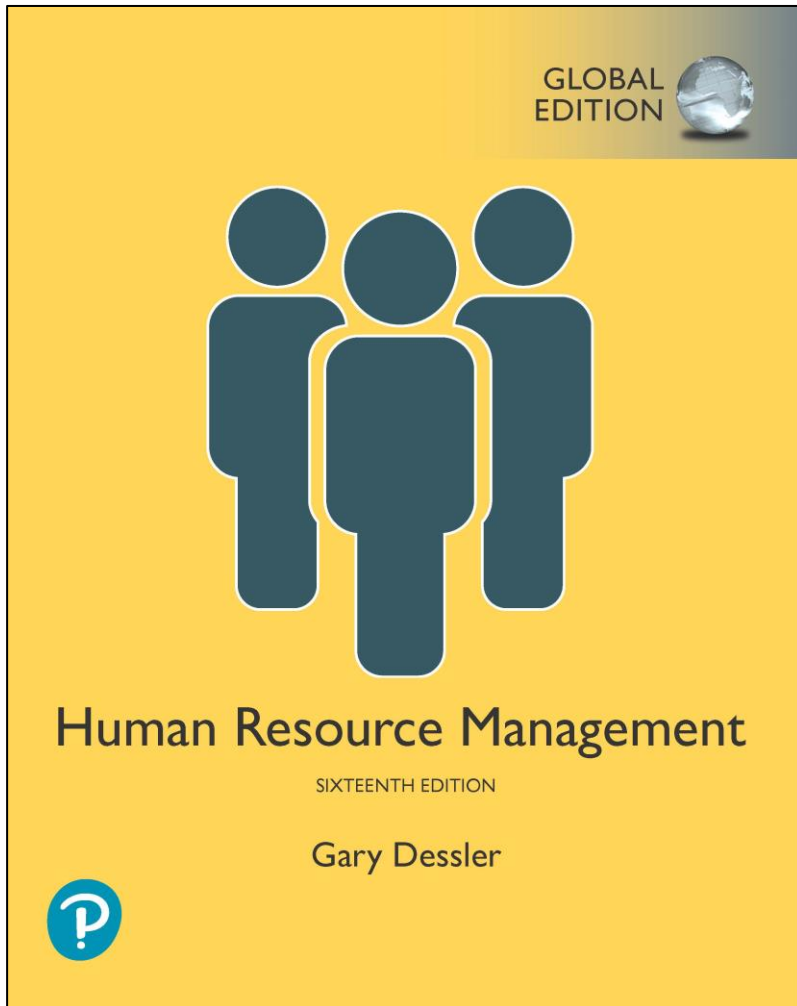


Human Resource Management

Sixteenth Edition, Global Edition



Chapter 3

Human Resource
Management Strategy and
Performance

Learning Objectives (1 of 2)

3.1 Give examples of each of the seven steps in the strategic management process.

3.2 List with examples the main types of strategies.

3.3 Define **strategic human resource management**, and give an example of strategic human resource management in practice.

Learning Objectives (2 of 2)

