The Strategic Role of Human Resource Management

STRATEGIC OVERVIEW  The headline said it all: “Despite plummeting profit margins, Dell Computer Corp. has no intention of backing off from an aggressive PC pricing strategy initiated earlier this year.” The first few years of the 21st century had thrown the (PC) industry for a loop. To maintain its new position as the world’s number one personal computer maker, Dell’s average price per computer fell to about $2,000 in the first quarter of 2001, from about $2,300 the year before. Its profit margin fell from 21% to 18%. The only way it could keep that 18% margin intact while cutting prices was to find new ways to slash costs. For a company that had always pursued a low-cost leader strategy, doing so wouldn’t be easy. How could Dell cut costs from an already lean operation? The firm’s HR managers had to decide what they could do to support Dell’s new cost-cutting efforts.

The purpose of this chapter is to explain what human resource management is and the plan of this book. We’ll see that HR management—activities like recruiting, hiring, training, compensation, appraising, and developing employees—is part of every manager’s job. And we’ll see that it is also a separate “staff” function, and that the HR manager assists all managers in many important ways. The main topics we’ll cover are the manager’s human resource management jobs, strategic planning and important strategic trends, and HR’s strategic role in formulating and executing the company’s strategy. The following chapter completes
the introductory part of the book and provides you with the knowledge you'll need to deal effectively with equal employment opportunity questions on the job.

**THE MANAGER’S HUMAN RESOURCE MANAGEMENT JOBS**

Most writers agree that there are certain basic functions all managers perform. These are planning, organizing, staffing, leading, and controlling. In total, they represent what managers call the **management process**. Some of the specific activities involved in each function include:

- Planning. Establishing goals and standards; developing rules and procedures; developing plans and forecasting.
- Organizing. Giving each subordinate a specific task; establishing departments; delegating authority to subordinates; establishing channels of authority and communication; coordinating the work of subordinates.
- Staffing. Determining what type of people should be hired; recruiting prospective employees; selecting employees; setting performance standards; compensating employees; evaluating performance; counseling employees; training and developing employees.
- Leading. Getting others to get the job done; maintaining morale; motivating subordinates.
- Controlling. Setting standards such as sales quotas, quality standards, or production levels; checking to see how actual performance compares with these standards; taking corrective action as needed.

We are going to focus on one of these functions in this book—the staffing, personnel management, or (as it’s usually called today) the **human resource management (HRM)** function. Human resource management is the process of acquiring, training, appraising, and compensating employees, and attending to their labor relations, health and safety, and fairness concerns. The topics we’ll discuss should therefore provide you with the concepts and techniques you need to carry out the “people” or personnel aspects of your management job. These include:

- Conducting job analyses (determining the nature of each employee’s job)
- Planning labor needs and recruiting job candidates
- Selecting job candidates
- Orienting and training new employees
- Managing wages and salaries (compensating employees)
- Providing incentives and benefits
- Appraising performance
- Communicating (interviewing, counseling, disciplining)
- Training and developing managers
- Building employee commitment

And what a manager should know about:

- Equal opportunity and affirmative action
- Employee health and safety
- Handling grievances and labor relations

**Why Is HR Management Important to All Managers?**

Why are these concepts and techniques important to all managers? Perhaps it’s easier to answer this by listing some of the personnel mistakes you don’t want to make while managing. For example, you don’t want to:
• Hire the wrong person for the job
• Experience high turnover
• Find your people not doing their best
• Waste time with useless interviews
• Have your company taken to court because of discriminatory actions
• Have your company cited under federal occupational safety laws for unsafe practices
• Have some employees think their salaries are unfair and inequitable relative to others in the organization
• Allow a lack of training to undermine your department’s effectiveness
• Commit any unfair labor practices

Carefully studying this book will help you avoid mistakes like these. And, more important, it can help ensure that you get the right results. Remember, you can do everything else right as a manager—lay brilliant plans, draw clear organization charts, set up modern assembly lines, and use sophisticated accounting controls—but still fail as a manager by hiring the wrong people or by not motivating subordinates, for instance. On the other hand, many managers—presidents, generals, governors, supervisors—have been successful even with inadequate plans, organization, or controls. They were successful because they had the knack of hiring the right people for the right jobs and motivating, appraising, and developing them. Remember as you read this book that getting results is the bottom line of managing, and that, as a manager, you will have to get those results through people. As one company president summed up:

For many years it has been said that capital is the bottleneck for a developing industry. I don’t think this any longer holds true. I think it’s the work force and the company’s inability to recruit and maintain a good work force that does constitute the bottleneck for production. I don’t know of any major project backed by good ideas, vigor, and enthusiasm that has been stopped by a shortage of cash. I do know of industries whose growth has been partly stopped or hampered because they can’t maintain an efficient and enthusiastic labor force, and I think this will hold true even more in the future. . . .

Line and Staff Aspects of HRM

All managers are, in a sense, HR managers, since they all get involved in activities like recruiting, interviewing, selecting, and training. Yet most firms also have a human resource department with its own top manager. How do the duties of this HR manager and his or her staff relate to “line” managers’ human resource duties? Let’s answer this question, starting with a short definition of line versus staff authority.

Line Versus Staff Authority Authority is the right to make decisions, to direct the work of others, and to give orders. In management, we usually distinguish between line authority and staff authority.

Line managers are authorized to direct the work of subordinates—they’re always someone’s boss. In addition, line managers are in charge of accomplishing the organization’s basic goals. (Hotel managers and the managers for production and sales are generally line managers, for example.) Staff managers, on the other hand, are authorized to assist and advise line managers in accomplishing these basic goals. HR managers are generally staff managers. They are responsible for assisting and advising line managers in areas like recruiting, hiring, and compensation.
Line Managers’ HRM Responsibilities According to one expert, “The direct handling of people is, and always has been, an integral part of every line manager’s responsibility, from president down to the lowest-level supervisor.”

For example, one major company outlines its line supervisors’ responsibilities for effective human resource management under the following general headings:

1. Placing the right person on the right job
2. Starting new employees in the organization (orientation)
3. Training employees for jobs that are new to them
4. Improving the job performance of each person
5. Gaining creative cooperation and developing smooth working relationships
6. Interpreting the company’s policies and procedures
7. Controlling labor costs
8. Developing the abilities of each person
9. Creating and maintaining department morale
10. Protecting employees’ health and physical condition

In small organizations, line managers may carry out all these personnel duties unassisted. But as the organization grows, they need the assistance, specialized knowledge, and advice of a separate human resource staff. The human resource department provides this specialized assistance. In doing so, the HR manager carries out three distinct functions:

1. A line function. The HR manager directs the activities of the people in his or her own department and in related service areas (like the plant cafeteria).

2. A co-ordinating function. HR managers also coordinate personnel activities, a duty often referred to as functional control. Here the HR manager and department act as the “right arm of the top executive” to ensure that line managers are implementing the firm’s HR objectives, policies, and procedures (for example, adhering to its sexual harassment policies).

3. Staff (service) functions. Assisting and advising line managers is the “bread and butter” of the HR manager’s job. For example, HR assists in the hiring, training, evaluating, rewarding, counseling, promoting, and firing of employees. It also administers the various benefit programs (health and accident insurance, retirement, vacation, and so on). It helps line managers comply with equal employment and occupational safety laws, and plays an important role in handling grievances and labor relations. It carries out an innovator role, by providing “up-to-date information on current trends and new methods of solving problems”—such as today’s interest in instituting six-sigma quality programs and creating “learning organizations.” And it plays an employee advocacy role: It helps define how management should be treating employees, makes sure employees can contest unfair practices, and represents the employees’ interests within the framework of its main obligation to senior management. In most firms today, HR also plays a strategic role, by helping the CEO craft and implement the firm’s strategy. We’ll return to this in a moment.

