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HUMAN RESOURCE MANAGEMENT

Gaining a Competitive Advantage

Noe

Hollenbeck

Gerhart

Wright



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Human Resource Management

GAINING A COMPETITIVE ADVANTAGE 10e

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HUMAN RESOURCE MANAGEMENT: GAINING A COMPETITIVE ADVANTAGE, TENTH EDITION

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**To my wife, Caroline, and my children, Ray, Tim,
and Melissa**

—R. A. N.

**To my parents, Harold and Elizabeth, my wife,
Patty, and my children, Jennifer, Marie, Timothy,
and Jeffrey**

—J. R. H.

**To my parents, Robert and Shirley, my wife,
Heather, and my children, Chris and Annie**

—B. G.

**To my parents, Patricia and Paul, my wife, Mary,
and my sons, Michael and Matthew**

—P. M. W.

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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. 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 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 currently serves as a member on the Board of Directors for the Society for Human Resource Management and 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). From 2011 to 2015 he was named by *HRM Magazine* as one of the 20 “Most Influential Thought Leaders in HR.”

PREFACE

The steady but 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 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. 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, and enhance their motivation, satisfaction, and commitment.

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 Institute, Quicken Loans, 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 accomplish 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 provide 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.

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

All examples, figures, and statistics have been updated to incorporate the most recently published human resource data. Each chapter was revised to include current examples, research results, and relevant topical coverage. All of the Exercising Strategy, Managing People, and HR in Small Business end of chapter cases are either new or updated. Following are the highlights for each chapter.

Chapter 1

New Opening Vignette: How Marriott is using human resource practices to support expansion of its properties around the world and reinventing itself to appeal to millennial generation travelers' tastes and preferences.

New Boxes:

- Dow Chemical, Merck, and Novartis socially responsible programs help improve living conditions around the world.
- How the CEO of Gravity Payments introduced a new pay policy to help employees meet their expenses.
- Iberdrola USA, SAP, and Boeing efforts to prepare employees for global assignments.
- How General Cable used data to show the value of its high performance work practices.

New Text Material:

- HR in organizations: budgets, example of the role of HR in companies (Walgreens, Tesla Motors, Coeur Mining, and MGM International Resorts), managers expectations for the HR function, and the skills needed by HR professionals to contribute to the business.
- How companies are using big data and workforce analytics to understand turnover, talent, and sales performance (Intermountain Healthcare, Johnson Controls, SuccessFactors).
- Economy data, labor force statistics, occupational and job growth projections, skill shortages, working at home and flexible schedules.
- HR's role in insuring product quality and customer service including examples of HR practices of the 2014 Baldrige Award Winners (Asana, Unilever, Delaware North Companies, PricewaterhouseCoopers Public Sector Practice, Baylor Health Care System).
- Innotrac's and Dell's efforts to manage a multigenerational workforce and the value of hiring employees with disabilities.
- Ethics training used by Dimension Data and Xerox.
- Growth of world economy and global business for companies such as Gap, McDonald's, and Coca-Cola.
- Reshoring jobs in the United States (Hanesbrands, Peds Legware).
- Use of apps, robots, wearables, and mobile devices in the workplace.
- HindlePower's use of HR practices to support high performance work systems.

Chapter 2

New Opening Vignette: Changes in Southwest Airlines strategy as the company moves to “middle age.”

New Boxes:

- Facebook's European privacy problem.
- Use of robots in China to lower labor costs.
- Practices that make 3M an admired, ethical company.
- Starbucks' college tuition program.

Chapter 3

New Opening Vignette: Sex discrimination at Kleiner Perkins.

New Boxes:

- Legal challenges Uber faces in the European Union.
- Satyam founder convicted of accounting scandal.
- Korn/Ferry executive inappropriate use of e-mail.
- Heineken's focus on sustainability through reducing water usage, carbon emissions, and promoting responsible drinking.

New Text Material:

- Frequency of discrimination cases.

Chapter 4

New Opening Vignette: The role of organizational and work design in the GM ignition switch debacle.

