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Chapter 02: Strategic Human Resource Management

Chapter Summary

This chapter describes the concepts of business models and strategy and depicts the strategic management process. The levels of integration between the HRM function and the strategic management process in the strategy formulation stage are then discussed. Next some of the more common strategic models are reviewed, and, within the context of these models, the various types of employee skills, behaviours, and attitudes are noted, and the ways HRM practices aid in implementing the strategic plan. Discussion then focuses on the role of human resources in providing strategic competitive advantage to the organization, as well the need to engage in strategic management of the HRM function itself. This includes the need to develop a customer- oriented HR function. Next, the transformation of HRM is discussed, starting with knowing the current level of effectiveness of the HRM function, using the audit approach or the analytic approach. Improvement of HRM practices using restructuring, outsourcing and process redesign and new technologies helps students understand the need for strategic thinking among HRM practitioners. Finally, these concepts are reinforced with a discussion of the role of the Chief Human Resources Officer.

Learning Objectives

LO1 Describe the components of a business model.

LO2 Describe the components of the strategic management process and linkage to HRM

LO3 Discuss the role of the HRM function in strategy formulation and its linkages to the process.

LO4 Describe strategy implementation and the more popular classifications of strategic types and the various HRM practices associated with each.

LO5 Describe the different HRM issues and practices associated with various directional strategies.

LO6 Describe steps HRM can take to maximize its value and become a true strategic partner in the organization.

LO7 Examine the role of the **c**hief human resources officer.

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Opening Vignette: GM's Transformation:
Various internal factors as well as the competitive business environment contributed to GM's recent crisis in which it received $30 billion in government aid from the U.S. government. In addition, although GM Canada did not have to declare bankruptcy, it accepted $3 billion in loans from various levels of the Canadian government –inspiring the nickname "Government Motors". Even though labour costs are commonly faulted for GM's struggles, their labour costs are reasonable. However, their legacy workforce (their retirees) had generous pension and healthcare benefits negotiated by the UAW and the CAW in past years, when it was anticipated that the business would continue to thrive and survive. However, since the 1970s, foreign competitors have eaten away at GM's market share. In Canada, an entirely new GM company emerged from the ashes – the General Motors Company. After making a successful public offering on major stock exchanges the company has been able to make substantial repayments on its outstanding debts. However, the struggle was far from over. GM's Chairman and CEO, Daniel Akerson, described the new business model as one with a lower cost structure, a stronger balance sheet and a dramatically lower risk profile. He said future growth would be based on (a) developing great new products for customers worldwide, (b) engaging with customers more effectively and (c) focusing on financial discipline. By 2013 the restructured company had established a highly regarded new portfolio of vehicles, made strategic investments around the world and delivered almost 10 million vehicles around the world (a new record). The government sold off its remaining stake in GM and Akerson had established a new corporate culture completely focused on the customer.

Mary Barra was appointed to replace Akerson in January 2014, who indicated the way forward would continued investment in compelling design, innovation and exceptional owernship experience. She said GM would simultaneously work to reduce internal complexity (especially in product development), drive down material and logistic costs, and fix or exit unprofitable businesses. Still not bulletproof, although 2014 brought improvements to core automotive operating performance, recall-related costs and restructuring charges heaving impacted results. However, Barra confirmed GM is still on track to deliver its 2016 and 2020+ financial targets.

Extended Chapter Outline
Note: Key terms are boldface and are listed in the "Chapter Vocabulary" section.

1. Introduction

The General Motors vignette provides insights about how Human Resource practices must be integrated into the business model, and that HR practices must take into account the changing environment of business. It is unlikely that GM anticipated foreign competition and declining market share when it established its generous retiree benefits. Someone who went to work for GM at age 18 could, for example, retire at 48 (after 30 years of service when employees are pension eligible) and that employee

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could conceivably live another 30 years. This put a significant strain on GM's resources.

2. What Is a Business Model?

A business model is a story of how the firm will create value for customers and, more importantly, how it will do so profitably.

There are a few accounting terms to familiarize students with in order to understand a business model. *Fixed costs* are generally considered the costs that are incurred regardless of the number of units produced. *Variable costs* are costs that vary directly with the units produced. *Contribution margin* is the difference between what you charge for your product and the variable costs of the product. *Gross margin* is the total amount of margin you made.

COMPETING THROUGH GLOBALIZATION:

GM in China

As China becomes the largest purchaser of automobiles, General Motors Corporation is making an even heavier investment in that market. GM is currently the largest automaker by volume in China, and it wants to maintain that position. GM currently operates two assembly plants in China, as well as a test track. GM's goals also include transforming Cadillac into a global luxury brand and will open a dedicated Cadillac plant in Jinqiao,Shanghai in 2016. This additional GM plant in China will produce 150,000 of the luxury vehicles annually and ramp up its presence in what GM anticipates will be the largest luxury market in the world by 2020. In addition to the new plant in Shanghai, GM plans to open an additional 600 dealerships in order to meet the goal of 3,500 dealers that sell its brands.

Why the huge investments in China? First - by late 2014, China became one of GM's top five global markets and GM had acquired almost 15 percent of the Chinese market, growing close to North American market share of 17 percent. Second, full year equity income for GM China rose to $2.1 billion. Third, GM's Cadillac sales worldwide increased by 5.5 percent on the strength of a 47 percent increase in Cadillac sales in China. This illustrates that the globalization of companies is not just about finding lower labour costs, but rather, going where the customers are.

3. What Is Strategic Management?

Strategic Management is an approach for creating and managing a pattern or plan that integrates an organization's major goals, policies and actions into a cohesive whole. It is the process of analyzing a company's competitive situation, developing the company's strategic goals, and devising a plan of action and allocation of resources (human, organizational, and physical) that will increase the likelihood of achieving those goals.

First, business organizations engage in generic strategies that often fit into some strategic type such as cost, differentiation, or focus." Another is defender, analyzer,

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prospector, or reactor. Different organizations within the same industry often have different generic strategies and these strategies describe the consistent way the company attempts to position itself relative to competitors.

The second aspect of strategic management is the process of developing strategies for achieving the company's goals in light of its current environment. Thus, business organizations engage in generic strategies, but they also make choices about things such as how to scare off competitors, keep competitors weaker, determine how many and what types of people to employ, etc.

Strategic human resource management is the pattern of planned human resource deployments and activities intended to enable an organization to achieve its goals.

A. Components of the Strategic Management Process

There are two distinct phases of this process (See text Figure 2.1)

Strategy Formulation: During this phase, strategic planning groups decide on a strategic direction by defining the company's mission and goals, its external opportunities and threats, and its internal strengths and weaknesses.

Strategy Implementation: During this phase, the organization follows through on the strategy that has been chosen. This includes structuring the organization, allocating resources, ensuring that the firm has skilled employees in place, and developing reward systems that align employee behaviour with the strategic goals.

B. Linkage between HRM and the Strategic Management Process

The strategic choice really consists of answering questions about competition—that is, how the firm will compete to achieve its missions and goals? These decisions consist of addressing the issues of: Where to compete? How to compete? and With what to compete? (See text Figure 2.2).

Although these decisions are all important, strategic decision makers often pay less attention to the "with what will we compete" issue, resulting in poor strategic decisions.

COMPETING THROUGH TECHNOLOGY: The Risks of Technological Innovation

In 2004 Boeing executives began to develop the most technologically sophisticated airplane in commercial aviation history, the "Dreamliner", said to be "a true game-changer for the industry and the traveling public." The plane would be built with plastic reinforced with carbon fiber to make it lighter and more fuel-efficient, and it would have highly complex electrical systems, instead of those run by hydraulic and

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pneumatic power. Such innovations would lead to 20% less fuel consumption and 30% lower operating costs. By 2013 Boeing had received orders for 848 of the planes.

However, as with every new innovative rollout, problems began to emerge. The carbon composite wings were difficult to attach to the fuselage, the power distribution panels overheated and ignited in flight, and the new lithium-ion batteries providing auxiliary power caught fire. Twice the new Dreamliners were forced to land because of fires in the electrical systems, and shortly all were grounded, leaving Air Canada and other customers cooling their heels. Air Canada's CEO still had faith in the Dreamliner, but acknowledged the wisdom of avoiding the 'first mover' step and waiting to take delivery of a new aircraft model only after the initial problems are fixed." Tom Enders, CEO of Boeing's chief rival EADS commented on mixed feelings about innovation, since every innovation carries risk. He also said "But if you're too risk-averse the competition will kill you. Either way you are walking a tightrope."

C. Role of HRM in Strategy Formulation

Both strategy formulation and strategy implementation involve people-related issues and therefore necessitate the involvement of the HR function. Four levels of integration exist between the HR function and the strategic management function. (See text Figure 2.3).

Administrative Linkage—this is the lowest level of integration, in which the HRM function's attention is focused on day-to-day activities. No input from the HRM function to the company's strategic plan is given.

- **One-Way Linkage**—The firm's strategic business planning function develops the plan and then informs the HRM function of the plan. HRM then helps in the implementation.

- **Two-Way Linkage**—This linkage allows for consideration of human resource issues during the strategy formulation process. The HRM function is expected to provide input to potential strategic choices and then help implement the chosen option.

- **Integrative Linkage**—This is based on continuing, rather than sequential, interaction. The HR executive is an integral member of the strategic planning team.

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4. Strategy Formulation

This includes five major components (Refer back to text Figure 2.1):

A **Mission** is a statement of the organization's reasons for being; it usually specifies the customers served, the needs satisfied and/or the value received by the customers, and the technology used.

Goals are what the organization hopes to achieve in the medium-to-long-term future; they reflect how the mission will be operationalized.

External analysis consists of examining the organization's operating environment to identify strategic opportunities and threats.

Internal analysis attempts to identify the organization's strengths and weaknesses.

Strategic choice is the organization's strategy, which describes the ways the organization will attempt to fulfill its mission and achieve its long term goals.

It is HRM's role to keep close tabs on the external environment for human resource–related opportunities and threats, especially those directly related to the HRM function: potential labour shortages, competitor wage rates, government regulations affecting employment, and so on.

An analysis of a company's internal strengths and weaknesses also requires input from the HRM function. Today companies are increasingly realizing that their human resources are one of their most important assets. A company's failure to consider the strengths and weaknesses of its workforce may result in its choosing strategies it is not capable of pursuing.

Thus, with an integrative linkage, strategic planners consider all the people–related business issues before making a strategic choice. These issues are identified with regard to the mission, goals, opportunities, threats, strengths, and weaknesses, leading the strategic planning team to make a more intelligent strategic choice. Although this process does not guarantee success, companies that address these issues are more likely to make choices that will ultimately succeed.

It is of utmost importance that all people–related business issues be considered during strategy formulation. These issues are identified by the HRM function. Mechanisms or structures for integrating the HRM function into strategy formulation may help the strategic planning team make the most effective strategic choice. Once that strategic choice is determined, HRM must take an active role in implementing it.

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5. Strategy Implementation

Five variables determine success in strategy implementation (see text Figure 2.4).

HR has responsibility for three of these: task design, selection, training and development of people, and reward systems. The role of the HRM function is one of:
(1) ensuring that the company has the number of appropriately skilled workers and
(2) developing "control" systems that ensure that those employees contribute to goal achievement.
This is accomplished through various HR practices discussed next.

A. HRM Practices

The HR function has six "menus" of practices from which companies can choose to fit their strategic direction (see Table 2.1 in the text).

One example from the wide range of HRM choices available to managers is the pay system which has an important role in implementing strategies. First, a high level of pay and/or benefits relative to that of competitors helps the company attract and retain high-quality employees, although this might increase overall labour costs. Second, by tying pay to performance, the company can encourage specific activities and levels of performance from employees.