3.4 Give at least five examples of HR metrics.

3.5 Give five examples of what employers can do to have high-performance systems.

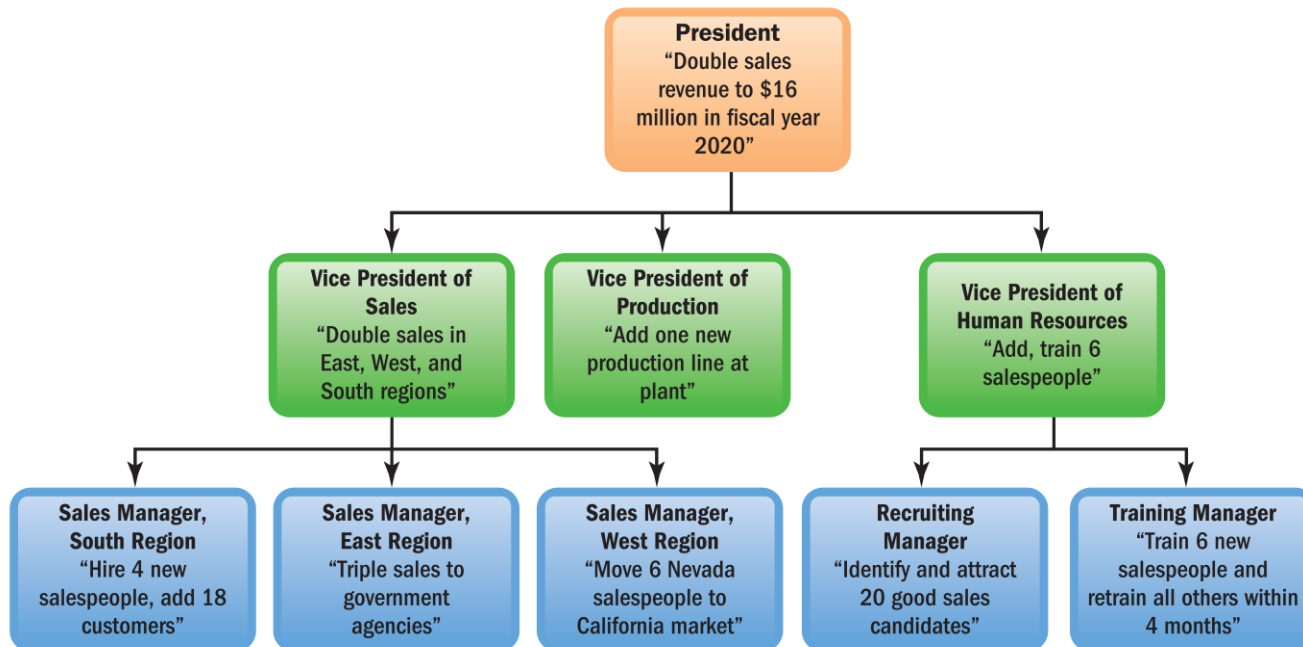
3.6 Explain how you would design a program to improve employee engagement.

Learning Objective 3.1: Give Examples of Each of the Seven Steps in the Strategic Management Process

The Management Planning Process

- The Hierarchy of Goals
- Policies and Procedures

Figure 3-1 Sample Hierarchy of Goals Diagram for a Company



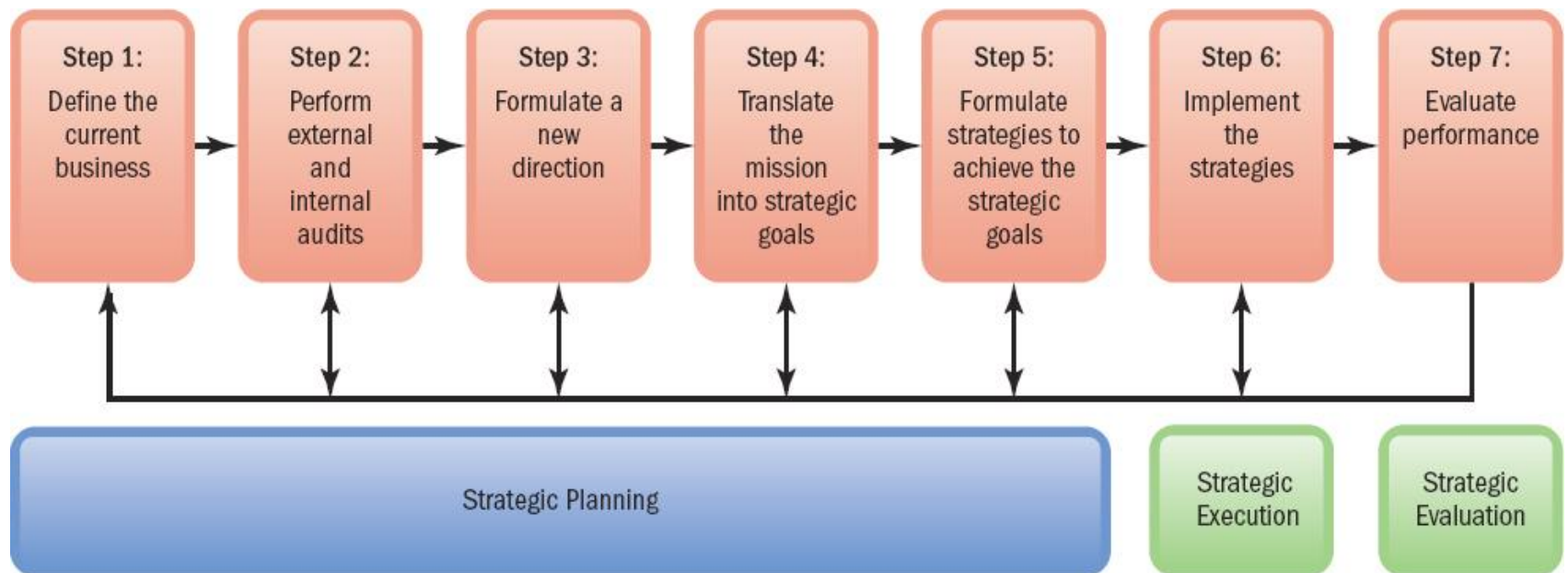
What is Strategic Planning?