New Boxes:

- UPS's new technology for designing the safest and most efficient driving routes.
- How ISIS and other terrorist organizations structure themselves and why.
- Recent crackdowns in the manicure sweatshops in New York City.
- The new and controversial OSHA "name and shame" is working.
- Hospitals are using evidence-based management to improve cardiac care.

New Text Material:

- Poorly controlled menu design created work design problems at McDonald's.
- How to calculate "capital spending per worker," and what this metric means.
- The failed launch of the HealthCare.gov website was due to structural faults.
- Social network analysis is revolutionizing the use of informal structures.
- Ergonomic design related to sitting is being used to prevent injuries.

Chapter 5

New Opening Vignette: How Uber's business model that is centered around treating drivers as independent contractors is being challenged.

New Boxes:

- How companies that provide workers' smartphones balance work and privacy.
- The opening up of Cuba will lead to an increased supply of high-skill labor.
- The new nature of work is affecting the demand for a 4-year college degree.
- The failure to manage diversity at the CIA harms counterterrorism efforts.
- Increases in unemployment benefits result in higher unemployment.

New Text Material:

- Demand for workers in some industries is skyrocketing (elder care, welding).
- Labor shortages in the construction industry affecting the overall economy.
- Why companies often downsize their workforces even when business is good.
- Cuts to public health funding led to the Ebola breakouts in the United States.
- U.S. visa limits harm America's ability to compete in some high-tech fields.

Chapter 6

New Opening Vignette: How Abercrombie and Fitch was sued for religious discrimination when it failed to hire a young Muslim woman who wore a hijab.

New Boxes:

- Employers are collecting information on Facebook that would be illegal to ask in an interview.
- The crash of Germanwing's Flight 9525 could be traced to poor personnel selection processes.
- The use of criminal background checks is causing labor shortages in some industries.
- The fallout when a leader within the NAACP falsely claimed she was African American.
- The percentage of Hispanic Americans is changing due simply to reporting biases.

New Text Material:

- How “Big Data” applications are changing how personnel are selected.
- Game developers are building applications that can be used to simulate real jobs.
- The traditional belief that job performance is normally distributed may be false.
- Recent Supreme Court rulings make it more difficult to diversify the workforce.
- Scandals in the reporting of test scores from some foreign countries held up college selection decisions in 2014.

Chapter 7

New Opening Vignette: Highlighting how Keller Williams’ commitment to training programs and training evaluation has contributed to the success of the business and its real estate agents.

New Boxes:

- STIHL’s use training to help all of the company’s stakeholders including consumers, distributors, and retailers work safely and productively.
- How Year Up trains low income youth for high demand jobs.
- Phillips, Accenture, and Etihad Airways are adapting their training practices to reach a global and cross-cultural workforce.
- Evans Analytical Group and Coca-Cola Bottling Company Consolidated use social media and apps to foster continuous learning.
- How Mountain American Credit demonstrated the effectiveness of its sales training for new employees.

New Text Material:

- Showing how KLA-Tencor conducted needs assessment for its service engineers.
- Highlighting how Mindtree Limited and Nemours create a positive learning environment using different training methods.
- Spectrum Health’s use of a coaching guide to insure trained skills are reinforced by a manager.
- Companies such as Coca-Cola Sabo , SNI, and ADP are providing performance support using on-demand training materials such as YouTube videos.
- Examples of how companies including Greyhound Lines, CMS Energy, PPD, KLA-Tencor, Coca-Cola Bottling Company Consolidated, Farmers Insurance, and Sonic use different training methods including simulations, games, online learning, social media, blended learning, and action learning.
- Discussion of Massive Open Online Courses (MOOCs) for education and training including their advantages and disadvantages.
- How MasTec Utility Service Group uses a learning management system.

Chapter 8

New Opening Vignette: Adobe’s performance management system that emphasizes ongoing feedback and eliminates annual ratings.

New Boxes:

- How Kaiser Permanente creates a culture of continuous improvement.
- The support Expedia provided its managers to use a new performance management system.
- How Connecticut Health uses business and employee goals to meet its mission of helping people gain access to affordable and high quality health care.
- Persistent Systems use of gamification for performance management.

