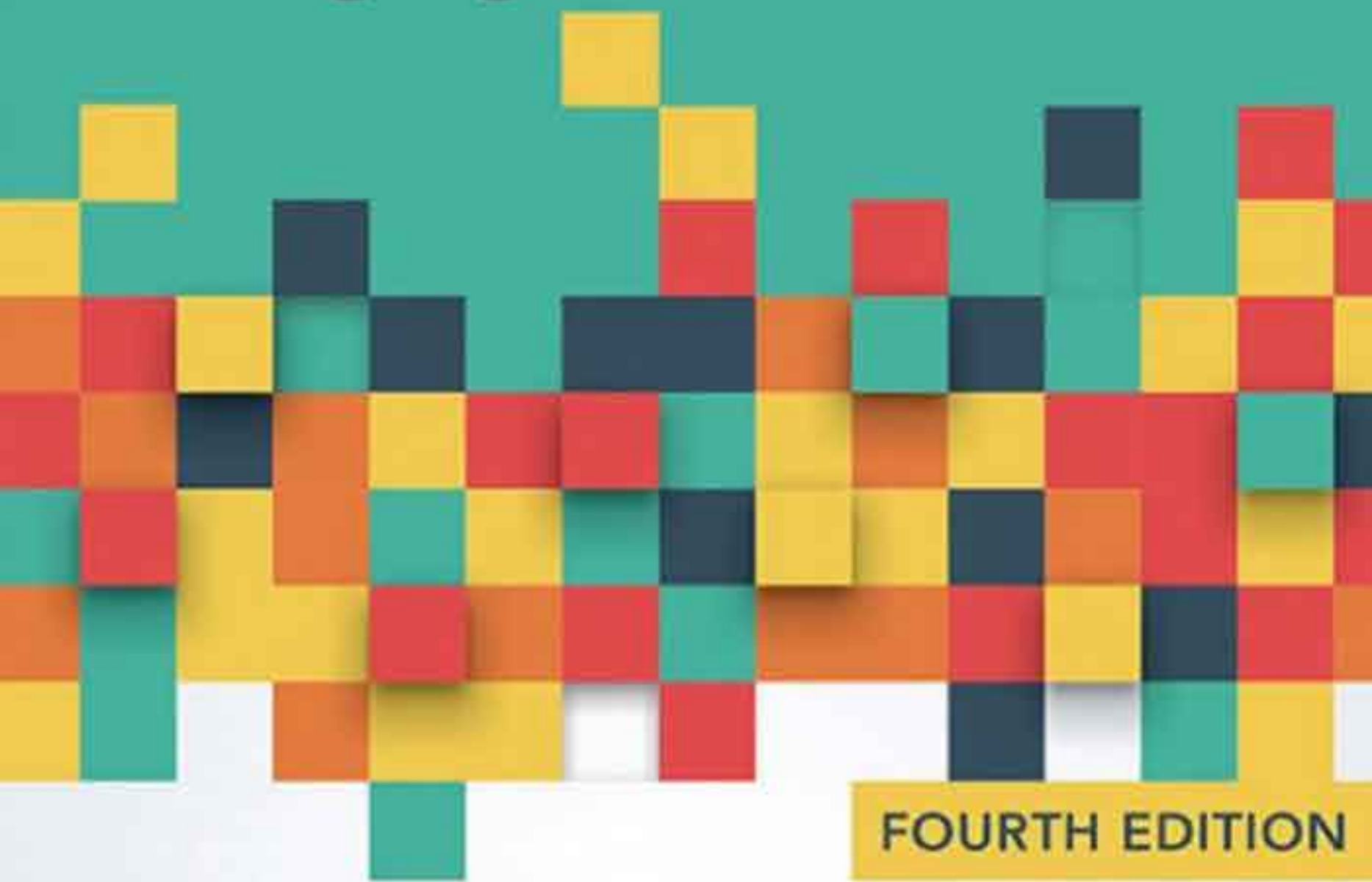


HUMAN RESOURCES IN HEALTHCARE

Managing for Success



FOURTH EDITION

Bruce J. Fried and
Myron D. Fottler, Editors

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PREFACE

This book is the fourth edition of *Human Resources in Healthcare: Managing for Success*. The first edition was published in 2001, an infamous year that brought issues of globalization to the forefront in the United States. Economic vulnerability had been present for some time, notably in the loss of dominance of the United States as a manufacturing economy dating to the 1970s. For Americans born after World War II, we experienced—many for the first time—a vulnerability that extended beyond economics, politics, and changes in social structure. We learned in a brutal manner that our sense of personal safety was illusional and that globalization was more than an abstract concept. The lessons of the Vietnam War, notably that US military dominance had disintegrated, were reinforced by two arguably inconclusive wars. US vulnerability extended from personal safety concerns to cybersecurity threats and the global emergence and reemergence of diseases. From within, we saw the disintegration of confidence in our economic structures, culminating in the 2008 economic collapse spurred by a deregulated banking sector.

