Human Resource Management

Gaining a Competitive Advantage /9e

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JOHN R. HOLLENBECK holds the positions of University Distinguished Professor at Michigan State University and Eli Broad Professor of Management at the Eli Broad Graduate School of Business Administration. Dr. Hollenbeck received his PhD in Management from New York University in 1984. He served as the acting editor at *Organizational Behavior and Human Decision Processes* in 1995, the associate editor of *Decision Sciences* from 1999 to 2004, and the editor of *Personnel Psychology* from 1996 to 2002. He has published over 90 articles and book chapters on the topics of team decision making and work motivation. According to the Institute for Scientific Information, this body of work has been cited over 3,000 times by other researchers. Dr. Hollenbeck has been awarded fellowship status in both the Academy of Management and the American Psychological Association, and was recognized with the Career Achievement Award by the HR Division of the Academy of Management (2011) and the Early Career Award by the Society of Industrial and Organizational Psychology (1992). At Michigan State, Dr. Hollenbeck has won several teaching awards including the Michigan State Distinguished Faculty Award, the Michigan State Teacher-Scholar Award, and the Broad MBA Most Outstanding Faculty Member.

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Professor Wright teaches, conducts research, and consults in the area of Strategic Human Resource Management (SHRM), particularly focusing on how firms use people as a source of competitive advantage and the changing nature of the Chief HR Officer role. For the past eight years he has been studying the CHRO role through a series of confidential interviews, public podcasts, small discussion groups, and conducting the HR@Moore Survey of Chief HR Officers. In addition, he is the faculty leader for the Cornell ILR Executive Education/NAHR program, "The Chief HR Officer: Strategies for Success," aimed at developing potential successors to the CHRO role. He served as the lead editor on the recently released book, *The Chief HR Officer: Defining the New Role of Human Resource Leaders*, published by John Wiley and Sons.

He has published more than 60 research articles in journals as well as more than 20 chapters in books and edited volumes. He is the Incoming Editor at the *Journal of Management.* He has co-edited a special issue of *Research in Personnel and Human Resources Management* titled "Strategic Human Resource Management in the 21st Century" and guest edited a special issue of *Human Resource Management Review* titled "Research in Strategic HRM for the 21st Century."

He has conducted programs and consulted for a number of large organizations, including Comcast, Royal Dutch Shell, Kennametal, Astra-Zeneca, BT, and BP. He currently serves as a member on the Board of Directors for the National Academy of Human Resources (NAHR). He is a former board member of HRPS, SHRM Foundation, and World at Work (formerly American Compensation Association). In 2011, 2012, and 2013 he was named by *HRM Magazine* as one of the 20 "Most Influential Thought Leaders in HR."

PREFACE

The choppy and slow recovery of the U.S. economy means that both consumers and businesses are carefully considering their spending patterns and investments. Both private-and public-sector employers are calling back workers laid off during the recession and/or cautiously adding new employees if they see an increased demand for their products or services. Some companies are struggling to find qualified, talented, and skilled employees despite the many workers available due to the high unemployment rate. Also, they are continuing to examine how they can improve their "bottom line" while reducing costs. This has resulted in not only considering purchasing new technology and upgrading equipment, but putting a greater emphasis on ensuring that management practices and working conditions help employees work harder and smarter.

At the same time companies are taking steps to deal with the current economic conditions, they are also paying closer attention to how to engage in business practices that are economically sound but sustainable. That is, business practices that are ethical, protect the environment, and contribute to the communities from which the business draws the financial, physical, and human resources needed to provide its product and services. Consumers are demanding accountability in business practices: making money for shareholders should not involve abandoning ethics, ruining the environment, or taking advantage of employees from developing countries!

Regardless of whether a company's strategic direction involves downsizing, restructuring, growth, or a merger or acquisition, how human resources are managed is crucial for providing "value" to customers, shareholders, employees, and the community in which they are located. Our definition of "value" includes not only profits but also employee growth and satisfaction, additional employment opportunities, stewardship of the environment, and contributions to community programs. If a company fails to effectively use its financial capital, physical capital, and human capital to create "value," it will not survive. The way a company treats its employees (including those who are forced to leave their jobs) will influence the company's public reputation and brand as a responsible business, and its ability to attract talented employees. For example, the human resource practices at companies such as Google, SAS, REI, and Wegmans Food Markets helped them earn recognition on *Fortune* magazine's recent list of the "The Top 100 Companies to Work For." This kind of publicity creates a positive image for these companies, helping them attract new employees, motivate and retain their current employees, and make their products and services more desirable to consumers.

We believe that all aspects of human resource management—including how companies interact with the environment; acquire, prepare, develop, and compensate employees; and design and evaluate work—can help companies meet their competitive challenges and create value. Meeting challenges is necessary to create value and to gain a competitive advantage.

The Competitive Challenges

The challenges that organizations face today can be grouped into three categories:

- **The sustainability challenge.** Sustainability refers to the ability of a company to survive and succeed in a dynamic competitive environment. Sustainability depends on how well a company meets the needs of those who have an interest in seeing that the company succeeds. Challenges to sustainability include the ability to deal with economic and social changes, engage in responsible and ethical business practices, efficiently use natural resources and protect the environment, provide high-quality products and services, and develop methods and measures (also known as metrics) to determine if the company is meeting stakeholder needs. To compete in today's economy companies use mergers and acquisitions, growth, and downsizing. Companies rely on skilled workers to be productive, creative, and innovative and to provide high-quality customer service; their work is demanding and companies cannot guarantee job security. One issue is how to attract and retain a committed, productive workforce in turbulent economic conditions that offer opportunity for financial success but can also turn sour, making every employee expendable. Forward-looking businesses are capitalizing on the strengths of a diverse multigenerational workforce. The experiences of Enron, *News of the World,* and Lehman Brothers provide vivid examples of how sustainability depends on ethical and responsible business practices, including the management of human resources. Another important issue is how to meet financial objectives through meeting both customer and employee needs. To meet the sustainability challenge companies must engage in human resource management practices that address short-term needs but help ensure the long-term success of the firm. The development and choice of human resource management practices should support business goals and strategy.

    The role of ethical behavior in a company's sustainability has led us to include more discussion and examples of "integrity in action" in this edition. The actions of top executives and managers show employees how serious they are about human resource management practices. Also, employees look at their behaviors to determine if they are merely giving "lip service" to ethical behavior or if they genuinely care about creating an ethical workplace. As a result, in this edition of the book we include Integrity in Action boxes that highlight good (and bad) decisions about HR practices made by top executives, company leaders, and managers that either reinforce (or undermine) the importance of ethical behavior in the company.

- **The global challenge.** Companies must be prepared to compete with companies from around the world either in the United States or abroad. Companies must both defend their domestic markets from foreign competitors and broaden their scope to encompass global markets. Globalization is a continuing challenge as companies look to enter emerging markets in countries such as Brazil and China to provide their products and services.

- **The technology challenge.** Using new technologies such as computer-aided manufacturing, virtual reality, and social media can give companies an edge. New technologies can result in employees "working smarter" as well as

providing higher-quality products and more efficient services to customers. Companies that have realized the greatest gains from new technology have human resource management practices that support the use of technology to create what is known as high-performance work systems. Work, training programs, and reward systems often need to be reconfigured to support employees' use of new technology. The three important aspects of high-performance work systems are (1) human resources and their capabilities, (2) new technology and its opportunities, and (3) efficient work structures and policies that allow employees and technology to interact. Companies are also using social media and e-HRM (electronic HRM) applications to give employees more ownership of the employment relationship through the ability to enroll in and participate in training programs, change benefits, communicate with co-workers and customers online, and work "virtually" with peers in geographically different locations.

We believe that organizations must successfully deal with these challenges to create and maintain value, and the key to facing these challenges is a motivated, well-trained, and committed workforce.

The Changing Role of the Human Resource Management Function

The human resource management (HRM) profession and practices have undergone substantial change and redefinition. Many articles written in both the academic and practitioner literature have been critical of the traditional HRM function. Unfortunately, in many organizations HRM services are not providing value but instead are mired down in managing trivial administrative tasks. Where this is true, HRM departments can be replaced with new technology or outsourced to a vendor who can provide higher-quality services at a lower cost. Although this recommendation is indeed somewhat extreme (and threatening to both HRM practitioners and those who teach human resource management!), it does demonstrate that companies need to ensure that their HRM functions are creating value for the firm.

Technology should be used where appropriate to automate routine activities, and managers should concentrate on HRM activities that can add substantial value to the company. Consider employee benefits: Technology is available to automate the process by which employees enroll in benefits programs and to keep detailed records of benefits usage. This use of technology frees up time for the manager to focus on activities that can create value for the firm (such as how to control health care costs and reduce workers' compensation claims).