Figure 1-1 shows the traditional HR positions you might find in a large organization. They include compensation manager, recruitment and placement super-
visor, training specialist, employee relations manager, and safety supervisor. Examples of HR job duties include:

Recruiters. Search for qualified job applicants.

Equal employment opportunity (EEO) coordinators. Investigate and resolve EEO grievances, examine organizational practices for potential violations, and compile and submit EEO reports.

Job analysts. Collect and examine information about jobs to prepare job descriptions.

Compensation managers. Develop compensation plans and handle the employee benefits program.

Training specialists. Plan, organize, and direct training activities.

Labor relations specialists. Advise management on all aspects of union–management relations.⁷

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⁷ For a comprehensive list of HR job duties, see the text provided in the image.
Cooperative Line and Staff HR Management: An Example

Exactly which HR management activities are carried out by line managers and by staff managers? There’s no single division of responsibilities we could apply across the board in all organizations, but we can make some generalizations.8

For example, in recruiting and hiring, it’s generally the line manager’s responsibility to specify the qualifications employees need to fill specific positions. Then the HR staff takes over. They develop sources of qualified applicants and conduct initial screening interviews. They administer the appropriate tests. Then they refer the best applicants to the supervisor (line manager), who interviews and selects the ones he or she wants.

Some activities tend to be HR’s alone. For example, 83% of firms assign responsibility for pre-employment testing exclusively to HR, 75% assign college recruiting to HR, 86% insurance benefits administration, 84% exit interviewers, and 88% personnel/HR recordkeeping. But employers split most activities, such as employment interviews, performance appraisal, skills training, job descriptions, and disciplinary procedures, between HR and line departments.9

In summary, you should see that HR management (as discussed in this book) is an integral part of every manager’s job. Whether you’re a first-line supervisor, middle manager, or president; or whether you’re a production manager, sales manager, office manager, hospital administrator, county manager (or HR manager!), getting results through committed people is the name of the game. And to do this, you’ll need a good working knowledge of the human resource management concepts and techniques in this book.

STRATEGIC PLANNING AND STRATEGIC TRENDS

Perhaps the most striking change in HR’s role today is its increased involvement in developing and implementing the company’s strategy. Strategy—the company’s long-term plan for how it will balance its internal strengths and weaknesses with its external opportunities and threats to maintain a competitive advantage—was traditionally a job mostly for the firm’s top operating (line) managers. Thus, the president and his or her staff might decide to enter new markets, drop product lines, or embark on a five-year cost-cutting plan. Then he or she would more or less leave the personnel implications of that plan (hiring or firing new workers, hiring outplacement firms for those fired, and so on) for HR management to carry out. Today, HR usually plays a more central role.

The Basics of Strategic Planning

Managers engage in three levels of strategic planning for their firms. Many firms, such as AOL/Time Warner, consist of several businesses: AOL, Warner Music, Warner Pictures, and Turner Networks. They therefore need a corporate-level strategy. A company’s corporate-level strategy identifies the portfolio of businesses that comprise the organization, and the ways in which these businesses relate to one another. The AOL/Time Warner business portfolio consists of media-related businesses. Firms like GE are more widely diversified, with a portfolio that spans jet engines and lightbulbs.

At the next level down, each of these businesses (such as Warner Music) needs a business-level competitive strategy. This strategy identifies how its managers will build and strengthen that business’s long-term competitive position in the marketplace.10 It identifies, for instance, how Warner Music will compete with Sony, or how Wal-Mart will compete with Kmart. Thus, Volvo differentiates itself based on safety, Volvo on quality, AOL on usability, and Wal-Mart on price. Every busi-
ness also has (or should have) a **competitive advantage** that supports its competitive strategy and sets it apart from those it competes with. As with many firms today, AOL’s usability, Rolex’s quality, and Saturn’s low-cost, high-quality cars all reflect their decisions to build their competitive advantages around the quality of their employees.

Finally, each business—AOL, Warner Music, GE Jet Engines—is itself comprised of departments, such as sales, manufacturing, and human resource management. **Functional strategies** identify the basic courses of action that each of the departments will pursue in order to help the business attain its competitive goals. These functional strategies have to make sense in terms of the business’s competitive strategy: For example, it would be foolish for Wal-Mart’s construction division to build stunningly expensive stores, or for Rolex HR to hire any but the finest craftspeople. We’ll see that HR takes on added significance in firms that build their competitive advantage around their people.

### The Strategic Planning Process

There is nothing particularly mysterious about the strategic planning process. The heart of strategic planning entails **SWOT analysis**, which stands for strengths, weaknesses, opportunities, and threats. The best strategic plans endeavor to balance the firm’s capabilities—its strengths and weaknesses—with the opportunities and threats the firm faces. Thus, faced with the threat posed by Microsoft’s Internet Explorer, AOL bought Netscape, which happened to be for sale. When AOL bought Time Warner to form a huge multimedia company, Seagram decided to sell its Universal Music and other media properties to the French Internet and telecom company Vivendi, which was seeking media properties. Managers are forever scanning the environment for opportunities and threats.

What may be an important opportunity or threat to one firm may be meaningless to another. For example, it probably doesn’t matter to General Motors that Time Warner and AOL merged (although that merger was a big event for Seagram). However, there are several basic trends that have been important across the board in determining the strategic direction of most firms today. Let’s look at these.

### Basic Strategic Trends

**Globalization** refers to the tendency of firms to extend their sales, ownership, and/or manufacturing to new markets abroad. The rate of globalization in the past decade has been striking. For example, the total value of U.S. imports and exports almost tripled, from $907 billion in 1991 to $2.5 trillion in 2000.\(^{11}\)

Globalization of markets is perhaps the most obvious: Sony, Calvin Klein, The Gap, Nike, and Mercedes-Benz are some of the firms that market all over the world. Firms are globalizing their production, too, by putting facilities where they’ll be most advantageous. Toyota produces its Camry in Georgetown, Kentucky, with almost 80% U.S.-made parts, for instance. And with globalized markets and production, globalized ownership increasingly makes more sense. Four out of five “American” textbook publishers, for example—Prentice Hall, Harcourt, Houghton Mifflin, and Wiley—are owned by firms outside America (Britain’s Pearson owns Prentice Hall).

Globalization has strategic implications. Firms that once competed only with local firms—from airlines to automakers to banks—now face foreign competitors. As one expert puts it, “The bottom line is that the growing integration of the world economy into a single, huge marketplace is increasing the intensity of com-
petition in a wide range of manufacturing and service industries." Thus, Ford and GM are pressuring Fiat in Europe, while Germany’s Deutsche Bank pressures Citicorp in New York. Deregulation has reinforced this trend, as nations eliminate the legal barriers that protected industries like banking and aviation from unbridled competition.

More globalization means more competition, and more competition means more pressure to improve—to lower costs, to make employees more productive, and to find new ways to do things better and less expensively. Some firms are therefore transferring operations abroad, not just to seek cheaper labor, but to tap what Fortune magazine calls “a vast new supply of skilled labor around the world.” Levi Strauss—once a leading “made in the USA” advocate—closed most of its remaining U.S. plants in 1991, shifting more production overseas. Others, like Saturn, depend on highly motivated self-managing teams to ensure continuous improvements in operations. It’s in programs like these that HR (hiring the right people and training them, for instance) understandably plays a more strategic role.

