Part Four

Functional competencies

CHAPTER 12

Strategic human resource management: high performance people system as core competencies

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Introduction

In the past two decades scholars have dedicated a tremendous amount of effort to studying the relationship between a firm's performance and its human resource management (HRM) practices. What has emerged from these studies is empirical evidence that demonstrate a linkage between a firm's HRM practices (core competencies) and performance that can give it a competitive advantage. However, what has also become equally clear is that human resource (HR) practices do not operate independently from each other or from the firm's overall strategy. HR practices operate in a complex system of interrelated parts. This system has become known as high performance work practices (HPWP) in the area of strategic human resource management (SHRM). In the hospitality and tourism management field this system is known as a high performance people system (HPPS), which characterizes the unique nature of the hospitality industry.

This chapter outlines the development of a HPPS within the U.S. hospitality industry and demonstrates those practices which should be included in a firm's HRM core competencies. Firms able to implement such systems possessing complementary internal fit have been shown to increase the intangible value of their human capital (employees) and create greater economic value (Delery, 1998). Such organizations can compete more effectively in their industry sector. Studies on HPWP in the service industry have been limited to heavily regulated firms such as banking. These results, however, have limited validity for the hospitality industry which is heavily influenced by customer-driven preferences, trends, and market forces. Therefore, a HPPS for the US hospitality business containing different practices than those develop for the manufacturing-based HPWP system is outlined in the following chapter.

Literature review

There are two streams of literature that are relevant to the discussion of HPPS to be reviewed. The SHRM literature, which has been developing over the past 20 years and uses the resource-based view (RBV) of the firm as its foundation. The hospitality co-alignment model has evolved from the business environmental literature and is fundamentally concerned with bringing a firm's strategy choice and structure into alignment with its environment. Additionally, other important concepts and topical areas will de discussed.

Strategic human resource management (SHRM)

SHRM is a relatively new field in business theory. Deemed to be a macro-oriented approach of (HRM), SHRM is a blueprint of HR allocation set to meet the firm's needs. Wright and McMahan define SHRM as "the pattern of planned human resource deployments and activities intended to enable an organization to achieve its goals" (1992, p. 300). Theoretically, SHRM focuses on the nature of HR and management decision impacting a company's human capital. Strategic and non-strategic frameworks of HRM represent potential beginning points for emergent theoretical models for SHRM.

SHRM researchers have been advocates of the theory that provides support to the relationship between HRM practices, sustainable competitive advantage (SCA), and firm performance. Several SHRM researchers such as, Cappelli and Singh (1992), Wright and McMahan (1992), Pfeffer (1994), Lado and Wilson (1994), Huselid (1995), Jackson and Schuler (1995), Becker (1996), Delaney and Huselid (1996), Boxall (1998), Pfeffer (1998), Schuler and Jackson (2000), Ulrich and Beatty (2001), Lepak and Snell (2002), and others have directly or indirectly made attempts to theorize the effects of single or multiple HRM variables on firm performance. These efforts have led to the incremental development of the SHRM literature that stresses the relationships between the HRM work practices, SCA and firm performance.

There is an emergent body of evidence demonstrating that "the methods used by an organization to manage its human resources can have a substantial impact on many organizationally relevant outcomes" (Delery, 1998, p. 1). The change of focus on organizational resources is noteworthy in that it shifts the traditional emphasis in the field from micro HRM practices to a macro system of practices that the organization uses to manage its human capital. Imbedded in the discussion of HRM systems is the concept of HPWP. The study of HPWP and their importance in SHRM, however, has received less attention in the literature then the traditional HRM issues (Delery, 1998). Confounding the research on HPWP is a general disagreement among researchers on the micro HRM practices which comprise a HPWP system; there is little concurrence among scholars with respect to specifically which HR practices should be incorporated (Guest *et al.*, 2004; Becker, 1996; Rogers and Wright, 1998; Chadwick and Cappelli, 1999). Becker (1996) identify six key unresolved questions in need of future study, with the development of an agreed upon set of HRM practices as the first step. Rogers and Wright (1998) deem the next decade to be critical in the establishment of a clear, sound and consistent construct for firm performance in the field of SHRM. Indeed, construct development and validation of measures is fundamental to the progression of model development (Nunnally, 1978).

The current status of theory on valuating the HR function is "in its infancy and is seriously hampered" (Lev, 2001, p. 75). It may be such a complicated concept and influenced by so many intervening variables that it does not get fully developed for sometime. However, several studies have posited that there is a positive link between HR practices and firm performance (Becker and Huselid, 1998; Becker, 1996; Delaney and Huselid, 1996; Huselid, 1995). In Becker (1996) research, influential HR practices were designated as "best practices". The best practices approach attempts to identify efficient and effective HR practices through benchmarking among firms. For example, a company may compare selection processes, benefit packages, training, compensation, and employee relations practices, and package those exhibiting appropriate internal fit. The difficulty with this type of linkage between an individual HR practice and firm performance is that very few practices operate in isolation.

The universalistic perspective purports that all HR practices and associated outcomes are universal across organizations (Delery and Doty, 1996). In the SHRM field this is the simplest and most straight forward theoretical relationship. What works in one organization is assumed to work in another organization. As in the best practice approach, universalisms look for an HR practice or set of practices that will work in most if not all firms. Pfeffer (1994) proposed 16 most effective practices for managing people and reduced the list to 7 in 1998: employment security; selective hiring of new personnel; self-managed teams and decentralization of decision making as the basic principles of organizational design; comparatively high compensation contingent on organizational performance; extensive training; reduced status distinctions and barriers, including dress, language, office arrangements, and wage differences across levels; extensive sharing of financial and performance information throughout the organization (p. 96).

Delery and Doty (1996) also developed a list of 7 most effective practices for managing people partly based on Pfeffer's original 16: internal career opportunities; formal training systems; appraisal measures; profit sharing; employment security; voice mechanisms; and job definition. Additionally, there are some empirical studies that have investigated the relationship between firm performance and HR systems that are worth describing.

A study by Huselid (1995) evaluated at length the links between of HPWP systems and firm performance. Huselid used HPWP as defined by U.S. Department of Labor (1993) in his study which include: "extensive recruitment, selection, and training procedures, formal information sharing, attitude assessment, job design, grievance procedures, and labor-management participation programs, and performance appraisal, promotion, and incentive compensation systems that recognize and reward employee performance have all been widely linked with valued firm-level outcomes" (p. 641). Based on a national sample of nearly 1000 firms, the results indicate that these "practices have an economically and statistically significant impact on both intermediate worker outcomes (turnover and productivity) and short- and long-term measures of corporate financial performance" (p. 635). Huselid (1995) found considerable support for the hypothesis that investments in such practices are associated with lower worker turnover and greater productivity and business fiscal performance across a wide range of sectors and organization sizes.