Although the importance of some HRM departments is being debated, everyone agrees on the need to successfully manage human resources for a company to maximize its competitiveness. Several themes emerge from our conversations with managers and our review of research on HRM practices. First, in today's organizations, managers themselves are becoming more responsible for HRM practices and most believe that people issues are critical to business success. Second, most managers believe that their HRM departments are not well respected because of a perceived lack of competence, business sense, and contact with operations. A study by Deloitte consulting and *The Economist* Intelligence Unit

found that only 23% of business executives believe that HR currently plays a significant role in strategy and operational results. Third, many managers believe that for HRM practices to be effective they need to be related to the strategic direction of the business. This text emphasizes how HRM practices can and should contribute to business goals and help to improve product and service quality and effectiveness. An important way, which we highlight throughout the text, is through using "Big Data" and evidence-based HR to demonstrate the value of HRM practices.

Our intent is to provide students with the background to be successful HRM professionals, to manage human resources effectively, and to be knowledgeable consumers of HRM products. Managers must be able to identify effective HRM practices to purchase these services from a consultant, to work with the HRM department, or to design and implement them personally. The text emphasizes how a manager can more effectively manage human resources and highlights important issues in current HRM practice.

We think this book represents a valuable approach to teaching human resource management for several reasons:

- The text draws from the diverse research, teaching, and consulting experiences of four authors who have taught human resource management to undergraduates, traditional day MBA students as a required and elective course, and more experienced managers and professional employees in weekend and evening MBA programs. The teamwork approach gives a depth and breadth to the coverage that is not found in other texts.
- Human resource management is viewed as critical to the success of a business. The text emphasizes how the HRM function, as well as the management of human resources, can help companies gain a competitive advantage.
- The book discusses current issues such as social networking, talent management, diversity, and employee engagement, all of which have a major impact on business and HRM practice.
- Strategic human resource management is introduced early in the book and integrated throughout the text.
- Examples of how new technologies are being used to improve the efficiency and effectiveness of HRM practices are provided throughout the text.
- We provide examples of how companies are evaluating HRM practices to determine their value.
- The Chapter openers, in-text boxes, and end-of-chapter materials provide questions that provide students the opportunity to discuss and apply HR concepts to a broad range of issues including strategic human resource management, HR in small businesses, ethics and HR's role in helping companies achieve sustainability, adopt and use technology, adapt to globalization, and practice integrity. This should make the HR classroom more interactive and increase students' understanding of the concepts and their application.

Organization

Human Resource Management: Gaining a Competitive Advantage includes an introductory chapter (Chapter 1) and five parts.

Chapter 1 provides a detailed discussion of the global, new economy, stakeholder, and work system challenges that influence companies' abilities to

successfully meet the needs of shareholders, customers, employees, and other stakeholders. We discuss how the management of human resources can help companies meet the competitive challenges.

Part 1 includes a discussion of the environmental forces that companies face in attempting to capitalize on their human resources as a means to gain competitive advantage. The environmental forces include the strategic direction of the business, the legal environment, and the type of work performed and physical arrangement of the work.

A key focus of the strategic human resource management chapter is highlighting the role that staffing, performance management, training and development, and compensation play in different types of business strategies. A key focus of the legal chapter is enhancing managers' understanding of laws related to sexual harassment, affirmative action, and accommodations for disabled employees. The various types of discrimination and ways they have been interpreted by the courts are discussed. The chapter on analysis and design of work emphasizes how work systems can improve company competitiveness by alleviating job stress and by improving employees' motivation and satisfaction with their jobs.

Part 2 deals with the acquisition and preparation of human resources, including human resource planning and recruitment, selection, and training. The human resource planning chapter illustrates the process of developing a human resource plan. Also, the strengths and weaknesses of staffing options such as outsourcing, use of contingent workers, and downsizing are discussed. Strategies for recruiting talented employees are emphasized. The selection chapter emphasizes ways to minimize errors in employee selection and placement to improve the company's competitive position. Selection method standards such as validity and reliability are discussed in easily understandable terms without compromising the technical complexity of these issues. The chapter discusses selection methods such as interviews and various types of tests (including personality, honesty, and drug tests) and compares them on measures of validity, reliability, utility, and legality.

We discuss the components of effective training systems and the manager's role in determining employees' readiness for training, creating a positive learning environment, and ensuring that training is used on the job. The advantages and disadvantages of different training methods are described, such as e-learning and mobile training.

Part 3 explores how companies can determine the value of employees and capitalize on their talents through retention and development strategies. The performance management chapter examines the strengths and weaknesses of performance management methods that use ratings, objectives, or behaviors. The employee development chapter introduces the student to how assessment, job experiences, formal courses, and mentoring relationships are used to develop employees. The chapter on retention and separation discusses how managers can maximize employee productivity and satisfaction to avoid absenteeism and turnover. The use of employee surveys to monitor job and organizational characteristics that affect satisfaction and subsequently retention is emphasized.

Part 4 covers rewarding and compensating human resources, including designing pay structures, recognizing individual contributions, and providing benefits. Here we explore how managers should decide the pay rate for different jobs, given the company's compensation strategy and the worth of jobs. The advantages and disadvantages of merit pay, gainsharing, and skill-based pay

are discussed. The benefits chapter highlights the different types of employer-provided benefits and discusses how benefit costs can be contained. International comparisons of compensation and benefit practices are provided.

Part 5 covers special topics in human resource management, including labor–management relations, international HRM, and managing the HRM function. The collective bargaining and labor relations chapter focuses on traditional issues in labor–management relations, such as union structure and membership, the organizing process, and contract negotiations; it also discusses new union agendas and less adversarial approaches to labor–management relations. Social and political changes, such as introduction of the euro currency in the European Community, are discussed in the chapter on global human resource management. Selecting, preparing, and rewarding employees for foreign assignments is also discussed. The text concludes with a chapter that emphasizes how HRM practices should be aligned to help the company meet its business objectives. The chapter emphasizes that the HRM function needs to have a customer focus to be effective.

New Feature and Content Changes in This Edition

Chapter 1

A new chapter opener discusses Mars Incorporated and their HR practices. The updated Table 1.1 shows the responsibilities of HR departments. There is a new discussion of the expectations managers have of HR, including examples of how HR is supporting companies' business strategies. A discussion of the use of Big Data in HR and a discussion of competencies needed for HR professionals are new to this edition. The discussion of competencies is based on the SHRM competency model and is illustrated in the new Figure 1.3 which shows the competencies and example behaviors for HR professionals. Table 1.3 outlines the updated salaries for HR positions. The definition and discussion of sustainability and the triple bottom line (e.g. economic, social, and economic benefits) has been updated along with the discussion of the economy reflecting recent economic and labor market data. There are new examples of how Honeywell is cautiously adding employees. Updated employment projections from 2012–2020 are discussed in this chapter and reflected in Table 1.4. Table 1.5 has been revised to show the fastest growing jobs and occupations and declining jobs and occupations. There is a discussion of the relationship between occupational growth, educational requirements, and wages and how companies are coping with skill deficits (e.g., Broseh and Aegis Sciences Corporation). New examples include Extended Stay of America's facilitating change to benefit the business, WD-40's learning culture, and Caesars Entertainment use of evidence-based HR for analyzing heath care costs. Other new examples that have been added are Lockheed Martin Missiles and Fire Control—the 2013 Malcolm Baldrige award winning company—and Coke's use of socially responsible product development practices. Labor force statistics have been revised to reflect the new genders, ages, and generations in the workforce, including new figures on immigration in the population and workforce. A new discussion of generations and generational differences and their potential impact in the workplace can be found in Chapter 1, accompanied

by a new table showing generations in the workforce. An updated Competing through Sustainability box focuses on the example of Gilbane Building Company's use of "green" practices and offers discussion questions for students. There are new statistics on unethical conduct in the workplace and an updated discussion of legal issues—including the implications of employers' not offering employees health insurance. A new Figure 1.7 illustrates the principles of ethical companies. The focus on ethics continues with a new Integrity in Action box (which includes questions for students) that features how the CEO of Dynergy changed the company culture using HR practices. A new Competing through Globalization box features how the CEO of Titan International criticized France and union employees. New discussions and examples of U.S. companies' reshoring business operations have been added. The issue of cloud computing is addressed. The updated Competing through Technology box includes examples of Verizon's use of social media tools. New chapter-ending Look Back questions return to the opening discussion on Mars Incorporated. An updated Exercising Strategy case features the unique and successful Zappos. A new chapter-ending element—HR in Small Business—presents a case on how HR has been working for a small, but growing, service firm. Yahoo's controversial act of overturning the policy of working from home provides a discussion in the new Managing People case.

Chapter 2

A new chapter opening case discusses Samsung's organizational transformation through strategic HRM. There is a new Competing through Globalization box on GM's increasing presence in China. The new Competing through Technology box discusses on the risks in innovation, focusing on problems with Boeing's 787 Dreamliner. There is a new example of Procter and Gamble's acquisition of Gillette. Samsung's open employment, going against the Asian norms of employing women or individuals from non-elite educational institutions, is covered in the new Integrity in Action box. A new Competing through Sustainability box discusses the risks of sustainability, focused on the failure of Solyndra. New end of chapter material includes a new Look Back case discussing how Samsung developed a strategy around differentiation through innovative products with attractive designs, and the HR in Small Business case: Radio Flyer Rolls Forward.

