Strategic Human Resource Management 6th edition Mello Solutions Manual

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Instructor Manual

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Purpose and Perspective of the Chapter

This chapter introduces the concept of treating human resource management processes, practices and procedures from a strategic point of view. The skills and knowledge possessed by individuals can be valuable assets to any organization and should be treated as such. Executives and managers need to understand how to value/measure and manage from an investment point of view all assets, including their employees. However, many factors can influence the investment orientation of an organization. Understanding the risks and benefits to the organization of investing in human capital is of great importance.

Chapter Objectives

The following objectives are addressed in this chapter:

01.01 Explain why it is difficult to place a value on human assets relative to other organizational assets.
01.02 Describe the concept of human capital, including how it can be measured and analyzed.
01.03 Explain the use and value of metrics and analytics in strategic human resource management.
01.04 Outline the obstacles that prevent organizations from investing in their employees.

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WHAT'S NEW IN THIS CHAPTER

The following elements are improvements in this chapter from the previous edition:

- New opening in practice vignette, expanded coverage of metrics, new exhibit

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CHAPTER OUTLINE

I. Opening Cases (LO 01.01, PPT Slides 1-3)

a. Publix Supermarkets: Publix takes a unique approach to managing its workforce as all employee "associates" are also shareholders/owners under a plan by which they receive an additional 8.5% of their wages in company stock and are allowed to purchase additional stock after one year of service. Publix has received recognition from Fortune (100 Best Companies to Work for in America), Newsweek (#1 in Supermarket Category of America's Best Customer Service), and Forbes (#1 Grocer for Customer Service and Social Responsibility). Its voluntary annual employee turnover rate of 5% is far below the industry average of 65%.
b. Nordstrom: A strategic competitive advantage for Nordstrom includes a successful human resource (HR) approach, involving heavy investment in their sales force of associates. Nordstrom consistently produces above-industry-average profits and has continued to be profitable when its competitors have declined or fallen flat.

II. Introduction (LO 01.01, PPT Slides 4-5)

a. The human element is often the most important element of performance for any organization. Thus, appropriate resources and investments must be committed to facilitate systems for attracting, motivating and managing human resources. Adopting a strategic view of HR involves considering employees as "human assets," and developing appropriate policies and procedures to manage them as valuable investments.
b. See Exhibit 1-1: SOURCES OF EMPLOYEE VALUE
    1. Technical Knowledge: Markets, Processes, Customers, Environment
    2. Ability to Learn and Grow: Openness to New Ideas, Acquisition of Knowledge/Skills

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3. Decision Making Capabilities: Analytical Skills, Problem-Solving Skills, Change-Management and Implementation Skills
4. Motivation: Job Satisfaction, Challenging Work, Perceived "Fit" With Organization
5. Commitment: Belief in Mission, Engagement
6. Teamwork: Interpersonal Skills, Leadership Ability

III. Adopting an Investment Perspective (LO 01.02, PPT Slides 6-7)

a. Characterizing employees as human assets implies the strategic management of human resources should include considering HR from an investment perspective.
b. Cost/benefit basis analysis may be used to evaluate HR programs, such as training and development.
c. An investment perspective toward human assets facilitates their becoming a competitive advantage as most other resources/assets can be cloned, copied or imitated by competitors.
d. A strategic approach to HR, however, does not always involve a human relations approach to employee relations, as noted in the Managing Employees at United Parcel Service example.
e. Investments in employees must be undertaken in tandem with strategies to retain employees long enough to realize an acceptable return on investments in employees. This requires valuation of the employee as an asset, which can be difficult to do.

IV. Valuation of Assets (LO 01.03, PPT Slide 8)

a. See Exhibit 1-2: Types of Organizational Assets/Capital, from easiest to most difficult to measure
    1. Financial (Easier to Measure): Examples include equity, securities and investments, accounts receivable.
    2. Physical: (Easier to Measure): Examples include plant, land, equipment, raw materials.
    3. Market (Easier to Measure): Examples include goodwill, branding, customer loyalty, product line, distribution networks, patents, trademarks, copyrights.
    4. Operational (More Difficult to Measure): Examples include management practices, structure of work, technology.
    5. Human (More Difficult to Measure): Examples include education, knowledge, skills, competencies, work habits and motivation, personal relationships.

