

## Chapter 02 - Strategic Human Resource Management

[Please click here to access the new HRM Failures case associated with this chapter.](#) HRM Failures features real-life situations in which an HR conflict ended up in court. Each case includes a discussion questions and possible answers for easy use in the classroom. HRM Failures are not included in the text so that you can provide your students with additional real-life content that helps engrain chapter concepts.

### Chapter Summary

This chapter describes the concept of strategy and develops the strategic management process. The levels of integration between the HRM function and the strategic management process during the strategy formulation stage are then discussed. A number of common strategic models are reviewed, and, within the context of these models, types of employee skills, behaviors, and attitudes are noted. Ways in which HRM practices aid the firm in implementing its strategic plan are described. Finally, a model that views the HRM function as a separate business within a given firm is presented, making it easier for the student to understand the need for strategic thinking among HRM practitioners.

### Learning Objectives

After studying this chapter, the student should be able to:

1. Describe the differences between strategy formulation and strategy implementation.
2. List the components of the strategic management process.
3. Discuss the role of the HRM function in strategy formulation.
4. Describe the linkages between HRM and strategy formulation.
5. Discuss the more popular typologies of generic strategies and the various HRM practices associated with each.
6. Describe the different HRM issues and practices associated with various directional strategies.

### Extended Chapter Outline

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

### Opening Vignette: Samsung Rises

Samsung, much to the surprise of many people, is the #1 make of cell phones both in the US and worldwide – not Apple. The company was known in the 1960's as a cheap producer of TV's and air conditioners. After an embarrassing gaff in the 1990's involving the company's Chairman sending out their own mobile phones as gifts (only to later learn that they did not work!), the company made the conscious decision to refocus themselves on quality and innovation. They achieved their goals through strategic management of their HR function – passing on hiring for low-cost and focussing on R&D scientists and marketing specialists who could help change the company's direction, and changes the company's culture through the implementation of new HR systems that included performance-based pay, merit-based promotions, and career moves.

### Discussion Question

1. Given that Samsung made some pretty radical strategic shifts in the past, what are the HRM implications for this shift, and how should HRM professionals within Samsung respond?

Clearly, the re-focusing on the quality and innovation strategies will impact the workforce. At a minimum those employees who work in parts of the company that focus on those endeavors (quality and innovation) and other activities related to the cell phone market are in the spotlight now. Therefore, HRM professionals had to be sensitive to the ways that the company's strategy and strategic shifts affected the morale and the engagement that employees felt. HRM needed to communicate, to the extent that is appropriate, what the impact would be on those employees and it should have provided communications channels for employees. That way, the shift would have been less disruptive.

- I. The Samsung 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 Samsung anticipated neither the critical nature of quality in the cell phone market nor the breadth of the explosion of the industry and demand for cell phones when it established its quality and innovation strategies. However, approaching these situations through an HR strategy focus allowed the company to capitalize on these changes in an effective and efficient manner.

#### II. What is a Business Model?

- A. A business model is a story of how a firm will create value for customers, and more importantly, how it will do so profitably.
- B. 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.
- C. The business model of General Motors, is illustrated in Figure 2.1.

### **Competing Through Globalization: GM in China**

Globalization can present companies with many challenges and benefits. Got 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 the anticipated sales growth to 21 million cars in 2013 (compared to an estimated 15 million cars in the US). 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.

#### **Discussion Question**

1. 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 college student as they prepare for graduation and entrance into the workforce?

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.

#### **III. What Is Strategic Management?**

- A. Strategic Management is a process for 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.
- B. **Strategic human resource management** is the pattern of planned human resource deployments and activities intended to enable an organization to achieve its goals.
- C. Components of the Strategic Management Process—There are two distinct phases of this process (Figure 2.2 in the text).

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.
  2. **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 behavior with the strategic goals.
- D. **Linkage between HRM and the Strategic Management Process:** The strategic choice really consists of answering questions about competition. These decisions consist of addressing the issues of where to compete, how to compete, and with what to compete (See Figure 2.3).

### **Competing Through Technology: The Risks of Technological Innovation**

Boeing made some bold moves in 2004 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.

### **Discussion Question**

1. Explain the temptation for companies to endeavor in radically innovative projects, and then explain why this might not be an optimal strategy. How do moves like these impact the labor market and landscape for graduating college students?

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 college graduates have bleeding edge skills and knowledge in order to hit the ground running in their careers and compete with other recent college grads. This requires companies to search for the best talent and compete for them.

