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Chapter 2
Making Human Resource Management Strategic

Chapter 2 Learning Objectives

1. Describe the strategy formulation process.
2. Describe two generic competitive business strategies that organizations use.
3. Explain the universalistic and contingency approaches to human resource (HR) strategy, including key characteristics of the commitment strategy.
4. Describe four HR strategies that organizations commonly use.
5. Explain how HR strategies and competitive business strategies are aligned.

Chapter 2 Outline

2.1 How Can a Strategic Approach to HR Improve an Organization?

- Research suggests that a major key for long-term profitability is a clear strategy for being better than competitors.
- Profitability is also the result of a highly effective workforce that carries out that strategy.

2.2 How Is Strategy Formulated?

- **Strategy** is coordinated choices and actions that provide direction for people and organizations. The two types of strategy must work together to ensure high organizational effectiveness.
  - ✓ **Competitive business strategy** focuses on choices and actions about how to serve the needs of customers.
  - ✓ **HR strategy** focuses on choices and actions concerning management of people within the organization.
- One way of understanding similarities and differences in these two forms of strategy is to examine the common elements of strategy formulation: gathering information and analyzing it so decisions can be made.
- **Gathering Information**
  - ✓ **Assessing the External Environment** (i.e., physical and social factors outside of an organization's boundaries categorized as Opportunities/favorable conditions and Threats/unfavorable conditions).
    - ➢ **Demographic and cultural trends** include population growth, age distribution of population, percentage of women in workforce, and changes in sizes of ethnic groups
    - ➢ **Economic environment** includes interest rates and new job creation.
    - ➢ **Political environment** includes laws and the positions of elected officials, as well as legal changes related to international trade.
    - ➢ **Technological** change involves trends such as improving manufacturing technologies and increased availability of information.

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- Effective strategy formulation begins with information about threats and opportunities outside the organization.

✓ **Assessing Internal Capabilities** (i.e., organization's internal resources and capabilities categorized as strengths/areas of high capability and weaknesses/areas of low capability).

- Most strengths and weaknesses can be thought of in terms of the resources that an organization has. Some are tangible, such as money and equipment; others are intangible, such as reputation. From a resource-based view of organizations, resources—including human resources—are true strengths when they are both valuable and rare.
- Gathering information about HR capabilities is therefore a vital part of an effective assessment of organizational strengths and weaknesses.

- **Analyzing Information and Making Decisions**
  - ✓ Step 1: **Build collective intuition** occurs when a group of people meet together often to discuss the information that has been gathered.
  - ✓ Step 2: **Stimulate conflict** occurs when different opinions are considered.
  - ✓ Step 3: **Maintain appropriate pace** refers to keeping decisions as part of a flexible timeline.
  - ✓ Step 4: **Diffuse politics** occurs when a group begins with a common goal and no one person dominates the discussion.

CONCEPT CHECK

1. What are the three steps in the strategy formulation process? *Gather information, analyze information and make decision, and implement the decision.*

2. What are some components of an organization's external environment? *Features of the environment might include the number of businesses hiring people in your field, the number of other new graduates looking for similar jobs, and the geographic location of potential employers. Demographic and cultural trends include population growth, the age distribution of the population, the percentage of women in the workforce, and changes in the relative sizes of ethnic groups. The economic environment includes interest rates and new job creation, whereas the political environment includes laws and the positions of elected officials. Among the potential threats and opportunities in these areas are legal changes related to international trade and changes in inflation and interest rates. An especially important aspect of current organizational environments is technological change. Trends such as improving manufacturing technologies and increased availability of information create opportunities for some organizations and threats for others.*

3. Why does HRM represent an important potential strength for organizations? *The ability to attract and keep high-quality employees represents a strength for the organization only when high-quality employees are hard to find. Human resource management is critical because high-quality employees are relatively rare. Effective ways to attract and keep employees do, in fact, represent sources of internal strength that can give an organization a competitive advantage. Human resource practices also must provide something that is difficult to imitate and for which there is no substitute.*

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4. What four steps are necessary for effective decision making? *Build collective intuition, stimulate conflict, maintain an appropriate pace, and diffuse politics.*