Technologically, the changes have been monumental, leading to extraordinary progress in communication, medicine, and countless other areas of life but also posing very significant threats. Socially, the demographics of the US population came to encompass increasing diversity in both numbers and types, viewed by many as a validation of the American dream and by others as a threat to the American identity. Election of the first African-American president was seen by many as a victory for hope, upward mobility, and profound cultural change, but by many others as a threat to the social order. With few exceptions, the political environment in Washington, DC, was characterized by unprecedented polarization and outright hatred.

Healthcare, of course, has not stood still since 2001. It has undergone tremendous changes, many of which were affected by larger economic, political, technological, and social factors. Economic constraints and the unconstrained increase in the cost of healthcare fed into demands for “bending the cost curve,” leading to changes in incentive structures in the US healthcare system and its payment mechanisms. Politically, even in the midst of congressional gridlock, passage of the Affordable Care Act in 2010 represented the most important federal legislation since the enactment of Medicare in 1965.

As of this writing, the law continues to be under attack, and the eventual state of the law is uncertain.

Whatever the eventual outcome, more people are likely to have access to healthcare services, placing additional pressures on the healthcare system for effectiveness and efficiency. Socially, the aging of the baby boomers has, as predicted, placed increasing pressures on the healthcare system. The increasing diversity of the population has reinforced the need for cultural competence and systems of care that are responsive to social and cultural differences. In the workforce, generational diversity has created the need to consider reward and motivational structures that are generationally appropriate.

Healthcare systems continue to be under pressure to meet three aims: quality, cost containment, and access to care. Attention to quality has become increasingly acute as incentive structures focus on rewarding quality and in effect have begun to place sanctions on organizations, in some cases arguably, for substandard care. Quality improvement processes are a mainstay of organizations, requiring the active engagement and participation of employees.

Enter healthcare human resources management (HRM). Despite the changes of the past 15 years, people continue to play a critical and central role in providing health services. While automation and other technological advances have allowed other industries to downsize, technological changes in the healthcare industry generate the need for trained and well-managed health professionals. While other industries have outsourced an incalculable number of jobs, healthcare services cannot be significantly outsourced, with the exception of medical tourism, which operates on the margins of US healthcare.

Moreover, the healthcare workforce is under increasing pressure. Incentive structures have led to increased severity among hospitalized patients, and cost containment pressures have led in some instances to decreases in staffing with the remaining workers facing an increased workload. Managers are being asked to manage and retain a workforce that is in many cases highly stressed and mobile. Millennials, in contrast to earlier generations, tend to have a high need for personal development but only limited attachment to the organization. Further, jobs are changing as the healthcare system creates demands for new competencies. Effective job design, training, and performance management mechanisms need to be well developed and executed effectively.

We could go on documenting changes in the healthcare system, but instead we will describe the current edition of *Human Resources in Healthcare* and how each chapter in this edition addresses key realities and changes in healthcare. Undoubtedly, we will have overlooked some changes, and future changes are difficult to predict with confidence. Therefore, we offer this volume under the assumption that readers consider the content of this

book in the spirit of continuous lifetime learning. Change is a given, but recognizing change and adapting effectively do not necessarily follow. In the words of Albert Einstein: “As far as the laws of mathematics refer to reality, they are not certain; and as far as they are certain, they do not refer to reality.” We could say the same about healthcare and healthcare management.

Effective HRM is a product of at least three elements: cognitive knowledge, affective competencies, and experience. This book addresses domains of cognitive knowledge, including the idea of organizational strategy and HRM; the larger environment within which HRM occurs, including the legal environment and health workforce labor markets; and the multiple processes and systems involved in managing the healthcare workforce. For this knowledge (and, for that matter, any management knowledge) to be applied effectively, managers need to possess a variety of affective characteristics including competencies in such areas as emotional intelligence, interviewing, conflict management, and problem solving. Mastery of HRM, like virtually every other aspect of life, requires experience, practice, and learning from successes and failures through self-insight, reflection, and mentoring. The topics in this book are a starting point for developing mastery in working effectively with people in healthcare organizations.