- E. The 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, as shown in Figure 2.4 in the text).
  - 1. 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.
  - 2. 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.
  - 3. 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.
  - 4. Integrative Linkage—This is based on continuing, rather than sequential, interaction. The HR executive is an integral member of the strategic planning team.
- III. Strategy Formulation—This includes five major components (see Figure 2.5 in the text).
  - 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.
  - 2. **Goals** are what the organization hopes to achieve in the medium- to long-term future; they reflect how the mission will be operationalized.

3. **External analysis** consists of examining the organization's operating environment to identify strategic opportunities and threats.
4. **Internal analysis** attempts to identify the organization's strengths and weaknesses.
5. **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.

**Example:** Merck & Co.'s Mission and Values — Table 2.1 illustrates Merck & Co.'s

SWOT Analysis is the combination of internal and external analyses (internal *strengths* and *weaknesses*, and external *opportunities* and *threats*.) Table 2.2 illustrates the summary of a SWOT analysis for Google, Inc.

**Strategic choice** refers to the organization's strategy and the ways an organization will attempt to fulfill its mission and achieve its long-term goals.

### **Integrity in Action: Samsung's Equal Opportunity Employment**

When Samsung transformed itself, part of that transformation was achieved through a change in their value system. This change in values came from the top of the organization, Chairman Lee. Lee's vision of a value for "humanism" lead Samsung to become the first Korean company to implement equal opportunities for women in 1993 allowing women to not only exhibit their abilities, but to be paid on the same wage system as their male counterparts.

### **Discussion Question**

1. Explain the relationship between Chairman Lee's visions for value and the change in company policies?

A company's value system comes in part from the leadership behaviors exhibited by the organization's leader. In this case, Chairman Lee believed that "humanism", contrary to common practice in Korea at the time, included fair treatment of men and women. This belief translated into a radical change in the company's infrastructure so as to support a culture of equality.

IV. Strategy Implementation—Five variables determine success in strategy implementation (see Figure 2.6 in the text).

HR has responsibility for three of these: task, 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 strategy is implemented through various HR practices (see text Figure 2.7).

A. HRM Practices—The HR function has six "menus" of practices from which companies can choose to fit their strategic direction (see Table 2.3 in the text).

1. **Job analysis** is the process of getting detailed information about jobs. **Job design** deals with making decisions about what tasks should be grouped into a particular job. Jobs can range from very narrow sets of tasks that demand a limited set of skills to a complex array of tasks that requires multiple, high-level skills. Many jobs today are being broadened.
2. **Recruitment** is the process through which the organization seeks applicants for employment. **Selection** refers to the process of identifying applicants with the appropriate knowledge, skills, and ability to help the company achieve its goals.
3. Frequently, employees need new skills when jobs are modified. **Training** refers to a planned effort to facilitate learning of job-related knowledge, skills, and behavior. **Development** involves the acquisition of knowledge, skills, and behavior that improves employees' ability to meet the challenges of a variety of existing jobs or jobs that do not yet exist. TQM programs require extensive training of employees.
4. **Performance management** is used to ensure that employee activities and outcomes are congruent with the organization's objectives.
5. Pay structure, incentives, and benefits have an important role in implementing strategies. High pay levels help to attract and retain high-quality employees. Performance-based pay plans help motivate appropriate performance. The pay system includes the base pay as well as incentives and benefits.

6. Labor and employee relations refer to the general approach the company takes in interacting with its employees, whether unionized or not. Companies can choose to treat employees as assets, resources to be invested in for the long term.

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 (1) reducing costs (overall cost leadership) **or** (2) charging a premium price for a differentiated product or service (differentiation).

C. HR Needs in Strategic Types—Different strategies require different types of employees with different skills and also require employees to exhibit different "role behaviors." **Role behaviors** are the behaviors required of an individual in his or her role as a jobholder in a social work environment.

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



### Evidence-Based HR: Steel Mini-Mills

A recent study of the different types of HRM used by different type of mini-mills found that mills that pursued a low-cost strategy used HRM systems that were characterized by high centralization, low participation, low training, low wages, low benefits, and highly contingent pay. Differentiator mills, on the other hand, used HRM systems that were the opposite on each of those dimensions. A later study discovered that high-commitment HRM systems resulted in higher productivity, lower scrap rates, and lower turnover.

### Class Exercise

Write on the board the following terms:

- 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 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 labor costs by providing minimal commitment to employees.