2.3 What Are Common Competitive Business Strategies?

- Competitive business strategies involve four types:
  - ✓ **Corporate-level strategy** concerns the different businesses and diversity of products and services that an organization produces.
  - ✓ **Business-level strategy** concerns how an organization, or part of an organization, will compete with other organizations that produce similar goods or services.
  - ✓ **Cost leadership strategy** seeks to produce goods and services inexpensively. The key to the cost-leadership strategy is in controlling expenses.
  - ✓ **Differentiation strategy** seeks to produce goods and services that are somehow superior to the goods and services provided by competitors; their goal is to create unique value for which customers are willing to pay a higher price. The key to the differentiation strategy is to create value that is perceived as high enough to warrant a higher price.
  - ✓ **Combination strategy**
    - ➢ Organization can pursue both cost leadership and differentiation but can create cost structure that does not allow them to produce goods and services at lowest cost.
    - ➢ Most organizations must choose one or the other approach and make strategic decisions accordingly.
      - ° Primary cost leadership strategy should seek to differentiate only as long as doing so does not harm its ability to be the lowest-cost producer.
      - ° Primary differentiation strategy should seek to reduce costs wherever possible.

CONCEPT CHECK

1. What are the basic characteristics of the cost leadership strategy? *Goal is to become highly efficient, which will allow organization to create value by producing goods and services at lower cost.*

2. What are the main features of the differentiation strategy? *Seek to produce goods and services that are somehow superior to the goods and services provided by competitors; their goal is to create unique value for which customers are willing to pay a higher price.*

2.4 What Are Basic Approaches to HR Strategy?

- The continued success of organizations depends on their possessing capabilities that competitors cannot easily copy.
  - ✓ Effective HRM capabilities are difficult to copy because effectiveness comes not from a single practice but from a number of related practices.
  - ✓ Social relationships that arise from HR practices are also extremely difficult to copy.
  - ✓ HR capabilities are sources of potentially sustainable competitive advantage.
- HR practices build capability by encouraging employees to fill certain roles.
  - ✓ A role is a set of behaviors characteristic of a person in a particular setting.

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- ✓ Employee roles are strongly influenced by the cues, or signals, that an organization provides.
  - ➢ Large pay differences are meant to cue competition and innovation among employees whereas other organizations use group rewards to cue cooperative behavior.
  - ➢ Roles become stronger as a variety of HR practices combine to consistently cue the desired behaviors.
  - ➢ The result is a complex process that is difficult for other organizations to duplicate.

- Research has identified consistent patterns of good HRM. Researchers have taken two basic approaches in investigating HR patterns.
  - ✓ **The Universalistic Approach**
    - ➢ Seeks to identify methods of managing people that are effective for all organizations.
    - ➢ HR practices are most effective when bundled together into internally consistent clusters.
      - ° Sets of HR practices that are internally consistent and that reinforce each other are known as **HR bundles**.
      - ° A single effective HR practice provides only limited benefits unless it is combined with other effective practices.
        - ♦ One bundle is based on **control strategy:** primary focus of HR practices is standardization and efficiency.
        - ♦ Second bundle is based on **commitment strategy:** primary focus of practices is to empower workers and build strong sense of loyalty and commitment.
      - ° Strong research conclusion from universalistic approach is that organizations should adopt a commitment strategy.
      - ° Commitment strategy is often summarized as HR bundle that encourages high involvement.
  - ✓ **The Contingency Approach**
    - ➢ Seeks to align people management practices with competitive business strategies.
    - ➢ Two key differences in organizations: cost leadership or a differentiation strategy and whether they have an internal or an external labor orientation.
      - ° **Cost Leadership versus Differentiation**
        - ♦ Organizations with **cost leadership strategy** focus their efforts on increasing efficiency and hire generalists who work in a variety of different positions.
          - ➢ Cost leadership strategy with a focus on tightly controlled processes makes sense when organization knows exactly what it wants people to do.
          - ➢ Result is mass production of standardized goods or services at lowest cost.
        - ♦ Organizations using **differentiation strategy** focus their HR efforts on innovation and quality enhancement.
          - ➢ Employees in these organizations are often specialists.
          - ➢ Rather than seeking to control processes, organization concentrates on outcomes.
          - ➢ Works best when organizations produce customized goods or services.
      - ° **Internal Versus External Orientation**
        - ♦ **Internal labor orientation** seeks to make its own talent and keep employees for a long time. The primary goal is to identify people who will have long careers within the organization.
          - ➢ Strengths