Companies also have choices when it comes to employee relations. They can choose to invest in employees – essentially treating them as an *asset*. Or they can treat them as an *expense* to be minimized. The approach a company takes in making these decisions can result in it either successfully achieving its short- and long-term goals or ceasing to exist.

Recent research has begun to examine how companies develop sets of HRM practices that maximize performance and productivity. For example, numerous studies indicate that companies identified as some of the “best places to work” have had higher financial performance than a set of matched companies that did not make the list.

However, while the research seems to indicate that while the relationship between practices and performance is consistently positive, we should not go too far out on a limb arguing that increasing the use of HRM practices will automatically result in increased profitability.

B. Strategic Types

Several different "typologies" of strategies exist. Porter's Generic Strategies—Michael Porter has hypothesized that competitive advantage comes from creating value by:

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(1) reducing costs (overall cost leadership) **or**

(2) charging a premium price for a differentiated product or service (differentiation).

C. HRM Needs in Strategic Types

Different strategies require different types of employees with different skills and also require employees to exhibit different "role behaviours." **Role behaviours** are the behaviours required of an individual in his or her role as a jobholder in a social work environment. Additionally, different role behaviours are required by the different strategies. (See Text Table 2.2):

1. Cost strategy firms seek efficiency and therefore carefully define the skills they need in employees and use worker participation to seek efficiency and cost saving ideas.

2. Differentiation firms need creative risk takers with a long term focus who are good at developing new ideas, cooperating with others and taking a balanced approach to process and results.

D. Directional Strategies

Four types follow. The human resource implications of each of these strategies are quite different:

Concentration strategies focus a company on increasing market share, reducing costs, or creating and maintaining a market niche for products and services. With this type of strategy, a company attempts to focus on what it does best within its established markets and can be thought of as "sticking to its knitting."

Internal growth strategies include a focus on new market and product development, innovation, or joint ventures. Companies with an internal growth strategy channel their resources toward building on existing strengths.

External growth strategies emphasize expanding a company's resources or strengthening its market position by acquiring or merging with other businesses or creating new businesses. Mergers and Acquisitions include consolidation within industries and mergers across industries.

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Divestment emphasize paring down operations through retrenchment, divestiture or liquidation and are engaged in by firms facing serious economic difficulties and which often includes downsizing. **Downsizing** is the planned elimination of large numbers of personnel, designed to enhance organizational effectiveness. It presents a number of challenges and opportunities for HRM: careful reduction of the work force, boosting the morale of employees who remain, increasing fresh ideas, and changing the company's culture.

Downsizing can be good for a company but it also presents numerous dilemmas such as maintaining a strong reputation as an employer of choice while laying off a number of people. In addition, despite the increasing frequency of downsizing, research indicates it is far from universally successful for achieving goals of increased productivity.

COMPETING THROUGH SUSTAINABILITY:
Mergers and Acquisitions: Amateurs Need Not Apply
Companies that are truly experienced in mergers and acquisitions know that ensuring sustainability of such deals means involving HRM at a very early stage of the deal. Sustainability means retaining key talent, aligning both organizational cultures, and smooth integration of the companies involved, maintaining engagement of employees, and ensuring revenue growth, among other results. By anticipating and meeting the needs of employees on both sides of the deal HRM will create a solid foundation that ultimately meets the needs of customers, managers, and shareholders. At Yellow Pages HRM is involved right at the beginning, identifying potential risks and liabilities (due diligence). They look for potential integration issues, such as alignment of working conditions, benefits, and pensions. Later, when the deal has progressed but before it closes, HRM conducts a thorough cultural assessment, looking at the visions, the values, and the work processes. Once the deal is official, Yellow Pages HRM team launches a swift, assertive, and thorough communication plan to address concerns of all stakeholders. Mercer Human Resources Consulting uses an eight step process that includes measuring and reinforcing change outcomes as the final touch. This is not necessarily a linear process since steps are sometimes done out of sequence to make the deal work.

E. Strategy Evaluation and Control

This is the final component to the strategic management process that includes the monitoring of the effectiveness of strategic choice and implementation. This monitoring makes it possible for the company to identify problem areas and either revise existing structures and strategies or devise new ones. In this process we see emergent strategies appear as well as the critical nature of human resources in competitive advantage.

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6. The Role of Human Resources in Providing Strategic Competitive Advantage

It is important here to note that human resources can provide a strategic competitive advantage in two additional ways: through emergent strategies and through enhancing competitiveness.

A. Emergent Strategies

Emergent Strategies— strategies that evolve from the grass roots of the organization: that is, what actually is *done* versus what is *planned*. HR plays an important role in facilitating the communication of emergent strategies between levels in the hierarchy.

Example: When he founded Starbuck's, Howard Schultz imagined a "third place" between work and home for people to enjoy Italian-style coffee. While this intended strategy worked, customers began asking for non-fat milk in their lattes and flavour shots in their coffees. At first, Schultz refused to offer them. However, he relented after repeated requests. This was an emergent strategy: one that differed from the original, intended strategy.

(The idea of emergent strategies is evidenced by the feedback loop in Figure 2.1 in the text.)

B. Enhancing Firm Competitiveness

By developing a rich pool of talent, HR can assure the company's ability to adapt to a dynamic environment. Recently managers have become interested in the idea of a "learning organization," in which people continually expand their capacity to achieve the results they desire. This requires the company to be in a constant state of learning through monitoring the environment, assimilating information, making decisions, and flexibly restructuring to compete in that environment. Companies that develop such learning capability have a competitive advantage.

Thus, the role of human resources in competitive advantage should continue to increase because of the fast-paced change characterizing today's business environment.

VII. Strategic Management of the HRM Function

For the HR function to become truly strategic in its orientation, it must view itself as being a separate business entity and engage in strategic management in an effort to effectively serve the various internal customers.

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A customer orientation is one of the most important changes in the HR function's attempts to become strategic. The most obvious example of HR customers is the line managers who require HR services. Others include the strategic planning team and employees

The products of the HR department must be identified. For example, line managers want to have high-quality employees committed to the organization.

The technologies through which HR meets customer needs vary depending on the need being satisfied. For example, selection systems ensure that applicants selected for employment have the necessary knowledge, skills, and abilities to provide value to the organization.

EVIDENCE-BASED HR

Towers Perrin (now known as Towers Watson) conducted several online surveys on the people-related risks in mergers and acquisitions. The surveys included more than 100 Canadian finance executives and 118 Canadian HR executives experienced in completing at least one merger and or acquisition in the previous three years. Participants were asked a number of questions about the level of involvement of HR in various stages of deals considered to be either very successful or less successful. The responses from participating executives reporting on successful deals were then compared with responses from participants reporting on less successful deals.

The results of the study indicated ways that HR can effectively support successful completion of mergers and acquisitions, and areas where HR can improve. As well, companies completing successful deals credited the HR function with assigning the best resources to the integration team, influencing the effectiveness of senior leaders involved, and deploying human capital effectively at all stages of the deal. Such results were in sharp contrast with companies leading less successful deals, indicated that getting HR involved early and often in a merger or acquisition can influence the outcomes substantially. In addition, when asked what they might do to improve results of their next deal, well over half of companies that had completed successful deals indicated they would improve knowledge of HR about mergers and acquisitions. This sentiment was also expressed by just under half of companies that hadn't fared well in successful deals. Study conclusion: companies completing successful deals seemed to have an HR function fully tuned into key objectives and strategy of the deal, and that was skilled in guiding leadership and managing the people issues involved. They had also developed effective processes for managing people in sync with the goals and expectations of company leaders, and the HR function was seen as a definite asset to the process.

VIII. Building an HR Strategy

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The Basic Process (See Text Figure 2.5) depicts the basic process for HR strategy. First the function scans the environment to determine the trends or events that might have an impact on the organization (e.g., future talent shortage, aging of the workforce). It then examines the strategic business issues or needs (e.g., is the company growing, expanding internationally). From these issues, the HR strategy team needs to identify the specific people issues that will be critical to address in order for the business to succeed (a potential leadership vacuum, lack of technological expertise, etc.). From this information an HR strategy is designed, which provides a detailed plan regarding the major priorities and the programs, policies, and processes that must be developed or executed. Finally, this HR strategy is communicated to the relevant parties, both internal and external to the function. Thus, the HR strategy is a framework that guides individuals in HR by helping them understand where and how they will impact the company.

This generic process provides for the potential to involve line executives in a number of ways. Involving those in charge of running the business can increase the quality of information from which the HR strategy is created. This involvement can occur in a few ways.

1. Line executives could simply provide input, by either surveying or interviewing them regarding the business challenges and strategy.
2. They could be members of the team that actually develops the HR strategy.
3. Once the strategy is developed, they could receive communications with the HR strategy information.
4. They could have to formally approve the strategy, in essence "signing off" that the HR strategy fully supports the business strategy.

The most progressive organizations use all four forms of involvement, asking a large group of executives for input, having one or two executives on the team, communicating the HR strategy broadly to executives, and having the senior executive team formally approve it.

B. Characterizing HR Strategies

HR strategies can be generated in a variety of ways and each approach will result in various levels of linkage with the business. In general, four categories of this relationship can be identified, ranging from the most elementary level of "HR-focused" approaches to the most fully developed "Business-Driven" approach.

In the "Business Driven" approach HR strategies begin by identifying the major business needs and issues, consider how people fit in and what people outcomes are necessary, and then build HR systems focused on meeting those needs.

C. Evaluating HRM Effectiveness

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Having good measures of the function's effectiveness provides several benefits, such as:

Marketing the function – evaluation is a sign that the HR function cares about the organization as a whole and is trying to support operations, production, marketing, and other functions in the company.

Providing accountability – evaluation helps determine whether the HRM function is meeting its objectives and effectively using its budget.

There are two commonly used approaches for evaluating the effectiveness of HRM practices:

Audit approach – focuses on reviewing the various outcomes of the HR functional areas. Both key indicators and customer satisfaction measures are typically collected.

Just as firms often survey their customers to determine how effectively the customers feel they are being served, the HRM function can survey its internal customers. Many organizations use their regular employee attitudes survey as a way to assess the employees as users/customers of HRM programs and practices. One important internal customer is the employee of the firm. Employees often have both direct and indirect contact with the HRM function. However, the problem with assessing effectiveness only from the employees' perspective is that often they are responding not from the standpoint of the good of the firm, but rather from their own individual perspective. Many firms have gone to surveys of top-line executives as a better means of assessing the effectiveness of the HRM function. The top line executives can see how the systems and practices are impacting both employees and the overall effectiveness of the firm from a strategic standpoint.

Analytic Approach – focuses on either (1) determining whether the introduction of a program or practice has the intended effect or (2) estimating the financial costs and benefits resulting from an HR practice; or (3) using analytical data to increase organizational effectiveness.

Evaluating a training program is one strategy for determining whether the program works (more on this in Chapter 6). The second strategy involves determining the dollar value of the training program, taking into account all the costs associated with the program. Finally, HR analytics can be used by the function to increase the effectiveness of the firm. For example, Google's

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analytical approach to HR has revealed which backgrounds and capabilities are correlated with high performance as well as the leading cause of attrition.

The analytical approach is more demanding than the audit approach because it requires the detailed use of statistics and finance.

