CHAPTER

2

Strategic HR Management and Planning

After you have read this chapter, you should be able to:

- Summarize the strategic planning process and how it drives the organizational activities.
- Outline how strategic HR management is linked to the organizational strategies.
- Discuss how internal and external environmental factors affect HR strategies.
- List HR strategic challenges faced by modern organizations.
- Explain how technology is affecting HR management practices and employees.
- Identify how organizations can measure and assess the effectiveness of HR management practices.

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HR Headline

Strategic Utilization of Talent Benefits Health Care Organization

Courtesy of Lee Memorial Health System.

Lee Memorial Health System tapped its workers' heads and hearts to resuscitate the organization. In 2008, economic conditions put Ft. Myers's largest employer on life support, and this key provider of health care turned to its employees to reduce costs and prevent layoffs.

Because front-line workers are closer to the action than supervisors, they can more easily spot inefficiencies and waste. Lee Memorial's HR staff encouraged middle managers to hold honest, frank discussions with their staff to explain the urgency of the situation. Getting the attention of employees was not especially difficult because many of them had been personally touched by the national economic crisis. Helping employees make the connection between organizational health and their job security led to outstanding results for both the hospital and its staff.

Employees and physicians involved in a lean/Six Sigma project identified areas for cost reduction. Improved patient flow saved the hospital $5 million. Modifying the employee Paid Time Off (PTO) program to be consistent with other local employers saved $4 million. In total, Lee Memorial Health System reduced costs by $45 million and increased revenues by $25 million. A major success was that Lee Memorial saved 200 positions that had been slated for layoffs.

The approach of Lee Memorial's managers in actively soliciting and engaging employees demonstrates the value of sharing information about organizational business conditions with employees and giving them a stake in the outcomes. Putting the survival of the organization on every employee's radar allowed Lee Memorial to gain a competitive advantage through effective utilization of its human resources.[1]

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The **strategy** an organization follows is its proposition for how to compete successfully and thereby survive and grow. Several different approaches to strategy formation exist. Most organizations have a relatively formal process for developing a written strategy encompassing a 5-year period with objectives and goals for each unit.

Strategic decisions relate to using resources in such a way that the organization can outperform its competitors. Organizations seek to achieve and maintain a competitive advantage in the marketplace by delivering high-quality products and services to their customers in a way that competitors cannot duplicate. Strategies might include revising existing products, acquiring new businesses, or developing new products or services using existing capabilities. Other strategic approaches might be to maintain a secure position with a single stable product (like WD-40) or to emphasize a constant stream of new products (like Apple). These are all viable strategies for different businesses, but the strategies chosen will determine the number, nature, and capabilities of people needed in the organization. Further, the people already in the organization may limit the strategies that might be successful.[2]

Regardless of which specific strategies are adopted for guiding an organization, having the right people in the right place at the right time will be critical to make the overall strategies work. If a strategy requires worker skills that are currently not available in the company, it will require time to find and hire people with those skills. Strategic HR management entails providing input into organizational strategic planning and developing specific HR initiatives to help achieve the organizational goals. While it seems important to consider HR in the overall organizational strategy, estimates are that only 30% of HR professionals are full strategic partners. Their primary role remains that of providing input to top management.[3]

Strategy An organization's proposition for how to compete successfully and thereby survive and grow.

Although HR administrative and legally mandated tasks are important, strategic HR means adding value by improving the performance of the business. Some businesses are highly dependent on human capital for a competitive advantage; others are less so. For example, the productivity of a steel mill depends more on the efficiency of furnaces and quality of raw materials than on human resources. However, every business strategy must be carried out by people, and therefore human capital is a vital element to business success. An important aspect of strategic HR management covered in this chapter is the measurement and determination of the value of human capital and HR practices.[4]

LOGGING ON

People Trak—Strategic HR Software

This firm provides strategic human resources management and planning software for organizations. Visit their website at www.people-trak.com/strategic_hr.asp.

STRATEGIC PLANNING

Strategic planning is the process of defining an organizational strategy, or direction, and making decisions on allocating the resources of the organization (capital and people) to pursue this strategy. Successful organizations engage in this core business process on an ongoing basis. The plan serves as the roadmap that gives the organization direction and aligns resources. The process involves several sequential steps that focus on the future of the organization.[5]

Strategic planning The process of defining organizational strategy and allocating resources toward its achievement.

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FIGURE 2-1 Strategic Planning Process

Strategy Formulation

The strategic planning cycle typically covers a 5-year time frame, and management considers both internal and external forces when formulating the strategic plan. Figure 2-1 shows the strategic planning process for the organization.[6]

The guiding force behind the strategic planning process is the **organizational mission**, which is the core reason for the existence of the organization and what makes it unique. The mission statement is usually determined by the organizational founders or leaders and sets the general direction for the organization.

Organizational mission
The core reason for the existence of the organization and what makes it unique.

The planning process begins with an assessment of the current state of the business and the environmental forces that may be important during the planning cycle. Analysis of the strengths, weaknesses, opportunities, and threats (SWOT) is a typical starting point because it allows managers to consider both internal and external conditions, which are discussed in more detail later in the chapter. The analysis helps managers to formulate a strategic plan

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that considers the organizational ability to deal with the situation at hand.[7] The planning process is an ongoing cycle with managers continuously monitoring and responding to changes in the environment and competitive conditions.

Managers then determine the objectives for the planning cycle and formulate organization-level strategies to accomplish those objectives. Each function within the organization then formulates strategies that will link to and support the organization-level strategies. The strategic plan is evaluated periodically because conditions may change and managers must react to the ever-changing environment.

Strategic HR management
Refers to the use of employees to gain or maintain a competitive advantage.

Strategic HR management refers to the use of human resource management (HRM) practices to gain or keep a competitive advantage. Talent acquisition, talent deployment, talent development, and rewarding talent are all strategic HRM approaches that can impact the organizational ability to achieve its strategic objectives.[8] The focus of HR initiatives is evolving from a traditional emphasis to a strategic emphasis, as detailed in Figure 2-2. Because business strategies affect HR

FIGURE 2-2 Traditional HR versus Strategic HR

FOCUS	TRADITIONAL HR	STRATEGIC HR
View of organization	• Micro • Narrow skill application	• Macro • Broad skill application
Critical skills	• Organization • Administration • Compliance • Transactional • Tactical	• Strategic • Planning • Diagnostic • Analytical (metrics) • Consultative
View of employees	• Head count • Cost-based • Exploitable resource	• Contributors • Asset-based • Critical resource
Planning outlook	• Short-term • Low-risk • Traditional: utilizes tried-and-true approaches	• Long-term • High-risk • Experimental: tries novel approaches
HR systems and practices	• Routine, traditional • Reactive • Responds to stated needs	• Adaptive, innovative • Anticipatory, proactive • Recognizes unstated needs
Education and training	• Traditional HRM generalists and specialists • Other specialties	• Business acumen • Comprehensive HRM body of knowledge • Organizational development

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plans and policies, consideration of human resource issues should be part of the strategy formulation process. Strategic HR deals with the contributions that HR strategies make to achieving organizational effectiveness and competitive advantage and how these HR contributions are accomplished. Therefore, HR should be involved in implementing strategies that affect and are influenced by people.[9]

An important element of strategic HRM is to develop processes in the organization that help align individual employee performance with the organizational strategic objectives. When employees understand the organizational priorities, they can better contribute by applying their skills to advance the organizational strategic goals. Employees who understand the "big picture" can make decisions that will contribute to the objectives of the firm. HRM practices that facilitate this include talent development and reward systems that channel employee efforts toward the organizational bottom line.[10]

Strategic Competencies for HR Professionals The HR professional wears many hats and must possess a wide variety of skills to successfully contribute at the strategic planning table. The following six primary strategic competencies are critical for HR professionals:[11]

- *Credible Activist:* challenges assumptions and offers a point of view
- *Culture and Change Steward:* shapes the organizational culture, makes changes happen
- *Talent Manager/Organization Designer:* acquires and deploys talent, embeds capabilities into the organizational structure
- *Strategy Architect:* recognizes business trends, forecasts potential obstacles to business success, and builds overall strategy
- *Operational Executor:* efficiently and effectively carries out tactical HR activities
- *Business Ally:* understands the business value chain, and establishes internal partnerships with line managers

Operationalizing HR Management Strategies Specific HR management strategies depend on the strategies and plans of the organization. Figure 2-3 highlights some common areas where HR should develop and implement appropriate strategies.[12] To contribute in a meaningful way in the strategic planning process, HR professionals provide the perspective and expertise to managers by performing the following functions:

- *Understand the business:* Knowing the financials and key drivers of business success are important to understanding the need for certain strategies.
- *Focus on the key business goals:* Programs that have the greatest relevance to business objectives should get priority.
- *Know what to measure:* Metrics are a vital part of assessing success, which means picking those measures that directly relate to the business goals.
- *Prepare for the future:* Strategic thinking requires preparing for the future, not focusing on the past—except as a predictor of the future.