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        - Predict what skills and capabilities will be available to them in future.
        - Employees build strong relationships with one another, so coordination and cooperation are high.
        - Save money by reducing expenses for recruiting, interviewing, and hiring employees.
    - Weaknesses
        - Long-term commitments make it difficult to adapt.
        - Changes in strategic direction are complicated because workers have outdated skills and bureaucratic structures are inflexible.
- **External labor orientation** seeks to buy talent.
    - Hire people who already have the needed skills and in many cases keep them for only short period of time. The primary goal is to identify people who are able to contribute without additional training.
    - Strengths
        - Flexibility (organization can respond quickly to changing conditions).
        - Workers trained by universities or other employers can be quickly added in areas that demand new skills.
        - Labor costs are not fixed and total number of employees can easily be increased or decreased.
    - Weaknesses
        - Lack of consistency.
        - Employees are essentially shared with other organizations.
        - Employees do not provide a unique competitive advantage.

CONCEPT CHECK

1. How does the contingency approach to HR management differ from the universalistic approach? *The Contingency Approach seeks to align people management practices with competitive business strategies while the Universalistic Approach seeks to identify methods of managing people that are effective for all organizations.*

2. What HR practices are associated with cost reduction strategies? Differentiation strategies? O*rganizations with a **cost leadership strategy** focus their efforts on increasing efficiency and hire generalists who work in a variety of different positions. Other practices include control work processes and carefully define employee tasks, specifically prescribe appropriate behaviors, and mass production of standardized goods or services at the lowest possible cost. Organizations using a **differentiation strategy** focus their human resource efforts on innovation and quality enhancement. Employees in these organizations are often specialists. They have more choice about how things should be done and are held accountable for the goods and services they produce. Rather than seeking to control processes, the organization concentrates on outcomes. Best process for completing work is often unknown, and employees are expected to continually look for different ways of doing things. Unique customer expectations require employees to change their actions to best serve each client.*

3. What are the differences between an internal labor orientation and an external labor

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orientation? See Table 2.3. ***Internal labor orientation*** *seeks to make its own talent and to keep employees for long periods of time while* ***external labor orientation*** *seeks to buy talent.*

2.5 What Are Common HR Strategies?

- **Internal/Cost HR Strategy: The Loyal Soldier**
  - ✓ Combining an internal orientation with a cost leadership strategy results in a Loyal Soldier HR strategy (emphasis on long-term employees with a focus on reducing costs).
    - ➢ Design work so that employees have broad roles and perform a variety of tasks.
      - ° People are recruited and hired because they fit the organization culture and because of their potential to become loyal employees.
      - ° Efforts are made to satisfy the needs of employees and build a strong bond that reduces the likelihood of employee turnover.
      - ° Hire people early in their careers and provide them with extensive training in a number of different skills.
    - ➢ Careers often include a number of very different positions, with promotions often made into positions that are not closely related to previous experiences.
    - ➢ Performance appraisals are designed to facilitate cooperation rather than competition.
    - ➢ Compensation includes long-term incentives and benefits and is often linked to the overall performance of the organization.
  - ✓ Unions are frequently observed in these organizations.
- **External/Cost HR Strategy: The Bargain Laborer**
  - ✓ Combining an external orientation with a cost leadership strategy results in a Bargain Laborer HR strategy (emphasis on short-term employees with a focus on reducing costs).
    - ➢ Emphasis is on obtaining employees who do not demand high wages.
    - ➢ Design work so that managers can tightly control employee efforts.
    - ➢ Each employee is given clearly defined tasks that can be learned easily.
    - ➢ People are recruited and hired to perform simple tasks that do not require clearly developed skills.
    - ➢ Little attention is paid to meeting long-term needs of employees.
    - ➢ Performance appraisal focuses on day-to-day feedback; rarely incorporates formal measures.
    - ➢ Training is mostly limited to on-the-job techniques that teach specific methods for completing particular tasks.
    - ➢ Compensation is frequently based on hours worked, and benefits and long-term incentives are minimal.
  - ✓ The lack of consistency among employees tends to make unions somewhat rare in organizations that pursue cost efficiency through an external labor orientation.
- **Internal/Differentiation HR Strategy: The Committed Expert**
  - ✓ Combining internal orientation with differentiation strategy results in Committed Expert HR strategy (emphasis on long-term employees with focus on producing unique goods and services.)
    - ➢ Hire and retain employees who specialize in performing certain tasks and are a potential fit with the organizational culture.

