

Chapter 2

Making Human Resource Management Strategic

A MANAGER'S PERSPECTIVE

AS TARA BEGINS CLEANING HER DESK AND PREPARING FOR HER UPCOMING MEETINGS TOMORROW, SHE BEGINS TO THINK ABOUT HER APPOINTMENT WITH THE NEWLY APPOINTED COMPANY PRESIDENT. TARA, WHO IS THE HUMAN RESOURCE DIRECTOR, WONDERS IF HER NEW LEADER WILL MAKE ANY SIGNIFICANT CHANGES. ECONOMIC CONDITIONS HAVE MADE IT DIFFICULT TO TURN A PROFIT IN THE LAST COUPLE OF YEARS. HOWEVER, TARA KNOWS THAT THE COMPANY WAS SHOWING SIGNS OF TROUBLE EVEN BEFORE THE ECONOMY TURNED BAD. SHE IS CONVINCED THAT A NEW APPROACH TO DOING BUSINESS IS NEEDED IF THE COMPANY REALLY WANTS TO REASSERT ITSELF AS A MARKET LEADER. SHE HAS HEARD RUMORS THAT THE PRESIDENT INTENDS TO DEVELOP A NEW STRATEGIC PLAN. SHE HOPES THAT THE PURPOSE OF HER MEETING TOMORROW WILL BE TO DISCUSS HOW HUMAN RESOURCE MANAGEMENT PRACTICES FIT WITH THE COMPANY'S STRATEGIC OBJECTIVES.

Tara is confident that being invited to meet with the new president is a positive sign. She hopes that he will follow through on his public statements

and make human resources an important part of a new strategic plan. She strongly believes that good human resource management practices are important for improving organizational effectiveness. She wonders, though, whether she has the knowledge and skills necessary to really contribute to upcoming efforts to create a different strategic plan. How does a company develop a good strategy for competing with other businesses? Does she know enough about the strategic planning process?

Tara remembers a few years back when she attended an educational retreat and took a strategic management course that focused on different ways businesses compete with each other to deliver services and goods. She doesn't think the company currently has a clear strategy. Do people buy the company's products because they are superior to the products provided by other companies? Perhaps customers only purchase when the products cost less. As she reflects on these questions, Tara realizes that she doesn't really know what the company does differently than its competitors. She wonders if the human resource department might be able to make a stronger contribution if she had a clearer understanding of the underlying approach to doing business.





THE BIG PICTURE *Human Resource Management Is Most Successful When Aligned with an Organization's Competitive Business Strategy*

Tara thinks about how she spends each day helping managers make critical human resource decisions. In the past, she has emphasized developing loyalty and trying to make sure that employees stay with the company for long periods of time. She thinks this approach offers a lot of benefits. But she sometimes wonders if it would help to bring in more new people. What about diversity? Can the company benefit from new skills and ways of thinking? Given the current economy and relatively high rate of unemployment, Tara is quite certain that she would be able to identify and hire some very good new employees. Would now be a good time to bring in some outside talent?

As she thinks about tomorrow's meeting, Tara reminds herself that this is a big opportunity. For years, she has complained that the field of human resource management doesn't get the respect it deserves. Perhaps Tara can use her expertise to help the new president and other leaders overcome problems created by the economic downturn. Tara is excited by the prospect of making a difference and helping the company become more effective.



WHAT DO YOU THINK?

Suppose Tara hears the following comments during her meeting with the company president. Which of the statements do you think are true?

- T OR F** Having good employees is more important than having good production equipment.
- T OR F** Much of the workforce lacks needed skills, so high-quality employees are difficult to find and retain.
- T OR F** The most effective way for an organization to compete with other organizations is to produce similar goods and services at lower prices.
- T OR F** Organizations are most effective when they develop a highly committed workforce.
- T OR F** An organization seeking to produce the highest quality products should have different human resource practices than an organization seeking to produce inexpensive products.

LEARNING OBJECTIVES

After reading this chapter you should be able to:

- LEARNING OBJECTIVE 1** Describe the strategy formulation process.
- LEARNING OBJECTIVE 2** Describe two generic competitive business strategies that organizations use.
- LEARNING OBJECTIVE 3** Explain the universalistic and contingency approaches to human resource strategy, including key characteristics of the commitment strategy.
- LEARNING OBJECTIVE 4** Describe four human resource strategies that organizations commonly use.
- LEARNING OBJECTIVE 5** Explain how human resource strategies and competitive business strategies are aligned.

How Can a Strategic Approach to Human Resources Improve an Organization?