HR AS ORGANIZATIONAL CONTRIBUTOR

In organizations where there are identifiable core competencies related to people, HR practices play a significant strategic role in enhancing organizational effectiveness. Effective management of talent provides managers with

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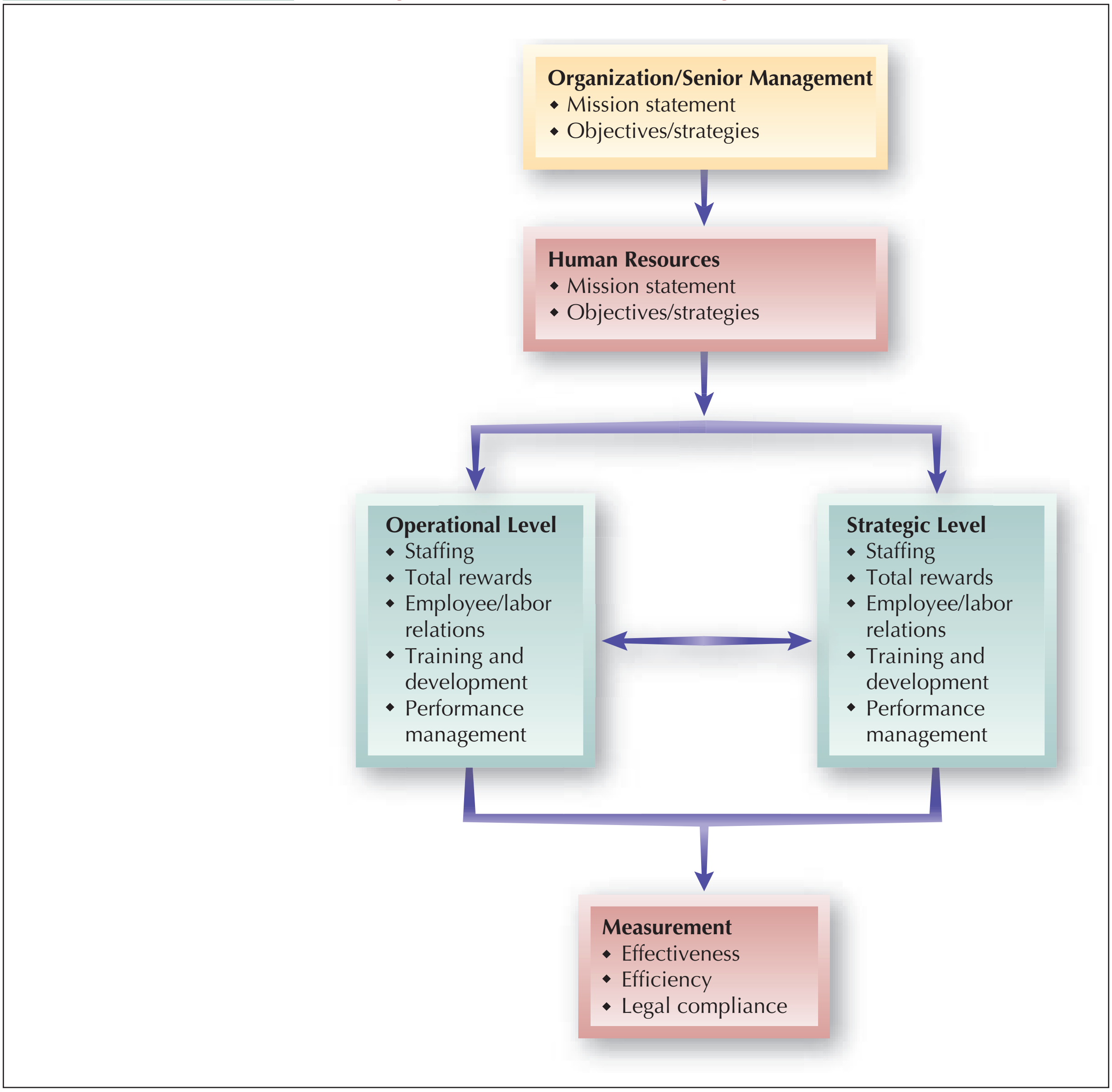
FIGURE 2-3 Strategic Human Resource Management



high-quality human resources to carry out the organizational strategies. As discussed in Chapter 1, strategic HR management plays a significant role in the following strategies:

- Organizational productivity
- Customer service and quality
- Financial contributions.

High-Performance Work Practices

A wide array of data from both academics and consulting firms shows that HR practices really do make a significant difference to business outcomes. Many HR "Best Practices" are identified in chapters throughout this book.

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The examples will illustrate how HR strategies that foster these practices pay off for both employers and employees. Some recognized HR best practices include:[13]

- *Incentive compensation:* Pay-for-performance systems that tie employee rewards directly to successful performance of job responsibilities
- *Training:* Talent development programs to ensure that all employees have the proper knowledge, skills, and abilities to perform their jobs and to grow with the organization
- *Employee participation:* Soliciting and using employee ideas and suggestions to give employees a sense of importance and value to the organization
- *Selectivity:* Setting stringent hiring standards to maintain a high level of quality when bringing employees into the organization
- *Flexible work arrangements:* Providing alternative work schedules to help employees balance their personal and professional lives

Organizations that implement such practices have increased return on assets by 5% and reduced employment turnover by 20%. Research has also shown that market value, return on equity, and other operational performance measures are better in organizations that adopt high-performance work practices.[14]

HR Effectiveness and Financial Performance

Effectiveness for organizations is a measure of the ability of a program, project, or task to produce a specific desired effect or result that can be measured. **Efficiency** is the degree to which operations are done in an economical manner. Efficiency can also be thought of as a short-term measure that compares inputs and costs directly against outputs and benefits. HR management and financial executives work together to make certain that HR practices contribute financially to organizational effectiveness.

There are many different ways of measuring the financial contributions of HR and many challenges associated with doing so. Return on investment (ROI) is a common measure used by financial professionals to assess the value of an investment. For example, if a firm invests $20,000 for a supervisory training program, what does it gain in lower worker compensation costs, lower legal costs, higher employee productivity, and lower employee turnover? The benefits of HR programs are not always immediately visible which is what makes measuring HR's impact such a challenge. However, efforts should be made to financially assess HR practices.[15] Later in this chapter the discussion of HR metrics will highlight some specific HR measurement approaches. The HR Perspective discusses an interesting approach at IBM to harness the power of numbers in managing human resources.

Effectiveness The ability to produce a specific desired effect or result that can be measured.

Efficiency The degree to which operations are done in an economical manner.

ENVIRONMENTAL ANALYSIS

Before the managers in an organization begin strategic planning, they study and assess the dynamics of the environment in which they operate to better understand how these conditions might affect their plans. The process of **environmental scanning** helps to pinpoint strengths, weaknesses, opportunities, and threats that the organization will face during the planning horizon.

Environmental scanning The assessment of internal and external environmental conditions that affect the organization.

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Numbers Add Up for IBM

HR perspective

Turning workers into numbers sounds not only difficult but also somewhat insensitive and heartless. However, mathematical models are helping IBM to harness human resources and allow its employees to thrive. IBM has long relied on detailed data and sophisticated algorithms to manage its supply chain and manufacturing processes, but the business has changed. IBM has shifted to a focus on services rather than building computer hardware. This increases the need to optimize the workforce so that the right individuals are available when customers need specific talents.

Building a profile for each employee involves determining the specific knowledge and strengths of each worker. Résumés and project records are used to identify skills and experiences. Online calendars, cell phones, and PDAs show how employees use their time and who they interact with. Call records and emails define the social network each employee has developed. This inventory of talent can be used by managers to better schedule work and create project teams.

Think of the manager who needs to deploy a team to work on assignment for a particular client. She could sit down and put the dates and skills needed into the talent inventory system. The results would come back telling her which workers are available with the right skill set, whether several proposed team members have worked together in the past, and how much they are paid. She would then be able to configure the ideal team within the budget limits.

Talent development could be enhanced by reviewing the combination of skills and experiences that high performers possess. To build the strength of the talent pipeline, employees could be "cloned" to duplicate successful employees based upon their profiles. The social networks of employees could be tapped to identify prospective employees or customers. Scheduling of workers would be aided by defining their skills and matching them to the thousands of small tasks that need to be accomplished on each project.

Although IBM has just begun mining the data and building the mathematical models to utilize human resources, the future will be based less on guesswork and more on proven formulas for success.[16]

The internal environment includes the quality and quantity of talent, the organizational culture, and the talent pipeline and leadership bench strength. The external environment includes many economic, political, and competitive forces that will shape the future. Figure 2-4 shows the HR elements of a SWOT analysis.[17]

Internal Environmental Analysis

The strengths and weaknesses of the organization represent factors within the organization that either create or destroy value. When assessing the internal environment, managers evaluate the quantity and quality of human resources, HR practices, and the organizational culture. The organizational culture is discussed at greater length in Chapter 1.

The strength of the talent pipeline is particularly important as the organization plans its future. Fulfilling strategic objectives is impossible without sufficient skills and talent. Leadership development and succession planning programs ensure that high-quality talent will be available to carry out the strategy. Effective development programs can reduce the high failure rate of people in leadership positions. Selecting individuals with the right talents

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FIGURE 2-4 **HR Factors in the SWOT Analysis**

Strengths
- Intellectual capital
- Loyal, committed employees
- Innovative, adaptive employees
- High-performance practices

Weaknesses
- Lack of skilled employees
- Lack of leadership pipeline
- Outdated talent management practices

Opportunities
- Market position
- Unexplored markets
- Global expansion
- Technology advances

Threats
- Legal mandates and restrictions
- Competitor power
- Economic uncertainty
- Talent shortage

and teaching them leadership skills can improve the quality of leaders and promote strategic success. **Succession planning** is the process of identifying a plan for the orderly replacement of key employees. The succession plan is the blueprint for managing the internal talent pipeline. Managers identify individuals who can fulfill new roles in the future and include them in the succession plan. This internal pool of talent is the reserve needed to meet the objectives in the strategic plan.[18] Succession planning is explained in greater detail in Chapter 9.

