

Creating and Maintaining High-Performance Organizations

What Do I Need to Know?

After reading this chapter, you should be able to:

- L01 Define high-performance work systems, and identify the elements of such a system.
- L02 Summarize the outcomes of a high-performance work system.
- L03 Describe the conditions that create a high-performance work system.
- L04 Explain how human resource management can contribute to high performance.
- L05 Discuss the role of HRM technology in high-performance work systems.
- L06 Summarize ways to measure the effectiveness of human resource management.

Introduction

Does human resource management really help an organization meet its business goals? Joseph Nour would surely say yes. A few years ago, the chief executive officer of Protus IP Solutions was dealing with a terrible 60 percent employee turnover. Even worse, no one really knew why people were quitting. If the departing employees had an exit interview, the notes were simply filed away unread. For help in solving the problem, Nour hired Janice Vanderburg as director of human resources. Vanderburg discovered that HR practices had failed to keep pace with the start-up company's quick growth. She conducted surveys and learned that many employees had trouble communicating with managers, didn't know what was expected of them, and saw no clear career path at the company. Vanderburg began developing Protus's managers, helping them communicate with and develop their

staff. She introduced performance management software that would help managers give employees better feedback and track their progress. She established a logical pay structure and made sure employees knew about all the benefits for which they are eligible. Now turnover at the 140-employee company is just 15 percent a year—far from ideal but a vast improvement for the technology company.¹

The experience of Protus IP Solutions shows that high-tech products and rapid growth do not guarantee business success. Someone in the organization has to recognize how business activities, management style, and strategy changes will affect the organization's people. The organization must design work and performance management systems so that they bring out the best in the employees. These challenges are some of the most crucial responsibilities of human resource management.

This chapter summarizes the role of human resource management in creating an organization that achieves a high level of performance, measured in such terms as long-term profits, quality, and customer satisfaction. We begin with a definition of *high-performance work systems* and a description of these systems' elements and outcomes. Next, we identify the conditions that contribute to high performance. We explain how the various HRM functions can contribute to high performance. Finally, we introduce ways to measure the effectiveness of human resource management.

L01 Define high-performance work systems, and identify the elements of such a system.

High-Performance Work System

The right combination of people, technology, and organizational structure that makes full use of the organization's resources and opportunities in achieving its goals.

High-Performance Work Systems

The challenge facing managers today is how to make their organizations into **high-performance work systems**, with the right combination of people, technology, and organizational structure to make full use of resources and opportunities in achieving their organizations' goals. To function as a high-performance work system, each of these elements must fit well with the others in a smoothly functioning whole. Many manufacturers use the latest in processes including flexible manufacturing technology, total quality management, and just-in-time inventory control (meaning parts and supplies are automatically restocked as needed), but of course these processes do not work on their own; they must be run by qualified people. Organizations need to determine what kinds of people fit their needs, and then locate, train, and motivate those special people.² According to research, organizations that introduce integrated high-performance work practices usually experience increases in productivity and long-term financial performance.³

Creating a high-performance work system contrasts with traditional management practices. In the past, decisions about technology, organizational structure, and human resources were treated as if they were unrelated. An organization might acquire a new information system, restructure jobs, or add an office in another country without considering the impact on its people.⁴ More recently, managers have realized that success depends on how well all the elements work together. For instance, as health care providers feel increasing pressure to rein in costs, some are finding solutions in combinations of information technology, improved staffing, and the redesign of work processes. A Louisiana hospital chain began running a software system to analyze and fill staffing needs. Employees use the system to bid for the hours they want to work, and the system automatically assigns them to shifts, filling any empty positions with contract workers. Automating the staffing process saves money and frees managers from hours of paperwork each week. A health care chain based in Denver took technology use a step further with an enterprise resource planning system that links together decisions about patient needs, staffing, finances, and purchases of supplies.

Elements of a High-Performance Work System

As shown in Figure 16.1, in a high-performance work system, the elements that must work together include organizational structure, task design, people (the selection, training, and development of employees), reward systems, and information systems, and human resource management plays an important role in establishing all these.

Organizational structure is the way the organization groups its people into useful divisions, departments, and reporting relationships. The organization's top management makes most decisions about structure, for instance, how many employees report to each supervisor and whether employees are grouped according to the functions they carry out or the customers they serve. Such decisions affect how well

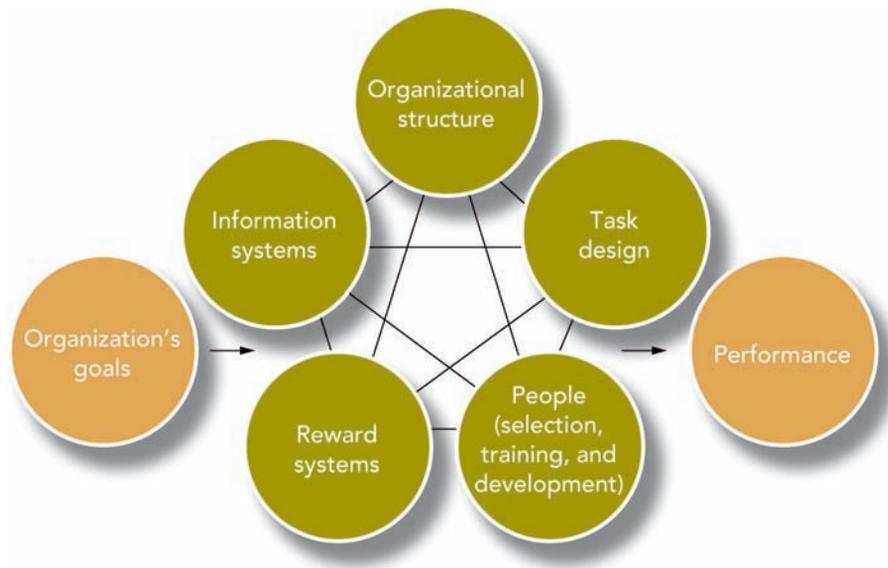


Figure 16.1
Elements of a High-
Performance Work
System

employees coordinate their activities and respond to change. In a high-performance work system, organizational structure promotes cooperation, learning, and continuous improvement.

Task design determines how the details of the organization's necessary activities will be grouped, whether into jobs or team responsibilities. In a high-performance work system, task design makes jobs efficient while encouraging high quality. In Chapter 4, we discussed how to carry out this HRM function through job analysis and job design.

The right *people* are a key element of high-performance work systems. HRM has a significant role in providing people who are well suited and well prepared for their jobs. Human resource personnel help the organization recruit and select people with the needed qualifications. Training, development, and career management ensure that these people are able to perform their current and future jobs with the organization.

Reward systems contribute to high performance by encouraging people to strive for objectives that support the organization's overall goals. Reward systems include the performance measures by which employees are judged, the methods of measuring performance, and the incentive pay and other rewards linked to success. Human resource management plays an important role in developing and administering reward systems, as we saw in Chapters 8 through 12.

The final element of high-performance work systems is the organization's *information systems*. Managers make decisions about the types of information to gather and the sources of information. They also must decide who in the organization should have access to the information and how they will make the information available. Modern information systems, including the Internet, have enabled organizations to share information widely. HR departments take advantage of this technology to give employees access to information about benefits, training opportunities, job openings, and more, as we will describe later in this chapter.



In a high-performance work system, all the elements—people, technology, and organizational structure—work together for success.

L02 Summarize the outcomes of a high-performance work system.

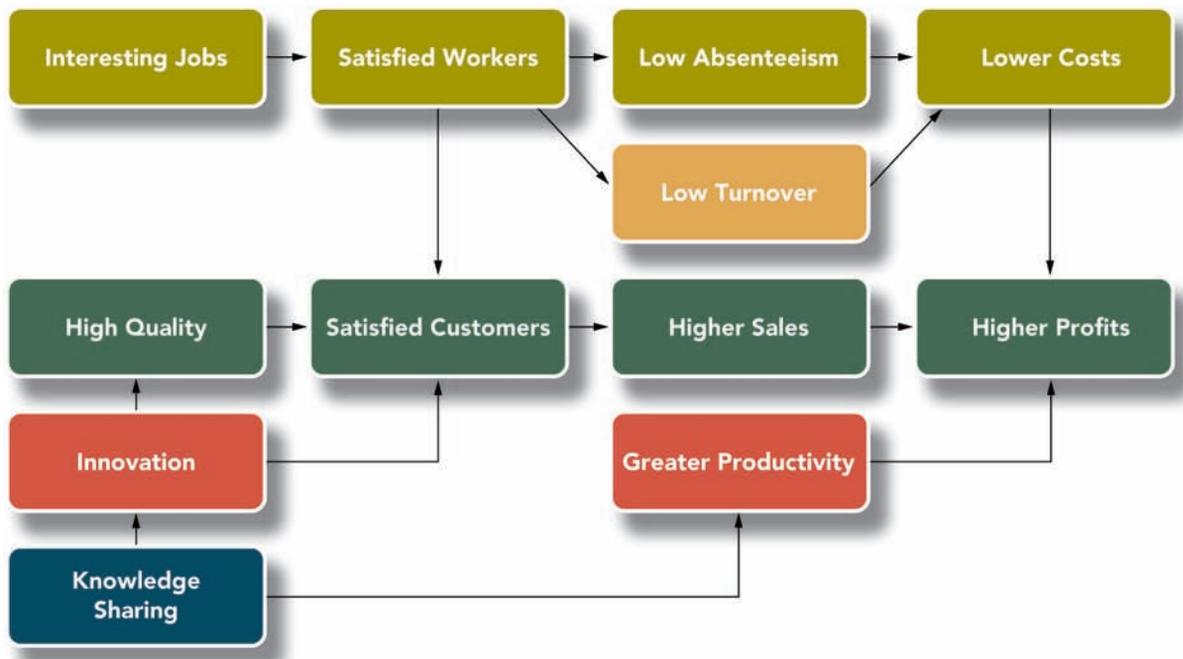
Outcomes of a High-Performance Work System

