

Part 1

Seeing People as a Strategic Resource



- Chapter 1* • Creating Value Through Human Resources
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Chapter 1

Creating Value Through Human Resources

A MANAGER'S PERSPECTIVE

MELISSA WALKS OUT THE DOOR AFTER HER JOB INTERVIEW AND THINKS ABOUT HOW MUCH SHE WANTS THE JOB. FROM THE DAY THAT SHE SAW THE JOB POSTING, SHE FELT LIKE THE POSITION AND COMPANY WOULD BE A GOOD FIT FOR HER. LAST NIGHT SHE TRIED TO EXPLAIN TO HER PARENTS WHY SHE LIKED THE COMPANY SO MUCH. THEY ARE CONCERNED BECAUSE THEY THINK SHE MAY NOT LIKE THE TRAVEL THAT WILL COME FROM BEING A BUSINESS CONSULTANT. HOWEVER, AFTER GOING THROUGH A DAY OF INTERVIEWS, MELISSA IS EVEN MORE SOLD ON THE PROSPECT OF WORKING FOR THIS COMPANY.

As Melissa reflects back on her discussions, she remembers a number of key conversations. One thing that impresses her is the company's strong track record of profitability. In the last few years she has seen many of her friends lose their jobs. Seeing their pain has steered Melissa toward companies that she sees as successful. She knows that profitability is one key to success. But why is the company so profitable? Of course,

much of it has to do with the company's excellent marketing strategies and superior operating procedures. From everything she has learned, the company is simply superior at meeting customer needs. It also has a strong reputation for helping people in the community, which is very important to Melissa.

Something that really attracts Melissa to the company is how they treated her during the job interviews. Karen, a human resource staff member, told Melissa that she had already progressed farther than 90 percent of job applicants. She also described how the company focuses on finding and keeping only the best employees. This makes Melissa feel good and leads her to believe she will have competent coworkers. The company seems to have good human resource practices. It pays above-average wages and offers a generous retirement package. According to Karen, it emphasizes internal promotions and ongoing training. Employees also





THE BIG PICTURE *Human Resource Management Practices Help Successful Organizations Meet the Needs of Employees, Customers, Owners, and Society*

get time off work to volunteer in the community, which seems like a great idea to Melissa.

The company also seems to have a strategic plan for dealing with important changes that are likely to occur both in the marketplace and among future employees. Melissa hopes she will receive a job offer in the next few days. She is certain she will take an offer if she receives one, as she has become convinced that she has the potential for a great future with the company.



WHAT DO YOU THINK?

Suppose you are listening to a conversation between Melissa and her parents. Her parents make the following statements as they and Melissa discuss her decision about the job. Which of the statements do you think are true?

- T OR F** Companies with good human resource practices have more satisfied workers.
- T OR F** Companies with happy employees are more profitable.
- T OR F** Companies lose money when they try to be good social and environmental citizens.
- T OR F** Having a successful career in the future workplace will require young employees to work effectively with older people.
- T OR F** Human resource specialists can provide critical information and support that helps make life better for employees.

LEARNING OBJECTIVES

After reading this chapter you should be able to:

- LEARNING OBJECTIVE 1** Explain how human resource management, from the organizational life-cycle and stakeholder perspectives, can facilitate organizational success.
- LEARNING OBJECTIVE 2** List the core functions of human resource management.
- LEARNING OBJECTIVE 3** Explain what human resource professionals do to help create successful organizations.
- LEARNING OBJECTIVE 4** Identify important labor trends that are affecting organizations and their human resource practices.
- LEARNING OBJECTIVE 5** Explain how effective human resource management requires a combination of strategic and functional perspectives.

How Can Human Resource Management Make an Organization Effective?

Human resource management
The field of study and practice that focuses on people in organizations.

Human resource management focuses on people in organizations. Of course, people are a major component of any organization, so it follows that organizations with more productive employees tend to be more successful. Employee productivity increases when organizations hire and motivate employees effectively. In addition, good human resource practices create more satisfied employees, who in turn work harder to satisfy customers.¹

One prosperous organization that traces much of its success to effective management of people is Trader Joe's. The chain now includes almost 350 stores in several western states, the Midwest, and the East Coast, but it began in the 1960s as three convenience stores seeking to survive the introduction of 7-Eleven. Seeing the difficulty of competing head-to-head with 7-Eleven, the founder—Joe Coulombe—decided to change Trader Joe's to a specialty store selling unique products. Trader Joe's has since become well known for providing foods and beverages that cannot be found in other stores. Products, which usually carry the store's own label, include gourmet and specialty foods such as soy ice-cream cookies, black rice, and stuffed salmon.²

Keeping prices low is one key to success for Trader Joe's. However, customers describe their shopping experience as something more than a simple hunt for bargains. Trader Joe's works hard to attract educated customers who develop a loyal relationship with the company. Many of these customers say they have fun shopping at Trader Joe's. They look forward to searching store aisles and finding interesting products. They also enjoy their interactions with helpful store employees dressed in casual Hawaiian shirts. The real key to success for Trader Joe's, then, seems to be finding and keeping great employees.³

What does Trader Joe's do to develop and maintain a productive workforce? Flexible job design certainly plays a role. Employees have a great deal of autonomy in determining how the store can best serve customers. Every employee is encouraged to sample products and make recommendations. Employees are free to tell customers when they don't like something. Workers

at Trader Joe's are not limited to performing certain tasks but help out wherever they are needed. Managers, for example, often sweep floors and stock shelves.⁴

Of course, not everyone would fit equally well into the job environment at Trader Joe's. Employee selection focuses on hiring people with personalities that fit the productive and creative culture. Trader Joe's looks for employees who are upbeat, outgoing, and motivated by challenge. Employees also need a good sense of humor and a strong customer orientation.

Convincing people to take jobs with Trader Joe's does not seem to be difficult. The store has a reputation as a desirable place to work, and a large number of people apply whenever job openings are advertised.⁵ One reason people like to work at Trader Joe's is the company's compensation practices. Employees are paid substantially more than they could make doing similar jobs in other companies. They receive health insurance and participate in an excellent retirement savings plan. Excellent pay not only helps get people interested in working at Trader Joe's but also helps ensure that employees will stay with the company. Managers are almost always promoted from within the company, and few employees leave to work elsewhere.⁶

Both employees and customers see Trader Joe's as a successful company. It is a profitable company, with annual sales exceeding \$7 billion. More important, Trader Joe's generates twice as many dollars in sales per square foot of store space as other grocery stores. This profitability has helped the company expand the number of stores without taking on debt. Profits have grown tenfold over a 10-year period.⁷

The success of Trader Joe's clearly illustrates how a company can thrive in difficult and changing times. Rather than giving up to a formidable competitor, Joe Coulombe identified an unmet need and created an organization to fill that need. Human resource practices at Trader Joe's help attract and motivate employees who provide great customer service. Doing things differently than competitors, and doing them better, has created a culture where people like to go to work. Happy employees make shoppers happy.



Building Strength Through HR

TRADER JOE'S

Trader Joe's is a privately owned chain of about 350 specialty grocery and wine stores. Human resource management at Trader Joe's builds competitive strength by



- Designing work to give people autonomy to complete tasks in creative ways.
- Identifying and hiring people who have fun, outgoing personalities.
- Providing high pay and excellent benefits to attract the best workers.
- Matching human resource practices with a competitive strategy of providing unique products.

LEARNING OBJECTIVE 1

How Is Organizational Success Determined?

As you begin studying human resource management, it is important to think about what you want to gain from your efforts. How can understanding human resource management better prepare you for success in your upcoming career? The most basic answer is that human resource skills will help you hire, manage, and motivate employees more effectively. Clearly, human resource skills are useful not only to human resource professionals but also to everyone who has responsibility for leading and managing others. Furthermore, even if you don't plan to work either as a human resource specialist or as a manager, learning the concepts of human resource management will help you to understand why the places where you work do much of what they do.

The goal of human resource management is, of course, to make organizations more effective. Thus, a starting point for learning about the field of human resource management is to explore the concept of organizational success. We know that some organizations are more successful than others. Can differences in human resource management explain why?

Most observers agree that Trader Joe's is a successful organization. This is supported by top rankings from publications such as *Consumer Reports*. But what exactly does it mean to say an organization is successful? Does it mean the organization makes a lot of money? Does it mean the organization makes the world a better place? Perhaps success is doing things the right way in the case of Trader Joe's, as it has been named one of the most ethical companies in the United States.⁸ Maybe it simply means the organization has been around for a long time. Because organizational success has many faces, each of these perspectives is partly true. Different models capture different meanings of success. Here, we briefly examine the meaning of organizational success from two perspectives—the life-cycle model and the stakeholder perspective—and consider how human resource management plays a role in making organizations effective from each viewpoint.

SUCCESS IN LIFE-CYCLE STAGES

Think about success for you as an individual. Being successful now doesn't guarantee you will be successful in 10 years. Having just enough money to buy pizza and books may equal success when you are 20, for example, but probably isn't enough when you are 40. Similarly, the life-cycle approach to organizational success suggests that measures of effectiveness change as an organization grows. Twenty years ago, Trader Joe's was successful simply because it didn't close when 7-Eleven entered the market. Success today depends on expansion into a national chain.

At the heart of this model of success is the **organizational life cycle**, a series of stages through which an organization moves during its lifetime. Stages of growth begin when the organization is founded and end when it ceases to exist. Since goals and objectives change as the organization moves from stage to stage, the nature and meaning of success also change. Here, we examine four common stages in the organizational life cycle: the entrepreneurial stage, the communal stage, the formalization stage, and the elaboration stage.⁹ As

Organizational life cycle
Stages through which an organization moves after its founding.