Chapter 3

The chapter opening case on Walmart's discrimination lawsuit has been updated. A Competing through Globalization box showing how China's labor laws may go against employees' desires to work more hours is new to this edition. Figure 3.1 has been revised to show the current number of complaints for various types of discrimination according to the EEOC. The new Integrity in Action box discusses Best Buy's CEO being fired for an inappropriate relationship with an employee (negative example of ethical leadership). Safety in the Bangladesh garment industry is discussed in the new Competing through Sustainability box. Figure 3.2 has been updated with OSHA information on injuries and deaths at work. The new Competing through Technology box points out the pros and cons of working from bed.

Chapter 4

This chapter opens with a new vignette on how changes in organizational structure and workflow design helped General Motors return to profitability in 2012 after years of being uncompetitive in the automobile industry. The new Technology box discusses how the use of robots in manufacturing is rewriting the rules regarding the relationship between increased productivity and employment rates. The new Globalization box highlights the human cost associated with "fast fashion" and illustrates why some forms of competitive advantage can often only be achieved at the expense of workers. In the new Integrity in Action box, we see how an organizational culture that traditionally ignored safety was overhauled, and how this change also helped increase productivity. In the new Sustainability box, we describe how evidence associated with the impact of concussions on professional football players is threatening to forever change the most popular sport in the United States. A revised Exercising Strategy case illustrates how smaller firms can employ cross-functional teams located in close proximity to their customers to compete successfully against much larger firms, and an updated Managing People case shows how many companies are stretching job descriptions to the limit of what many workers can endure. Additional material has also been added to the text that illustrates how private equity firms employ advanced workflow design methods to rejuvenate failing firms and how many firms try to structure themselves in a fashion that limits the size of sub-units to "Dunbar's Number"—reflecting the evolutionary limits to how many people can work together efficiently.

Chapter 5

The new chapter opening vignette describes how U.S. manufacturing is making a comeback and why many organizations that used to offshore many jobs are now moving those jobs back to America. A new Technology box describes the inner workings of computerized applicant tracking systems and how a well-informed job candidate can increase her or his chance of landing an interview by matching the description of their work experience to the algorithm being used by the system. A new Globalization box examines the challenges of balancing the rights and responsibilities of labor market newcomers versus established players when transforming from a historically important but non-viable business model to a new and uncertain business model. We also explore the impact of new laws that seek to eliminate illegal immigrant labor and reduce local unemployment in a new Sustainability box, and show why more often than not, these initiatives fail. In a new Integrity in Action box, we describe why anti-poaching policies are an attractive, but illegal, practice when it comes to preventing organizational turnover. A revised Exercising Strategy case shows how small companies battle industry giants when it comes to recruiting technical talent and a new Managing People case illustrates how "short-work" programs in Europe help reduce unemployment rates. Additional material has also been added to the text that illustrates how the new Affordable Care Act is likely to result in an undersupply of health care workers and an increased demand for part-time labor.

Chapter 6

A new opening vignette describes major changes in U.S. demographics and the implications this has for staffing jobs in the future. The new Technology box examines how organizations are employing "big data" and computer analytic methods to go beyond the traditional limits of human judgment when it comes to making hiring decisions. The rise of "Pink Quotas" that have been introduced in many European companies in order to increase the number of women on corporate boards is described in a new Globalization box, and the reasons why this has been a boon for U.S. women instead of European women is discussed. In the new Sustainability box we examine why long bouts of unemployment make some people unemployable forever, and what can be done to reverse this trend. In a new Integrity in Action box we highlight how new municipal laws that try to create quotas for city residents often backfire and do more harm than good for both legal reasons and competitive reasons. A revised Exercising Strategy case describes how the SEAL team that found and killed Osama bin Laden was composed in terms of not only skills but personality traits. Religious discrimination in France is then described in a new Globalization box, showing why it is very difficult for Muslims to obtain jobs in that country. In the main section of the text, we have added new material that suggests that performance in organizations is not normally distributed, but instead reflects a "power law," and the implications this has for the utility of testing programs, as well as how the practice of hiring intact teams, instead of composing teams, is also on the rise.

Chapter 7

The new chapter opener highlights the learning opportunities at Farmers Insurance Group. There is a new discussion of how Jiffy-Lube embraces continuous learning that supports the business strategy. The Integrity in Action box in this chapter highlights how Ernst & Young's chief learning officer connected learning to business leaders and includes discussion questions for students. Figure 7.2 has been updated to present the six stages of the training process. Updated Table 7.1 shows examples of strategic initiatives and their implications for training practices. Table 7.2 has been updated to present questions to ask vendors and consultants. The updated Competing through Sustainability box includes a discussion of Project Hope as well as discussion questions for students. There is a new example explaining how Verizon's learning design facilitates learning and the transfer of training. Updated Figure 7.5 provides an overview of the use of training methods across all size companies. Two new examples in this chapter include how SAP is using the i-pad for training, and the use of games for training. A new Competing through Globalization box illustrates how Nissan is using a virtual classroom for training its global workforce. There is a new discussion about internships as on-the-job learning. Updated discussions include the disadvantages of simulations and the reorganized discussion of e-learning, web-based training, and online learning. The new Competing through Technology box, which includes student discussion questions, features companies' use of social media and apps for learning. An example of experiential learning methods as well as a new discussion and examples of Kaizen as an action learning method are new in this chapter. There is an updated discussion of advice for choosing a training method, and the use

of ROI in training evaluation. Examples of how Guardian Industries prepares and stays in contact with expatriate employees are now covered in this chapter. Updated discussions include how Sodexo manages diversity and IBM's use of online onboarding. A new figure shows the four steps in onboarding. New Table 7.6 shows the characteristics of effective onboarding programs. New end of chapter material includes Look Back questions focusing on Farmers Insurance, a Managing People case focusing on training and learning at Mike's Car Wash, an Exercising Strategy case that focuses on improving customer service at Best Buy, and HR in Small Business case focusing on how a pizza restaurant effectively trains its employees.

Chapter 8

The new chapter opener features how different companies are evaluating what employees do as well as how they do it. There is a new Integrity in Action box including discussion question for students that focuses on how CarMax's CEO uses listening and feedback skills to enhance employee performance. An example of how Grange Insurance evaluates employees' behavior based on the company's core values is new to this edition. A new Competing through Sustainability box features how Connecticut Health Foundation evaluates performance to insure that it relates to its nonprofit mission and goals and includes a discussion question for students. Peer evaluation from International Fitness Holdings is a new example in Chapter 8. An updated Competing through Technology box includes examples of Facebook-like applications and social media tools for performance management and discussion questions for students. A new evidence-based HR features Google and their use of Big Data for evaluating managers' performance. New end of chapter content includes questions for A Look Back, a Managing People case featuring performance management at Scripps Health, and an HR in Small Business case featuring performance management at a small veterinarian center.

Chapter 9

There is a new learning objective for using the 9-box grid for identifying where employees fit in the succession plan. The new chapter opener highlights employee development at ESPN. There is a new example of how Brooks Rehabilitation uses assessment, action plans, and job experiences for developing managers. Competing through Technology box has been updated with student discussion questions. New examples include the use of formal education for development: McDonald's Hamburger University, and HCA Inc.'s use of job experiences for development. Updated Table 9.3 shows leadership development programs at GE. The discussion of tuition reimbursement programs has been updated. There is a new company example for evidence-based HR: MassMutual Financial Group's Career Resource Center. New discussions include DiSC as an assessment tool, and the temporary assignments and examples from sanofi-aventis. A discussion of sabbaticals and new company examples from REI have been enhanced. There are new examples of PepsiCo's use of temporary assignments sending employees to start-up companies. New research has been included regarding coaching and examples of coaching from ConAgra Foods.

New Competing through Sustainability box features management development at New York Presbyterian Hospital including discussion questions for the students. The new Integrity in Action box focuses on General David Petraeus's mentoring relationship and includes a student discussion question. A new discussion of the 9-box grid includes a new figure illustrating the grid. The new end of chapter material includes Look Back questions focusing on ESPN employee development, an Exercising Strategy case on Qualcomm, self-assessment exercise using Keirsey Temperament Sorter, Managing People case featuring management development at Tyson Foods, and HR in Small Business case featuring a sabbatical at a social services company.

Chapter 10

This chapter opens with a new vignette that describes what is meant by the term "churn rate" and why the reduction in this rate has fueled long-term unemployment problems in the U.S. workforce. In a new Technology box, we describe the recent advances made in "telepresence robots" and how this is reshaping how organizations manage a distributed workforce. We also describe the recent Han Hoi riot in China in a new Globalization box, and how this event reflects changing power relationships between employers and workers, as well as between outsourcing firms and the Chinese government. In a new Sustainability box we show why Yahoo has eliminated its "flextime programs" despite evidence from many other companies that these sorts of programs can work in certain contexts. Our new Integrity in Action box discusses the role of whistle-blowing in organizations and society, using the recent case of Edward Snowden as an example. In our revised Exercising Strategy case, we examine the role of British Petroleum's Human Resource Department as a contributing factor to the Gulf Oil disaster, and in a revised Managing People case we see how one flight attendant became a hero for many when he quit his job in a very memorable way. In the main section of the text we present new evidence on how job dissatisfaction can be contagious among workers and how the factors that drive satisfaction among millennials differ dramatically from what drove job satisfaction among their parents.