Consider the practices of steel minimills in the United States. Some of these mills have strategies based on keeping their costs below competitors' costs; low costs let them operate at a profit while winning customers with low prices. Other steel minimills focus on "differentiation," meaning they set themselves apart in some way other than low price—for example, by offering higher quality or unusual product lines. Research has found that the minimills with cost-related goals tend to have highly centralized structures, so managers can focus on controlling through a tight line of command. These organizations have low employee participation in decisions, relatively low wages and benefits, and pay highly contingent on performance.⁵ At minimills that focus on differentiation, structures are more complex and decentralized, so authority is more spread out. These minimills encourage employee participation and have higher wages and more generous benefits. They are high-performance work systems. In general, these differentiator mills enjoy higher productivity, lower scrap rates, and lower employee turnover than the mills that focus on low costs.

Outcomes of a high-performance work system thus include higher productivity and efficiency. These outcomes contribute to higher profits. A high-performance work system may have other outcomes, including high product quality, great customer satisfaction, and low employee turnover. Some of these outcomes meet intermediate goals that lead to higher profits (see Figure 16.2). For example, high quality contributes to customer satisfaction, and customer satisfaction contributes to growth of the business. Likewise, improving productivity lets the organization do more with less, which satisfies price-conscious customers and may help the organization win over customers from its competitors. Other ways to lower cost and improve quality are to

Figure 16.2

Outcomes of a High-Performance Work System



reduce absenteeism and turnover, providing the organization with a steady supply of experienced workers. In the previous example of minimills, some employers keep turnover and scrap rates low. Meeting those goals helps the minimills improve productivity, which helps them earn more profits.

In a high-performance work system, the outcomes of each employee and work group contribute to the system's overall high performance. The organization's individuals and groups work efficiently, provide high-quality goods and services, and so on, and in this way, they contribute to meeting the organization's goals. When the organization adds or changes goals, people are flexible and make changes as needed to meet the new goals.

Conditions That Contribute to High Performance

Certain conditions underlie the formation of a high-performance work system:⁶

- Teams perform work.
- Employees participate in selection.
- Employees receive formal performance feedback and are actively involved in the performance improvement process.
- Ongoing training is emphasized and rewarded.
- Employees' rewards and compensation relate to the company's financial performance.
- Equipment and work processes are structured, and technology is used to encourage maximum flexibility and interaction among employees.
- Employees participate in planning changes in equipment, layout, and work methods.
- Work design allows employees to use a variety of skills.
- Employees understand how their jobs contribute to the finished product or service.
- Ethical behavior is encouraged.

Practices involving rewards, employee empowerment, and jobs with variety contribute to high performance by giving employees skills, incentives, knowledge, autonomy—and satisfaction, another condition associated with high performance. Ethical behavior is a necessary condition of high performance because it contributes to good long-term relationships with employees, customers, and the public.

Teamwork and Empowerment

As we discussed in Chapter 2, today's organizations empower employees. They expect employees to make more decisions about how they perform their jobs. One of the most popular ways to empower employees is to design work so that it is performed by teams. On a work team, employees bring together various skills and experiences to produce goods or provide services. The organization may charge the team with making decisions traditionally made by managers, such as hiring team members and planning work schedules. Teamwork and empowerment contribute to high performance when they improve job satisfaction and give the organization fuller use of employees' ideas and expertise.

For empowerment to succeed, managers must serve in linking and coordinating roles⁷ and provide the team with the resources it needs to carry out its work. The manager should help the team and its members interact with employees from other departments or teams and should make sure communication flows in both directions—the

L03 Describe the conditions that create a high-performance work system.



It's important for companies to capture and share the knowledge of workers who have had years to learn their specialty.

manager keeps the team updated on important issues and ensures that the team shares information and resources with others who need them. At the Global Engineering Manufacturing Alliance (GEMA) plant in Dundee, Michigan, teamwork is designed to achieve the primary goal—to be the world's most productive engine plant. All employees, including the engineers, are either members or leaders of six-person teams. Groups of three employees work rotating shifts so that they know and work with one another around the clock. Team members are carefully selected to ensure they can handle the problem-solving responsibilities that GEMA has delegated to its teams. Technology such as large electronic display screens lets team members monitor productivity and delays, so they can identify when they are succeeding and when problems need to be resolved. All employees, not just managers or engineers, are empowered to solve problems. Employees who develop innovative solutions receive bonuses.⁸

Knowledge Sharing

For more than a decade, managers have been interested in creating a **learning organization**, that is, an organization in which the culture values and supports lifelong learning by enabling all employees to continually acquire and share knowledge. The people in a learning organization have resources for training, and they are encouraged to share their knowledge with colleagues. Managers take an active role in identifying training needs and encouraging the sharing of ideas.⁹ An organization's information systems, discussed later in this chapter, have an important role in making this learning activity possible. Information systems capture knowledge and make it available even after individual employees who provided the knowledge have left the organization. Ultimately, people are the essential ingredients in a learning organization. They must be committed to learning and willing to share what they have learned.

A learning organization has several key features:¹⁰

- It engages in **continuous learning**, each employee's and each group's ongoing efforts to gather information and apply the information to their decisions. In many organizations, the process of continuous learning is aimed at improving quality. To engage in continuous learning, employees must understand the entire work system they participate in, the relationships among jobs, their work units, and the organization as a whole. Employees who continuously learn about their work system are adding to their ability to improve performance.
- Knowledge is *shared*. Therefore, to create a learning organization, one challenge is to shift the focus of training away from merely teaching skills and toward a broader focus on generating and sharing knowledge.¹¹ In this view, training is an investment in the organization's human resources; it increases employees' value to the organization. Also, training content should be related to the organization's goals. Human resource departments can support the creation of a learning organization by planning training programs that meet these criteria, and they can help to create both face-to-face and electronic systems for employee collaboration to create, capture, and share knowledge.
- *Critical, systematic thinking* is widespread. This occurs when organizations encourage employees to see relationships among ideas and to test assumptions and observe the results of their actions. Reward systems can be set up to encourage employees and teams to think in new ways.

Learning Organization

An organization that supports lifelong learning by enabling all employees to acquire and share knowledge.

Continuous Learning

Each employee's and each group's ongoing efforts to gather information and apply the information to their decisions in a learning organization.

- The organization has a *learning culture*—a culture in which learning is rewarded, promoted, and supported by managers and organizational objectives. This culture may be reflected in performance management systems and pay structures that reward employees for gathering and sharing more knowledge. A learning culture creates the conditions in which managers encourage *flexibility* and *experimentation*. The organization should encourage employees to take risks and innovate, which means it cannot be quick to punish ideas that do not work out as intended.
- *Employees are valued*. The organization recognizes that employees are the source of its knowledge. It therefore focuses on ensuring the development and well-being of each employee.

The experience of Lopez Foods shows that the qualities of a learning organization aren't limited just to high-tech industries. Lopez Foods, which makes beef and sausage patties, involved employees in making production more efficient. Working with consultants, Lopez managers and engineers diagrammed production processes on huge sheets of brown paper hung on the walls. They made sticky notes available so that any worker passing by could post notes correcting the information or making suggestions based on their day-to-day experience on the front lines. Not only did the practice improve the quality of information, but it also engaged workers in the improvement process so that they remain committed to making suggestions and helping their company become more efficient. The company also improved the communication of performance feedback, now posting hourly performance indicators, and it pays production workers modest but regular bonuses for exceeding productivity targets.¹²

Job Satisfaction

A condition underpinning any high-performance organization is that employees experience job satisfaction—they experience their jobs as fulfilling or allowing them to fulfill important values. Research supports the idea that employees' job satisfaction and job performance are related.¹³ Higher performance at the individual level should contribute to higher performance for the organization as a whole. A study by CLC Genesee, an HR consulting firm, found that companies with a high level of employee engagement (which includes satisfaction with their jobs and the company) saw their revenues grow more than twice as fast as their competitors as well as profit growth three times higher.¹⁴ The relationship between satisfaction and performance also relates to nonprofit and government organizations. In a survey by the Partnership for Public Service and American University, the Nuclear Regulatory Commission and Government Accountability Office showed the highest degrees of employee satisfaction, as the "Did You Know?" box shows. They far outranked the bottom agencies, the National Archives and Records Administration (56.0) and Department of Transportation (52.2).¹⁵ How would you expect these differences to play out in terms of the agencies' effectiveness?