Table 1.1

Human Resources Across the Organizational Life Cycle

Stage	Goal	Human Resource Contribution
Entrepreneurial	Survival and growth	Need to hire and maintain employees; emphasis on creating plans for measuring performance and deciding pay
Communal	Develop identity and overcome conflict	Need to develop clear communication channels; emphasis on building strong loyalty among employees
Formalization	Efficient production	Need to create formalized practices for hiring, training, and compensating; emphasis on continual improvement of employee skills and motivation
Elaboration	Adaptation and renewal	Need to alter practices to meet changing demands; emphasis on new ways of organizing work tasks

you will see, human resource management plays an important role in every stage. Table 1.1 summarizes key differences across the stages.

Entrepreneurial Stage

An organization enters the **entrepreneurial stage** when it is first created. This stage is a lot like infancy for human beings. The main goal is survival and growth. Organizations in the entrepreneurial stage need to develop an identity and obtain resources. Success during this stage is often measured simply in terms of staying alive. Organizations that survive are successful. The early history of the Internet company Yahoo! is a good example. Yahoo! wasn't profitable in the beginning, but it showed innovation and growth when many competitors were going out of business.

Effective human resource management is very important for the survival and growth of newly formed organizations. Organizations must find and hire a sufficient number of quality employees. They must also develop basic plans for measuring performance and paying people.

Organizations in the entrepreneurial stage of development are typically too small to afford a full-time dedicated human resource staff. A typical organization employs one human resource specialist for every 100 employees.¹⁰ As a result, it is likely that owners and managers of firms with relatively few employees perform many human resource duties themselves or hire outside consultants to do this work.

Given the importance of human resources for entrepreneurial organizations, it is not surprising that firms with better-developed plans and methods of obtaining and paying employees are more likely to survive. For instance, one study found that new organizations lacking clear human resource and pay plans have just a 34 percent chance of surviving the first five years. Firms with good human resource plans, in contrast, have a 92 percent chance of survival.¹¹ Organizations with better plans for hiring and motivating workers are thus more likely to survive—and survival is a key indicator of success during the entrepreneurial stage.

Communal Stage

Organizations that survive the entrepreneurial stage enter the **communal stage**, which is marked by expansion, innovation, and cooperation. This stage is much like the teenage years for human beings. The main objective is to gain a unique identity and overcome internal conflict. Learning who you are and improving your skills are the essence of life during these years. Similarly,

Entrepreneurial stage

First stage in the organizational life cycle; focuses on survival.

Communal stage

Second stage in the organizational life cycle; focuses on expansion and innovation.

organizations in the communal stage focus on developing and improving processes for effectively producing goods and services. Members of the organization begin to feel a sense of commitment. Survival is still important, but organizational success is measured increasingly by the extent to which employees feel a sense of cohesion, or belonging. It is important for employees to build strong feelings of attachment to coworkers and to the mission of the organization. Such attachment is an important part of success at Trader Joe's, where employees feel connected. The company's managers listen to employees, which encourages employees to communicate effectively with customers.¹²

Organizations with effective human resource management practices in the communal stage continue to hire good employees and provide training. They also communicate well with employees. Employees, aware of these activities, develop a feeling that the organization is committed to taking care of them. Such feelings increase job satisfaction, so that organizations with better human resource practices have happier employees who are more committed to making the organization successful.¹³ Employees are also less likely to leave organizations with good human resource practices. The accompanying "How Do We Know?" feature describes a study that demonstrates how effective



How Do We Know?

DOES EFFECTIVE HUMAN RESOURCE MANAGEMENT INCREASE ORGANIZATIONAL SUCCESS?

Have you phoned a company's call center in the past to ask a question or complain about a product or service? Perhaps a call center representative has phoned you to try to sell you something. Many companies have call centers, and some centers employ thousands of people. As you can probably imagine, working in a call center is not always fun, and employees frequently quit shortly after being hired.

An important question therefore is whether good human resource practices can improve work in call centers. Rosemary Batt conducted a study to learn about the effect of human resource practices on organizational performance in call centers. She asked call center managers about the skill level of employees, the amount of freedom employees had to choose how to do their work, and human resource incentives. She also measured employee quit rates and sales growth.

The study found higher sales growth in call centers with better human resource practices. Higher-performing centers had ongoing training, more employees working full-time rather than part-time, and more elaborate performance management

systems. Better centers allowed employees to exercise greater control in determining things like work pace, scheduling, and technology design. Much of the effect of the human resource practices on performance came through employee retention. Fewer employees left call centers with better practices, which in turn helped these centers to experience increased sales growth.

The Bottom Line. Organizations are more successful when they have good human resource practices. Success comes from having a stable workforce, which develops when fewer people leave the organization. People are less likely to leave when they have freedom to make choices about how to do their work. They also stay longer when they have full-time jobs that pay them well. Professor Batt thus concluded that good human resource practices lead to lower quit rates, which in turn increase growth in customer sales.

Source: Rosemary Batt, "Managing Customer Services: Human Resource Practices, Quit Rates, and Sales Growth," *Academy of Management Journal* 45, no. 3 (2002): 587–597.

human resource practices in call centers increase the likelihood of retaining workers, which in turn increases profitability.

Formalization Stage

The **formalization stage** occurs as organizations become stable and develop clear practices and procedures for doing work. In humans, the formalization stage often begins just after graduation from college, when people tend to settle into stable jobs. Organizations in the formalization stage focus on improving efficiency and finding better ways to accomplish tasks. They develop clear goals for guiding their efforts. Making goods and services as efficiently as possible becomes a key goal. Making a good profit is also important.

Effective management of people is beneficial for increasing efficiency and goal accomplishment in this stage. Organizations with formalized human resource practices that develop employee skills and motivate workers generate more sales per employee.¹⁴ IBM represents a company in this stage. IBM has been in existence 100 years and currently employs almost 400,000 people. Keeping in touch with so many employees is difficult. However, IBM has a database that contains a profile for every employee. The profile lists each employee's skills. Maintaining such a database takes a great deal of effort, but cost savings from improved matching of employees and jobs has saved IBM \$1.4 billion. Effective formalization of human resource practices has thus improved the efficiency and profitability of IBM.¹⁵

Elaboration Stage

The **elaboration stage** occurs when organizations need to adapt and renew. This stage is similar to middle age for human beings. Success often depends on redefining objectives and identifying new opportunities. People in this stage sometimes go through midlife crises, perhaps changing occupations and developing new hobbies. Organizations in the elaboration stage, like middle-aged people, have existed for some time, but shifting trends and preferences require them to change. For example, Hallmark became successful as a producer of greeting cards, but changes in technology have forced the company to innovate and adapt to produce electronic greetings and other family-based media.

Good human resource management is critical for successful adaptation. In fact, one survey found change management to be the most important skill that human resource professionals can contribute to an organization.¹⁶ An example of an organization in this stage is Crouse Hospital in Syracuse, New York. The company had a net loss of \$15 million in 2000. About half of the hospital's employees were quitting each year. Hospital leaders took note and began to involve employees in an effort to change the culture of the organization. Numerous employee groups met and made suggestions. Employee efforts to turn around hospital performance took time but were successful. By 2008 financial problems were reversed to a net profit of \$11 million and the employee quit rate had dropped to 18 percent. Overall job satisfaction was 92 percent.¹⁷ Improved human resource management thus helped move Crouse Hospital from the elaboration stage back to the formalization stage.

SUCCESS FROM STAKEHOLDER PERSPECTIVES

A second approach for assessing organizational effectiveness is the stakeholder perspective. According to this view, organizations are successful to the extent that they meet the needs of their stakeholders. **Stakeholders** are

Formalization stage

Third stage in the organizational life cycle; focuses on establishing clear practices and procedures for carrying out work.

Elaboration stage

Final stage in the organizational life cycle; focuses on reinvention and adaptation to change.

Stakeholders

Individuals or groups who are affected by or who affect an organization.

defined as individuals or groups of people who can affect or who are affected by an organization.¹⁸ This definition is quite broad, since almost every living person could in some way potentially affect or be affected by an organization. Fortunately, research suggests that employees, customers, and owners (shareholders) are the primary stakeholders. Their participation is crucial for the survival of the organization.¹⁹ Society as a collective group is also seen by many as an important stakeholder.

Employees

Employees make up an important group of stakeholders. Because employees complete tasks to make goods and services, they obviously influence the organization's ability to achieve its objectives. Their lives are also obviously influenced by the organization. Meeting the needs of employees is a critical component of organizational success.

Many human resource practices protect the interests of employees. For instance, the human resource department often plays a major role in ensuring that the organization complies with employment and safety laws. A number of these laws are designed to make sure the organization treats employees fairly. Helping design work tasks to make them more enjoyable is another way human resource management makes life better for employees. Human resource professionals help individuals plan and advance their careers, which keeps employees happy and reduces the chance that they will leave for jobs in other organizations. Thus, good human resource practices reduce **employee turnover**, which happens when employees quit and take jobs elsewhere.²⁰ Low turnover is a strong sign that employees' needs are being met. Simply put, people are less likely to look for new work opportunities when they are satisfied with their current jobs.²¹ As you can imagine, most companies prefer employee turnover to be low.

Employee turnover

The process in which employees leave the organization and are replaced by other employees.

Customers

Customers are another important group of stakeholders. An organization obviously will have trouble achieving its goals if customers don't buy its goods or services, so the influence of customers on the organization is immense. The goods and services available to customers can also affect their lives both positively and negatively.

Research evidence strongly supports the notion that good human resource management improves customer satisfaction, largely through customers' interactions with employees. Employees tend to treat customers the same way they believe managers treat them. If employees feel the organization values them and treats them with respect, they reproduce these good attitudes and behaviors in their interactions with customers. If they believe management doesn't care about them, they are less likely to be positive and helpful to customers.²² For example, one study of hairstylists found that those who were most satisfied with their jobs were helpful to clients and coworkers and in turn had more satisfied customers.²³ Human resource practices that demonstrate care and concern for employees thus translate into increased customer satisfaction. Hiring and keeping skilled employees can also improve customer satisfaction. Just think of an experience you have had shopping for something like a new computer. Getting information from a knowledgeable employee is much more satisfying than trying to get information from someone who knows less than you do.