In a 1996 study on the impact of HRM practices on perceptions of organizational performance Delaney and Huselid investigated for—profit and non-profit firms to determine if positive associations exist between HRM practices, such as staffing selection, training and incentive compensation, and firm-performance measures. In general the findings supported the view that progressive HRM practices are positively related to perceptual measures of firm performance. A similar study was conducted by Huselid *et al.* (1997) using publicly available financial data as measures of firm performance. The results support the hypothesis that investments in HR are a potential source of competitive advantage; however, the authors conclude there is still very little understanding of the processes used to achieve this potential or the conditions under which it is realized.

In addition to the empirical studies aforementioned, several authors have proposed conceptual and theoretical frameworks for further exploring this important topic. Wright and Snell (1998) presented a framework that provides a theoretical foundation for understanding the dual roles of both fitting the HR system to the strategic needs of the firm and building the system so as to enable a flexibility in response to a variety strategic requirements over time. The authors contend that firms should promote simultaneously both fit and flexibility in SHRM to create a SCA.

Although, there have now been multiple studies of the effectiveness of internal fit, very little evidence has come to the forefront to suggest that a coherent system of HR practice is needed and of great consequence (Delery, 1998); this is particularly the case in the hospitality industry. HR have the potential, in each organization, to become a competitive advantage; however, a major challenge for SHRM research in the next decade "will be to establish a clear, coherent and consistent construct for organizational performance" (Rogers and Wright, 1998, p. 1).

HPWP systems

There is an emergent body of evidence demonstrating that "the methods used by an organization to manage its human resources can have a substantial impact on many organizationally relevant out comes" (Delery, 1998, p. 1). The change of focus on organizational resources is noteworthy in that it shifts the traditional emphasis in the field from micro HRM practices to a macro system of practices that the organization uses to manage its intangible human capital. Imbedded in the discussion of HR systems is the concept of high performance work practice (HPWP) systems, also referred to as systems of internal fit. The study of HPWP systems and their importance in SHRM, however, has received less attention in the literature (Delery, 1998). Confounding the research on HPWP systems is a general disagreement among researchers on the micro HR practices which comprise the HPWP system (Becker, 1996). Research would seem to imply that not many managers have the expertise needed or know how to 'bundle' or integrate HRM practices into HPWP system that fits the organization's particular context and its developing strategies (Barney and Wright, forthcoming; MacDuffie, 1995). MacDuffie (1995) takes the standpoint that it is a bundle of HR practices rather than any single practice that forms an overall HRM system. Further, MacDuffie posits that it is a single bundle, rather than multiple bundles, that form a comprehensive HPWP system.

According to Guest *et al.* (2004):

> One of the distinctive features of contemporary HRM is the claim that some combination of practices has advantages above and beyond the careful application of specific techniques such as sophisticated selection, training or job design. Unfortunately, there is little agreement about which practices should be combined to constitute effective HRM. It seems plausible to expect that theory and empirical research might lead us towards some kind of answer. (p. 79)

Some progress has been made in conceptualizing the content of an HPWP system, demonstrated in the emerging agreement that a HPWP system should be formulated to guarantee that employees obtain high skills, competence, motivation, and the prospect to add discretionary effort. The combined outcome should be value-added performance (Appelbaum *et al*., 2000; Becker *et al*., 1997; Delery and Doty, 1996; Huselid, 1995; MacDuffie, 1995).

Finally, the empirical research on HPWP systems has produced results which support the argument that investments in HR are a potential source of competitive advantage; however, there is still very little understanding of the processes used to achieve its' potential or the conditions under which it is realized. Again, there is a general disagreement among researchers on the micro HR practices which comprise the HPWP system and there is little agreement about what practices constitute effective HRM. It seems reasonable to anticipate that research might direct us towards some kind of solution, unfortunately to date; such optimism has yet to be realized.

Sustainable competitive advantage (SCA)

The concept of a SCA emerged in 1984 when Day recommended types of strategies that could help to "sustain the competitive advantage" of an organization (p. 32). The actual term "SCA" was used by Porter (1985) to discuss the generic competitive strategic typologies firms can possess (low-cost or niche) to achieve sustainable competitive advantage. However, it was Barney (1991) who first put forth a formal conceptual definition by suggesting: "A firm is said to have a sustained competitive advantage when it is implementing a value-creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy" (p. 102). Hoffman offered the following formal conceptual definition, premised in part on the definitions of each term provided in the dictionary and Barney's work (2000): "An SCA is the prolonged benefit of implementing some unique value-creating strategy not simultaneously being implemented by any current or potential competitors along with the inability to duplicate the benefits of this strategy".

SHRM implies that HPWP systems can contribute to sustained competitive advantage by making possible the development of core competencies that are company explicit, produce multifarious organizational relationships, are rooted in a company's history and customs, and create implicit organizational knowledge (Barney, 1997; Reed and DeFillippi, 1990).

Co-alignment theory

The co-alignment theory conceptualizes the interaction between the four constructs in the model (Figure 12.1). Co-alignment is achieved when the four constructs (environmental events; strategy choice; firm structure; and firm performance) are brought

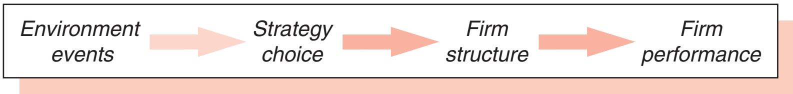

Figure 12.1
The co-alignment principle.

into alignment with each other under the organizations overarching strategy. The co-alignment theory states: "if the firm is able to identify the opportunities that exist in the forces driving change, invest in competitive methods that take advantage of these opportunities, and allocate resources to those that create the greatest value, the financial results desired by the owners and investors have a much better chance of being achieved" (Olsen *et al.*, 1998, p. 2).

Environmental scanning (ES) is the first of the four pillars of the co-alignment principle. Pinto and Olsen (1987) defined ES "as the process of probing an organization/s external environment for information which may be directly or indirectly relevant to top management in making decisions of a long term strategic nature" (p. 183). ES is performed at multiple levels such as remote, task, functional, and firm (Olsen *et al.*, 1998).