Chapter 11

The new chapter opening vignette and new Globalization box discuss the reasons (labor costs and otherwise) global companies choose particular countries as locations for their production plants. Data on executive pay and company performance and on international wage comparisons have been updated. The new Sustainability box examines whether enthusiasm for Apple products alone is enough reason for people to continue to work at Apple stores or whether Apple's pay policies will need to change. The new Technology box demonstrates how companies are using "Big Data" to make better decisions about how much to pay different employees. The new Integrity in Action box explores what happens when efforts meant to protect workers are not necessarily what the workers themselves want. The chapter closes with a new case on the controversial new Dodd-Frank Act provision requiring companies to disclose the ratio of CEO pay to worker pay.

Chapter 12

The new chapter opening vignette describes how Citigroup is using a new balanced scorecard to measure and reward executives for both financial and nonfinancial performance. A new exhibit provides another example of a new balanced scorecard, in this case at Merck. The new Technology box describes how organizations adjust their pay for "hot skills" jobs (e.g., in information technology) that are in short supply. A new Sustainability box describes how U.S. automakers such as Ford and General Motors have negotiated with the United Auto Workers Union to shift a greater share of total compensation to profit sharing, reducing the fixed (wage) component of cash compensation. A new evidence-based HR feature explains how one company turned to open book management to turn the company around by getting more input from employees on how to do things better. A new Integrity in Action box examines how several U.S. companies are positioning themselves to recover compensation paid to executives who are later found to have taken actions that harmed the company and/or investors. The Globalization box describes action by regulators in the European Union to cap the compensation of some bankers (and how banks have reacted). A new section analyzes how incentive design can influence the likelihood of excessive risk taking by employees. New data are included to document the substantial growth (especially relative to traditional merit pay increases) in the importance of merit bonuses in organizations. The chapter concludes with a new case that addresses the question of whether employee stock ownership programs (ESOPs) are good for employees.

Chapter 13

The chapter opening vignette summarizes Michelin's use of incentives and penalties to influence employees to make healthier choices, which can generate significant health care savings. The new Technology box looks at how companies are controlling workers compensation costs. The new Sustainability box describes how Google used data analytics to help employees make healthier lifestyle choices when visiting its well-loved cafeteria. The new Globalization box highlights some of the unique health issues that expatriates and their families can encounter overseas and how companies try to address such issues. The new evidence-based HR feature describes how Caesar's used "Big Data" to reduce health care costs by reducing employee emergency room visits. New exhibits describe how companies choose benefits objectives and how they communicate benefits information to employees. A new section describes how the new Affordable Care Act will affect employers and the chapter closes with a new case that highlights how some employers are reacting to the new Act.

Chapter 14

The new chapter opening vignette talks about why and how workers are seeking stronger rights and protections through labor unions in China and Bangladesh. A new section describes nonunion worker representation systems and how they compare to union representation systems. The new Integrity in Action box described how retailers have reacted to the Rana Plaza tragedy in Bangladesh to act to make supplier factories safer. The new Globalization box described how

Renault is working with its union workers to increase production flexibility (and its ability to compete) in exchange for expanding production in locations that agree to these changes. The Sustainability box describes how companies in the trucking, retail food, and construction industries are working with the Teamsters and other unions to save worker pensions. The chapter concludes with a new case that explores how Hostess Brands (maker of the Twinkie) plans to exit bankruptcy without the unionized employees it once had.

Chapter 15

The new chapter opening case discusses Smithfield Foods' acquisition by China's Shuanghui Group. Table 15.1 has been updated with the *Fortune* global top 25 largest organizations. Updated hourly cost comparisons across a variety of countries are presented. The Integrity in Action box on Aflac's Don Amos (positive example of ethical leadership) is new in this edition. Brazil's use of social media is discussed in the new Competing through Technology box. A new Competing through Globalization box describes how Apple is bringing jobs back to the U.S. The Competing through Sustainability box discusses Fisker Automotive, a builder of electric cars. Comparing the cost of living in different global cities is the theme of the updated Table 15.6. The Look Back content as well as the HR in Small Business case are new end of chapter material.

Chapter 16

The new Competing through Globalization box looks at what is considered a bribe in different countries. New figures with up-to-date examples of strategies, talent management models and leadership models at Goodyear and Kroger include Figure 16.3, Goodyear's Customer Centric View of HR; Figure 16.5, Goodyear's Strategic Business Priorities; Figure 16.6, Goodyear's Global Talent Management Process; and Figure 16.8, Kroger's Leadership Model. TD Bank's efforts to create an internal social network are discussed in the new Competing through Technology box. A new Competing through Sustainability box is on how Electrolux uses sustainability efforts to attract and retain employees. John Corzine, CEO of MF Global, and how he purposely or inadvertently encouraged subordinates to commit ethical and legal violations (negative example of ethical leadership) is covered in the new Integrity in Action box.

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FEATURES

The popular boxes **"Competing through Sustainability," "Competing through Globalization,"** and **"Competing through Technology"** have been updated with new references to recent companies and examples. Their practical relevance and timeliness to HR issues are essential for student learning in the classroom. A new box entitled "Integrity in Action" has also been added. This box highlights the good (and bad) HR-related decisions made by company leaders and managers.

COMPETING THROUGH SUSTAINABILITY

Sustainable Goal, Unsustainable Business Model

Solyndra was a company that the Obama administration pointed to as a model of the public-private part... its bankruptcy, wh... Republicans to po... folly of a green-en... However, knowled... ness models can h... understand what h... Solyndra and reve... have been the loan... government that, ... the company's fail...

Solyndra was fo... 2005 based on a ... ogy that could cap... rising interest in so... Rather than use fla... the company deve... nology with multip... thin tubes able to ... sun's rays. With a p... and potentially eas... to install, it attract... billion from influen...

By 2009 the com... an increasingly con...

industry and falling prices to the point that one competitor was able to produce panels at

the increased competition, Solyndra's revenues

COMPETING THROUGH GLOBALIZATION

GM in China

As China becomes the largest purchaser of automobiles, General Motors Corporation is making an even heavier invest... m... ren... vol... to ... cu... bl... $2...

tu... lio... ve... se...

will be able to produce 400,000 vehicles and engines each year. This factory will help GM to achieve its goal of annually

with an estimated 15 million vehicles in the U.S. This illustrates that the globalization of com-

COMPETING THROUGH TECHNOLOGY

The Risks of Technological Innovation

In 2004 Boeing executives began to develop the most technologically sophisticated airplane in commercial aviation...

and EADS usually roll out new models only once a decade at a cost of billions of dollars. Given that the average cost of a plane...

Dreamliners were grounded while engineers tried to determine the cause of the fire...

Boeing's ... es the ... As a ... pany, ... about ... ation ... e too ... on ... ou are

... N ... h it for ... Why or

... n Is Messy ... uary 24,

INTEGRITY IN ACTION

Samsung's Equal Opportunity Employment

Part of Samsung's transformation consisted of a change in value systems that was driven from the top by Chairman Lee. One of the important values he embraced was "humanism," in terms of recognizing the value of all people. Chairman Lee Kun-Hee was once quoted as saying, "When people who should be working hard have lost hope due to discrimination, it is a loss for the company and a loss for society. If a company's competitiveness is tied to its people, it is of the utmost priority that all discriminatory practices are abolished. Only then can you compete against the world's leading companies." As is evident from

his words, Samsung has always valued the provision of fair and diverse opportunities to all.

This led Samsung to become the first Korean company to implement equal opportunities for women in 1993, giving capable women the opportunity to exhibit their abilities. This was a reflection of the Chairman's declaration of reform: "Women must be given the same work and the same opportunities to rise within the company as men. While men and women stride together in advanced countries, men are struggling alone in Korea." With the announcement of the open HR reform plan in 1994, not only was gender

discrimination totally eradicated in employment, but the same wage system was applied to both men and women, a groundbreaking move for the times. Furthermore, women in major departments were assigned important tasks, and those who showed outstanding abilities were promoted to executive positions.

DISCUSSION QUESTION
Do you think Samsung's open employment policy provided them with a competitive advantage? Why or why not?

SOURCE: Personal Communication, Samsung HR.

Internal analysis attempts to identify the organization's strengths and weaknesses. It focuses on the quantity and quality of resources available to the organization—financial, capital, technological, and human resources. Organizations have to honestly and accurately assess each resource to decide whether it is a strength or a weakness.