- D. Directional Strategies—Five types follow. The human resource implications of each of these strategies are quite different:
1. **External growth strategies** include vertical and horizontal integration as well as diversification.
  2. **Concentration strategies** focus a company on what it does best in its established markets.
  3. **Internal growth strategies** include market development, product development, innovation, or joint ventures.

4. **Mergers and Acquisitions** include consolidation within industries and mergers across industries.
5. **Downsizing** is the planned elimination of large numbers of personnel, designed to enhance organizational effectiveness. Table 2.4 lists the results of a survey that indicates that only about one-third of the companies that went through downsizings actually achieved their goal to increase productivity.

Downsizing 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.

### **Competing Through Sustainability Sustainable Goal, Unsustainable Business Model**

Solyndra, a company producing a new style of solar power panel, garnered high levels of interest in their new sustainable energy product. However, their business model, premised on a “if we produce it, people will buy it” philosophy, was anything but sustainable. After several years of massive financial losses, the company took advantage of the recent government stimulus package in order to invest in a new production facility. In the end, the company’s business model still was just not sustainable.

### **Discussion Question**

1. Assess the effectiveness of the company’s decision to invest in a new production facility. This facility was purchased through loans guaranteed by US taxpayers. Whose interests were being served?

Student answers may vary, but look for evidence that students demonstrate an understanding of the different and competing interests of these parties. For example, it could be argued that Solyndra was posturing for future success by continuing its investment in more efficient facilities, and that their interests lie more in the ability to market a product that is the result of a noble cause (sustainability). The taxpayers in this case received little or no benefit from this investment, because despite the fact that Solyndra had provided a product that was in line with current consumer preferences, the guarantee of loans in a private enterprise resulted in a large financial loss to the taxpayer. Therefore, it is likely that Solyndra’s interests were being served better than those of the taxpayers.

- E. Strategy Evaluation and Control—This is the final component of the strategic management process that includes the monitoring of the effectiveness of strategic choice and implementation.

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

- A. Emergent Strategies—Those 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 Starbucks, 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 flavor 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.

- B. Enhancing Firm Competitiveness—By developing a rich pool of talent, HR can assure the company's ability to adapt to a dynamic environment.

## A Look Back

As you have seen, any business strategy has a number of implications for the workforce, and the HR function plays a critical role in implementing the strategy through providing systems and solutions to these people issues. As the opening case illustrated, Samsung's strategy is being driven by a number of dynamics in the industry.

## Questions

1. What do you think has made Samsung's transformation so successful?

Student answers may vary. Look for evidence that students understand the relationship between strategic HRM practices and strategic business practices.

2. How long do you think Samsung can maintain its positive growth trajectory?

Certainly the decision to differentiate through innovation required a strong presence from HR. It appears that Samsung has set themselves up for sustainable growth and leadership through effective implementation of their HR strategies.

3. How do you think Apple will begin to respond to Samsung's direct assault on their products? What will be the human resource implications of this response?

Apple has to respond quickly and surely. In a fast-paced industry like the mobile phone industry, trajectory is critical and Apple does not want to be perceived as being in a downward trajectory for very long. As such, likely Apple will ramp up its efforts to create the "newest" and "coolest" phones which will require, as it did for Samsung, a heavy emphasis on recruiting, selecting, and training the right people. This will likely put pressure on Samsung's continued efforts to hire the best and brightest employees.

## Chapter Vocabulary

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

Strategic human resource management (SHRM)

Strategy formulation

Strategy implementation

Goals

External analysis

Internal analysis

Strategic choice

Job analysis

Job design

Recruitment

Selection

Training

Development

Performance management

Role behaviors

External growth strategy

Concentration strategy

Internal growth strategy

Downsizing

## Discussion Questions

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

This question ought to generate some interesting discussion. Let's use football at the University of Michigan as an example. This team's generic strategy is probably best characterized as a focus strategy—development of the ground game. They have a very large offensive line and big, fast running backs. Additionally, they have a large fullback who is able to successfully block for the tailback. Michigan's strengths are really the quality of (1) the offensive line and (2) the running backs (speed and size). 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.)

The basic Michigan strategy is to run the football, score points, keep the clock moving, and, with their skilled defense, keep the ball out of their opponents' hands. The strengths clearly support this strategy, and yet their weakness limits their options in more difficult games (for example, last season's three 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?

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 some 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?

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?

