit from the business, often a choice if substitute products are serious threats. Under conditions of low growth and high productivity, a strategic focus predominates because choices concern trade-offs between current actions and future options.

Undoubtedly some degree of fit already has been established, and the issue becomes whether continued fit should be rewarded to increase profits and efficiency or whether the first steps toward organization change should be encouraged. The role a particular business plays in the overall corporate plan inevitably changes as the unit shifts from a cash user to a cash generator (Day, 1986; Hofer & Schendel, 1978). If diverse businesses are managed interdependently, businesses that receive investments to aid their own competitive position may, over time, be expected to contribute to the growth and competitiveness of other units. If fit, rather than flexibility, has been emphasized, this shift in perspective presents a monumental challenge (MacMillan & Jones, 1986).

Unit-, firm-, and industry-specific skills also contribute to or inhibit organization transition (Perry, 1986). If businesses are related and firm-specific and industry-specific skills have been emphasized,

employees may feel more secure, even though their future prospects may be uncertain. If, on the other hand, businesses are unrelated and unit-specific skills have been emphasized, employees have a vested interest in maintaining an existing strategic posture for the business, even if it is sub-optimal for the firm as a whole.

Several analytic steps are useful. First, evaluating competitive trends helps to determine a reasonable time horizon for planning (Porter, 1985). How to sustain the current competitive advantage should be assessed as the product and industry mature. Is the current competitive position viable with a flat level of investment (e.g., Coke's position in the soft drink industry) or is competitive position dependent on escalating investments (e.g., research and development required to maintain position in the computer industry)? Can the current competitive advantage be protected and sustained? Because competition increases during low growth periods, mimicry and aggression also increase.

Second, industry structure should be assessed (Porter, 1980). As growth slows, supplier firms and buyers often consolidate or further increase their segmentation. Substitute products often gain popularity while a firm is focusing on efficiency. The marketplace may become unattractive over time regardless of competitive position. The natural tendency is for management to be internally focused to increase profits, yet low growth industries require extensive environmental analysis.

Third, an understanding of the current strategy's viability and the long-term attractiveness of the industry is important for allocating human and other resources (Day, 1986; Hofer & Schendel, 1978). If the planning horizon is short, fit should be de-emphasized, resources should be channeled to other units, and skills that are necessary for transition should be rewarded. If the planning horizon is long, fit should be balanced with flexibility, sufficient resources should be reinvested in the unit to maintain competitiveness, and unit-, firm-, and industry-specific skills should continue to receive rewards.

Quadrant 4: Redirection

The fourth quadrant, Redirection, is characterized by low growth expectations and poor readiness. Typically, firms facing these conditions are in declining industries or have maintained obsolete products or manufacturing processes that are no longer competitive (Porter, 1980). Examples include small breweries and many family farms. This situation often arises in firms that focus on excessive fit between skills, culture, procedures, and strategy. Their choice is either turnaround or exit from the industry. Stated differently, a firm must decide whether to redirect employee activities or to alter the business focus. Both human resource and competitive considerations are paramount. If turnaround is chosen, retraining, restructuring, and realignment are needed. If exit is selected, turnover (both voluntary and involuntary) and relocation within the firm are often required.

Organization culture and employment philosophy (e.g., commitment to employment security) must be examined (MacMillan & Jones, 1986). Often when a firm reaches this stage of development, organization culture is firmly established. Equally often, values that have dominated during times of growth and implementation are maladaptive when the firm is faced with end-game choices such as harvesting, developing a niche, or preparing for quick divestment in a particular business (Porter, 1980). Most organization cultures do not help the firm avoid premature

divestiture nor do they reduce the likelihood of creating a cash trap. If turnaround is infeasible, these are the likely outcomes. An additional cultural issue concerns diversification strategy. With related diversification, severe organizational conflict may arise from attempts to remain competitive in a product area that has undergone major technical changes. It is not uncommon for technical changes in a product or the production process to cause functional conflict rather than functional synergy in firms that have technically related product groups.

The need for human resources in other areas of the firm (e.g., are there growth areas that require new human resources?) should be considered (Day, 1986; Hofer & Schendel, 1978). If new employment options exist, the importance of firm-specific and/or industry-specific skills must be considered in evaluating costs and effectiveness.

A number of analytic steps are appropriate. First, it is important to determine whether the industry is experiencing widespread decline (e.g., has a substitute product curtailed demand) or whether the firm is poorly positioned (e.g., small textile mills facing industry consolidation). If the industry is declining, any turnaround strategy would have a short-term payback. Second, if lack of readiness reflects a poor organizational strategy, analysis to determine a source of competitive advantage is needed.