Chapter 10 described a number of ways organizations can promote job satisfaction. They include making jobs more interesting, setting clear and challenging goals, and providing valued rewards that are linked to performance in a performance management system that employees consider fair. For example, the Nuclear Regulatory Commission's top agency score for employee satisfaction is based partly on relatively high ratings for fair leadership, empowerment of employees by leaders, and rewards linked to performance. NRC employees also scored the agency very high on teamwork and matching employee skills to the agency's mission.¹⁶

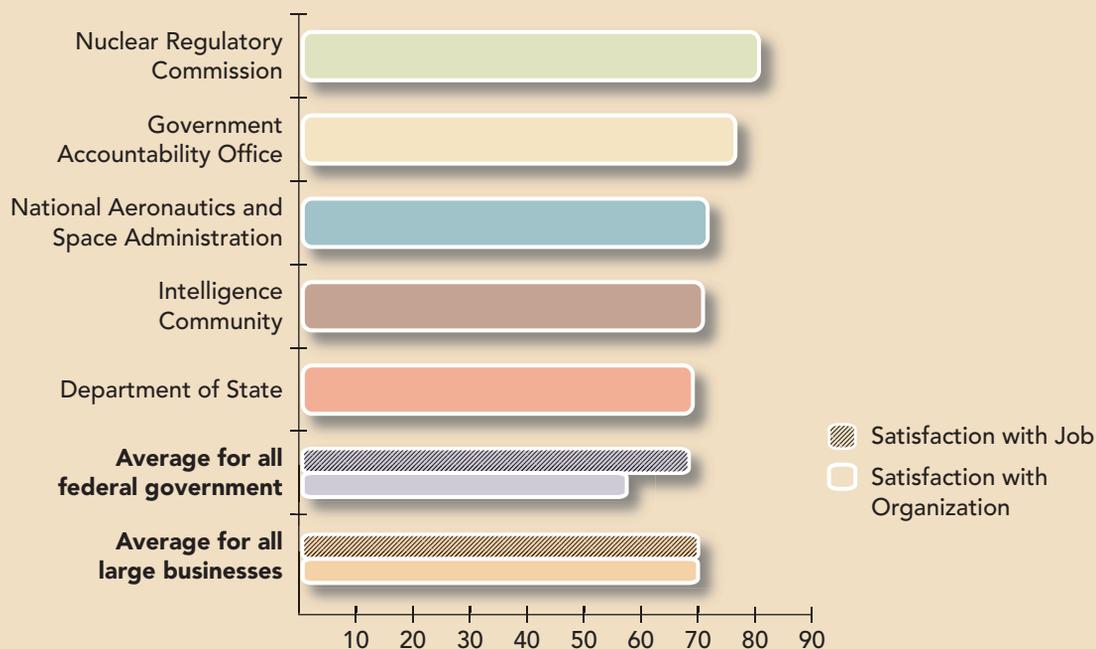
Did You Know?

Satisfaction at Top Government Agencies Compares Favorably with Big Businesses

Federal government employees who rated their satisfaction with their job and work environment were most satisfied at the Nuclear Regulatory Commission. Employees in the highest-ranking agencies are at least as satisfied as the employees in large companies. On average, government employees are more satisfied with cooperation

among co-workers and opportunities to improve skills, while private-sector employees are more satisfied with training, opportunities for advancement, and information sharing by management. The government has been improving in the past few years, but businesses have been improving faster.

Sources: Partnership for Public Service, "Welcome to the 2009 Best Places to Work Rankings," Best Places to Work, <http://data.bestplacetowork.org>, accessed May 12, 2010; and Partnership for Public Service, "Private Sector Comparison," Best Places to Work, <http://bestplacetowork.org>, accessed May 12, 2010.



Some organizations are moving beyond concern with mere job satisfaction and are trying to foster employees' *passion* for their work. Passionate people are fully engaged with something so that it becomes part of their sense of who they are. Feeling this way about one's work has been called *occupational intimacy*.¹⁷ People experience occupational intimacy when they love their work, when they and their co-workers care about one another, and when they find their work meaningful. Human resource managers have a significant role in creating these conditions. For example, they can select people who care about their work and customers, provide methods for sharing knowledge, design work to make jobs interesting, and establish policies and programs that show concern for employees' needs. Such efforts may become increasingly important as the business world increasingly uses employee empowerment, teamwork, and knowledge sharing to build flexible organizations.¹⁸

Ethics

In the long run, a high-performance organization meets high ethical standards. Ethics, defined in Chapter 1, establishes fundamental principles for behavior, such as honesty and fairness. Organizations and their employees must meet these standards if they are to maintain positive long-term relationships with their customers and their community.

Ethical behavior is most likely to result from values held by the organization's leaders combined with systems that promote ethical behavior. As Todd Linden worked his way up through housekeeping and maintenance jobs and the study of health care management to become chief executive of Grinnell Medical Center, he developed values based on the importance of making a difference in people's lives. Linden's conviction that "a hospital exists to make a difference in people's lives . . . often at a very difficult time" ensured that when financial difficulty required cutbacks, the burden was shared, with leaders expected to take more furlough days than rank-and-file workers. Similarly, Judy Rich, CEO of Tucson Medical Center, draws on her nursing career to demonstrate the values of putting the patient first and always telling the truth. That conviction leads to a requirement that any discussion of patient care or hospital business be conducted openly, which helps keep everyone clear and aligned about the values driving the decisions.¹⁹

A number of organizational systems can promote ethical behavior.²⁰ These include a written code of ethics that the organization distributes to employees and expects them to use in decision making. This type of guidance can be especially effective if developed with input from employees about situations they encounter. However, standards alone are not enough—the organization should reinforce ethical behavior. For example, performance measures should include ethical standards, and misdeeds should receive swift discipline, as described in Chapter 10. The organization should provide channels employees can use to ask questions about ethical behavior or to seek help if they are expected to do something they believe is wrong. Organizations also can provide training in ethical decision making, including training for supervisors in how to handle employees' concerns about ethical matters.

As these examples suggest, ethical behavior is a human resource management concern. The systems that promote ethical behavior include such HRM functions as training, performance management, and discipline policies. A reputation for high ethical standards can also help a company attract workers—and customers—who share those high standards. Keller Bros. Auto is committed to living out the business philosophy of its founder, Terry Keller: "Teach, never sell." The Littleton, Colorado, repair shop expects its employees to do more than fix cars; they educate customers about what options they have, giving them all the facts they need to make intelligent decisions. An employee might take the time to show a customer a relevant Web site or send out digital photos illustrating the need for a repair. Maintaining these values begins with hiring for people skills, not just technical skills. Chief operating officer David Rogers says employees can be trained in fixing cars, "but no one can train you to care about people," so he hires only "highly educated, considerate human beings" who have "a natural desire to help other people." To find such employees, Rogers conducts three interviews and administers a personality test before making hiring decisions. It's an approach that car owners seem to welcome: hundreds of them bring their cars to Keller Bros. every month.²¹



L04 Explain how human resource management can contribute to high performance.

HRM's Contribution to High Performance

Management of human resources plays a critical role in determining companies' success in meeting the challenges of a rapidly changing, highly competitive environment.²² Compensation, staffing, training and development, performance management, and other HRM practices are investments that directly affect employees' motivation and ability to provide products and services that are valued by customers. Table 16.1 lists examples of HRM practices that contribute to high performance.

Research suggests that it is more effective to improve HRM practices as a whole than to focus on one or two isolated practices, such as the organization's pay structure or selection system.²³ Also, to have the intended influence on performance, the HRM practices must fit well with one another and the organization as a whole.²⁴

Job Design

For the organization to benefit from teamwork and employee empowerment, jobs must be designed appropriately. Often, a high-performance work system places employees in work teams where employees collaborate to make decisions and solve problems. Individual employees also may be empowered to serve on teams that design jobs and work processes.