**Technological Advances** Similarly, the Internet and information technology have been forcing—and enabling—firms to become more competitive. For example, Carrier Corporation—at $10 billion in yearly sales and 40,000 employees, the world’s largest manufacturer of air conditioners—saves an estimated $100 million per year with the Internet. In Brazil, for instance, Carrier handles all its transactions with its channel partners (its 550 dealers, retailers, and installers) over the Web. More than 80% of its revenues there now passes through Carrier’s Web-enabled partners. “The time required to get an order entered and confirmed by our channel partners has gone from six days to six minutes.” Around the world, Carrier’s gain is some competitor’s loss: Firms that can’t match its Web technology simply can’t compete.

**The Nature of Work** Technology is doing more than reducing costs and opening up new ways to compete: It’s also changing the nature of work.

This does not apply just to new jobs at dot-com firms like Amazon; even factory jobs are becoming more technologically demanding. For one thing, “knowledge-intensive high-tech manufacturing jobs in such industries as aerospace, computers, telecommunications, home electronics, pharmaceuticals, and medical instruments” are replacing factory jobs in steel, auto, rubber, and textiles. Even heavy manufacturing jobs are becoming more high tech. At Alcoa Aluminum’s Davenport, Iowa, plant, a computer stands at each work post to help each employee control his or her machines. As Fortune magazine says, today “practically every package delivery, bank teller, retail clerk, telephone operator, and bill collector in America works with a computer.”

Technology is not the only trend driving this change from “brawn to brains.” There is also a continuing shift from manufacturing jobs to service jobs.
in North America and Western Europe. Today, over two-thirds of the U.S. workforce is employed in producing and delivering services, not products. It’s estimated that between 1998 and 2008, the number of jobs in goods-producing industries will stay almost unchanged, at about 25.5 million, while the number of jobs in service-producing industries will climb from 99 million to 118.8 million. These service jobs will in turn require new types of “knowledge” workers, new HR management methods to manage them, and a new focus on human capital. Human capital refers to the knowledge, education, training, skills, and expertise of a firm’s workers, and you can see it’s more important than it has ever been before.

What does this mean for managing companies? For one thing, “the center of gravity in employment is moving fast from manual and clerical workers to knowledge workers, who resist the command and control model that business took from the military 100 years ago.” Firms need new, world-class HR systems to select, train, and motivate these employees, and to win their commitment to the technologies and continuous improvement programs firms today depend on.

**The Workforce** Workforce demographics are changing as well. Most notably, the workforce is becoming more diverse as women, minority-group members, and older workers enter the workforce. Diversity has been defined as “any attribute that humans are likely to use to tell themselves, ‘that person is different from me,’” and thus includes such factors as race, sex, age, values, and cultural norms.

For example, between 1992 and 2005, people classified as Asian and other (including Native Americans) in the workforce will have jumped by just over 81%. The number of Hispanics in the workforce will have jumped by almost 64%, so that Hispanics will represent 11% of the civilian labor force in 2005, up from 8% in 1992. Women represented 46% of the workforce in 1994, and will represent an estimated 47.8% by 2005. About two-thirds of all single mothers (separated, divorced, widowed, or never married) are in the labor force today, as are almost 45% of mothers with children under three years old (see Webnote).

The labor force is also getting older. The median age of the labor force, 37.8 years in 1995, is projected to rise to 40.5 years in 2005. (This is due mostly to the aging of the baby-boom generation, those born between 1946 and 1964, since baby boomers now comprise just over half the U.S. labor force.) Employees will also likely remain in the workforce past the age at which their parents retired, due to Social Security and Medicare changes and the termination of traditional benefit plans by many employers.

Creating unanimity from a diverse workforce may turn out to be a considerable challenge for HR. As several experts have said, there are “two fundamental and inconsistent realities operating today with regard to diversity. One is that organizations claim they seek to maximize diversity in the work place, and maximize the capabilities of such a diverse workforce. The other is that traditional human resources systems will not allow diversity, only similarity.” What they mean is that employers traditionally hire, appraise, and promote people who fit their image of what their firm’s employees should believe and act like, and there’s a tendency to screen out those who don’t “fit.” Establishing HR programs that don’t just pay lip service to diversity may thus be a challenge for many employers.

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**WEBNOTE**

The U.S. Department of Labor now has a Web site for working women from its Women’s Bureau.

www.dol.gov
Managerial Consequences of the Basic Trends

Managers have to craft strategies that balance opportunities and threats like those above with their firm’s strengths and weaknesses, and this has produced the strategies and organizational changes with which you’re already probably familiar. A strategy of *global expansion* has been perhaps the most obvious response to these trends: Firms ranging from giants like GE to smaller ones like Carrier to even the smallest entrepreneurial enterprises have a growing international presence.

*Improved competitiveness* is another popular strategy, one aimed at buttressing the firm’s strengths and reducing its weaknesses. This strategy manifests itself in many ways: in downsizing, to boost productivity; in mergers, to achieve increased size while stripping redundant costs; in programs aimed at continuously improving operations; and in using the Web (as does Carrier) to “integrate channels.” This lets firms and their suppliers and customers interact directly and thus further strip costs from operations.

Global expansion and improved competitiveness are in turn driving other, *organizational* changes. Rather than pyramidal chains with 9 or 10 levels, firms are flat; self-directed teams of empowered employees, close to the customers, now make decisions that once had to be shifted up for managerial review. *Boundaryless decision making* means employees interact freely across departmental and level boundaries to get the information and decisions they need quickly. *Knowledge management* initiatives mean systems are in place to ensure that employees across the company can share their special expertise.

The bases of power are also therefore changing. In the new workplace, says one expert, position, title, and authority are no longer adequate tools for managers to rely on to get their jobs done. Instead, “success depends increasingly on tapping into sources of good ideas, on figuring out whose collaboration is needed to act on those ideas, and on working with both to produce results. In short, the new managerial work implies very different ways of obtaining and using power.”

**HR’S STRATEGIC ROLE**

Of course (since this is an HR book), the question is, “What does this all mean for human resource management?” The answer, in brief, is that firms today are instituting HR practices aimed at gaining competitive advantage from their employees. For example, GE’s former Chairman Jack Welch has said, “The only way I see to get more productivity is by getting people involved and excited about their jobs. You can’t afford to have anyone walk through a gate of a factory or into an office who is not giving 120%.” A survey of 377 CEOs from the world’s 2,000 largest companies shows that GE’s emphasis isn’t unique. About half the CEOs said they spend a “great deal” of time “reshaping corporate culture and employee behavior,” even more time than they spend monitoring corporate financial information. Another study found that 70% of companies with above-average financial performance considered employee training and development a critical factor in corporate success. These companies help build competitive advantage by developing their human capital.
HR’s Evolving Role

Today, it’s the firm’s workforce—its knowledge, commitment, skills, and training—that provides the competitive advantage for world-class companies like Microsoft, Sony, AOL, and GE. And it’s HR’s job to build that competitive advantage.

That means an upgrading of HR’s traditional role. In the early 1900s, personnel people first took over hiring and firing from supervisors, ran the payroll department, and administered benefit plans. The job consisted largely of ensuring that procedures were followed. As new technology in areas like testing and interviewing began to emerge, the personnel department began to play an expanded role in employee selection, training, and promotion.