Third, an evaluation of turnaround and exit feasibility depends, in part, on the extent to which firm- and industry-specific skills are present and the extent to which these skills meet the needs of the current competitive environment (Perry, 1986; Porter, 1980). If firm- and industry-specific skills comprise a high proportion of the human resource skill base, and such skills are compatible with the competitive environment, turnaround feasibility depends on whether additional skills can be learned in a timely manner. Examples include hotels and restaurants that have improved service and made a comeback. Exit, under these circumstances, is less desirable. If firm- and industry-specific skills comprise a high proportion of the human resource skill base and do not meet competitive needs, turnaround will create grave organizational conflict, but exit will be quite difficult. This is, perhaps, the most painful choice, as the issues about what to do with family farms illustrate. If firm- and industry-specific skills comprise a low proportion of the skill base, but those that exist fit well with the competitive conditions (e.g., software development firms), turnaround is feasible if appropriate new skills can be acquired, and if not, exit is less complicated by organization values. If firm- and industry-specific skills are low but incompatible with competitive conditions, as in many steel companies, both competitive restructuring and a shift in firm and/or industry values is needed to effect a turnaround. Exit is a desirable choice in a multibusiness firm. In single-business organizations, merger or acquisition of new skills and new values is a typical response.

These three steps, evaluation of the industry condition, assessment of the competitive position, and analysis of feasibility, are key to strategy and human resource choices under conditions of low growth and poor readiness. Often, no choice is truly desirable, and most contain significant risks. If consideration of the future is incorporated during "productivity" phases, these problems can be reduced.

Concluding Comments

Reciprocal interdependence between a firm's business strategy and its human

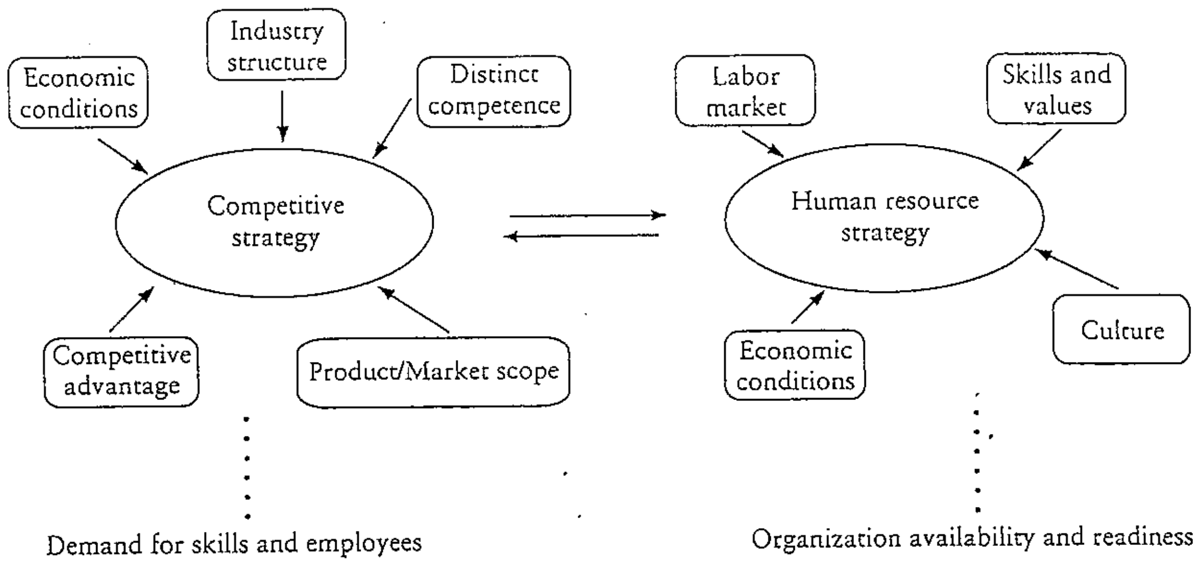

Figure 2.2 A perspective on business strategy and human resource strategy interdependence

resources strategy underlies the proposed approach to the strategic management of human resources. This perspective is depicted in Figure 2.2. Both human resource strategy and business strategy are seen as composite outcomes because in each, many functions, events, and relationships influence organizational results. The crucial interaction is between multidimensional demand and multifaceted readiness. Each is an input to and a constraint on the other.

We propose a broader perspective of strategic human resource management than has been offered in the literature or in practice. Previous efforts have captured some of the important relationships among key variables, but have ignored the truly multidimensional nature of this process. In part, this can be attributed to meshing two areas that have developed independent of one another (at least in the academic arena). Related to this has been the temptation of researchers and practitioners in one field to gain only a superficial understanding of the other field before attempting to integrate the two. This produces inadequate theory formulation at best and does a disservice to the field (strategic management or human resources management) that is slighted. Greater cross-fertilization of ideas is justified at this stage of theory development to provide a better understanding of two complex processes.

