**Chapter 1**

**Meeting Present and Emerging Strategic Human Resource Challenges**

### CHAPTER OVERVIEW

This first chapter provides a broad overview of the strategic human resource challenges organizations face, and provides a framework to understand the role of human resource strategies, activities, and programs to achieve sustained competitive advantage. To support this broad perspective, some of the most important external and internal challenges vis-à-vis HR strategies are discussed in three categories: environmental challenges, organizational challenges, and individual challenges. The chapter explains the planning and implementation of strategic HR policies, as well as the role of line managers and the HR department in the effective use of human resources. Also explored here is how managers, in partnership with human resource professionals, adopt and implement HR strategies through specific strategies and programs. HR professionals are often responsible for designing these programs in order to meet business goals and employee needs. Although the line managers provide the necessary input during the program design phase, they are primarily responsible for carrying out or implementing such programs. This chapter provides a strong overview of how firms can use HR strategies and initiatives to deal with external and internal challenges, which are then explored in detail in later chapters.

**CHALLENGES**

After reading this chapter, students should be able to deal more effectively with the following challenges:

1. Understand the major challenges affecting HR.
2. Develop competence in planning and implementing strategic HR policies.
3. Develop competence in selecting HR strategies to increase firm performance.
4. Become aware of HR best practices.
5. Understand the need to establish a close partnership between the HR department and managers.
6. Recognize career opportunities in various human resources management subfields.

**ANNOTATED OUTLINE**

***CHALLENGE 1***

***Understand the major challenges affecting HR.***

**I. Human Resource Management: The Challenge**

Human resource challenges that face today’s managers may be categorized according to their primary focus: the environment, the organization, or the individual. Firms that deal with these challenges effectively are likely to outperform those that do not.

## A. Environmental Challenges

Environmental challenges refer to forces external to the firm that are largely beyond management’s control but influence organizational performance. They include: rapid change, the Internet revolution, workforce diversity, globalization, legislation, evolving work and family roles, skill shortages and the rise of the service sector, natural disasters, and collapse of the housing market.

**B. Organizational Challenges**

Organizational challenges refer to concerns that are internal to the firm. Effective managers must be proactive and deal with organizational issues before they become too big.

 **C. Competitive Position: Cost, Quality, or Distinctive Capabilities**

Human resources represent the single most important cost in many businesses. A number of HR policies affect the organization’s competitive position. These issues include: decentralization, downsizing, organizational restructuring, self-managed work teams, small businesses, technology, internal security, data security, outsourcing, product integrity, and organizational culture.

 **D. Individual Challenges**

Human resource issues at the individual level address concerns that are most pertinent to decisions involving specific employees. These issues almost always reflect what is happening in the larger organization. How individuals are treated also is likely to have an effect on organizational issues. For instance, if many key employees leave a firm to join its competitor, it will affect the competitive posture of the firm. The individual issues include matching people and organizations, ethics and social responsibility, productivity, empowerment, brain drain, and job insecurity.

***CHALLENGE 2***

***Develop competence in planning and implementing strategic HR policies.***

**II. Planning and Implementing Strategic HR Policies**

To be successful, firms must closely align their HR strategies and programs (tactics) with environmental opportunities, business strategies, and the organization’s unique characteristics and distinctive competence.

 **A. The Benefits of Strategic HR Planning**

Formulating HR strategies and establishing programs to implement them is strategic human resource planning. Successful HR strategic planning provides many benefits for the company, including (1) encouraging proactive rather than reactive behavior, (2) explicit communication of company goals, (3) stimulation of critical thinking and ongoing examination of assumptions, (4) identification of gaps between current situation and future vision, (5) encouragement of line managers’ participation, (6) identification of HR constraints and opportunities, and (7) creation of common bonds.

 **B. The Challenges of Strategic HR Planning**

In developing HR strategy, organizations face several important challenges, including (1) maintaining a competitive advantage, (2) reinforcing overall business strategy, (3) avoiding excessive concentration on day-to-day problems, (4) developing HR strategies suited to unique organizational features, (5) coping with the environment, (6) securing management commitment, (7) translating the strategic plan into action, (8) combining intended and emergent strategies, and (9) accommodating change.

 **C. Strategic HR Choices**

Human resource strategies, which are implemented through HR activities and programs, may affect the performance of the business. The options that a firm has available in designing its HR system are its strategic HR choices. Some potential choices include work flows, staffing, employee separations, performance appraisals, training and career development, compensation, employee and labor relations, employee rights, and international management.