In Chapter 1, Myron D. Fottler establishes the framework for this book: strategic HRM. An overall theme is that HRM is a responsibility of all people in the organization and certainly is not limited to the formal human resources (HR) department. The basic premise of strategic HRM is that HR practices and processes need to support the mission and strategies of the organization. This situation is far from a given. We have found repeatedly in the classroom that when we query a group of experienced managers, we are far more likely to find examples of poor HR practices than effective ones. Similarly, HR departments, which should be a key part of the senior management team, are very often viewed as operating in opposition to the interests of employees and the organization as a whole.

All organizations operate within a legal environment, and in Chapter 2, Drake Maynard provides foundational knowledge in the multitude of laws, regulations, and court decisions affecting HRM. Like other aspects of the law, the legal framework for HRM is in a constant state of flux with changing legislation at multiple levels, new interpretations resulting from court decisions, and changing regulations. Among the many areas of law covered are the Americans with Disabilities Act as amended, Title VII of the Civil Rights Act, the Fair Labor Standards Act, and the Family and Medical Leave Act. The chapter discusses the legal issues surrounding sexual harassment, the forms of sexual harassment, and how managers can avoid as well as respond to charges of sexual harassment. Written by a legal expert in employment law and containing many references to landmark legal cases, the chapter is

nevertheless remarkably accessible to the nonlawyer. While most managers need not have a thorough knowledge of all aspects of employment law, they need to know the boundaries of the law and realize when their practices may be testing the boundaries of legality. This chapter effectively provides this foundation.

Healthcare organizations likely employ a broader range of professionals than do any other type of organization. The role of health professionals continues to evolve as a result of changes in technology, health services, and competency requirements. In Chapter 3, Kenneth R. White and Dolores G. Clement provide essential information on the distinction between professions and occupations, the process of becoming a professional, licensure and regulation, scope of practice, and the changing role of professionals. They also provide background information on factors associated with supply and demand for health professionals, including changes in technology, changes in payment mechanisms, and the increasing diversity of the settings in which healthcare services are provided.

John C. Hyde II authors a new chapter in this book on the credentialing of healthcare providers. Physicians have a complex relationship with many healthcare organizations yet play a central role in determining the quality of health services. In Chapter 4, Hyde discusses the legal framework and key court cases related to credentialing and privileging. He details the Joint Commission requirements to ensure high-quality and safe patient care and describes the processes that organizations should follow in ensuring a competent workforce. Hyde acknowledges the uncertainties and risks in credentialing and the difficulties faced, for example, when a surgeon requests privileges for a new procedure despite having limited experience with the procedure.

The issue of diversity is perhaps the most misunderstood aspect of management, yet its importance is integral to employee satisfaction and effectiveness as well as the quality of patient care. In Chapter 5, Rupert M. Evans Sr. stresses the importance of understanding the impact of diversity among patients and healthcare workers. He provides an expansive definition of diversity, characterizing diversity as falling into the three categories of human diversity, cultural diversity, and systems diversity. Using this framework, he makes the important distinction between diversity and the idea of inclusion. Taking a positive approach, he cites the business case for diversity and the potential for effectively managing diversity to positively affect patient outcomes and reduce disparities.

An employee's actual job is a central part of HRM. As described by Myron D. Fottler in Chapter 6, jobs continue to change in their competency requirements, how they are designed, and how they interact with other jobs in an organization. Jobs also are the foundation for other HR practices. For example, without a clear understanding of job requirements, establishing

selection criteria for new employees is not possible. Nor is it possible to effectively coach individuals on their performance.

In Chapter 7, Bruce J. Fried and Michael Gates address the interrelated topics of recruitment, selection, and retention. In a rapidly changing healthcare system, finding and selecting the right people for the job is critical. However, selecting the best people for the job does not mean that prospective employees will choose to work for the organization, and it certainly does not ensure that they will stay with the organization. Fried and Gates describe alternative modes of employee recruitment as well as effective techniques for distinguishing between job applicants with similar skill sets and backgrounds. They address the controversial area of organizational fit and analyze its role in the selection process. Employee retention is of paramount importance in healthcare, and the authors provide evidence to support the importance of retention and evidence-based practices that organizations can use to maximize the likelihood of retaining the right people.

Part of keeping people in the organization is working with them to continually improve their performance. In Chapter 8, Bruce Fried addresses the topics of measuring employee performance and using this information to help employees develop their skills. This process, known as *performance management*, also includes ensuring a work environment where people are respected and valued. In this edition of the book, we have added a section on an unfortunate but highly prevalent aspect of organizational life: the bully. We describe the phenomenon of bullying, how to prevent it from occurring, and how to respond once it comes to light.