IX. Improving HRM Effectiveness

Once a strategic direction has been established and HR's effectiveness evaluated, leaders of the HR function can explore how to improve its effectiveness in contributing to the firm's competitiveness. (See Text Figure 2.6 which depicts this process, using outsourcing, process redesign and information technology)

A. Restructuring To Improve HRM Effectiveness-

A recently developed generic structure for the HRM function is the shared service model, which is depicted in the lower half of Text Figure 2.7. The shared service model is a new way to organize the HR function that includes the following three divisions:

- **The Centers for Expertise** usually consist of the functional specialists in the traditional areas of HR such as recruitment, selection, training, and compensation. These individuals ideally act as consultants in the development of state-of-the-art systems and processes for use in the organization.

- **The Field Generalists** consist of the HRM generalists who are assigned to a business unit within the firm.

- **The Service Center** consists of individuals who ensure that the transactional activities are delivered throughout the organization.

B. Outsourcing to Improve HRM Effectiveness

Outsourcing entails contracting with an outside vendor to provide a product or service to the firm, as opposed to producing the product using employees within the firm. Usually this is done for one of two reasons:

(1) Either the outsourcing partner can provide the service more cheaply than it would cost to do it internally, or
(2) the partner can provide it more effectively than it can be performed internally.

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Usually this is because outsourced providers are specialists in areas such as pension administration or payroll. A key aspect of any outsourcing decision is an understanding of the company's vision for HR and an assessment of the costs of performing HR functions within the company compared with the potential savings through outsourcing.

X. Process Redesign and New Technologies

Process redesign enables the HRM function to more effectively deliver HRM services. Process redesign often uses information technology, but IT applications are not a requirement.

Reengineering is a complete review of critical work processes and redesign to make them more efficient and able to deliver higher quality. The reengineering process (see text Figure 2.8) has four steps:

1. Identifying the Process – Managers who control the process should be identified and asked to be part of the reengineering team.

2. Understanding the Process – A variety of techniques are available to help with this step, such as data flow diagrams, data-entity relationship diagrams, scenario analyses, surveys or focus groups, and cost-benefit analyses.

3. Redesigning the Process – During this phase, the team develops models, tests them, chooses a prototype, and determines how to integrate the prototype into the organization.

4. Implementing the Process—The company should try out the new process in a controlled setting before introducing it widely.

Like all other business processes, the HRM function can increase effectiveness over time through integration of new technology, especially in the area of administration**. New technologies** are current applications of knowledge, procedures, and equipment that have not been used previously. They usually involve automation – replacing labour with equipment, information processing or some combination of the two, and it may even include use of new Web 2.0 applications on the internet.

Self-service refers to giving employees online access to information about HR issues such as training, benefits, compensation, and contracts; enrolling online in programs and services; and completing online attitude surveys.

Technology has already been used in HRM for three broad functions: transaction

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processing, reporting, and tracking; decision support systems; and expert systems. These and other emerging technologies being applied to HRM are discussed in Chapter 4.

A key concept here is to understand that HR is no different than any other department in the organization in that continuous improvement is essential if the department is to maximize its contribution to the organization. This can be done only through awareness, determination, effective measurement, process redesign, and integration of new technology where appropriate.

XI. The Role of the Chief Human Resource Officer

Only recently have researchers attempted to examine what these HR leaders do and how they affect the business. One recent survey identified seven roles that CHROs have to play to one degree or another, and then asked Fortune 150 CHROs to identify how they spend their time across those roles. See Text Figure 2.9, which illustrates how much time CHROs spend in each of the following roles:

- *strategic adviser to the executive team* (21 percent). Entails sharing the people expertise as part of the decision-making process, as well as shaping how the human capital of the firm fits into its strategy. (This role was frequently cited as having the greatest impact on the firm.)

- *talent architect* (17 percent) - frequently cited as the role in which the CHRO has the greatest impact on the business. Requires that CHROs help the executive team see the importance of talent, identify present and future talent gaps, and come to own the talent agenda.

- *counsellor/confidante/coach* (also 17 percent). Includes a range of activities - from behavioural or performance counselling to being the personal sounding board for the CEO.

- *leader of the HR function* (22 percent) Involves ensuring that the HR function is aligning its activities and priorities toward the needs of the business, and it usually entails meeting with direct reports to provide guidance and check on progress.

- *liaison to the board* (10 percent) - Engaging with the board of directors, including discussions of executive compensation, CEO performance, CEO succession, and performance of other members of the executive leadership team. (This role is increasing in importance, although it has a long way to go before equalling the strategic adviser, talent architect, and counsellor/confidante/coach roles.)

- *workforce sensor (8 percent)* entails taking the pulse of the employee population to identify any morale or motivation issues.

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- *representative of the firm* **(5 percent) -** serving as the face of the organization to outside constituents such as labour unions, nongovernmental organizations, and the press.

A Look Back: Transforming GM

GM's original plan for changing its business model included plans to lay off employees worldwide, close five additional North American plants, and eliminate half the company's brands. The company also held talks with the UAW and CAW to restructure billions in obligations to retired hourly workers. However, bondholders of GM demanded even greater cuts and a reduction in commitments to the legacy workforce. GM of Canada Ltd. and the CAW finally agreed to massive cuts to qualify for bailout monies. Such concessions negotiated by the CAW added to the $400 million in savings over three years GM workers had already given up in their most recent contract. The new deal cut average hourly wages and benefits, eliminated a week of special holidays and a special annual bonus, and froze wages and cost-of-living allowance for the term of the agreement. The annual bonus money was redirected to pay health costs of the legacy workforce. Additional changes included both active and retired employees agreeing to pay at least a portion of health care premiums, and pensions and cost-of-living increases were of retirees were frozen.

Questions

1. The chapter opening vignette indicated that the new General Motors Company has achieved a lot using its new business model. Visit the company's website and download a copy of the most recent Annual Report (http://investor.gm.com/stockholder-information). Do you think the new business model is enough to make the company truly sustainable over time? Explain your answer.

   Answer: Student answers and opinions will vary of course. Some students may have links to the company themselves or through family which can add detail to such discussions. This question can also be expanded to include comparing the 2010 report (and business model) against actual performance and performance of the business model described in the most current Annual reports available. This question also presents an opportunity to examine additional information on GM's redesigned business model online with Connect.

2. What if anything has GM done to change the way it manages its workforce as part of its transformation? What impact do you think the appointment of Mary T. Barra as CEO might have on the company's future?

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Answer: Although student answers may vary, look for evidence that students can conceptualize the linkages between business practices and HRM. For example, could the company initiate pay for performance programs that motivate workers to be more productive? Could GM design compensation packages that focus more on shorter term incentives rather than longer term benefits such as pensions? This would allow the company to be more nimble, and respond to the changing business environment. The appointment of Mary Barra seems to be a strong signal for change between the values and attitudes of the "old GM" (which was very male dominated) and the "new GM" which is now focussed on "... compelling design, innovation and exceptional owernship experience." The appointment of a female CEO seems to suggest that all the old attitudes, expectations and outcomes of GM are open to change in order to survive and grow. This includes longstanding perceptions of what leadership looks like at GM, which countries offer GM the most opportunity for growth (such as China, and where GM products can be manufactured (such as China and Mexico).

3. Notice that little of the discussion dealt with GM's products. Have any extremely successful products been developed since the new General Motors Company was formed? If so, how have they affected GM's business model? Would GM be able to weather the impact a line of mediocre or poor products might have on its transformation process?

   Asnwer: Have students review the Annual report for newly designed products that have been recently launched (including results), as well as announcements for new products in the future. A few extremely successful products will boost morale internally, reinforce shareholder confidence, and may result in larger number of units sold at perhaps higher prices. This would shift the demand curve for GM products outward, and continue to revive and grow the business. A line of mediocre products would exert downward pressure on the price, units sold and demand curve for products. It would likely result in shareholders becoming fearful about the potential future of the company and even the threat of bankruptcy once again.

Chapter Key Terms

These terms are defined in the "Extended Chapter Outline" section.

Analytic approach
Audit approach
Concentration strategy
Divestment
Downsizing
External analysis
External growth strategy
Goals
Internal analysis

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Internal growth strategy
New technologies
Outsourcing
Reengineering
Role behaviours
Self-service
Shared service model
Strategic choice,
Strategic human resource management (SHRM)
Strategy formulation
Strategy implementation
Strategic management

Discussion Questions

1. Pick one of your university or college's major sports teams (such as football, basketball, hockey, or soccer). How would you characterize that team's generic strategy? How does the composition of the team members (in terms of size, speed, ability, and so on) relate to that strategy? What are the strengths and weaknesses of the team? How do they dictate the team's generic strategy and its approach to a particular game?

   Answer: This question ought to generate some interesting discussion. You may discover you have one or more students in your class who are on a varsity team as well as those who are avid fans (and thus "experts" on the team's strategy. They will enjoy describing the team's strategy and how effective they think it is.
   Using football as an example, let's say the team has a generic strategy that is best characterized as a focus strategy—development of the ground game. Perhaps they have a very large offensive line and big, fast running backs. Additionally, they could well have a large fullback who is able to successfully block for the tailback. Thus, strengths are really the quality of (1) the offensive line and (2) the running backs (speed and size). Perhaps the primary weakness is the lack of a well developed passing game, which leaves them in a difficult position when they get behind as time is running out. (Students from schools where the football teams are not undefeated will be able to list a greater variety of weaknesses.)

   In such a team the basic strategy could be described as: to run the football, score points, keep the clock moving, and, with their skilled defence, keep the ball out of their opponents' hands. The team's strengths would clearly support this strategy, and yet their weakness limits their options in more difficult games (e.g. tie games).

2. Do you think that it is easier to tie human resources to the strategic management process in large or in small organizations? Why?

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Answer: Most likely, it is easier to integrate HR and the strategic management process in a medium to large organization due to two factors: first, larger organizations tend to have a more formalized approach to strategic planning, while many small firms do not plan; and second, larger firms generally invest time in standardizing or centralizing HR policies and practices. In smaller firms, decisions are made less frequently and may have more of an ad hoc nature.

3. Consider one of the organizations you have been affiliated with. What are some examples of human resource practices that were consistent with that organization's strategy? What are examples of practices that were inconsistent with its strategy?

   Answer: Student answers will vary based on the industry and job they select.

4. How can strategic management within the HRM department ensure that HRM plays an effective role in the company's strategic management process?

   Answer: By instituting strategic management within the HRM department, the department will be forced to review their mission, customers, and so forth. In doing so, it will become evident that for HRM to fulfill its mission, the function must take a role in overall corporate planning and implementation.

5. What types of specific skills (such as knowledge of financial accounting methods) do you think HR professionals will need to have the business, professional-technical, change management, and integrative competencies necessary in the future? Where can you develop each of these skills?

   Answer: HR professionals will have to have a basic understanding of the various business functions and more specifically, knowledge of statistics, accounting, information system. (The specific functions of HR are obviously also critical to future HR practice.) Additionally an in-depth knowledge of organizational change methods will enable an HR executive to take a leadership role in setting the direction of the organization as well as in implementing changes called for by the strategy of choice. These skills can be learned in business programs at universities and colleges, and through experience gained within an organization.

6. What are some of the key environmental variables that you see changing in the business world today? What impact will those changes have on the HRM function in organizations?

   Answer: Students can list many different general and/or specific changes that will be affecting firms and their HR practices. For example changes to the Canada Pension Plan or the recent creation of a public pension savings program in Canada, or changes to the Employment Insurance Program (such as allowing spouses to share parental leave entitlement) result in changes to company benefit programs and will

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often result in a new tax for the firm. NAFTA and higher labour costs in other countries such as the U.S. and Germany will encourage firms to actively move into Canadian markets. In some cases, this may mean opening plants or call centres here. Employers in other countries have different employment legislation and will therefore require separate HR policies or practices when they set up operations in Canada. The changes in demographics in Canada (fewer entry-level workers, older workers, more women, more visible minorities, etc.) and an aging population will have many and varied impacts on HR practice. The key is to urge students to think about what types of impacts such issues will have on HR and how HR can respond in an effective manner.