**CHALLENGE 3**

**Develop competence in selecting HR strategies to increase firm performance.**

**III. Selecting HR Strategies to Increase Firm Performance**

No HR strategy is “good” or “bad” in and of itself. The success of HR strategies depends on the situation or context in which they are used. In other words, an HR strategy’s effect on firm performance is always dependent on how well it fits with some of the factors. *Fit* refers to the consistency or compatibility between HR strategies and other important aspects of the organization.

 **A. Fit with Organizational Strategies**

Organizational strategies may be examined at two levels: corporate and business.

***Corporate strategy***refers to the mix of businesses a corporation decides to hold and the flow of resources among those businesses. This involves decisions pertaining to acquisition, divestment, diversification, and growth. At one end of the spectrum is the evolutionary business strategy; at the other end is the steady-state strategy.

***Business unit strategies*** refer to those established by firms or autonomous units of the corporation. Well-known business strategies were formulated by Porter (overall cost leadership strategy, differentiation business strategy, and focus strategy) and Miles and Snow (defender strategy and prospector strategy).

#  B. Fit with the Environment

HR strategies should help the organization better exploit environmental opportunities or cope with the unique environmental forces that affect it. The environment can be examined on four dimensions, including (1) degree of uncertainty, (2) volatility, (3) magnitude of change, and (4) complexity.

 **C. Fit with Organizational Characteristics**

To be effective, HR strategies must be tailored to the organization’s personality. The features of an organization’s personality are its (1) production process for converting inputs into output, (2) market posture, (3) overall managerial philosophy, (4) organizational structure, and (5) organizational culture.

 **D. Fit with Organizational Capabilities**

An organization’s capabilities are its distinct competencies. HR strategies make a greater contribution to a firm’s performance to the extent they (1) help to exploit the firm’s specific advantages or strengths while avoiding its weaknesses, and (2) when they assist in better using its own unique blend of human resource skills and assets.

 **E. Choosing Consistent and Appropriate HR Tactics to Implement HR Strategies**

Even the best-laid strategic HR plans may fail when specific HR programs are poorly chosen or implemented. A firm’s HR strategies must be mutually consistent. That is, HR strategies are more likely to be effective if they reinforce one another rather than work at cross-purposes.

***CHALLENGE 4***

***Become aware of HR best practices.***

 **F. HR Best Practices**

There is much debate about whether high-performing HR practices create sustained high organizational performance or vice versa. Regardless of the debate, it is reasonable to state that organizations should consider implementing practices associated with the highest-performing firms.

***CHALLENGE 5***

***Understand the need to establish a close partnership between the HR department and managers.***

 **G. The HR Department and Managers: An Important Partnership**

All managers must effectively deal with human resource issues because these issues are at the core of being a good manager. Moreover, mutual partnerships must be formed among line managers and HR professionals in order to effectively and efficiently meet the employees’ and employer’s goals and needs. Specific steps a company can take to foster an effective partnership between managers and the HR department include: (1) analyze the people side of productivity, (2) view HR professionals as internal consultants, (3) instill a shared sense of common fate, (4) require some managerial experience, (5) actively involve top corporate and divisional managers, (6) require senior HR executives to participate.

***CHALLENGE 6***

***Recognize career opportunities in various human resource management subfields.***

 **H. Specialization in Human Resource Management**

The size of HR departments has grown significantly in recent years. This may reflect the growth of government regulations and organizations recognizing the growing importance of HR issues. Many colleges and universities are now offering degrees in HR-related fields. The demand for HR professionals is expected to continue to grow in years to come.

**ANSWERS TO END-OF-CHAPTER DISCUSSION QUESTIONS**

**Suggested responses to the starred questions in this section can be found in MyManagementLab.**

**1-1. Go back to the Manager’s Notebook “A Cold Way to Get a Job.” What do you see as the main advantages and disadvantages of Internet-based recruiting? Explain.**

Students answers will vary but some of the advantages include: it takes less time to review more applications and it broadens the recruiting pool because anyone with access to a computer and Internet can apply from anywhere in the world and HR only looks at candidates who fit the specific qualifications of the job. Some disadvantages include: not everyone has access to the Internet so you may lose out on some applicants who do not have this resource; because the computer system is only looking for certain things, an organization may lose out on some good potential applicants because they may not meet the exact search criteria; and it can be costly.