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- Design work so that employees have a great deal of freedom to innovate and to improve methods of completing tasks.
- Performance appraisals designed to balance cooperation and competition among employees.
- Careers generally include numerous promotions into similar jobs with increasing responsibility.
- Employees receive long-term training that helps them develop strong expertise.
- Compensation is relatively high and usually includes a good benefits package that ties employees to the organization.

- **External/Differentiation HR Strategy: The Free Agent**
  - ✓ Combining external orientation with differentiation strategy forms Free Agent HR Strategy (combines emphasis on short-term employees with focus on producing unique goods and services).
    - Hiring people who have critical skills but who are not necessarily expected to remain with the organization for a long period of time.
    - Design work so that employees have extensive responsibility within specific areas and substantial freedom to decide how to go about their work.
    - Long-term commitments are avoided, and no efforts are made to encourage strong attachments between employees and the organization.
    - They are not led to expect long-term careers in the organization.
    - Higher-level positions are frequently given to people from outside the organization.
    - Performance appraisal focuses on outcomes and results.
    - Training is rare.
    - Short-term compensation is usually high, which is necessary if the organization is to obtain people with top skills.
    - Pay is linked specifically to individual performance results, and benefits and long-term compensation packages are avoided.
  - ✓ Rarely see unions in these organizations.

CONCEPT CHECK

1. What two HR strategies are associated with cost leadership strategy? How do these two HR strategies differ? *Combining internal orientation with cost leadership strategy results in **Loyal Soldier HR strategy** (emphasis on long-term employees with a focus on reducing costs.) Combining external orientation with cost leadership strategy results in **Bargain Laborer HR strategy** (emphasis on short-term employees with a focus on reducing costs.)*

2. What two HR strategies are associated with the differentiation strategy? How do these two HR strategies differ? *Combining internal orientation with differentiation strategy results in **Committed Expert HR strategy** (emphasis on long-term employees with focus on producing unique goods and services). Combining external orientation with differentiation strategy forms **Free Agent HR Strategy** (combines emphasis on short-term employees with focus on producing unique goods and services).*

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2.6 How Do HR Strategies Align with Competitive Business Strategies?

- Organizations with a **cost leadership competitive strategy** are expected to do best when they have either a **Bargain Laborer** or **Loyal Soldier strategy**.
- Organizations with a **competitive business strategy** of differentiation are expected to do best when they have either a **Committed Expert** or **Free Agent HR strategy**.
- **Research supporting the contingency perspective**
  - ✓ Many organizations do have HR strategies that fit their competitive strategies.
  - ✓ Organizations are more successful when they broadly adapt their HR practices to fit their competitive strategies.
  - ✓ Organizations with a cost leadership or differentiation strategy do perform better when they have a matching human resource strategy.
- **Putting it all together**
  - ✓ Although there are important exceptions, many organizations improve their long-term success when they adopt an internal labor orientation.
    - ➢ Organizations using internal orientation develop strong bonds with employees
    - ➢ Research suggests that organizations with a cost leadership competitive strategy excel when they follow a Loyal Soldier HR strategy.
    - ➢ Similarly, organizations with a differentiation competitive strategy excel when they use a Committed Expert strategy.