Reward systems are central to employee motivation, satisfaction, and performance. Noting that people work for both intrinsic and extrinsic rewards, Chapter 9 focuses on extrinsic rewards, namely compensation. In this chapter, Bruce J. Fried and Howard L. Smith address the role of compensation within the overall reward structure of the organization. They address the key topic of how jobs are valued in monetary terms and how objective job evaluation processes often need to be tempered by labor market considerations. In light of the current emphasis on individual and organization-wide pay for performance, they describe the strengths and drawbacks of different forms of incentive compensation, as well as considerations and trends in physician compensation.

Financial compensation is but one part of the total compensation that an employee receives. Employee benefits play a critical role in employees' decision to join an organization, their satisfaction, and their likelihood of staying with the organization. Dolores G. Clement, Maria A. Curran, and Sharon L. Jahn devote a chapter to the highly significant role played by employee benefits, in terms of both the cost to the organization and the motivational potential of these benefits. They provide a road map of

employee benefits ranging from mandatory benefits, such as Social Security contributions and workers' compensation, to an array of voluntary benefits including health insurance, life insurance, and leave. Of particular importance is the attention to benefits plan design and how different employees value various benefits. Among the benefits design issues addressed are the inclusion of domestic partners in benefits, budget concerns, and related information about self-insurance and stop-loss insurance.

Performance improvement is a critical function in all organizations and is particularly important in healthcare, where technologies and methods of providing care are in a state of continuous change. In Chapter 11, Donna L. Kaye and Myron D. Fottler address performance improvement from both organizational and individual perspectives. They note that performance improvement initiatives are typically based on enhancing individual skills and expanding an employee's skill set. Training activities typically focus on the individual employee's current job and on remediating particular skill-set deficits. While these activities are important, when conducted alone they ignore the impact of organizational factors on individual performance. By contrast, organizational development is centered on enhancing both current and future jobs, improving the work group or organization over the long term, and attending to future work demands. Organizational development interventions are broad and include such activities as organizational diagnosis, succession planning, and communication. Kaye and Fottler describe a broad array of key organizational development processes and provide guidance on implementation.

Among the many sectors of the economy, healthcare organizations and public-sector organizations hold the greatest potential for increased unionization. Laws and rules governing unionization in healthcare are somewhat different from those in other sectors. In Chapter 12, Donna Malvey and Amanda Raffenaud summarize the legislative framework and judicial rulings governing healthcare unionization, describe the evolving role of unions in healthcare, and provide a description of the unionization and labor relations process in healthcare organizations. They describe all phases of the labor relations process, from the union recognition phase through contract administration. The specific requirements and obligations of management and unions in healthcare organizations, based largely on the 1974 amendments to the National Labor Relations Act, are described. The chapter also addresses the controversial area of physician unionization and the potential impact of the Affordable Care Act on unions. Given the likelihood of increased unionization in healthcare, the authors provide guidance on working effectively in a unionized environment.

Among the most difficult tasks in the healthcare system is projecting health workforce needs and matching these needs with supply. While most of

the chapters in this book approach workforce issues from an organizational perspective, Erin P. Fraher and Marisa Morrison address workforce planning from a broader macro policy perspective. They discuss and assess methods used to ensure that the United States, or, for that matter, any country or jurisdiction, has the needed workforce in place, now and into the future. They examine workforce planning not in a vacuum, but cognizant of changes throughout the healthcare system that may affect workforce needs as well as new skill requirements. They address multiple related topics, including the distinction between “demand” and “need,” the nature of oversupply and shortages, and alternative methods of assessing projected supply of and demand for health workers, as well as the lasting problem of uncertainty in making accurate projections.

The nursing profession is critical to the functioning of the healthcare system. In the hospital sector, nurses are the only professional group present 24 hours a day and every day of the year. Nurses are highly skilled, indispensable, and central to patient care and quality. In Chapter 14, Cheryl B. Jones, George H. Pink, and Lindsay T. Munn begin with a description of the types of nursing personnel, their education, competency requirements, and scope of practice. Understanding nursing roles is essential to understanding the critical factors involved in nurse staffing and deployment. They then discuss the substance of nurses’ work, staffing and alternative methods of measuring nursing workload, and issues such as the role of nurses in unionized and nonunionized settings, nurse–physician relationships, and stress and burnout. They also address the key influence nurses have in value-based purchasing, being heavily involved, for example, in care coordination and in ensuring a patient- and caregiver-centered experience.