**1-2. Two generations ago or so many HR articles decried problems with performance appraisal. A common complaint was that managers did not devote sufficient time to conducting the appraisals and that biases were rampant. Another common complaint was that most managers gave high ratings to all employees and did not bother to properly differentiate and carefully document the performance evaluation of subordinates. Several old surveys reported that three quarters or more of employees “hated performance appraisals and found them to be useless, increasing tension at work” (Gomez-Mejia & Mussio, 1975). Today, performance appraisals are standard practice in American businesses and presumably these are used to make key HR decisions, such as distributing merit pay and incentives, screening people for promotions, providing feedback, choosing candidates for layoffs, ensuring equal pay for equal work, and such (Chapter 7 of this book is devoted to these issues). Many organizations have spent a lot of money in designing and redesigning appraisal systems; and a specialized cadre of HR consultants, industrial psychologists, and other academics have focused most of their efforts and/or research on improving appraisal systems (such as reducing interpersonal biases in the evaluations). Surprisingly, a 2010 large-scale survey of 750 HR professionals conducted by New York–based consulting firm Sibson Consulting Inc. and WorldatWork, a professional association, found that, if anything, dissatisfaction with performance appraisal systems had gotten worse over the years. Only 3 percent of HR executives graded their own performance appraisal system as “A,” and the majority rated it as “C” or below. In what seemed like déjà-vu, these new -generation HR executives say they are frustrated that managers don’t have the courage to make truthful appraisal decisions and to give constructive feedback to employees. How would you explain this? Do you see this situation as a lack of progress or as an indication that some faulty assumptions continue to be made by HR professionals who design these programs? Based on what you have learned in this chapter, what implications does this have for HR practices that presumably rely on accurate assessment of employee performance (such as promotions and merit pay decisions)?**

Jobs have become more complicated in recent years and particularly since the economic recession, organizations have to do more with fewer resources. In light of this one explanation, it may be that it is harder to do quality performance appraisals than it used to be. The process may have improved but the jobs may have changed faster than appraisal systems could keep up with. The overall underlying problem may be that people do not like to give employees negative feedback, thus the appraisals they provide are less than accurate. This has numerous implications for HR practices because the policies and procedures (no matter how good they may be) are only as good as the people who apply them and whether they are applied fairly and consistently.

**\*1-3. Go back to the Manager’s Notebook “How Harley-Davidson Is Taking Advantage of a Diverse Customer Base.” If you were a HR manager of a company such as Harley-Davidson, what human resource programs would you put in place to help the company expand its customer base? Explain.**

**1-4. Of all the issues affecting HR practices discussed in this chapter, which three in your opinion are the most important ones? Justify your answer.**

Student answers will vary but their justifications should reference points covered in the text.

**1-5. Which of the environmental, organizational, and individual challenges identified in this chapter will be most important for human resource management in the twenty-first century, in your opinion? Which will be least important? Use your own experiences in your answer.**

Student answers will vary in response to this question but it is important to note that governmental regulation, the changing nature of the workforce (shorter-term employment is commonplace), and the globalization of business are all key areas to discuss.

**1-6. Go back to the Manager’s Notebook “Watching Over Your Shoulders: Paying a Price for Unhealthy Life Styles.” Do you think it is fair for a company to discipline employees by charging higher fees for those who show evidence of “unhealthy life styles”? According to Dr. Kevin Volpp, Director of the Center for Health Incentives and Behavioral Economics at the University of Pennsylvania, punitive surcharges and tough health targets may hurt those who need assistance the most. Do you agree? Explain.**

Student answers will vary in response to this question. These issues can become emotionally charged for some students. It is important to note that these sorts of policies are legal for private firms. However, irrational students may feel these practices are not, so it is important to present the fact that there are a myriad of these types of policies in place.

**\*1-7. 3M’s competitive business strategy is based on innovation. 3M requires that at least 25 percent of its annual sales come from products introduced over the previous five years, a goal it often exceeds. Specific HR programs adopted to implement this strategy include the creation of a special fund that allows employees to start new projects or follow up on ideas. 3M’s “release time” program, in which workers are given time off during the day to pursue their own interests, is given credit for the creation of new products that management would not have thought of by itself. In addition, 3M’s appraisal process encourages risk taking. A senior manager at 3M says, “If you are threatened with dismissal after working on a project that fails, you will never try again.” What other types of HR policies might 3M institute to spur product innovation?**

**\*1-8. Many believe that top managers care little about human resources compared to such areas as marketing, finance, production, and engineering. What might account for the perception, and what would you do to change it?**