The emergence of union legislation in the 1930s led to a new HR emphasis on protecting the firm in its interaction with unions. The discrimination legislation of the 1960s and 1970s meant the potential for more lawsuits, and effective personnel practices became even more important. However, the emphasis was still on what HR could do to protect the organization rather than the positive contribution it made to the firm’s effectiveness.

Today, HR’s role is shifting from protector and screener to strategic partner and change agent. The metamorphosis of “personnel” into “human resource management” reflects that. In today’s flattened, downsized, and high-performing organizations, trained and committed employees—not machines—are the firm’s competitive key.

Strategic Human Resource Management

If a firm’s competitiveness depends on its employees, then the business function responsible for acquiring, training, appraising, and compensating those employees has to play a bigger role in the firm’s success. The notion of employees as competitive advantage has therefore led to a new field of study known as strategic human resource management, “the linking of HRM with strategic goals and objectives in order to improve business performance and develop organizational cultures that foster innovation and flexibility.” Ideally, HR and top management together craft the company’s business strategy. That strategy then provides the framework that guides the design of specific HR activities such as recruiting and training. This should produce the employee competencies and behaviors that in turn should help the business implement its business strategy and realize its goals.

HR strategies are the courses of action HR uses to help the company achieve its strategic aims. One of FedEx’s strategic aims is to achieve superior levels of customer service and high profitability through committed employees. Its basic HR objective is thus to build a committed workforce, preferably in a nonunion environment. FedEx pursues specific HR strategies to accomplish that strategic aim. It uses mechanisms (such as special grievance procedures) to build healthy two-way communication; it screens out potential managers whose values are not people oriented; it provides highly competitive salaries and pay-for-performance incentives; it provides for fair treatment and employee security for all employees; and it uses promotion from within and developmental activities to give employees every opportunity to use their skills and gifts at work. Let’s take a closer look at HR’s strategic partner role.

HR’s Role As a Strategic Partner

Unfortunately, HR’s long history as a staff or advisory function has left it with a somewhat impoverished reputation—some still tend to view it as less than it is. For example, one view is that HR is strictly operational and that HR activities are
not strategic at all. According to this line of reasoning, HR activities “involve putting out small fires—ensuring that people are paid on the right day; the job advertisement meets the newspaper deadline; and a suitable supervisor is recruited for the night shift by the time it goes ahead. . .”

A second, more expansive, view is that HR’s role is to fit or adapt to the company’s strategy. Here HR’s strategic role is to adapt individual HR practices (recruiting, rewarding, and so on) to fit specific corporate and competitive strategies. Top management crafts a corporate strategy—such as AOL’s decision to merge with Time Warner—and then HR creates the HR programs required to execute that corporate strategy. As two strategic planning experts have argued, “the human resources management system must be tailored to the demands of business strategy.” The idea here is that “for any particular organizational strategy, there is purportedly a matching human resource strategy.”

A third view of HR management is that it is an equal partner in the strategic planning process. Here, HR’s role is not just to adapt its activities to the firm’s business strategy, nor, certainly, just to carry out operational day-to-day tasks like paying employees. Instead, the need to forge the firm’s workforce into a competitive advantage means that HR management must be an equal partner in both the formulation and the implementation of the company’s strategies. Here, for instance, HR participates in and influences decisions like AOL’s decision to merge with Time Warner.

Is this third view realistic? One study of top HR managers in New Zealand is probably typical and suggests the answer is “yes and no.” By their own descriptions, most of these managers were “more intimately involved with the implementation of strategic change and with the recruitment and development of key staff, notably managers” than with actually formulating the firm’s strategic plans. Yet even in this sample, there was a tendency for HR executives to increasingly take a broader view of the business as a whole and its wider environment. A study by PricewaterhouseCoopers found that about 27% of the responding companies included HR’s perspective when starting their strategic planning cycles. HR managers therefore both traditionally and today seem to have their greatest strategic impact on executing a company’s plans; however, the opportunity and need exists for their involvement in strategy formulation as well.

**HR’s Role in Executing Strategy** Execution has traditionally been the heart of HR’s strategic role, and that makes sense. A firm’s functional strategies should support its competitive strategies. For example, FedEx’s competitive strategy is to differentiate itself from its competitors by offering superior customer service and guaranteed on-time deliveries. This requires highly committed employees—ones who’ll “go the extra mile” to do their best. Since the same basic technologies are available to UPS, DHL, and FedEx’s other competitors, it is FedEx’s workforce—its human resource—that provides FedEx with its competitive advantage. This means FedEx, as discussed earlier, must design its HR processes to create a committed, competent, and customer-oriented workforce. A different firm with a different competitive strategy might well have a very different approach to HR.

HR supports strategy implementation in other ways. For example, HR handles the execution of most firms’ downsizing and restructuring strategies—by outplacing employees, instituting pay-for-performance plans, reducing health care costs, and retraining employees. When Wells Fargo acquired First Interstate Bancorp, HR played a strategic role in merging two “wildly divergent” cultures. It helped deal with the uncertainty and initial shock that rippled through both organizations when management announced the merger.
**HR and Value Chain Analysis**  Strategy execution usually involves identifying and reducing costs, and therefore **value chain analysis**. A company’s value chain “identifies the primary activities that create value for customers and the related support activities.” As in Figure 1-2, every business consists of a chain of activities, each of which contributes to designing, producing, marketing, and delivering a product or service. Each activity gives rise to costs. Managers use the value chain for visualizing their firm’s strategic activities, and as a tool for isolating and analyzing the company’s strategic costs. Value chain analysis prompts questions such as: “How do our costs for this activity compare with our competitors’?” “Is there some way we can gain a competitive advantage with this activity?” “Is there a more efficient way for us to deliver these services?” “And do we have to perform these services in house?”

By applying value chain analysis, HR managers are finding ingenious ways to deliver their own services more cost effectively. IBM’s HR group, faced with drastic cost cutting in the 1990s, first slimmed down from 3,400 to 2,000 employees. Told to cut costs by another 40% to 50%, the HR team consolidated all its service functions into a centralized human resource service center based in Raleigh, North Carolina. This technology-rich call center helps more than 700,000 IBM “customers” (employees and their families), handling over 7 million transactions a year. It reportedly saved IBM over $180 million in its first six or so years.52

**Outsourcing**—letting outside vendors provide services—is another option. In one survey, about 71% of respondents said they were outsourcing one or more HR activities such as temporary staffing, recruiting, benefits administration, payroll, and training. Cost reduction was the most commonly cited explanation.53

**HR’s Role in Formulating Strategy** Formulating a strategic plan requires identifying, analyzing, and balancing the company’s external opportunities and threats, and its internal strengths and weaknesses. HR plays a role here, too.

For example, HR management can help with what strategic planners call environmental scanning, identifying and analyzing external opportunities and threats that may be crucial to the company’s success. Thus, American Airlines considered and then rejected the opportunity to acquire USAir, a smaller and relatively weak airline. While American had several reasons for rejecting a bid, HR considerations loomed large. American had doubts about its ability to successfully negotiate new labor agreements with USAir’s employees, and felt the problems of assimilating them might be too great.

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**FIGURE 1-2**

The Value Chain Approach to Analyzing a Company’s Activities and Costs

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**Value chain analysis**
Identifying the primary activities that create value for customers and the related support activities.