- A ***strategic plan*** is the company's overall plan for how it will match its internal strengths and weaknesses with its external opportunities and threats in order to maintain a competitive position.
- The ***strategic planner*** asks, "Where are we now as a business, and where do we want to be?" He or she then formulates a strategic plan to help guide the company to the desired destination.
- A ***strategy*** is a course of action.

The Strategic Management Process – Is defined as the process of identifying and executing the organization's strategic plan by matching the company's capabilities with the demands of the environment.

The Strategic Management Process

Figure 3-2 The Strategic Management Process



The Strategic Management Process

- **seven steps include:**

- 1) ask, “Where are we now as a business?”**
- 2) evaluate the firm’s internal and external strengths, weaknesses, opportunities, and threats,**
- 3) formulate a new business direction,**
- 4) (4) decide on strategic goals, and**
- 5) (5) choose specific strategies or courses of action.**
- 6) (6) and (7) are to implement and then evaluate the strategic plan.**

Learning Objective 3.2: List with Examples the Main Types of Strategies

In practice, managers engage in three types or levels of strategic planning.

Types of Strategies

1. Corporate Strategy
2. Competitive Strategy
3. Functional Strategy

Corporate Strategy

- **For any business, the corporate strategy answers the question, “What businesses will we be in?”**
- **Identifies the portfolio of businesses that, in total, comprise the company and how these businesses relate to each other.**

Corporate-Level Strategies

1. Concentration

2. Diversification

3. Vertical Integration

4. Consolidation

5. Geographic expansion

Corporate-Level Strategies

1. Concentration – (single-business) corporate strategy, this is where the company offers one product or product line, usually in one market. WD-40 Company is an example. With one spray lubricant, its product scope is narrow.

2. Diversification – corporate strategy means the firm will expand by adding new product lines. PepsiCo is diversified. Thus, PepsiCo added Frito-Lay chips and Quaker Oats to its drinks businesses. Here product scope is wider.

Corporate-Level Strategies

- 3. Vertical integration** – corporate strategy means the firm expands by, perhaps, producing its own raw materials, or selling its products directly. For example, Apple opened its own Apple stores.
- 4. Consolidation strategy** – is the corporate strategy in which the company reduces its size.
- 5. Geographic expansion – Growth** is the corporate strategy in which the company grows by entering new territorial markets, for instance, by taking the business abroad.

Competitive Strategy

- A strategy that identifies how to build and strengthen the business's long-term competitive position in the marketplace, which is also known as business-level/competitive strategy.
- **Competitive Strategy examines – on what basis will each of our businesses compete?** For example, within a company like PepsiCo, each business unit (such as Pepsi and Frito-Lay) needs a *business-level competitive strategy*.

The Three Standard Competitive Strategies

Managers typically adopt one or more of three standard competitive strategies:

1. cost leadership,

2. differentiation,

3. or focus

to achieve competitive advantage.

Functional Strategy

- Each department should operate within the framework of its business's strategic plan
- A strategy that identifies the broad activities that each department will pursue in order to help the business accomplish its competitive goals.

Managers' Role in Strategic Planning

- Devising the company's overall strategic plan is top management's responsibility. However, few top executives formulate strategic plans without lower-level managers' input.
- In practice, devising the firm's overall strategic plan involves frequent discussions among and between top and lower-level managers. The top managers then use this information to hammer out their strategic plan.

Learning Objective 3.3:

In this section we will learn to

Define Strategic Human Resource Management, and Give an Example of Strategic Human Resource Management in Practice

- The company's top managers choose overall corporate strategies, and then choose competitive strategies for each of the company's businesses. Then departmental managers within each of these businesses formulate functional strategies for their departments.
- Their aim should be to have functional strategies that will support the competitive strategy and the company-wide strategic aims. Thus, the marketing department would have marketing strategies; the production department would have production strategies; the human resource management ("HR") department would have **human resource management strategies**.

HR in Action at the Hotel Paris

HR in Practice at the Hotel Paris. Starting as a single hotel in a Paris suburb in 1990, the Hotel Paris now comprises a chain of nine hotels, with two in France, one each in London and Rome, and others in New York, Miami, Washington, Chicago, and Los Angeles. To see how managers use strategic human resource management to improve performance,

What is Strategic Human Resource Management?