Owners

A third group of important stakeholders is made up of owners, including stockholders. Owners influence organizations by determining who leads and makes decisions. In most cases their chief concern is the organization's profits, and the extent to which the organization returns profits and provides them with money influences them in many ways.

A great deal of research in recent years has linked human resource practices to organizational profits. The evidence generated by this research strongly suggests that human resource management matters. Organizations are more profitable when they ensure high levels of employee skill by properly designing jobs, carefully selecting employees, and providing useful training. Effective practices also motivate employees by carefully measuring performance, making fair promotion decisions, and linking pay to performance.²⁴ In short, employees who have better skills, are well paid, and feel their jobs are secure have higher individual performance, which translates into desirable organizational improvements like growth in sales.²⁵

Society

Society represents the broader community in which the organization operates. Although further removed from the organization than the stakeholder groups discussed so far, society still serves as an important stakeholder. On the one hand, organizations affect society through their environmental practices, as well as their support of community charities and other such activities. On the other hand, various political and social forces can strongly influence organizations. For example, think about how changes in attitudes toward conservation and large automobiles affect the U.S. automobile industry.

Interestingly, organizations that are better community citizens are generally more profitable than organizations that ignore environmental and social concerns. Although there are exceptions, expending effort to do things such as protect the environment and improve local communities usually leads to improved financial performance for organizations.²⁶ In addition, effective human resource management within the organization results in other benefits to society. It provides employees with open channels of communication, which can reduce instances of unethical corporate behavior. Skilled and motivated employees also produce goods and services that help make the world a better place. Taking care of people at work can thus translate into important benefits for society as a whole.

THE CHAIN OF SUCCESS

Successful firms must meet the needs of each group of stakeholders, and these needs vary from group to group.²⁷ Fortunately, meeting the needs of one group can often help meet the needs of others. First, effective human resource management acquires quality employees, motivates them to maximize performance, and helps meet their psychological and social needs. This leads to long-term relationships with skilled and happy employees. Effective employees provide good customer service, which results in repeat business. Better customer service leads to improved financial performance that ensures profitability and success. Increased profitability allows organizations to spend money on improving human resource practices, which loops back and continues the chain of success. Properly managing people is therefore a critical

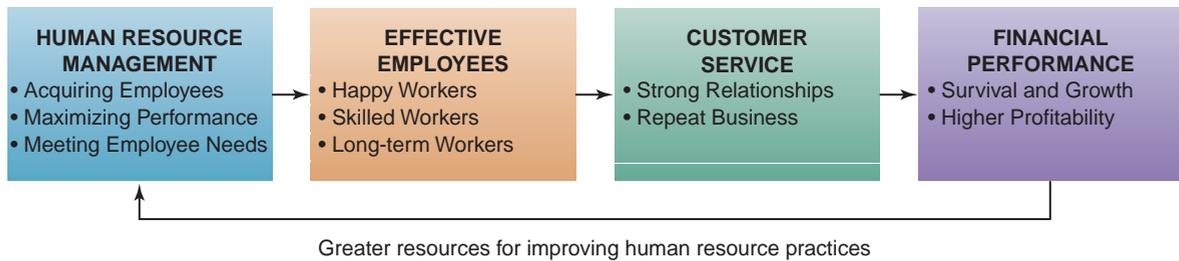


Figure 1.1 The Chain of Success.

part of the chain of success, which is shown in Figure 1.1 and summarizes the relationship among employee, owner, and customer interests. Obtaining and keeping excellent employees gives an organization an advantage in meeting customer needs, which translates into profitability and thereby provides organizations with resources to further improve human resource practices. This cycle of success is demonstrated by the “100 Best Companies” discussed in the accompanying “How Do We Know?” feature.



How Do We Know?

ARE GREAT PLACES TO WORK MORE PROFITABLE?

People who are unhappy with their jobs often claim that the place where they work cares more about profits than people. Dissatisfied workers argue that company owners become rich at their expense. Have you ever wondered if this is true? Do companies become more profitable by spending less on their employees? Or do investments in employees pay off? Ingrid Fulmer, Barry Gerhart, and Kimberly Scott explored this question by specifically examining the financial performance of companies listed by *Fortune* as “The 100 Best Companies to Work for in America.”

The *Fortune* list of best companies is based on extensive surveys of employee attitudes. Employees of great companies rate their workplaces as having high credibility, respect, fairness, pride, and camaraderie. The measures of employee attitudes are quite stable from year to year, suggesting that some companies are consistently better at making employees happy.

Compared with companies not on the list, the “100 Best” are more profitable. Measures of

company performance include stock returns and how well the company uses assets to generate profits. The excellent companies get more profit out of the assets they have. In addition, stock returns for the “100 Best” are as high as, and in some cases higher than, those of similar companies that don’t treat their employees as well.

The Bottom Line. Effective companies consistently do a better job of making their employees happy. The employees in these firms work harder and are more successful at using company assets to make money. The researchers conclude that organizations are indeed more profitable when they treat employees well.

Source: Ingrid Smithey Fulmer, Barry Gerhart, and Kimberly S. Scott, “Are the 100 Best Better? An Empirical Investigation of the Relationship Between Being a ‘Great Place to Work’ and Firm Performance,” *Personnel Psychology* 56 (2003): 965–993.



CONCEPT CHECK

1. *What are the four stages of the organizational life cycle, and what is the main goal of each stage?*
2. *What groups make up an organization’s stakeholders?*
3. *How do human resource practices help organizations to satisfy the needs of their stakeholders?*

LEARNING OBJECTIVE 2

What Does Human Resource Management Provide to an Organization?

Anyone who has applied for a job with a moderately large organization has probably interacted with a human resource department. But human resource functions go far beyond processing employment applications. In this section, we look at a number of activities that human resource professionals carry out in their role of managing the organization’s employees.

CORE HUMAN RESOURCE FUNCTIONS

Core human resource functions can be summarized as people management activities. These activities represent the primary purpose for having a human resource department. The Society for Human Resource Management (SHRM) and its affiliated Certification Institute have identified six broad functional areas of human resource management. These functions, shown in Table 1.2, are strategic management, workforce planning and employment,

Table 1.2 *Core Human Resource Functions*

Function	Description
Strategic Management	Working with other parts of the organization to establish goals and provide quality goods and services
Workforce Planning and Employment	Identifying jobs that capture employee tasks; recruiting and selecting desirable employees
Human Resource Development	Measuring employee performance; teaching employees new knowledge, skills, and abilities
Total Rewards	Paying employees fairly; administering benefits such as insurance
Employee and Labor Relations	Establishing and managing relationships between the company and employees; working with labor unions
Risk Management	Establishing procedures to provide a safe and secure working environment

Source: Information from Society for Human Resource Management (SHRM) and affiliated Certification Institute. See the PHR/SPHR/GPHR Handbook at <http://www.hrci.org/certification/bok/nbok/>

Strategic management

The human resource function concerned with strategic planning for producing and marketing goods and services.

Workforce planning and employment

The human resource function concerned with designing jobs and placing people in those jobs.

The human resource development

The human resource function concerned with helping employees learn knowledge and skills.

Total rewards

The human resource function concerned with managing employee pay and benefits.

human resource development, total rewards, employee and labor relations, and risk management.²⁸

Strategic management focuses on planning how the organization will produce and market goods and services. Strategic tactics guide efforts to do things better than competitors. For instance, an electronics manufacturer might decide to open a new plant that can produce parts less expensively. A hotel might initiate a marketing campaign to attract higher-paying customers. A health care provider may decide to structure work around teams of doctors, nurses, and clerical workers. Input from several different sources, including human resource specialists, guides these strategic plans. For the company opening a new plant, human resource data can help determine whether employees have the skills needed to carry out the new processes. For the hotel, human resource data can identify training needs that could result from focusing on a different type of customer. For the health care provider, data could help determine new skills that team members might need to learn. Effective strategic practice also requires ongoing measurement to assess the value that human resource management provides to the organization. Making and carrying out strategy is thus an important function that the human resource department shares with other departments throughout the organization. Human resource management also plays an important role in carrying out strategies of global companies. Employee expectations for compensation and benefits vary greatly from country to country. Human resource departments provide valuable assistance that guides organizations as they adapt their policies and practices to fit with local cultures and laws.²⁹

Another important human resource function is getting people into jobs. **Workforce planning and employment** consists of designing jobs and then placing people in them. This function generates information about tasks that need to be done and about the knowledge and skills people must have in order to do those tasks. People with the necessary talents are then recruited and hired from outside the organization, or promoted from within. The human resource department carries out the entire process of planning and hiring in some organizations. These human resource specialists do everything from placing employment advertisements to conducting interviews to making final selection decisions. In other organizations, the human resource department acts more like a consulting agency. Line managers do the actual recruiting and hiring, while human resource specialists provide assistance. Regardless of who does what, the human resource department is almost always a major player in recruiting and hiring activities.

The **human resource development** function ensures that employees learn the knowledge, skills, and abilities required for current and future performance. Surveys and assessments provide information about areas where training might be needed. Individual employees receive performance appraisals and develop individualized plans for improvement. The human resource department also uses assessment information to design formal training and development programs. For example, a survey about computer skills may highlight the need for classes to teach people how to use specific software. In many cases, human resource specialists carry out training in such areas as communication skills and organizational policies. The human resource department also coordinates programs designed to accomplish goals such as increasing employee diversity and helping employees balance work and family concerns.

Human resource departments typically carry out the function of **total rewards** by managing salary and insurance plans. Reward practices include finding and analyzing information to determine how much to pay each



Technology in HR

USING WEB-BASED INFORMATION TO MANAGE PEOPLE

An important question is whether technology can help human resource departments better serve the needs of managers and employees. The answer is a clear yes. Evidence shows that the various functions of human resource management benefit substantially from adopting appropriate technologies.