External analysis and internal analysis combined constitute what has come to be called the SWOT (strengths, weaknesses, opportunities, threats) analysis. Table 2.2 shows an example of a SWOT analysis for Google. After going through the SWOT analysis, the strategic planning team has all the information it needs

Internal Analysis
The process of examining an organization's strengths and weaknesses.

STRENGTHS	WEAKNESSES
Expanding Liquidity	Issues with Chinese Government
Operational Efficiency	Dependence on Advertising Segment
Broad Range of Services Portfolio	Losses at YouTube

OPPORTUNITIES	THREATS
Growing Demand for Online Video	Weak Economic Outlook
Growth in Internet Advertising Market	Invalid Clicks
Inorganic Growth	Microsoft–Yahoo! Deal

Table 2.2
SWOT Analysis for Google, Inc.

SOURCE: GlobalData.

96

79

83

The Ninth Edition of Human Resource Management: Gaining a Competitive Advantage was developed to teach students how to face and meet a variety of challenges within their organizations and how to gain a competitive advantage for their companies.

Throughout this text, the pedagogy focuses on HRM practices and strategies companies can employ to be competitive. These boxes, cases, and applications are found in every chapter and provide excellent real business examples to underscore key concepts throughout the text.

Please take a moment to learn about this new edition and its exciting enhancements by paging through this visual guide outlining the text's features.

Human Resource Management: Gaining a Competitive Advantage

1

CHAPTER

LEARNING OBJECTIVES

After reading this chapter, you should be able to:

LO 1-1 Discuss the roles and activities of a company's human resource management function. *page 6*

LO 1-2 Discuss the implications of the economy, the makeup of the labor force, and ethics for company sustainability. *page 16*

LO 1-3 Discuss how human resource management affects a company's balanced scorecard. *page 29*

LO 1-4 Discuss what companies should do to compete in the global marketplace. *page 46*

LO 1-5 Identify how new technology, such as social networking, is influencing human resource management. *page 50*

LO 1-6 Discuss human resource management practices that support high-performance work systems. *page 53*

LO 1-7 Provide a brief description of human resource management practices. *page 56*

2

What Responsibilities and Roles Do HR Departments Perform?

LO 1-1
Discuss the roles and activities of a company's human resource management function.

Only recently have companies looked at HRM as a means to contribute to profitability, quality, and other business goals through enhancing and supporting business operations.

Table 1.1 shows the responsibilities of human resource departments. How many HR professionals should a company employ? High performing small companies (fewer than 100 employees) have approximately 6 human resource staffers per 100 employees, while in high performing large companies with 50,000 employees or more the ratio is 1 HR staffer per 100 employees.[2]

The HR department is solely responsible for outplacement, labor law compliance, record keeping, testing, unemployment compensation, and some aspects of benefits administration. The HR department is most likely to collaborate with other company functions on employment interviewing, performance management and discipline, and efforts to improve quality and productivity. Large companies are more likely than small ones to employ HR specialists, with benefits specialists being the most prevalent. Other common specializations include recruitment, compensation, and training and development.[3]

Many different roles and responsibilities can be performed by the HR department depending on the size of the company, the characteristics of the workforce, the industry, and the value system of company management. The HR

Table 1.1
Responsibilities of HR Departments

FUNCTION	RESPONSIBILITIES
Analysis and design of work	Job analysis, work analysis, job descriptions
Recruitment and selection	Recruiting, posting job descriptions, interviewing, testing, coordination use of temporary employees
Training and development	Orientation, skills training, development programs, career development
Performance management	Performance measures, preparation and administration of performance appraisals, feedback and coaching, discipline
Compensation and benefits	Wage and salary administration, incentive pay, insurance, vacation, retirement plans, profit sharing, health and wellness, stock plans
Employee relations/Labor relations	Attitude surveys, employee handbooks, labor law compliance, relocation and outplacement services
Personnel policies	Policy creation, policy communications
Employee data and information systems	Record keeping, HR information systems, workforce analytics, social media, Intranet and Internet access
Legal compliance	Policies to ensure lawful behavior; safety inspections, accessibility accommodations, privacy policies, ethics
Support for business strategy	Human resource planning and forecasting, talent management, change management, organization development

SOURCES: Based on Bureau of Labor Statistics, U.S. Department of Labor, *Occupational Outlook Handbook, 2012–13 Edition*, "Human Resources Specialists," on the Internet at www.bls.gov/ooh/business-and-financial/human-resources-specialists.htm, visited March 26, 2013; SHRM-BNA Survey no. 66, "Policy and Practice Forum: Human Resource Activities, Budgets, and Staffs, 2000–2001," *Bulletin to Management*, Bureau of National Affairs Policy and Practice Series (Washington, DC: Bureau of National Affairs, June 28, 2001).

Learning objectives at the beginning of each chapter inform students about the key concepts they should understand after reading through the chapter.

Throughout each chapter, a design element calls out where the learning for each learning objective begins in the text. This element will guide students in their comprehension of the chapter topics and provide a reminder of the learning objectives throughout the chapter.

On the other hand, employees in companies with a differentiation strategy need to be highly creative and cooperative; to have only a moderate concern for quantity, a long-term focus, and a tolerance for ambiguity; and to be risk takers. Employees in these companies are expected to exhibit role behaviors that include cooperating with others, developing new ideas, and taking a balanced approach to process and results.

Thus differentiation companies will seek to generate more creativity through broadly defined jobs with general job descriptions. They may recruit more from outside, engage in limited socialization of newcomers, and provide broader career paths. Training and development activities focus on cooperation. The compensation system is geared toward external equity, as it is heavily driven by recruiting needs. These companies develop results-based performance management system and divisional–corporate performance evaluations to encourage risk taking on the part of managers.[51]

EVIDENCE-BASED HR

A study of HRM among steel minimills in the United States found that mills pursuing different strategies used different systems of HRM. Mills seeking cost leadership tended to use control-oriented HRM systems that were characterized by high centralization, low participation, low training, low wages, low benefits, and highly contingent pay, whereas differentiator mills used "commitment" HRM systems, characterized as the opposite on each of those dimensions. A later study from the same sample revealed that the mills with the commitment systems had higher productivity, lower scrap rates, and lower employee turnover than those with the control systems.

SOURCE: J. Arthur, "The Link between Business Strategy and Industrial Relations Systems in American Steel Mini-Mills," *Industrial and Labor Relations Review* 45 (1992), PP. 488–506.

"Evidence-Based HR" sections within the chapters highlight the growing trend to demonstrate how HR contributes to a company's competitive advantage. Two of the six HR competencies of high-performing HR professionals (credible activist and strategic architect) emphasize the need to influence managers, share information, and develop people strategies that contribute to the business. Evidence-Based HR shows how HR decisions are based on data and not just intuition. The company examples used show how HR practices influence the company's bottom line or key stakeholders including shareholders, employees, customers, or the community.

The **chapter-opening vignettes** are updated with new, relevant examples of real business problems or issues that provide background for the issues discussed in the chapter.

100 CHAPTER 2 Strategic Human Resource Management

A LOOK BACK

Samsung's Strategic HRM

Samsung developed a strategy around differentiation through innovative products with attractive designs, and marketing them as being even more "cool" than Apple products. They executed this strategy by identifying the kinds of jobs (R&D, design, marketing) where they needed world-class talent, and then implemented HR practices to attract, develop, motivate and retain talented people in these jobs. How successful has Samsung's transformation been? As mentioned at the outset, they have become the world's largest and most successful mobile phone manufacturer. However, in addition to that, they have risen to number 20 on *Fortune*'s Global 500 list, are now considered a global leader in R&D, design, and marketing, and their brand is more valuable than Nike, Pepsi, or American Express. As you have seen, this transformation could not have been accomplished without strategic human resource management.

QUESTIONS

1. What do you think has made Samsung's transformation so successful?
2. How long do you think Samsung can maintain its positive growth trajectory?
3. How do you think Apple will begin to respond to Samsung's direct assault on their products? What will be the human resource implications of this response?

The end-of-chapter segment, **"A Look Back,"** encourages students to recall the chapter's opening vignette and apply it to what they have just learned.

SUMMARY

A strategic approach to human resource management seeks to proactively provide a competitive advantage through the company's most important asset: its human resources. While human resources are the most important asset, they are also usually the single largest controllable cost within the firm's business model. The HRM function needs to be integrally involved in the formulation of strategy to identify the people-related business issues the company faces. Once the strategy has been determined, HRM has a profound impact on the implementation of the plan by developing and aligning HRM practices

KEY TERMS

Strategic human resource
management (SHRM), 76
Strategy formulation, 76
Strategy implementation, 76
Goals, 82
External analysis, 82
Internal analysis, 83

Strategic choice, 84
Job analysis, 87
Job design, 87
Recruitment, 88
Selection, 88
Training, 89
Development, 89

102 CHAPTER 2 Strategic Human Resource Management

plummeted. Since it began its cost cutting, its stock price more than doubled in just over two years and its debt was upgraded. On the other hand, customer complaints about dirty airplanes rose from 219 in 1993 to 358 in 1994 and 634 in 1995. On-time performance was so bad that passengers joked that Delta stands for "Doesn't Ever Leave The Airport." Delta slipped from fourth to seventh among the top 10 carriers in baggage handling. Employee morale hit an all-time low, and unions were beginning to make headway toward organizing some of Delta's employee groups. In 1996 CEO Allen was quoted as saying, "This has tested our people. There have been some morale problems. But so be it. You go back to the question of survival, and it makes the decision very easy."