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V. Understanding and Measuring Human Capital (LO 01.03, PPT Slides 9-10)

a. Employees are both a significant resource and significant cost for an organization; thus, employee contributions to the bottom line must be measured.
b. Watson Wyatt Worldwide found the primary reason for organizational profitability is the effective management of human capital.
c. Dyer and Reeves defined the HR "value chain," arguing performance could be measured via four different sets of outcomes: employees, organizational, financial and accounting, and market-based. These measures have a sequential cause-effect relationship on each other (Exhibit 1-3: HR Value Chain).
    1. Employee Outcomes: Examples include attitudes, behavior, commitment, engagement.
    2. Operational Outcomes: Examples include productivity, quality, customer satisfaction and loyalty.
    3. Financial/Accounting Outcomes: Examples include expenses, revenues, and profitability.
    4. Market-Based Outcomes: Examples include stock price and valuation/capitalization.
d. HR managers are increasingly attempting to develop and measure meaningful HR metrics to aid them in developing effective strategies for managing human capital.
e. Fortune 500 firms often evaluate HR in limited, non-monetary ways, including dimensions of retention, turnover, corporate morale, and employee satisfaction.
f. Accounting practices tend to favor valuation methods stressing past and current asset value, while much of the value of human assets lies in the future. Thus, organizations must be future-oriented in valuing HR.
g. Measuring Human Assets/Capital at Dow Chemical example illustrates how Dow has developed two meaningful metrics: expected human capital return and actual human capital return.
h. Six step model of valuation of HR initiatives:
    1. Identify specific business problem that HR can impact.
    2. Calculate actual cost of the problem.
    3. Choose an HR solution that addresses all or part of the problem.
    4. Calculate the cost of the solution.
    5. After implementation, calculate the value of the improvement.
    6. Calculate the specific return on investment (ROI).

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i. HR must provide senior level management with value-added human capital investments.
j. Moneyball and the Oakland Athletics example illustrates how the use of nonconventional staffing metrics and analytical techniques resulted in championship teams despite these teams having one of the lowest payrolls in the "industry."

VI. Human Resource Metrics (LO 01.03, PPT Slides 11-17)

a. Wall Street analysts still generally fail to acknowledge human capital in assessing the value of an organization and the effect that human resources can have on stock price
b. This is rooted in the fact that there are no "standard" metrics or measures of human capital, much as there are for other organizational assets.
c. Exhibit 1.4 lists some Common HR Metrics. However, the appropriate metrics for any given organization will be dependent on that organization's strategy.
    1. Revenue per employee = Total revenue divided by total number of employees.
    2. Profit per employee = Total profit divided by the total number of full-time equivalent (FTE) employees.
    3. Labor cost percentage of revenue = Total labor cost divided by organizational revenue.
    4. Labor cost percentage of total expenses = Total labor cost divided by total organizational expenses.
    5. Absentee rate = Number of absence days divided by number of working days.
    6. Voluntary turnover rate = Number of voluntary terminates during period divided by number of employees at the beginning of period.
    7. Involuntary turnover rate = Number of involuntary terminates during period divided by number of employees at the beginning of period.
    8. Time to fill = Number of days between publishing a job opening and hiring the candidate.
    9. Time to hire = Number of days between the moment a candidate is approached and the moment the candidate accepts the job.
    10. Cost per hire = Total cost of hiring divided by the number of new hires.