The intent of this paper is not to argue that all firms should adopt a strategic human resources management perspective, although Hypothesis I suggests this as a testable concept:

> *Hypothesis 1*: Firms that engage in a strategy formulation process that systematically and reciprocally considers human resources and competitive strategy will perform better (using multiple measures of effectiveness) over the long term than firms that manage competitive strategy and human resources independently of each other.

Rather, our intent is to highlight some of the advantages and disadvantages of integrating human resources management within the strategic management process. If a firm elects not to adopt a strategic human resource perspective, it must solve

human resource problems through human resource means and, by implication, it must solve competitive problems with other types of resources. This view may, over time, deplete the human resources of the firm. From this approach, human resources are seen as constraints on business policy.

If a strategic human resource management perspective *is* adopted, then human resource considerations must be intimately linked with strategic choices. This view assumes that the human resources are critical to achieving competitive success. There are opportunity costs associated with this view as well, however. A firm's outlook often becomes more inwardly focused, making it more difficult to accurately predict and interpret environmental events. Further, if human resource considerations are used to determine strategic position, a firm may become less competitive than firms that have greater internal flexibility. Finally, linking human resources management intimately with strategic management may overemphasize human resource matters in strategy formulation. Excessive attention may prove to be as detrimental as the prior neglect. To limit these negative effects we argue that a reciprocal interdependence is most appropriate. This view is presented in Hypotheses 2 and 3.

> *Hypothesis* 2: Firms that engage in a strategy formulation process that systematically and reciprocally considers human resources and competitive strategy will perform better (using multiple measures of effectiveness) over the long term than firms that manage competitive strategy primarily as a means to solve human resources issues.

> *Hypothesis* 3: Firms that engage in a strategy formulation process that systematically and reciprocally considers human resources and competitive strategy will perform better (using multiple measures of effectiveness) over the long term than firms that manage human resources primarily as a means to solve competitive strategy issues.

The typology proposed in this paper takes a broader perspective of strategic human resources management. It defines some boundaries of the concept and presents a set of propositions that need further testing. To date, there is little *empirical* evidence to suggest that strategic human resource management directly influences organizational performance or competitive advantage. However, there is much anecdotal evidence to suggest that such a relationship does exist. More attention needs to be paid to research issues that will provide the necessary support or disconfirmation (see especially Dyer, 1984). From the viewpoint of practicing managers, it is too early to adopt one theory of strategic human resource management and expect a blueprint for decision making. Our typology clarifies many of the issues that researchers and managers believe are important for sustained organizational performance. The typology suggests avenues of research that should yield a greater awareness of two complex organizational processes, better understanding of their interaction, and more informed decision making in the future. By classifying organizations through the proposed typology, researchers can explore how organizations facing similar contingencies create strategic plans, implement those plans, manage their human resources, and succeed or fail in the marketplace. Moreover, the classifications we propose allow the results of organization decisions within a single firm to be evaluated longitudinally because it is recognized that critical issues as well as desired outcomes change over

time. Without some means of categorization, comparative and other methods of empirical research become difficult, if not impossible.

Contributors' note

The authors thank Robert Eder for his critique and comments on earlier drafts of this article.

Source

Academy of Management Review, Vol. 13, No. 3 (1988): 454–70.

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CHAPTER 9

Linking Competitive Strategies with Human Resource Management Practices

Randall S. Schuler and Susan E. Jackson

Over the past several years there has been increased recognition that there is a need to match the characteristics of top managers with the nature of the business. According to Reginald H. Jones, former chairman and CEO of the General Electric Company,

> When we classified . . . [our] . . . businesses, and when we realized that they were going to have quite different missions, we also realized we had to have quite different people running them.[1]

Within academia there has been similar growing awareness of this need. Although this awareness is being articulated in several ways, one of the most frequent involves the conceptualization and investigation of the relationship between business strategy and the personal characteristics of top managers.[2] Here, particular manager characteristics such as personality, skills, abilities, values, and perspectives are matched with particular types of business strategies. For example, a recently released study conducted by Hay Group Incorporated, in conjunction with the University of Michigan and the Strategic Planning Institute, reports that when a business is pursuing a growth strategy it needs top managers who are likely to abandon the status quo and adapt their strategies and goals to the marketplace. According to the study, insiders are slow to recognize the onset of decline and tend to persevere in strategies that are no longer effective; so, top managers need to be recruited from the outside.

> Recruiting outsiders as a part of strategy has been successful for Stroh Brewing Co., once a small, family-run brewery in Detroit. Some 20% of its senior management team of 25 executives, including President Roger T. Fridholm, have been brought into Stroh since 1978. They've been instrumental in transforming it into the third-largest U.S. brewer.[3]

The result of such human resource staffing practices has been rather significant:

> Growth companies that staffed 20% of their top three levels with outsiders exceeded their expected return on

investment by 10%. Those that relied on inside talent fell short of their goals by 20%. The same holds true for companies in declining industries: companies with outsiders in one out of every five top managements jobs exceeded expected returns by 20%; those with a low proportion of outsiders fell 5% short.[4]

Outsiders, of course, are not always helpful. When a business is pursuing a mature strategy, what is needed is a stable group of insiders who know the intracacies of the business.