Strategy choice is the firm's purposeful choice of the *competitive methods* (the second pillar of the co-alignment theory) that will be used to compete in the market place and which should be reflective of the organization's intended strategy. Competitive methods are bundles of goods and services combined in unique ways so as to produce a sustainable competitive advantage. The entire set of a firm's competitive methods is their strategic portfolio of goods and services which should set an organization apart from its competitors. Slattery and Olsen (1984) analysed the environment of hospitality organizations and identified patterns in the relationships between the environment and the organization.

Firm structure is how the business organizes itself so as to efficiently, consistently, and effectively allocate its scarce resources to the implementation of its competitive methods. To do this, the firm must develop or already posses the *core competencies* (the third pillar of the co-alignment theory) needed to carry this out (Olsen *et al.*, 1998). Core competencies are those things which a firm does well and ideally better than anyone else. The combination of competitive methods and core competencies should produce a competitive advantage that cannot be easily copied or substituted and is sustainable. The essence of good strategy is to be able to position the firm to achieve a SCA in one or more areas, which will enable the firm to produce above average returns. To do this the firm must not only be successful in crafting a good strategy, competitive methods, and core competencies, but the firm must be highly successful in the *implementation* (the forth pillar of the co-alignment theory) phase of the plan.

Implementation is a process that occurs within the contextual environment of the firm. The context of each firm is different and this will affect the process in varying ways. This is part of the reason that firms are successful in implementation to varying degrees. Therefore, the implementation of strategy is the outcome of the actions of the firm within its context as those actions impact the activities of the process. The main contextual variables that impact the process according to Schmelzer and Olsen (1994) are perceived environmental uncertainty, firm structure (decision making, formalization, hierarchy), and organizational culture. The process variables that are involved in implementation are information systems, planning and control, project initiation style, resource allocation, method of training, and the outcome variable of rewards. All of these variables can make for a highly convoluted process and a difficult measurement challenge.

The co-alignment theory's last construct is that of firm performance measurement, which leads to the feedback and review loop. West and Olsen (1988) surveyed the foodservice industry to determine whether the relationship between ES, in support of organizational strategy, has an impact on firm performance. The results indicated that higher performing firms engaged in significantly higher levels of ES than lower performing firms when grouped by ROS and ROA. The study demonstrated that companies can improve firm performance through the use of ES in conjunction with organizational strategy in foodservice firms.

High performance people system (HPPS)

The previous sections described in detail the literature, theory, and research on co-alignment and SHRM that are the basis for the development of a construct for the conceptualization of HPPS in the casual theme restaurant sector of the U.S. hospitality industry for management. Firms able to implement such systems possessing universality have been shown to increase the intangible value of their human capital (employees) and create greater economic value (Delery, 1998). In Figure 12.2 a conceptual theoretical model is presented, which expounds on the relationships between the key concepts. Additionally, the model was used as a working theoretical model for the conceptualization of a HPPS for unit-level managers in casual theme restaurants of the US.

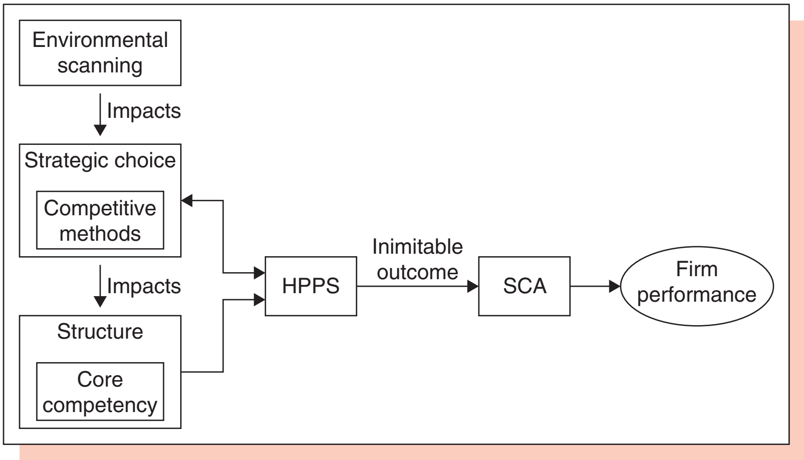

Figure 12.2
Proposed theoretical model.

The framework for the HPPS model, Figure 12.2, is based on previous theoretical literature on co-alignment and SHRM and the findings of exploratory research conducted (Murphy, 2006), which conceptualizes the construct relationships that produce a SCA in the US casual themed restaurant segment for unit-level management. Both the dimensions of HRM work practices and the stakeholder performance outcomes to measure the investments in work practices are included in the framework. The model's design suggests that a decision to invest in work practices is the result of ES and a strategic choice to produce a core competency through the use of intangible human capital, specifically unit management. The selection of specific dimensions in the HPPS construct is based on interviewee's scanning of internal and external environmental forces and reflects the first construct of the Co-Alignment Model Proposition.

The framework theoretical model is underpinned by the Co-Alignment Model and thus it is driven by the central thesis of the Co-Alignment Model. The constructs in the framework are significantly impacted by environmental forces and a need for competitive methods and core competencies to align with these forces to produce a competitive advantage. However, every framework operates within boundaries, which the results of this study suggest are the people management practices or dimensions that comprise a firm's HPPS construct and are important to the firm's value-creation process.

The data from Murphy's 2006 study indicates that the work practice dimensions which comprise a HPPS by mean rank are

Table 12.1 Work Practice Dimensions Which Comprise a HPPS by Mean Rank

Work Practice Dimensions	Mean	Outback
Training and skill development	6.58	X
Information sharing	6.46	X
Employer of choice	6.41	X
Selectivity in recruiting	6.29	X
Measurement of the HR practices	6.21	X
Promotion from within	6.17	X
Quality of work/life	6.09	X
Diversity	6.09	X
Incentive pay based on performance appraisal	5.88	X
Participation and empowerment	5.88	X
Self-managed teams	5.71	X
Employee ownership	5.67	X
High wages	5.63	X

(Table 12.1) Training and Skill Development, Information Sharing, Employer of Choice, Selectivity in Recruiting, Measurement of the HR Practices, Promotion from Within, Quality of Work/Life, Diversity, Incentive Pay Based on Performance Appraisal, Participation and Empowerment, Self-Managed Teams, Employee Ownership and High Wages. These are the relevant dimensions to the casual themed restaurant service industry according to the study's results and are represented in the first construct of the theoretical model (Figure 12.3) labelled SHRM.