**MyManagementLab Assisted-graded and Auto-graded Questions.**

**Responses to these questions can be found in MyManagementLab.**

**1-9. Outline a set of issues that are most likely to pose a major challenge to the management of human resources during the next few decades. Based on the materials learned in this chapter, explain why you have chosen each of these issues.**

**1-10. A major complaint one often hears is that the human resource function still remains as one of the weakest and less prestigious functions in many organizations, with the stereotype that it is a “paper shuffling” unit with little impact on the bottom line. Why do you think this is the case? What can the HR manager do to change this real or perceived state of affairs? Explain.**

**1-11. Some scholars believe that there is a set of “best” human resource practices that advanced companies should follow (see Figure 1.7), whereas others believe that there is “no one best way” when it comes to HR practices and that these should be adapted depending on organizational strategies, organizational characteristics, environment, and organizational capabilities (see Figure 1.3). Are these perspectives contradictory? Which of the two perspectives makes the most sense to you? Explain.**

**You Manage It! 1: Emerging Trends**

**Electronic Monitoring to Make Sure That No One Steps Out of Line**

***Critical Thinking Questions***

**1-12. Do you think that it is feasible to boil down human behavior to numbers? What are the potential advantages and disadvantages of doing so? Explain.**

Student answers will vary but some advantages may include: a computer may see patterns that humans may miss, and computers can handle much more pieces of information than a human can. Disadvantages include: the systems are only as good as the information they contain, so if the information is not accurate then problems will occur, and computers have no emotions or feelings and thus can never completely replace the human factor.

**1-13. What do you think are the main reasons for the trend toward “managing by the numbers,” as discussed in the case? Do you believe that this is happening in many organizations, or is it an isolated phenomenon? Will this trend grow in the future, or is it another passing fad? Explain.**

Student answers will vary. Students may note the trend toward quantifying “everything” in today’s world. The focus on numbers ranges from primary education (standardized testing and No Child Left Behind) to the upper levels of corporate America (“Managing by the Numbers”). The phenomenon is definitely not isolated and most likely stems from the need to standardize measurement across many varied groups. However, it seems that using formulas and numeric inputs to determine strategic direction and levels of employee performance might undermine the utility of managers’ interpersonal skills and devalue them in organizations.

**1-14. Is it possible to use quantitative assessments of the organization’s human resources to better link human resource management to firm strategy? Explain.**

Student answers will vary. It is important to note in discussion of this topic that there is a very important qualitative component to managing people as well as firm strategy. The human relations expertise normally attributed to HR is an important resource in valuing employee contributions and expectations in organizational life. By recognizing that no two employees (or people for that matter) are the same, organizations can improve retention and productivity.

**You Manage It! 2: Ethics/Social Responsibility**

**Embedding Sustainability into HR Strategy**

***Critical Thinking Questions***

**1-15. Would you like to work for a company that offers the sorts of programs that are described in the case? Would this be an important enticement for you to accept a job in such a company and remain employed there? Explain.**

Student answers will vary but some enticements may include: great company culture, corporate social responsibility, garden space, and other perks reducing carbon footprints.

**1-16. Some skeptics argue that most sustainability programs (such as the ones discussed above) represent an insincere attempt to create a positive company image at a low cost. Do you agree or disagree? Do you think these types of programs help or hurt the company’s bottom line? Explain.**

Student answers will vary. Students will need to show support for their decision making.

**1-17. What role, if any, should HR professionals play in helping a company become a leader in sustainability efforts? What specific HR challenges is a company likely to face as it tries to become socially responsible? Explain.**

HR’s role in helping a company reach sustainability should be integral. Hiring the right people will be crucial, particularly because this is not your typical culture. It will be very important that HR communicate with applicants extensively about the culture and the company’s expectations for their employees. Challenges may include maintaining customer quality as new systems and policies are implemented, a potential skill shortage in the service sector as the number of jobs in the company increases, and creating a stronger infrastructure to achieve the goal.

**You Manage It! 3 Discussion**

**Managers and HR Professionals at Sands Corporation: Friends and Foes?**

***Critical Thinking Questions***

**1-24. What seems to be the main source of conflict between supervisors and the HR department at Sands Corporation? Explain.**

The level of autonomy in decision making appears to be a big problem for the Sands Corporation.