Some forms of technology are common. For instance, approximately 89 percent of organizations now use some type of self-service interface to help managers and employees solve human resource problems. For example, an organization may use a Web-based Internet site to provide information about employee benefits, compensation agreements, organizational policies, and the like. Encouraging members of the organization to go to these sites for information reduces the need for face-to-face conversations and thereby reduces administrative costs.

Other forms of technology are not yet as widespread. Recent trends, however, suggest that cutting-edge firms are using technology to better link human resource practices to organizational strategy. In particular, technologies are being developed to improve methods of measuring productivity. In addition, information about individual employees is being incorporated into extensive databases that help organizations take advantage of the wide array of skills that employees have to offer. Being able to locate information about the skills of individual employees makes workforce planning easier



and more effective. Many technologically advanced organizations are also creating Web-based learning tools to help with human resource development.

Of course, organizations may face obstacles as they implement new technologies. One problem with Web-based information systems, for example, is that poorly designed user interfaces can make them so difficult to use that people avoid them. Another problem is that tools developed for U.S. employees are often difficult to adapt to employees in other countries. Nevertheless, companies that effectively use technology to manage people tend to be more effective than companies that lag behind.

Source: Information from “HR Technology Trends to Watch in 2007,” *HR Focus* 84, no. 1 (2007): 1–15.

employee. Identifying and pursuing methods of using pay to increase employee motivation is an important contribution of human resource management. Most human resource departments also take primary responsibility for payroll activities such as preparing and distributing paychecks. Administering benefits, especially health insurance, can be quite complicated and usually requires a number of technical contributions from human resource professionals. Compliance with numerous laws and regulations concerning compensation also calls for specialized knowledge, which usually comes from the human resource department. As described in the Technology in HR feature, Web-based information can help human resource departments communicate critical compensation and benefit policies.

Good relationships between managers and employees improve organizational effectiveness. Building and maintaining effective working conditions and relationships are tasks associated with the **employee and labor relations**

Employee and labor relations

The human resource function concerned with building and maintaining good relationships with employees and labor unions.

function. In organizations whose employees are represented by labor unions, much of this function is directed toward working with the unions. The human resource department plays a major role in negotiating terms of union contracts, which define not only pay levels but also work rules and procedures. Human resource specialists also coordinate procedures for filing and resolving employee grievances. When labor unions are not present, the human resource department works directly with managers and employees to ensure fair treatment of workers. The department may oversee disciplinary actions and provide communication channels so that employees can safely register complaints about such things as sexual harassment. Carrying out the employee and labor relations function thus provides critical support for both the organization and individual employees.

Risk management

The human resource function concerned with employees' physical and mental well-being.

The function of **risk management** promotes the physical and mental well-being of people in the workplace. Because important laws govern workplace health and safety, carrying out this function requires specialized knowledge of government regulations. Human resource departments often take the lead in developing plans for reducing accidents. They make policies to protect employee rights of privacy. They also establish procedures to make sure that employees wear proper safety equipment. In many instances, the human resource department plans and coordinates the organization's response to natural disasters, such as hurricanes and earthquakes. Reducing workplace violence is also part of the risk management function.

SPREADING KNOWLEDGE ABOUT HUMAN RESOURCE PRACTICES

Many of the core human resource functions just discussed require cooperation between the human resource department and other parts of the organization. Human resource inputs about workforce planning, for example, must be coordinated with operational plans for increasing or decreasing production. Efforts to develop new employee skills also must be coordinated with strategic and marketing plans. Such cooperative efforts are important and the value of people management increases when leaders throughout the organization know what human resource specialists bring to the table. An important aspect of spreading knowledge is thus to help managers and others throughout the organization know the special capabilities that human resource specialists provide.

Another potentially important contribution of human resources is to teach organizational leaders effective practices for attracting and keeping talented workers. In this sense, human resource specialists function like internal consultants and teachers. They help managers learn and improve methods for hiring employees, assessing training needs, and making pay decisions. This function goes beyond simply informing managers about what human resource specialists can do. The emphasis is on helping the managers themselves develop better human resource skills. Human resource departments thus have an important responsibility for training managers throughout the organization.

An important part of spreading knowledge involves overcoming common misconceptions about human resources. Many organizational leaders believe that good human resource management is "common sense." They think, in other words, that hiring and motivating workers requires no special knowledge. But people who hold this view are mistaken. Managers generally are

unfamiliar with many practices that provide clear direction for improving job performance. For instance, many managers resist using employment tests to select employees, even though evidence strongly shows that such tests can help them to make better hiring decisions.

Of course, human resource specialists must have knowledge before they can share it. Unfortunately, even professionals working within human resource departments often have misconceptions about good practices. This is shown by a survey that asked human resource leaders a number of questions about specific employment, staffing, and compensation practices. On average, these professionals knew the correct answer only about 60 percent of the time. Those with higher scores had been promoted more often, had received certification as human resource professionals, and read academic studies more frequently.³⁰ Simply reading trade journals and popular magazines may not be enough to learn cutting-edge practices. Many of the most important research findings do not make their way into publications written for practicing managers.³¹ Overall, researchers in the field of human resource management need to do a better job of communicating their findings, and practitioners need to better test and implement best practices.

Another aspect of spreading human resource knowledge is building relationships of trust. Human resource departments need to provide managers with solutions to problems. Managers are more likely to believe and act on information from the human resource department when they see that it helps them. Human resource professionals earn managers' trust by listening to and understanding their problems and then providing solutions that work.³² This requires people working in the human resource department to be capable of doing a wide array of things that help managers do their jobs better.



CONCEPT CHECK

1. *What are the six core human resource functions?*
2. *Why is it important for human resource professionals to educate others in their organizations about human resource functions?*

LEARNING OBJECTIVE 3

What Do Human Resource Specialists Do?

We have looked at some ways in which human resource management helps organizations and have explored some of the functions that human resource departments carry out. We can gain additional insight into the field by looking at the people who work in human resources. An example of someone who works in human resource management is Jen Martens, who works at University of Nevada Las Vegas (UNLV). UNLV is a state-supported, nonprofit organization with nearly 28,000 students and 3,000 employees.³³ Just like any other large organization, UNLV must recruit and hire many employees every year. Jen Martens assists in this process through her work as manager of

employment. Her work includes managing employee recruitment programs, teaching managers how to hire effective employees, and assuring compliance with government regulations. Jen also leads other human resource specialists who do things like write job postings and develop interview questions.

Human resource professionals like Jen Martens, who is a certified Professional in Human Resources (PHR), work by themselves and with managers to “plan, direct, and coordinate human resource activities of an organization to maximize the strategic use of human resources and maintain functions such as employee compensation, recruitment, personnel policies, and regulatory compliance.”³⁴ A more specific list of tasks is provided in Table 1.3.

The list in Table 1.3 is helpful, but it does not cover important ways in which human resource departments provide strategic contributions. Frameworks for capturing this more strategic contribution emphasize roles and competencies. Let’s look more closely at these two areas.

HUMAN RESOURCE ROLES

Human resource roles involve people and processes. Part of the human resource professional role is spending time interacting with employees individually. For instance, employees usually contact an organization’s human resource department with questions about retirement benefits, health concerns, and harassment policies. Another part of the human resource role focuses on developing organizational processes aimed at hiring and motivating talented workers. Human resource specialists contribute in these roles through activities such as placing recruiting advertisements, helping develop compensation plans, and creating performance measures.

We can also look at human resource roles by contrasting long-term and short-term contributions. Short-term activities generally involve day-to-day projects and focus on conducting surveys, maintaining databases, and counseling employees. Long-term activities are more strategic in nature and include

Table 1.3 *Typical Human Resource Specialist Tasks*

Administer compensation, benefits, and performance management systems, and safety and recreation programs.
Identify staff vacancies and recruit, interview, and select applicants.
Allocate human resources, ensuring appropriate matches between personnel.
Provide current and prospective employees with information about policies, job duties, working conditions, wages, opportunities for promotion, and employee benefits.
Perform difficult staffing duties, including dealing with understaffing, refereeing disputes, firing employees, and administering disciplinary procedures.
Advise managers on organizational policy matters such as equal employment opportunity and sexual harassment and recommend needed changes.
Analyze and modify compensation and benefits policies to establish competitive programs and ensure compliance with legal requirements.
Plan and conduct new employee orientation to foster positive attitude toward organizational objectives.
Serve as a link between management and employees by handling questions, interpreting and administering contracts, and helping resolve work-related problems.

Source: The National O*Net Consortium at <http://online.onetcenter.org/>.

developing organizational strategies, managing change processes, and planning ways to create new skills.

Combining the people and process dimension with the long-term and short-term dimension results in the grid shown in Figure 1.2. The figure identifies four critical roles for human resource professionals: functional expert, employee advocate, strategic partner, and human capital developer.³⁵ Understanding these four roles provides insight into the actual activities of human resource specialists.

Functional Expert

The role of functional expert is the most basic human resource role. Most of the activities listed in Table 1.3 fit this role, and many of the chapters in this book examine aspects of this role in more detail. The **functional expert role** focuses on providing technical expertise related to hiring and motivating employees. In this role, an effective human resource specialist helps build systems and practices to ensure that an organization is using state-of-the-art methods to manage people. This might include creating a testing program to screen potential employees or developing a compensation plan that pays employees more when they produce exceptional results. Human resource specialists also serve as consultants who teach managers ways to improve their interactions with employees. For example, the human resource department might offer managers training in such things as giving appropriate feedback and asking better interview questions.