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 in order to have the business, professional/technical, management, and integrative competencies necessary in the future? Where can you seek to develop each of these skills?

HR professionals will have to have a basic understanding of the various business functions. More specifically, knowledge of statistics, accounting, information systems, and, obviously, the specific functions of HR are 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 colleges of business 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?

Students can list many different general and/or specific changes that will be affecting firms and their HR practices. For example the anticipated national health-care program will result in changes to HR benefit structure and will affect the firm as a new tax. NAFTA will encourage U.S. firms to actively move into both the Mexican and Canadian markets, if they haven't already. In some cases, this may mean opening plants in these countries. Both countries have different employment legislation and will therefore require separate HR policies or practices. The changes in demographics in the United States (fewer entry-level workers, less well-educated entry level employees, more older workers, more women, more people of color. etc.) will have many and varied impacts on HR practice. The key is to push students to think about what types of impacts they will have on HR and how HR can respond in an effective manner.

### **HR in Small Business Case**

Refer to the case in the text at the end of the chapter.

### **Self-Assessment Exercise**

Refer to the self-assessment exercise in the text.

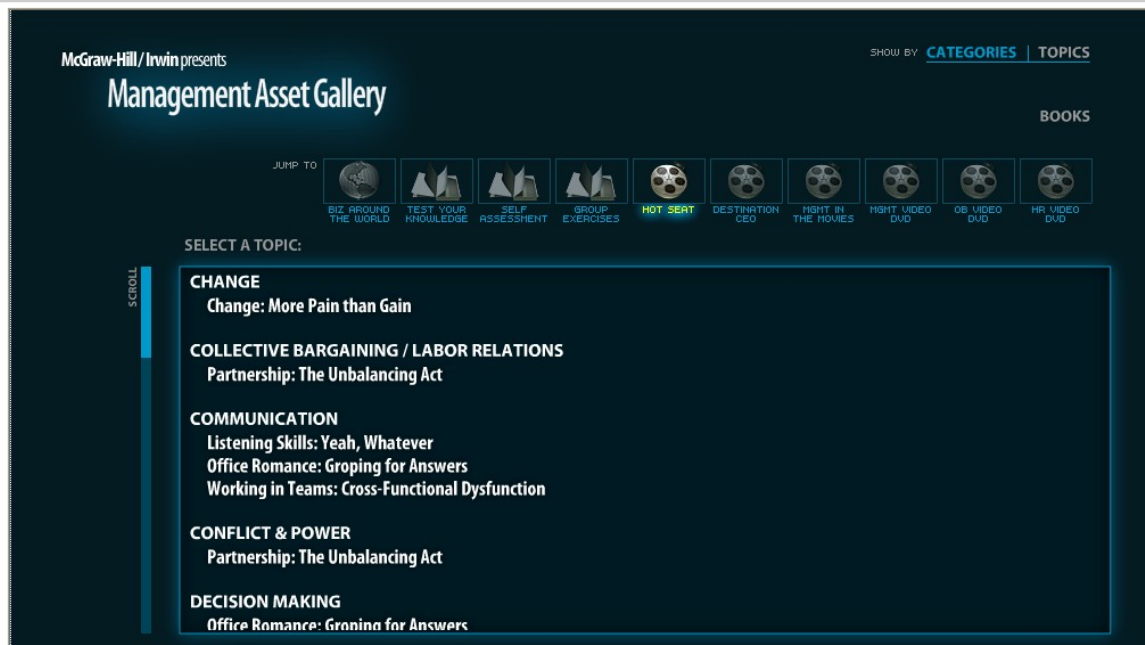
### **Manager's Hot Seat Exercise: Privacy: Burned by the Firewall**

Please refer to the Asset Gallery on the OLC for Hot Seat videos and notes.

## Chapter 02 - Strategic Human Resource Management

### Asset Gallery

(See related pages)



## I. Introduction

The interaction in this scenario lends itself to a rich discussion of the role of Human Resources and their interaction with line management. Issues related to email privacy and appropriate disciplinary actions given certain situations are brought to the forefront. For those seeking careers in HR, this scenario provides an example of what **not** to do to be a strategic business partner.

## II. Learning Objectives

1. To assess students' understanding of issues with company property use and the appropriate disciplinary process when company policies are violated.
2. To analyze the role of HR in enforcing company policies.