Strategic human resource management – means formulating and executing human resource policies and practices that produce the employee competencies and behaviors the company needs to achieve its strategic aims.

Improving Performance: The Strategic Context

The Shanghai Ritz-Carlton

Portman Hotel

Let's talk about it...

The Shanghai Ritz-Carlton Portman Hotel

When the Ritz-Carlton Company took over managing the Portman Hotel in Shanghai, China, the new management reviewed the Portman's strengths and weaknesses, and its fast-improving local competitors. They decided that in order to compete, they had to improve the hotel's level of service. Achieving that meant formulating new human resource management plans for hiring, training, and rewarding hotel employees. It meant putting in place a new human resource strategy for the Portman Hotel, one aimed at improving customer service.

Their HR strategy involved taking these steps:

- ***Strategically***, they set the goal of making the Shanghai Portman outstanding by offering superior customer service.
- To achieve this, Shanghai Portman employees would have to exhibit new ***skills and behaviors***, for instance, in terms of how they treated and responded to guests.
- To produce these employee skills and behaviors, management formulated new human resource management ***plans, policies, and procedures***. For example, they introduced the Ritz-Carlton Company's ***human resource system*** to the Portman: "Our selection [now] focuses on talent and personal values because these are things that can't be taught ... it's about caring for and respecting others." Management's efforts paid off.

Their new human resource plans and practices helped to produce the employee behaviors required to improve the Portman's level of service, thus attracting new guests. Travel publications were soon calling it the "best employer in Asia," "overall best business hotel in Asia," and "best business hotel in China." Profits soared, in no small part due to effective strategic human resource management.

Talk About it (Discussion): Asian culture is different from that in the United States. For example, **team incentives** tend to be more attractive to people in Asia than are individual incentives. How do you think these cultural differences would have affected how the hotel's new management selected, trained, appraised, and compensated the Shanghai Portman's employees?

Improving Performance: HR As a Profit Center

The Zappos “Wow” Way

Let's talk about it...

When your strategy involves selling shoes and clothes online to people who can't try them on, you need employees who are energized and enjoy what they're doing—Zappos wants employees to deliver “WOW” through service. That's why Zappos' founders knew they needed special methods for hiring, developing, and retaining employees, and that's just what they created. As their Website says, “This ain't your mama's HR! Recruiting, benefits, and employee relations keep this cruise ship afloat with fun, inventive ways of getting employees motivated and educated about the Zappos Family of companies, their benefits, and the other fun stuff going on around here!”

While they may not appeal to everyone, these “fun, inventive techniques” include interviewing job applicants in what looks like the set of a talk show, asking employees to submit their own designs for Steve Madden shoes, and (during Zappos’ annual “Bald & Blue Day”) having some employees volunteer to shave their heads or dye their hair blue. And, by the way, if you’re not happy working at Zappos, the company will pay you to leave—it wants no one there who doesn’t truly want to be there. Again, that may not be for everyone, but it works for Zappos. It knows that selling online successfully requires energized employees who really enjoy what they’re doing. Management uses these special HR practices to cultivate the energized and fun environment that Zappos needs to execute its strategy, and judging from Zappos’ success, they seem to be working.

Talk About it (Discussion):
Why do you think Zappos' top managers believe it is so important for employees to provide a “WOW” factor in their business?

Sustainability and Strategic Human Resource Management

- Strategic human resource management means having human resource policies and practices that produce the employee skills and behaviors that are necessary to achieve the company's strategic goals, and these include **sustainability goals**.
- **For example**, PepsiCo wants to deliver “Performance with Purpose.” This means achieving financial performance while also achieving human sustainability, environmental sustainability, and talent sustainability.

Strategic Human Resource Management Tools

Managers use several tools to translate the company's strategic goals into human resource management policies and practices. These tools include the.....

- **Strategy map**
- **The HR scorecard**
- **Digital dashboards**

Strategic Human Resource Management Tools

- **Strategy map** – this shows the “big picture” of how each department’s performance contributes to achieving the company’s overall strategic goals. It also summarizes how each department’s performance contributes to achieving the company’s overall strategic goals. It helps the manager and each employee visualize and understand the role his or her department plays in achieving the company’s strategic plan.

Strategic Human Resource Management Tools

- **The HR Scorecard** – is not a scorecard. It does however refer to a *process* for assigning financial and nonfinancial goals or metrics to important human resource management–related chain of activities. That chain is required in order to achieve the company’s strategic aims and for monitoring results. Many employers quantify and computerize the strategy map’s activities by utilizing the HR Scorecard.