The results of the Hay study suggest that the staffing practices of top management be tied to the nature of the business because different aspects of business demand different behaviors from the individuals running them. The implication, then, is that selecting the right top manager is an important staffing decision.

Another perspective holds that top managers are capable of exhibiting a wide range of behavior, and all that is needed is to match compensation and performance appraisal practices with the nature of the business. Peter Drucker, commenting on the relationship between compensation and a strategy of innovation, observed that:

> I myself made this mistake [thinking that you can truly innovate within the existing operating unit] 30 years ago when I was a consultant on the first major organizational change in American history, the General Electric reorganization of the early 1950s. I advised top management, and they accepted it, that the general managers would be responsible for current operations as well as for managing tomorrow. At the same time, we worked out one of the first systematic compensation plans, and the whole idea of paying people on the basis of their performance in the preceding year came out of that.
>
> The result of it was that for ten years General Electric totally lost its capacity to innovate, simply because tomorrow produces costs for ten years and no return. So, the general manager – not only out of concern for himself but also out of concern for his group – postponed spending any money for innovation. It was only when the company dropped this compensation plan and at the same time organized the search for the truly new, not just for improvement outside the existing business, that GE recovered its innovative capacity, and brilliantly. Many companies go after this new and slight today and soon find they have neither.[5]

Similar results illustrating the power of performance appraisal and compensation to affect individual behavior have been reported in the areas of reinforcement, behavior modification, and motivation theories.[6] However, while there has been much written on matching the behavior of top managers with the nature of the business, less attention has been given to the other employees in the organization. Nevertheless, it seemed reasonable to assume that the rest of the workforce would also have to be managed differently, depending on the business.. This, then, became our focus of attention.

A critical choice we had to make in our study concerned which aspects of the business we were going to use. Consistent with previous studies, we decided to use the general notion of organizational strategy.[7] On the basis of previous studies that looked at strategy and human resource practices, we decided to adapt Porter's framework of competitive strategy.[8] Using the competitive strategy framework, we developed three archetypes of competitive strategy – PHRM practices combinations. These were derived from the literature, secondary sources, and our previous research. We then examined each of the three archetypes in-depth, using additional

secondary data and field results, and addressed issues regarding implementation and revision of the archetypes. All are presented in this article.

First, we shall review the nature and importance of competitive strategy, and then we shall describe the concept of needed role behavior that enabled us to link competitive strategies and HRM practices.

Competitive Strategies

Crucial to a firm's growth and prosperity is the ability to gain and retain competitive advantage. One way to do this is through strategic initiative. MacMillan defines strategic initiative as the ability to capture control of strategic behavior in the industries in which a firm competes.[9] To the extent one company gains the initiative, competitors are obliged to respond and thereby play a *reactive* rather than proactive role. MacMillan argues that firms that gain a strategic advantage control their own destinies. To the extent a firm gains an advantage difficult for competitors to remove, it stays in control longer and therefore should be more effective.

The concept of competitive advantage is described by Porter as the essence of competitive strategy.[10] Emerging from his discussion are three competitive strategies that organizations can use to gain competitive advantage: innovation, quality enhancement, and cost reduction. The *innovation strategy* is used to develop products or services different from those of competitors; the primary focus here is on offering something new and different. Enhancing product and/or service quality is the primary focus of the *quality enhancement strategy*. In the *cost reduction strategy*, firms typically attempt to gain competitive advantage by being the lowest cost producer. Although we shall describe these three competitive strategies as pure types applied to single business units or even single plants or functional areas, some overlap can occur. That is, it is plausible to find business units, plants, or functional areas pursuing two or more competitive strategies simultaneously. This, and how to manage it, is discussed later.

Competitive Strategy: Needed Role Behaviors

Before developing a linkage between competitive strategy and HRM practices, there must be a *rationale* for that linkage. This rationale gives us a basis for predicting, studying, refining, and modifying both strategy and practices in specific circumstances.

Consistent with previous research, the rationale developed is based on what is needed from employees apart from the specific technical skills, knowledge, and abilities (SKAs) required to perform a specific task.[11] Rather than thinking about task-specific SKAs, then, it is more useful to think about what is needed from an employee who works with other employees in a social environment.[12] These needed employee behaviors are actually best thought of as needed role behaviors.[13] The importance of roles and their potential dysfunction in organizations, particularly role conflict and ambiguity, is well documented.[14]

Based on an extensive review of the literature and secondary data, several role behaviors are assumed to be instrumental in the implementation of the competitive strategies. Exhibit 9.1 shows several dimensions along which employees' role behaviors can vary. The dimensions shown are the ones for which there are

likely to be major differences across competitive strategies. This can be illustrated by describing the various competitive strategies and their necessary organizational conditions in more detail, along with the needed role behaviors from the employees.