According to Huselid (1995), an HPWP system is comprised of an amalgamation of HRM competitive methods and core competencies, which when combined are capable of producing an SCA. However, what this study demonstrates is that a restaurant HPPS is not an amalgamation of competitive methods and core competencies, but a combination of multiple core competencies in support of the competitive methods. The primary competitive method (a bundle of goods and/or services) the HPPS supports is the management team in the casual themed restaurant. They are an intangible component in the guest service experience. The management team is the one that implements and executes the service plan. They hire and conduct the training of service staff to ensure a great guest experience and

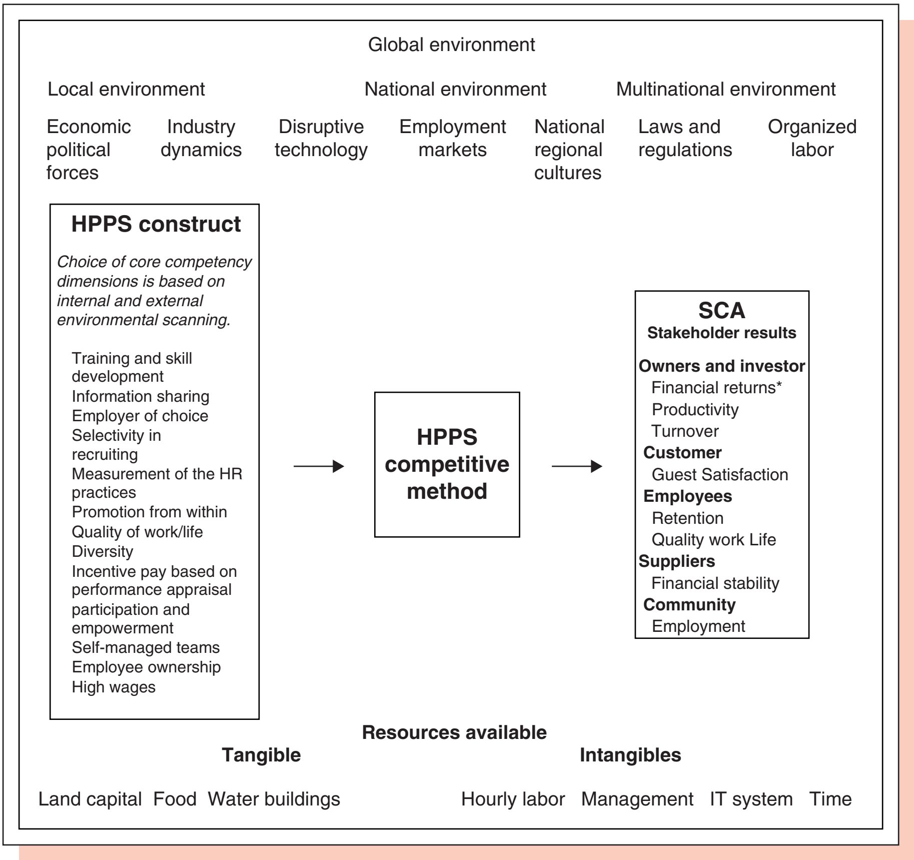

Figure 12.3
Theoretical Model of an HPPS for US Casual Restaurant Unit Management * Note: Financial returns in the model include more than just cash. Financial returns also reflect value creation in market price and accounting profits.

they are the ones to make adjustments to improve the experience when necessary. High performing management is rare, not easily imitable, is value-adding and is difficult to replace. These are the four essential elements of an SCA, rarity, inimitable, value, and substitutability, according to Barney (1991).

Application

"No Rules, Just Right" is the slogan of the dominant player in the steakhouse segment of the U.S. casual restaurant industry. Outback Steakhouse Inc. is a casual dining American restaurant chain based in Tampa, Florida with over 900 locations in 23 countries throughout North and South America, Europe, Asia, and Australia. It specializes in USDA Choice and other offerings in an Australian-inspired environment. As the name suggests, Outback Steakhouse has an Australian outback theme, exemplified by Boomerangs, stuffed crocodiles, maps of Australia, and paintings by Aboriginal artists. Menu items are largely named after places and animals in Australia and others take their names from pop-cultural references, such as the *Mad Max Burger* and *Grilled Shrimp On The Barbie*. In early 2007 Outback removed some of its Australian flair from the menu. The New York Strip Steak, Rib-eye, Pork Chops, and Mad Max burger are some of the more popular menu items to lose their "Aussie" nicknames. It was founded in February 1988 by Bob Basham, Trudy Cooper, Chris T. Sullivan, and Tim Gannon. It is owned and operated in the United States by OSI Restaurant Partners, and by franchise and venture agreements internationally.

"The most serious issue for employers today, in all industries, is hiring and keeping qualified and capable employees" according to Donald Marshack, senior analyst at the U.S. Bureau of Labor Statistics (BLS) (Pine, 2000, p. 32). The labour shortage is especially critical in the restaurant industry, according to the National Restaurant Association (2002) (NRA) over the last few years operators have consistently identified "finding qualified and motivated labor as their biggest operational challenge" (p. 2). According to Olsen and Sharma (1998) white paper on trends in the casual restaurant industry, there is no reason to believe that the labour situation will get any better "in fact, in the developed world it is likely to become a more formidable task than ever" (1998, p. 62). In a 1999 People Report survey of 50 hospitality companies, the median cost of turnover for a manager is more than $24,000 (Pine, 2000). As Dennis Lombardi, executive vice president of Technomic Inc., told more than 200 HR directors and foodservice operators at the 15th annual Elliot Conference "there is so much competition for employees out there, and we are not the industry of choice" (King, 2000, p. 6). However, some restaurant companies, including Outback Steakhouse, have done a good job with their turnover and compensation packages (Inc. Magazine, 1994). Murphy and Williams (2004) investigate the current management compensation practices for the managing partners of Outback Steakhouse and to identify the relationship between management compensation, intention to turnover, and core competencies for managers at Outback Steakhouse restaurants.

Outback does not use traditional methods to recruit general managers to operate its' restaurants instead it relies on an industry leading compensation package and a chance to own a "piece of the action" with low risk to attract experienced qualified managers. It further tries to boost retention by requiring a $25,000 "buy in" for the GM on their restaurant and having the manager sign a 5-year contract. The work schedule consists of only 55 h a week (5–11 h days) to give the manager a chance to have a life and not incur burnout. Further the manager gets the ability to develop roots in the community by committing to a 5-year deal. With the turnover rate for all management positions at only 9.7% the strategy appears to be working.