Shortly after, employees began donning cynical "so be it" buttons. Delta's board saw union organizers stirring blue-collar discontent, employee morale destroyed, the customer service reputation in near shambles, and senior managers exiting the company in droves. Less than one year later, Allen was fired despite Delta's financial turnaround. His firing was "not because the company was going broke, but because its spirit was broken."

Delta's Leadership 7.5 strategy destroyed the firm's core competence of a highly experienced, highly skilled, and highly committed workforce that delivered the highest quality customer service in the industry. HRM might have affected the strategy by pointing out the negative impact that this strategy would have on the firm. Given the strategy and competitive environment, Delta might have sought to implement the cost cutting differently to reduce the cost structure but preserve its source of differentiation.

The present state of Delta provides further support to these conclusions. With the family atmosphere dissolved and the bond between management and rank-and-file employees broken, employees have begun to seek other ways to gain voice and security. By fall 2001 Delta had two union organizing drives under way with both the flight attendants and the mechanics. In addition, labor costs have been driven up as a result of the union activity. The pilots signed a lucrative five-year contract that will place them at the highest pay in the industry. In an effort to head off the organizing drive, the mechanics were recently given raises to similarly put them at the industry top. Now the flight attendants are seeking industry-leading pay regardless of, but certainly encouraged by, the union drive.[76]

The Delta Air Lines story provides a perfect example of the perils that can await firms that fail to adequately address human resource issues in the formulation and implementation of strategy.

QUESTIONS

1. How does the experience of Delta Air Lines illustrate the interdependence between strategic decisions of "how to compete" and "with what to compete"? Consider this with regard to both strategy formulation and strategy implementation.
2. If you were in charge of HRM for Delta Air Lines now, what would be your major priorities?

SOURCES: M. Brannigan and E. De Lisser, "Cost Cutting at Delta Raises the Stock Price but Lowers the Service," *The Wall Street Journal*, June 20, 1996, pp. A1, A8; M. Brannigan and J. White, "So Be It: Why Delta Air Lines Decided It Was Time for CEO to Take Off," *The Wall Street Journal*, May 30, 1997, p. A1.

MANAGING PEOPLE

Is Dell Too Big for Michael Dell?

He's back in charge—and he may have the toughest job in the computer business. Welcome back, Michael. Don't get too comfortable.

By returning to the top job at Dell Inc., replacing departing chief executive Kevin Rollins, founder Michael S. Dell takes on perhaps the toughest job in the computer industry. Since mid-2005 the PC maker has battled problems with customer service, quality, and the effectiveness of its direct-sales model. Lately, rivals Hewlett-Packard Co. and Apple Inc. have been gaining in sales and market share. On January 31, the day Rollins's departure was announced, the Round Rock (Texas) company disclosed that its fourth-quarter earnings and sales would fall short of analyst estimates. It's also under scrutiny by the Securities &

Exchange Commission and a U.S. attorney for accounting irregularities.

As recently as last November, Dell insisted to *BusinessWeek* that Rollins's job was safe. Now, in an interview, he insists the decision to push Rollins out started with him. "I recommended to our board that I become the CEO," Dell says. For years, Dell and Rollins were held up as a prime example of the company's "two-in-a-box" management structure, in which two leaders worked together in lockstep. When Rollins was president, Michael Dell was CEO; when Rollins was promoted to CEO in 2004, Michael remained chairman. But financial performance has been deteriorating for a while now, and Michael Dell apparently ran out of patience in light of the latest disappointment. "People

Managing People cases look at incidents and real companies and encourage students to critically evaluate each problem and apply the chapter contents.

Exercising Strategy cases at the end of each chapter provide additional cases with discussion questions. These examples pose strategic questions based on real-life practices.

Self-Assessment Exercises at the end of chapters provide a brief exercise for students to complete and evaluate their own skills.

HR in Small Business cases at the end of each chapter highlight HR issues and practices in entreprenurial, family-owned, and emerging businesses. Questions provoke students to think critically about "people practices" in small businesses.

SUPPLEMENTS
FOR STUDENTS AND INSTRUCTORS

INSTRUCTOR'S MANUAL
The Instructor's Manual contains a lecture outline and notes, answers to the discussion questions, additional questions and exercises, teaching suggestions, video notes, and answers to the end-of-chapter case questions.

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The test bank has been revised and updated to reflect the content of the 9th edition of the book. Each chapter includes multiple-choice, true/false, and essay questions.

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POWERPOINT
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www.mhhe.com/noe9e
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The McGraw-Hill Companies is a proud corporate member of AACSB international. Understanding the importance and value of AACSB accreditation, *Human Resource Management,* 9th edition, recognizes the curricula guidelines detailed in the AACSB standards for business accreditation by connecting selected questions in the Test Bank to the six general-knowledge and skill guidelines in the AACSB standards.

The statements contained in *Human Resource Management,* 9th edition, are provided only as a guide for the users of this textbook. The AACSB leaves content coverage and assessment within the purview of individual schools, the mission of the school, and the faculty. While *Human Resource Management,* 9th edition, and the teaching package make no claim of any specific AACSB qualification or evaluation, we have within *Human Resource Management,* 9th edition, labeled selected questions according to the six general-knowledge and skills areas.

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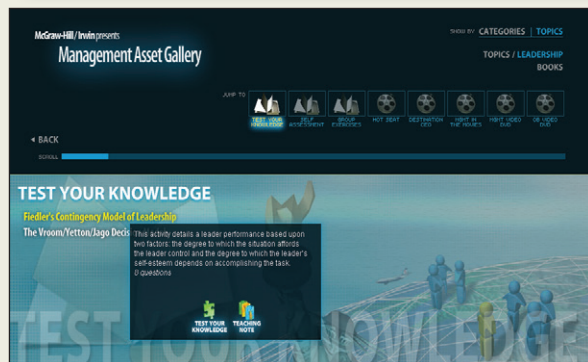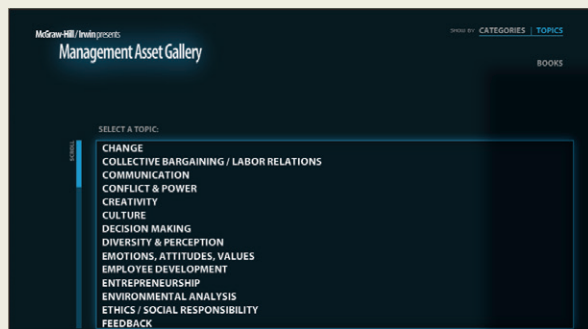
All of the following can be accessed within the Management Asset Gallery:

MANAGER'S HOT SEAT

This interactive, video-based application puts students in the manager's hot seat, builds critical thinking and decision-making skills, and allows students to apply concepts to real managerial challenges. Students watch as 15 real managers apply their years of experience when confronting unscripted issues such as bullying in the workplace, cyber loafing, globalization, intergenerational work conflicts, workplace violence, and leadership versus management.

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Test Your Knowledge

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BRIEF CONTENTS

CONTENTS

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Human Resource Management

GAINING A COMPETITIVE ADVANTAGE

Human Resource Management: Gaining a Competitive Advantage

LEARNING OBJECTIVES

After reading this chapter, you should be able to:

LO 1-1   Discuss the roles and activities of a company's human resource management function. *page 6*

LO 1-2   Discuss the implications of the economy, the makeup of the labor force, and ethics for company sustainability. *page 16*

LO 1-3   Discuss how human resource management affects a company's balanced scorecard. *page 29*

LO 1-4   Discuss what companies should do to compete in the global marketplace. *page 46*

LO 1-5   Identify how new technology, such as social networking, is influencing human resource management. *page 50*

LO 1-6   Discuss human resource management practices that support high-performance work systems. *page 53*

LO 1-7   Provide a brief description of human resource management practices. *page 56*

Mars Incorporated: HR Practices Help Create Sweet Success

You may have enjoyed Mars Incorporated products if you have had M&Ms, Snickers, Lifesavers, Wrigley's Juicy Fruit, or Uncle Ben's Converted Rice. But are you aware that the "Ms" on M&Ms stand for Forrest Mars and R. Bruce Murrie, the son of the president of competitor Hershey's, which supplied Mars with chocolate when there was limited availability of cocoa during World War II? Mars is the third largest private company in the United States with 72,000 employees located in the U.S. and 72 other countries around the world. It operates in six business segments including food, drinks, pet care, chocolate, gum and confections, and symbioscience (a technology-based health and life sciences business focused on product development). Today, Mars includes eleven brands with revenues of $1 billion or more. Granted some of that success is attributed directly to the quality of and demand for the products that Mars offers consumers (who doesn't like M&Ms?). But a lot of the success is due to the HR practices that Mars uses to attract, motivate, and retain high-caliber employees. This has resulted in Mars ranking #95 on the 2013 Fortune 100 Best Companies to Work For.