Innovation strategy and needed role behaviors

Because the imperative for an organization pursing an innovation strategy is to be the most unique producer, conditions for innovation must be created. These conditions can be rather varied. They can be created either formally through official corporate policy or more informally. According to Rosabeth Moss Kanter:

> Innovation [and new venture development] may originate as a deliberate and official decision of the highest levels of management or there may be the more-or-less "spontaneous" creation of mid-level people who take the initiative to solve a problem in new ways or to develop a proposal for change. Of course, highly successful companies allow both, and even official top management decisions to undertake a development effort benefit from the spontaneous creativity of those below.[15]

To encourage as many employees as possible to be innovative, 3M has developed an informal doctrine of allowing employees to "bootleg" 15% of their time on their own projects. A less systematic approach to innovation is encouraging employees to offer suggestions for new and improved ways of doing their own job or manufacturing products.

Overall, then, for firms pursuing a competitive strategy of innovation, the profile of employee role behaviors includes

- a high degree of creative behavior;
- a longer-term focus;
- a relatively high level of cooperative, interdependent behavior;
- a moderate degree of concern for quality;
- a moderate concern for quantity;
- an equal degree of concern for process and results;
- a greater degree of risk taking; and

Exhibit 9.1 Employee role behaviors for competitive strategies

1	Highly repetitive, predictable behavior	v. Highly creative, innovative behavior
2	Very short-term focus	v. Very long-term behavior
3	Highly cooperative, interdependent behavior	v. Highly independent, autonomous behavior
4	Very low concern for quality	v. Very high concern for quality
5	Very low concern for quantity	v. Very high concern for quantity
6	Very low risk taking	v. Very high risk taking
7	Very high concern for process	v. Very high concern for results
8	High preference to avoid responsibility	v. High preference to assume responsibility
9	Very inflexible to change	v. Very flexible to change
10	Very comfortable with stability	v. Very tolerant of ambiguity and unpredictability
11	Narrow skill application	v. Broad skill application
12	Low job (firm) involvement	v. High job (firm) involvement

Source: Adapted from R. S. Schuler, "Human Resource Management Practice Choices," in R. S. Schuler, S. A. Youngblood, and V. L. Huber (Eds) *Readings in Personnel and Human Resource Management*, 3rd ed., St. Paul, MN: West Publishing, 1988

- a high tolerance of ambiguity and unpredictability.[16]

The implications of pursuing a competitive strategy of innovation for managing people may include selecting highly skilled individuals, giving employees more discretion, using minimal controls, making a greater investment in human resources, providing more resources for experimentation, allowing and even rewarding occasional failure, and appraising performance for its long-run implications. As a consequence of these conditions, pursuing an innovation strategy may result in feelings of enhanced personal control and morale, and thus a greater commitment to self and profession rather than to the employing organization. Nevertheless, benefits may accrue to the firm as well as the employee, as evidenced by the success of such innovative firms as Hewlett-Packard, the Raytheon Corporation, 3M, Johnson & Johnson, and PepsiCo.

Thus, the innovation strategy has significant implications for human resource management. Rather than emphasizing managing people so they work *harder* (cost-reduction strategy) or *smarter* (quality strategy) on the same products or services, the innovation strategy requires people to work *differently*. This, then, is the necessary ingredient.[17]

Quality-enhancement strategy and needed role behaviors

At Xerox, CEO David Kearns defines quality as "being right the first time every time." The implications for managing people are significant. According to James Houghton, chairman of Corning Glass Works, his company's total quality approach is about people. At Corning, good ideas for product improvement often come from employees, and in order to carry through on their ideas Corning workers form short-lived corrective action teams to solve specific problems.

> Employees [also] give their supervisors written "method improvement requests," which differ from ideas tossed into the traditional suggestion box in that they get a prompt formal review so the employees aren't left wondering about their fate. In the company's Erwin Ceramics plant, a maintenance employee suggested substituting one flexible tin mold for an array of fixed molds that shape the wet ceramic product baked into catalytic converters for auto exhausts.[18]

At Corning, then, quality improvement involves getting employees committed to quality and continual improvement. While policy statements emphasizing the total quality approach are valuable, they are also followed up with specific human resources practices: feedback systems are in place, team work is permitted and facilitated, decision making and responsibility are a part of each employee's job description, and job classifications are flexible.