Job design emphasizing teamwork and empowerment is a fundamental piece of improving performance at nursing homes such as Mercy Nursing Facility and Beechwood Continuing Care, located near Buffalo, New York. Applying a philosophy known as "culture change," these nursing homes are moving toward giving residents more choices and personal attention in a homier atmosphere. Delivering this type of care requires less rigid job descriptions than have developed in the highly regulated nursing home industry. Mercy, Beechwood, and other facilities adopting culture change have structured work into teams of employees who are given greater flexibility and authority for how they carry out their jobs. Aides are assigned to groups of residents, rather than to a few specialized duties, so they can develop caring relationships with the residents.²⁵

Recruitment and Selection

At a high-performance organization, recruitment and selection aim at obtaining the kinds of employees who can thrive in this type of setting. These employees are enthusiastic about and able to contribute to teamwork, empowerment, and knowledge sharing. Qualities such as creativity and ability to cooperate as part of a team

Table 16.1

HRM Practices That Can Help Organizations Achieve High Performance

- HRM practices match organization's goals.
- Individuals and groups share knowledge.
- Work is performed by teams.
- Organization encourages continuous learning.
- Work design permits flexibility in where and when tasks are performed.
- Selection system is job related and legal.
- Performance management system measures customer satisfaction and quality.
- Organization monitors employees' satisfaction.
- Discipline system is progressive.
- Pay systems reward skills and accomplishments.
- Skills and values of a diverse workforce are valued and used.
- Technology reduces time and costs of tasks while preserving quality.

may play a large role in selection decisions. High-performance organizations need selection methods that identify more than technical skills like ability to perform accounting and engineering tasks. Employers may use group interviews, open-ended questions, and psychological tests to find employees who innovate, share ideas, and take initiative.

Training and Development

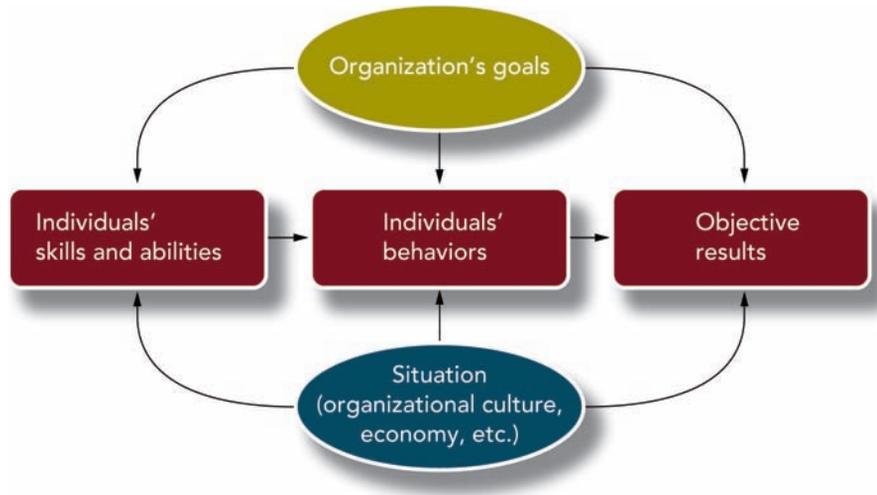
When organizations base hiring decisions on qualities like decision-making and teamwork skills, training may be required to teach employees the specific skills they need to perform the duties of their job. Extensive training and development also are part of a learning organization, described earlier in this chapter. And when organizations delegate many decisions to work teams, the members of those teams likely will benefit from participating in team development activities that prepare them for their roles as team members.

Training programs at Whirlpool have been aligned with the company's commitment to innovation. After the company defined the role innovation would play in the company's strategy, it trained 75 employees to be "Masters of Innovation"—experts in the qualities and processes that enable new ideas to contribute to Whirlpool's success. The Masters of Innovation are charged with training the rest of Whirlpool's employees to be innovative. Their lessons are supplemented by online and classroom training programs in innovation skills such as tapping into new resources and thinking about projects from various points of view. Employee development also focuses on knowledge sharing. Project teams complete five-question surveys that identify team members' networks of professional contacts. The results help the teams develop action plans for using their networks to come up with more creative and successful ideas.²⁶

Performance Management

In a high-performance organization, employees know the organization's goals and what they must do to help achieve those goals. HR departments can contribute to this ideal through the design of the organization's performance management system. As we discussed in Chapter 8, performance management should be related to the organization's goals. Flagstar Bank, based in Troy, Michigan, develops goals for branch managers by using analytical software from Pitney Bowes. Pitney Bowes uses data about households in each branch's geographic area and comparative data about other bank branches, combined with Flagstar's customer data, to predict what each branch can achieve in terms of types of products sold, average balances in bank accounts, growth in the number of customers, and so on. The bank then sets goals that are achievable for the branch, given economic conditions and the needs of the clients in its area. This gets employees in the branches focused on the best opportunities available to them. Branch managers can see the criteria used to set their goals, so they are motivated by the fairness of the system.²⁷

To set up a performance management system that supports the organization's goals, managers need to understand the process of employee performance. As shown in Figure 16.3, individual employees bring a set of skills and abilities to the job, and by applying a set of behaviors, they use those skills to achieve certain results. But success is more than the product of individual efforts. The organization's goals should influence each step of the process. The organization's culture and other factors influence

Figure 16.3Employee Performance
as a Process

the employees' abilities, behaviors, and results. It mustn't be forgotten that sometimes uncontrollable forces such as the current economic conditions enter the picture—for example, a salesperson can probably sell more during an economic expansion than during an economic slowdown.

This model suggests some guidelines for performance management. First, each aspect of performance management should be related to the organization's goals. Business goals should influence the kinds of employees selected and their training, the requirements of each job, and the measures used for evaluating results. Generally, this means the organization identifies what each department must do to achieve



To develop future leaders, new IBM managers participate in IBM's Basic Blue program for an intensive nine-month training program. IBM is considered one of the best companies in the development of future leaders.

SETTING PERFORMANCE MEASURES IN NOT-FOR-PROFIT ORGANIZATIONS



In a business, profitability and the company's stock price provide some obvious measures of success. A nonprofit organization needs to apply and adapt some more creative measures of success.

- Performance measures for individuals and groups in the organization should support the achievement of the organization's mission. The mission is more than the products and services provided; it extends to the desired outcomes of those products and services—say, visiting a health clinic or participating in a tutoring program. These outcomes, in turn, should be associated with an impact on society, such as a reduction in the prevalence of

a disease or the increase in the proportion of high school students who graduate.

- Financial measures, such as a cost reduction or improvement in efficiency, are important. However, they should be related to the organization's ability to fulfill its mission—for example, because they are needed for acquiring resources or carrying out activities associated with the desired outcomes and impact on society.
- When possible, measures should be expressed in monetary units (dollars in the United States). For example, if the organization places unemployed people in jobs, it can measure the decrease in

public assistance paid by the government. Dollar measurements of success are useful because they can be tracked over time and clearly communicated to donors and other stakeholders.

- Other measurements can be expressed as percentages, such as the percent of the target population who participate in a program or the percent of participants who report achieving an organizational goal, such as earning a professional designation or discontinuing use of drugs or alcohol.

Source: Based on Marc J. Epstein and Adriana Rejc Buhovac, "Improving Performance Measurement: Not-for-Profit Organizations," *CMA Management*, November 2009, pp. 16–21.

the desired results, then defines how individual employees should contribute to their department's goals. More specifically, the following guidelines describe how to make the performance management system support organizational goals:²⁸

- *Define and measure performance in precise terms*—Focus on outcomes that can be defined in terms of how frequently certain behaviors occur. Include criteria that describe ways employees can add value to a product or service (such as through quantity, quality, or timeliness). Include behaviors that go beyond the minimum required to perform a job (such as helping co-workers).
- *Link performance measures to meeting customer needs*—"Customers" may be the organization's external customers, or they may be internal customers (employees receiving services from a co-worker). Service goals for internal customers should be related to satisfying external customers.
- *Measure and correct for the effect of situational constraints*—Monitor economic conditions, the organization's culture, and other influences on performance. Measures of employees' performance should take these influences into account.

This approach gives employees the information they need to behave in ways that contribute to high performance. In addition, organizations should help employees identify and obtain the abilities they need to meet their performance goals. The "HR How To" box provides additional guidelines for performance management in nonprofit organizations.

Compensation

Organizations can reinforce the impact of this kind of performance management by linking compensation in part to performance measures. Chapter 12 described a number of methods for doing this, including merit pay, gainsharing, and profit sharing. Lincoln Electric has for decades paid its production workers a piecework rate. Not only does this motivate individual employees to look for the most efficient ways to do their jobs, but because the company is known for this compensation method, it attracts workers who value working hard in order to earn more. In addition, Lincoln has been paying all of its employees a profit-sharing bonus “every year since 1934,” in the words of Lincoln’s CEO John M. Stropki Jr.²⁹ Compensation systems also can help to create the conditions that contribute to high performance, including teamwork, empowerment, and job satisfaction. For example, as discussed in Chapter 12, compensation can be linked to achievement of team objectives.

Organizations can increase empowerment and job satisfaction by including employees in decisions about compensation and by communicating the basis for decisions about pay. When the organization designs a pay structure, it can set up a task force that includes employees with direct experience in various types of jobs. Some organizations share financial information with their employees and invite them to recommend pay increases for themselves, based on their contributions. Employees also may participate in setting individual or group goals for which they can receive bonuses. Research has found that employee participation in decisions about pay policies is linked to greater satisfaction with the pay and the job.³⁰ And as we discussed in Chapter 11, when organizations explain their pay structures to employees, the communication can enhance employees’ satisfaction and belief that the system is fair.