7. How can the processes for strategic management discussed in this chapter be transplanted to manage the HRM function?

   Answer: The processes for strategic management starts with discussing the HRM role, which should be seen as a strategic partner that has input into the formulation of the company's strategy and develops and realigns HR programs to help implement the strategy. For the HR function to become fully strategic it must view itself as being a separate business entity and engage in strategic management in an effort to effectively serve the various internal customers. To achieve this, HR executives will need to be consistent with a total quality management philosophy and take a customer-oriented approach to implementing the function. That is, the strategic planning process conducted at the business level can also be performed within the HRM function. HRM executives can start by viewing the HRM function as a strategic business unit and adopting a customer service orientation. This includes identifying the customer base of the HRM function and the products being offered by the HRM department. Finally, the technologies through which HR meets customer needs vary depending on the need being satisfied. The HRM function can then engage in a continuous process of improvement, utilizing process reengineering and new technologies, and appropriate outsourcing to spend less time transactional and traditional activities and more time in transformational activities, which allow the HRM function to become and remain a true strategic partner in the organization.

8. Why do you think that few companies take the time to determine the effectiveness of HRM practices? Should a company be concerned about evaluating HRM practices? Why? What might people working in the HRM function gain by evaluating the function?

   Answer: Students may suggest a variety of reasons. HR must be "sold" to upper management, particularly during budget cycles. Additionally, through evaluation, HR can learn where effort for improvement and change should go. If through evaluation it is discovered that certain categories of employee hires have a high turnover rate, it may be very useful in determining what to change in order to reduce turnover.

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Continuous improvement of the HR function can cut costs and increase the quality of its service to the firm.

9. Some argue that outsourcing an activity is bad because the activity is no longer a means of distinguishing the firm from competitors. (All competitors can buy the same service from the same provider, so it cannot be a source of competitive advantage.) Is this true? If so, why would a firm outsource any activity?

   Answer: Outsourcing involves contracting with an outside vendor third-party provider or consultant to provide a product or service to the firm, as opposed to producing the product in-house, using employees within the firm. Outsourcing is done for two reasons, either the outsourcing partner can provide the service more cheaply than it would cost to do it internally, or the partner can provide it more effectively than it can be performed internally. Outsourcing can still be a means of competitive advantage because you usually have an agreement with the outsourcing firm so it still maintains the competitive advantage.

10. Based on discussions of mergers and acquisitions contained in this chapter, what do you think is the most important contribution the HR function can offer to effectively support such deals? What can those in charge of the HR function do to gain involvement in various stages of planning and execution of such deals? Assuming they are invited to contribute, what expectations might various stakeholders have of HR before, during, and after the merger or acquisition takes place?

    Answer: The Competing Through Sustainability feature about the role of HRM in mergers and acquisitions at Yellow Pages, together with observations of Bob Bundy of Mercer Consulting, presents examples of the how HRM can be valuable in helping companies plan and implement such complex undertakings. Since "people issues" are a primary reason why M&As don't live up to expectations, HRM has a key role to play at the beginning in evaluating the proposed venture as well as implementation of the event once it is underway. HRM can gain involvement by providing senior management with the business case for involving HRM early in the M&A process. This could include providing evidence from prevailing research such as that described in the Evidence-Based HR feature in this chapter.

    Once involvement of HRM is established, HRM should undertake the facilitation of cultural integration and change as a first priority. Bob Bundy (Mercer Consulting) describes this as clarifying the context of the deal, indentifying the right behaviours, pulling the right levers to drive those behaviours and managing the change required. Specifically, HRM at Yellow Pages conducts due diligence at the beginning of the deal - assessing potential risks and challenges linked to alignment of working conditions, benefits and pensions. At a more mature stage of the deal, HRM again steps in to do a cultural assessment (vision, values, unspoken issues and concrete

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issues such as work processes) and creates an integration plan sensitive to the needs and feelings of people in both companies. When the deal is official, HRM launches a swift, assertive and thorough communication plan designed to address the questions all stakeholders are likely to ask.

Self-Assessment Exercise

Refer to the self-assessment exercise in the text.

Exercising Strategy: Googling HR

Questions:

1. If you were Lazlo Bock, What would you have done to lead the People Operations function at Google?

Answer: Student answers will vary here as they ponder the opportunity to be an "Armchair Senior VP People Operations" at Google, with its significant responsibilities. To encourage discussion, point out that *throughout this chapter, Laszlo Bock and Google have been innovating constantly in how they approach the role that the function can play and how it plays that role in the organization. Thus not everything was up to Bock, and although he has taken a strong leadership approach in changing how HR was "managed", it also illustrates that transforming an HR function is always a journey and not a destination. HR functions must constantly be sensing the changing needs of the business, developing strategies to help the business meet its goals, and delivering new systems and processes in an efficient and effective manner. Any comparison students make with Bock of their own speculative approach should include these considerations. Students may also find it useful to examine recent Google annual reports or press releases to think about new directions Google is taking and how they might lead People Operations in the future to achieve company goals. For example, Sundar Pichai was appointed Google's new CEO in August of 2015. What changes might that signal or require from the People Operations function, if any?*

2. Compare Lazlo Bock and the changes he made at Google to the seven roles of the CHRO. What can you find out about Lazlo Bock that does or doesn't illustrate that he played these roles to one degree or another.

Answer: Review the descriptions of each of the seven roles played by the CHRO contained in the chapter as students draw comparisons to Lazlo Bock's activities and accomplishments contained in the vignette and in the chapter description of People operations. You may also wish to direct students to the Google website at https://www.google.com/about/company/facts/management/, for more clues on how Bock is influential in the various roles. Some comparisons could include:

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Functional Leader Role*: Bock has clearly ensured the HR function is aligning its activities and priorities toward the needs of the business by creating the world's first data-driven HR function and creating the People Operations Strategy described in the chapter. For example, Google's analytical approach to HR has revealed which background and capabilities are correlated with high performance as well as the leading cause of attrition – employees feeling that they are underused at the company. It has also discovered that the ideal number of recruiting interviews is five – down from a previous average of ten. Data analytics also allows HR to more effectively communicate with Google's managers, and the top executive team to make informed decisions, since many are engineers or experts in information technology. Bock and his research staff spend all their time finding evidence to confirm or predict how the human capital of the organization can be used in the most productive way possible, and that the activities of the HR function serve the organization in the most effective way possible. The "Put our users first" policy indicates Bock is checking regularly with his staff to ensure the HRM function is meeting the needs of all Google managers and employees.*

Liaison to the Board: *Based on information provided by Google about its management team, Bock has been named a senior vice president which places him at an equal level (and having an equal voice) among the 14 members of the senior leadership team who report to and advise the Executive Officers of the company. The Executive officers are directly responsible to the Board of Directors. Bock's liaison role with the Board would most likely be in the form of presenting plans to the Executive team for approval and presenting and reporting to the Board of Directors when requested. It is unknown whether Bock fulfils the higher level roles of engaging with the Board to manage CEO performance and that of other members of the Executive team, or CEO succession.*

Worforce Sensor*: The data analytics approach is all about measuring how employees respond to and think about the way Google is organized, its management, and the actual impact of retention programs (such as providing too much good food which encourages overeating). In this way Bock and the HRM function are constantly taking the pulse of the employee population to identify morale or motivation issues. In addition, Google's four pronged approach to "put our users first" – signals that HR works hard to "sense" the needs of the users of its services (People Operations) which are all the other Google employees With this information it can adapt and change its services or the Google culture as needed.*

Firm representative role*: Bock's high profile and celebrity status have focused attention on the HRM function at Google, making him a well recognized representative of innovative practices in HRM. Indeed he is said to have "reinvented HR". The strategies he has put in place for measuring workforce attitudes and developing people strategies create considerable barriers for any labour organization hoping to make inroads into Google.*

Strategic Advisor: *As an equal member of the 14 member Senior management team, Bock is expected to be the strategic advisor to all other senior managers and their*

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reports regarding the integration of human capital in strategic plans. His previous executive leadership positions at GE capital would provide him with valuable credibility for understanding the business of Google, which would influence other managers to listen to his ideas and suggestions and include him in their planning.
Talent Architect: *Bock has used data analytics to calculate the value of top performers, designed a retention algorithm, and used analytics to encourage collaboration. In addition, part of the four pronged People Operations approach is to "Find them, Grow them and Keep them". All of this is evidence that Bock and his HRM department are key players in finding great people to work for Google, planning career development strategies, and doing everything possible to keep them at Google. The concept of "Put on your own oxygen mask before assisting others" provides evidence that Bock supports career development of his own direct reports in the HRM function to keep the talent at Google.*
Executive Coach: *It is unclear if Bock is a personal advisor to the CEO and others on the Executive team. However his experience as a management consultant at McKinsey prior to joining Google would suggest he is skilled in advising management and understands their needs, as well as how to motivate them to listen to him.*

3. What actions or changes has Lazlo Bock implemented at Google that illustrate HRM's role in strategy formulation and implementation? To what extent were these actions helpful to Google?

Answer: The data analytics approach plays a pivotal role in formulating strategy since it provides management with key information derived from internal analysis and probably also from external analysis. This information will be consider when making decisions about the feasibility of pursuing new directions and strategies, as well as the advisability of continuing current strategies. Bock employs data scientists who can conduct extensive research to find information to support any question management might have when making strategic choices. This provides a key competitive advantage since it allows management to choose the best strategy possible and discard those that are not supported by objective research. Data analytics provides essential support to strategy implementation as well, providing evidence to support decisions regarding human resources needs (skills, behaviours, culture) , which in turn influence HRM practices (recruitment, training etc.) Since these factors strongly influence both human resource capability and actions (such as productivity and absenteeism), it all indicates that Bock's approach is very helpful to Google's overall firm performance (productivity, quality and profitability). In addition, the four pronged People Operations strategy seems to acknowledge emergent strategy in its "This space intentionally left blank" policy since its goal si an attempt to explicitly recognize the dynamic nature of Google's internal and external environment.

Managing People:
Emerging Market Financiers—Passing Gear on the On Ramp

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Questions

1. Why do Zabeen Hirji's unique personal qualities and background give RBC a competitive advantage in the future? What difference does it make that she became a member of the Executive team?

   Answer: Hirji is an East Indian Muslim borne in Tanzania, who speaks Karachi. Her early years included listening to her father discuss business problems in his soft drink manufacturing firm around the family dinner table in her home country. Later, after her father died, she immigrated to Canada with her widowed mother and sister and finished her education in Canada. Her personal experience as an immigrant is a real competitive advantage to understanding the strengths of diversity at a time when the Bank must compete with powerful emerging markets. In addition, her lengthy years of banking experience, high performance in the job, and reputation for being a trail blazer, made her an excellent strategic partner in her current role of Chief Human Resources Officer. She is well equipped to play the role of strategic advisor, talent architect and leader of the HR function – ensuring the integrative linkage necessary between HRM and the strategic planning process for RBC to compete effectively on a global basis.

2. How does RBC's focus on diversity influence the way it manages people? Its human resource practices?

   Answer: At RBC diversity is seen as a business, social and demographic imperative, and is used as a fundamental value that guides effective management of people in the firm. For example, the social and business aspects of diversity involve treating people with respect to enable employees to unlock their potential and achieve their aspirations. This helps attract top talent like Zabeen Hirji which gives the bank a competitive advantage. Respecting and encouraging diversity also increases the creativity and innovation (among naturally analytical minds) that are necessary to compete globally. Management believes that encouraging diversity is the right thing to do, and that from a business vantage point "to best serve the market, we must employ the market".