**Outsourcing**
Letting outside vendors provide services.
Formulating plans requires competitive intelligence, and HR management can supply useful information. Details regarding new competitors’ incentive plans, and information about pending legislation like labor laws or mandatory health insurance are some examples. Furthermore:

*From public information and legitimate recruiting and interview activities, you ought to be able to construct organization charts, staffing levels and group missions for the various organizational components of each of your major competitors. Your knowledge of how brands are sorted among sales divisions and who reports to whom can give important clues as to a competitor’s strategic priorities. You may even know the track record and characteristic behavior of the executives.*

HR also supplies information regarding the company’s internal strengths and weaknesses. For example, AOL’s decision to buy Netscape was probably prompted in part by AOL’s assessment that its own human resources were inadequate for the task of creating a browser that could compete with Internet Explorer, or at least doing so quickly enough.

Some firms even build their strategies around an HR-based competitive advantage. For example, in the process of automating its factories, farm equipment manufacturer John Deere developed a workforce that was exceptionally talented and expert in factory automation. This in turn prompted the firm to establish a New-Technology division to offer automation services to other companies. As another example, the firm Arthur Andersen developed unique human resource capabilities in training. The firm’s Illinois training facility is so technologically advanced that it provides the firm with a competitive advantage, enabling it to provide fast, uniform training in house and “react quickly to the changing demands of its clients.”

**HR and Technology**

Indeed, technology can be an engine of strategic change. At IBM, for instance, creating a centralized HR call center did more than save the company $180 million. Studies (like one conducted at pharmaceuticals company Warner-Lambert) show that as much as 70% of HR employees’ time is devoted to transactional tasks like checking leave balances, maintaining address records, and monitoring employee benefits distributions. Consolidating and digitizing transactional services like these therefore meant IBM could redeploy HR assets to more value-added services—like helping divisional managers develop their employees and create their strategic plans. Doing so helped turn IBM HR into a truly strategic partner. We’ll look at how technology is changing HR in this section.

**Basic HR Systems** HR can be an enormously paper-intensive process. For example, just recruiting and hiring an employee might require a Notice of Available Position, a help wanted advertising listing, an employment application, an interviewing checklist, and a telephone reference checklist. You then need an employment agreement, a confidentiality and noncompete agreement, and a hiring authorization form and employee background verification. To keep track of the employee once he or she is on board, you’d need—just to start—an employee change form, personnel data sheet, and daily or weekly time records. Then come the performance appraisal forms, notice of probation, and dozens of other, similar forms—and this list doesn’t even scratch the surface.

Where do forms and systems like these come from? For a start-up business, office supply stores such as Office Depot and OfficeMax sell paper-and-pencil forms. For example, Office Depot sells packages of individual personnel forms, including an employment application, performance evaluation, and weekly
expense report. But as your company grows, it becomes increasingly unwieldy and inefficient to rely on manual HR systems. Conducting performance appraisals for a few employees and tracking the results may not be much of a problem for a small store, but for a company with 40 or 50 employees, the management time devoted to conducting appraisals can multiply into weeks. It is at about this stage that most small- to medium-sized firms begin computerizing individual HR tasks.

There are many sources of help available. For example, the Web site for the international association for human resource information management www.ihrim.org/marketplace/buyers_guide/buyers_guide_cat.html contains a buyer's guide listing software vendors by functional category. These vendors provide software solutions for virtually all HR tasks, including compensation management, payroll, and time and attendance systems. HR supply firms such as G. Neil Companies and HR Direct sell off-the-shelf software packages for controlling attendance, employee record keeping, writing job descriptions, and conducting computerized employee appraisals.

**Human Resource Information Systems (HRIS)** As companies grow, they integrate their separate HR systems into human resource information systems (HRIS). An HRIS is “interrelated components working together to collect, process, store, and disseminate information to support decision-making, coordination, control, analysis, and visualization of an organization’s human resource management activities.”58

Integrating separate HR systems can be highly cost effective. For example, W. H. Brady Company, a Milwaukee-based manufacturer of identification products such as labels, reportedly cut several hundred thousand dollars a year from its HR budget through the use of HRIS.59 The cost effectiveness derives from three factors: streamlined transactions processing (for instance, computerizing more of the firm’s HR processes, such as appraisal); improved reporting capability (for instance, letting the CEO quickly access reports on things like health care cost per employee, and cost per hire); and making it easier for the firm to put its HR systems online. We’ll turn to online HR next.

**HR and the Internet** The Internet triggered a revolution in what HR departments do and how they do it. First, the Internet enabled any HR department to shift some activities to specialized online HR service providers. For example, Swales Aerospace recruits many engineers, and uses hire.com for its recruiting. Hire.com does not just post job openings. When a client position becomes available, hire.com sifts through its active and passive files to identify likely candidates. According to Swales’s HR director, “hire.com was able to meet all our needs for building a pool of people that only we had access to, that we knew were interested in our company, and that had the skills we were looking for.”

Yet, while turning to specific online services like these is beneficial, it’s the movement to **HR portals** that prompted the most striking changes in what HR does and how it does it. As the head of the technology group for the Society for Human Resource Management has said, “the number one trend from a technology perspective is the evolution of intranets into full-fledged portals.”60

HR portals, usually hosted on a company’s intranet, provide employees with a single access point or “gateway” to all HR information.61 They let the firm’s employees, managers, and executives interactively (and selectively) access and modify HR information. They thereby streamline the HR process and enable HR managers to focus more on strategic issues.
Sometimes the firm’s gateway HR portal supports just a few HR specialists. Anheuser-Busch used this approach when the time came for annual benefits package enrollments. HR knew there would be a large number of employee inquiries. It therefore replaced its manual inquiry process with Authoria HR, an HR portal from Authoria, Inc. (www.authoria.com). Doing so let HR digitize and aggregate through a single source (the new portal) all the former paper benefits reports, electronic spreadsheets, and benefit summaries that the firm’s benefits counselors had been using. That made it much easier for specialists in Anheuser-Busch’s HR call center to answer employees’ questions as they came in. The aim is to eventually allow employees to research and answer their own HR questions through a browser-based interface.62

Wells Fargo used an HR portal when it merged with Norwest Corporation. The merger meant moving 90,000 employees to a new benefits plan, which of course triggered numerous employee inquiries. As at Anheuser-Busch, Wells Fargo armed its HR call center counselors with a specialized portal; this helped them research and answer employees’ inquiries.

NCR also installed an HR portal. It is called HR eXpress, and is organized into three information areas: benefits and compensation, training and career growth, and NCR values and HR policies.63 NCR also added a Forms Center to the site’s title bar. HR eXpress gives NCR employees a shortcut to all the information they need to manage HR tasks, such as those relating to company benefits and updating their personal information. The Forms Center gives them quick access to any forms they need.

Again, putting HR services online doesn’t just cut costs by letting employees research their own inquiries or by letting HR call center counselors do their jobs more easily (although it certainly does both). It also enables HR to redeploy its assets and focus on more strategic issues. As one manager put it: “We weren’t looking for cost savings but to transform the work HR was doing from reactionary—dealing with paper and manual tasks—to proactive, being on the cutting edge, making people better employees.”64

**HR and Employee Performance and Commitment**

It is one thing to argue that HR can help create competitive advantage; the real question is: “Can HR have a measurable impact on a company’s bottom line?” There is evidence that the answer is yes. The U.S. government, for instance, found that using personnel screening tests to select high-potential computer programmers saved millions of dollars per year. For many firms, instituting tough head-count controls is the first line of attack in lowering labor costs. HR generally plays a major role in planning and implementing corporate downsizings, and then in maintaining the morale of the remaining employees.