CONCEPT CHECK

1. In what ways does research support the contingency approach to HR management? *Although research related to this question does not always use the four human resource strategies, the results are mostly supportive. Firms benefit from having human resource practices that support their overall strategy. For instance, law firms with a competitive strategy of expanding into new markets, which is consistent with a strategy of differentiation, have been shown to perform better when they hire and retain highly skilled lawyers. Call centers with a competitive strategy of customizing responses to customers—also, consistent with differentiation—perform better when their human resource practices ensure good training and high pay. Overall, this line of research confirms that organizations perform better when they use human resource practices that help them secure and motivate employees who have skills that match their approaches for providing value to customers.*

2. How does the commitment strategy fit with the contingency approach? *The commitment strategy is similar in many ways to the internal labor orientation of the contingency approach.*

Chapter 2 Teaching Notes

The following presents suggestions designed to help you utilize the special features and cases found in *Human Resource Management: Linking Strategy to Practice*.

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Learning Objectives:

The chapter contains five learning objectives. Each is presented at the beginning of the concept being discussed.

Concept Checks

The chapter contains five concept checks. Each is presented at appropriate points in the learning objective being discussed.

Tables and Figures

The tables and figures presented in the chapter help illustrate the concepts of the chapter. They should be brought to the attention of the students and, perhaps, included in the exams where appropriate.

Table 2.1	Examples of Commitment Strategy Practices
Table 2.2	Strategic Human Resource Differences
Table 2.3	Differences in Labor Orientation

Figure 2.1	Strategy Formulation Process
Figure 2.2	Effective Decision Making
Figure 2.3	Strategic Framework for Human Resources

A Manager's Perspective, What do you think?, and A Manager's Perspective Revisited

The chapter beings with Elizabeth, an owner of a small chain of convenicence stores, thinking about effective HR management and how it will be an important asset to her strategic plan if she wants to be able to compete with larger national chain stores.

Discussion of the chapter could start by posing these questions and asking for the class to vote on which statements are true through a show of hands, thumbs-up/thumbs-down, clickers, or paper copies of the questions. To keep student interest, the methods for identifying true answers should be varied.

The activity could be repeated near the end of the chapter discussion. At that time, students could be asked if they agree with the answers. The students also could be asked to identify how Tara should respond to the statements and if she should respond during this first meeting with the new President.

During the discussion of the chapter material, you could refer to these questions at appropriate points. This will add both variety in the instructor's presentation and more realistic application of the chapter concepts

For some chapters, you may wish to address the questions at the end of discussing the chapter.

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In this case, you may want to bring the students' attention to these questions informing the students that they will be asked to answer the questions near the end of the chapter discussion. At that time, students (individually or in groups) could be asked to explain why the answers are true or false. Students also could add questions to the list and briefly explain why they think a new question should be asked. This could be done as a class or in smaller groups. If done in smaller groups, each group could be asked to briefly report on an aspect of their discussion.

Of course, one or more of the questions or more detailed versions of the questions could be included in an exam. If included in an exam, students should be warned that these questions might be part of the exam. The questions could be presented as true/false or as statements to which each student should briefly respond to in an essay answer.

Building Strength Through HR: Southwest Airlines

The inset box presents most of the HR practices mentioned in the case but not all. Other HR issues noted in the case include developing a culture of fun, hiring people who have the right attitude and who are willing to work hard, having employees pitch in where needed, and focusing on keeping costs low. It also notes recent management-employee conflict over demands for higher wages.

Most students know of Southwest Airlines and many may have flown with the airline. Therefore, you could ask the students what other HR practices may help Southwest be a low cost leader with loyal employees and customers. This discussion could be supplemented with information found on Southwest's webpage: http://www.southwest.com/. Southwest's website is informative but it takes several clicks to get to details. It is presented mostly in black print on white background so it is not visually stimulating.

Supplemental information also could be provided by a student responsible for updating the case and finding relevant information from the organization's website or other sources. If you elect to have the students provide information, you should inform the students of any school policies that address contacting organizations.

At this point in the semester, guided class, group discussion, or briefly mentioning the case in a mini-lecture should adequately introduce the chapter topics and establish relevance. Additional ways to address the opening cases could include individual students or teams of students presenting the main points and how the case answers the opening question of that section. These opening cases also could be used as starting points for a more comprehensive assignment due later in the term or semester.