3. What does the statement "to best serve the market, one must employ the market" mean now for the Royal Bank? In the future?

   Answer: Employing a diverse group of employees throughout the organization, possessing both visible and invisible demographic differences, increases the capacity of the Bank to attract top talent as labour shortages become a reality. It also helps the Bank to more readily understand market realities as new customer needs emerge on a continuous basis – domestically and internationally. Note the bank's observation that "statistics emerging from recent U.S. and Canadian census and labour force reports

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prove that our consumer base and talent pools are shifting." The bank understands that customers and potential employees from diverse backgrounds are more likely to want to affiliate with an organization that employs people they can identify with. As globalization deepens, leveraging diversity is a business strategy that provides RBC with the human capital it needs to hold its own against a growing number of competitors offering financial services on both domestic and foreign turf. Such competition includes Pan Asia Bank, which offers new innovative products and the growing number of Islamic financial institutions (even in North America), which provide evidence of competition based on different issues (e.g. Shariah principles) that RBC must now recognize as a reality.

Teaching Suggestions:

Students who have not yet had a course in business strategy may find material in this chapter challenging and new. Therefore, any exercises that ask the student to identify various strategies and discuss HRM implications should be helpful. The following suggestions for discussions based on chapter features and cases, together with exercises and assignments should help you get the process going:

1. **Further Exploration (Strategic Management)**: Business literature is filled with examples of businesses that are revaluating their strategies and making significant changes. Ask students to review recent issues of *Canadian Business, Maclean's* or *Fortune* and to bring in an example that they can discuss in groups or share with the class as a whole. It may be that these examples will readily fall into strategic categories that can then be used to reinforce the chapter concepts.

   If your university or college library has subscriptions to such publications, as well as reports and online proceedings of the Conference Board of Canada you may wish to encourage your students to access and download research findings that illustrate various concepts in this chapter, or throughout the book. For example, the Conference Board of Canada publishes annual "HR Trends and Metrics" reports covering three areas: Canadian Context for Strategic Workforce Planning (SWP), HR Measurement Benchmarking, and HR Function Benchmarking.

   Alternatively, ask students to look up the Annual Report of a major corporation and identify strategic directions the company is embarking on form the information in the Annual Report. For example, have students find the Annual Report of The General Motors Company, TIFF (Chapter 1), Google, Westjet, Toyota, L'Oreal, Google or any company that interests them.

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2. **Outside Speaker (Strategy Implementation):** An outside speaker for this chapter could be used very effectively. Identify an HRM or organizational development practitioner who has recently participated in the implementation of a TQM or other quality process—or any kind of organizational restructuring. Ask this individual to describe the precipitating events leading up to the change and the people issues that were visible during the implementation.

3. **Competing Through Technology (The Risks of Technological Innovation):**
Boeing made some bold moves by beginning work on the most technologically sophisticated airplane in commercial aviation history. The introduction of the "Dreamliner" came with some bumps. However, innovation requires risk taking and without taking risks, a company runs the risk of becoming obsolete. Consider using the following discussion question to expand on the Competing through Technology feature
Discussion Question: Explain the temptation for companies to endeavour in radically innovative projects, and then explain why this might not be an optimal strategy. How do moves like these impact the labour market and landscape for graduating university and college students?
Answer: The reason that it is tempting for companies to accept the risk of introducing radically innovative technologies is because of the potential for great returns. As was explained in the vignette however, if companies are not willing to innovate, especially in industries that are high tech in nature, they run the risk of obsolescence. It is critical in today's fast-paced and globalized economy that university and college graduates have leading edge skills and knowledge in order to hit the ground running in their careers and compete with other recent grads. This requires companies to search for the best talent and compete for them. Google is an outstanding example of such approaches, and it has become the most valuable company in the world.

4. **Competing Through Globalization (GM in China):**
Globalization can present companies with many challenges and benefits. For GM, the growth of the Chinese automobile market has presented a tremendous opportunity. Investing heavily in factory facilities and test tracks, GM has positioned itself to be prepared for major sales growth that eventually will exceed sales in North America. In this case, GM has not focused on globalization simply to capitalize on "cheap labor", but rather moving into markets where consumer demand is growing. Consider using the following discussion question to expand on the Competing through Globalization vignette:
Discussion Question: Explain the temptation for companies to move their operations to other countries – in this case China, and then explain why this might not be an optimal strategy. How might this impact a university or college student as they prepare for graduation and entrance into the workforce?

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Answer: A global economy has become ubiquitous in business and in the world of work and as such, college graduates need to be skilled in operating in this environment. However, international operations certainly do come with their share of risks for an organization. In the case of the auto market in China, it appears that for the immediate future, expansion here makes sense. This may not, however, be true in all parts of the world where companies may be considering locating their operations for the sake of decreased costs. This vignette provided an example of why one company, who realized that they could benefit from expanding internationally, might consider partnering with universities in order to help students expertise that they might lack, while providing students with the experience they need to land a job and be successful in the global economy.

5. **Class Exercise (Organizational Strategy and HRM Practices):** Write the following terms on the whiteboard/blackboard in your classroom:
    - High centralization
    - Low participation
    - Low training
    - Low benefits
    - Highly contingent pay

    Have students reflect on each one of these concepts, and have them write down their impressions about what each of these terms would mean to them as an employee. Give students time to reflect on each term. Then, facilitate a large group discussion. Ask students what it would be like to work in an organization that had each of these qualities. Then, close the discussion by highlighting the relationship between a strategy and the corresponding Human Resource Management practices. These HRM practices would complement a low-cost strategy because they, in effect, minimize labour costs by providing minimal commitment to employees.

6. **Competing Through Sustainability (HRM role in Mergers and Acquisitions):** Consider using the following question for discussion of the Competing Through Sustainability feature:

    Discussion Question: What do you think Bob Bundy (of Mercer Human Resources Consulting) means when he says that each party coming to the table brings a lot of cultural baggage? What kinds of things does the HRM group at Yellow Pages do to fend off complications that might arise from such "baggage"?
    Answer: Student answer will vary here and some may speak from experience if they have worked for a company that was acquired or merged with another. Cultural baggage could include the group of expectations that historically exist in either company that influence each company's approach to recruitment and selection, design of compensation and benefits, how performance is managed, career development, and

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even communication styles. For example, one company may operate before the merger with a more hierarchical approach, evidenced by numerous levels and formal titles in the organization, and generous rewards for individual achievements. The organization may also use a more formal approach to communications requiring members to address those in higher positions as "Mr.", discouraging the use of first names among those not at the same level of the organization . In the other organization involved in the deal, perhaps there is a more egalitarian structure, involving jobs that are broader and team based in nature, with fewer levels in the job structure, and less difference in pay among the levels. Transparency in communications may be emphasized, the use of first names among workers at all levels taken for granted, along with a well established tradition of casual dress in the workplace. Clearly there would be much work to do ahead of time to plan how such practices and expectations would be integrated effectively (or new practices begun) when members of both organizations are asked to work together in the new corporate entity.

The HRM function at Yellow Pages begins its due diligence when the deal is at the intention to purchase stages – assessing the culture of the "other organization" being considered by Yellow Pages and potential risks liabilities and integration issues are assessed so that culturally determined issues such as working conditions, pensions and benefits are taken into consideration and an effective integration plan can be designed to ensure that all stakeholders feel their needs have been addressed. Such early involvement of HRM can serve to warn of any insoluble cultural issues that may define a deal breaker, and to overcome surmountable problems early in the game to ensure the deal goes to completion.

7. **CASE (Link between HRM function and Successful Mergers and Acquisitions):** The following Case, based on "Merger Kept 'the Best of Both,' " by N. Davis, *HR Magazine,* November 2008, pp. 54–56, will provide an additional resource to help your students understand the link between the HRM function and a successful merger or acquisition:

Case: Making Mergers and Acquisitions Work

Many companies are involved in global acquisitions and mergers to gain market share. Many acquisitions and mergers fail to gain the synergies and the expected value because the merging of two different company cultures is difficult and often done ineffectively (e.g., consider the problems of the Chrysler and Mercedes- Benz merger). Merck KGaA of Germany had 11,000 employees working on producing cardiac and cancer-fighting drugs. Serono S.A., a Swissbased biotechnology company with 5,000 employees, offered clinicians leading drugs for neurology, infertility, dermatology, and endocrinology. The two companies appeared to be compatible on the basis of their products, but their cultures and business models were very different. Merck KGaA's

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culture was characterized by family control, stability, and long-term growth, while Serono S.A.'s culture emphasized speed, agility, and an entrepreneurial spirit. Serono was organized by functions such as commercial, development, research, and technical operations. At Merck, a country head manager was in charge of all activities in the country.

In 2007 Merck completed its acquisition of Serono without losing talented scientific, managerial, sales, or manufacturing employees. The new company, Merck Serono International S.A., operates with a mix of functional and country models. By all measures, the acquisition and merger have been successful: the new company grew more than 7 percent in 2007 and 2008, faster than the overall pharmaceutical market. Employees are highly engaged. That is, employees' satisfaction with pay and benefits, trust, information sharing, collaboration, and teamwork are 10 percent higher than survey results for employees at other merging or reorganizing companies. Eighteen months after the merger, no member of the new senior management team had left the company.

What caused this acquisition to be successful? When the deal was announced, Merck communicated that Serono's culture was not going to be suppressed by Merck's policies. A central integration office was established and top management team appointments were announced. As soon as the acquisition was finalized, an HR integration team with representatives from both companies started work. The motto of the integration became the "best of both." The top priorities of the team included fast, open, fair, and transparent postings and hiring of more than 2,000 management positions worldwide; frequent communications with employees using Webcasts, meetings, and newsletters; and creation of an interim compensation and benefits philosophy to redefine stock and incentive and retention plans, integrate two different performance management systems, and identify a common culture that linked the two companies' employees. Although surveys indicated that employees felt the two company's cultures were different, they identified commonalities such as a focus on quality, innovation, teamwork, customer service, and a common vocabulary. Change management workshops were used to help employees adjust to the merger and create personal action plans.

Discussion Question: What role did HR play in the successful merger between Merck KGaA and Serono S.A.?

Answer: After the acquisition was finalized and the merger began, an HR integration team was established. This team adopted the motto "best of both" and it initiated fast, open, fair, transparent of the 20,000 management positions worldwide. The HR team also had frequent communications with employees through Webcasts, meetings, and newsletters. The HR team created an interim compensation and benefits philosophy to redefine stock incentive and retention plans and integrate two different performance management systems. These efforts resulted in shared values of quality, innovation, teamwork, customer service, as well as a common vocabulary.

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8. **CASE** (**Strategically Managing the HRM Function**): The following case will help students understand the strategic role HRM can play in ensuring ethical practices are implemented in their organizations, and thus increasing sustainability of the organization. It also provides a glimpse of how HRM links to corporate governance, a topic that is discussed later in Chapter 9). Emphasize that this strategic role of HRM may be only emerging in the BRIC countries, but that it will undoubtedly increase as they move to realize their potential to overtake the economies of existing developed countries such as those in the G7.

Case: Human Resources to the Rescue?

India is making its mark in the global marketplace—but not without a few stumbles. Recently, one of the nation's most respected employers made headlines when its leader acknowledged falsifying an earnings report.

Satyam Computer Services saw its share price—and its reputation—plummet after company founder B. Ramalinga Raju confessed to his board of directors that a reference to $1 billion in cash assets in a recent report was a lie. Satyam and its 52,000-employee workforce provide information technology services to more than 650 clients, including *Fortune* 500 firms such as Cisco Systems, Unilever, Nestlé, and General Electric.