Quality improvement often means changing the processes of production in ways that require workers to be more involved and more flexible. As jobs change, so must job classification systems. At Brunswick's Mercury Marine division, the number of job classifications was reduced from 126 to 12. This has permitted greater flexibility in the use of production processes and employees. Machine operators have gained greater opportunities to learn new skills. They inspect their own work and do preventive maintenance in addition to running the machines.[19] It is because of human resource practices such as these that employees become committed to the firm and, hence, willing to give more. Not

only is the level of quality likely to improve under these conditions, but sheer volume of output is likely to increase as well. For example, in pursuing a competitive strategy involving quality improvement, L.L. Bean's sales have increased tenfold while the number of permanent employees has grown only fivefold.[20]

The profile of employee behaviors necessary for firms pursuing a strategy of quality enhancement is:

- relatively repetitive and predictable behaviors;
- a more long-term or intermediate focus;
- a modest amount of cooperative, interdependent behavior;
- a high concern for quality;
- a modest concern for quantity of output;
- high concern for process (*how* the goods or services are made or delivered);
- low risk-taking activity; and
- commitment to the goals of the organization.

Because quality enhancement typically involves greater employee commitment and utilization, fewer employees are needed to produce the same level of output. As quality rises, so does demand, yet this demand can be met with proportionately fewer employees than previously. Thanks to automation and a cooperative workforce, Toyota is producing about 3.5 million vehicles a year with 25,000 production workers—about the same number as in 1966 when it was producing one million vehicles. In addition to having more productive workers, fewer are needed to repair the rejects caused by poor quality. This phenomenon has also occurred at Corning Glass, Honda, and L.L. Bean.

Cost-reduction strategy and needed role behaviors

Often, the characteristics of a firm pursuing the cost-reduction strategy are tight controls, overhead minimization, and pursuit of economies of scale. The primary focus of these measures is to increase productivity, that is, output cost per person. This can mean a reduction in the number of employees and/or a reduction in wage levels. Since 1980, the textile industry's labor force decreased by 17%, primary metals, almost 30%, and steel, 40%. The result has been that over the past four years, productivity growth in manufacturing has averaged 4.1% per year, versus 1.2% for the rest of the economy.[21] Similar measures have been taken at Chrysler and Ford and now are being proposed at GM and AT&T. Reflecting on these trends, Federal Reserve Governor Wayne D. Angell states, "We are invigorating the manufacturing sector. The period of adjustment has made us more competitive."[22]

In addition to reducing the number of employees, firms are also reducing wage levels. For example, in the household appliance industry where GE, Whirlpool, Electrolux, and Maytag account for 80% of all production, labor costs have been cut by shifting plants from states where labor is expensive to less costly sites. The result of this is that a new breed of cost-effective firms are putting U.S. manufacturing back on the road to profitability.[23]

Cost reduction can also be pursued through increased use of part-time employees, subcontractors, work simplification and measurement procedures, automation, work rule changes, and job assignment flexibility. Thus, there are several methods for reducing costs. Although the details are vastly different, they all

share the goal of reducing output cost per employee.

In summary, the profile of employee role behaviors necessary for firms seeking to gain competitive advantage by pursuing the competitive strategy of cost reduction is as follows:

- relatively repetitive and predictable behaviors;
- a rather short-term focus;
- primarily autonomous or individual activity;
- modest concern for quality;
- high concern for quantity of output (goods or services);
- primary concern for results;
- low risk-taking activity; and
- a relatively high degree of comfort with stability.

Given these competitive strategies and the needed role behaviors, what HRM practices need to be linked with each of the three strategies?

Typology of HRM Practices

When deciding what human resource practices to use to link with competitive strategy, organizations can choose from six human resource practice "menus." Each of the six menus concerns a different aspect of human resource management. These aspects are planning, staffing, appraising, compensating, and training and development.

A summary of these menus is shown in Exhibit 9.2. Notice that each of the choices runs along a continuum. Most of the options are self-explanatory, but a rundown of the staffing menu will illustrate how the process works. A more detailed description of all menus is provided elsewhere.[24]

Recruitment

In each of these areas, a business unit (or a plant) must make a number of decisions; the first choice involving where to recruit employees. Companies can rely on the internal labor market, e.g., other departments in the firm and other levels in the organizational hierarchy, or they can rely on the external labor market exclusively. Although this decision may not be significant for entry-level jobs, it is very important for most other jobs. Recruiting internally essentially means a policy of promotion from within. While this policy can serve as an effective reward, it commits a firm to providing training and career development opportunities if the promoted employees are to perform well.

Career paths

Here, the company must decide whether to establish broad or narrow career paths for its employees. The broader the paths, the greater the opportunity for employees to acquire skills that are relevant to many functional areas and to gain exposure and visibility within the firm. Either a broad or a narrow career path may enhance an employee's acquisition of skills and opportunities for promotion, but the time frame is likely to be much longer for broad skill acquisition than for the acquisition of a more limited skill base. Although promotion may be quicker under a policy of narrow career paths, an employee's career opportunities may be more limited over the long run.