One such functional expert is Dana Winkowitsch who works for Johnson County in Iowa. Dana works as a human resources coordinator and spends a lot of her time answering questions and responding to requests from department heads and elected officials. She conducts orientation sessions to provide safety training, explain benefit programs, and help new employees complete paperwork. She leads the county safety committee and coordinates efforts to investigate accidents and maintain logs of work related illnesses. Her duties include verifying payroll forms for accuracy and using the information database to create new employee positions. Because Johnson County only has a handful of human resource employees, Dana works mostly as a human resource generalist.

An organization can gain an advantage over its competitors when its human resource staff members are true functional experts. Experts help make sure that the best employees are hired and then trained to maintain high levels of skill and ability. Experts also increase employees' motivation by helping to ensure that each employee's contribution to the organization is accurately measured and rewarded. Performance in the functional expert role therefore represents a primary way in which human resource specialists such as Dana Winkowitsch can contribute something to the organization that other managers and employees cannot contribute.

Employee Advocate

Human resource professionals in the **employee advocate role** listen to employees and provide them with the resources they need to be effective. They look out for the interests of employees and often serve as advocates to make sure

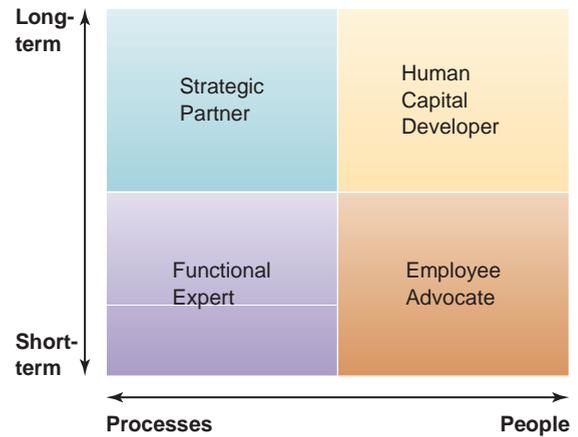


Figure 1.2 Human Resource Roles.

Source: Figure based on information from Dave Ulrich, *Human Resource Champions* (Boston: Harvard Business Press, 1997); and Dave Ulrich and Wayne Brockbank, *The HR Value Proposition* (Boston, Harvard Business Press, 2005).

Functional expert role

A human resource role concerned with providing technical expertise related to functions such as hiring, training, and compensating employees.

Employee advocate role

A human resource role concerned with looking out for the interests of employees and ensuring that they are treated fairly.

management treats employees fairly. Sometimes, too, they help employees who are experiencing personal problems. For instance, human resource professionals may help employees obtain medical care, attend funeral services for family members of employees, and help employees' spouses find work.³⁶ Showing genuine interest in employees communicates how much an organization cares about its employees. As a result, loyalty and motivation increase, and employees feel a stronger obligation to work hard.

Another important part of being an employee advocate is making sure the interests of employees are recognized when decisions are made. In the event of layoffs, human resource leaders can help ensure that these actions are carried out in ways that minimize the hurt for individuals. In their advocacy role, human resource leaders are often seen as the organization's conscience. By ensuring that employees are properly informed about organizational policies and procedures, they can play an important role in preventing members of the organization from engaging in unethical conduct. They do this by pointing out implications of decisions and asking leaders throughout the organization to think about the effect of decisions on individual employees. They also help develop and enforce policies that protect employees from being taken advantage of by more powerful supervisors. True leadership also requires human resource professionals to display high ethics in their own actions.

Strategic Partner

In the increasingly important **strategic partner role**, human resource specialists work with other organizational leaders to put company strategy into action. True partners go beyond providing support to other leaders and expertise in human resource practices. An example of a strategic partner is Tracy Hulsebus who works as the human resource manager for contingent staffing at the international media company Pearson. Tracy is the business partner for operations as well as other groups. She is responsible for developing strategy and goals to meet business partner objectives, identifying internal and external risks, and providing appropriate solutions. She manages a team of nine professionals who handle hiring, on-boarding, and employee relations for the contingent workforce at Pearson. To be strategic partners, human resource professionals like Tracy need to know about other business activities, such as finance, accounting, and marketing. They must also know a great deal about the organization's products and services. Finally, they must know how these activities, products, and services fit with the company's strategic objectives. With this knowledge, human resource partners can provide important input to help guide organizational decisions and actions. An example of a company where this human resource role is carried out effectively is Edwards Lifesciences, which is described in the accompanying "Building Strength Through HR" feature. Top-level managers at Edwards Lifesciences work closely with human resource professionals to make sure that employees are organized in a way that helps the company achieve its strategic objectives.

One particularly important aspect of the strategic partner role involves managing change. With organizations changing continually, the people within them must continually adapt to shifting conditions. The ability to apply concepts related to psychological reactions, power and influence, motivation, and group dynamics can help human resource professionals take a leadership role in facilitating change.

Strategic partner role

A human resource role concerned with providing inputs that help an organization put its competitive strategy into action.



Building Strength Through HR

EDWARDS LIFESCIENCES

Edwards Lifesciences is a maker of cardiovascular medical devices. The company that now employs over 6,000 people was spun off from the larger Baxter International in 2000. Since 2000 the stock price has risen from \$14 to \$50 per share, and annual sales growth has increased from 1 percent to 7 percent. Even in the down economy of 2009, Edwards Lifesciences had a stock return of nearly 20 percent. Leaders in the organization credit much of this success to effective human resource management.

Success through human resource management begins with the CEO, Michael Mussallem. He spends about 20 percent of his time working on hiring and developing employees. He is described as a person who cares about relationships and treats others with respect. Even though he is a busy CEO, he will often pick up the telephone and talk to people who are being recruited for key positions. He also meets each year with leaders to conduct talent reviews that assess how well the company is doing in terms of utilizing key personnel to meet strategic objectives. Employee recruitment and job planning are included on every agenda for top-management meetings.

As part of the focus on maximizing human resource effectiveness, Edwards Lifesciences has identified approximately 75 key positions within the company. The key positions are not all at the top of the organization but represent numerous areas where work is critical to meeting strategic objectives. Training is used to assure that one or two current employees are ready to take over a key job if someone gets promoted or quits. This helps



assure that about 70 percent of job openings are filled within the company.

Edwards Lifesciences competes with other companies by providing customers with top quality products. Creativity and excellence are required from employees. The company thus relies on the acquisition, development, and retention of top-notch employees to fill key positions. These efforts have paid off as the company has seen great success even in times of economic difficulty.

Source: Information from Gian Ruiz, "Edwards Lifesciences: The Cardiovascular Device Maker Pinpoints and Tracks Mission-Critical Jobs to Stay ahead of Business Needs and Build a Deep Bench of Important Talent," *Workforce Management*, March 26, 2007, p. 24; Anonymous, "Best on the Street: 2009 Analysts Survey—Medical Equipment & Supplies," *Wall Street Journal*, May 26, 2009, p. C14; Tony Bingham and Pat Galagan, "Finding the Right Talent for Critical Jobs," *T + D* 61 No. 2 (2007): 30–36.

Human Capital Developer

Organizations are only successful when they learn faster than their competitors. The **human capital developer role** focuses on helping employees improve their skills. Sometimes facilitating learning requires human resource specialists to work as trainers who teach formal classes. Other times, the developer role requires sitting down with individuals and helping them make individualized plans for the future. In both cases, the objective is to make sure that employees continue to learn and improve.

Like the strategic partner role, the human capital developer role is becoming increasingly important in today's organizations. Rapid changes

Human capital developer role

A human resource role concerned with facilitating learning and skill development.



Figure 1.3 Human Resource Competencies.

Source: Adapted from David Ulrich, Wayne Brockbank, Arthur K. Yeung, and Dale G. Lake, “Human Resource Competencies: An Empirical Assessment,” *Human Resource Management* 34 (1995): 475. Reprinted with permission of John Wiley, & Sons, Inc.

in technology necessitate frequent changes in work processes, which require new inputs from employees. Employees who do not learn new skills become less capable of helping the organization meet the needs of customers. The human capital developer role thus adds value to the organization by helping employees build and maintain cutting-edge skills.

HUMAN RESOURCE COMPETENCIES

Another way of understanding what human resource professionals do is to examine the competencies they need. A **competency** represents the knowledge, skill, and ability needed to perform a desirable behavior. To fill their various roles, human resource specialists need competencies in many areas. Most of these competencies fit into the three broad categories shown in Figure 1.3: knowing the business, carrying out human resource practices, and managing change.³⁷ As the figure indicates, each competency requires areas of knowledge and skill that are unique, but the competencies overlap to a large extent.

Competency

Knowledge, skill, ability, and other personal attributes needed to perform a work behavior.

Business knowledge competencies

Knowledge and skills in areas of general business, such as finance, accounting, marketing, and operations planning.

Human resource practice competencies

Knowledge and skills applied to carry out actions such as recruiting, hiring, training, and compensating.

Knowing the Business

Human resource specialists must demonstrate knowledge of the organization’s core business processes to gain the respect of other organization members. What does the organization produce, and how? What makes it different from other organizations trying to do the same thing? What makes its customers happy? What needs to be done to make the company profitable? Much of this knowledge is not directly related to traditional human resource management activities, but trends suggest that such knowledge is becoming increasingly valuable. In particular, human resource specialists need **business knowledge competencies** related to financial management, customer relations, competitor analysis, globalization, production capability, and information systems. Knowledge of these aspects of the business is particularly important for the strategic partner role, which requires human resource specialists to integrate their actions with the actions of other organizational leaders.

Carrying Out Human Resource Practices

A core set of competencies are the **human resource practice competencies**, which relate to the knowledge, skill, and ability required for recruiting, hiring, training, and compensating employees. Human resource specialists need to know how to properly divide work duties, create reporting relationships, and design motivating jobs. They need to know about staffing procedures that help attract, select, and promote the right people. The Building Strength Through HR feature explains how McDonald’s has benefitted from these competencies in order to effectively staff as many as 1.6 million jobs.