As India works to burnish its position in the international marketplace, the issue of corporate governance takes on greater importance. And who better than human resource professionals to take the lead in guiding and facilitating the organization in these matters?

In the past, when most of India's industries were state run, matters of corporate governance were almost irrelevant, and the HR function's role was primarily administrative. But HRM moved to the forefront during India's high-tech boom, taking responsibility for recruiting, hiring, and training activities. The profession has continued to grow since that time.

Now, in the face of a global economic meltdown, the time may be right for HR practitioners to take the next step and become strategic partners with organizational leadership in both contractor and client companies.

Discussion Question: If you were Director of Human Resources at Satyam Computer Services, what recommendations would you provide to prevent problems in the future?

Possible answers

- *Create checks and balances in the company's accounting and financial reporting processes to ensure that no one individual has unmonitored access to the company's assets and financial records.*
- *Articulate a policy of transparency in all financial and operational matters. This policy should include the establishment of a corporate ethics hotline that*

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individuals may call, anonymously and without fear of retribution, to report concerns.

- *Communicate the organization's policies and protocols regularly and frequently to all employees, beginning during new-hire orientation and occurring at least annually thereafter. Periodically reinforce the messages of openness and guaranteed anonymity for whistleblowers.*

Source: Jeremy Smerd, "Indian Outsourcer's Woes May Open Doors for HR There," *Workforce Management,* January 9, 2009, http://www.workforce.com.

9. Additional Activity: Students may be assigned in groups and be asked to research a topic related to this chapter and to make a two-part presentation on it. For example, process reengineering could be assigned to a group. In the first part of the presentation, students could provide an overview of process reengineering, while in the second portion they could provide a fairly detailed company example of the concept's application.

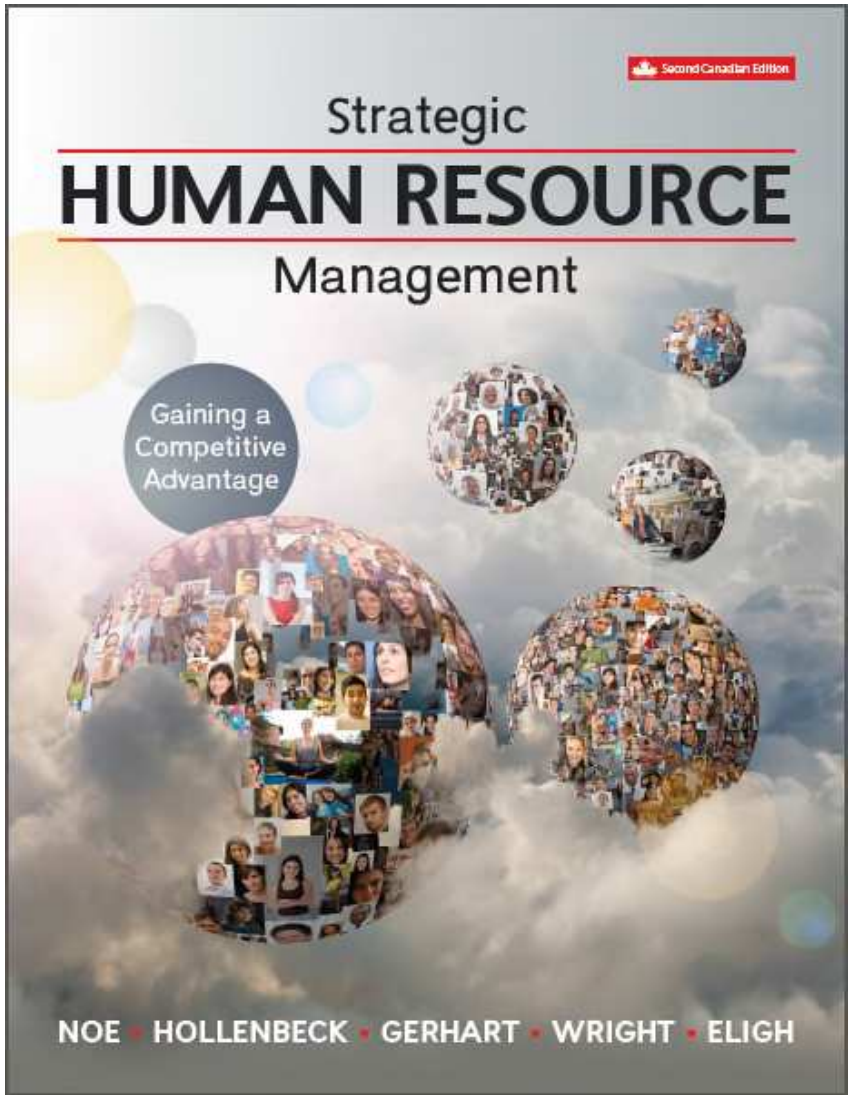
10. **Additional Activity (Evaluating HRM Effectiveness):**
Have student groups design a plan for evaluating the effectiveness of a company's HRM department. Students might first have to state goals and objectives for the department in each of the major areas: compensation and benefits, employee development, workforce diversity, recruitment and selection, and so on. Next, students would draw up a plan that would state what data would be examined and for what purpose (i.e., to answer what specific questions about the function). From these plans, students could also be asked to list the data field labels for a master HRIS, which would support the evaluation process.

This assignment should help students to consider the overall goals of human resource management and how they should be evaluated, creating a foundation for the semester's work.

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Chapter 2

Strategic Human Resource Management

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Learning Objectives

1. Describe the components of a business model.
2. Describe the components of the strategic management process and linkage to HRM.
3. Discuss the role of the HRM function in strategy formulation and its linkages to the process.
4. Describe strategy implementation and the more popular classifications of strategic types and the various HRM practices associated with each.
5. Describe the different HRM issues and practices associated with various directional strategies.
6. Describe steps HRM can take to maximize its value and become a true strategic partner in the organization.
7. Examine the role of the chief human resources officer.

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Introduction

- Goal of strategic management is to **deploy and allocate resources** in a way that gives an organization competitive advantage.
- HRM function must be integrally involved in the company's strategic management process.

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Introduction: HRM Involvement in the Strategic Management Process

HR managers should:

1. Have input into the strategic plan in terms of people-related issues and of the ability of the human resources pool to implement particular strategic alternatives.
2. Have specific knowledge of the organization's strategic goals.
3. Know what types of employee skills, behaviours and attitudes are needed to support the strategic plan.
4. Develop programs to ensure that employees have those skills, behaviours and attitudes.

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What is a Business Model?

- Story of how the firm will **create value** for customers and how it will do so profitably.
- **Fixed costs** are generally considered the costs that are incurred regardless of the number of units produced.
- **Variable costs** vary directly with the units produced.
- **Contribution margins** are the difference between what you charge for your product and the variable costs of that product.
- **Gross margin** is the total amount of margin made based on the number of units sold multiplied by the contribution margin.

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What is Strategic Management?

- **Strategic management** : Process to address the organization's competitive challenges.
- **Generic strategies:**
  - Cost
  - Differentiation
  - Focus
- Strategies – must also take into account the current environment

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What is Strategic Management?

- **Strategic Human Resource Management** (SHRM):
  - A pattern of planned HR activities and deployments intended to enable an organization to achieve its goals.

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Components of the Strategic Management Process

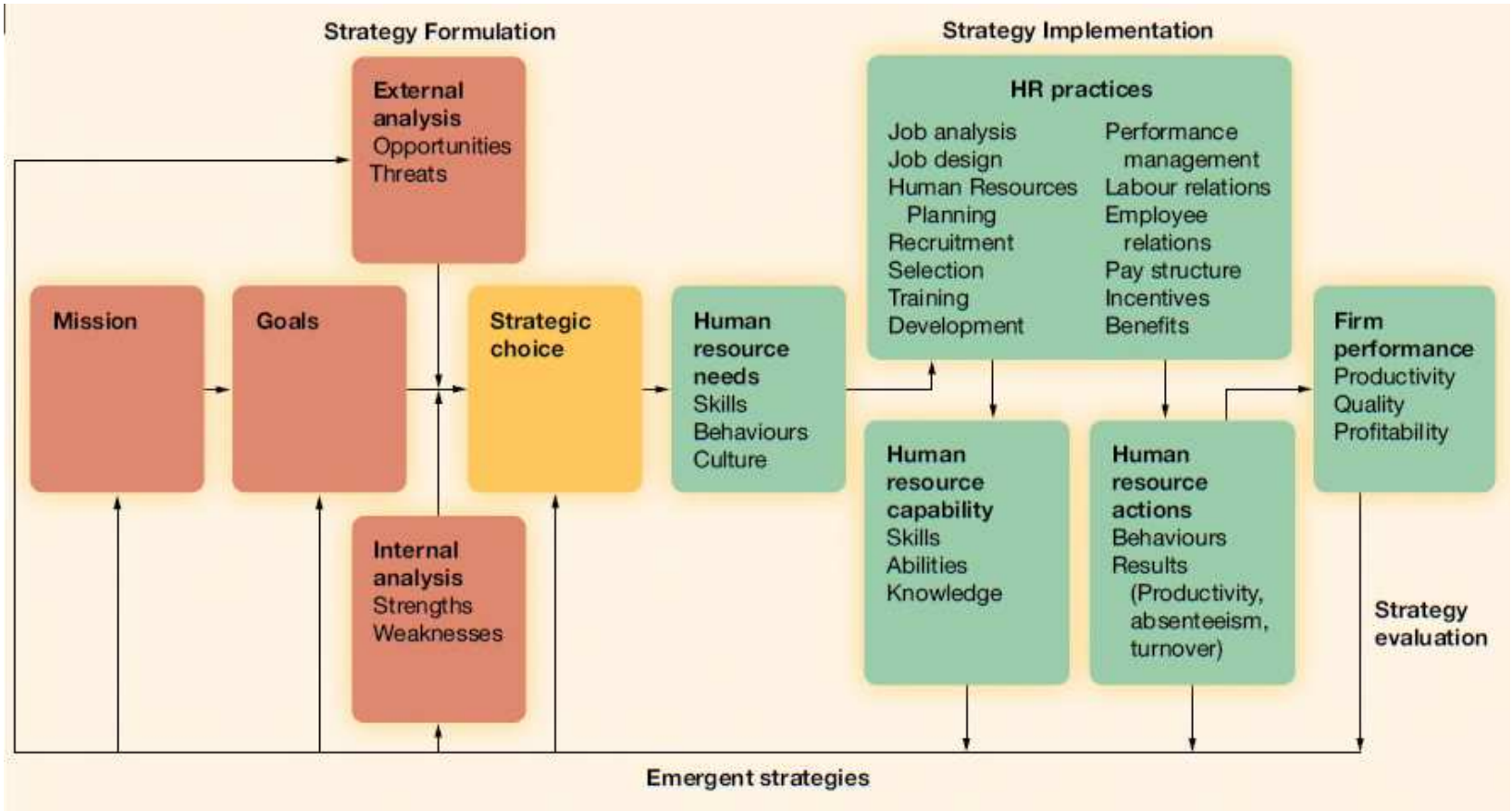
- **Strategy Formulation:**
  - Decide on strategic direction
  - Define company's mission and goals, external opportunities and threats, and its internal strengths and weaknesses.
- **Strategy Implementation:**
  - Follow through on the chosen strategy.
  - Consists of structuring the organization, allocating resources, ensuring skilled employees are in place, develop reward systems that align employee behaviour with the organization's strategic goals.