### III. Scenario Description:

**Overview:** An employee, Willy Kushing, has been put on administrative leave by the HR department for misuse of company property [internet service and telephone]. His Manager is just returning from vacation and had no prior notice that Willy would be put on leave. The Manager goes to meet with HR to find out what has happened.

**Profile:**

- Lynn Couchara is the Director of Distribution for Bank Street Films, a film distribution house. Lynn manages a team of 30 people and is responsible for the film distribution in 40 states, distributing over 75 films per year.
- Janet Pierce is the Director of Human Resources and has been working with Bank Street Films for eight years and was promoted to Director five years ago. Since becoming Director, Janet has restructured her department and revamped many policies at the company. Janet has known Lynn since she hired her six years ago. Janet was not involved in the hiring of William Kushing.

**References:** The references included in the DVD are:

- EPolicy Do's and Don'ts (PPT 4-3 to 4-6)
- The Electronic Communications Privacy Act of 1986 (PPT 4-8)
- 2003 E-Mail Rules, Policies and Practices Survey (PPT 4-10)

**Back History:** Willy Kushing has been working at Bank Street for just over two years [recruited from Bank Street's #2 competitor]. He has proven to be a vital employee for Couchara, handling the largest accounts in the distribution department as well as being the 'go-to man' for many others in the office when they are in need of advice, support or help.

While Couchara was on her annual two-week vacation, Kushing was called for an immediate meeting with the head of HR, Janet Pierce. Pierce informed Kushing that he was being put on administrative leave for misuse of computer property, effective immediately. HR had reviewed all of his internet and phone usage, as is their right to do, and found numerous and regular abuses. There were "constant" calls being made to Iowa, to a number having no business relation to Bank Street Films. In addition semi-regular calls have been made to Gloucester Massachusetts and Schenectady, New York. The internet abuses consisted of many hours logged on various news and auction sites, that also fall outside the realm of Bank Street business.

Kushing had explained to HR that he'd been making more personal calls from work to his mother in Iowa and siblings in Gloucester and Schenectady because his father has been seriously ill for months, in and out of emergency rooms and hospitals. He assured them these calls had not interfered with his ability to do his job and that his performance had been consistent and solid. This information was deemed to be irrelevant by Pierce, and Kushing was sent to tie up loose ends and prepare for his leave.

**Scene Set-up:** Couchara has made an appointment with Pierce to discuss the Kushing situation.

**Scene Location:** Pierce's office, HR department, Bank Street Films, Inc, Monday 11am

**The Meeting - Summary:** Lynn Couchara meets with Janet Pierce to discuss the surprising punitive actions taken against one of her employees, Willy Kushing. Lynn is very concerned that this action was taken while she was on vacation and without notifying or discussing the situation with her. She also values Willy's contributions very much and notes that he has had no performance issues. Janet defends her actions based on the company's policies and says that it was merely coincidence that this happened when Lynn was on vacation and that she was very sorry for that. When Lynn tries to suggest that Willy be reinstated, Janet becomes defensive and then goes on to suggest that Lynn has also misused company property.

Lynn wants to resolve this issue by having Willy, a key employee, return to work and suggests going over Janet's head to the VP of HR if she needs to. The situation remains unresolved at the end of the scenario.

**Afterthoughts – Summary:** Lynn does not think the meeting went well because the HR Director did not understand her point of view. She notes frustration with the way the HR enforced the company's policies absent of management involvement. Specifically, she is upset that she was not consulted or informed about the pattern of misuse or the punitive action. She also doesn't agree that email or phone use should be entirely forbidden for personal use if it doesn't impact productivity or the budget. She plans to go to Janet's boss with the intent of explaining her feelings about the way this was handled and to figure out how to get Willy reinstated.

**Dossier:** The specific artifacts included in the DVD are:

1. Excerpts from Kushings' computer/telephone usage report
2. Excerpts from Coucharas' computer/telephone usage report
3. Company Policy on use of company property

#### IV. Discussion Questions:

The *References* and related *Discussion Questions* may be found in PowerPoint slides 4-1 to 4-10 on the Instructor's side of the text's Website.

*Learning Objective #1: To assess students' understanding of issues with company property use and the appropriate disciplinary process when company policies are violated.*

1. Lynn is shocked by the action taken by HR and does not feel the violation of company policy warranted the punitive action that was taken. In the long-term, what actions does the company need to take to prevent this situation from occurring in the future (see PPT 4-3 to 4-6)?

Training employee's to ensure that they understand the company's policies and the penalty for violating them is imperative. Simply signing the employee handbook is not enough to ensure that company resources are not wasted on non-business-related matters.