Strategic Human Resource Management Tools

- **Digital Dashboard** – presents the manager with desktop graphs and charts, showing a computerized picture of how the company is doing on all the metrics from the HR Scorecard process.

Learning Objective 3.4: Give at Least Five Examples of HR Metrics

HR Metrics, Benchmarking, and Data Analytics

- **Human resource metrics** – the quantitative gauge of a human resource management activity.
 - *such as employee turnover, hours of training per employee, or qualified applicants per position.*
- **Benchmarking** – comparing the practices of high-performing companies' results to your own. in order to understand what they do that makes them better.
- **Data Analytics** – using statistical and mathematical analysis to find relationships and make predictions.

Benchmarking

- Just measuring is rarely enough
- “How are we doing?” in relation to something
- Just measuring how one is doing (for instance, in terms of employee productivity) is rarely enough for deciding what (if anything) to change. Instead, most managers want to know “How are we doing?” *in relation to something*.
- For **example**, are our accident rates rising or falling? Similarly, the manager may want to *benchmark* the results.

Metrics for the SHRM® 2011–2012 Customized Human Capital Benchmarking Report (1 of 4)

Organizational Data

- Revenue
- Revenue per FTE
- Net Income Before Taxes
- Net Income Before Taxes per FTE
- Positions Included Within the Organization's Succession Plan

Employment Data

- Number of Positions Filled
- Time-to-Fill
- Cost-Per-Hire
- Employee Tenure
- Annual Overall Turnover Rate
- Annual Voluntary Turnover Rate
- Annual Involuntary Turnover Rate

Metrics for the SHRM® 2011–2012 Customized Human Capital Benchmarking Report (2 of 4)

HR Department Data

- Total HR Staff
- HR-to-Employee Ratio
- Percentage of HR Staff in Supervisory Roles
- Percentage of HR Staff in Professional/Technical Roles
- Percentage of HR Staff in Administrative Support Roles
- Reporting Structure for the Head of HR
- Types of HR Positions Organizations Expect to Hire in 2011

Expectations for Revenue and Organizational Hiring

- Percentage of Organizations Expecting Changes in Revenue in 2011 Compared to 2010
- Percentage of Organizations Expecting Changes in Hiring in 2011 Compared to 2010

Metrics for the SHRM® 2011–2012 Customized Human Capital Benchmarking Report (3 of 4)

HR Expense Data

- HR Expenses
- HR Expense to Operating Expense Ratio
- HR Expense to FTE Ratio

Compensation Data

- Annual Salary Increase
- Salaries as a Percentage of Operating Expense
- Target Bonus for Non-Executives
- Target Bonus for Executives

Metrics for More Profitable Organizations

- Total HR Staff
- HR-to-Employee Ratio
- HR Expenses
- HR Expense to Operating Expense Ratio
- HR Expense to FTE Ratio
- Annual Salary Increase
- Target Bonus for Non-Executives

Metrics for the SHRM® 2011–2012 Customized Human Capital Benchmarking Report (4 of 4)

Tuition/Education Data

- Maximum Reimbursement Allowed for Tuition/Education Expenses per Year
- Percentage of Employees Participating in Tuition/Education Reimbursement Programs

Metrics for More Profitable Organizations

- Target Bonus for Executives
- Maximum Reimbursement Allowed for Tuition/Education Expenses per year
- Percentage of Employees Participating in Tuition/Education Reimbursement Programs
- Time-to-Fill
- Cost-Per-Hire
- Annual Overall Turnover Rate

FIGURE 1–5 Five Sample HR Metrics

HR Metric*	How to Calculate It
Absence rate	$\frac{\text{\# of days absent in month}}{\text{Average \# of employees during month} \times \text{\# of workdays}} \times 100$
Cost per hire	$\frac{\text{Advertising + agency fees + employee referrals + travel cost of applicants and staff + relocation costs + recruiter pay and benefits}}{\text{Number of hires}}$
HR expense factor	$\frac{\text{HR expense}}{\text{Total operating expense}}$
Time to fill	$\frac{\text{Total days elapsed to fill job requisitions}}{\text{Number hired}}$
Turnover rate	$\frac{\text{Number of separations during month}}{\text{Average number of employees during month}} \times 100$

Sources: Robert Grossman, "Measuring Up," *HR Magazine*, January 2000, pp. 29–35; Peter V. Le Blanc, Paul Mulvey, and Jude T. Rich, "Improving the Return on Human Capital: New Metrics," *Compensation and Benefits Review*, January/February 2000, pp. 13–20; Thomas E. Murphy and Sourushe Zandvakili, "Data and Metrics-Driven Approach to Human Resource Practices: Using Customers, Employees, and Financial Metrics," *Human Resource Management* 39, no. 1 (Spring 2000), pp. 93–105; [*HR Planning*, Commerce Clearing House Incorporated, July 17, 1996;] *SHRM/BNA 2000 Cost Per Hire and Staffing Metrics Survey*, www.shrm.org. See also, SHRM Research "2006 Strategic HR Management Survey Report," Society for Human Resource Management..