The quality improvement movement has finally achieved its migration from manufacturing and service industries to healthcare. Given incentive schemes that link reimbursement to quality indicators, and the availability of information on quality to payers and consumers, quality and patient safety are clearly hallmarks of healthcare organizations. Quality improvement is based on a synthesis of process analysis, measurement, and human creativity. In Chapter 15, Jordan Albritton and Bruce J. Fried provide a review of the quality improvement approach and summarize its forms (e.g., Lean). They take the view that a great deal of attention has been given to the mechanics of quality improvement, namely, the use of such quality improvement tools as run charts and Pareto diagrams. However, the human element, which is necessary to interpret data and devise creative and effective solutions to quality problems, has received less attention. In this chapter, Albritton and Fried identify the HR requirements, such as the development of effective quality improvement teams, that are essential to effectively apply quality improvement tools, interpret data, and develop effective and sustainable quality improvement changes.

The two appendixes are new to this book. Appendix A discusses HR metrics. Evaluation has become increasingly important in all aspects of organizational life, including HR functions. Appendix A provides background information on the need for and use of HR metrics, and offers examples of HR metrics. Appendix B includes six problem-based learning (PBL) cases. PBL is a student-centered learning methodology requiring the student, along with team members, to research a complex problem and design an evidence-based and feasible solution to the issue. As described in Appendix B, student teams read the case problem and identify what they need to learn in order to respond to the problem. These learning objectives form the basis for independent research and eventual collaboration of team members in writing the case response. The PBL method has a motivational element in that students themselves define their learning needs. Substantively, this approach provides the opportunity for students to delve into specific HR issues in greater depth and to use the most current research and writing on the topics presented in the cases.

This textbook and the accompanying instructor resources are designed to facilitate discussion and learning. The instructor resources include PowerPoint slides for each chapter and key teaching points. For access information, e-mail hapbooks@ache.org.

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Bruce J. Fried and Myron D. Fottler

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Myron D. Fottler

STRATEGIC HUMAN RESOURCES MANAGEMENT

Myron D. Fottler

Learning Objectives

After completing this chapter, the reader should be able to

- define strategic human resources management,
- outline key human resources functions,
- discuss the significance of human resources management to present and future healthcare executives, and
- describe the organizational and human resources systems that affect organizational outcomes.

Introduction

Like most other service industries, the healthcare industry is labor intensive. One reason for healthcare's reliance on an extensive workforce is that producing a service and then storing it for later consumption is not possible.

In healthcare, the production of the service that is purchased and the consumption of that service occur simultaneously. Thus, the interaction between healthcare consumers and healthcare providers is an integral part of the delivery of health services. Given the dependence on healthcare professionals to deliver services, the possibility of heterogeneity of service quality must be recognized within an employee (as skills and competencies change over time) and among employees (as different individuals or representatives of various professions provide a service).

Human resources are all of the people who currently contribute to the work of the organization as well as those who might contribute in the future and those who have contributed in the recent past. The term *human resources* also refers to the management of these people's contributions and in this sense is often abbreviated *HR*.

The intensive use of labor for service delivery and the possibility of variability in professional practice require that leaders in the industry direct

their attention toward managing the performance of the people involved in the delivery of services. The effective management of people requires that healthcare executives understand the factors that influence the performance of individuals employed in their organizations. These factors include not only the traditional *human resources management* (HRM) activities (i.e., recruitment and selection, training and development, appraisal, compensation, and employee relations) but also the environmental and other organizational aspects that impinge on human resources' activities.

Strategic human resources management (SHRM) is the process of formulating HR strategies and implementation tactics that are aligned and reinforce the organization's business strategy. It requires development of a comprehensive set of managerial activities and tasks related to developing and maintaining a qualified workforce. This workforce, in turn, contributes to organizational effectiveness, as defined by the organization's strategic goals. SHRM occurs in a complex and dynamic milieu of forces within the organizational context. A significant trend within the last decade is for HR managers to adopt a strategic perspective in their job and to recognize critical linkages between organizational strategy and HR strategies.

This book explains and illustrates the methods and practices for increasing the probability that competent personnel will be available to provide the services delivered by the organization and the probability that these employees will appropriately perform the necessary tasks. Implementing these methods and practices means that requirements for positions must be determined, qualified persons must be recruited and selected, employees must be trained and developed to meet future organizational needs, job performance must be evaluated, and adequate rewards must be provided to attract and retain top performers.

All of these functions must be managed within the legal constraints imposed by society (i.e., legislation, regulation, and court decisions). This chapter emphasizes that HR functions are performed within the context of the overall activities of the organization. These functions are influenced or constrained by the environment, the organizational mission and strategies that are being pursued, and the systems indigenous to the organization.