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A Model of the Strategic Management Process



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Linkage Between HRM and Strategic Management Process

1. Where to compete?
   In what market or markets (industries, products, etc.) will we compete?
2. How to compete?
   On what criterion or differentiating characteristic(s) will we compete? Cost? Quality? Reliability? Delivery?
3. With what will we compete?
   What resources will allow us to beat our competition?
   How will we acquire, develop, and deploy those resources to compete?

Figure 2.2 Strategy—Decisions about Competition

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Role of HRM in Strategy Formulation

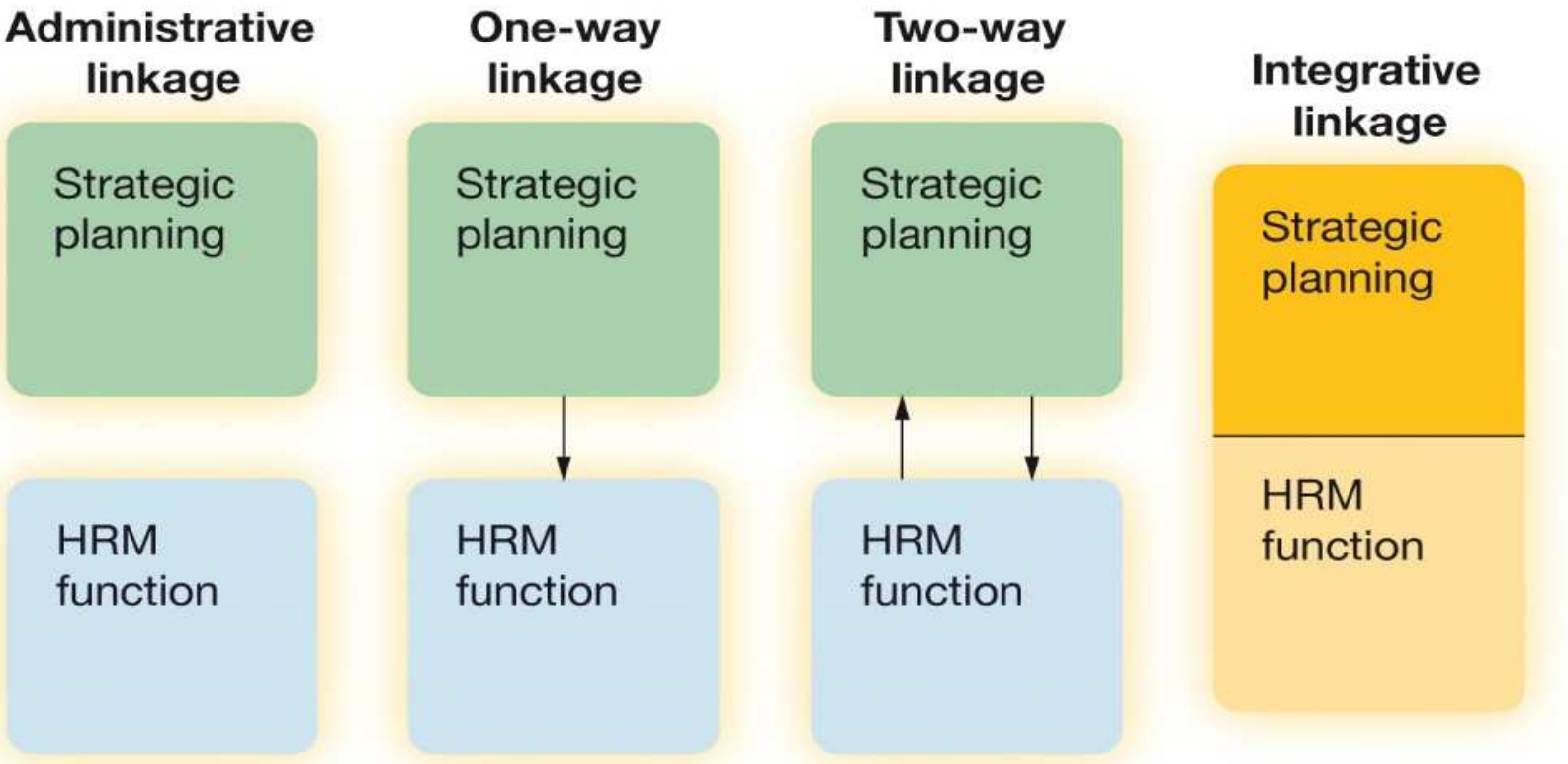


Figure 2.3 Linkages of Strategic Planning and HRM

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Strategy Formulation

- Mission
- Goals
  - ➢Reflect how the mission will be operationalized
- External Analysis
- Internal Analysis
- Strategic Choice

SWOT

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Strategy Implementation

- Organization has a variety of structural forms and organizational processes to choose from when implementing a given strategy.
- Five variables:
  1. **Organizational structure** (HRM influence)
  2. **Task design** (HRM direct responsibility)
  3. **Selection, training, and development** of people (HRM direct responsibility)
  4. **Reward systems** (HRM direct responsibility)
  5. **Types of information and information systems** (HRM influence)

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Strategy Implementation



Figure 2.4 Variables to Be Considered in Strategy Implementation

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Strategy Implementation: Vertical Alignment of HR with Strategy

- HRM function must:
  - Design and group tasks into jobs in a way that is efficient and effective.
  - Ensure that the organization is staffed with people who have the necessary knowledge, skill and ability (planning, recruitment, selection, placement, training, development and career development).
  - Develop performance management and reward systems.

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Strategy Implementation: HRM Practices

- Job Analysis and Design
- Recruitment and Selection
- Training and Development
- Performance Management
- Pay Structure, Incentives, and Benefits
- Labour Relations and Employee Relations

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Strategy Implementation: Strategic Types

- Focus on two generic strategies proposed by **Michael Porter**:
  - **Cost Leadership** - value can be created by *reducing costs*.
    - Example: Dell computers
  - **Differentiation** - value can be created by *differentiating a product or service* to allow the company to charge a premium price relative to its competitors.
    - Example: Hewlett Packard

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Strategy Implementation: HRM Needs in Strategic Types

- **Role Behaviours**:
  - Behaviours that are required of an individual in his or her role as a jobholder in a social work environment.
- Different strategies require different types of employees with different types of behaviours and attitudes.
  - **Cost strategy firms**
  - **Differentiation firms**

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Strategy Implementation: HRM Needs in Strategic Types

Cost Strategy	Differentiation Strategy
High concern for quantity	Moderate concern for quantity
Short-term focus	Long-term focus
Comfortable with stability	Tolerance for ambiguity
Risk averse	Risk taker
Comfortable with performing relatively repetitive work independently or autonomously	Highly creative; developing new ideas, cooperating with others, taking a balanced approach to process and results.

Table 2.2 Employee Role Behaviours Required to Support Company Strategies

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Strategy Implementation: Directional Strategies

- **Concentration Strategy**: focus on increasing market share, reducing costs, or creating and maintaining a market niche for products and services.
- **Internal Growth Strategy**: focus on new market and product development, innovation, and joint ventures.
- **External Growth Strategy**: focus on mergers and acquisitions, acquiring vendors and suppliers, or buying businesses that allow a company to expand into new markets.
- **Divestment Strategy**: focus on downsizing, retrenchment, divestitures, or liquidation.

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Strategy Implementation: Strategy Evaluation and Control

- Monitor effectiveness of strategy and implementation strategy
  - Identify problem areas
  - Revise existing structures and strategies
  - Devise new structures and strategies

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The Role of Human Resources in Providing Strategic Competitive Advantage

- **Emergent Strategies**: strategies that evolve from the *grass roots* of the organization.
  - Can be thought of as what organizations *actually do*, as opposed to what they *intend to do.*
  - Most emergent strategies are identified by those lower in the organizational hierarchy (rank-and-file employees).
- **Enhancing Firm Competiveness**:
  - Developing human capital in a **learning organization.**

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Strategic Management of the HRM Function

- Perceived as a strategically run business unit within the organization
- Total quality management orientation
- Customer orientation
- Products of the HRM department must be identified
- Technologies through which HRM meets customer needs

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Building an HR Strategy: The Basic Process



FIGURE 2.5 Basic Process for HR Strategy

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Building an HR Strategy: Evaluating HRM Effectiveness

- **Audit Approach**
  - Involves review of customer satisfaction or key indicators related to an HRM functional area
  - The development of electronic employee databases and information systems has made the audit approach much easier
- **Analytic Approach**
  - Involves determining the impact of, or the financial cost and benefits of, a program or practice.

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Improving HRM Effectiveness

- Restructuring to Improve HRM Effectiveness
  - **Shared Service Model**
    - ✓Centres for expertise
    - ✓Service centres
    - ✓Business partners
- Outsourcing: practice of having another company provide services.

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Improving HRM Effectiveness

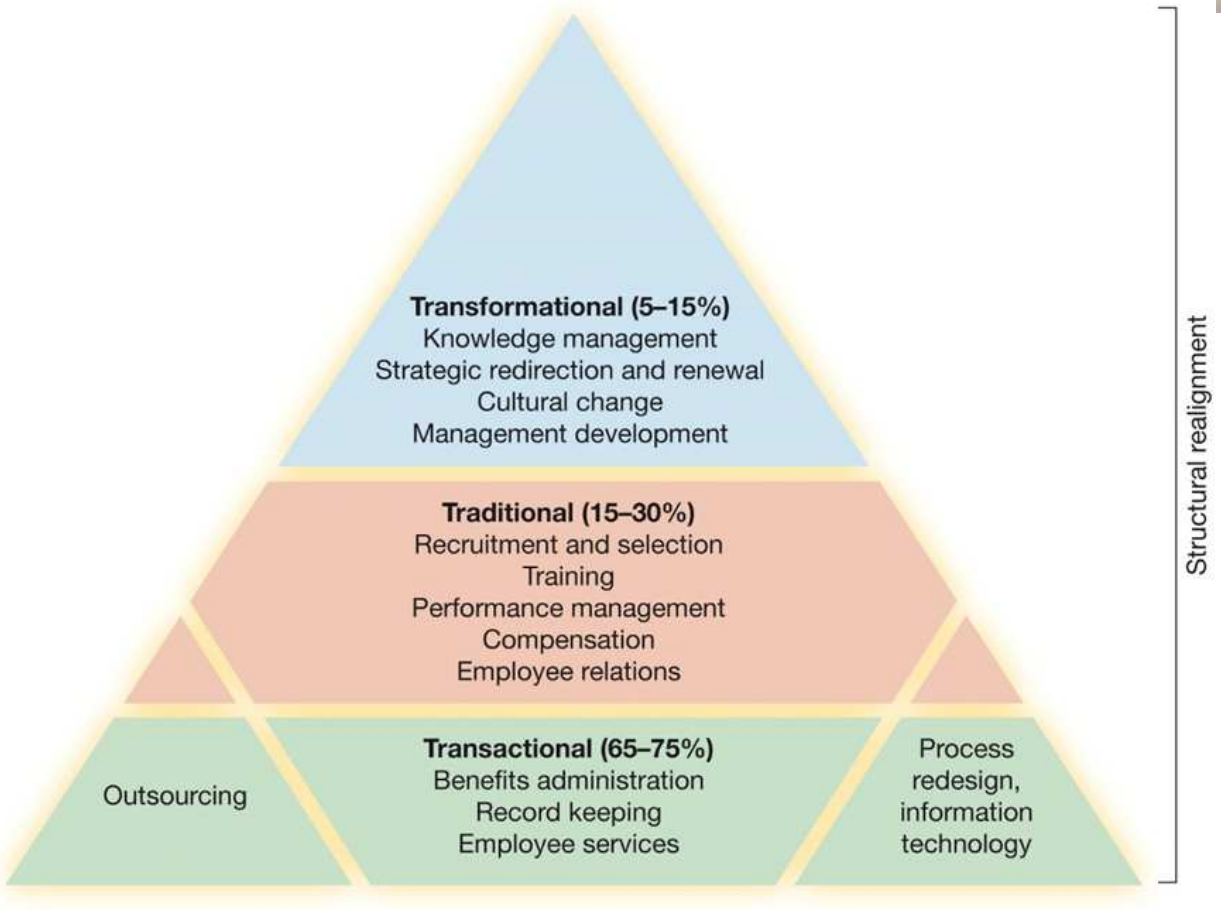


FIGURE 2.6 Improving HRM Effectiveness

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Historical HRM Organizational Structure