External Environmental Analysis

Opportunities and threats emerge from the external environment and can impact the outcomes for the organization. Many of these forces are not within the organizational control, but must be considered in the scanning process. Dealing with uncertainty in the external environment is becoming a critical skill for planners.[19] The external environmental scan includes an assessment of economic conditions, legislative/political influences, demographic changes, and geographic and competitive issues, as shown in Figure 2-5.

Economic Conditions The prevailing business climate will affect strategic planning because the future is shaped by current conditions. Productivity levels, interest rates, economic growth, consumer prices, inflation, and unemployment rates affect the business outlook. Access to credit, capital, and labor affect the organizational ability to grow and to provide desired rewards to employees. During times of high economic growth, labor and material shortages are more likely. During economic downturns, resources are underutilized and organizations seek to increase productivity and to lower costs. When facing difficult economic conditions, firms may react by implementing severe workforce reductions, compensation cuts, and other drastic measures to remain viable.[20] These actions have strategic implications for the organization because they may leave the organization vulnerable when the economy improves.

Succession planning The process of identifying a plan for the orderly replacement of key employees.

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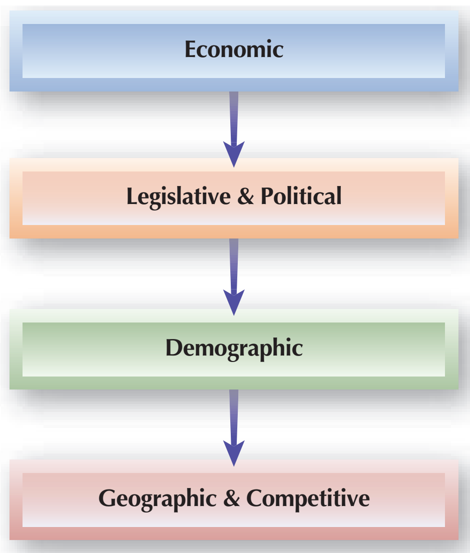
FIGURE 2-5 **Areas of External Environmental Scan**



Inflation rates can influence the revenue stream for the organization as well as employee expectations regarding compensation. As the unemployment rate rises, the number of qualified people looking for work increases. This poses challenges for the organizations because the sheer volume of applicants can overwhelm the selection process.

Legislative/Political Influences An expanding and often bewildering collection of government regulations affects the labor market and organization practices. Consideration of current and pending legislation should be a part of the assessment process because new mandates might impact how the organization operates during the planning horizon.

Legislation regarding taxes, labor unions, compensation, benefits, employment, and safety and health affect the HR practices in all organizations. Many aspects of the employment relationship are regulated, and strategic planning must be done with these restrictions in mind. The social and regulatory priorities of political parties also influence how business operates, with particular programs gaining or losing support. In summary, an organization considers a complex variety of government policies, regulations, and laws during the strategic planning process.

Demographic Changes Significant demographic changes are occurring that will impact the composition of the future workforce. The U.S. Census Bureau projects that by 2042 non-Hispanic whites will no longer comprise the majority of the U.S. population.[21] These population shifts and demographic changes can affect the organizational strategy in several ways. Consumer demographics influence the demand for products and services. For example, as the population ages, demand for medical services and assistive devices will increase. Workforce demographics will also affect the quality and quantity of labor available to the organization.

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HR *best practices*

NASA Launches Workforce Realignment

In 2010 the space shuttle program will be discontinued and thousands of NASA engineers and scientists will be affected. The Constellation program, which will succeed the space shuttle program, will not launch for 5 years. If the skilled shuttle staffers decide to retire rather than wait for the replacement program, NASA will face a serious knowledge gap.

NASA administrators must determine what people and skills will be needed to develop the Constellation program. Employees who do not have the critical skills may be allowed to leave or laid off. However, a congressional ban prohibits massive layoffs at the space agency. Also, a government panel is studying manned spaceflight programs to determine if the shuttle should truly be taken out of service.

All of the uncertainty facing NASA and its employees creates a major challenge of keeping employees engaged and committed. Leaders have been making themselves more visible, holding "all-hands" meetings, and communicating more frequently. Websites provide news on the transition and help employees to find new jobs. HR staff is working with managers to map the skills for the next program and comparing them to the skills of the current workers. They have found that systems engineering and project management skills are lacking, and they are developing training to fill the skill shortages. Fortunately, training for the transition has not disrupted current operations. The remainder of transition period will be devoted to transferring those skills to the retained employees.

In addition to the tangible transition issues, there are intangible issues such as dealing with fear of the unknown, breaking up of teams that have worked together for years, and grief for the end of a program that many individuals worked on their entire careers. Dealing with the stress and honoring the value of the shuttle program are helping employees to maintain morale and optimism while facing a new frontier.[22]

Among the factors influencing workforce diversity are age, gender, generational differences, race, and ethnicity. Managers assess changes in the workforce composition because the diverse needs and expectations of a heterogenous workforce require creative and flexible solutions. A one-size-fits-all approach to recruitment, compensation, training, and performance management will no longer be effective. The anticipated retirement of baby boomers in the near future will leave many organizations without sufficient skilled talent. NASA faces a serious workforce issue, and the HR Best Practices box describes their strategy for dealing with it.

Geographic and Competitive Concerns The local industrial base and economic conditions affect the strategic planning process. Where an organization locates its operations plays a role in how well it will perform. Being located in an industry hub (like Silicon Valley for IT firms) provides the infrastructure and supply base the organization needs to succeed. The local industry is centered on the particular industry, and resources, including skilled talent, are more readily available. If operations are located in a sparsely populated area, the organization will face staffing challenges if the strategy involves substantial growth. An understanding of geographic advantages and disadvantages can help managers develop appropriate plans.

LOGGING ON

Society for Human Resource Management
The Society for Human Resource Management is the largest association devoted to Human Resource Management. Some of the most essential and comprehensive resources available for Human Resource professionals are contained within the SHRM website at www.shrm.org.

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Competitors exist in both the product and labor markets. Competition in the product market determines the potential for the organization. If the organization is in a highly competitive industry (such as consumer electronics), strategies for growth rely heavily on innovation and driving down product costs. Competition in the labor market establishes the pricing for high-quality talent and determines the availability of workers. A detailed competitive analysis in both product and labor markets provides important information to managers regarding the possibility of meeting strategic objectives.

GLOBAL COMPETITIVENESS AND STRATEGIC HR

GLOBAL

The globalization of business has meant that more organizations now operate across borders with ties to foreign operations, international suppliers, vendors, employees, and other business partners. A global presence can range from importing and exporting to operating as a **multinational corporation (MNC)**. An MNC, sometimes called a "transnational corporation," is a corporation that has facilities and other assets in at least one country other than its home country. Because human resources are considered assets, the definition of MNC covers a large number of companies.

Global Framework

Mastering the global complexities of managing human resources is important not only for HR results, but also for the overall success of the organization. Companies operating globally must deliver basic HR services while also overcoming various operational, cultural, and organizational obstacles.[23] Even organizations that operate primarily in the domestic market face pressure from foreign competitors. The supply chain is increasingly internationally dispersed, and foreign business practices influence operations in the United States. Technology advances have eliminated many barriers to operating on a global scale. In addition, workers from numerous countries may seek employment in the United States, and managers and HR professionals must be prepared to deal with the needs of this labor force.[24]

Having a global HR mind-set means looking at HR issues from an international perspective, using ideas and resources throughout the world, and ensuring openness to other cultures and ideas. To effectively compete on an international scale, the organization needs expertise to administer all HR activities in a wide range of nations. Policies and practices should be established to address the unique demands for operating in a global context. Managers determine which policies should be standardized and which should be tailored for each locale.[25] For example, the organization may decide to standardize talent development and succession planning but permit local managers to establish compensation and labor relations policies. An ideal international approach strikes a balance between home-country and host-country policies that utilizes the best practices within the organization.

The following sections address specific issues that should be considered when formulating international strategies.

Multinational corporation (MNC) A corporation that has facilities and other assets in at least one country other than its home country.

Global Legal and Regulatory Factors

Globally-operating organizations must be aware of widely varying legal and regulatory systems due to politics, economic differences, and other factors. Emerging economies, in particular, pose major challenges to smooth operations and reliable

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conditions.[26] Having to know about and comply with laws on many HR-related issues is crucial. Therefore, senior executives and HR professional must review each country's legal and regulatory factors, both before and during ongoing operations. Also they must be trained in how to deal with the nuances of the requirements in each country.

Offshoring

Competitive pressure to lower costs has resulted in many jobs being moved overseas in recent years. **Offshoring** is the relocation by a company of a business process or operation from one country to another. Firms offshore the production of goods as well as the delivery of services to lower-wage countries. Call centers in India are an example of business service offshoring to countries with well-educated, English-speaking workers. Product and software development projects are increasingly being offshored due to the loss of science and engineering talent in the United States. Predictions are that offshoring will increase in the future, and few firms have plans to return offshored jobs to the home country.[27]

Decisions to offshore operations are made as part of a broader strategic assessment. Economic conditions in both the domestic and global marketplace, the loss of intellectual talent and institutional knowledge, and the potential for lower quality are all issues that managers face. To maximize the success of offshoring, organizations should utilize the following approaches:[28]

- Design work processes to allow workers to hand off the project from one to the next.
- Open the channels of communication by investing in technologies to support real-time interaction.
- Build common ground by sharing knowledge across locations.