New Text Material:

- How Texas Roadhouse revised its performance management system to focus on more frequent feedback and employee development.
- Key Performance Indicators (KPIs) and how Brinker International uses them.
- How Deloitte’s performance management system for project teams meets the criteria for a good performance management system.
- Why Microsoft abandoned a forced ranking system.
- How to best use objectives or goals in performance management.
- Discussion of social performance management including peer-to-peer recognition, social media, and gamification.
- Examples of electronic monitoring in trucking industry, landscaping services, and health care.
- Examples of age discrimination lawsuits involving performance management.

Chapter 9

Revised Opening Vignette: ESPNs efforts in employee development.

New Boxes:

- How Genentech facilitates employee development career management through use of a virtual and physical development system.
- Sidley Austin’s use of pro bono work to help less experienced lawyers develop their skills and benefit the community.
- SAP is demonstrating the value of its new employee mentoring program.
- How Dow Chemical develops global leaders and develops communities through local projects.

New Text Material:

- Job hopping and number of jobs employees have held in their careers.
- How companies (e.g., PEMCO Mutual Insurance Company, AT&T, Cartus, SAP, Mondelez, Airbnb, General Motors, Thomas Reuters, PwC, Valvoline, Paychex) use self-assessment, job rotation, customized courses and programs, 360-degree feedback, temporary assignments, mentoring, coaching, and succession planning.
- Stretch assignments and reverse mentoring.
- AstraZeneca and Johnson & Johnson’s efforts to melt the glass ceiling women face in moving to top-level management positions.

Chapter 10

New Opening Vignette: The many reasons why working at the IRS is such a difficult job and what the agency is trying to do to shore up morale.

New Boxes:

- The use of wearable sensors creates opportunities and challenges for employers.
- How Chinese taxi drivers used wildcat strikes to drive Uber out of the country.
- The use of cell phones to do work at night is counterproductive.
- The lack of political correctness can get someone fired in the age of social media.
- New evidence supports the use of outplacement activities for promoting culture.

New Text Material:

- Failures within the Secret Service led to a wave of terminations.
- Social networking sites are being used to measure employee performance.
- No compete clauses are being increasingly used—even for low-skilled jobs.

- The use of alternative dispute resolution techniques can help or harm employee relations.
- Employers are using both rewards and punishments to improve employee health.

Chapter 11

New Opening Vignette: The role of labor market competition and business strategy in increasing wages and salary.

New Boxes:

- Zappos's and Amazon's pay to quit policy.
- Wage and overtime implications for independent contractors or full-time employees.
- Evidence that high wages reduce turnover costs for Walmart and Container Store.
- Where to manufacture products depends on labor costs.
- Providing higher wages for garment workers in Cambodia.

New Text Material:

- New salary test under the Fair Labor Standards Act (and the expected increase in the number of employees eligible for overtime premiums).
- How labor costs and other factors affect where new North American manufacturing plants are built.
- The distinction between equality and equity.

Chapter 12

New Opening Vignette: Employers raising pay but controlling fixed costs through profit sharing and reduced hiring of new employees.

New Boxes:

- Recruiting and retaining engineering talent in China.
- European banks use of bonus caps.
- Barclay's pay system holds employees accountable for ethical behavior.
- Tasty Catering open book management practices reduce costs and increase profit.

New Text Material:

- Effect pay plan has on workforce composition (sorting effect).
- Use of pay to differentiate between employees.
- Distribution of performance ratings and base pay increases in the United States.

Chapter 13

New Opening Vignette: Balancing work and family in Silicon Valley Companies.

New Boxes:

- Patagonia's use of benefits to sustain its business strategy.
- Microsoft requiring vendors to provide paid time off for their employees.
- Egg freezing: as a family-friendly benefit?
- The challenges of recruiting expatriates to Beijing because of its air quality.
- Evidence of outcomes of Sloan Valve's wellness program.

New Text Material:

- Number and percentage of people without health insurance in the United States.
- Use of big data to understand usage of health care coverage.
- Incentives and penalties employers can use under the Affordable Care Act to encourage healthy behavior.
- Employee preferences for how benefits are communicated.
- Decline in use of defined benefit plans.

Chapter 14

New Opening Vignette: Collective action by nonunion workers and supporters.