Why study SHRM? How does this topic relate to the career interests or aspirations of present or future healthcare executives? Staffing the organization, designing jobs, building teams, developing employee skills, identifying approaches to improve performance and customer service, and rewarding employee success are as relevant to line managers as they are to HR managers. A successful healthcare executive needs to understand human behavior, work with employees effectively, and be knowledgeable about the numerous systems and practices available to put together a skilled and motivated workforce. The executive also has to be aware of economic, technological, social, and legal issues that facilitate or constrain efforts to attain strategic objectives.

Healthcare executives do not want to hire the wrong person, experience high turnover, manage unmotivated employees, be taken to court for discrimination actions, be cited for unsafe practices, have poorly trained staff undermine patient satisfaction, or engage in unfair labor practices. Despite their best efforts, executives often fail at HRM because they hire the wrong people or they do not motivate or develop their staff. The material in this book can help executives avoid mistakes and achieve great results with their workforce.

Healthcare organizations can gain a competitive advantage over competitors by effectively managing their human resources. This competitive advantage may include cost leadership (i.e., being a low-cost provider) and product differentiation (i.e., having high levels of service quality). A 1994 study examined the HR practices and productivity levels of 968 organizations across 35 industries (Huselid 1994). The effectiveness of each organization's HR practices was rated based on the presence of such benefits as incentive plans, employee grievance systems, formal performance appraisal systems, and employee participation in decision making. The study found that organizations with high HRM effectiveness ratings clearly outperformed those with low HRM rankings. A similar study of 293 publicly held companies reported that productivity was highly correlated with effective HR practices (Huselid, Jackson, and Schuler 1997).

Several more recent studies have also shown that effective management of human resources can increase profitability, annual sales per employee, productivity, market value, and growth and earnings per share (Kaufman 2010; Messersmith and Guthrie 2010). In these studies, surveys were used to study the sophistication of the organization's HR practices, and responses created a score from 0 to 100, where high scores represented state-of-the-art practices. Performance was measured using accounting financial data. Results indicated that organizations with better HR practices experienced greater increases in financial performance relative to others. In addition, a survey of 200 chief financial officers (CFOs) revealed that 92 percent believed that effective management of employees improves customer satisfaction (Mayer, Ehrhart, and Schneider 2009). Customers also report more satisfaction when the climate of the organization is more positive, employees generally get along well, and turnover is low (Nishii, Lepak, and Schneider 2008).

Exhibit 1.1 summarizes HR practices that appear to enhance the effectiveness and outcomes of organizations. These practices are often present in organizations that are effective in managing their human resources, and they recur repeatedly in studies of high-performing organizations. In addition, these practices are interrelated and mutually reinforcing; achieving a positive result by implementing just one practice on its own is difficult. Recent research in healthcare suggests that innovative and sophisticated HR practices

are becoming more prevalent and enhance an organization's overall performance (Platonova and Hernandez 2013).

While these HR practices generally have a positive impact on organizational performance, their relative effectiveness may vary depending on their alignment (or lack thereof) among themselves and with the organization's

EXHIBIT 1.1
Effective HR
Practices for
Healthcare
Organizations

| Category | Practices |
|---|--|
| HR planning/job analysis | <ul style="list-style-type: none"> • Encourage employee involvement so that HR practices and managerial initiatives have strong buy-in. • Encourage teamwork to make employees more willing to collaborate. • Use self-managed teams and decentralization as basic elements of organizational design to minimize management layers. • Develop strategies to enhance employee work/life balance. |
| Staffing | <ul style="list-style-type: none"> • Be proactive in identifying and attracting talent. • In selecting new employees, use additional criteria beyond basic skills (i.e., attitudes, customer focus, and cultural fit). • Provide opportunities for employee growth so that employees are stretched to enhance their skills. |
| Training/organizational development | <ul style="list-style-type: none"> • Invest in training and organizational programs to enhance employee skills related to organizational goals. • Provide employees with future career opportunities by giving promotional priority to internal candidates. • Include customer service in new employee onboarding and skill development. |
| Performance management and compensation | <ul style="list-style-type: none"> • Recognize employees by providing monetary and nonmonetary rewards. • Offer high compensation contingent on organizational performance to reduce employee turnover and increase attraction to high-quality employees. • Reduce status distinction and barriers such as dress, language, office arrangement, parking, and wage differentials. • Base individual and team compensation on goal-oriented results. |

(continued)

| | |
|-----------------|--|
| Employee rights | <ul style="list-style-type: none"> • Communicate effectively with employees to keep them informed of major issues and initiatives. • Share financial, salary, and performance information to develop a high-trust organization. • Provide employment security for employees who perform well so that they are not downsized because of economic downturns or strategic errors by senior management. |
|-----------------|--|

EXHIBIT 1.1
Effective HR
Practices for
Healthcare
Organizations
(continued from
previous page)

Sources: Chuang and Liao (2010); Gomez-Mejia and Balkin (2011); Pfeffer (1995, 1998); Wright et al. (2005).

mission, values, culture, strategies, goals, and objectives (Ford et al. 2006). These HR practices may vary in their impact on healthcare organizations depending on how well each one is aligned with and reinforces the others as well as how well it is aligned with the overall business strategy.