Global Staffing

Staffing for global operations includes a wide variety of alternatives. The optimal solution is to combine the expertise of local employees with the organization-specific knowledge of employees from the home country (headquarters). Some countries require that the organization employ a certain percentage of workers from the host country. Figure 2-6 shows four strategic approaches to international staffing. Each organization will use a staffing model that best fits its culture and strategic goals.

An expatriate is an employee living and working in a different country from where he or she is a citizen. Moving an employee to an overseas assignment for an extended period requires careful selection, training, and planning to make the experience a success.[29] The return of an expatriate (called repatriation) must be well planned and executed for the organization to gain the benefits of the overseas assignment.

Leadership development is especially important for MNCs. It is becoming more important for individuals in top management positions to have international experience so that they understand the worldwide marketplace. Effective selection and development processes are needed to ensure that the right individuals are chosen for these roles. Leading across cultures requires specific skills, and organizations should provide formal training along with expatriate assignments to develop leaders who can achieve results in this demanding environment.[30]

Offshoring The relocation by a company of a business process or operation from one country to another.

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FIGURE 2-6 **Strategic Approaches to International Staffing**

Ethnocentric Policy	• *Managers from headquaters staff key positions* • Ensures control over subsidiary location operations • Eases transfer of policies from headquarters to subsidiary
Polycentric Policy	• *Host-country nationals staff key positions* • Reduces cultural mishaps and misunderstanding • Coordination with headquarters may be problematic
Geocentric Policy	• *An international cadre of skilled managers are assigned to global subsidiaries regardless of nationality* • Leverages technical and managerial expertise
Regiocentric Policy	• *Key positions are filled by individuals in the region of the subsidary (i.e., European Union countries)* • Capitalizes on cultural and language similiarities within the region

HR PLANNING IN MERGERS AND ACQUISITIONS

The overall purpose of a merger or acquisition is to generate shareholder value by creating a more competitive, cost-efficient company by combining two existing companies. Strategic HRM can contribute to the success of mergers and acquisitions (M&As). Research has clearly shown that the majority of M&As fail to deliver on the expected financial, marketing, or product gains, with only about one-third of companies reporting that they achieved their goals.[31] A significant number of failed ventures can trace their roots to HR issues that were not properly addressed such as loss of key staff, culture clashes, and poor communication. To maximize the chances of a successful integration, HR should be involved before, during, and after the deal is completed. Figure 2-7 shows the HR activities and focus during each stage of the merger process.

Before the Deal

To determine whether or not the two organizations should combine, a rigorous process of due diligence is conducted. **Due diligence** is a comprehensive assessment of all aspects of the business being acquired. Financial, sales and marketing, operations, and human resource staffs are all involved before the final decision is made to merge or acquire the company. Each function determines the assets and liabilities of the target company to ascertain whether there are serious risks to the buyer. HR professionals review issues related to legal compliance, compensation and benefits programs, quality of talent, and labor contract obligations. Early identification of potential problems such as underfunded

Due diligence A comprehensive assessment of all aspects of the business being acquired.

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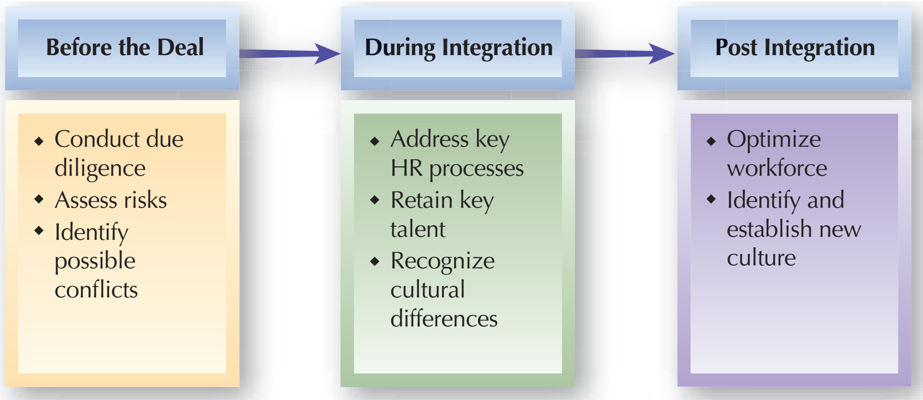
FIGURE 2-7 HR Activities during M&A



pension liabilities or incompatible labor agreements helps management plan for an orderly transition. Due diligence is even more complex when the M&A involves companies in different countries. A thorough, objective analysis of the HR-related issues is critical to make good business decisions.[32]

During Integration

After the deal has been closed, the focus of HR activity switches to the orderly transition of basic HR processes such as payroll and benefits migration. During the first 60 days after the acquisition, HR must deliver high-quality administrative and operational support to employees and managers. The immediate concerns are often about basic services needed to run the operations. Frequent communication, employee hotlines, and guidance for managers all contribute to employee retention and loyalty during the chaotic early days of the transition. Early in the transition, managers focus on identifying key talent and establishing initiatives to retain these critical employees. Retention bonuses, special assignments, and enhanced severance can be used to keep key talent in place during the integration stage.[33]

Integrating HR information systems is important to provide managers with information about employee capabilities, performance, and potential. The acquiring organization cannot make optimum human resource assessments without access to historical information on all employees. An inventory of knowledge, skills, and expertise along with performance information provide the data for making suitable assignments for employees from both organizations. Gathering all relevant HR information in a single database helps managers to analyze and compare employee skills and to make informed decisions about which employees should be retained.

As the businesses are merged, culture conflicts will emerge. For example, when HP and Compaq merged in 2001, cultural differences were recognized and addressed. HP had a culture that fostered innovation by giving employees autonomy and opportunities for professional development. Compaq, on the other hand, was a fast-paced company that made decisions quickly. The merger has been successful because of the blending of the best parts of the culture in each company.[34] Changing the organizational culture depends upon changing behavior in the organization. Four important factors in changing culture are:[35]

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- *Define the desired behaviors:* Provide behavioral examples of how people are expected to act and tie these behaviors to the performance management system.
- *Deploy role models:* Select leaders that exemplify the desired behaviors and make them visible throughout the organization.
- *Provide meaningful incentives:* Reward the role models with recognition to reinforce their behavior and to signal the rest of the organization.
- *Provide clear and consistent messages:* Align what you say with what you do and reward.

Post Integration

To realize the expected benefits of a merger, the months following the initial integration are critical. Culture changes started in the early days must be maintained. Practical issues regarding talent management and development along with combining compensation systems will solidify the new, united organization. Failure to effectively blend the workforces and move beyond the "us-and-them" mentality can lead to inferior business results, a loss of shareholder value, and the failure of the merger. Continued change efforts are needed to bring all employees to the "one organization" mentality. Breaking down the barriers between the previous practices at each organization and implementing the best from both organizations will give employees a sense of value and importance. Ultimately, the outcomes of the deal result from how HR issues are addressed.[36] The HR Perspective details the strategies that Dow uses to ensure that acquisitions deliver as promised.

HR perspective

Dow's Formula for Successful Acquisitions

Dow is a diversified chemical company with $49 billion in annual revenues and 43,000 employees worldwide. Since its founding in 1897, much of the company growth has come through mergers and acquisitions. Because Dow's acquisition activities are central to its organizational growth strategy, top leaders formulated an approach to ensure success. Although significant emphasis was placed on pre-deal activities, little was done to ensure the post-deal success. Various employees in operating units might work on the acquisition as a temporary assignment, but would return to their regular jobs after the deal was done. The implementation of the M&A Technology Center provided a systematic approach to handle the complicated process of acquiring and integrating new companies into the Dow corporate structure.

The M&A Technology Center is staffed with a full-time group of experts in the M&A process. Members of the Center document the processes used, gather data to assess results, capture and share "lessons learned," and create templates and tools for future use. The Center oversees all acquisition activity at Dow by drawing on the experience and skills of its staff. Due to the success of the Center, Dow leaders took the idea one step further and instituted the HR Center for Mergers and Acquisitions to address the unique HR tasks associated with integrating acquired companies. Staffed with seasoned professionals who can assess and make recommendations on issues related to labor relations, compensation and benefits, training, change management, and other HR disciplines, the HR Center is involved from the very beginning of each potential acquisition through final integration.

The HR Center surveys Dow business leaders each year to assess the effectiveness of the process. Results have been very positive and indicate that HR has added high value to the M&A process at Dow.[37]

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STRATEGIC CHALLENGES

Because the objective of strategic planning is to anticipate future events and conditions, managers should evaluate and revise the plan on a periodic basis. Some have called into question the value of strategic planning in light of the economic volatility in the recent past.[38] However, organizations would fare much worse with no plan in place. Recent events highlight the impact of environmental forces on organizations and emphasize the need to remain watchful and attentive to changing conditions.

Attracting and retaining the right talent is an ongoing challenge as the needs of the business change over time. The United States has continued to move from a manufacturing economy to a service economy. This shifting economic base leads to structural mismatches between workers and jobs. Workers with outdated skills are unable to fill the technical and health service jobs employers need. Ongoing retraining can help overcome these problems if strategic planning has identified them.[39] Organizations need to plan for both the quantity and quality of the workforce over the planning horizon. Having sufficient workers with the right qualifications is essential to achieve the strategic plan. If the firm employs too many people for its needs, a talent surplus exists; if too few, a talent shortage. Because of the rapidly changing conditions, the organization may face a surplus in some parts of the business while facing a shortage in others. Figure 2-8 shows the tactics organizations might use to deal with talent supply imbalances.