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11. Source of hire = Sourcing channel used to attract the hire.
12. First-year turnover rate = Employees who left the organization within 1 year divided by the total number of hires during that time.
13. Applicants per opening = Total number of applicants divided by number of job openings.
14. Selection ratio = Number of hired candidates divided by total number of candidates.
15. Cost per hire = Total internal cost plus total external cost divided by total number of hires.
16. Offer acceptance rate = Number of applicants presented with a job offer divided by number of applicants who accepted a job offer.
17. Vacancy rate = Total number of open positions divided by total number of positions in organization.
18. Application completion rate = Total number of people who completed the application divided by total number of people who started the application.
19. Sourcing channel effectiveness = Total number of visits to the channel divided by number of applications to the channel.
20. Sourcing channel cost = Spending per channel divided by number of successful applicants per platform.

d. Exhibit 1.5 displays the means of calculating five common metrics.
    1. Human Capital ROI = Revenue minus (operating expenses minus compensation plus benefit costs) divided by compensation plus benefit costs. Value/Use: Allows determination of return on human investments relative to productivity and profitability; represents pre-tax profit for amounts invested in employee pay and benefits after removal of capital expenses.
    2. Profit per Employee = Revenue minus operating expenses divided by number of full-time equivalent (FTE) employees. Value/Use: Illustrates the value created by employees; provides a means of productivity and expense analysis.
    3. HR Expense Factor = Total HR expense divided by total operating expenses. Value/Use: Illustrates the degree of leverage of human capital; provides a benchmark for overall expense analysis relative to targets or budgets.
    4. Human Capital Value Added = Revenue minus (operating expenses minus compensation plus benefits costs) divided by total number of FTE employees. Value/Use: Shows the value of

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employee knowledge, skills, and performance of how human capital adds value to an organization.

5. Turnover Rate = Number of employee separations during a given time period divided by number of employees. Value/Use: Provides a measure of workplace retention efforts, which can impact direct costs, stability, profitability, morale, and productivity; can be used as a measure of success for retention and reward programs.

e. Labor Supply Chain Management at Valero Energy describes how Valero has applied principles of supply chain management to its staffing and employee development functions.

VII. Analytics (LO 01.03, PPT Slide 18)

a. Analytics is the systematic collection, reporting and analysis of various metrics which are critical to effective performance.
b. Analytics often involve the process of benchmarking where the organization compares actual performance to goals and/or to the performance on a similar metric by competing organizations.
c. Exhibit 1.6 shows some examples of the types of relationships which HR analytics can document and analyze.
    1. Does satisfaction with pay impact retention or, conversely, turnover?
    2. Do flexible work schedules impact efficiency or productivity?
    3. Do training expenditures impact profitability?
    4. What hiring criteria best predicts high-performing employees?
    5. How does a given performance-management system impact communication and teamwork?
    6. Do specific benefits programs impact employee productivity and retention?
    7. Do diversity initiatives produce a diverse workforce at all levels of the organization?
d. Measuring Employee Impact and Financial Performance at Lowe's Companies describes how Lowe's used HR analytics to significantly improve operating performance.
e. People Analytics at Google illustrates how Google has used analytics to develop employees and improve its recruiting processes.

VIII. Factors Influencing "Investment Orientation" of an Organization (LO 01.04, PPT Slides 19-21)

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a. Exhibit 1-7 describes the major factors which influence how investment oriented an organization is:
    1. Management values
    2. Utilitarianism
    3. Attitude toward risk
    4. Availability of outsourcing
    5. Nature of employment skills

IX. Conclusion (LO 01.01, PPT Slide 22)

a. Effective strategies to manage human assets to utilize HR practices and policies are in sync with the organization's overall strategy and encourage the organization to invest in its best opportunities.
b. Organizations should retain employees at least to the point of achieving an adequate return on investment.
c. Organizations often do not follow an investment perspective of HR because it involves making a longer-term commitment to employees, and all human assets and their contribution to the bottom line must be assessed, which can be difficult.
d. Once an organization develops a competitive advantage through its employees, the positive outcome is likely to be enduring, and difficult to duplicate by competitors.
e. Although investment in human assets can be risky and the return long to develop, investment in people continues to be the main source of competitive advantage for organizations.

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