New Boxes:

- Alliance for Bangladesh Worker Safety.
- Using social media for union-related communications.
- Give and take of Boeing's contract negotiations.
- Evidence for high-performance work practice effectiveness across different countries.
- How differences in U.S. and German union strength influenced Amazon's strategy for dealing with unions.

New Text Material:

- Discussion of garment workers disaster in Bangladesh, employers responses, and potential role of labor unions in avoiding it.
- NLRB rules to streamline and speed up union representation elections.
- Companies use of managers to replace striking workers.
- Compensation rates for union and nonunion employees.

Chapter 15

New Opening Vignette: Walmart's global growth strategy.

New Boxes:

- How technology is changing the nature of work and blurring work and nonwork time.
- Risks and rewards of doing business in Africa.
- Airlines making money by charging fees which should not have been collected during the government shutdown.
- How changes in Vietnam's, China's, and India's economic systems have helped reduce poverty.

New Text Material:

- *Fortune* global companies and cost of living figures.
- Questions for assessing employees' suitability for overseas assignments.

Chapter 16

New Opening Vignette: The need for HR at tech start-ups.

New Boxes:

- How U.S. companies such as Otis are reshoring, i.e., bringing jobs back to the United States.
- IKEA's focus on efficient packaging and lower material costs contributes to sustainability.
- Humana's use of an app that helps improve customer health.
- AT&T misleads customers about their unlimited wireless data plan.

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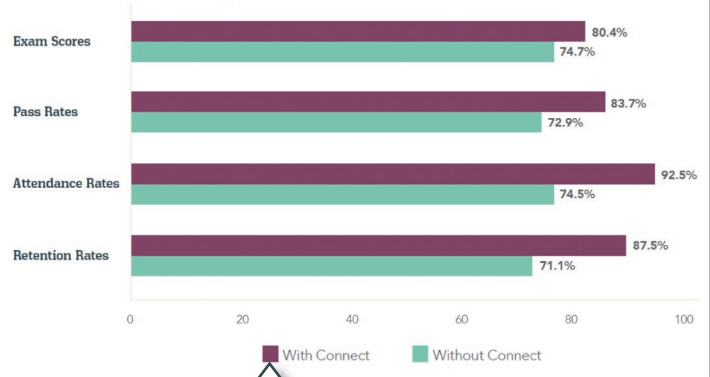


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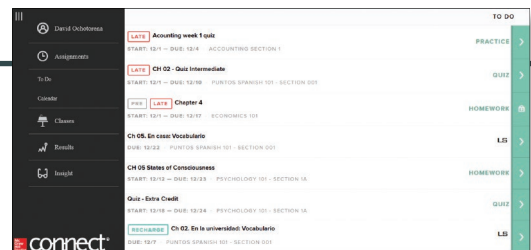


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Human Resource Management

GAINING A COMPETITIVE ADVANTAGE

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 5*
- 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 27*
- LO 1-4** Discuss what companies should do to compete in the global marketplace. *page 43*
- LO 1-5** Identify how new technology, such as social networking, is influencing human resource management. *page 45*
- LO 1-6** Discuss human resource management practices that support high-performance work systems. *page 49*
- LO 1-7** Provide a brief description of human resource management practices. *page 51*

Marriott: HR Practices Result in Engaged Employees and Satisfied Customers

If you have traveled, you probably have seen or stayed at a Marriott hotel. But did you know that Marriott owns few hotels? Most are owned by real estate partners, and Marriott manages or franchises them. Marriott is doing well in a competitive industry. Its 2014 revenue and net income (\$13.8 billion, and \$753 million, respectively) were at record levels. Financial analysts expect double digit growth in 2015 and the stock price hit a record high. In order to stay relevant in the hotel industry Marriott has added new properties around the world and is reinventing itself to appeal to tastes of the new Millennial generation of travelers. Marriott has added three new brands, Moxy Hotels, for budget-conscious travelers, and AC Hotels and Edition brand for more sophisticated travelers. Also, Marriott is changing room design to reflect Millennials' tastes and preferences: big comfortable beds, large televisions, large public lounges, and instead of traditional room service, online ordering and food delivery.