In the area of development, human resource specialists must be able to design and carry out training programs and conduct career development sessions. Designing performance appraisal systems, offering feedback, and managing pay and benefit systems also require expertise. Effective human resource specialists also need to be skilled communicators who can work



Building Strength Through HR

McDONALD'S

McDonald's has 31,000 restaurants located in 118 different countries. Chances are pretty good that you know someone who either works or has worked at McDonald's, as one in eight people have worked for the restaurant at some point in time. Today over 1.6 million people work for McDonald's. These employees have helped make McDonald's one of the most successful companies of all time. Annual revenue is over \$23 billion each year, and net income exceeds \$4 billion. McDonald's revenue actually grew, and it became more successful during the recent economic crisis.

A key to success at McDonald's is employee recruiting. Finding enough employees to fill jobs is a constant task. McDonald's focuses specifically on hiring students. Relationships with school principals, coaches, and counselors help steer students toward jobs at McDonald's. Flexible work schedules help balance work with social interests. McDonald's also focuses on hiring people with physical and mental disabilities. These and other recruiting practices allow McDonald's to maintain a steady flow of job applicants who are willing to work in entry-level positions, which helps minimize overall labor costs.

Once employees are hired, McDonald's helps them feel a connection to the company and coworkers. One method of building connections is StationM, which is a private networking site similar to Facebook and MySpace. Hourly employees can use the site to post comments, share photos, and participate in contests. This technology creates



bonds and helps young employees feel a connection that builds loyalty.

McDonald's also emphasizes skill development. The company actually runs a Hamburger University, where many managers receive extensive training. Although many companies cut training during tough economic times, McDonald's did not. Effective training helps explain why most managers began their careers as cashiers and cooks. Once they become managers, fewer quit than at competitors.

Overall, McDonald's successfully manages a very large number of employees. Its business results clearly show that more effective human resource management equates with improved performance. Restaurants with the highest levels of employee satisfaction and commitment have the highest customer satisfaction. They are also the most profitable.

Sources: Diana Thomas, "McDonald's Continues to Invest in Talent," *T + D*, 63, No. 11 (2009): 15; Amy Garber, "McD Takes HR Strides to Cement Worker Loyalty," *Nations Restaurant News*, March 7, 2005; Anonymous, "Human Resources: A Challenge Best Addressed One Unit at a Time," *Nation's Restaurant News* (2005): 100–101; stationM.com.

with managers to send clear messages related to both business processes and personnel decisions. This communication comes through both formal messages and personal conversations. Competency in human resource practices is especially important for carrying out the roles of functional expert, employee advocate, and human capital developer.

Managing Change

The set of competencies that are perhaps most difficult to describe and measure relate to change management. **Change management competencies** help the organization grow and adapt to new situations. To be effective in this role, human resource specialists need to build trust and credibility. In part, they

Change management competencies

Knowledge and skills applied to help an organization grow and adapt to new conditions.

can do so by developing supportive relationships with many people throughout the organization. Managers of change must be creative, and they benefit from knowing how to encourage creativity in others. Skill in identifying and solving problems is also extremely helpful. Change management competencies are particularly beneficial for carrying out the human capital developer and employee advocate roles.



CONCEPT CHECK

1. What are the four critical human resource roles, and what are some key features of each?
2. What is a competency, and what competencies do human resource professionals need to develop?

LEARNING OBJECTIVE 4

How Will Current Trends Affect Human Resource Management?

We've already seen that the ability to manage change is a key aspect of human resource management. The labor market is one important area in which changes can influence the organization's human resource practices. Of course, nobody can predict the future with perfect accuracy, but a review of trends in the labor market suggests some areas of expected change. In response, organizations and their human resource practices may need to change as well. One good source of information about labor market trends is the Bureau of Labor Statistics (BLS), an agency within the U.S. Department of Labor. BLS surveys and analyses predict particularly important trends related to changes in population, the labor force, employment opportunities, and education and training.³⁸ Data also suggest an increasing trend toward globalization and multinational corporations.

POPULATION TRENDS

How much will the U.S. population grow in the coming years? Will the proportion of young people in the population get bigger or smaller? What about the balance of minority groups? Each of these questions focuses on U.S. **population trends**, which are general movements over time in the number and characteristics of people living in the United States. Organizations are interested in population trends for two main reasons: to help them determine how the demand for their goods and services might change and to provide insight into the number and type of workers that are likely to be available in the future.

The U.S. population grew at a rate of about 29 percent for the past ten years, and current projections indicate that the country's total population will grow by about 25 percent during the next decade. The rate of growth is thus expected to be somewhat lower than in the past. We might conclude, then, that the demand for goods and services will increase, more jobs will be created, and a growing number of workers will enter the workforce during this period. Like the rate of population growth, however, the rates of growth in these areas will be somewhat lower than in the past.

Population trends

Demographic trends related to the characteristics of people in a certain population.

The balance between young and old people in the U.S. population is also changing. By 2018 the number of people between the ages of 16 and 24 will increase slightly, the number between 35 and 44 will stay about the same, the number between 45 and 54 will decrease slightly, and the number older than 55 will increase by almost 30 percent. Demand for goods and services desired by older people should thus increase considerably. The workforce will also become older, with more people near the ends of their careers. As a result, attracting and motivating older workers will become a more important task for human resource departments.

LABOR FORCE TRENDS

Of course, not everybody in the population works. **Labor force trends** focus not on the population as a whole but on the number and characteristics of people who will be working or looking for work. One projected change involves the percentage of older workers. As shown in Figure 1.4, by 2018 trends in overall population will lead to a greater proportion of older people in the workforce. Racial proportions will also continue to change. The percentage of non-Hispanic white employees is expected to decrease from 70 to 65 percent of the workforce, whereas the percentage of Hispanic workers will increase from about 14 to 18 percent of the workforce. Another important trend concerns women in the workforce. The number of female employees is expected to continue growing faster (9 percent growth) than the number of male employees (7.5 percent growth).

Attracting and keeping minority and women employees will become increasingly important. We might thus expect to see more programs that offer convenience to working mothers, such as flexible working hours and onsite daycare. Organizations will also need to find better ways to meet the needs of minority workers. One such approach is to create ongoing groups of people with underrepresented backgrounds and needs who can meet together and discuss issues. These groups can also provide important feedback and suggestions to help leaders understand the unique perspectives of minority workers.

Labor force trends

Trends concerning the number and types of people who are working or looking for work.

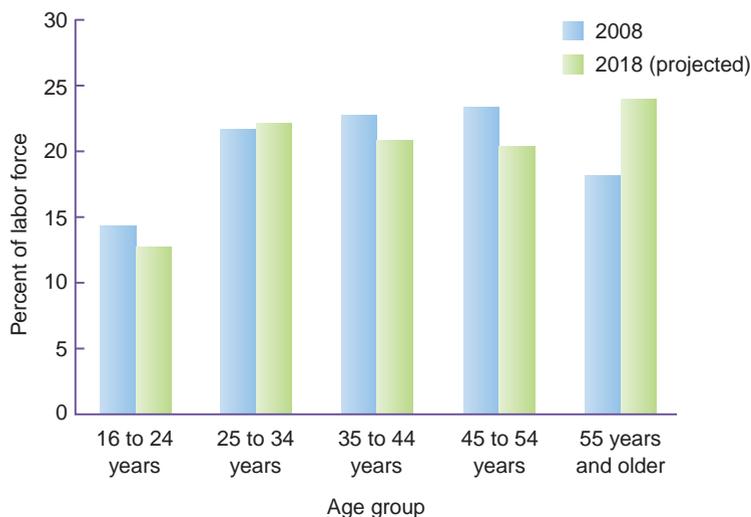


Figure 1.4 Labor Force by Age. Source: Information from U.S. Department of Labor Bureau of Labor Statistics website, <http://www.bls.gov/oco/oco2003.htm>.

Employment opportunity trends

Trends concerning the types of jobs that will be available in the future.

EMPLOYMENT TRENDS

Nobody wants to work in a company or an industry without a future. Therefore, an important question that arises is, Where will the jobs be in the years to come? **Employment opportunity trends** identify the type of work opportunities that will likely be available in the future. One ongoing trend that is expected to continue is the shift from goods-producing to service-providing employment. Most new jobs will be in areas that produce services, and the fastest growing industries will be health services, professional services, and education. The need for healthcare services will continue to increase as the population ages, and the demand for childcare will grow as more women enter the workforce.³⁹

Organizations in growing industries often find it difficult to attract and retain enough quality workers. Good human resource management is particularly beneficial in these organizations because it helps them win the war for talent. Effective recruiting, hiring, and compensation are therefore expected to be particularly critical for high-growth occupations such as nurses, computer programmers, and teachers. Figure 1.5 provides an overview of expected growth for a number of occupations. The outlook is bright for occupations such as data analyst and health aide, but rather bleak for production workers who make and assemble goods—particularly clothing—and farmers.

Education and training trends

Trends concerning the knowledge and skills workers will need in the future.