Technology in HR: Employee Use of Social Media as Both Opportunity and Threat

This inset box briefly addresses how use of social media presents both opportunities and threats for a company.

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During a mini-lecture, you may want to refer to the information in this box as illustrating some strategic issues related to using social media. If a more general discussion is desired, students could be asked in what ways social media presents opportunities and threats for a company using examples of specific media. For example, students could be asked how employees and HRM practices could help Twitter be more of an opportunity for their organization than a threat. Students could discuss their experiences with using Twitter and how "tweets" are used as part of a company's training regime.

How Do We Know? What Differentiates Fast-Food Restaurants?

This inset box is briefly mentioned above the box. This provides a natural transition to the information presented in the box. The results of the study summarized in this box illustrate how various fast food restaurants have communicated their cost leader or differentiator strategies.

During the lecture or class discussion of the chapter, the study, conclusions, and recommendations could be summarized. This could be accomplished through your lecture (asking for student input) or by assigning the box to an individual student.

Most students will be familiar with most or all of these fast food outlets. Potential questions include: Do they agree with the strategies that the students in the study associated with each restaurant and on what information are they basing their opinions (e.g., advertisements, personal comparisons)? Have they seen fast food employees supporting or demonstrating knowledge of their organization's strategies? (You may need to specifically address several of the strategies. For example, you could ask how employees support Subway's differentiating on the basis of good nutrition.)

Students then could be asked if it is important for the employees to communicate the strategy to customers. A follow-up question could be for them to consider the impact of employees engaging in behaviors that contradict the organization's strategy. When the students generally agree that employees have some impact on customer perceptions, students could discuss how employees might be prepared and encouraged to do so.

You could summarize the discussion by mentioning that most (if not all) of what they have suggested are HR practices.

How Do We Know? How Can Employees Be Encouraged to Share Information and Knowledge?

The study described in the box notes the benefits of HR practices associated with the commitment strategy. The bottom line of the study suggests that high commitment human resource practices develop a strong bond between employees and organizations. Helping employees develop relationships with other employees facilitates the sharing of information, which, in turn, helps work units succeed.

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The information reported in the inset box could be part of a lecture or class discussion through which a commitment strategy could be defined. You may want to ask them to address each practice noted in the box separately.

Building Strength Through HR: Fenmarc Produce Ltd

As noted on page 58 of this chapter, this inset box illustrates how Fenmarc Produce has benefited from emphasizing an internal labor orientation. Their website (http://www.fenmarc.com/) is very colorful and illustrates the concepts noted in the box. The "Fenmarc Culture" link lists the six key principles noted in the box. Their website also includes a video, their history and awards, community involvement, map, and pictures of employees. Their philosophy is found on most pages.

You could show the video (if internet is available in classroom), ask students what appears to be Fenmarc's strategy (Cost Leadership), how each of the six key principles might help Fenmarc keep costs low and profits high, and which HR strategy appears to be consistent with their six key principles and cost leadership (Loyal Soldier) and why. You could finish by asking the students if these key principles could work in organizations (and for all types of people) in the U.S. and other countries or if they are specific to the United Kingdom. You also could ask if they'd like to work for a company like Fenmarc.

A web-based assignment is described at the end of this chapter found in the Instructors' Manual.

How Do We Know? Do Human Resource Practices Influence Customer Service?

This inset box asks the questions: Why is the customer service at some banks better than others? Is it by chance, or do successful banks encourage specific actions to assure that employees meet the needs of customers?

Samuel Aryee, Fred Walumbwa, Emmanuel Seidu, and Lilian Otaye sought answers to this question by obtaining data from 37 branches of 2 different banks located in Ghana.

Human resource practices that emphasize decentralized decision making, service quality–focused feedback, extensive service training, and performance contingent compensation increase feelings of empowerment. Empowerment results in increased customer service performance for both individuals and bank branches.

The authors concluded that effective human resource practices do indeed represent an effective method for pursuing a strategy of providing excellent service.