How Marriott manages its employees plays a key role in its financial performance and customer satisfaction. Its practices are based on the principle "Take care of associates and they will take care of customers." "We put people first" is one of Marriott's core values. Marriott has been on *Fortune* magazine's "Best Companies to Work For" list for all 18 years the list has been in existence, a distinction shared by only 11 other companies including Publix, Whole Foods, Nordstrom, and REI. The company has more than 200,000 employees, who work in hotel properties around the world. The work isn't necessarily sexy or sophisticated. Most employees, who are known as "associates," work helping guests, serving meals, and cleaning rooms. Housekeepers represent the largest category of associates. Eight-five percent of associates earn an hourly

wage. Despite the routine nature of the work and demanding customers, associates often refer to their co-workers as "family," and many stay in their jobs for many years. Marriott's general manager tenure is 25 years—much greater than the industry average. More than 10,000 employees have worked at Marriott more than 20 years.

Marriott emphasizes hiring friendly people who can learn through training. For hourly associates the company screens for interpersonal skills, dependability, and positive disposition. Employees' opinions matter. At every hotel, each shift starts with a 15-minute meeting during which employees share updates and get motivated for the day's work. The meetings often include stretching, music, and dancing. Employee benefits also contribute to making it a desirable company to work for. The benefits include flexible scheduling, an employee assistance phone number, health care benefits for hourly employees if they work 30 hours a week, and discounts on room rates for employees, families, and friends. Employees working at company headquarters have access to a gym, dry cleaners, gift store, and day care. The company holds a celebration of excellence each year that recognizes outstanding employees who are flown in for the event. The best benefit may be the opportunity that all employees have to grow their careers.

Many top executives started as hourly employees working as housekeepers, waiters, sales people, or security guards. Employees are given opportunities to explore career paths and learn through job experiences. Mentoring from senior employees is common. Bill Marriott, the company's executive chairman and CEO for 40 years until stepping down, believes happy employees result in lower costs. Happy employees mean Marriott has lower turnover and less

need to train and orient replacement employees, and an experienced workforce provides better customer service. Marriott regularly surveys its employees to measure their engagement. The results show that in hotels where employee engagement is higher,

customers who experienced a problem were more satisfied with the solution.

SOURCES: Based on L. Gallagher, "Why Employees Love Marriott," *Fortune*, March 15, 2015, pp. 112–118; company website, "Careers" and "About Marriott: Core Values and Heritage," www.marriott.com, accessed May 18, 2015.

Introduction

Competitiveness

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

Marriott 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. Marriott's 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 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)

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

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).

Figure 1.1

Human Resource Management Practices



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.

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 much should companies budget for HR and how many HR professionals should a company

LO 1-1

Discuss the roles and activities of a company’s human resource management function.

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).

employ? One study estimates that HR budgets on average are \$2,936 per employee.² High-impact HR teams have one staff person per 64 employees, spend more than the average HR budget per employee (\$4,434 on average per employee), and employ a higher percentage of HR specialists than more compliance-driven and basic HR organizations.

High-impact HR functions are more integrated with the business, skilled at helping managers in attracting, building, engaging, and retaining talented employees. They can adapt quickly to business needs and workforce changes, identify and promote talent from within the company, and are continuously trying to identify what motivates employees to help them grow and develop. Also, high-impact HR functions ensure that they are continuously building the talent and skills of HR professionals necessary to help the company meet new competitive challenges. The greater cost-per-employee of high-impact HR functions is offset by the greater savings resulting from reduced turnover and increased levels of employee engagement.

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 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

Figure 1.2

HR as a Business with Three Product Lines



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.

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.

To ensure that HR is business-focused, Walgreens HR professionals are paired with functional leaders.⁴ The HR field organization works to develop strategic talent plans for each business and helps implement important initiatives such as succession planning, change management, organizational design, and culture and leadership development. The HR director at TAMKO Building Products Inc. helped align the company's HR function to business needs.⁵ She noticed that inexperienced HR professionals were spending too much time on transactional duties such as payroll and benefits administration. She wanted them to focus on supplying managers with skilled, well-trained employees and meaningful data. She revised their training to ensure that they understood the industry and the skills that the company needed for continued success. She urged her staff to be proactive (rather than reactive) about offering HR solutions to help managers avoid or solve workplace problems. The team responded by identifying and implementing a new time-and-attendance tracking system, a virtual onboarding and orientation process, and a leadership development program.