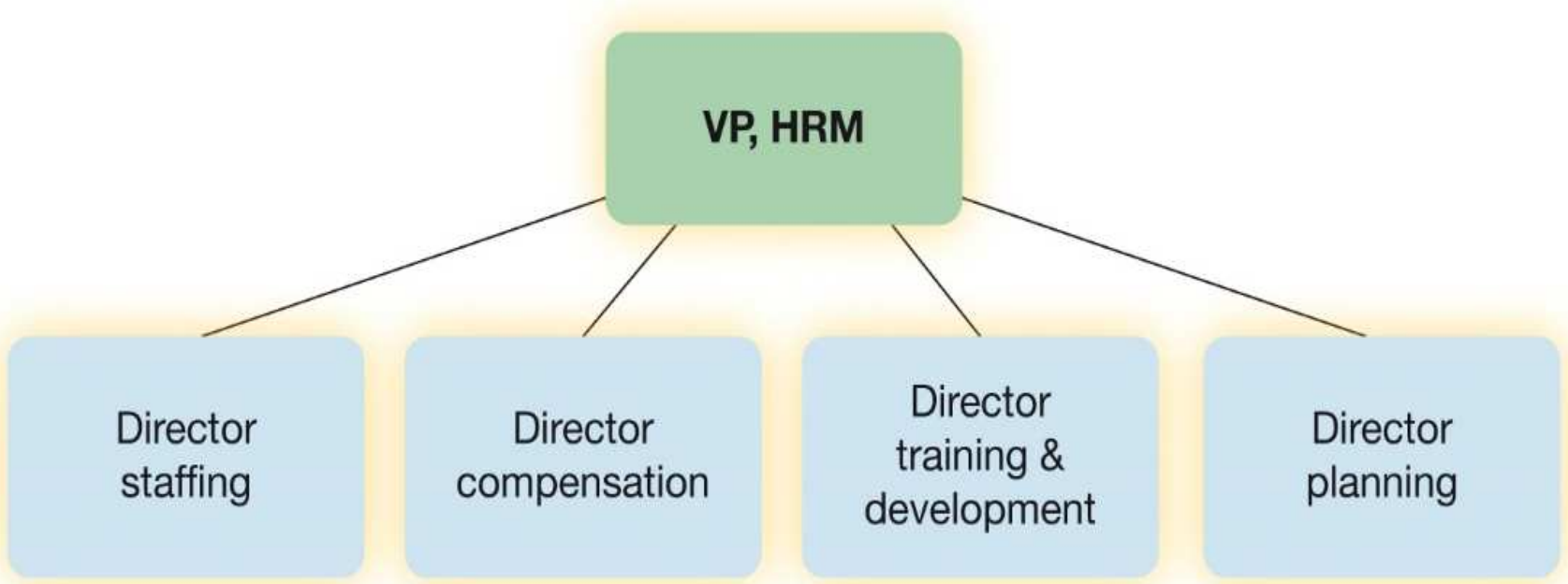


FIGURE 2.7- Old and New Structures for the HRM Organization

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New HRM Organizational Structure

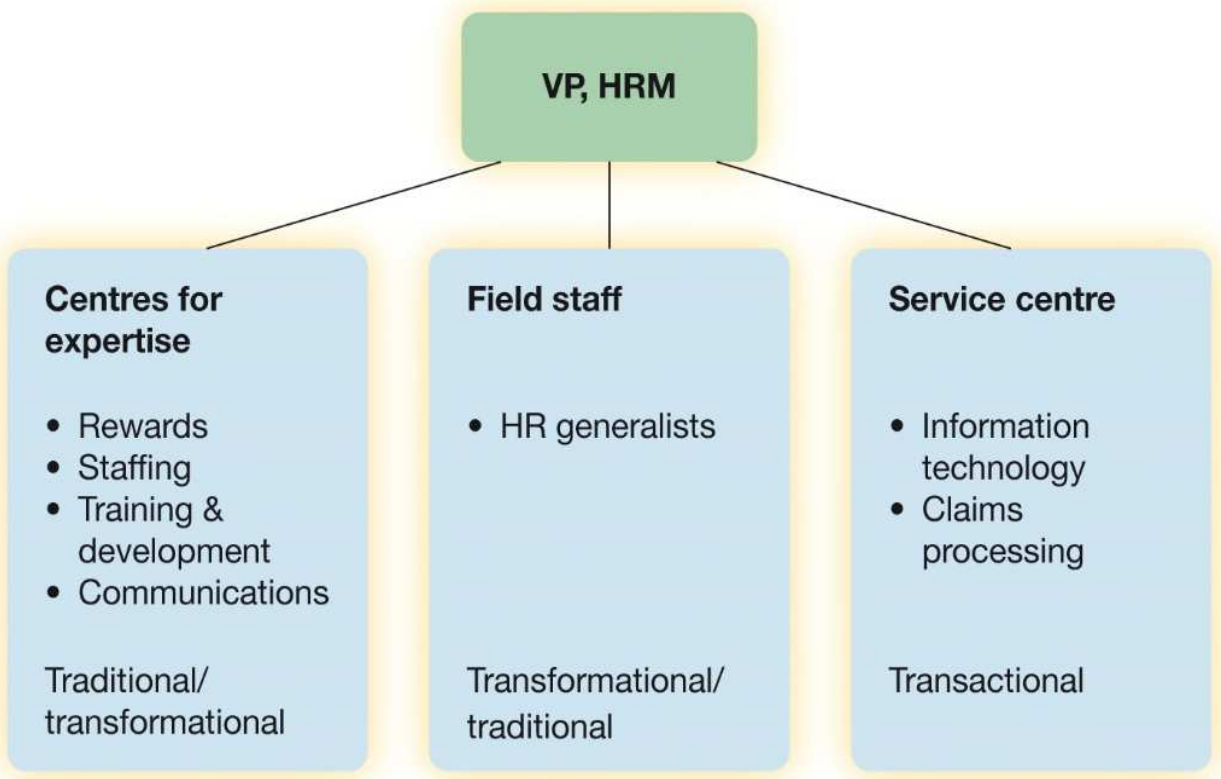


FIGURE 2.7- Old and New Structures for the HRM Organization

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Outsourcing to Improve HRM Effectiveness

Outsourcing - having an outside company provide product or service to the firm.

- The primary reasons for outsourcing are to save money and to free up the time of in-house HRM professionals
- One study suggests that 80 percent of companies now outsource at least one HR activity.
- Most likely to be outsourced: employee assistance and counselling, flexible spending account administration, and background and criminal background checks.

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Using Process Redesign and New Technologies to Improve HRM Effectiveness

- **Reengineering**: Review and redesign of work processes to make them more efficient and improve the quality of the end product or service.
- **New Technologies**: Current applications of knowledge, procedures and equipment that have not been previously used. Usually involves replacing human labour with equipment, information processing or some combination of the two.
- **Self Service**: Giving employees online access to HR information.

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Using Process Redesign and New Technologies to Improve HRM Effectiveness

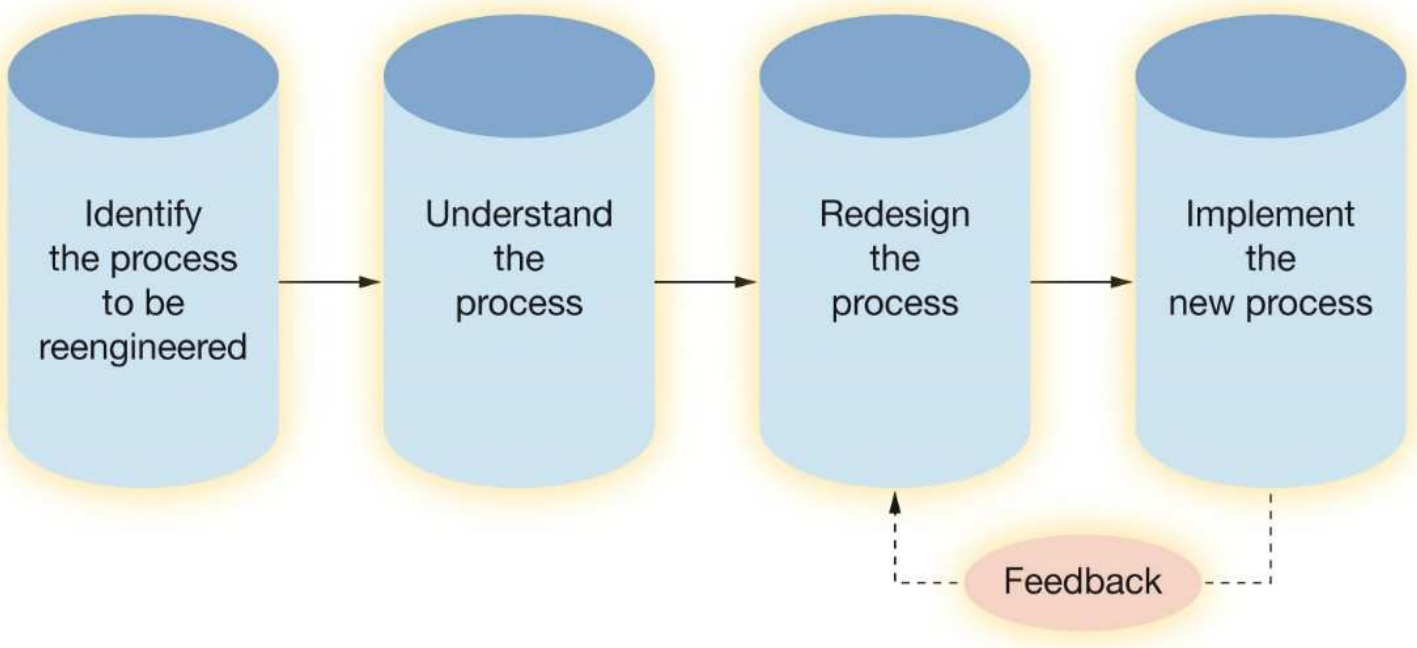


FIGURE 2.8 The Reengineering Process

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The Role of the Chief Human Resource Officer

- Strategic adviser
- Talent architect
- Counsellor/confidante/coach
- Leader of the HR function
- Liaison to the board
- Workforce sensor
- Representative of the firm

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The Role of the Chief Human Resource Officer



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Summary

- Strategic HRM proactively provides a **competitive advantage** through its human resources.
- HRM function needs to be involved in the formulation of strategy to identify people-related issues.
- HRM develops and **aligns HRM practices** that ensure that the company has motivated employees with the necessary skills.
- Emerging **strategic role** of HRM requires HR professionals to develop business, professional-technical, change management and integration competencies.

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Summary

- HR must involve line executives.
- HR must measure its effectiveness using **audit or analytic approaches.**
- **Continuous improvement** of HRM using methods such as restructuring, process redesign, outsourcing, and use of technologies.
- Critical component is the role of the **chief human resource officer.**

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