Promotions

Another staffing decision to be made is whether to establish one or several promotion ladders. Establishing several ladders

enlarges the opportunities for employees to be promoted and yet stay within a given technical specialty without having to assume managerial responsibilities. Establishing just one promotion ladder enhances the relative value of a promotion and increases the competition for it.

Part and parcel of a promotion system are the criteria used in deciding who to promote. The criteria can vary from the

Exhibit 9.2 Human resource management practice menus

	Planning choices	
Informal	- - - - - - - - -	Formal
Short term	- - - - - - - - -	Long term
Explicit job analysis	- - - - - - - - -	Implicit job analysis
Job simplification	- - - - - - - - -	Job enrichment
Low employee involvement	- - - - - - - - -	High employee involvement
	Staffing choices	
Internal sources	- - - - - - - - -	External sources
Narrow paths	- - - - - - - - -	Broad paths
Single ladder	- - - - - - - - -	Multiple ladders
Explicit criteria	- - - - - - - - -	Implicit criteria
Limited socialization	- - - - - - - - -	Extensive socialization
Closed procedures	- - - - - - - - -	Open procedures
	Appraising choices	
Behavioral criteria	- - - - - - - - -	Results criteria
	Purposes: development, remedial, maintenance	
Low employee participation	- - - - - - - - -	High employee participation
Short-term criteria	- - - - - - - - -	Long-term criteria
Individual criteria	- - - - - - - - -	Group criteria
	Compensating choices	
Low base salaries	- - - - - - - - -	High base salaries
Internal equity	- - - - - - - - -	External equity
Few perks	- - - - - - - - -	Many perks
Standard, fixed package	- - - - - - - - -	Flexible package
Low participation	- - - - - - - - -	High participation
No incentives	- - - - - - - - -	Many incentives
Short-term incentives	- - - - - - - - -	Long-term incentives
No employment security	- - - - - - - - -	High employment security
Hierarchical	- - - - - - - - -	High participation
	Training and development	
Short term	- - - - - - - - -	Long term
Narrow application	- - - - - - - - -	Broad application
Productivity emphasis	- - - - - - - - -	Quality of work life emphasis
Spontaneous, unplanned	- - - - - - - - -	Planned, systematic
Individual orientation	- - - - - - - - -	Group orientation
Low participation	- - - - - - - - -	High participation

Source: Adapted from R. S. Schuler "Human Resource Management Practice Choices," in R. S. Schuler, S. A. Youngblood, and V. L. Huber (Eds) *Reading in Personnel and Human Resource Management*, 3rd ed., St. Paul, MN: West Publishing, 1988

very explicit to the very implicit. The more explicit the criteria, the less adaptable the promotion system is to exceptions and changing circumstances. What the firm loses in flexibility, the employee may gain in clarity. This clarity, however, may benefit only those who fulfill the criteria exactly. On the other hand, the more implicit the criteria, the greater the flexibility to move employees around to develop them more broadly.

Socialization

After an employee is hired or promoted, he or she is next socialized. With minimal socialization, firms convey few informal rules and establish new procedures to immerse employees in the culture and practices of the organization. Although it is probably easier and cheaper to do this than to provide maximum socialization, the result is likely to be a more restricted psychological attachment and commitment by the employee to the firm, and perhaps less predictable behavior from the employee.

Openness

A final choice to be made in the staffing menu is the degree of openness in the staffing procedures. The more open the procedures, the more likely there is to be job posting for internal recruitment and self-nomination for promotion. To facilitate a policy of openness, firms need to make the relevant information available to employees. Such a policy is worthwhile, since it allows employees to select themselves into jobs, it is a critical aspect of attaining successful job–person fit. The more secret the procedures, the more limited the involvement of employees in selection decisions, but the faster the decision can be made.

A key aspect of the choices within the staffing activity or any other HRM activity is that different choices stimulate and reinforce different role behaviors. Because these have been described in detail elsewhere, their impact is summarized below.

Hypotheses of Competitive Strategy–HRM Archetypes

Based on the above descriptions of competitive strategies and the role behaviors necessary for each, and the brief typology of HRM practices, we offer three summary hypotheses.

Innovation strategy

Firms pursuing the innovation strategy are likely to have the following characteristics:

- jobs that require close interaction and coordination among groups of individuals;
- performance appraisals that are more likely to reflect longer-term and group-based achievements;
- jobs that allow employees to develop skills that can be used in other positions in the firm;
- compensation systems that emphasize internal equity rather than external or market-based equity;
- pay rates that tend to be low, but that allow employees to be stockholders and have more freedom to choose the mix of components (salary, bonus, stock options) that make up their pay package; and
- broad career paths to reinforce the development of a broad range of skills.