SUMMARY

A short summary of each of the chapter's five learning objectives is presented. Each learning objective question emphasizes the key points needed to understand each question and concept involved.

KEY TERMS

Bargain Laborer HR strategy
Business-level strategy
Committed Expert HR strategy
Commitment strategy
Competitive business strategy
Contingency approach
Control strategy
Corporate-level strategy
Cost leadership strategy
Differentiation strategy
External environment
External labor orientation
Free Agent HR strategy
Human resource bundles
Human resource strategy
Internal labor orientation
Loyal Soldier HR strategy
Opportunities
Strategy
Strengths
Threats
Universalistic approach
Weaknesses

DISCUSSION QUESTIONS

1. Why are effective human resource practices often a better competitive resource than equipment and buildings? *Answer: HR practices involve acquiring and motivating employees. A strategy is only effective if an organization has the talent needed to carry it out. Since our focus is on human resource management, we will concentrate on this part of the value chain. Effective management of people can be a source of internal strength. HRM is critical because high-quality employees are relatively rare.*

2. What are some external opportunities and threats that you think organizations will face in the next 10 years? What types of organizations will benefit most? *Students' answers regarding the future may vary. Generally, the organizations that will benefit are those who are effective in monitoring the external and internal environments and meet the needs of*

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current and future customers.

3. Why can groups be more effective than individuals for making decisions? *Answer: Various individuals have differing views, insights, information, etc. which (when shared and discussed) should result in decisions that consider as many elements as possible. Furthermore, one part of effective strategy formulation is to encourage decision makers not to agree with one another too quickly. Making sure that the team of decision makers includes people with different backgrounds can help in this regard. Experienced managers and younger managers, for example, bring different insights to the decision-making process, as do marketing personnel and operations personnel.*

4. What are the primary differences between a cost leadership and a differentiation strategy? *Answer: Cost leadership emphasizes efficiency and minimizing costs. This allows the organization to create value by producing goods and services at lower cost. Differentiators seek to produce goods and services that are somehow superior to the goods and services provided by competitors; their goal is to create unique value for which customers are willing to pay a higher price. In contrast to cost leaders, differentiators reward innovation, individual performance, and results and outcomes, which results in some competition among employees.*

5. What are the key elements of the commitment strategy from the universalistic approach? Why does this approach generally contribute to success for organizations? *Answer: The primary focus of practices in the commitment strategy is to empower workers and build a strong sense of loyalty and commitment. This strategy typically involves extensive recruiting and careful screening of recruits, employee involvement groups, widespread training, widespread use of incentive pay, and high teamwork. This strategy fosters a strong sense of cooperation between employees and managers, which results in higher productivity and generally higher quality goods and services.*

6. What human resource practices might be associated with a cost reduction emphasis? What practices might be associated with a differentiation emphasis? *Answer:* O*rganizations with a* ***cost leadership strategy*** *focus their efforts on increasing efficiency and hire generalists who work in a variety of different positions. Other practices include controlling work processes and carefully defining employee tasks, specifically prescribing appropriate behaviors, and mass producing of standardized goods or services at the lowest possible cost. Organizations using a* ***differentiation strategy*** *focus their human resource efforts on innovation and quality enhancement. Employees in these organizations are often specialists. They have more choice about how things should be done and are held accountable for the goods and services they produce. Rather than seeking to control processes, the organization concentrates on outcomes. Best process for completing work is often unknown, and employees are expected to continually look for different ways of doing things. Unique customer expectations require employees to change their actions to best serve each client.*

7. What are the strengths and weaknesses of internal and external labor orientations? *Answer: Strengths of the* ***Internal Labor Orientation*** *include predicting what skills and capabilities will be available to them in the future; employees building strong relationships with one another (high coordination and cooperation); and saving money by reducing expenses for recruiting, interviewing, and hiring employees. Weaknesses include long-term commitments*