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 and preparing non-HR managers to develop and implement human resource practices.⁷ 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. Walgreens provides employee relations, recruiting, and HR data services through a shared services team.⁹ Walgreens introduced a website, myHR, that employees can access to get answers to their questions about benefits, HR policies, and talent management. It provides confidential personalized information that is easy for employees to access. We will discuss the shared service model in more detail in Chapter 16.

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.¹⁰ **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. The shift to self-service means that HR can focus more time on

Shared Service Model

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

Self-service

Giving employees online access to HR information.

consulting with managers on important employee issues and less time on day-to-day transactional tasks. For example, U.S. Bancorp implemented PeopleSoft 9.1 human capital management system, which allows managers to review or approve basic personnel actions such as terminations, relocations, and salary changes.¹¹ As managers became more comfortable with the system they were given control over transactions such as approving bonuses, reviewing resumes, and evaluating job candidates. Managers were initially resistant to taking on duties that previously were handled by HR, but they accepted the change because they saw it made it quicker to execute transactions and gave them more access to workforce data they could use for decision making. HR professionals now have more time to work with managers on ensuring the right employee development plans are in place, evaluating workforce needs due to retirements or growth, and ensuring their organizational structures are efficient and effective.

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. 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.

Outsourcing

The practice of having another company provide services.

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 Pitney Bowes, the executive vice president and chief human resources officer responsibilities include the development of HR business strategies, strategic talent management, succession planning, diversity, total rewards and analytics, employee relations, and shared professional and transactional services.¹⁵ During Johnna Torsonone's tenure she has been a trusted business partner to four CEOs and several senior leadership teams. She has helped guide the company through several leadership and business changes. Under her leadership the HR function has supported Pitney Bowes' business strategy while maintaining the company culture and valuing employees. Like other HR leaders Torsonone's biggest challenge is having the right talent to meet business needs, especially during times of change requiring new and different skills.

Consider how HR has supported the business at Coeur Mining and MGM Resorts International.¹⁶ HR at Coeur Mining helped support the company's transformation to an entrepreneurial business culture that allowed employees to make decisions that affected their daily performance. For example, engineers working at a mine in Nevada didn't need to ask for corporate approval to redesign roads that helped improve productivity. A new performance management process was introduced (a culture of achievement) that eliminates ratings and instead reinforces frequent conversations between managers and employees. Together they set goals and employees are held accountable for achieving them. This gives employees full responsibility for their performance.

At MGM Resorts International employees worldwide are encouraged to ask questions, challenge policies, and improve practices. HR works with both top-level executives and front-line employees to help generate ideas that generate additional revenue, save the company money, and improve customers' experiences. HR coordinates meetings once a month with directors and vice presidents in which topics such as operations and innovation are discussed. The executives work in teams brainstorming ideas, choosing one to work on, and presenting it to the company's chief operations officer. One team recommended stopping the practice of branding water bottles with individual property names and adopting the brand called M Life. This saved the company \$400,000. HR has created focus groups of front-line employees to generate ideas which are communicated to property managers. Also, HR developed an employee directory containing the e-mail and phone numbers of all employees including senior leaders. This empowers employees to communicate directly with senior managers. As a result of these efforts valet employees at The Mirage resort implemented several ideas including calling guests by their names and making changes to more quickly retrieve cars. This resulted in an increase in guest services scores and in employee perceptions of trust and empowerment measured on employee opinion surveys.

Table 1.2 provides several questions that managers can use to determine if HRM is playing a strategic role in the business. If these questions have not been considered, it is highly unlikely that (1) the company is prepared to deal with competitive challenges or (2) human resources are being strategically used to help a company gain a competitive advantage. The bottom line for evaluating the relationship between human resource management and the business strategy is to consider this question: "What is HR doing to ensure that the right people with the right skills are doing the right things in the jobs that are important for the execution of the business strategy?"¹⁷ We will discuss strategic human resource management in more detail in Chapter 2.

Some companies that want managers to have more accountability for employees, believe that traditional HR departments are unnecessary because they inhibit innovation