FIGURE 2-8 Managing Talent Supply Imbalances

MANAGING A TALENT SURPLUS	MANAGING A TALENT SHORTAGE
Reduce employee work hours or compensation	Increase employee work hours through overtime
Attrition	Outsource to a third party
Freeze hiring	Implement alternative work arrangements
Voluntary separation programs	Use contingent workers (temporaries, independent contractors)
Downsizing/reduction in force (RIF)	Reduce employee turnover

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Managing a Talent Surplus

A talent surplus can be managed within a strategic HR plan in a number of ways. The reasons for the surplus will guide the ultimate steps taken by the organization. If the workforce has the right qualifications but the sales revenue has fallen, the primary strategies would involve retaining workers while cutting costs. However, if the workforce is not appropriately trained for the jobs needed, the organization may lay off those employees who cannot perform the work. Managers may use various strategies in a progressive fashion to defer workforce reductions until absolutely necessary.[40]

Reduction in Work Hours or Compensation In order to retain qualified employees, managers may institute reduced work hours on a temporary basis. Selected groups of employees may have their workweek reduced or all employees can be asked to take a day or week off without pay. For example, Zurn Plumbing Service, a small family-owned company, asked its 15 full-time workers to take a day off without pay each week in order to keep all of them on the payroll and avoid layoffs.[41] When the economy improves, these skilled employees will be available to handle the increased workload.

Across-the-board pay cuts can reduce labor costs while retaining skilled employees. It is important that pay cuts start at the very top of the organization so that employees do not bear all of the hardship. Uniform pay cuts can be felt as a shared sacrifice for the survival of the firm. Organizations may also reduce employee benefits, such as eliminating matching 401K contributions or raising employee health insurance premiums. HR should closely monitor the situation and reinstate pay and benefits levels when the economic outlook improves to maintain employee loyalty and a sense of fairness.

Attrition and Hiring Freezes Attrition occurs when individuals quit, die, or retire and are not replaced. By use of attrition, no one is cut out of a job, but those who remain must handle the same workload with fewer people. Unless turnover is high, attrition will eliminate only a relatively small number of employees in the short run, but it can be a viable alternative over a longer period of time. Therefore, employers may combine attrition with a freeze on hiring. Employees usually understand this approach better than they do other downsizing methods.

Voluntary Separation Programs Organizations can reduce the workforce while also minimizing legal risks if employees volunteer to leave. Often firms entice employees to volunteer by offering them additional severance, training, and benefits payments. Early retirement buyouts are widely used to encourage more senior workers to leave organizations early. As an incentive, employers may offer expanded health coverage and additional buyout payments to employees so that they will not be penalized economically until their pensions and Social Security benefits take effect. These programs are viewed as a way to accomplish workforce reductions without resorting to layoffs.

Voluntary separation programs appeal to employers because they can reduce payroll costs significantly over time. Although the organization faces some up-front costs, it does not incur as many continuing payroll costs. Using such programs is also viewed as a more humane way to reduce staff than terminating long-service, loyal employees. In addition, as long as buyouts are truly

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voluntary, the organization offering them is less exposed to age discrimination suits. One drawback is that some employees the company would like to retain might take advantage of a buyout.

Workforce Downsizing It has been given many names, including downsizing, rightsizing, and reduction in force (RIF), but it almost always means cutting employees.[42] Layoffs on a broad scale have occurred with frightening regularity in recent years. Trimming underperforming units or employees as part of a plan that is based on sound organizational strategies may make sense. After a decade of many examples and studies, it is clear that downsizing has worked for some firms. However, it does not increase revenues; it is a short-term cost-cutting measure that can result in a long-term lack of talent. When companies cannibalize the human resources needed to change, restructure, or innovate, disruption follows for some time. Also, downsizing can hurt productivity by leaving "surviving" employees overburdened and demoralized.

Best practices for companies carrying out layoffs include:[43]

- Identify the work that is core to sustaining a profitable business.
- Identify the knowledge, skills, and competencies needed to execute the business strategy.
- Protect the bottom line and the corporate brand.
- Constantly communicate with employees.
- Pay attention to the survivors.

A common myth is that those who are still around after downsizing are so grateful to have a job that they pose no problems to the organization. However, some observers draw an analogy between those who survive downsizing and those who survive wartime battles. Bitterness, anger, disbelief, and shock all are common reactions. For those who survive workforce cuts, the culture and image of the firm as a "lifetime" employer often are gone forever.[44]

Severance benefits and outplacement services may be offered by companies to cushion the shock of layoffs and protect the company from litigation. **Severance benefits** are temporary payments made to laid-off employees to ease the financial burden of unemployment. One common strategy is to offer laid-off employees severance benefits that require employees to release the organization from legal claims. Severance benefits are typically based upon length of service with the company, often one or two weeks' pay per year of service. Outplacement services are provided to give displaced employees support and assistance. Outplacement typically includes personal career counseling, résumé preparation services, interviewing workshops, and referral assistance. Such services are generally provided by outside firms that specialize in outplacement assistance and whose fees usually are paid by the employer. Assisting laid-off workers with gaining new employment can help to alleviate the financial burden on employees and preserve the company image.[45]

Legal Considerations for Workforce Reductions

Severance benefits
Temporary payments made to laid-off employees to ease the financial burden of unemployment.

HR must be involved during workforce adjustments to ensure that the organization does not violate any of the nondiscrimination or other laws governing workforce reductions. Selection criteria for determining which employees will be laid off must comply with Title VII of the Civil Rights Act as well as the Age Discrimination in Employment Act and the Americans with

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Disabilities Act. A careful analysis and disparate impact review should be conducted before final decisions are made.[46]

There is no legal requirement to provide severance benefits, and loss of medical benefits is a major problem for laid-off employees. However, under the federal Consolidated Omnibus Budget Reconciliation Act (COBRA), displaced workers can retain their group medical coverage for up to 18 months for themselves, and for up to 36 months for their dependents, if they pay the premiums themselves. Federal stimulus programs in 2009 included enhanced COBRA coverage for displaced workers.

Employers must also comply with the Older Workers Benefit Protection Act (OWBPA) when implementing RIFs. The OWBPA requires employers to disclose the ages of both terminated and retained employees in layoff situations, and a waiver of rights to sue for age discrimination must meet certain requirements. The worker must be given something of value ("consideration") in exchange for the waiver of right to sue, typically severance benefits. When laying off a group of employees, workers over age 40 who are being laid off must be granted 45 days in which to consider accepting severance benefits and waiving their right to sue.

To provide employees with adequate notice of plant closings or mass layoffs, a federal law was passed, the Worker Adjustment and Retraining Notification (WARN) Act. This law requires private or commercial organizations that employ 100 or more full-time workers who have worked more than 6 months in the previous year to give a 60-day notice before implementing a layoff or facility closing that involves more than 50 people. However, workers who have been employed less than 6 months in the prior year, as well as part-time staff members working fewer than 20 hours per week, are not counted toward the total of 50 employees. Despite not being formally counted to determine implementation of the law, these individuals should still be given some form of notice.[47] The WARN Act imposes heavy fines on employers who do not follow the required process and give proper notice.

Managing a Talent Shortage

Managing a shortage of employees seems simple enough—simply hire more people. However, as mentioned earlier, there can be mismatches between the qualifications needed by employers and the skills possessed by workers. Manpower's list of the 10 hardest jobs to fill in the United States includes engineers, nurses, teachers, IT staff, and skilled trades.[48] For these jobs, there may not always be sufficient qualified workers to hire. Companies can use a number of alternative tactics to manage a talent shortage:

- Use overtime
- Outsource work
- Implement alternate work arrangements
- Bring back recent retirees
- Use contingent workers
- Reduce turnover

The existing workers can work overtime to produce goods or services. This strategy can work on a short-term basis but is not a solution for a longer-term talent shortage. Workers may appreciate the extra hours and pay for awhile, but eventually fatigue sets in and productivity and quality may drop and injuries and absenteeism may increase. Reducing turnover of qualified employees should be an ongoing effort to maintain a talented workforce.

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Special attention may be required in times of talent shortages to hold on to skilled employees.

Alternate work arrangements, nontraditional schedules that provide flexibility to employees, include job sharing and telecommuting. These are creative solutions to attract and retain skilled employees who want flexibility. Employees are given more freedom in determining when and how they will perform their jobs. These arrangements are not costly to the organization but do require management support and planning to be effective.[49] Retirees may be rehired on a part-time or temporary basis to fill talent gaps. The advantage is that these individuals are already trained and can be productive immediately. Care must be taken not to interfere with pension payments or other benefits tied to retirement.

The use of contingent employees, which are noncore employees who work at an organization on a temporary or as-needed basis, can provide short-term help. Professional employer organizations can lease employees to the firm, which is often a good solution for technical talent. Independent contractors can be hired on an as-needed basis to fill talent shortages. The use of independent contractors must be managed closely to ensure compliance with wage and hour, safety, and employee benefit statutes. When using contingent workers, special efforts are needed to assimilate them into the workforce and avoid an "us-and-them" mentality. Contingent workers fill an important need and managers can maximize their contributions through good employee relations practices.