The useful life of compensation as a core competency is hard to determine because of many intrinsic factors. First, when dealing with people there are as many variables as there are individuals and predicting how long a restaurant manager will stay with the firm or in the industry before they burnout or decide to leave is difficult. Outback Steakhouse has done a good job of attempting to mitigate this problem so far by performing a careful screening of its' Managing Partners before they take over the management position (Hayes, 1995). All of Outback's managing partners are industry veterans who have worked in the restaurant business for years. Outback does no traditional recruiting of its' managers, in contrast the managers seek them out because of the potential to be a managing partner and to receive a portion of the profits in a successful restaurant and restaurant company. Before a person can become a managing partner they have to go through a 6-month training period as an assistant GM and are evaluated as to their potential to be successful in the Outback system and with the Outback Steakhouse culture (Hayes, 1995).

This core competency would seem to be easily duplicated, but so far no other major casual chain has attempted to duplicate the system of bringing in managing partners rather than general manager "employees" on the scale of Outback. This has enabled Outback Steakhouse to continue to recruit and retain qualified management, which is a key to the success of the concept (Inc. Magazine, 1994). The high compensation and the continued ability to renew the management contracts every 5 years or find a replacement for the departing manager enables Outback to maintain this core competency in the present and far into the future. With the success of this core competency, it seems that some other large casual theme restaurant organizations have realize that in order to grow and create value into the future they need to hire the best general managers and reward them well in order to continue to strive for excellence in staffing and operational performance into the future. Thus, new players to the casual restaurant industry have been adopting some of Outback's practices on a smaller scale.

Outback's operational management system

This for most insiders and outside observers is one of the cornerstones of Outback's success: the ability to hire and retain well-qualified restaurant management by providing managing partners the opportunity to purchase a 10% ownership stake in the restaurants they operate for $25,000 and requiring them to enter into a 5-year contract (Hayes, 1995). By offering this level of commitment and by providing the managing partner with a significant stake in the restaurant (10% of operating cash flows), the company understands it can attract and retain experienced highly motivated restaurant managers. The company also limits most restaurants to dinner only service, which reduces the hours for managers (5 days and 55 h maximum) and employees. This enables the average managing partner to earn $73,600 a year in bonuses from cash flow coupled with a $45,000 base salary for annual cash compensation of $118,600 (Inc. Magazine, 1994). The 13 dimensions of the operational management system at Outback are: ownership equity stake-10%; retirement plan; cash flow bonus-10%; base salary $45,000; stock option 4000 shares vested over 5 years; deferred compensation/end of contract cash out (10% of cash flow for last 2 years times five); medical, dental, and life insurance; vacation/paid time off; quality of work; status as manager/partner; community association/location; job autonomy; job status (http://www.outback.com). These key attributes are as follows.

Monetary

Ownership stake/equity interest: Outback provides managing partners the opportunity to purchase a 10% ownership stake in the restaurants they operate for $25,000 and requires them to enter into a 5-year contract. By offering this level of commitment and by providing the managing partner with a significant stake in the restaurant (10% of operating cash flows), the company believes it can attract and retain experienced highly motivated restaurant managers. After 5 years managing partners can sign up for another contract and purchase an additional equity stake in their unit up to 20%.

Retirement plan: The company offers a 401 K plan to its' managers.

Performance bonus: This is the largest part of many managing partners' annual income. Managing partners earn 10% of the cash flow for the unit in which they are the proprietors. This equates to an average annual income of $118,600, but can go over $160,000 in high performing restaurants.

Base salary: The base salary for managing partners is $45,000, which has remained unchanged for several years since the early 1990s.

Stock options vested over 5 years: Outback managers receive 4000 shares vested over the first 5 years of their contract. If they choose to sign up for an additional 5 years more shares are offered.

End of contract cash-out/deferred compensation: At the end of the managing partners contract they can "cash out" of their restaurant unit for 10% of the last 2 years cash flow times 5, or roll the deferred compensation over. With some cash outs reported to reach as high as $300,000.

Fringe benefits: Medical, dental, life, and disability insurance benefits are provided for the managing partners as part of their employment contract.

Paid time off: Outback managing partners receive vacation and holiday pay as part of their management contract. At the end of their 5-year contract they receive a 1-month paid "sabbatical" at the corporate office in Florida where they get to discuss their future with the principles of the company, relax and decide if they want to negotiate a new contract with Outback.

Non-monetary

Quality of working conditions: The company limits the restaurant to dinner only service, which reduces the hours for managers to an average of 50–55 h/week and a 5-day work week.

Status as a managing partner of the restaurant: Outback believes that restaurant managers have a desire to own a restaurant of their own. So managing partners have their names put above the entrance to their Outback restaurant labelled as the proprietor.

Community association/location: The company believes that a strong community affiliation is important to the success of their Steakhouses and that managers should have say in where they work and live. Also the company's community-based marketing plan calls for their managers to develop strong ties with the community where they live and work.

Job responsibility: Outback managers like most restaurant managers are responsible for a lot, but even more so because their equity stake in the company makes it difficult to walk away if times get tough.

Job autonomy: The outback philosophy is to hire the best managing partners and make them the captains of their own ships while monitoring from afar. This gives the Outback managers a lot of autonomy in running the day-to-day operations of their units.

Ask someone to define compensation, and depending on the life experiences of that person, you will get a range of definitions. The combination of all cash incentives and the fringe benefit mix that an employee receives from a company constitutes an individuals' total compensation according to Lawler (1981). Dibble (1999) expands the definition of compensation to mean the benefits provided by employers that do not have to do with earnings or cash. Even benefits such as employee training and development, though not necessarily viewed by the employee as compensation, are a substitute for money and a major cost for employers. Murphy and Williams (2004) study used a list of compensation items as defined in published literature about Outback Steakhouse (Table 12.2), company published literature and personal interviews with managers with results by mean rank.