TRENDS IN EDUCATION AND TRAINING

Education and training trends tell us something about what competencies people will need to perform jobs in the future and how organizations can better focus their recruitment efforts. Growth is expected for a number of jobs that require college education. One such category is information services; increased demand is forecast for network analysts, software engineers, and database administrators, for example. As we've already seen, growth is also expected in

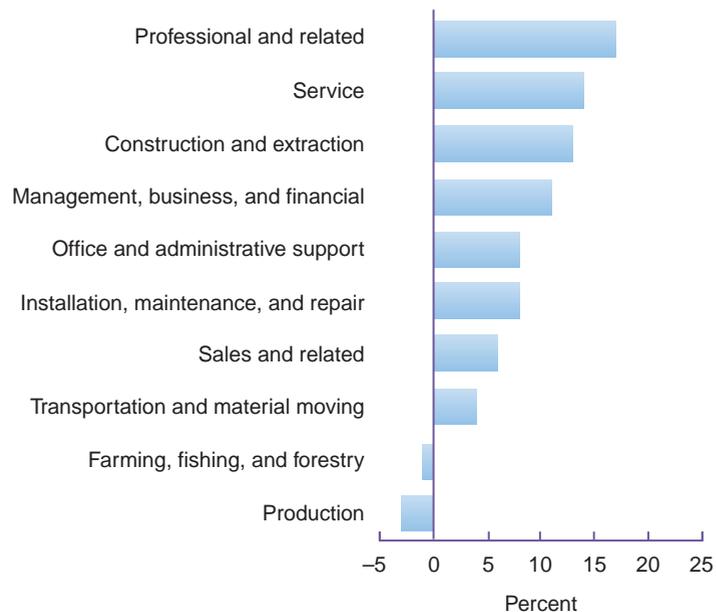


Figure 1.5 Trends in Occupations. Source: Information from U.S. Department of Labor Bureau of Labor Statistics website, <http://www.bls.gov/oco/oco2003.htm>.

the field of healthcare, so that more jobs will be available for physician assistants, registered nurses, physical therapist assistants, and dental hygienists.

Training sometimes comes on the job rather than from formal education, and some jobs in high-growth areas will require this sort of training. Healthcare aides, who perform tasks in areas such as physical therapy, home care, and social services, represent such jobs. Organizations that need employees with these skills must develop on-the-job training programs that will ensure new employees learn the necessary knowledge and skills.

GLOBALIZATIONS TRENDS

Globalization trends influence human resource management at many companies. Globalization refers to a process in which companies move beyond their national borders to do business in other countries. For global companies, the entire world represents not only their marketplace but also their place of production. International trade is growing at nearly 10 percent per year, a sure indicator of globalization as an important force.⁴⁰ Numerous large corporations have operations in countries scattered across the globe; even many small companies are purchasing goods and seeking sales from people living in more than one country.

The globalization trend appears to be beneficial for organizations, as companies on average are more profitable when greater portions of their sales, assets, and employees are foreign.⁴¹ Nevertheless, having operations in more than one country does increase the complexity of human resource activities. Fairly compensating employees who work in foreign countries, for example, requires a great deal of expertise. Legal issues across various countries can also make it impossible to adopt standardized practices. Developing an international perspective for managing people is thus crucial as organizations continue to develop in multiple locations throughout the world.

Globalization trends

Trends concerning the process by which companies move from doing business within one country to doing business in many countries.



CONCEPT CHECK

1. How are current population trends and labor force trends likely to affect organizations and their human resource practices in the future?
2. What do employment opportunity trends tell us?
3. How does globalization complicate human resource management?

LEARNING OBJECTIVE 5

How Do Strategic and Functional Perspectives Combine to Direct Human Resource Practices?

This chapter provides a broad introduction to human resource management, a field that focuses on people in organizations. Through good human resource practices organizations can become more successful in a number of ways. The human resource management field has changed somewhat in recent years. Historically, it has emphasized functional skills, which represent

day-to-day activities such as developing specific hiring methods, conducting pay surveys, and providing training. Today, however, it also requires strategic skills, which represent broader aspects of business and include activities such as planning and change management. Successful organizations require leaders and human resource professionals to pay attention to both strategic objectives and taking care of people.⁴²

Accordingly, this textbook integrates the functional and strategic perspectives. The overall outline of the book is shown in Figure 1.6. Specifically, chapters are built around a strategic framework that illustrates how human resource decisions and practices fit with organizational strategy. Most chapters also discuss a key functional area.

As shown in the figure, an organization's competitive business strategy, along with legal and safety issues, influence the organization's choice of a human resource strategy. In turn, the human resource strategy chosen shapes the specific activities the organization uses to secure and motivate employees. Activities aimed at securing employees include work design, recruiting, selection, and retention; these are discussed in Chapters 4 through 7. Activities that relate to motivating workers, which include performance management, career development, training, compensation, and labor relations, are discussed in Chapters 8 through 13. All these activities must be coordinated with each other as well as with the overall human resource strategy. The importance of coordination is discussed in Chapter 14.

Human resource management is an exciting field that provides critical benefits to organizations. Studying human resource management can help you develop knowledge and skills that will make you more effective throughout your career. Even if you don't become a human resource specialist, knowing

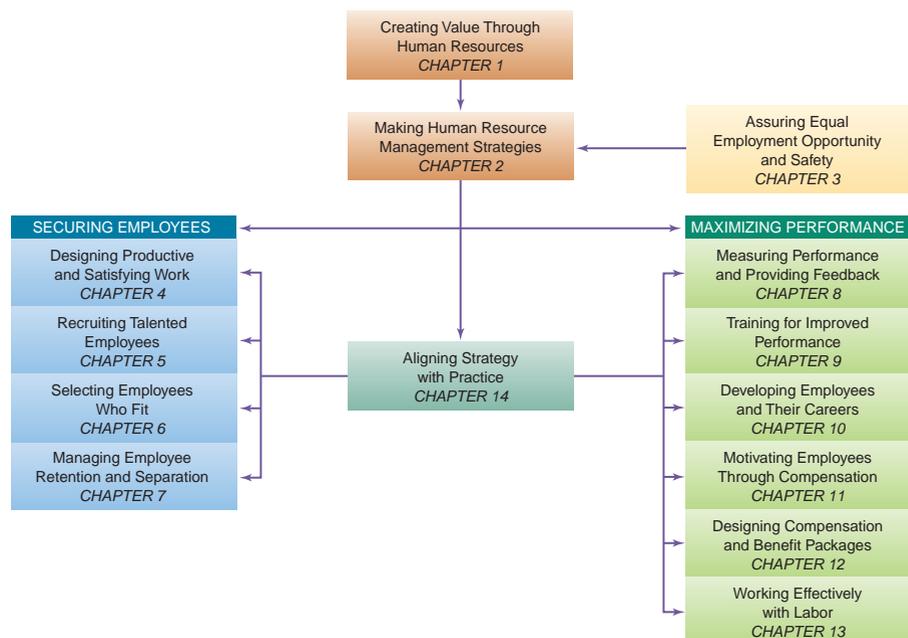


Figure 1.6 Framework and Chapter Outline Illustrating How Human Resource Management Practice Links to Strategy.

why human resource specialists do what they do will enable you to work more cooperatively with them. Furthermore, knowing about methods for hiring and motivating others can provide you with important leadership skills. As you grow into leadership positions, you will be better equipped to meet the needs of others. Gaining knowledge about human resources will also make you a better strategic planner, enabling you to see how the needs of people and programs can be integrated to promote high performance. Taking a course in human resource management and reading this text can thus be important in determining your future success.



CONCEPT CHECK

1. How do the functional perspective and the strategic perspective combine to create success?

A MANAGER'S PERSPECTIVE REVISITED

IN THE MANAGER'S PERSPECTIVE THAT OPENED THE CHAPTER, MELISSA WAS EXCITED ABOUT THE PROSPECTS OF GETTING A JOB. SHE FELT LIKE THE COMPANY WAS SUCCESSFUL AND THAT IT WOULD PROVIDE HER WITH A BRIGHT FUTURE. FOLLOWING ARE THE ANSWERS TO THE "WHAT DO YOU THINK?" QUIZ THAT FOLLOWED THE CASE. WERE YOU ABLE TO CORRECTLY IDENTIFY THE TRUE STATEMENTS? COULD YOU DO BETTER NOW?

1. Companies with good human resource practices have more satisfied workers. **TRUE.** *Companies who treat employees well have more satisfied workers, who in turn provide better customer service.*
2. Companies with happy employees are more profitable. **TRUE.** *High employee satisfaction has been consistently linked to good organizational performance.*
3. Companies lose money when they try to be good social and environmental citizens. **FALSE.** *More socially responsible companies actually have higher profits on average.*
4. Having a successful career in the future workplace will require young employees to work effectively with older



people. **TRUE.** *Trends suggest that the workforce will get older over the next few years as the percentage of people aged 55 to 64 increases.*

5. Human resource specialists can provide critical information and support that helps make life better for employees. **TRUE.** *The employee advocate role is an important part of the contribution made by human resource specialists.*

Melissa is wise to think about a company's human resource practices before deciding whether to accept a job offer. Effective human resource management is a key determinant of employee satisfaction and is an important part of organizational success. Joining a company with effective human resource practices will mean that Melissa is more likely to enjoy her work—and that her new employer is more likely to be around for all the years that Melissa wants to work there.

SUMMARY

LEARNING OBJECTIVE 1

How is organizational success determined?

The contribution of human resources to success can vary across an organization's life cycle. In the entrepreneurial stage, survival equals success. Human resource management helps the organization find employees. Success during the communal stage is marked by expansion and innovation. Building a sense of belonging and satisfying the needs of employees are critical. During the formalization stage, success comes from developing clear and efficient procedures. Human resource management builds structured programs that provide consistent procedures. An organization must change and adapt in the elaboration stage. This change is facilitated by hiring and rewarding people with new ideas and different ways of doing things.

The stakeholder perspective focuses on people who affect and are affected by an organization. Human resource practices protect the interests of employees, and organizations with good practices experience lower employee turnover. Skilled and motivated employees effectively meet the needs of customers. Organizations with more effective human resource management practices have higher profits. Better human resource management can also benefit society as a whole by protecting the environment and helping disadvantaged people.

LEARNING OBJECTIVE 2

What does human resource management provide to an organization?

Human resource departments provide organizations with a number of key functions. In the function of strategic management, the human resource department works with other parts of the organization to plan effective methods of delivering goods and services. The function of workforce planning and employment determines who will do what tasks and recruits and selects people into jobs. The function of human resource development focuses on measuring the contributions of employees and teaching them new knowledge and skills. In the function of total rewards, the human resource department plays an important role in making sure that employees

are paid fairly and receive the proper insurance benefits. A fifth function is employee and labor relations, which captures efforts to work with labor unions and to ensure fair treatment of workers. The final human resource function is risk management.