Outsourcing involves transferring the management and/or routine performance of a business function to an external service provider. Organizations in the United States outsource a wide variety of noncore functions in order to reduce costs or to obtain skills and expertise not available in the organization. A common HR function that is outsourced is payroll. The organization pays an outside firm to administer its payroll and does not incur the fixed cost of a payroll department. Highly skilled and complex tasks may be outsourced to a firm with greater know-how and economies of scale.[50] Planning and executing outsourced tasks should include HR to ensure legal compliance and appropriate employee integration.

LOGGING ON

U.S. Department of Labor, Bureau of Labor Statistics

This website contains data on workforce composition and trends from the U.S. Department of Labor, Bureau of Labor Statistics. Visit the site at www.stats.bls.gov.

TECHNOLOGY CHALLENGES

Technological advances have a major impact on organizations. New methods for communicating, processing information, and manufacturing have led to economic development around the globe. Evolving technologies using math, science, and the arts can improve life and living conditions. However, the improvements created by technology often mean that people and organizations must change in order to fully benefit from these advances. Evolutions in technology will continue to present exciting, but difficult challenges to managers.

Alternate work arrangements Nontraditional schedules that provide flexibility to employees.

Outsourcing Transferring the management and performance of a business function to an external service provider.

Effects on Work and Organizations

Jobs have undergone major changes as a result of technology advances. In many cases, monotonous, repetitive operations have evolved into complex knowledge work that requires a new skill set. Work that previously was

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done by hand has been replaced by robotics and automation. Tool and die makers, once prized for their intricate, precision hand work, are now utilizing computer-aided design (CAD) and computer numerically controlled (CNC) software to complete their tasks. Rather than having workers standing on the assembly line alone performing small specialized tasks, today's workplaces utilize teams of workers collaborating and sharing a wide variety of tasks. The skills needed in this work setting are very different from those of the past; communication, collaboration, technical ability, and adaptability are necessary for success in the future.[51]

The introduction of computers made redundant not only typewriters but also the job of secretary and the lengthy process of creating, editing, and producing written correspondence. Digital imaging has changed the way medical diagnostic tests are taken, read, and stored. A radiologist working remotely can interpret images, and patients can be treated faster than ever before.[52] Continuous improvement is an essential strategy for all organizations in the production of goods or the delivery of services. Customer demands for new product features, customized services, higher quality, and greater value mean that employees must continually acquire knowledge and skills in a dynamic environment.

Continuous improvement in an organization typically involves ongoing efforts to develop and implement better methods. Recall the HR Headline and Lee Memorial Health System's use of continuous improvement processes to enhance patient flow and reduce costs. Technology is enabling organizations to improve work flow and process. Business process reengineering (BPR) is a fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in cost, quality, speed, and service.[53]

Scheduling work, tracking time and attendance, and monitoring employee productivity are all easier with the aid of technology. Workforce management software systems create and balance workloads that can save organizations significant labor costs by matching staffing levels to peak and nonpeak service demands. This can lead to employee discontent because of the inconvenience of shortened workdays or nontraditional schedules for employees. Daycare arrangements may be disrupted, and employees may compete for prime work schedules. HR and operations staff must work cooperatively to ensure that steps taken to improve efficiency do not create employee relations issues.[54]

Effects on Communication

Technology has increased employee expectations regarding the speed and frequency of communication from managers. Employees are no longer content to wait for the monthly company newsletter or find out the latest news through formal channels. Company intranet portals can be a prime source of information for employees and should be used to inform employees about important events within the organization and the industry. The HR Perspective discusses how Verizon Wireless uses its HR portal to enhance employee communication.

Facebook, LinkedIn, and other social networking sites allow employees to remain in constant contact with people inside and outside of the organization. Instant messages and cell-phone texting allow for real-time communication. The line between employees' personal and professional lives becomes blurred as these virtual communities are frequently accessed from the worksite. Potential litigation and damage to the organizational reputation and brand pose risks to the organization if access and content are not properly monitored.[55]

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HR perspective

Verizon Engages Employees via Web Portal

Employee engagement, that is, employees' involvement with, commitment to, and satisfaction with work, has been tied to retention, productivity, profits, and sustainability. Engaged workers are willing to perform at levels beyond their stated job requirements, are more customer-focused, and produce higher-quality and long-term financial results for the organization. Therefore, organizations seeking to maximize employee engagement must identify specific actions that can lead to engagement.

An integral component in driving employee engagement is effective communication. Particularly in harsh economic times, employees need to understand the challenges faced by the organization so that they can accept changes in compensation, work hours, and performance expectations. Messages must be honest, direct, and consistently address critical employee concerns. The range of communications channels provides multiple avenues for connecting with employees and providing vital information that will foster engagement.

Verizon Wireless, widely known for its engaged workforce, has embraced the HR portal as a main vehicle for communicating with its employees. The company developed an online HR portal called "About You." Accessible through the intranet, About You allows employees to make crucial connections between their daily work performance and their Total Rewards package. Real-time details about short-term incentive payouts, wellness initiatives, development programs, and other resources are available at their fingertips. The HR portal is tied to Verizon's HRIS which delivers personalized employee information on demand. Self-service tools like "To Do" lists that outline key tasks, approving expense reports, and tracking time and attendance simplify the employee's life and cement connections between the employee and the company. The user interface mimics the online experience outside the workplace for a seamless, familiar feel.

Verizon's high level of employee engagement results from utilizing technology to deliver its employee-centered, honest communication messages.[56]

The explosive growth of Twitter in a relatively short period of time shows how quickly new communication channels emerge. Organizations must continually monitor and adapt to these new communication technologies to connect with customers and employees.

Effects on Work Processes

Monitoring employee actions and performance is much easier and less expensive due to technological advances. Transponders in semitrailer trucks can record speed, mileage, and other operating data to evaluate driver performance. Video surveillance to reduce employee misconduct such as theft or cheating, or to track productivity is simple to implement. Computer use is routinely monitored, and the Society for Human Resource Management (SHRM) found that more than one-third of organizations have either disciplined or terminated employees for improper use of company computers or Internet access.[57]

The majority of organizations have e-mail use policies in place and monitor employee e-mail use. In general, the courts have supported employer monitoring, and there are few legal restrictions on employer action. Organizations typically address two issues—managing employee performance and creating a positive work environment. Concerns about productivity and employee

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FIGURE 2-9 Factors Involved in Proper Monitoring of Employee E-Mail

REASONS TO MONITOR	POTENTIAL PROBLEMS
The organization is legally responsible for its employees' conduct and must limit exposure to liability (sexual harassment, etc.)	Poorly implemented or excessive monitoring can reduce trust and openness
Protect intellectual property and ensure that proprietary information is not disclosed to outside parties	Employer should not monitor employees' external e-mail accounts, only those hosted by the organization
Ensure that employees are productive and using computer and Internet access to perform their jobs	The blurring of personal and professional time leads to employees working on "their" time, and they expect to have some personal time during the workday
U.S. laws may require monitoring for financial reporting and compliance with Sarbanes-Oxley	Legal standards vary around the world, and global companies must comply with numerous requirements

performance must be balanced with concerns for privacy and positive employee relations. Monitoring can lead to a lack of trust and may discourage creativity and the free exchange of ideas between employees. Figure 2-9 shows some of the important factors involved in proper monitoring of employee e-mail.[58]

Effects on HR Activities

Electronic human resource management systems (e-HRM) is the planning, implementation, and application of information technology to perform HR activities. Sometimes called virtual HRM or business-to-employee (B2E) systems, using technology to support HR activities increases the efficiency of the administrative HR function and reduces costs. Managers benefit from the availability of relevant information about employees. Properly designed e-HRM systems provide historical information on performance, pay, training, career progress, and disciplinary actions. Organizations can make better HR-related decisions as a result. To maximize the value of technology, e-HRM systems should be integrated into the overall IT plan and enterprise software of the organization.[59]

Electronic human resource management systems (e-HRM) The planning, implementation, and application of information technology to perform HR activities.

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Technology can be used to support every function within human resource management. Recruiting and selection processes have changed dramatically with Web-based job boards, online applications, and even online interviewing. Training is now conducted with the aid of videos, podcasts, Web-enabled training programs, and virtual classrooms. Employee self-service has simplified benefit enrollment and administration by allowing employees to find health care providers and file claims online. Succession planning and career development are enhanced with real-time information on all employees and their potential career progression. One of the most important ways in which technology can contribute to organizational performance is through the collection and analysis of HR-related data. Identifying trends and modeling future conditions help managers to plan and optimize human resources.

LOGGING ON

Social Media Governance
This is an online database of social media policies from companies, governments, and nonprofit entities. Visit the website at www.socialmediagovernance.com/policies.php.