- ◆ 1. Lynn's key concern should be:
- A. HR Protocol
  - B. Workflow
  - C. Willy's wrongdoing

Lynn's key concern seems to be workflow because she continually mentions how important Willy is to her department. Therefore, her focus is to reinstate Willy so that the workflow is not disrupted further. She is interested in Willy's wrongdoing to understand why such drastic measures were taken without her input and to attempt to refute the action on the basis that it was not warranted.

2. The ePolicy Do's and Don'ts suggest that some personal email and internet use may be tolerated by U.S. companies. What are the pro's and con's of this approach?

Pro's – don't have to worry about invasion of privacy when monitoring electronic systems, less risk of viruses, less use of the system's resources because fewer emails and attachments to handle

Con's – employees who are expected to work long hours do not get the chance to communicate with friends and family or do occasional "errands" on-line. This can cause them stress and potential dissatisfaction with the organization. Employee privacy becomes a concern when monitoring the system.

- ❖ 2. The concern over phone [and internet] use is:
  - A. Budgetary
  - B. Performance related
  - C. Misuse of property

Janet's concern over the phone use seems to be that it is in violation of the policy on the appropriate use of company property. She did not present any data on the budgetary or performance impact of Willy's actions.

- 3. How do the stipulations provided in the Electronic Communications Privacy Act of 1986 (see PPT 4-8) affect your view of personal email and internet use at work?

If companies allow the use of the internet and email for personal reasons, then the company will likely monitor those communications to prevent viruses and to detect excessive use or draining of bandwidth, etc. Therefore, privacy becomes a key concern. However, if companies don't allow any personal use of email or the internet, then privacy becomes less of a concern when monitoring the system, but satisfaction of employees may suffer.

- 4. Companies create disciplinary processes to meet their business needs. What is your reaction to the disciplinary process that occurred in this scenario?

Typically, organizations have a disciplinary process that is gradual and calls for progressively increasing punitive action unless there is an extremely grievous act (e.g., possession of a weapon, embezzlement, etc.). In this case, Willy's records were being monitored but no action was taken until his usage of company property "reached a threshold". Counseling and warning the employee (the typical first steps in a progressive discipline process) were skipped. Once the threshold was passed, serious punitive action was taken. Allowing the employee to explain his situation and being sure that he/she understands the consequences of their actions serves to prevent misuse and retain valuable employees.

- ❖ 4. What justifies Janet's decision?
  - A. Existence of policy
  - B. Fair warning given
  - C. Nothing

Technically, the existence of the policy justifies Janet's decision. In reality, however, her action not only caused harm to a valuable employee, it also damaged the relationship with line management whom HR is there to serve.

*Learning Objective #2: To analyze the role of HR in enforcing company policies.*

1. Evaluate the actions taken by the HR director in this scenario. What was done well, poorly?

Janet apologized to Lynn for her actions, but beyond that the HR Director's actions did not take into consideration the big picture or the organization's business needs. While violating the company policy may impact the organization's bottom line, putting the employee on leave without a fair warning will likely be perceived as unfair to the employee and cause him to be disgruntled. HR's role should be to provide advice and guidance to line management on disciplinary actions – not take them themselves. Thus, not including Lynn in the decision was a mistake and will damage Janet's relationship with Lynn.

- ◆ 3. Why does Janet bring up Lynn's records?
  - A. To warn Lynn
  - B. Enforce the policy
  - C. Intimidation

Bringing up Lynn's records was inappropriate in this context. If there was a valid concern, then Lynn should be counseled about this issue and given fair warning. Bringing this up to prevent Lynn from going over Janet's head is a form of intimidation. This behavior indicates to Lynn that Janet's interests are not aligned with achieving the organization's goals, but rather are more self-interested. Janet's actions will not effectively support line management in achieving the organization's goals.

- ◆ 5. Lynn's next step should be:
  - A. Meet VP of HR
  - B. Reinstate Willy herself
  - C. Meet Janet again

From the interaction in the scenario, it doesn't appear that Janet is willing to work with Lynn to reinstate Willy. Also, the disciplinary process that was taken and its impact on line management should probably be communicated to the VP of HR. However, going over the HR Director's head may not be appropriate depending on the organization's culture. Perhaps Lynn could wait a day and try to work with Janet again before approaching the VP of HR. Reinstating Willy herself would make the organization appear fragmented and to be "stepping on each other's toes".