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make it difficult to adapt, changes in strategic direction are complicated because workers have outdated skills, long-term commitments make it difficult for organizations to replace workers whose skills are not up to date, and bureaucratic structures are inflexible. Strengths of the ***External labor Orientation*** *include flexibility, workers trained by universities or other employers can be quickly added in areas that demand new skills, labor costs are not fixed, and the total number of employees can easily be increased or decreased. Weaknesses include weak relationship between organization and its employees, employees work because they are paid and not necessarily because they are loyal, employees usually do not develop a strong feeling of attachment to the organization, and employees do not provide a unique competitive advantage.*

8. Choose a company where someone you know works. Which of the four human resource strategies do you think is most common in the company? *Student answers will vary.*

9. What are the key elements of the four human resource strategies: Loyal Soldier, Bargain Laborer, Committed Expert, and Free Agent? Answer: Loyal Soldier combines emphasis on long term employees with a focus on reducing costs, Bargain Laborer combines an emphasis on short-term employees with a focus on reducing costs, Committed Expert combines an emphasis on long-term employees with a focus on producing unique goods and services, and Free agent combines an emphasis on short-term employees with a focus on producing unique goods and services.

10. The chapter text pointed out that a majority of organizations have a human resource strategy that fits their competitive strategy. What should an organization do if the strategies don't match? *Answer:* Such an organization should consider reassessing its human resource strategy to align with its competitive strategy to optimize its performance.

HANDS-ON EXERCISE: Making HR Strategic—Linking to Competitive Strategy

You may choose to assign these exercises to individuals or teams in class and have them research, prepare and present/discuss in class.

Answer the following questions as they relate to one of the short cases included in Appendix A.

Student answers will vary depending on the company and when it is analyzed.

1. What is the best competitive strategy for this organization? Be specific about how it should be positioned relative to competitors (Why do people buy its goods or services?). Be sure to include the reasons for this choice. Note: Choose between two strategies: Cost and Differentiation.
2. What HR Strategy do you recommend for this organization? Be sure to give specific reasons that support your choice. Note: Choose among four strategies: Bargain Laborer, Loyal Solider, Committed Expert, and Free Agent
3. How can implementing this HR strategy help achieve the competitive strategy? Be specific.
4. Describe how a concept from the textbook that we have not discussed in class applies to determining the competitive and HR strategies.

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5. Explain the reasons underlying your choice of either an internal or external labor strategy.

EXPERIENTIAL EXERCISE: EXPLORE COMPANY WEBSITES

Explore the websites of several companies. Choose at least two companies from the same industry. See what you can learn about their competitive strategies. Visit the part of their websites that links to employment opportunities.

See if you can find answers to the following questions:

1. Does the website clearly identify either a cost or a differentiation strategy?
2. Does the information on the website fit with your general beliefs about the company?
3. Does the website have a portal for selling goods or services? If so, does it seem to emphasize price or quality features?
4. What has happened to the stock price of the company over the past 10 years?
5. What types of jobs are advertised in the employment section of the website?
6. Does the website emphasize long-term relationships between the organization and employees? Does it emphasize training programs?

Based on the information you obtain, do the following:
1. Evaluate how well the websites succeed in communicating information.
2. Determine whether you think each company's competitive strategy and human resource strategy match.
3. Identify any relationships between strategies and stock prices.
4. Compare and contrast the strategies and practices of the companies that are direct competitors.

Student answers will vary.

ADDITIONAL WEB-BASED ACTIVITIES

Overview of activity

Refer back to the inset box describing how Fenmarc Produce has benefited from emphasizing an internal labor orientation. This activity gives students the opportunity to investigate and justify Fenmarc's practices.

Exercise:

As noted previously, Fenmarc's website (http://www.fenmarc.com/) is very colorful and illustrates the concepts described in the inset box. Through Fenmarc's website, students could describe how Fenmarc appears to be implementing each of their six key principles, Cost Leadership strategy, internal labor orientation, and Loyal Soldier HR strategy. Their philosophy is found on most pages.

Alternate Approaches to the Exercise:

Students could compare Fenmarc to an organization found in the top ten of the 100 best companies in America. (refer back to the "How Do We Know" inset box). Fenmarc's six key principles could provide the basis for comparison.

Links to relevant information

The organization's website (http://www.fenmarc.com/) provides the information needed for the students to accomplish this exercise.