MEASURING EFFECTIVENESS OF HR INITIATIVES

A long-standing myth perpetuates the notion that one cannot really measure the value of HR practices. That myth has hurt HR's credibility because it suggests that either HR efforts do not add value or they are too far removed from business results to matter. That notion is, of course, untrue. HR, like all other functions, must be evaluated by considering the results of its actions and the value it adds to the organization. Unfortunately, the perceptions of managers and employees in many organizations are mixed because HR has not always measured and documented its contributions or communicated those results to executives, managers, and employees. Further, accounting practices treat expenditures on human capital and talent development as expenses rather than capital investments. This encourages a consumption attitude rather than a long-term investment strategy.[60]

People-related costs are typically the largest controllable expense in organizations. Effective management of these costs can make the difference in the survival of the organization. Collecting and analyzing HR information can pinpoint waste and improper allocation of human resources. It is important that managers understand financial and operational measures that drive the business and relate HR decisions to key performance indicators (KPIs). Metrics, benchmarking, balanced scorecards, and audits can help the organization track HR performance and measure the value of HR practices.[61]

HR Metrics

HR metrics are specific measures tied to HR performance indicators. Metrics are typically used to assess the HR function and results within the organization over time. A metric can be developed using costs, quantity, quality, timeliness, and other designated goals. Metrics can be developed to track both HR's efficiency and effectiveness. A pioneer in developing HR measurements, Jac Fitz-Enz, has identified a wide range of HR metrics. A number of key HR metrics are shown in Figure 2-10.[62]

HR and line managers collect and share the data needed to track performance. Data to track these measures come from several sources within the organization. Financial data are needed to determine costs for various HR activities. Performance and turnover data can be found in HR and operations records. The real value in using metrics is not in the collection and reporting of

HR metrics Specific measures tied to HR performance indicators.

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FIGURE 2-10 **Key HR Metrics**

HR Staff and Expenses

- HR-to-employee ratio
- Total HR staff
- HR expenses per FTE

Staffing

- Number of positions filled
- Time to fill
- Cost per hire
- Annual turnover rate

Compensation

- Annual wage and salary increases
- Payroll as a percentage of operating expenses
- Benefit costs as a percentage of payroll

Training

- Hours of training per employee
- Total costs for training
- Percentage of employees participating in tuition reimbursement program

Retention and Quality

- Average tenure of employees
- Percentage of new hires retained for 90 days
- Performance quality of employees in first year

Development

- Positions filled internally
- Percentage of employees with career plan

the results. It is the analysis and the interpretation of the data that can lead to improvements in human capital utilization.[63] Information and historical data are reviewed and studied to determine the reasons for current performance levels and to learn how to improve in the future. HR can help line managers to understand and interpret the results of these measures and translate these findings into effective steps toward improvement.

Unlike financial reporting, there is no standard for the implementation and reporting of HR measures. Managers choose what and how to report to employees, investors, and other interested parties. This lack of consistency in HR reporting makes it difficult to evaluate an organization and to compare HR practices across organizations.[64] The following characteristics should be considered when developing HR metrics:

- Accurate data can be collected.
- Measures are linked to strategic and operational objectives.
- Calculations can be clearly understood.
- Measures provide information valued by executives.
- Results can be compared both externally and internally.
- Measurement data drive HR management efforts.

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HR and Benchmarking

Benchmarking is the process of comparing the business processes and outcomes to an industry standard or best practice. In other words, the organization compares itself to "best-in-class" organizations that demonstrate excellence for a specific process. Benchmarking is focused on external practices that the organization can use to improve its own processes and practices. When implementing benchmarking, managers should be careful to find organizations with similar contexts, cultures, operations, and size. Practices that would work effectively in an organization of 500 employees might not transfer very well to an organization with 5,000 employees. The organization should study and choose benchmarks that will have the greatest impact on the organizational performance.[65]

About half of HR professionals report that their organizations collect benchmark data on a planned, periodic basis while the rest collect it as needed. Major obstacles to collecting benchmarks are uncertainty about how to collect the information and what information to collect.[66] Using benchmarking, HR effectiveness is best determined by comparing ratios and measures from year to year. In that way, the organization can track improvements and results from implementing specific HR practices. While benchmarking helps the organization compare its results to other organizations, it does not provide the cause or reason for the relative standing of the organization. So, it is a starting point, not the end point, for improving the organizational HR function.

HR and the Balanced Scorecard

One effective approach to the measurement of the strategic performance of organizations, including their HR departments, is the balanced scorecard. The **balanced scorecard** is a framework organizations use to report on a diverse set of performance measures. Organizations that use a balanced scorecard recognize that focusing strictly on financial measures can limit their view. The balanced scorecard balances financial and nonfinancial measures so that managers focus on long-term drivers of performance and organizational sustainability. As shown in Figure 2-11, the balanced scorecard measures performance in four areas:

- *Financial measures:* Traditional financial measures such as profit and loss, operating margins, utilization of capital, return on investment, and return on assets are needed to ensure that the organization manages its bottom line effectively.
- *Internal business processes:* Product and service quality, efficiency and productivity, conformance with standards, and cycle times can be measured to ensure that the operation runs smoothly and efficiently.
- *Customer relations:* Customer satisfaction, loyalty, and retention are important to ensure that the organization is meeting customer expectations and can depend on repeat business from its customers.
- *Learning and growth activities:* Employee training and development, mentoring programs, succession planning, and knowledge creation and sharing provide the necessary talent and human capital pool to ensure the future of the organization.

Benchmarking Comparing the business results to industry standards.

Balanced scorecard A framework used to report a diverse set of performance measures.

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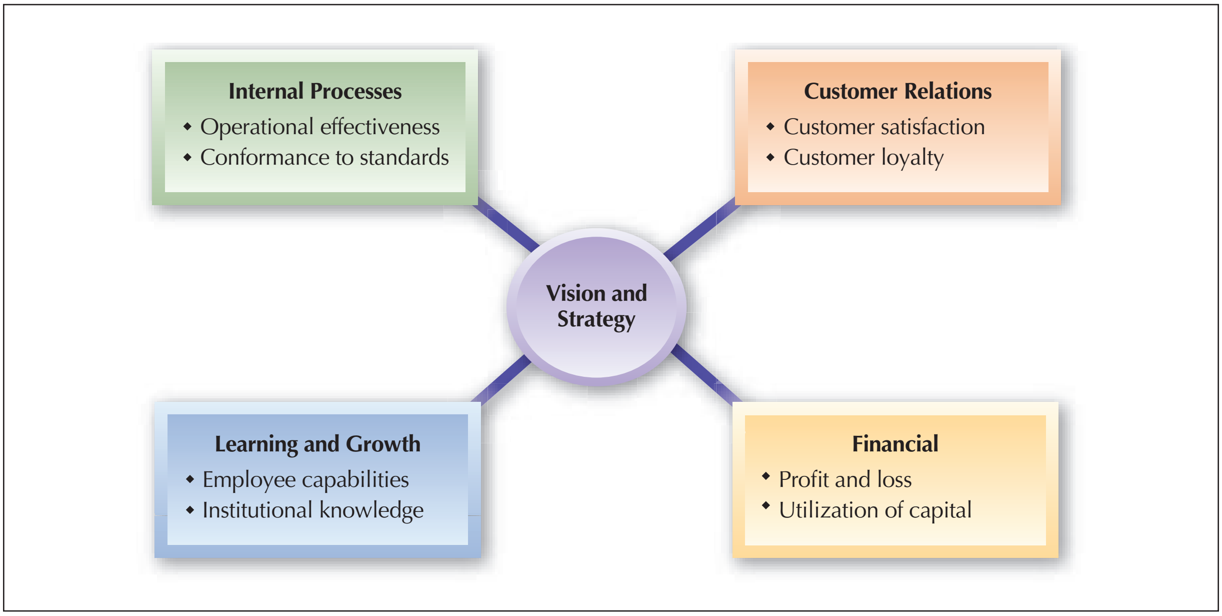
FIGURE 2-11 Balanced Scorecard Framework



Organizational results in each of these areas determine if the organization is progressing toward its strategic objectives. For example, some firms have noticed that when survey results show a decline in employee satisfaction, several months later there is a decline in customer loyalty and repeat customer sales. Or expenditures in employee leadership development training can be linked to lower employee turnover and reduced time to hire managers from outside the organization.

More than 60% of organizations claim to use a balanced scorecard approach. Firms as diverse as Blue Cross, Verizon, and the Mayo Clinic have used this approach to align performance measures with their organizational strategy.[67] Using the balanced scorecard requires spending considerable time and effort to identify the appropriate HR measures in each of the four areas and how they tie to strategic organizational success. The balanced scorecard should align with company goals and focus on results. To be effective, the HR scorecard should address three elements—accountability, validity, and actionable results.[68] However, regardless of the time and effort spent trying to develop and use objective measures in the balanced scorecard, subjectivity in what is selected and how the measures are interpreted can still occur.

Human Capital Effectiveness Measures

To fulfill its role as a strategic business partner, HR must quantify things that traditional accounting does not account for. Human resources often provide for both the biggest value and the biggest cost to organizations. Many of the metrics previously discussed reflect people-related costs. Measuring the value is more challenging but equally important.[69] Assessing the value of human resources demonstrates the importance of implementing effective HR practices to maintain a high-quality, engaged workforce.

Human capital refers to the collective value of the intellectual capital (competencies, knowledge, and skills) of the employees in the organization. This

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capital is the constantly renewable source of creativity and innovativeness in the organization but is not reflected in its financial statements.

Revenue per employee is a basic measure of human capital effectiveness. The formula is Revenue/Head Count (full-time employee equivalents). It is a measure of employee productivity and shows the sales revenue generated by each full-time employee. This measure is commonly used in government reporting (see Bureau of Labor Statistics, BLS) as well as by organizations to track productivity over time. If revenues increase but employee head count remains constant, productivity would increase.