A study by HR consulting firm Watson Wyatt Worldwide of Bethesda, Maryland, found that significant improvements in key HR management practices correlated with significant increases in market value in the 405 publicly traded firms studied. We can’t draw any conclusions regarding cause and effect. However, significantly improving recruiting practices was linked to a 10% increase in market value, while establishing clear rewards and accountability was associated with a 9.2% market value rise.65

Employee behavior (and therefore HR) is especially important in service firms like banks and retail stores. If your customer is confronted by a salesperson who is tactless, unprepared to discuss the different products, or (even worse) discourteous, all your other efforts—advertising campaigns and redecorated stores, for instance—will have been wasted. That makes service firms especially dependent on employees’ attitudes and motivation—and on HR management. One study of service firms found that HR practices (such as facilitating employees’ career
progress and providing orientation or socialization programs) improved customer service from the customers’ point of view. FedEx built its competitive advantage on this idea. Fred Smith, its chairman and founder, calls this “People-Service-Profits”: Use HR to build employee commitment; employees will then provide excellent customer service, which in turn will generate profits.

FedEx is not alone in using HR to help build employee commitment—an employee’s identification with and agreement to pursue the company’s or the unit’s mission. Many firms today know they need employees to work “as if they own the company.” At Toyota Motor Manufacturing in Georgetown, Kentucky, employee commitment helps explain the firm’s superior performance and product quality. Toyota instituted an HR system that cultivates commitment. For example, Toyota has programs that guarantee fair treatment of employees’ grievances and disciplinary concerns. It also has programs that help ensure employees can use all their skills and gifts at work, such as career-oriented performance appraisal procedures and extensive training and development opportunities.

HR practices also enable companies to respond faster to product and technological innovations and competitors’ moves. For example, downsizing, empowering employees, and organizing around teams—all HR jobs—aim to improve communications and make it easier for employees to make decisions. At Levi Strauss, HR helped create the firm’s team-based manufacturing system. This system ties employees’ incentives to team goals and, along with Levi’s new flexible-hours program, helps inject more flexibility into the firm’s production process. The photo above illustrates how HR can affect a company’s bottom line.

From its start in Michael Dell’s college dorm room, Dell Computer’s competitive strategy was always to be the PC industry’s low-cost leader. While others like Apple competed based on differentiating features like multimedia software, Dell stripped away the retailers’ profit and drove its costs down by selling direct and relentlessly slashing costs. That’s why it was, and is, the industry’s low-cost leader. But recently, with PC sales falling, it was aggressively slashing prices, and the executives of its various divisions had to make sure their own strategies were in sync with the firmwide strategy to further cut costs.

As at many firms in the same situation, Dell HR’s first task was to manage Dell’s downsizing. In the first half of 2001, 4,000 Dell workers were let go. HR had to manage the system for choosing those who would leave the firm, and then handle the thousands of details involved in the dismissals. Terminated workers got their yearly bonuses early, severance packages including two months’ salary and health benefits, and job counseling, among other benefits.

Dell’s HR managers have found a variety of other, ongoing ways to help Dell’s top management execute the firm’s low-cost leader strategy. For one thing—and as you might
imagine—Dell now delivers most of its HR services via the Web. A Manager Tools section on the firm’s intranet contains about 30 automated Web applications (including executive search reports, hiring tools, and automated employee referrals) allowing managers to perform HR tasks that previously required costly participation by HR department personnel. The intranet also lets Dell employees administer their own 401(k) plans, check job postings, and monitor their total compensation statements. This dramatically reduces the number of HR people required to administer these activities, and thus the cost of doing so.70

Dell also reorganized its delivery of HR services.71 Rather than a traditional organization with HR heads for areas such as employment services, compensation, and employee health, Dell distinguishes between HR “operations” and HR “management.” Operations staff deal directly with employees and coordinate transactional functions such as benefits, compensation, and employee relations through a central call center. Operations staff members rarely have contact with managers of Dell’s business units. In contrast, HR management includes the company’s education and training function (Dell University), as well as functions like recruitment and selection. HR management staff report to both the vice president of a business unit (such as Laptop Computers) and the vice president of HR. They attend their business unit’s staff meetings as consultants, develop HR strategies for that particular line of business, and assist with matters such as identifying personnel needs, training employees, and contributing HR’s perspective to the business unit’s strategic plan.72

This division of work lets Dell’s central HR operations staff efficiently address routine matters, while each business unit’s relatively small HR management staff can efficiently provide specialized HR support in areas like personnel testing and strategic planning. That—along with Dell’s use of Web-based self-serve HR services—illustrates how Dell HR helps Dell Computer remain the PC industry’s low-cost leader.

Is There a “One Best HR Way”? 

Assuming HR can affect the bottom line, is there a set of HR “best practices” (such as a particular way to appraise or compensate employees) that is applicable to all or most companies and strategies? Or do we have to adjust the HR practice to fit each situation? This question has been the subject of much debate, and we can draw some conclusions.

First, studies do suggest that some HR approaches are applicable to all or most companies. For example, profit sharing, results-oriented appraisals, and employment security all had strong relationships with measures of organizational performance in a range of situations.73 Similarly, several HR practices seem “universal” for firms that do business globally: fostering informal relationships between employees with the aim of promoting worldwide communication; developing global executives through international assignments; having people with international experience in key global HR management positions; and having a global HR person on the initial business strategy team when entering new markets.74

On the other hand, there appears to be no “best practices” magic bullet, except to organize a firm’s HR practices to fit its strategy and to “support the firm’s operating and strategic initiatives.”75 In other words, dropping an HR practice into your firm just because it worked well in another is risky.

◆ RESEARCH INSIGHT Two studies illustrate this. In a study of banks, researchers measured performance on two financial measures: return on average assets, and return on equity.76 They found that “the results of these analyses show that differences in HR practices are associated with rather large differences (approximately 30%) in financial performance.”77 However, whether the banks benefited from the specific types of HR practices (such as employee participation, results-
oriented appraisals, and internal career opportunities) depended on the type of bank, and on what it was trying to achieve strategically (cut costs, boost quality, expand geographically, or something else).78 A study of 97 manufacturing plants in the metalworking industry similarly concluded that HR practices did affect plant performance. However, how you design the HR practice has to fit the company’s strategy and what the company wants to achieve.79

For current and future managers, the best advice seems to be to learn as much as possible about the HR practices we’ll discuss in the following chapters, and then design a practice that’s consistent with what your company wants to achieve. The corollary is that flexibility is advisable: You may have to modify an HR practice (such as a compensation plan) as competitive conditions cause you to modify your firm’s business strategy.

### THE PLAN OF THIS BOOK

Before moving on to Chapters 2 through 16, let’s step back and get an overview of where we are heading. What should you keep in mind as you read this book? Two things. First, HR management is the responsibility of every manager—not just those in the HR department. Throughout this book, you’ll therefore find an emphasis on practical material that you as a manager will need to carry out your day-to-day management responsibilities.

Second (as we’ve seen in this chapter), HR practices today must address several basic issues, including improving competitiveness, globalizing the firm’s operations, implementing technological and Internet-based advances, and contributing to the firm’s strategic success. In each chapter, you’ll therefore find specific aids or features aimed at highlighting HR’s role. For example, “High-Performance Insights” illustrate how HR helps make firms better, faster, and more competitive, and “HR.NET” features show how managers use the Web to improve HR. Strategy, because of its importance, deserves a special word: All chapters start with a “Strategic Overview” focused on a real firm. It shows the firm facing a strategic challenge, and suggests HR’s possible role; a “Strategic HR” feature later in the chapter then shows what HR actually did.