The compensation plan for Outback Steakhouse Inc.'s managing partners has significant positive impact on manager

Table 12.2 Outback Compensation Dimensions by Mean Rank

Outback Compensation Dimensions	Mean	Std. Deviation
Ownership stake/equity interest	6.56	0.97
Deferred compensation/end of contract cash out	6.17	1.30
Performance bonus	6.16	1.56
Job responsibility[a]	6.05	1.24
Job autonomy[a]	6.05	1.17
Quality of work conditions[a]	6.03	1.31
Status as a restaurant manager[a]	5.86	1.68
Community association/location[a]	5.80	1.25
Stock options	5.34	1.90
Vacation/time off	5.03	1.65
Base salary	4.91	1.43
Medical, dental, life insurance	4.56	1.66
Retirement plan	4.47	1.92

[a] Non-monetary dimensions.

retention; consequently reducing their intention to turnover to an annual manager turnover rate of 4–5% compared to an industry turnover average for managers of 27% (Inc. Magazine, 1994; Ghiselli *et al.*, 2000). This is in accordance with some of the previous research on manager turnover that the compensation an organization provides clearly influences the decision employees make about the organization and turnover intentions (Lawler, 1987; Mobley, 1982). Additionally, Steers and Porter (1991) support the premise that companies which offer the greatest compensation retain the most employees. Steers and Porter (1991) have found that high reward levels lead to high satisfaction, which in turn leads to lower turnover. The results of Murphy and Williams (2004) study would seem to add credence to the assumption that the compensation plan for Outback Steakhouse managing partners is a value-adding core competency considering the low turnover rate and the industry leading financial performance of their restaurants (Garger, 1999; Inc. Magazine, 1994; Olsen *et al.*, 1998).

Outback believes that the compensation plan they offer is effective in preventing turnover, retaining quality management while helping to attract experienced well-qualified managers and gives the company a value-adding core competency (Inc. Magazine, 1994). The findings of the study shows that Outback Steakhouse's managing partners are highly influenced by the compensation package that the company offers in regards to their intentions to stay with the company. The findings also demonstrate that the managing partners are most influenced by the non-traditional attributes of the plan (deferred compensation, stock option, and ownership stake) as opposed to the more traditional attributes of compensation plans (base pay, insurance, and retirement plans). The managers appear to be overall positively influenced by the compensation plan of Outback. This bodes well for Outback because these well-developed, non-traditional aspects of their compensation plan are a successful core competency for the company.

The study also indicates the factor that would be most influential in the managing partner's decision to leave is a non-monetary element perhaps not addressed by their compensation strategy, quality of life, and quality of family life. While the respondents clearly indicated that it is the monetary aspects of compensation influencing their decision to stay with Outback, they were also equally clear that it is the non-monetary aspects of compensation, quality of work, and life that would most influence their decision to potentially leave. Working 55 h a week, nights, and weekend all the time can start to become burdensome for managers (Bureau of Labor Statistics, 2003). The lack of time spent with family and friends can start to wear on managers as they get older. There is also the risk of burnout as managers decide that they want something more out of life than just being a successful restaurant manager (Mcfillen *et al.*, 1986). For Outback to continue to consider its' compensation plan an industry leader they will need to address these issues in the future.

The continued superior performance of some of the most successful restaurant firms, such as Outback and Cheesecake Factory, has been attributed to unique capabilities for managing HR to gain competitive advantage (Murphy and DiPietro, 2005). On the contrary, to the extent that people management systems hinder the development of new competencies and/or tear down present organizational competencies, they may contribute to firm liability and competitive weakness.

According to Steers and Porter (1991), the research on compensation clearly shows a link between the rewards a company offers and those individuals that are attracted to work and stay with a company. In recent years the benefits available to employees has expanded both in terms of the type of benefits and the amount. Traditionally, restaurant general managers were compensated with a base pay and a business period bonus based on meeting preset goals for revenues and expenses (Muller, 1999). In general, compensation has been divided into monetary and non-monetary incentives, but with the advent of "cafeteria" style plans, where employees get to choose among a variety of options for a set price, the compensation categories have become blurred. Additionally, employees that are in high demand are increasingly acting as their own agents negotiating individual compensation arrangements, much like professional sports players, based on their employment value to the firm.

An analysis of the key points and difficulties to be considered

The HPPS framework implies that the internal and external environmental forces driving change must be identified by scanning environmental events to choose the dimensions of the HPPS construct. The study indicates that there are 13 HRM dimensions applicable to the US casual themed restaurant segment for management (Table 12.1); Training and Skill Development, Information Sharing, Employer of Choice, Selectivity in Recruiting, Measurement of the HR Practices, Promotion from Within, Quality of Work/Life, Diversity, Incentive Pay Based on

Performance Appraisal, Participation and Empowerment, Self-Managed Teams, Employee Ownership, and High Wages are the relevant dimensions to the casual themed restaurant service industry. These dimensions were identified as ones being highly important to the firm and that contain the fundamental elements of a value-adding core competency.

What has come to light from conducting this study is an HPPS construct containing 13 dimensions that are posit to produce an SCA for casual restaurant firms. According to Huselid (1995), an HPWP system is comprised of an amalgamation of HRM competitive methods and core competencies, which when combined are capable of producing an SCA. However, what this study demonstrates is that a restaurant HPPS is not an amalgamation of competitive methods and core competencies, but a combination of multiple core competencies in support of the competitive methods. The primary competitive method (a bundle of goods and/or services) the HPPS supports is the management team in the casual themed restaurant. They are an intangible component in the guest service experience. The management team is the one that implements and executes the service plan. They hire and conduct the training of service staff to ensure a great guest experience and they are the ones to make adjustments to improve the experience when necessary. High performing management is rare, not easily imitable, is value-adding and is difficult to replace. These are the four essential elements of an SCA, rarity, inimitable, value, and substitutability, according to Barney (1991).

A restaurant HPPS is different than a manufacturing HPWP system because its focus is squarely on being a multifaceted core competency that supports the value-adding manager competitive method—management is the intangible competitive advantage which oversees the execution of the production of outstanding food and service to achieve customer satisfaction.

In most high-performance restaurant companies, managers are given the freedom to have control of their work environment within clearly defined frameworks. As John Denopli of OSI stated "they are captains of their own ship" and in charge of their own destiny; "I am here to help them be successful." In these work systems managers are more knowledgeable about their operating environment as they have a clear stake in the restaurants performance. HPPS recognize managers as people who are capable of being key contributors to the success of the organization. Managers are given an opportunity to interact in team meetings, joint problem solving sessions, and information sharing. HPPS and people management systems aid in keeping the morale of the employees at high levels. By involving people, employee involvement systems rest on the interaction between the tangibles and intangibles.

The casual restaurant service sector does not have all of the same work practices that were suggested by previous studies conducted in manufacturing and other regulated industries. Job Design, Employment Security, and Reduced Status Distinctions and Barriers that were included in those previous studies do not seem to apply in the U.S. casual themed restaurant segment for unit managers according to the research results.