These practices facilitate cooperative, interdependent behavior that is oriented

toward the longer term, and foster exchange of ideas and risk taking.[25]

Quality-enhancement strategy

In an attempt to gain competitive advantage through the quality-enhancement strategy, the key HRM practices include:

- relatively fixed and explicit job descriptions;
- high levels of employee participation in decisions relevant to immediate work conditions and the job itself;
- a mix of individual and group criteria for performance appraisal that is mostly shortterm and results-oriented;
- relatively egalitarian treatment of employees and some guarantees of employment security; and
- extensive and continuous training and development of employees.[26]

These practices facilitate quality enhancement by helping to ensure highly reliable behavior from individuals who can identify with the goals of the organization and, when necessary, be flexible and adaptable to new job assignments and technological change.[27]

Cost-reduction strategy

In attempting to gain competitive advantage by pursuing a strategy of cost reduction, key human resource practice choices include:

- relatively fixed (stable) and explicit job descriptions that allow little room for ambiguity;
- narrowly designed jobs and narrowly defined career paths that encourage specialization, expertise, and efficiency;
- short-term, results-oriented performance appraisals;
- close monitoring of market pay levels for use in making compensation decisions; and
- minimal levels of employee training and development. These practices maximize efficiency by providing means for management to monitor and control closely the activities of employees.

An Innovative Strategy: One Company's Experience

Frost, Inc., is one company that has made a conscious effort to match competitive strategy with human resource management practices. Located in Grand Rapids, Michigan, Frost is a manufacturer of overhead conveyor trolleys used primarily in the auto industry, with sales of $20 million.[28] Concerned about depending too heavily on one cyclical industry, President Charles D. "Chad" Frost made several attempts to diversify the business, first into manufacturing lawn mower components and later into material-handling systems, such as floor conveyors and hoists. These attempts failed. The engineers didn't know how to design unfamiliar components, production people didn't know how to make them, and sales people didn't know how to sell them. Chad Frost diagnosed the problem as inflexibility. "We had single-purpose machines and single-purpose people," he said, "including single-purpose managers."

Frost decided that automating production was the key to flexibility. Twenty-six old-fashioned screw machines on the factory floor were replaced with 11 numerical-controlled machines paired within 18

industrial robots. Frost decided to design and build an automated storage-and-retrieval inventory control system, which would later be sold as a proprietary product, and to automate completely the front office to reduce indirect labor costs. The new program was formally launched in late 1983.

What at first glance appeared to be a hardware-oriented strategy turned out to be an exercise in human resource management. "If you're going to reap a real benefit in renovating a small to medium-size company, the machinery is just one part, perhaps the easiest part, of the renovation process," says Robert McIntyre, head of Amprotech, Inc., an affiliated consulting company Frost formed early in the automation project to provide an objective, "outside" view. "The hardest part is getting people to change."

Frost was clearly embarking on a strategy of innovation. As it turns out, many of the choices the company made about human resource practices were intended to support the employee role behaviors identified as being crucial to the success of an innovation strategy.

For example, the company immediately set out to increase employee identification with the company by giving each worker 10 shares of the closely held company and by referring to them henceforth as "shareholder-employees." The share ownership, which employees can increase by making additional purchases through a 401(d) plan, are also intended to give employees a long-term focus, which is another behavior important for an innovation strategy to succeed. Additional long-term incentives consist of a standard corporate profit-sharing plan and a discretionary profit-sharing plan administered by Chad Frost.

Frost's compensation package was also restructured to strike a balance between results (productivity) and process (manufacturing). In Frost's case, the latter is a significant consideration, since the production process is at the heart of the company's innovation strategy. Frost instituted a quarterly bonus that is based on companywide productivity, and established a "celebration fund" that managers can tap at their discretion to reward significant employee contributions. The bonuses serve to foster other needed employee role behaviors. By making the quarterly bonus dependent on companywide productivity, the company is encouraging cooperative, interdependent behavior. The "celebration fund," meanwhile, can be used to reward and reinforce innovative behavior. (Even the form of the celebration can be creative. Rewards can range from dinner with Chad Frost to a weekend for an employee and spouse at a local hotel, to a belly dancing performance in the office.)

Frost encourages cooperative behavior in a number of other ways as well. Most offices (including Chad Frost's) lack doors, which is intended to foster openness of communication. Most executive perks have been eliminated, and all employees have access to the company's mainframe computer (with the exception of payroll information) by way of more than 40 terminals scattered around the front office and factory floor.

In our view, a vital component of any innovation strategy is getting employees to broaden their skills, assume more responsibilities, and take risks. Frost encourages employees to learn new skills by paying for extensive training programs, both at the company and at local colleges. It even goes further, identifying the development of additional skills as a prerequisite for advancement. This is partly out of necessity, since Frost has compressed its 11 previous levels of hierarchy into four. Because this has made it harder to reward employees through traditional methods of