No HR practices, even those identified in Exhibit 1.1, are “good” in and of themselves. Rather, their impact is always dependent on how well the process fits with the factors noted previously. Fit, or alignment, leads to better performance, while its lack creates inconsistencies (Ulrich, Younger, and Brockband 2008). In general, organizational performance is enhanced when HR practices are aligned with business strategy, are attuned to the external environment, enable the organization to capitalize on its distinctive capabilities, and reinforce one another. Even though proving a causal relationship between HR practices and organizational performance is extremely difficult, it is reasonable for healthcare organizations to consider implementation of the practices associated with high-performing organizations.

The bad news is that achieving competitive advantage through HRM inevitably takes time to accomplish (Pfeffer 1998). The good news is that, once achieved, this type of competitive advantage is likely to be enduring and difficult for competitors to duplicate. Measurement is crucial in implementing these HR practices. Failure to evaluate the impact of HR practices dooms these practices to second-class status, neglect, and potential breakdown. Feedback from measurement is essential for further development of HR practices as a whole as well as for monitoring how well each practice is achieving its intended outcomes.

Wolf (2012) notes seven characteristics of high-performing healthcare organizations:

1. Visionary leadership
2. Consistent and effective communication
3. Selecting for fit and ongoing development of staff

4. Agile and open culture
5. Central focus on service
6. Constant recognition and broad community outreach
7. Solid physician/clinical relationships

It is the combination of these characteristics that helps healthcare organizations drive exceptional outcomes in patient experience, engagement, quality, and financial outcomes.

Most of these HR practices are described in more detail throughout the book. Although the evidence presented in the literature shows that effective HR practices can strongly enhance an organization's competitive advantage, it fails to indicate *why* these practices have such an influence. In this chapter, we describe a model—the SHRM model—that attempts to explain this phenomenon. First, however, a discussion of environmental trends is in order.

Environmental Trends

Major environmental trends affecting healthcare institutions include changing private and government reimbursement (i.e., the Affordable Care Act), emergence of new competitors, advent of new technology, low or declining inpatient occupancy rates, changes in physician–organization relationships, transformation of the demography and increase in diversity of the workforce, shortage of capital, increasing market penetration by managed care, heightened pressures to contain costs, and greater expectations of patients. These trends have resulted in increased competition, the need for higher levels of performance, and concern for institutional survival. Many healthcare organizations are closing facilities; undergoing corporate reorganization; instituting staffing freezes and/or reductions in workforce; allowing greater flexibility in work scheduling; providing services despite fewer resources; restructuring and/or redesigning jobs; outsourcing many functions; and developing leaner management structures, with fewer levels and wider spans of control.

The Society for Human Resource Management (2014) regularly surveys expert panels to review recent and future trends in HRM. Broader trends identified include the following:

- The continuing impact of the US economy has created challenges that have affected budgets, hiring, and capital HR strategies.
- The need for skilled and educated workers is creating competition for those in highest demand, which influences all areas of HR.

- Ongoing developments in information and communication technologies (i.e., social media) have influenced recruiting and selection.
- Demographic changes have increased the percentage of aging employees and have increased diversity, affecting all aspects of HR practice.
- These demographic changes have caused employers to emphasize flexible and effective work/life strategies.
- Metrics and more in-depth data analysis are being required to demonstrate the return on investment of HR expenditures.
- The increase in uncertainty and market volatility have made uncertainty the new normal.
- Implementation of the Affordable Care Act, as well as the need to ensure compliance with a wide variety of federal and state laws, has created continuing challenges for HR managers.

Most of the growth in the capital HR function over the past few decades has been attributed to its crucial role in keeping organizations in compliance with HR laws and regulations produced by federal, state, and local governments (Equal Employment Opportunity Commission 2014).