Here is a brief overview of the chapters to come:

- Chapter 2: Equal Opportunity and the Law. What you’ll need to know about equal opportunity laws as they relate to human resource management activities such as interviewing, selecting employees, and evaluating performance.

### Part II: Recruitment and Placement

- Chapter 3: Job Analysis. How to analyze a job; how to determine the human resource requirements of the job, as well as its specific duties and responsibilities.
- Chapter 4: HR Planning and Recruiting. Determining what sorts of people need to be hired; recruiting them.
- Chapter 5: Employee Testing and Selection. Techniques you can use to ensure that you’re hiring the right people.
- Chapter 6: Interviewing Candidates. How to interview candidates to help ensure that you hire the right person for the right job.

### Part III: Training and Development

- Chapter 7: Training and Developing Employees. Providing the training necessary to ensure that your employees have the knowledge and skills needed to accomplish their tasks; concepts and techniques for developing more capable employees, managers, and organizations.
Chapter 8: Managing Strategic Organizational Renewal. HR techniques such as quality improvement programs and team building that firms use to help them manage quality and productivity.


Chapter 10: Managing Careers and Fair Treatment. Techniques such as career planning and promotion from within that firms use to help ensure employees can achieve their potential and be treated fairly.

Part IV: Compensation

Chapter 11: Establishing Strategic Pay Plans. How to develop equitable pay plans for your employees.

Chapter 12: Pay-for-Performance and Financial Incentives. Pay-for-performance plans such as financial incentives, merit pay, and incentives that help tie performance to pay.

Chapter 13: Benefits and Services. Providing benefits that make it clear the firm views its employees as long-term investments and is concerned with their welfare.

Part V: Employee Security and Safety

Chapter 14: Labor Relations and Collective Bargaining. Concepts and techniques concerning the relations between unions and management, including the union organizing campaign; negotiating and agreeing upon a collective bargaining agreement between unions and management; and managing the agreement via the grievance process.

Chapter 15: Employee Safety and Health. The causes of accidents, how to make the workplace safe, and laws governing your responsibilities for employee safety and health.

Part VI: International HRM

Chapter 16: Managing Global Human Resources. The growing importance of international business, and HR’s role in managing the personnel side of multinational operations.

We invite you to visit www.prenhall.com/dessler on the Prentice Hall Web site for our online study guide, Internet exercises, current events, links to related Web sites, and more.

1. All managers perform certain basic functions—planning, organizing, staffing, leading, and controlling. These represent the management process.

2. Staffing, personnel management, or human resource management includes activities like recruiting, selecting, training, compensating, appraising, and developing employees.

3. HR management is a part of every manager’s responsibilities. These line responsibilities include placing the right person in the right job, and then orienting, training, and compensating to improve his or her job performance.

4. The HR manager and HR department carry out three main functions. First, the manager exerts line authority in his or her unit and implied authority elsewhere in the organization. He or she ensures that the organization’s HR objectives and policies are coordinated and implemented. And he or she provides various staff services to line management, such as assisting in the hiring, training, evaluating, rewarding, promoting, and disciplining of employees at all levels.
5. Trends such as globalization, technological advances, and deregulation mean that companies must be better, faster, and more competitive to survive and thrive today. Other important trends include growing workforce diversity and changes in the nature of work, such as the movement toward a service society and a growing emphasis on human capital.

6. Trends like globalization and technological innovation are changing the way firms are managed. For example, the traditional pyramid-shaped organization is flattening; employees are being empowered to make more decisions; work is increasingly organized around teams and processes; the bases of power are changing; and managers today must build commitment. Changes like these mean that organizations must depend more on self-disciplined and committed employees. HR activities can have measurable effects on a company’s bottom line, and on making a company better, faster, and more competitive.

7. HR management is often involved in both the formulation and the implementation of a company’s strategies, given the need for the firm to galvanize employees to promote the firm’s competitive advantage.

8. We defined strategic human resource management as “the linking of HRM with strategic goals and objectives in order to improve business performance and develop organizational cultures that foster innovation and flexibility.” HR is a strategic partner in that HRM works with other top managers to formulate the company’s strategy as well as to execute it.

It’s convenient to think of human resource management activities as a logical series of steps: Jobs need to be designed; employees then need to be recruited, selected, trained, appraised, and compensated; and their safety and security concerns attended to. We’ve seen in this chapter that you can’t design activities like these in a vacuum. For one thing, how you recruit and select employees, and the amount of effort you put into training them, needs to be consistent with what your company wants to achieve. In other words, they need to be consistent with the company’s strategy. Dell’s low-cost strategy approach to screening candidates may make less sense for a firm like Arthur Andersen, which recruits mostly professionals. Similarly, there’s virtually no HR decision that’s not influenced in one way or another by equal employment opportunity laws and legislation. We’ll turn to this topic in Chapter 2, before moving on to personnel planning and recruiting—the first of the basic HR activities.

Discussion Questions

1. Explain what HR management is and how it relates to the management process.
2. Give examples of how HR management concepts and techniques can be of use to all managers.
3. Illustrate the HR management responsibilities of line and staff managers.
4. Why is it important for companies today to make their human resources into a competitive advantage? Explain how HR can contribute to doing this.
5. Discuss and illustrate HR’s role in the strategic planning process.

Individual and Group Activities

1. Working individually or in groups, develop lists showing how trends like workforce diversity, technological innovation, globalization, and changes in the nature of work have affected the college or university you are attending now. Present in class.
2. Working individually or in groups, contact the HR manager of a local bank. Ask the HR manager how he or she is working as a strategic partner to manage human resources, given the bank’s strategic goals and objectives. Back in class, discuss the responses of the different HR managers.
3. Working individually or in groups, interview an HR manager; based on that interview, write a short presentation regarding HR’s role today in building more competitive organizations.

4. Working individually or in groups, bring several business publications such as Business Week and the Wall Street Journal to class. Based on their contents, compile a list entitled “What HR managers and departments do today.”

**EXPERIENTIAL EXERCISE  HRM As a Strategic Partner**

**Purpose:** The purpose of this exercise is to provide practice in identifying trends important to HR today, and in understanding their impact on an organization’s HR practices.

**Required Understanding:** Be thoroughly familiar with the material in this chapter.

**How to Set Up the Exercise/Instructions:**
1. Divide the class into teams of three to four students.
2. Read this:
   You are a strategic planning task force at your university. You must identify trends and how they will affect the university and its human resource needs. The team has already identified a partial list of trends (see following table).

<table>
<thead>
<tr>
<th>Critical Issues</th>
<th>Effect on Existing Employees</th>
<th>Potential HR Role(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>(Example)</em></td>
<td><em>(Example)</em></td>
<td><em>(Example)</em></td>
</tr>
<tr>
<td>1. Distance learning technology</td>
<td>Need for better computer skills</td>
<td>Provide greater technical training</td>
</tr>
<tr>
<td>2. Government reductions in funding to higher education</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Greater workforce diversity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. More international students</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. High percentage of faculty to retire over next decade</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. A local large business is developing its own corporate university</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Continuing education and nontraditional degree programs are increasing in popularity</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

3. Expand the list of “Critical Issues” and complete the other two columns in the table.
4. Present your team’s conclusions to the class.
5. When the teams have had time to discuss their responses, consider the following questions:
   a. Which environmental trend would have the greatest impact on the human resource needs of the university?
   b. What environmental change will be the most difficult for your HR group to manage?
   c. Overall, how will this combination of trends affect your university?