L05 Discuss the role of HRM technology in high-performance work systems.

HRM Technology

Human resource departments can improve their own and their organization’s performance by appropriately using new technology (see the “HR Oops!” box). New technology usually involves *automation and collaboration*—that is, using equipment and information processing to perform activities that had been performed by people and facilitating electronic communication between people. Over the last few decades, automation has improved HRM efficiency by reducing the number of people needed to perform routine tasks. Using automation can free HRM experts to concentrate on ways to determine how human resource management can help the organization meet its goals, so technology also can make this function more valuable.³¹ For example, information technology provides ways to build and improve systems for knowledge generation and sharing, as part of a learning organization. Among the applications are databases or networking sites where employees can store and share their knowledge, online directories of employee skills and experiences, and online libraries of learning resources, such as technical manuals and employees’ reports from seminars and training programs.

HRM Applications

As computers become ever more powerful, new technologies continue to be introduced. In fact, so many HRM applications are developed for use on personal computers that publications serving the profession (such as *HR Magazine* and *Workforce Management*) devote annual issues to reviewing this software. Some of the technologies that have been widely adopted are transaction processing, decision support systems, and expert systems.³²

HR Oops!

Inflexible without Technology

We know that companies use performance management systems because they want employees to do the things that will help their company succeed. And we know that the business environment is constantly changing, so companies need to be flexible in terms of their strategies and objectives. So logically, performance management systems should be flexible, too, adjusting goals as economic, social, competitive, and technological forces introduce risks and open up opportunities.

That may be logical, but according to a recent survey, it isn't what companies are actually doing. The Human Capital Institute recently found that 66 percent of midsized companies said their performance management system isn't set up to adjust goals; rather, employees see performance appraisals and get new goals once or twice a year.

Constant adjusting of goals could be complicated and confusing, but HRM technology exists to make flexibility part of the system. For example, Workscope Performance Manager is a Web-based HR application in which employees and their managers enter goals as the system prompts them through the process. Then employees log into the system to see a list of their goals, indicating the priorities, progress, and deadline for each, along with planned development activities and tasks related to performance appraisal. Users of the system can look up and alter details of the plans and their progress at any time.

Sources: "Aligning Employee Performance with Organizational Goals," Financial Executive, November 2009, p. 13; and Workscope, "Workscope Performance Manager," data sheet, www.workscope.com, accessed May 11, 2010.

Questions

1. What would hold back an employer from using HRM technology that was likely to improve performance? Which of these obstacles, if any, are reasonable barriers to using HRM technology, and which should HR managers try to overcome?
2. Suppose you are an HR manager who wants to encourage your organization to begin using Workscope Performance Manager or a similar system. How would you measure whether this system is a wise investment for your organization?

Transaction processing refers to computations and calculations involved in reviewing and documenting HRM decisions and practices. It includes documenting decisions and actions associated with employee relocation, training expenses, and enrollments in courses and benefit plans. Transaction processing also includes the activities required to meet government reporting requirements, such as filling out EEO-1 reports, on which employers report information about employees' race and gender by job category. Computers enable companies to perform these tasks more efficiently. Employers can fill out computerized forms and store HRM information in databases (data stored electronically in user-specified categories), so that it is easier to find, sort, and report.

Decision support systems are computer software systems designed to help managers solve problems. They usually include a "what if?" feature that managers can use to enter different assumptions or data and see how the likely outcomes will change. This type of system can help managers make decisions for human resource planning. The manager can, for example, try out different assumptions about turnover rates to see how those assumptions affect the number of new employees needed. Or the manager can test a range of assumptions about the availability of a certain skill in the labor market, looking at the impact of the assumptions on the success

Transaction Processing

Computations and calculations involved in reviewing and documenting HRM decisions and practices.

Decision Support Systems

Computer software systems designed to help managers solve problems by showing how results vary when the manager alters assumptions or data.

Expert Systems

Computer systems that support decision making by incorporating the decision rules used by people who are considered to have expertise in a certain area.

of different recruiting plans. Possible applications for a decision support system include forecasting (discussed in Chapter 5) and succession planning (discussed in Chapter 9).

Expert systems are computer systems that incorporate the decision rules used by people who are considered to have expertise in a certain area. The systems help users make decisions by recommending actions based on the decision rules and the information provided by the users. An expert system is designed to recommend the same actions that a human expert would in a similar situation. For example, an expert system could guide an interviewer during the selection process. Some organizations use expert systems to help employees decide how to allocate their money for benefits (as in a cafeteria plan) and help managers schedule the labor needed to complete projects. Expert systems can deliver both high quality and lower costs. By using the decision processes of experts, an expert system helps many people to arrive at decisions that reflect the expert's knowledge. An expert system helps avoid the errors that can result from fatigue and decision-making biases, such as biases in appraising employee performance, described in Chapter 8. An expert system can increase efficiency by enabling fewer or less-skilled employees to do work that otherwise would require many highly skilled employees.

In modern HR departments, transaction processing, decision support systems, and expert systems often are part of a human resource information system. Also, these technologies may be linked to employees through a network such as an intranet. Information systems and networks have been evolving rapidly; the following descriptions provide a basic introduction.

Human Resource Information Systems

A standard feature of a modern HRIS is the use of *relational databases*, which store data in separate files that can be linked by common elements. These common elements are fields identifying the type of data. Commonly used fields for an HR database include name, Social Security number, job status (full- or part-time), hiring date, position, title, rate of pay, citizenship status, job history, job location, mailing address, birth date, and emergency contacts. A relational database lets a user sort the data by any of the fields. For example, depending on how the database is set up, the user might be able to look up tables listing employees by location, rates of pay for various jobs, or employees who have completed certain training courses. This system is far more sophisticated than the old-fashioned method of filing employee data by name, with one file per employee.

The ability to locate and combine many categories of data has a multitude of uses in human resource management. Databases have been developed to track employee benefit costs, training courses, and compensation. The system can meet the needs of line managers as well as the HR department. On an oil rig, for example, management might look up data listing employee names along with safety equipment issued and appropriate skill certification. HR managers at headquarters might look up data on the same employees to gather information about wage rates or training programs needed. Another popular use of an HRIS is applicant tracking, or maintaining and retrieving records of job applicants. This is much faster and easier than trying to sort through stacks of résumés. With relational databases, HR staff can retrieve information about specific applicants or obtain lists of applicants with specific skills, career goals, work history, and employment background. Such information is useful for HR planning, recruitment, succession planning, and career development. Taking the

process a step further, the system could store information related to hiring and terminations. By analyzing such data, the HR department could measure the long-term success of its recruiting and selection processes.

One of the most creative developments in HRIS technology is the **HR dashboard**, a display of a series of HR-related indicators, or measures, showing human resource goals and objectives and the progress toward meeting them. Managers with access to the HRIS can look at the HR dashboard for an easy-to-scan review of HR performance. For example, at Cisco Systems, employee development is a priority, so its HR dashboard includes a measure that tracks how many employees move and why.³³ By looking for divisions in which many employees make many lateral and upward moves, Cisco can identify divisions that are actively developing new talent.

HR Dashboard

A display of a series of HR measures, showing human resource goals and objectives and progress toward meeting them.

Human Resource Management Online: E-HRM

During the last decade or so, organizations have seen the advantages of sharing information in computer networks. At the same time, the widespread adoption of the Internet has linked people around the globe. As we discussed in Chapter 2, more and more organizations are engaging in e-HRM, providing HR-related information over the Internet. Because much human resource information is confidential, organizations may do this with an intranet, which uses Internet technology but allows access only to authorized users (such as the organization's employees). For HR professionals, Internet access also offers a way to research new developments, post job openings, trade ideas with colleagues in other organizations, and obtain government documents. In this way, e-HRM combines company-specific information on a secure intranet with links to the resources on the broader Internet.

As Internet use has increasingly taken the form of so-called Web 2.0 applications, e-HRM has moved in this direction as well (see the “eHRM” box). Generally speaking, Web 2.0 refers to tools that bring networks of people together to collaborate on projects, solve problems, or socialize. For instance, IBM applied social networking tools to its mentoring program. Any IBM employee interested in offering advice or getting help can participate by filling out an online profile in a directory called BluePages. Then when they want a mentor, they use a search engine to find the person with the necessary expertise. The program brings together employees from around the world and gives them personal control over the mentoring process.³⁴

A benefit of e-HRM is that employees can help themselves to the information they need when they need it, instead of contacting an HR staff person. For example, employees can go online to enroll in or select benefits, submit insurance claims, or fill out employee satisfaction surveys. This can be more convenient for the employees, as well as more economical for the HR department.

Most administrative and information-gathering activities in human resource management can be part of e-HRM. For example, online recruiting has become a significant part of the total recruiting effort, as candidates submit résumés online.