A widely used financial measure that can be applied to measure the contribution and cost of HR activities is **return on investment (ROI)**, which is a calculation showing the value of investments in human resources. It can also be used to show how long it will take for the activities to pay for themselves. The following formula can be used to calculate the potential ROI for a new HR activity:

$$\text{ROI} = \frac{C}{A + B}$$

where:

A = Operating costs for a new or enhanced system for the time period
B = One-time cost of acquisition and implementation
C = Value of gains from productivity improvements for the time period

ROI is stressed because it is used in most other functions in an organization and is the "language" used by financial staff and top management. It allows managers to choose among various investment opportunities to determine the best use of funds.

Human capital value added (HCVA) is an adjusted operating profitability figure calculated by subtracting all operating expenses *except* for labor expenses from revenue and dividing by the total full-time head count. It shows the operating profit per full-time employee. Because labor is required to generate revenues, employment costs are added back into operating expense. The formula for HCVA is:

$$\frac{\text{Revenue} - (\text{Operating Expense} - (\text{Compensation} + \text{Benefit Costs}))}{\text{Full-Time Head Count}}$$

Human capital return on investment (HCROI) directly shows the amount of profit derived from investments in labor, the leverage on labor cost. The formula for HCROI uses the same adjusted operating profitability figure as for HCVA, but it is divided by the human capital cost:

$$\frac{\text{Revenue} - (\text{Operating Expense} - (\text{Compensation} + \text{Benefit Costs}))}{(\text{Compensation} + \text{Benefits Costs})}$$

Human economic value added (HEVA) shows the wealth created per employee. It shows how much more valuable the organization has become due to the investment in human capital. Wealth is the net operating profit of a firm after the cost of capital is deducted. Cost of capital is the minimum rate of return demanded by shareholders. When a company is making more than the cost of capital, it is creating wealth for shareholders. An HEVA approach requires that all policies, procedures, measures, and methods use cost of

Return on investment (ROI) Calculation showing the value of an investment.

Human capital value added (HCVA) Calculated by subtracting all operating expenses *except* for labor expenses from revenue and dividing by the total full-time head count.

Human capital return on investment (HCROI) Directly shows the operating profit derived from investments in human capital.

Human economic value added (HEVA) Wealth created per employee.

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capital as a benchmark against which their return is judged. Human resource decisions can be subjected to the same analysis. The formula for HEVA is:

$$\frac{\text{Net Profit after Taxes} - \text{Cost of Capital}}{\text{Full-Time Head Count}}$$

Many financial measures can be tracked and reported to show the contribution human resources make to organizational results. Without such measures, it would be difficult to know what is going on in the organization, identify performance gaps, and provide feedback. Managers should require the same level of rigor in measuring HR practices as they do for other functions in the organization.[70]

Regardless of the time and effort placed on HR measurement and HR metrics, the most important consideration is that HR effectiveness and efficiency must be measured regularly for managers to know how HR is contributing to organizational success.

HR Audit

One general means for assessing HR is through an HR audit, which is similar to a financial audit. An **HR audit** is a formal research effort to assess the current state of HR practices in an organization. This audit is used to evaluate how well activities in each of the HR areas (staffing, compensation, health and safety, etc.) have been performed, so that management can identify areas for improvement. An HR audit often helps smaller organizations without a formal HR professional to identify issues associated with legal compliance, administrative processes and recordkeeping, employee retention, and other areas.

HR audit A formal research effort to assess the current state of HR practices.

SUMMARY

- The strategy an organization follows is its proposition for how to compete successfully and thereby survive and grow.
- HR should be involved in the development and implementation of strategic decisions throughout the organization.
- Strategic planning is a core business process that results in a road map of organizational direction.
- Strategic HR management (HRM) refers to the use of HRM practices to gain or keep a competitive advantage by aligning individual employee performance with the organizational strategic objectives.
- Environmental scanning helps to pinpoint strengths, weaknesses, opportunities, and threats that the organization will face during the planning horizon.
- During an external environmental scan, HR managers identify the effects of economic conditions, legislative/political influences, demographic changes, and geographic and competitive issues.
- Mastering the global complexities of managing human resources is important for both HR results and the overall success of the organization.
- HR plays a crucial role in mergers and acquisitions, particularly in dealing with integration and organizational culture issues.
- Managing a talent surplus may require reducing work hours, downsizing through use of attrition and hiring freezes, voluntary separation programs, and workforce downsizing.
- Managing a talent shortage may be addressed through overtime, reducing turnover, using contingent workers, and outsourcing.

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- Advances in technology have affected job design, communication, work processes, and HR activities.
- HR effectiveness must be measured using HR metrics that consider both strategic and operational effectiveness.
- Benchmarking allows an organization to compare its practices against "best practices" in different organizations, and HR audits can be used to get a comprehensive overview of HR activities.
- The balanced scorecard can be a useful framework to measure and report on diverse organizational performance measures.

CRITICAL THINKING ACTIVITIES

1. Discuss how technology has changed jobs in an organization where you have worked. What are some HR responses to those changes?
2. What steps can HR professionals take to ensure that mergers and acquisitions are successful? How can HR help during the integration process?
3. How can an organization maintain its image while dealing with a talent surplus? If layoffs are necessary, what would you recommend managers do to ensure that survivors remain committed and productive?
4. As the HR manager for a multinational corporation, you want to identify HR competencies that are critical for global companies. Visit the website for the World Federation of People Management Association (www.wfpma.com) to research the topic and to identify differences in the body of knowledge in different parts of the world.

HR EXPERIENTIAL PROBLEM SOLVING

As the HR Director of a U.S.-based company that is looking at global opportunities in China, you have been asked by the company president to prepare an outline for an HR strategic plan as part of the company's expansion process. You need to develop an HR strategic plan that will integrate the goals, objectives, and strategies of the HR Department with those of the company. The plan also needs to support the objectives of other departments within the company. To get ideas on how to develop an HR strategic plan, go to www.workinfo.com.

1. What is the process to use for identifying the components of the HR strategic planning process?
2. What other company strategic objectives must the HR strategic plan integrate and support?

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CASE

Pioneers in HR Analytics

The power of HR metrics and analytics is an untapped resource for many organizations. Human resource information systems (HRIS) are commonly used to capture and store gigabytes of data about employees, but few organizations have mined their data to improve human capital decisions. Most business leaders and HR executives do not make people decisions with the same level of rigor and rationale as they do other business decisions, relying more on intuition and gut feelings. This propagates the myth that the impact of human resources on organizations is either not measurable or not significant. Financial, operational, and marketing decisions all depend heavily on detailed analysis and cost justification. The use of analytics in human resource management can enhance the strategic contribution of HR executives and lead to better decisions and organizational outcomes.

At Superior Energy Services in New Orleans, careful analysis of turnover data shattered previous beliefs about which employees were most likely to quit. The organization was losing skilled oilfield operators and supervisors faster than semiskilled blue-collar workers. This discovery led to implementation of training and coaching programs for supervisory employees, which resulted in a 15% drop in turnover and improved the bottom line of the company. Without this analytic approach to turnover, attention would have been focused on retaining blue-collar workers, which would not have delivered such impressive results.

Thrivent Financial for Lutherans in Minneapolis believed that turnover during the first year of new hires' careers was related to the previous experience they had in their disciplines. The thinking was that if a customer service employee had previously worked in customer service, she was less likely to leave Thrivent in the first year. Analytics dispelled that theory and Thrivent found that the exact opposite was true. Employees with previous experience in the discipline were leaving at a faster rate than those without such experience. Although they have not determined the causes, this data will help Thrivent's leaders to address the real issues. One answer will lead to additional questions and lines of inquiry.

The food service and convenience company Wawa, Inc., assumed that turnover among store clerks was tied to their hourly wage rate. However, the number of hours worked in a week was a much more significant factor in turnover. Employees liked working part-time, and when their work hours exceeded 30 hours per week, they were more likely to quit. Wawa reduced in-store turnover by 60% by scheduling employees for less than 30 hours.

Concerns about an aging workforce and a presumption that a high percentage of employees would retire in the near term led the University of Southern California to carefully analyze employee demographic data. To their surprise, HR found that the nontenured staff employees were, on average, too young to begin retiring en masse. Tenured faculty, while much older, are far more likely to work past the age of 70. The anticipated retirements are still a fact for USC to address. However, managers can plan for this and develop a longer-term transition plan because they are not facing massive retirements in the near future.

The HR executives at Superior Energy Services, Thrivent, Wawa, and USC are harnessing the power of HR data and statistical models to better understand the challenges facing their organizations. Long-held beliefs about the patterns of employee actions and decisions can be analyzed and either supported or debunked. Either way, the organization can address the true issues only if HR looks beyond the surface and digs deeper into the sea of data. Overcoming the fear of number-crunching and developing expertise with metrics and analytics can separate winning organizations from those that get left behind. HR professionals who learn to interpret bits and bytes of employee data will help their organizations succeed well into the future.[71]

QUESTIONS

1. What are some reasons that more organizations do not implement HR analytics? How would you make the case for adopting HR analytics?
2. How can HR professionals develop the needed skills to analyze and interpret metrics? What resources could an HR professional consult to begin building expertise in this area?

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SUPPLEMENTAL CASES

Where Do You Find the Bodies?

This case identifies problems associated with HR planning and recruiting in a tight labor market. (For the case, go to www.cengage.com/management/mathis.)

Xerox

This case highlights the challenges of employee retention during stressful and unpredictable times when Xerox was undergoing a significant shift in its strategic focus. (For the case, go to www.cengage.com/management/mathis.)

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