## **Exercising Strategy**

### **Strategy and HRM at Delta Airlines**

#### **Questions**

1. How does the experience of Delta Air Lines illustrate the interdependence between strategic decisions of “how to compete” and “with what to compete?” Consider this with regard to both strategy formulation and strategy implementation.

Students’ answers may vary, but could include the following. Delta Air Lines show the interdependence between “how to compete” and “with what to compete” by getting rid of its one source of sustainable competitive advantage, its employees. The strategy did reduce costs, but it also lost its employees. The company replaced its previous employees with outside contractors and less experienced employees who do not do the jobs as well as the previous ones did.

2. If you were in charge of HRM for Delta Air Lines now, what would be your major priorities?

Students’ answer may vary, but could include the following. As head of the HRM department for Delta Air Lines, one’s priorities should be focused on the highly committed workforce. Since these employees had the incentive to buy a plane to help the company, they may have some good ideas on how to run the airline more efficiently and effectively. Employees’ participation can be sought on what to change to help the company become a “well oiled machine.” As the book states, the employees may even have ideas on “how to make any necessary workforce reductions and perhaps would be willing to take temporary pay cuts to help the firm get back on its feet.” Since the union is now involved, there would have to be discussions and contracts written up between Delta Air Lines and the union, if the pay cuts were to occur or any other decisions were to be made.

## **Managing People**

### **Is Dell Too Big for Michael Dell?**

#### **Questions**

1. How does the case describe Dell’s transformed strategy over the years in terms of where to compete, how to compete, and with what to compete?

Dell competes in the global market as the cost leader in the industry due to their direct-sales model. Their core business has been their sales of PCs to businesses; however their market share is quickly dropping. Dell is in a hazardous position at the moment, because spending more on R&D, acquiring another firm, or leaving their direct-sales model will not improve their competitiveness in the market. It will be a tough road ahead for Michael Dell as he attempts to transform the company's strategy to adapt to the new changes in his environment.

2. What are the major people issues that exist as Michael Dell retakes the reins at Dell?

Michael Dell needs to fill several key executive roles within the company to aid him in his goal to "fix" his business. Dell has always had a strong number 2 behind him helping him steer his company, however he is currently facing the task of running a much larger and more complicated company than he was use to in the early 1990s.

3. How would HR help in addressing the issues that Dell faces?

HR would help Dell address their current need in attracting and developing the executive team needed to propel the company in the future. Planning a successor for Michael Dell, the current CEO of Dell, is important for the company's sustained competitive advantage when he retires.

## HRM Failures

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### **Case 2: Risky Business: Hiring During a Layoff**

Struggling companies are often forced to lay off workers to survive. But employers that keep hiring even as they lay off workers are flirting with the possibility of litigation.

For example, Microsoft recently announced plans to lay off 5,000 workers—a move expected to save the company \$1.5 billion. At the same time, the company said hiring would continue—up to 3,000 new employees who are targeted for businesses that continue to grow.

While it's dicey, many employers say simultaneous layoffs and hiring let them get rid of underperformers and higher-cost employees and bring in upgraded talent, often at a lower cost. However, the practice can increase the chances of being served with a discrimination claim.

In 2008, for example, Dell was named in a \$500 million class-action suit claiming that the company's layoff of nearly 9,000 employees targeted female and older employees. The suit accuses management of doctoring performance evaluations to justify terminating certain employees (who were then told no other jobs were available when, in fact, open positions existed).

Hiring during a layoff presents risks. The lowest risk would occur if an organization has several business units, each affected differently by economic conditions. There, the employer could lay off workers in one division while continuing to hire in another. The risk is also lower in companies that lay off workers and then change or consolidate jobs before hiring new workers to fill them. However, the risk of exposure increases when an employer lays off workers and hires others to fill the positions without first modifying the jobs or their duties.

### **Question**

If you're an employer who's laying off workers but still hiring, what could you do to minimize the risk of a discrimination lawsuit?

### **Possible answers**

- Be able to demonstrate that a layoff was necessary to reduce costs. At the same time, be prepared to justify why hiring was also necessary.
- Document the selection process used and the differences between eliminated jobs and jobs where hiring is taking place.
- Consider laid-off employees as candidates for openings elsewhere in the company.
- Offer severance to laid-off workers.

Source: Fay Hansen, "Mass Staff Cuts Don't Slam the Brakes on New Hires," *Workforce Management*, February 2009, <http://www.workforce.com>.