Gomez-Mejia, Balkin, and Cardy (2012) identified the eight most significant HR environmental challenges as rapid change, the rise of the Internet, workforce diversity, globalization, legislation, evolving work and family roles, skill shortages, and the rise of the service sector. In addition, the Society for Human Resource Management (2012) has projected that three major challenges in HR over the next ten years will be retaining and rewarding the best employees, developing the next generation of corporate leaders, and creating an organizational culture that attracts the best employees. To survive and prosper, healthcare organizations need to continuously and rapidly adapt to change. HR is almost always at the heart of an effective response system (Ulrich, Younger, and Brockband 2008).

Organizations are pursuing major competitive strategies to respond to the turbulent healthcare environment, including offering low-cost healthcare services, providing superior patient service through high-quality technical capability and customer service, specializing in key clinical areas (e.g., becoming centers of excellence), and diversifying within or outside healthcare. In addition, organizations are entering into strategic alliances and restructuring themselves to “do more with less” (i.e., to provide high clinical and service quality while containing costs). Regardless of which specific strategies are pursued (e.g., inpatient hospital services), healthcare organizations are experiencing a decrease in staffing levels in many traditional service areas and an

increase in staffing in new ventures, medical informatics, specialized clinical areas, and related support services.

The HR strategies that experts believe will be most effective in managing employees in the next ten years include the following (Society for Human Resource Management 2012):

- Providing flexible worker arrangements
- Creating an organizational culture where trust, open communication, and fairness are emphasized and demonstrated
- Providing employees with opportunities for career advancement
- Offering a higher total rewards package than other organizations that compete for the same talent

Staffing profiles in healthcare are characterized by a limited number of highly skilled and well-compensated professionals. Healthcare organizations are no longer employers of last resort for the unskilled. At the same time, however, most organizations are experiencing shortages of nursing and allied health personnel.

The development of appropriate responses to the ever-changing healthcare environment has received so much attention that the concept of HRM planning is now well accepted in healthcare organizations. However, implementation of such plans has often been problematic. Often the process ends with the development of goals and objectives and does not include strategies or methods of implementation and ways to monitor results. Implementation appears to be the major difficulty in the overall management process (Porter 1980).

A major reason for this lack of implementation has been the failure of healthcare executives to assess and manage the external, interface, and internal stakeholders whose cooperation and support are necessary to successfully implement any business strategy (i.e., corporate, business, or functional). Successful strategy implementation requires healthcare executives to identify, diagnose, and manage key stakeholders (Blair and Fottler 1990).

A stakeholder is any individual or group with a stake in the organization. External stakeholders include patients and their families, public and private regulatory agencies, and third-party payers. Interface stakeholders operate in both the internal and external environments; these stakeholders may include members of the medical staff who have admitting privileges or who are board members at several institutions. Internal stakeholders operate within the organization, such as managers, professionals, and nonprofessional employees.

Involving supportive stakeholders, such as employees and HR managers, is crucial to the success of any HRM plan. If HR executives are not

actively involved, then the employee planning, recruitment, selection, development, appraisal, and compensation necessary for successful plan implementation are not likely to occur.

The SHRM Model

A strategic approach to HRM includes the following (Fottler et al. 1990):

- Assessing the organization's environment and mission
- Formulating the organization's business strategy
- Identifying HR requirements based on the business strategy
- Comparing the current HR inventory—in terms of numbers, characteristics, and practices—with future strategic requirements
- Developing an HR strategy based on the differences between the current inventory and future requirements
- Implementing the appropriate HR practices to reinforce the business strategy and to attain competitive advantage

Exhibit 1.2 provides some examples of possible linkages between strategic decisions and HR practices.

SHRM has not been given as high a priority in healthcare as it has received in many other industries. This neglect is particularly surprising in a labor-intensive industry that requires the right people in the right jobs at the right times and that often undergoes shortages in some occupations. In addition, the literature in the field offers evidence that organizations that use more progressive HR approaches achieve significantly better financial results than comparable, although less progressive, organizations do (see Exhibit 1.1) (Huselid 1994; Huselid, Jackson, and Schuler 1997).

Exhibit 1.3 illustrates some strategic HR trends that affect job analysis and planning, staffing, training and development, performance appraisal, compensation, employee rights and discipline, and employee and labor relations. These trends are discussed in more detail in later chapters of this book. The bottom line of Exhibit 1.3 is that organizations are moving to higher levels of flexibility, collaboration, decentralization, and team orientation. This transformation is driven by the environmental changes and the organizational responses to those changes discussed earlier. However, few healthcare organizations facilitate these advanced options.

The benefits of SHRM to both the organization and its stakeholders have been identified as management of positive rather than negative behavior, explicit communication of organization goals, stimulation of critical thinking and continual examination of assumptions, identification of gaps between the