It all starts with the Five Principles of Mars—Quality, Responsibility, Mutuality, Efficiency and Freedom—which are the foundation of the company culture and business approach. The Five Principles, found on the walls in its offices and manufacturing plants throughout the world, provide a common bond for all employees regardless of their business segment, location, national language, or generation. All employees are familiar with the Five Principles and they influence their daily work. Mars believes that *quality* work is *the* first ingredient of quality brands and the source of the company's reputation for high standards. All associates are asked to take direct *responsibility* for results, to exercise initiative and judgment, and to make decisions as required. *Mutuality* refers to the company's belief that all business relationships should be measured by the degree to which mutual benefits are created. The actions of Mars should never be at the expense, economic or otherwise, of others. *Efficiency* is seen as a strength of the company. It allows the company to organize physical, financial, and human assets for maximum productivity. It also contributes to making and delivering products and services with the highest quality, lowest possible costs, and lowest consumption of resources. Finally, Mars cherishes the *freedom* of being a privately held company, which allows it to make decisions free of short-term earnings reports and to be financially answerable to no one. This gives management and employees the ability to experiment with ideas and take the time to develop talents for longer-term gains.

Mars employees love the products they make but they also love the HR practices that help put the Five Principles into action. The turnover of non–sales force employees is only 5%. What is responsible for the low turnover as well as $33 billion in global revenue in 2012? Perhaps one reason is that Mars has an egalitarian workplace with no fancy offices or special perks for managers. Employees are officially called "associates" but because of the unifying value of the Five Principles, they often refer to themselves as Martians. Most employees have to "punch in" at their worksite every day, even the company president. Employees who are late are docked 10% of their pay. Also, the principle of Responsibility means that all employees, not just managers, have a "voice" and are expected to put themselves in the position of the consumer. They are encouraged to speak up rather than ever provide an inferior product or service.

Mars does not offer stock options or company pensions or game rooms or private chefs for its employees. It does provide vending machines that provide employees with free candy, and chewing Wrigley's gum at meetings is encouraged. Perhaps another reason for the low turnover and high revenues is that employees have many career and development opportunities both within their current business and in new ones. All new employees attend The Essence of Mars training program which introduces and reinforces the Five Principles. Mars also has a corporate university (Mars University) which offers online and classroom-based courses in functional topics as well as on leadership skills. Forty percent of associates have participated in a program offered by Mars University. Also, many employees have mentors, even executives who learn about social media from younger employees. Mars insures that all employees regardless of background have the opportunity to grow and advance. For example, Mars was ranked #25 in the 2012 World's Best Multinational Workplaces list, the world's first global workplace excellence ranking by Great Place to Work®, for its high percentage of women in executive and senior management positions.

Or, maybe turnover is low and revenues are high because of the bonuses that employees can earn which range from 10 to 20% of their salaries if their team performs well. Contributing to employees' motivation to earn their bonuses is the availability of performance data. Flat screens displays current financials including sales, earnings, cash flows, and factory efficiency. Mars also encourages community involvement, which gives employees opportunities to gain new insights and make meaningful contributions. The Mars Volunteer Initiative offers paid time off for associates to clean parks, teach courses, help pets find homes, work in medical clinics, and plant gardens. In 2012, employees devoted 50,000 hours to volunteering! The Mars Ambassadors is a select program in which employees spend six weeks working with Mars partners in developing areas of the world. In late 2012, seven Mars Drinks Associates traveled from all over the globe and met in Kenya. Their objective was to learn about the coffee farming process and about how Mars Drinks supports and improves the farming business through a partnership with Sustainable Management Services (SMS). During their week-long trip, that objective was met, and the experience became much more than a simple learning opportunity. As one Drinks Associate from France noted, "I realized that selling or buying coffee in Europe can have great repercussions in third world countries." Sustainability is not just a marketing operation but is a way of living and needs to be sponsored by everyone.

SOURCE: Based on D. Kaplan, "Inside Mars," *Fortune*, February 4, 2013, p. 82; www.mars.com, website for Mars Incorporated, accessed March 15, 2013.

Introduction

Mars Incorporated illustrates the key role that human resource management (HRM) plays in determining the survival, effectiveness, and competitiveness of U.S. businesses. **Competitiveness** refers to a company's ability to maintain and gain market share in its industry. Mars' human resource management practices are helping support the company's business strategy and provide services the customer values. The value of a product or service is determined by its quality and how closely the product fits customer needs.

Competitiveness is related to company effectiveness, which is determined by whether the company satisfies the needs of stakeholders (groups affected by business practices). Important stakeholders include stockholders, who want a return on their investment; customers, who want a high-quality

Competitiveness

A company's ability to maintain and gain market share in its industry.

Figure 1.1

Human Resource Management Practices

Strategic HRM

| Analysis and design of work | HR planning | Recruiting | Selection | Training and development | Compensation | Performance management | Employee relations | → | **Company Performance** |
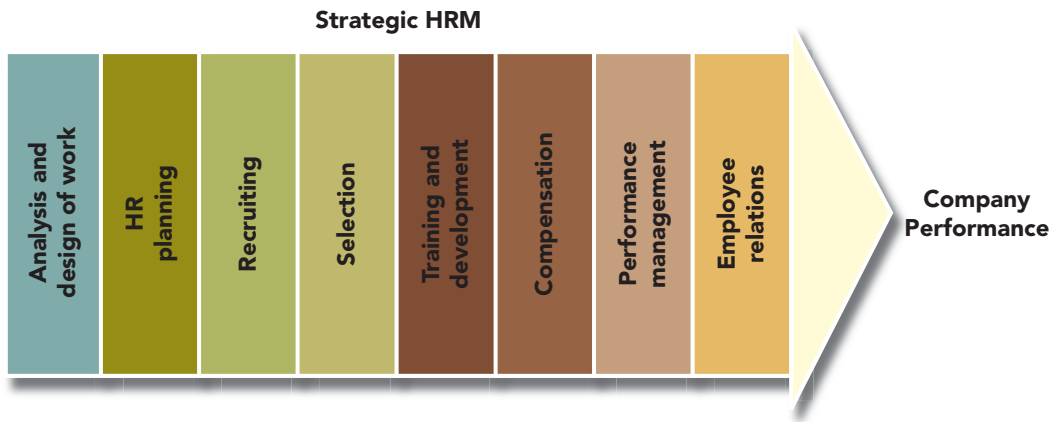
product or service; and employees, who desire interesting work and reasonable compensation for their services. The community, which wants the company to contribute to activities and projects and minimize pollution of the environment, is also an important stakeholder. Companies that do not meet stakeholders' needs are unlikely to have a competitive advantage over other firms in their industry.

Human resource management (HRM) refers to the policies, practices, and systems that influence employees' behavior, attitudes, and performance. Many companies refer to HRM as involving "people practices." Figure 1.1 emphasizes that there are several important HRM practices. The strategy underlying these practices needs to be considered to maximize their influence on company performance. As the figure shows, HRM practices include analyzing and designing work, determining human resource needs (HR planning), attracting potential employees (recruiting), choosing employees (selection), teaching employees how to perform their jobs 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). The HRM practices discussed in this chapter's opening highlighted how effective HRM practices support business goals and objectives. That is, effective HRM practices are strategic! Effective HRM has been shown to enhance company performance by contributing to employee and customer satisfaction, innovation, productivity, and development of a favorable reputation in the firm's community.[1] The potential role of HRM in company performance has only recently been recognized.

We begin by discussing the roles and skills that a human resource management department and/or managers need for any company to be competitive. The second section of the chapter identifies the competitive challenges that U.S. companies currently face, which influence their ability to meet the needs of shareholders, customers, employees, and other stakeholders. We discuss how these competitive challenges are influencing HRM. The chapter concludes by highlighting the HRM practices covered in this book and the ways they help companies compete.

Human Resource Management (HRM)

Policies, practices, and systems that influence employees' behavior, attitudes, and performance.

What Responsibilities and Roles Do HR Departments Perform?

Only recently have companies looked at HRM as a means to contribute to profitability, quality, and other business goals through enhancing and supporting business operations.