Online recruiting offers many benefits to the company and the potential employee. Companies are able to easily post job openings and retrieve résumés, while potential employees can research the company and submit their résumés. Procter & Gamble's Careers Web site incorporates Web 2.0 features such as links to P&G social networks, video clips of employee profiles, and a job search application with a choice of languages and countries.

WEB 2.0 FOR HUMAN RESOURCE MANAGEMENT

Many people had their introduction to Web 2.0 in their personal lives, posting and interacting with content on YouTube, MySpace, Facebook, Flickr, and Wikipedia. Other ways to use Web 2.0 include participating in discussion forums, playing virtual-reality games, and signing up for online newsfeeds. It hasn't taken long for HR professionals and other managers to see that Web 2.0 can bring together employees as effectively as it brings together people with other shared interests.

Web 2.0 can apply to any HR function that involves human interaction and collaboration, especially across many miles or when large numbers of people are involved. For example, networking tools can be useful for mentoring programs and for internal or external recruiting. Knowledge sharing today also generally involves Web 2.0 applications. Training programs might make a variety of

downloadable options available online, and participants can be encouraged to sign into the company's training Web site to discuss what they are learning. Online registration for benefits can add a Web 2.0 component such as a button to click to chat with an HR representative.

Besides using Web 2.0 for its own functions, the role of human resource management may include helping the organization's top managers figure out the human dimensions of using these applications. Management may be rightly concerned that access to Web 2.0 tools at work will make information so widely available that there is a risk of breaching confidentiality. Internet users also sometimes (intentionally or unintentionally) spread rumors, errors, or offensive remarks that could hurt employees' effectiveness or the company's reputation. HR specialists therefore need to

collaborate with IT specialists to ensure that security systems are in place to protect confidentiality where appropriate. They also should be involved in developing and communicating policies for appropriate use of the Internet by the company's employees.

IBM, for example, has published a policy describing appropriate online behavior for its employees when they are using blogs, wikis, social networks, virtual worlds, and social media. The guidelines acknowledge that the company's computer-savvy employees are going to be online, and it describes how to do so responsibly and professionally. Other employers should prepare, too, because whether or not they do, their employees are going to be online.

Source: Based on Anne Pauker Kreitzberg, "Building a Web 2.0-Friendly Culture," *People & Strategy*, June 2009, pp. 40-45.

Employers go online to retrieve suitable résumés from job search sites or retrieve information from forms they post at their own Web sites. For selection decisions, the organization may have candidates use one of the online testing services available; these services conduct the tests, process the results, and submit reports to employers. Aspects of job design can be automated; at United Parcel Service, for example, a software system maps out each day's route for drivers to minimize wasted time and gasoline.³⁵ Online appraisal systems can help managers make pay decisions consistent with company policies and employee performance. Many types of training can be conducted online, as we discussed in Chapter 7. Employees at Capital One can download podcasts of training modules in the financial service company's audio learning program.³⁶ Online surveys of employee satisfaction can be quick and easy to fill out. Besides providing a way to administer the survey, an intranet is an effective vehicle for communicating the results of the survey and management's planned response.

Not only does e-HRM provide efficient ways to carry out human resource functions, it also poses new challenges to employees and new issues for HR managers to address. The Internet's ability to link people anytime, anywhere has accelerated

such trends as globalization, the importance of knowledge sharing within organizations, and the need for flexibility. These trends, in turn, change the work environment for employees. For example, employees in the Internet age are expected to be highly committed but flexible, able to move from job to job. Employees also may be connected to the organization 24/7. In the car, on vacation, in airports, and even in the bathroom, employees with handheld computers can be interrupted by work demands. Organizations depend on their human resource departments to help prepare employees for this changing work world through such activities as training, career development, performance management, and benefits packages that meet the need for flexibility and help employees manage stress.

Effectiveness of Human Resource Management

In recent years, human resource management at some organizations has responded to the quest for total quality management by taking a customer-oriented approach. For an organization’s human resource division, “customers” are the organization as a whole and its other divisions. They are customers of HRM because they depend on HRM to provide a variety of services that result in a supply of talented, motivated employees. Taking this customer-oriented approach, human resource management defines its customer groups, customer needs, and the activities required to meet those needs, as shown in Table 16.2. These definitions give an organization a basis for defining goals and measures of success.

Depending on the situation, a number of techniques are available for measuring HRM’s effectiveness in meeting its customers’ needs. These techniques include reviewing a set of key indicators, measuring the outcomes of specific HRM activity, and measuring the economic value of HRM programs.

Human Resource Management Audits

An **HRM audit** is a formal review of the outcomes of HRM functions. To conduct the audit, the HR department identifies key functions and the key measures of business performance and customer satisfaction that would indicate each function is succeeding. Table 16.3 lists examples of these measures for a variety of HRM functions: staffing, compensation, benefits, training, appraisal and development, and overall effectiveness. The audit may also look at any other measure associated with successful management of human resources—for instance, compliance with equal employment opportunity laws, succession planning, maintaining a safe workplace, and positive labor relations. An HRM audit using customer satisfaction measures supports the customer-oriented approach to human resource management.

After identifying performance measures for the HRM audit, the staff carries out the audit by gathering information. The information for the key business indicators is

LO6 Summarize ways to measure the effectiveness of human resource management.

HRM Audit
A formal review of the outcomes of HRM functions, based on identifying key HRM functions and measures of business performance.

WHO ARE OUR CUSTOMERS?	WHAT DO OUR CUSTOMERS NEED?	HOW DO WE MEET CUSTOMER NEEDS?
Line managers	Committed employees	Qualified staffing
Strategic planners	Competent employees	Performance management
Employees		Rewards
		Training and development

Table 16.2
Customer-Oriented Perspective of Human Resource Management

Table 16.3

Key Measures of Success for an HRM Audit

BUSINESS INDICATORS	CUSTOMER SATISFACTION MEASURES
Staffing	
Average days taken to fill open requisitions	Anticipation of personnel needs
Ratio of acceptances to offers made	Timeliness of referring qualified workers to line supervisors
Ratio of minority/women applicants to representation in local labor market	Treatment of applicants
Per capita requirement costs	Skill in handling terminations
Average years of experience/education of hires per job family	Adaptability to changing labor market conditions
Compensation	
Per capita (average) merit increases	Fairness of existing job evaluation system in assigning grades and salaries
Ratio of recommendations for reclassification to number of employees	Competitiveness in local labor market
Percentage of overtime hours to straight time	Relationship between pay and performance
Ratio of average salary offers to average salary in community	Employee satisfaction with pay
Benefits	
Average unemployment compensation payment (UCP)	Promptness in handling claims
Average workers' compensation payment (WCP)	Fairness and consistency in the application of benefit policies
Benefit cost per payroll dollar	Communication of benefits to employees
Percentage of sick leave to total pay	Assistance provided to line managers in reducing potential for unnecessary claims
Training	
Percentage of employees participating in training programs per job family	Extent to which training programs meet the needs of employees and the company
Percentage of employees receiving tuition refunds	Communication to employees about available training opportunities
Training dollars per employee	Quality of introduction/orientation programs
Employee appraisal and development	
Distribution of performance appraisal ratings	Assistance in identifying management potential
Appropriate psychometric properties of appraisal forms	Organizational development activities provided by HRM department
Overall effectiveness	
Ratio of personnel staff to employee population	Accuracy and clarity of information provided to managers and employees
Turnover rate	Competence and expertise of staff
Absenteeism rate	Working relationship between organizations and HRM department
Ratio of per capita revenues to per capita cost	
Net income per employee	

SOURCE: Excerpted with permission, Chapter 1.5, "Evaluating Human Resource Effectiveness" (pp. 187–227) by Anne S. Tsui and Luis R. Gomez-Mejia from *Human Resource Management: Evolving Roles & Responsibilities*, edited by Lee Dyer. Copyright © 1988 by The Bureau of National Affairs, Inc., Washington, DC. For copies of BNA Books publications call toll free 1-800-960-1200.

usually available in the organization's documents. Sometimes the HR department has to create new documents for gathering specific types of data. The usual way to measure customer satisfaction is to conduct surveys. Employee attitude surveys, discussed in Chapter 10, provide information about the satisfaction of these internal customers. Many organizations conduct surveys of top line executives to get a better view of how HRM practices affect the organization's business success. To benefit from the HR profession's best practices, companies also may invite external auditing teams to audit specific HR functions. For example, the European Foundation of Management Development has audited management training at Novartis, which markets health care products.³⁷ In the United States, the American Society for Training and Development conducts similar assessments.

Of course, the benefits of the audit are only as great as the company's response to what it learns. The "Best Practices" box describes how consulting and accounting firm PricewaterhouseCoopers applied what it learned from gathering data on employee engagement.