Strategy-Based Metrics

- Strategy-based metrics specifically focus on measuring the activities that contribute to achieving a company's strategic aims.
- Benchmarking provides shows how your human resource management system's performance compares to the competition. However, it may *not* reveal the extent to which your firm's HR practices are supporting its strategic goals. Managers use *strategy-based metrics* to answer such questions.

What Are HR Audits?

Human resource managers often assess matters like employee turnover and safety via *human resource audits*.

- The HR audit generally involves using a checklist to review the company's human resource functions.

The HR audit

- generally, involves using a checklist to review the company's human resource functions (recruiting, testing, training, and so on), as well as ensuring that the firm is adhering to regulations, laws, and company policies.
- The HR auditor may first review payroll data, focusing on what and when each employee was paid. He or she will then turn to whether the human resource records are in order (for instance, are medical records kept separate from résumés?). He or she will also review the employer's handbooks and policies, for instance, checking for disability accommodation policies, social media policies, and family and medical leave policies. He or she may also want to benchmark the results to comparable companies'.

Trends Shaping HR: Digital and Social Media

Information

Data Analytics

Big Data

Let's take a look...

Trends Shaping HR: Science In Talent Management

Evidence-Based HR and the Scientific Way of Doing Things

Let's talk about it...

Learning Objective 3.5: Give Five Examples of What Employers Can Do to Have High-Performance Systems

High-Performance Work Systems

- **A High-Performance Work System (HPWS)** is a set of human resource management policies and practices that promote organizational effectiveness.
- One reason to measure, benchmark, and scientifically analyze HR practices is to promote high-performance work practices.
- Policies and Practices
 - HR metrics
 - What employers must do
 - Aspire to encourage employee involvement and self management

Learning Objective 3.6: Explain How You Would Design a Program to Improve Employee Engagement

Employee Engagement Guide for Managers:

Employee Engagement and Performance

- Employee engagement refers to being psychologically involved in, connected to, and committed to getting one's jobs done.
- Engaged employees “experience a high level of connectivity with their work tasks,” and work hard to accomplish their task-related goals.
- Employee engagement is important because it drives performance and productivity.
- According to one review of the evidence, employee engagement is correlated with employees' customer service productivity, and improvements in employee engagement were associated with significant increases in sales, product quality, productivity, safety incidents at work, retention and absenteeism, and revenue growth.

The Employee Engagement Problem

- Gallup found:
 - about 30% of employees were engaged who work with passion and feel a profound connection to their company,
 - 50% were not engaged (essentially “checked out,”)
 - 20% were actively disengaged

What Can Managers Do to Improve Employee Engagement? (1 of 2)

Provide supportive supervision.

- **Ensure employees understand how their departments contribute to the company's success.**
- **See how their efforts contribute to achieving the company's goal.**

What Can Managers Do to Improve Employee Engagement? (2 of 2)

Additional steps managers can take to foster engagement include making sure employees:

- Ensure employees get a sense of accomplishment from working at the firm.
- Ensure employees are highly involved.
- Employers should hold managers responsible for employee engagement.

How to Measure Employee Engagement

- **Gallup and Towers Watson offer comprehensive employee engagement survey services.**
- **Accenture's three-part “shorthand” method.**

Accenture uses a less complicated “shorthand” method called “say, stay, and strive.”

- **Employee Engagement Guide for Managers.**
- The Employee Engagement Guide for Managers' sections will show how managers use HR activities to improve employee engagement.

Chapter 3 Review

What you should now know....

- 3-1. Give examples of each of the seven steps in the strategic management process.
- 3-2. List with examples the main types of strategies.
- 3-3. Define *strategic human resource management*, and give an example of strategic human resource management in practice.
- 3-4. Give at least five examples of HR metrics.
- 3-5. Give five examples of what employers can do to have high-performance systems.
- 3-6. Explain how you would design a program to improve employee engagement.