Table 1.1 shows the responsibilities of human resource departments. How many HR professionals should a company employ? High performing small companies (fewer than 100 employees) have approximately 6 human resource staffers per 100 employees, while in high performing large companies with 50,000 employees or more the ratio is 1 HR staffer per 100 employees.[2]

The HR department is solely responsible for outplacement, labor law compliance, record keeping, testing, unemployment compensation, and some aspects of benefits administration. The HR department is most likely to collaborate with other company functions on employment interviewing, performance management and discipline, and efforts to improve quality and productivity. Large companies are more likely than small ones to employ HR specialists, with benefits specialists being the most prevalent. Other common specializations include recruitment, compensation, and training and development.[3]

Many different roles and responsibilities can be performed by the HR department depending on the size of the company, the characteristics of the workforce, the industry, and the value system of company management. The HR

Table 1.1

Responsibilities of HR Departments

FUNCTION	RESPONSIBILITIES
Analysis and design of work	Job analysis, work analysis, job descriptions
Recruitment and selection	Recruiting, posting job descriptions, interviewing, testing, coordination use of temporary employees
Training and development	Orientation, skills training, development programs, career development
Performance management	Performance measures, preparation and administration of performance appraisals, feedback and coaching, discipline
Compensation and benefits	Wage and salary administration, incentive pay, insurance, vacation, retirement plans, profit sharing, health and wellness, stock plans
Employee relations/Labor relations	Attitude surveys, employee handbooks, labor law compliance, relocation and outplacement services
Personnel policies	Policy creation, policy communications
Employee data and information systems	Record keeping, HR information systems, workforce analytics, social media, Intranet and Internet access
Legal compliance	Policies to ensure lawful behavior; safety inspections, accessibility accommodations, privacy policies, ethics
Support for business strategy	Human resource planning and forecasting, talent management, change management, organization development

SOURCES: Based on Bureau of Labor Statistics, U.S. Department of Labor, *Occupational Outlook Handbook, 2012–13 Edition*, "Human Resources Specialists," on the Internet at www.bls.gov/ooh/business-and-financial/human-resources-specialists.htm, visited March 26, 2013; SHRM-BNA Survey no. 66, "Policy and Practice Forum: Human Resource Activities, Budgets, and Staffs, 2000–2001," *Bulletin to Management*, Bureau of National Affairs Policy and Practice Series (Washington, DC: Bureau of National Affairs, June 28, 2001).

department may take full responsibility for human resource activities in some companies, whereas in others it may share the roles and responsibilities with managers of other departments such as finance, operations, or information technology. In some companies the HR department advises top-level management; in others the HR department may make decisions regarding staffing, training, and compensation after top managers have decided relevant business issues.

One way to think about the roles and responsibilities of HR departments is to consider HR as a business within the company with three product lines. Figure 1.2 shows the three product lines of HR. The first product line, administrative services and transactions, is the traditional product that HR has historically provided. The newer HR products—business partner services and the strategic partner role—are the HR functions that top managers want HR to deliver.

For example, at Move Inc., an online real estate company with around 1,000 employees, the chief financial officer and HR leaders work on annual business plans and budgeting, including decisions about merit pay increases.[4] HR used data to make a business case for not having annual merit increases rather than emphasizing that merit pay increases had to be given to employees because of past practice. At Ingersoll Rand, a company with 25,000 employees and operations in more than 60 countries, HR was transformed from just doing traditional HR work such as recruitment, benefits, training, and compensation into a team of consultants whose job was to work with managers to understand the issues and problems they faced in managing the company's human capital.[5] As consultants, HR focuses on identifying gaps or barriers preventing employees and managers from attaining business goals, finding ways to fill the gaps, and developing and delivering talent management solutions that include drawing from traditional HR responsibilities but in a problem-focused way. For example, Ingersoll-Rand's business strategy is to grow in emerging markets around the world. To be successful requires highly talented managers. HR is contributing to meeting the need for highly talented managers by using workforce planning to determine how many managers are needed and in what locations. HR

Figure 1.2

HR as a Business with Three Product Lines

Administrative Services and Transactions:
Compensation, hiring, and staffing
• Emphasis: Resource efficiency and service quality

Business Partner Services:
Developing effective HR systems and helping implement business plans, talent management
• Emphasis: Knowing the business and exercising influence—problem solving, designing effective systems to ensure needed competencies

Strategic Partner:
Contributing to business strategy based on considerations of human capital, business capabilities, readiness, and developing HR practices as strategic differentiators
• Emphasis: Knowledge of HR and of the business, competition, the market, and business strategies

SOURCE: Adapted from Figure 1, "HR Product Lines," in E. E. Lawler, "From Human Resource Management to Organizational Effectiveness," *Human Resource Management* 44 (2005), pp. 165–69.

is working with managers to identify the competencies, skills, and knowledge needed by high performing company managers. The competencies and skills profiles are used to evaluate potential country managerial job candidates from outside the company as well as to develop plans for current employees who have the potential to become country managers.

Strategic Role of the HRM Function

The amount of time that the HRM function devotes to administrative tasks is decreasing, and its roles as a strategic business partner, change agent, and employee advocate are increasing.[6] HR managers face two important challenges: shifting their focus from current operations to strategies for the future[7] and preparing non-HR managers to develop and implement human resource practices (recall the role of HR in Mars' success from the chapter-opening story). To ensure that human resources contributes to the company's competitive advantage many HR departments are organized on the basis of a shared service model. The shared service model can help control costs and improve the business relevance and timeliness of HR practices. A **shared service model** is a way to organize the HR function that includes centers of expertise or excellence, service centers, and business partners.[8] Centers of expertise or excellence include HR specialists in areas such as staffing or training who provide their services companywide. Service centers are a central place for administrative and transactional tasks such as enrolling in training programs or changing benefits that employees and managers can access online. Business partners are HR staff members who work with business-unit managers on strategic issues such as creating new compensation plans or development programs for preparing high-level managers. We will discuss the shared service model is more detail in Chapter 16.

Shared service model

A way to organize the HR function that includes centers of expertise, service centers, and business partners.

The role of HRM in administration is decreasing as technology is used for many administrative purposes, such as managing employee records and allowing employees to get information about and enroll in training, benefits, and other programs. The availability of the Internet has decreased the HRM role in maintaining records and providing self-service to employees.[9] **Self-service** refers to giving employees online access to, or apps which provide, information about HR issues such as training, benefits, compensation, and contracts; enrolling online in programs and services; and completing online attitude surveys. Companies that use the services of ADP can download a free mobile app that enables employees to access their payroll and benefits information.[10] Employees can use the app to fill out their time sheet or look up their retirement plan contributions and balance. The app can also be used by companies to deliver news to employees or offer a directory with contact information. Watson Pharmaceuticals has developed an app for its corporate university, allowing pharmaceutical representatives to access training videos and product knowledge from their iPhones.[11]

Self-service

Giving employees online access to HR information.

Many companies are also contracting with human resource service providers to conduct important but administrative human resource functions such as payroll processing, as well as to provide expertise in strategically important practice areas such as recruiting. **Outsourcing** refers to the practice of having another company (a vendor, third party or consultant) provide services.

Outsourcing

The practice of having another company provide services.

The most commonly outsourced activities include those related to benefits administration (e.g., flexible spending accounts, health plan eligibility status), relocation, and payroll. The major reasons that company executives choose to outsource human resource practices include cost savings, increased ability to recruit and manage talent, improved HR service quality, and protection of the company from potential lawsuits by standardizing processes such as selection and recruitment.[12] ADP, Hewitt, IBM, and Accenture are examples of leading outsource providers.

Goodyear Tire and Rubber Company reenergized its recruitment and hiring practices through outsourcing recruiting practices.[13] The recruiting outsource provider worked with the company to understand its culture, history, and its employees' recruitment experiences. The recruiting outsourcing service provider was able to help Goodyear streamline the recruiting process through providing hiring managers with online access to create new job requisitions, providing interview feedback, scheduling interviews, generating customized job offer letters, and gaining a real-time perspective on job candidates' progress in the recruitment process. Goodyear recognized several benefits from outsourcing recruitment including improving the timeliness of job offers, diversity and quality of new hires, and reducing turnover.

Traditionally, the HRM department (also known as "Personnel" or "Employee Relations") was primarily an administrative expert and employee advocate. The department took care of employee problems, made sure employees were paid correctly, administered labor contracts, and avoided legal problems. The HRM department ensured that employee-related issues did not interfere with the manufacturing or sales of products or services. Human resource management was primarily reactive; that is, human resource issues were a concern only if they directly affected the business. That still remains the case in many companies that have yet to recognize the competitive value of human resource management, or among HR professionals who lack the competencies and skills or understanding needed to anticipate problems and contribute to the business strategy. However, other companies believe that HRM is important for business success and therefore have expanded the role of HRM as a change agent and strategic partner.

A discussion group of company HR directors and academic thought-leaders reported that increasingly HR is expected to lead efforts focused on talent management and performance management.[14] Also, HR should take the lead in helping companies attract, develop, and retain talent in order to create the global workforces that companies need to be successful. HR professionals have to be able to use and analyze data to make a business case for ideas and problem solutions. In many companies top HR managers report directly to the CEO, president, or board of directors to answer questions about how people strategies drive value for the company. For example, at Yahoo the executive vice president of people and development's goal is to help turn around the company.[15] One of her jobs is to help integrate employees from small firms that Yahoo acquires to bring in top engineering talent and software developers. Acquisition of small start-up companies and their talent is part of Yahoo CEO Marissa Mayer's plan to revitalize the company. Another job is to fix Yahoo's compensation structure that motivated top employees to leave the company for its competitors.