**1-25. Do you believe that managers should be given more autonomy to make personnel decisions such as hiring, appraising, and compensating subordinates? If so, what are some potential drawbacks to granting them this authority? Explain.**

Discussion on this issue should focus around the expertise of the individual making the decision. Is it more important for the decision maker to be centralized and making all hiring decisions for the firm, or be a coworker or direct report who understands the intricacies of the particular job and the unique expertise necessary to perform the job function.

**1-26. How should Sands’ top executives deal with the complaints expressed**

**by supervisors? How should the director of the HR department deal with the situation? Explain.**

Sands Corporation has many possibilities to address this situation, including mediation, or a simple face-to-face meeting with central figures in the disagreement. It is important that a uniform decision be reached that will be applied in all future situations to ensure consistency.

**You Manage It! 4 Discussion**

**The Enduring Wage Gap by Gender**

***Critical Thinking Questions***

**1-30. Why do you think the pay gap between men and women has been so persistent? Do you agree or disagree with the explanations offered by the two women professors as discussed in the case? Explain.**

Student answers will vary but one reason may be that women are less likely to negotiate for more money as opposed to men. This alone may account for a large difference in pay, as many raises are a percentage of a person’s salary, so if a person starts off making less, then his or her raises will be less over time. Students’ opinions will be different regarding the second part of this question based on their own perceptions.

**1-31. What personal qualities do you think are necessary for a couple with children to have successful careers? How would you select for those qualities? Explain.**

Qualities listed will vary but may include great communication skills, adaptability, and time management skills.

**1-32. What role, if any, should the HR department play in reducing the pay gap between men and women? Explain.**

HR should make sure that all pay gaps between employees in similar jobs are well justified and based on objective, verifiable measures. They should also make sure wages in similar jobs never get too far apart. It may also be necessary to give dollar amount raises in some instances instead of just percentage raises because percentage raises only serve to increase any gap that may exist.

**Additional Exercises**

**In-Class or Out-of-Class Group Activities**

**Working in groups, list 10 examples showing how you did use (or could have used) human resource management techniques at work or school.**

Depending on the degree of their work experience, students will cite a wide range of examples, possibly including some of the following:

* + - Situations where they have improved the efficiency of their work through the use of technology made available to them through human resource systems
		- Employed the services of nontraditional workers
		- Developed metrics to measure how they have added value in terms of human resource contributions
		- Kept themselves abreast of employment law in order to minimize the risk to their company
		- Utilized self-service HR technology
		- Employed high-performance work systems concepts in the job

**In a group, develop several lists showing how trends like workforce diversity, technological trends, globalization, and changes in the nature of work have affected the college or university you are now attending.**

This list might include items such as:

* + Growth of nontraditional student populations
	+ Use of computer/communication technology
	+ Diversity issues

**Contact the HR manager of a local business. Ask that person how he or she is working as a strategic partner to manage human resources given the firm’s strategic goals and objectives.**

* + Students may be surprised to find the level of impact that HR has on strategy (either very high or in some cases none at all).
	+ Use this opportunity to discuss the bridge between theory and practice.

**Using the Internet or library sources, analyze the annual reports of at least five companies. Bring to class examples of how those companies say they are using their HR processes to help the company achieve its strategic goals.**

In class, facilitate a discussion on how effective students believe the HR processes each company is using to support the strategic goals are. Challenge students to come up with additional ideas for other approaches for using the HR processes and how they would go about implementing them, noting the specific challenges of each.

Experiential Exercise: Developing an HR Scorecard

**Purpose: The purpose of this exercise is to give students experience in developing an HR scorecard, by developing one for your college. Students should understand the HR scorecard approach to creating a strategy-oriented HR system, and in particular, the seven steps in the process.**

**Instructions: Set up groups of three to four students for this exercise. Using whatever sources are available, including personal interviews with college administrators, each group should outline an HR scorecard for your college by addressing each of the seven steps in the process, starting with a short definition of the business strategy for the college.**

Ask each group to present its scorecard to the rest of the class. Have the class play the role of the board of directors for the college. At the end of each presentation, ask the class to provide feedback on the scorecard, commenting on the following:

* 1. How effectively does the scorecard measure (1) organizational outcomes, (2) workforce competencies and behaviors, and (3) HR system policies and activities?
	2. Comment on how effective the scorecard is on the following dimensions:

1. Allowing the board to assess HR’s performance objectively and quantitatively
2. As a tool for the HR manager to build a measurable and persuasive business case for how HR is contributing to achieving the organization’s strategic goals