This is an important distinction and a significant finding of this study. Over the last several business cycles the U.S. economy has successfully transformed itself from a manufacturing economy to a service and knowledge economy. However, the focus in mainstream accounting practices, academic business research, and government statistics has not significantly evolved with this rapidly changing environmental reality. The future of the U.S. economy clearly rests with the creation of value through the use of intangible knowledge works, whose value is hard to quantify and is highly mobile. Thus knowing what components of an HPPS for intangible, value creating unit-level restaurant managers are required to attract and retain, will ultimately add value to the firm.

Performance measures for HPPS

The difficulty in measuring the effectiveness of an HPPS is its intangibility. Intangibles are qualities in a person or group of people, especially those in an organizational group, which affect performance but are not directly quantifiable. They are often cited as a reason for performance which is surprisingly better or worse than expected. So, how is the immeasurable measured? This is the current dilemma with the valuation of intangibles; although they often far exceed in value "hard or real assets" in today's knowledge economy. As previously stated, this study represents that a restaurant HPPS is a combination of core competencies in support of the competitive methods. The primary competitive method the HPPS supports is the value-adding management team in the casual themed restaurant, which oversees the execution of the production of outstanding food and service to achieve customer satisfaction. The normative definition of a competitive method is:

> A competitive method is a portfolio of products and services that is bundled in such a way that it attracts those customers from within the overall demand curve of the industry (Olsen *et al.*, 2006).

This definition would not include a value-adding manager competitive method; however, nearly every casual themed restaurant operator would agree that quality management adds value to the firm and is hard to find in great supply and highly mobile. This realization does not necessarily mean that organizations act on this knowledge by changing their business model to provide for a HPPS. Therefore, what need to be measured are not the core competencies, but the competitive method—management. What an organization really wants to know is whether or not their investment in a competitive method produces acceptable returns. Is their investment in core competencies that support a competitive method worth it? Or should the firm invest its limited resources in other assets, tangible or otherwise?

So what measures should a casual themed restaurant firm use? The results of the study would seem to indicate that a restaurant company use retention, turnover, guest satisfaction, and operational cash flow for financial performance. However, not all stakeholders were fully represented in the performance outcome section of the model (Figure 12.2). The performance metrics need to be reevaluated to determine if employee surveys need to be part of the evaluation process. Additionally, in general, the author feels that the performance dimensions to measure the effectiveness of the work practices and HPPS do not accurately gage the value of these core competencies. This study proposes that a restaurant HPPS is a combination of core competencies in support of the competitive method (management). What needs to be measured is the competitive method not the core competencies. To effectively measure all stakeholders' outcomes in the U.S. casual themed restaurant industry, retention, turnover, guest satisfaction, operational cash flow for financial performance, employee quality of work life, and same store sales should be collectively assessed.

Human capital intangibles

Baruch Lev (2001), a professor at the Stern School of Business at New York University, and a leading authority on intangibles, was commissioned by The Brookings Institution to do a comprehensive study of intangibles in all aspects of business. Dr. Lev wrote barely two pages on HR intangibles and concluded, "the research on human resource expenditures (intangibles) is in its infancy and is seriously hampered by the absence of publicly disclosed corporate data on human resources" (p. 75). The body of literature on HR intangibles is deficient and it is difficult to draw any conclusions from the studies published thus far, especially with public companies not required by the Securities and Exchange Commission (SEC) to disclose significant financial information related to their employees. According to a recent Business Week cover story not much has changed over the last 10 years:

> Assessing how much bang for the buck companies get from their spending on intangibles is even harder, especially in the fast-changing knowledge economy. Take employee training. In the old days, that required flying people to a teaching facility, which cost companies a lot of time on top of the cost of the instructors and real estate. Now online learning and other innovations are driving down the cost of training. At IBM the training budget fell by $10 million from 2003 to 2004, a 1.4% decline, while the number of classroom and e-learning hours rose by 29%. Are other companies seeing an equally dramatic decline in the cost of training? No one knows (p. 55).

The idea that individual worker performance has implications for business level results has been widespread among scholars and practitioners for many years (Huselid, 1995). Interest in this area has recently intensified as academics have begun to debate that, as a group, a company's employees can also provide a distinctive source of competitive advantage that is difficult for its competitors to imitate. An employment system that creates a distinct sustainable competitive advantage is an "intangible asset" and it is not carried on the balance sheet, as are traditional assets (plant and equipment). Bill Gates was quoted in an article in the Journal of Business Strategy Review "Our primary assets, which are software and our software development skills, do not show up on the balance sheet at all" (1999). Intangible assets are now worth on average three times more than firm's hard assets, according to the Harvard Management Update Newsletter (Wagner, 2001). Microsoft, for example, reported in 2000 that it had revenue of $23 billion, physical assets of $52 billion, and a market capitalization (number of outstanding common stock shares times their price) of more than $423 billion. That leaves a spread between intangibles and tangible assets of eight fold.

"As innovation accelerates, it is increasingly difficult to measure the source of wealth. The three biggest measurement headaches are human capital, healthcare and computers" (Rohwer, 1999, p. 263). Human capital is basically the ability of employees to generate economic output through the application of their education, knowledge, and skills; it refers to employees' know-how, capabilities, skills, and expertise. "The best known indicator of human intellectual capital value is market to book value" (Dzinkowski, 2000, p. 93). The difficulty with this valuation is that there is no distinction as to what part of the intangible value is representative of human capital and what belongs to other intangibles (trademarks, etc). The other complex issue is that stock market valuations are so volatile and book value of assets does not always represent their true worth. On Friday July 26, 2002, in the midst of a severe stock market slide, Tyco International announced that it had hired Edward Breen, the former president of Motorola, to be its new CEO (Eisiner, 2002, p. C1). Tyco's stock shot up 46% that day, worth $7.5 billion in market value, while at the same time Motorola's stock declined $2.5 billion, a $10 billion swing due to the departure and arrival of one man. Is this a demonstration of the power and value of human capital intangibles … or just due to some wild market forces? Most likely the cause is a little of both.

Intangible valuation

According to David Norton, co-developer of the balanced scorecard, the greatest anxiety today for business executives in the new economy is that "human capital is the foundation of value creation" and they do not know how to create, measure, keep it, or ultimately value it (Becker *et al.*, 2001, p. ix). Top-level management realize that they are in a battle for talented employees, but they only seem to know how to manage their human capital like operating costs, something to be cut when the budget gets tight (Becker *et al.*, 2001). The outcome of this paper for intangible value is the advancement of a model to demonstrate the economic value of an HRM intangible dimension and ultimately an HPPS; and additionally to demonstrate why restaurant firms should invest in HRM as a strategy to develop core competencies that produce economic value-added (EVA) for the firm. Intangible EVA is the potential and ability of employees to add additional value above and beyond the cost of the products and services they create while engaged in work activities or work-related activities. "The best known indicator of human intellectual capital value is market to book value" (Dzinkowski, 2000, p. 93).