LEARNING OBJECTIVE 3

What do human resource specialists do?

Human resource specialists add value to an organization through a number of different roles. In the functional expert role, they build systems and practices that help the organization better manage people. Human resource specialists contribute knowledge and skills that many other organizational members do not have. The employee advocate role provides an opportunity for meeting the needs of individual employees. Specialists filling this role listen to employee concerns and try to help them solve problems. The human resource perspective is integrated into other parts of the organization through the strategic partner role. The role of human capital developer facilitates learning and makes sure that employees in the organization continue to develop new knowledge and skills.

Performing the human resource roles requires competency in three different areas. One area is knowledge of the business. Effective human resource specialists understand business issues such as financial management, competitor analysis, and production capability. Carrying out human resource practices is a basic competency that focuses on skill and knowledge related to specific practices. Human resource specialists need to know the best ways to do things related to recruiting, selecting, and motivating employees. They must also have change management competencies, such as knowledge of problem-solving techniques, ability to develop trust, and skill in encouraging others to be creative.

LEARNING OBJECTIVE 4

How will current trends affect organizations and human resource management?

The U.S. population will increase, though at a lower rate than in the past, and will get older. As the population ages, the demand for products and services

purchased by older people, such as healthcare, will grow. Older workers will also make up a greater percentage of the workforce. The proportion of Hispanic workers and women in the workforce will increase as well. Human resource departments will thus benefit from finding ways to meet the needs of older people, women, and members of minority groups. Job growth is expected in the fields of healthcare, education, and data analysis. Globalization will require human resource departments to create processes that effectively manage people working in various foreign countries.

LEARNING OBJECTIVE 5

How do strategic and functional perspectives combine to direct human resource practices?

In order to be truly effective, human resource management must combine strategic planning with day-to-day functional activities. Specific areas where this combination can take place include improving methods for securing employees and then maximizing their performance.

KEY TERMS

Business knowledge competencies 22
 Change management competencies 23
 Communal stage 7
 Competency 22
 Education and training trends 26
 Elaboration stage 9
 Employee advocate role 19
 Employee and labor relations 15
 Employee turnover 10
 Employment opportunity trends 26
 Entrepreneurial stage 7
 Formalization stage 9
 Functional expert role 19
 Globalization trends 27

Human capital developer role 21
 Human resource development 14
 Human resource management 4
 Human resource practice competencies 22
 Labor force trends 25
 Organizational life cycle 6
 Population trends 24
 Risk management 16
 Stakeholders 9
 Strategic management 14
 Strategic partner role 20
 Total rewards 14
 Workforce planning and employment 14

DISCUSSION QUESTIONS

1. Why might a newly formed organization be considered successful even if it is losing money?
2. Think of stores where you shop. Do employees of some stores seem happier than employees of other stores? What human resource practices might explain differences in employee happiness?
3. How can socially responsible organizations have high profits even though they spend money on things like environmental protection?
4. Why do managers and human resource specialists often do poorly on tests about the best ways of hiring and paying employees?
5. What are some specific things that can be done to teach company leaders how human resource management can contribute to organizational success?
6. Which human resource role do you think is most important? employee advocate? functional expert? strategic partner? human capital developer? Explain your answer.
7. Why do you think change is so difficult for organizations? What can human resource specialists do to make change easier?
8. What are some challenges you might face if you join an organization with a lot of older workers?
9. What are some things an organization could do to better meet the needs of women and members of minority groups?
10. How do you think the field of human resource management will change in the next 10 years?

EXAMPLE CASE

Sears

Sears, Roebuck, & Company was incorporated in 1886 and is currently a retailing giant with a market capitalization over \$41 billion. Arthur Martinez, CEO of Sears, is effecting a significant transformation of this retailing institution by broadening its scope to include an expanded array of home repair services and thousands of small stores, most of which will be closer to consumers and farther from shopping malls. Martinez took the helm in 1992, when Sears was losing \$3.4 billion annually, and has since rejuvenated the company through eliminating the *Sears Catalog*; downsizing 50,000 jobs; closing 113 unprofitable stores; selling the famous Sears Tower; and divesting Allstate, Coldwell Banker, the Discover Card, and Dean Witter brokerage in order to focus on Sears's core businesses. Sears is now in the midst of a five-year-old transformation that includes a \$4 billion store refurbishing program. The makeover also included a focus on a target customer—the middle class American mom (25–54, homeowner with a household income between \$25,000 and \$60,000)—and implementing a complementary marketing campaign of focusing on “the softer side of Sears.” These efforts have been rewarded by an increase in market share and profits, and by Sears being named by *Fortune* this year as the most innovative general-merchandise retailer.

The HR community at Sears, under the direction of Senior VP of Administration and HR Tony Rucci, has been widely identified as the single most important business group in leading the change efforts within the firm, most of which have come about largely as a result of purposive changes in the way in which Sears manages its people. The HR function has clarified its vision, added more resources, and moved its staff closer to stores.

Perhaps the most salient of Sears “best practices” in the management of people is reflected in its process for developing a clear competitive strategy and associated operational goals, and then relentlessly communicating both strategy and goals to employees. After some experimentation with a more “conventional” mission and vision statement (which was found to have little direct impact on employee behavior), Sears developed a conceptual model of firm performance linking employees, customers, and shareholders in a causal chain. This model known throughout the firm as the “three Cs” (for the creation of a compelling place to work, compelling place to shop, and a compelling place to invest) was subsequently validated with very substantial amounts of data collection and econometric analysis. . . . These analyses confirmed what Sears management had long believed: Corporate financial performance is a lagging indicator, information about what *has already happened* throughout the firm, but providing little information about what *will* happen. Sears was able to establish that in its “high touch” retailing environment, employee attitudes affected both customer attitudes and behavior, both of which in turn influenced Sears's financial performance. Moreover, Sears has shown that an increase in employee satisfaction in one quarter will increase customer retention in the next quarter, which will subsequently be reflected in shareholder returns the quarter after that.

QUESTIONS

1. In what ways are measures of employee satisfaction potentially more important than measures of financial performance?

2. What is it about the business of Sears that makes employee satisfaction so important?
3. How might the vision of the “3Cs” have helped Sears work through issues such as closing stores, downsizing the number of employees, and selling parts of the business?
4. Based on experiences shopping at Sears, how effective do you think they have been in sustaining excellence?

Source: Steven P. Kirm, Anthony J. Rucci, Mark A. Huselid, and Brian E. Becker, “Strategic Management at Sears,” *Human Resource Management* 38 (1999): 329–335. Reprinted with permission of John Wiley & Sons, Inc.

DISCUSSION CASE

Curt’s Cowboy Corner

Curt’s Cowboy Corner is a chain of 15 stores that sells cowboy boots and western clothing. Curt opened the first store 10 years ago in a small Rocky Mountain town and quickly gained a following of loyal customers. Based on input from customers and friends, Curt decided to expand his business and began opening new stores in nearby towns. He plans to open 10 more stores in the next few years.

Each of Curt’s stores has a manager, three full-time sales representatives, and five to six part-time employees. In the early days, Curt worked closely with each store manager to plan day-to-day operations, helping to make all hiring decisions. He and a secretary also spent many days each month working on payroll. Lately, however, Curt has found that he does not have enough time to interview job candidates and handle several other of his customary tasks. He thinks this might be one reason some of the newer employees aren’t working out so well. In addition, last month, he was two days late completing the payroll, thereby creating numerous problems for employees. Curt knows that he needs to do a better job of delegating tasks. Another of his concerns focuses on the potential liabilities of having a growing workforce. One employee recently told him that she felt uncomfortable about some sexual comments her boss had made to her. Curt spent several hours talking to both the employee and her boss, and although he feels pretty good about how he handled the situation, he acknowledges that he does not have the requisite knowledge or skill to resolve such matters.

Curt’s brother, who owns a number of automobile dealerships in a distant city, has encouraged Curt to hire a human resource professional. But Curt has been reluctant to hire staff members who do not spend time selling in stores. His philosophy has always been that staff members who don’t make sales are an expense without much return. At the same time Curt knows that he must do something or else things will get worse. If he is able to grow the business as he plans, he will soon have nearly 100 full-time employees.

QUESTIONS

1. What are some specific tasks that a human resource specialist could do for Curt?
2. Are there any financial benefits that might come from hiring a human resource specialist?
3. How might labor trends affect Curt’s ability to continue expanding his stores?
4. What benefits and problems might result if Curt hires a human resource specialist to provide support to all stores? Would it be better to simply delegate all human resource activities to each store manager?

EXPERIENTIAL EXERCISE

Visit the SHRM Website

The Society for Human Resource Management (SHRM) is a professional association devoted to human resource management. Visit the SHRM website at shrm.org and learn about the human resources field.

Look for information related to the following questions:

1. How many members are there in SHRM?
2. What types of careers are available in the field of human resource management?
3. What is the SHRM Code of Ethics, and how does it guide the efforts of human resource specialists?
4. What kind of resources does SHRM offer to help people learn new skills?
5. What are chapter/member groups? Who can join?
6. What are some current news issues that relate to human resource management?

INTERACTIVE EXPERIENTIAL EXERCISE

Building an HR Department at Mega Manufacturing

<http://www.wiley.com/college/sc/stewart>

Access the companion website to test your knowledge by completing a Mega Manufacturing role-playing exercise.

In this exercise, you're an HR consultant and will be assisting a small but established company (Mega Manufacturing) who will be going through significant expansion due to a new government contract. With the growth, the owner knows that it will be a good idea to add a dedicated HR person to his management team and wants you to help. As he's talking about the beliefs and vision of the company, you consider the organizational life cycle model, core HR functions, and critical HR roles. He then asks for your suggestions, and you realize that this assignment may be a great opportunity to align this new HR department with the strategy of the company. •

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