## Additional Activities

### Teaching Suggestions

Students who have not yet had a course in business strategy will find this material challenging and new. Therefore, any exercises that ask the student to identify various strategies and discuss HRM implications should be helpful. Following are suggestions of activities that provide this type of learning activity. The HBR case, People Express, can be used in a whole class period, most effectively in small group discussion initially.

The Frost, Inc. case is simpler and could be given as homework assignment and then used in class discussion. An outside speaker is suggested, if the time and person is available.

- A. Harvard Business School Case 9-490-012, People Express Airlines: Rise and Decline by M. Beer, Teaching Note 5-491-080 by Beer.  
(Two case supplements have also been developed: People Express Supplement, 9-487-054, by C. Heckscher, and People Express, Update— January 1989, 9-489-022, by D. Q. Mills and G. B. Friesen.)

This case describes the innovative approach to organizing and managing employees by People Express and describes the company's eventual demise. This material can be used to inform about leading-edge human resource practices and to raise questions about what went wrong with the organization. Two videotapes (9-890-507 and 9-890-508) are available as well.

### Suggested Questions for "People Express"

1. How did People Express business strategy relate to its HR strategy? Was the business strategy always closely linked to the HR strategy?
1. Would the People Express HR system remained effective if it had chosen to remain in the low-density routes dominated by local and regional carriers? Why? What aspects of the People Express HR system needed to be modified if it was going to successfully compete with the major carriers?
2. What factors do you believe were most responsible for the success of People Express from 1981 to 1985? In comparison to other factors, how important was the management of human resources for People Express's success between 1981 and 1985?
4. The following case describes an organization's attempt to modify its strategy and problems that result from the attempted change. Questions for students to discuss or

respond to in writing follow the case.

**B. Frost, Inc.**  
(Raymond Noe, Michigan State University)

Frost, Inc. is a manufacturer of overhead conveyor trolleys, used primarily in the auto industry. With sales of \$20 million, Frost is located in Grand Rapids, Michigan. Concerned about depending too heavily on one cyclical industry, Frost's president made several attempts to diversify the business. The attempts to move into manufacturing lawn mower components and material handling systems, such as floor conveyors and hoists, failed. The engineers did not know how to design unfamiliar components, production people did not know how to make them, and sales people did not know how to sell them.

The president diagnosed the problem as inflexibility ("We have single-purpose machines and single-purpose people, including single-purpose managers."). He decided that automating production was the key to flexibility. Twenty-six old-fashioned screw machines on the factory floor were replaced with 11 computer-numerically controlled machines and 18 robots. He decided to build an automated store and retrieval inventory-control system and to completely automate the front office to reduce indirect labor costs. He did not plan to approve additional hires as a result of the automation.

**Questions**

1. What directional strategy was Frost pursuing?

Frost initially pursued a concentration strategy and then changed to an external-growth strategy—diversification.

2. What HR practices should be in place to support this strategy?

In order to successfully pursue a strategy of diversification, people with the needed skills must be hired or developed. Therefore, as the company moved into a new area, engineers with experience in lawn mower components, etc., would need to be hired, or current employees would need to be provided with training. In this case, the CEO had decided that no new hiring would take place. Therefore, the emphasis should be on the provision of training for new skills. To support the engineers and production people in this development effort, a skill-based compensation program along with profit-sharing would be useful.

3. What types of information should the HR function provide to support the new strategy?

One of the unstated problems in this case may be with employee attitudes toward the change, given that it appears that they did not participate in the strategic choice. A survey of attitudes may be useful. Secondly, a survey of employee skills and experience would help make staffing and training decisions more effective. While automation may resolve some production problems, it doesn't solve the design engineering issues. Additionally, even with automated lines, people must be available who have the skills to monitor production activity and who can maintain and repair the equipment. Once again, HR could provide the human side of the automation process so that planning for the change process would include all necessary elements for a successful corporate culture change.

With the need for higher skills and potentially for team organization, the HRM function would need to determine the aspects of the organization's practices that no longer fit the new technology and structure of the firm.

(See the following reference: "Frost Inc.—Technological Renewal and Human Resource Management: A Case Study," Steven P. Galante, *Human Resource Planning* 10, no. 1, pp. 57-66.)

- C. **Outside Speaker:** 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.

Business literature is filled with examples of businesses that are reevaluating their strategies and making significant changes. Ask students to review recent issues of *Business Week* 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.