There are lots of intangibles that have the potential to create value, including skilled employees, specialized training and development, intellectual property, business processes, customer intimacy, corporate culture, brand equity, and many others that do not show up on most balance sheets. Businesses and investors have to understand how to identify the intangibles that contribute to the creation of value; how to measure them to understand the nature of the value they create; and how to improve their value to measurably grow the bottom line. CFOs, COOs, and CEOs are already approaching this challenge from multiple fronts, which is reflected in trends like business intelligence and the balanced scorecard—initiatives that hinge on mapping business processes directly to corporate strategy. Unfortunately, few HR managers are sitting at the strategy table to represent HR's value, because the HR value-creation process is not fully understood or causal.

The fundamental driver shaping current trends in corporate strategy is a shift in how the value of a business is measured. Until the early 1980s, up to 75% of the market value of a business was defined by the tangible assets that appeared on the balance sheet. Today, that number is less than 25%. "Gone are the days when businesses can afford to view people purely as costs. In the 21st century knowledge economy, people must be seen as wealth and capability generators who can profoundly affect market appeal, reputation, and performance. How well businesses measure and then improve know-how greatly influences how successful they are. When it comes to measuring know-how, no one metric or approach can meet all purposes. Several areas commonly explored in existing reporting on intangible value include customer capital, human capital, intellectual capital and relationship capital. Without doubt, the area of measuring business know-how (intangible assets) is undergoing fundamental change" (Allister, 2003, p. 1).

There are numerous concerns with this problem; however, they all can be summarized in two simple statements. How comfortable can the executives be when they cannot identify, and therefore cannot control 90% of the firm's value? Additionally, as value and risk are two sides of the same coin, how comfortable can other stakeholders in the firm, specifically, investors and regulators, be when the leadership cannot identify the major sources of value, and degree of risk?

In the "New Economy," growth is no longer driven predominantly by investments in physical assets, but by investments in intellectual, organizational, and reputational assets. Growing discrepancy between the important role of intangibles on firm's growth and the ability to identify, measure, and account for those assets is a serious potential problem for a restaurant firm.

Concluding comments

The restaurant industry employed an estimated 12 million people in 2005, making it the nation's largest private sector employer providing work for nearly 9% of those employed in the U.S. (http://www.restaurant.org/research/employment/). Many restaurant companies have learn to view their employees from a new perspective, as strategic human capital which possesses intangible assets (knowledge, experience, skill, etc.) that are valuable to the firm. Industry reports and actions suggest that restaurant company's business performance improves and the state of their restaurant workers is raised when these companies implement adopt this strategy. The industry as a whole needs to break-free of the out dated HR paradigm of high turnover and low retention of employees, which is costing the industry billions in replacement costs, lost productivity, service quality, employee know how, and experience (Pine, 2000). Gordon (1991) concluded that "corporate cultures, consisting of widely shared assumptions and values, are, in part moulded by the requirements of the industry in which they operate" (p. 410). The foodservice industry, and more specifically the restaurant segment, is subject to Gordon's exact proposition that the industry norms shape the corporate culture/thinking of individual entities, when it comes to valuing employee retention and experience. Many of the individual firms in the restaurant industry are still stuck in a paradigm of giving to their employees as little as possible, because that's how the business traditionally made money in the past. Those organizations still practicing that mode of HRM operation will need to undergo a fundamental change in philosophy in order to harvest the full potential of their employee's intangible value.

For hospitality executives to effectively use a co-alignment strategy they clearly must begin with an effective ES process that does more than just benchmark competitors for ideas to mimic. Executives must proactively search out ways in which to gain a SCA and compete in the future. Currently, the most prevalent strategy in the industry appears to be that of unit growth. However, at some point in time the restaurant industry will reach a saturation point. Currently there is one restaurant for every 350 Americans. How much further can the industry grow? Those companies that are going to be successful in the future will need to be in co-alignment with the environmental realities of slower unit growth and will have to seek more effective ways to grow profit. They will need to develop new competitive methods and core competencies such as comprehensive HR systems that will yield sustainable competitive advantages.

While past literature in business strategy has consigned the HR function to the implementation stage of strategy, current theoretical approaches argue that HR and the organizational systems that develop them can generate a SCA (Becker, 1996; Barney, 1995). While some classic strategy theory takes a strategic choice view, and suggests that companies select a "generic" strategy to compete in the environment in which they find themselves, recent theorists have viewed organization strategy from a RBV of the firm, arguing that businesses develop SCA only by creating value that is rare and not easily imitated by the competition (Penrose, 1959; Wernerfelt, 1984; Barney, 1991;

Barney and Wright, 1997; de Chabert, 1998). The conventional sources of competitive advantage discussed in the strategic choice literature include factors such as technology, natural resources, productivity improvements, and low-cost leadership. These factors have been shown to create value within an organization. Many have argued that these traditional types of competitive advantages are becoming increasingly scarce, hard to develop, and easy to imitate, particularly in comparison to a well thought out employment systems (Murphy and Williams, 2004). Experienced managers are increasingly leveraging their value to the company and to the restaurant industry by "making a statement about whom they are, where they want to live, how they want to work" (Prewitt, 2000).

"The ability of human beings to learn and thus constantly improve their services, to transfer their knowledge from one domain to another, and to combine other resources in more productive ways makes human beings distinct from other types of resources" (Penrose, 1959, p. 69). Human expertise is viewed as a separate resource class (intangible asset) and as a distinct resource, which adds more of a value-adding element to the organization then through traditional profit generating resources such as the manufacturing of goods. Boxall (1998) uses HR theories to outline the basic elements of a theory of "human resource advantage." Boxall suggests that HR capable of yielding sustained advantage are those which meet the tests of rare value, and relative immobility and superior appropriate ability. Firms which secure ongoing viability in their industry have the potential to build HR advantage through superior human capital and organizational processes. These sources of superiority depend on the quality of interest alignment (firm and employee) and employee development in a firm compared with industry rivals. It is for this reason that HR strategies can become important sources of competitive advantage, now and in the future; "the challenge for management will be creating value through people rather than using them as objects" (Olsen and Zhao, 2002, p. 7).

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