Analyzing the Effect of HRM Programs

Another way to measure HRM effectiveness is to analyze specific programs or activities. The analysis can measure a program's success in terms of whether it achieved its objectives and whether it delivered value in an economic sense. For example, if the organization sets up a training program, it should set up goals for that program, such as the training's effects on learning, behavior, and performance improvement (results). The analysis would then measure whether the training program achieved the preset goals. Novartis analyzes the quality of its training programs by assessing whether they meet particular goals, such as preparing managers to meet leadership standards. As soon as a training program ends, participants are asked to rate the experience. Several months later, the training department measures whether participants' performance improved or behavior changed. Overall employee evaluations of company leadership also are measured against the use of management training.³⁸

The analysis can take an economic approach that measures the dollar value of the program's costs and benefits. Successful programs should deliver value that is greater than the programs' costs. Costs include employees' compensation as well as the costs to administer HRM programs such as training, employee development, or satisfaction surveys. Benefits could include a reduction in the costs associated with employee absenteeism and turnover, as well as improved productivity associated with better selection and training programs.

In general, HR departments should be able to improve their performance through some combination of greater efficiency and greater effectiveness. Greater efficiency means the HR department uses fewer and less-costly resources to perform its functions. Greater effectiveness means that what the HR department does—for example, selecting employees or setting up a performance management system—has a more beneficial effect on employees' and the organization's performance. Employee turnover is a measure that can relate to both efficiency and effectiveness if an organization is spending money on recruiting, selection, and training because it loses people with valuable experience. When Ray Lieber became vice president of human resources at Superior Energy Services, he zeroed in on turnover and, for each job category, measured the revenue Superior lost per employee who quit. He also computed the turnover rate for each job category. Superior's managers were surprised when Lieber showed them that the highest turnover rates were not semiskilled workers, as they

PRICEWATERHOUSECOOPERS APPLIES THE DATA

Essentially, what PricewaterhouseCoopers (PwC) offers its clients is great people: experts at accounting and business management. But several years ago, following the merger of Price Waterhouse and Coopers & Lybrand, the firm's own employee turnover was appallingly high, costing the company tens of millions of dollars a year as it continually tried to replenish its ranks. The one path to promotion, a long road from hiring directly out of college and then positions as associate and senior manager, allowed only a select few to make it to partner. At each step of the way, turnover rates increased. Those who stayed on with the firm had to scramble to keep up with their workloads because team members kept quitting.

PwC's leaders decided the firm simply had to change. Twice-yearly surveys of employees provided a good starting point, but they showed only that employees were dissatisfied, not the root causes of the dissatisfaction. To learn more, the HR department hired the University of Southern California's Center for Effective Organizations to conduct an in-depth study of employee attitudes.

The center's study showed that only one out of five newly hired employees planned to make a long-term career at PwC. To develop commitment, employees were looking for a chance to do challenging work and develop their skills so they could advance in their careers. The compensation of their current jobs was less important than what they hoped to earn as their career progressed. And the main predictors of an employee leaving the firm were negative opinions of work/life balance, pay, and job satisfaction.

The information gave the firm ideas about where to improve as well as baseline data for measuring improvement. PwC applied the results to develop a strategy it called Unique People Experience. Under this strategy, the firm trained its partners in how to build stronger relations with staff, provide useful and timely feedback, and strengthen teamwork. Each office of the firm created an action plan targeting the main problems at that office. In one California office, employees were frustrated by a lack of performance feedback, so this office began scheduling regular meetings to discuss

progress. Partners were also assigned to employees for whom they were expected to provide coaching. Another practice reorganized work into "market teams." Each market team brings together a variety of functions to serve the clients in a particular market. As a result, the participants feel a greater sense of community with one another and a belief that what they do matters.

Throughout the process, HR professionals visited client sites, taught skills in coaching and delivering performance feedback, and helped managers develop employees through their assignments to engagements. Within a few years, PwC was seeing dramatic improvements. Turnover fell from far above to far below the industry average, and employee satisfaction has been rising every year.

Source: Based on Michael J. Fenlon and Susan Albers Mohrman, "Where Counting Counts," *HR Magazine*, January 2010, pp. 31–35.

had assumed, but skilled operators and supervisors. They gave him the go-ahead to develop a statistical model to predict which activities would have the greatest impact on turnover. Lieber learned that he could significantly lower turnover—and hence improve revenues and lower costs—by providing more coaching and training.³⁹

HRM's potential to affect employees' well-being and the organization's performance makes human resource management an exciting field. As we have shown throughout the book, every HRM function calls for decisions that have the potential to help individuals and organizations achieve their goals. For HR managers to fulfill that potential, they must ensure that their decisions are well grounded. The field of human resource management provides tremendous opportunity to future researchers and managers who want to make a difference in many people's lives.

thinking ethically

CAN HRM MAKE ORGANIZATIONS MORE ETHICAL?

Ed Gubman, executive editor of *People & Strategy*, once received a proposed article from writers describing how their company had improved performance and leadership by using social networking applications. It was an inspiring story, except that it came from one of the financial institutions blamed for questionable practices leading to the recent near-meltdown of the financial services industry. Gubman was left to ponder what kind of “leadership” had resulted from the HR effort. Did the HR staff think it was fine to enable the company to become proficient at unethical conduct, or did they not understand what major parts of their company were doing?

The answers to these questions relate to the extent of HR professionals’ knowledge and influence. The tools are available to provide an unprecedented level of guidance in how the company’s HR practices affect business outcomes. If HRM is to promote ethical conduct, its practitioners must understand what their organization does, be committed to using goals and policies that reinforce ethical conduct, and be able to advocate for this effort. In practice—perhaps because

of the *human* focus of human resource management—top executives seem happy to leave decisions about ethics up to this department. The obvious risk is that if the HR director is the only executive thinking about ethics, then ethics is unlikely to be a true strategic priority.

SOURCES: Ed Gubman, “Where Is HR?” *People & Strategy*, September 2009, p. 3; and Stefan Stern, “Resources Are Limited and HR Must Raise Its Game,” *Financial Times*, February 17, 2009, Business & Company Resource Center, <http://galenet.galegroup.com>.

Questions

1. If HR managers are the only managers charged with ensuring ethical conduct, then how much impact can they have on their organization’s ethical behavior? Who else in an organization might an HR executive persuade to be an ally in advocating for ethics to be on the agenda?
2. Suppose you are an HR executive meeting with the company’s board of directors. You have been asked to draft a code of ethics for the company. Make a business case for why other leaders should join you in this effort.

SUMMARY

LO1 Define high-performance work systems, and identify the elements of such a system.

A high-performance work system is the right combination of people, technology, and organizational structure that makes full use of the organization’s resources and opportunities in achieving its goals. The elements of a high-performance work system are organizational structure, task design, people, reward systems, and information systems. These elements must work together in a smoothly functioning whole.

LO2 Summarize the outcomes of a high-performance work system.

A high-performance work system achieves the organization’s goals, typically including growth, productivity, and high profits. On the way to achieving these overall goals, the high-performance work system meets such intermediate goals as high quality, innovation, customer satisfaction, job satisfaction, and reduced absenteeism and turnover.

LO3 Describe the conditions that create a high-performance work system.

Many conditions contribute to high-performance work systems by giving employees skills, incentives, knowledge, autonomy, and employee satisfaction. Teamwork and empowerment can make work more satisfying and provide a means for employees to improve quality and productivity. Organizations can improve performance by creating a learning organization, in which people constantly learn and share knowledge so that they continually expand their capacity to achieve the results they desire. In a high-performance organization, employees experience job satisfaction or even “occupational intimacy.” For long-run high performance, organizations and employees must be ethical as well.

LO4 Explain how human resource management can contribute to high performance.

Jobs should be designed to foster teamwork and employee empowerment. Recruitment and selection should focus on obtaining employees who have

the qualities necessary for teamwork, empowerment, and knowledge sharing. When the organization selects for teamwork and decision-making skills, it may have to provide training in specific job tasks. Training also is important because of its role in creating a learning organization. The performance management system should be related to the organization's goals, with a focus on meeting internal and external customers' needs. Compensation should include links to performance, and employees should be included in decisions about compensation. Research suggests that it is more effective to improve HRM practices as a whole than to focus on one or two isolated practices.

LO5 Discuss the role of HRM technology in high-performance work systems.

Technology can improve the efficiency of the human resource management functions and support knowledge sharing. HRM applications involve transaction processing, decision support systems, and expert systems, often as part of a human resource information system using relational data-

bases, which can improve the efficiency of routine tasks and the quality of decisions. With Internet technology, organizations can use e-HRM to let all the organization's employees help themselves to the HR information they need whenever they need it.

LO6 Summarize ways to measure the effectiveness of human resource management.

Taking a customer-oriented approach, HRM can improve quality by defining the internal customers who use its services and determining whether it is meeting those customers' needs. One way to do this is with an HRM audit, a formal review of the outcomes of HRM functions. The audit may look at any measure associated with successful management of human resources. Audit information may come from the organization's documents and surveys of customer satisfaction. Another way to measure HRM effectiveness is to analyze specific programs or activities. The analysis can measure success in terms of whether a program met its objectives and whether it delivered value in an economic sense, such as by leading to productivity improvements.