**APPLICATION CASE  Jack Nelson’s Problem**

As a new member of the board of directors for a local bank, Jack Nelson was being introduced to all the employees in the home office. When he was introduced to Ruth Johnson, he was curious about her work and asked her what her machine did. Johnson replied that she really did not know what the machine was called or what it did. She explained that she had only been working there for two months. She did, however, know precisely how to operate the machine. According to her supervisor, she was an excellent employee.

At one of the branch offices, the supervisor in charge spoke to Nelson confidentially, telling him that “something was wrong,” but she didn’t know what. For one thing, she
explained, employee turnover was too high, and no sooner had one employee been put on the job than another one resigned. With customers to see and loans to be made, she continued, she had little time to work with the new employees as they came and went.

All branch supervisors hired their own employees without communication with the home office or other branches. When an opening developed, the supervisor tried to find a suitable employee to replace the worker who had quit.

After touring the 22 branches and finding similar problems in many of them, Nelson wondered what the home office should do or what action he should take. The banking firm was generally regarded as a well-run institution that had grown from 27 to 191 employees during the past eight years. The more he thought about the matter, the more puzzled Nelson became. He couldn’t quite put his finger on the problem, and he didn’t know whether to report his findings to the president.

Questions
1. What do you think is causing some of the problems in the bank home office and branches?
2. Do you think setting up an HR unit in the main office would help?
3. What specific functions should an HR unit carry out? What HR functions would then be carried out by supervisors and other line managers? What role should the Internet play in the new HR organization?


CONTINUING CASE: LearnInMotion.com Introduction

The main theme of this book is that HR management—activities like recruiting, selecting, training, and rewarding employees—is not just the job of some central HR group, but rather one in which every manager must engage. Perhaps nowhere is this more apparent than in the typical small service business. Here the owner-manager usually has no personnel staff to rely on. However, the success of his or her enterprise (not to mention his or her family’s peace of mind) often depends largely on the effectiveness with which workers are recruited, hired, trained, evaluated, and rewarded.

To help illustrate and emphasize the front-line manager’s HR role, throughout this book we will use a continuing (“running”) case, based on an actual small business in the northeastern United States. Each segment will illustrate how the case’s main players—owner-managers Jennifer Mendez and Mel Hudson—confront and solve personnel problems each day by applying the concepts and techniques presented in that particular chapter. The names of the company and principals have been changed, as have a few of the details, but the company, people, dates, and HR and other problems are otherwise real. Here’s some background information you’ll need to answer questions that arise in subsequent chapters.

LearnInMotion.com: A Profile Jennifer and Mel graduated from State University as business majors in June 1999, and got the idea for LearnInMotion.com as a result of a project they worked on together their last semester in their entrepreneurship class. The professor had divided the students into two- or three-person teams, and given them the assignment “create a business plan for a dot-com company.”

The idea the two came up with was LearnInMotion.com. The basic idea of the Web site was to list a vast array of Web-based, CD-ROM-based, or textbook-based business-related continuing-education-type courses for “free agent learners”—in other words, for working people who wanted to take a course in business from the comfort of their own homes. The idea was that users could come to the Web site to find and then take a course in one of several ways. Some courses could be completed interactively on the Web via the site; others were in a form that was downloadable directly to the user’s computer; others (which were either textbook or CD-ROM based) could be ordered and delivered (in several major metropolitan areas) by independent contractor deliverypeople using bicycles or motorized scooters. Their business mission was “to provide work-related learning when, where, and how you need it.”

Based on their research, they knew the market for work-related learning like this was booming. The $63-billion U.S. corporate training market was (and is) growing at 10% annually, for instance, with no firm controlling more than 2%. In 1999, when they created their plan, 76 million adult U.S. learners participated in at least one education activity. Over 100,000 U.S. training and consulting firms offered seminars, courses, and other forms of training. They estimated that worldwide markets were at least two or three times the U.S. market.

At the same time, professional development activities like these were increasingly Internet based. Thirteen percent
of training was delivered via the Internet when they did their class project in 1999, and projections were for the e-learning/distance learning market to grow over 90% annually for the following three years. Tens of thousands of on- and offline training firms, universities, associations, and other content providers were trying to reach their target customers via the Internet. Jennifer and Mel understandably thought they were in the right place at the right time. And perhaps they were.

Their business plan contained about 25 pages, including financial projection tables, and covered the usual array of topics: company summary; management; market trends and opportunities; competition; marketing plan; financial plan; and appendices. The one-page executive summary contained a synopsis of the plan and covered “the business,” “the market,” “strategies,” “competition,” “value proposition,” “the revenue drivers,” “the management,” and “financials and funding.” Most of this is self-descriptive. Revenue drivers referred to how the company would generate revenues (in this case, online banner ads and sponsorships, content providers’ listing fees, and fees for courses actually taken). Financials and funding included basic financial projections as well as likely “exit strategies,” which in this case included the possibility of a public offering, a merger with related sites, or sale of the site, perhaps to one of the super portals that were aggregating specialized sites as part of their strategies. They got an A for the business plan, an A for the course, and a standing ovation from the business people the professor had invited to help evaluate the presentations.

When the two graduated in June 1999, it looked like the Internet boom would go on forever. It was not unusual for entrepreneurs still in their teens to create and sell Web sites. Some were selling their Web sites for literally hundreds of millions of dollars. Jennifer’s father had some unused loft space in the SoHo area of New York, so with about $45,000 of accumulated savings, Jennifer and Mel incorporated and were in business. They retained the services of an independent contractor programmer and hired two people—a Web designer to create the graphics for the site (which would then be programmed by the programmer), and a content manager whose job was basically to keypunch information onto the site as it came in from content providers. By the end of 1999, they also completed upgrading their business plan into a form they could show to prospective venture capitalists. They sent the first version to three New York area venture capitalists. Then they waited.

And then they waited some more. They never heard back from the first three venture capitalists, so they sent their plan to five more. By now it was March 2000, and a dramatic event occurred: The values of a wide range of Internet and Internet-related sites dropped precipitously on the stock market. In some cases, entrepreneurs who had been worth $1 billion in February 1999 were worth $20 million or less by April. “Well, $20 million isn’t bad,” Mel said, so they pressed on. By day they called customers to get people to place ads on their site, to get content providers to list their available courses, and to get someone—anyone—to deliver textbook- and CD-ROM-based courses, as needed, in the New York area.

By May 2000, they had about 300 content providers offering courses and content through LearnInMotion.com. In the summer, they got their first serious nibble from a venture capital firm. They negotiated with this company through much of the summer, came to terms in the early fall, and closed the deal—getting just over $1 million in venture funding—in November 2000.

After a stunning total of $75,000 in legal fees (they had to pay both their firm’s and the venture capital firm’s lawyers to navigate the voluminous disclosure documents and agreements), they had just over $900,000 to spend. The funding, according to the business plan, was to go toward accomplishing five main goals: redesigning and expanding the Web site; hiring about seven more employees; moving to larger office space; designing and implementing a personal information manager (PIM)/calendar (users and content providers could use the calendar to interactively keep track of their personal and business schedules); and, last but not least, driving up sales. LearnInMotion was off and running.

Questions and Assignments

1. Would a company like this with just a few employees and independent contractors have any HR tasks to address? What do you think those might be?

2. Based on your review of the online catalogs of firms such as Office Max, Staples, and HRNext.com, what basic HR systems would you recommend to Jennifer and Mel?