KEY TERMS

continuous learning p. 496

decision support systems p. 505

expert systems p. 506

high-performance work system p. 492

HR dashboard p. 507

HRM audit p. 509

learning organization p. 496

transaction processing p. 505

REVIEW AND DISCUSSION QUESTIONS

1. What is a high-performance work system? What are its elements? Which of these elements involve human resource management?
2. As it has become clear that HRM can help create and maintain high-performance work systems, it appears that organizations will need two kinds of human resource professionals. One kind focuses on identifying how HRM can contribute to high performance. The other kind develops expertise in particular HRM functions, such as how to administer a benefits program that complies with legal requirements. Which aspect of HRM is more interesting to you? Why?
3. How can teamwork, empowerment, knowledge sharing, and job satisfaction contribute to high performance?
4. If an organization can win customers, employees, or investors through deception, why would ethical behavior contribute to high performance?
5. How can an organization promote ethical behavior among its employees?
6. Summarize how each of the following HR functions can contribute to high performance.
 - a. Job design
 - b. Recruitment and selection
 - c. Training and development
 - d. Performance management
 - e. Compensation
7. How can HRM technology make a human resource department more productive? How can technology improve the quality of HRM decisions?
8. Why should human resource departments measure their effectiveness? What are some ways they can go about measuring effectiveness?

BUSINESSWEEK CASE

BusinessWeek How MasterCard and Others Are Keeping Employees Creative

MasterCard [recently hosted] a Webcast of PowerPoint slides and short videos on various directions the company could take once the U.S. economy turns up again. The online presentations [featured] findings from seven members of an internal, international scenario-planning “task force,” which has been gathering ideas for months from MasterCard employees at all levels around the world.

In the recent past, such a production would have been reserved for senior management. But this Webcast will be open to all 5,500 employees of the credit card giant, from fresh-faced interns up to its 58-year-old chief executive, Robert Selander. The aim: invite anyone with an idea for new products, services, or internal processes to speak up, and encourage staff members to “bring their best selves to work” during the downturn, says Rebecca Ray, senior vice-president of MasterCard’s Global Talent Management and Development Department.

MasterCard’s initiative takes a page from innovation exercises at technology companies such as IBM, whose annual online “innovation jams” have, since 2006, allowed employees at all levels to submit ideas online during a 90-hour, round-the-clock brainstorming session. But the mission seems more critical today as companies grapple with keeping employees creative and motivated when job and budget cuts, declining revenue, and losses dominate the headlines. (While holding up relatively well, MasterCard reported that first-quarter earnings fell 18 percent, to \$367.3 million, as revenue dipped 2 percent, to \$1.2 billion.)

“I have seen more nontech companies get into Webcasts for all employees. In fact, I see them not using Webcasts for senior leaders as much,” says Prasad Kaipa, a former Apple research fellow and now an innovation coach for such companies as Cisco, Ford, and PepsiCo.

For instance, accounting and consulting firm Deloitte offered a Webcast of PowerPoint slides, live polls, and live conversation hosted by John Kao, author of *Innovation Nation* and head of Deloitte’s Institute for Large Scale Innovation. The Webcast, planned as the inaugural in a

series, was open to Deloitte staff at various levels, as well as outside registrants. More than 550 people logged on; outside participants came from Kaiser Permanente, Coca-Cola, and ExxonMobil, among others.

Webcasts are attractive for another reason these days: They cost much less than flying employees to big-think conferences, especially as prices of high-speed broadband decline and technical capabilities rise.

Some companies are finding other ways to exploit new media tools to spread ideas. At Walt Disney, Luis Fernandez, a senior vice-president at Disney Consumer Products, is encouraging staff members to e-mail short video clips they create to one another, to share experiences at industry trade shows, conventions, or even museums.

Called “zip clips” internally, these mini-productions are meant to inspire fellow employees who might not have the same research and conference travel budgets they had in the past, says Fernandez. He adds that the self-help program is a direct result of the recession. “I’d be lying if I told you we didn’t have budget cuts,” he says. “[But] we do not question the value of innovation, even in a recession.”

The smartest companies will continue with such brainstorming projects after the recession runs its course. “Even when the economy recovers, these practices are a good strategy,” says executive coach Kaipa. “That’s because the more hope, vision, and imagination employees experience, the more they feel they have the power and freedom to innovate.”

SOURCE: Excerpted from Reena Jana and Damian Joseph, “Keeping Employees Creative in a Downturn,” *BusinessWeek*, July 22, 2009, www.businessweek.com.

Questions

1. How do the innovation ideas described here support the creation and maintenance of a high-performance work system? What element(s) of a high-performance work system (shown in Figure 16.1) do these efforts relate to?
2. Describe one or two areas in which human resource management has benefited from recent innovations. Why is it important for HR professionals to be innovative in their field?
3. How might an HR department be involved with using Webcasts to promote innovation? What would this effort contribute to HR or organizational performance?

Case: Preparing for an Uncertain Future

In human resource management, as in all business functions, one of the most daunting challenges is that decisions and plans must be made about the future,

in spite of all the uncertainties. And recently, the future of employee benefits has entered a stage of enormous uncertainty, at least with regard to health insurance

benefits. At the time Congress passed the Patient Protection and Affordable Care Act, this comprehensive law gave rise to a whole host of hopes and fears. By the time you study this case, some of these possibilities may seem far more—or less—certain, but consider the situation facing HR professionals as they wondered about the details of regulations still to be drafted by the Department of Health and Human Services, as well as business responses.

As we discussed in Chapter 13, health insurance is one of the most widely offered benefits, and it is highly valued by employees, although they often do not appreciate its full cost to employers. Favorable tax treatment of health coverage made it an attractive way for employers to increase employees' compensation packages without increasing their pay. However, the rapid growth of health costs has made this benefit very expensive. Many employers expect that some of the early provisions of health reform to take effect, such as the extension of coverage to employees' children up to age 26 and the requirement that insurers not place lifetime limits on care, will cause the price of health insurance to rise even faster, at least in the early years under the law.

Some large employers have investigated their options under the health reform law by comparing the cost of continuing health insurance benefits versus discontinuing the benefits and paying the penalties to be imposed on employers beginning in 2014. If large companies do not provide their employees with health insurance, these individuals would have the option to buy health care through exchanges run by the states. Many of them would be eligible for subsidies from the federal government, and to offset the subsidies, the employers would pay a fee. One company that considered this as an alternative was Verizon. Hewitt Resources prepared a research report for Verizon saying the penalties would be "modest when compared to the average cost of health care." Internal memos and e-mail at Verizon, Deere, and Caterpillar indicate that managers at all three companies predicted increasing costs for health benefits. Documents at Caterpillar and AT&T also weighed the cost differences between the costs of the penalty and the costs of health benefits.

Further complicating the issue is the 40 percent excise tax to be charged on health policies costing more than \$8,500 for an individual or \$23,000 for a family, beginning in 2018. Employers are uncertain whether they can require employees to pay the full tax. In addition, the

change poses complications for companies that include health care as a provision in collective bargaining agreements with unions. Depending on how the tax is paid, the law will affect the attractiveness of this benefit from the union's and the employer's perspectives.

The situation is different for small employers, which generally don't offer the pricier "Cadillac" health plans subject to the excise tax. Many of them are eligible for government tax credits in exchange for providing health coverage.

In response to questions about the possibility it would drop health benefits, Caterpillar issued a statement saying that after "considerable time evaluating the impact of the potential legislation to the company," the company is continuing to evaluate the law "and awaiting regulatory guidance to ensure full compliance with the new law," so it has not made any decisions.

SOURCES: Shawn Tully, "Documents Reveal AT&T, Verizon, Others Thought about Dropping Employer-Sponsored Benefits," *Fortune*, May 6, 2010, <http://money.cnn.com>; Rebecca Vesely, "A Lot More Paperwork," *Modern Healthcare*, April 5, 2010, Business & Company Resource Center, <http://galenet.galegroup.com>; and Paul Gordon, "Cat Weighs Future of Health Coverage," *Journal Star (Peoria, Ill.)*, May 7, 2010, Business & Company Resource Center, <http://galenet.galegroup.com>.

Questions

1. What role do employee benefits play in creating and maintaining a high-performance work system? How well do you think health insurance has played that role for large companies in the United States?
2. If large companies stop offering health insurance as an employee benefit, the total compensation package paid to the average employee would be much smaller. How, if at all, do you think employers should make up for that reduction? What would be the impact of your recommendation on employees? On the government and taxpayers?
3. Suppose you work for a large company that is considering dropping health insurance and paying the penalty instead. What is your recommendation in each of the following situations? What other situations might occur?
 - a. Most other large companies maintain health insurance benefits.
 - b. Most other large companies drop health insurance benefits.
 - c. You expect the government will respond by raising the penalties.



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- Web exercise: High Performance Work Systems
- Small-business case: Employees Make a Difference at Amy's Ice Creams

Practice

- Chapter quiz

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