Suppose someone gave you \$10,000 to invest in a single company, with the condition that you must leave the money invested in the same company for the next 30 years. At the end of 30 years, you get to keep all the profits from the investment. What company would you choose? Would it be a technology-focused company like Microsoft? How about a global leader like Coca-Cola? Maybe a large company with numerous products, such as General Electric? What would be the most important factors to consider when making this choice?

As discussed in Chapter 1, profitability is an important part of organizational effectiveness and a factor you would certainly want to consider in choosing an investment. In fact, business researchers and stock analysts spend a lot of time trying to learn why some companies are consistently more profitable than others. One possible explanation is that highly profitable companies are simply in desirable industries. Perhaps it is just easier to earn profits doing some types of work. Another potential explanation is that profitable companies have better technological capabilities—better equipment and processes. Still another possibility is that highly profitable companies are just bigger. Their large size might provide them with more power and resources, making it easier to produce goods and services. Yet none of these theories really explains why some companies are more profitable than others. In any industry, and at any size, some companies do well and others don't.

Research suggests that a major key for long-term profitability is a clear strategy for being better than competitors, along with a highly effective workforce that carries out that strategy.¹ A good example is Southwest Airlines. Southwest has a clear strategic direction for being better than other airlines. Perhaps, more importantly, Southwest has a highly motivated workforce that allows it to successfully carry out its strategy. Indeed, the combination of a clear strategy and high-quality workforce allowed Southwest Airlines to earn the highest stock return of any company over a 30-year period.²

Southwest started out as a small company with three airplanes, and government regulations prohibited it from flying to states not bordering Texas. In the ensuing years Southwest Airlines has been consistently profitable, even at

a time when other airlines have consistently lost money and many have faced bankruptcy. Just think about it. If you had been able to invest your \$10,000 in Southwest Airlines 30 years ago, that investment would have grown to over \$10.2 million.

As mentioned, one element of Southwest's success is its clear strategic direction. What are the elements of the company's strategy? First, it has a clear strategy of offering low fares. Unlike other major airlines, Southwest does not use a complicated price structure whereby some passengers pay much more than others. Instead, it aims to have the lowest available fare. The fact that other airlines are forced to substantially cut their fares once Southwest enters a market indicates how successful Southwest's low-fare strategy is.³ Unfortunately for competitors, their costs to fly passengers are as much as 70 percent higher than Southwest's costs.⁴ Why? Southwest is simply more efficient. This makes it possible for Southwest to earn profits while selling tickets at prices that would represent losses for other airlines.

What makes Southwest so much more efficient than other airlines? The company gets more productivity out of its employees. Southwest needs only about one-third as many employees as its competitors to fly the same number of customers.⁵ How can it do this? The secret seems to be best captured by the company's founder, Herb Kelleher, who has said that Southwest's order of top priorities is employees, customers, and then shareholders.⁶ In short, Southwest Airlines uses human resource practices to find and keep a large number of loyal employees who concentrate on reducing costs.

One way that Southwest reduces cost is by encouraging each employee to pitch in and help finish tasks, even if those tasks are not part of that person's normal job. For instance, flight attendants help clean airplane cabins, and pilots help move luggage. This practice greatly reduces the time that a plane is on the ground between flights.⁷ Southwest has also developed a culture that makes it fun to work there. In 2008 the company received almost 200,000 resumes but only hired slightly more than 3,000 employees.⁸ Southwest is thus in the position of being able to hire only the very best employees. In particular, it focuses on hiring people who have the right attitude and who are willing to work hard to meet customer needs.⁹ The company also pays well and was one of the first airline companies to share profits with employees.

The pattern of long-term success doesn't, however, prevent Southwest Airlines from continually facing strategic challenges. Herb Kelleher retired as CEO in 2001 and was followed as CEO by James Parker, who led the company through three somewhat troubling years. First, terrorist attacks and rising fuel costs made it increasingly difficult for airlines to earn profits. Then employees demanded higher wages, with negotiations frequently creating conflict between managers and employees.¹⁰ Nevertheless, Southwest continued to outperform its competitors and return profits.¹¹ Gary Kelly, who took over in 2004 after Parker's retirement, makes it clear that he will not deviate from Southwest's core strategy: to be the airline with the lowest fares and the lowest cost structure. He also continues to emphasize the development of highly committed employees who spend their entire careers working to improve Southwest Airlines.¹² This consistent approach of adopting a low-cost strategy and emphasizing commitment to employees has been helpful during recent times of economic difficulty. For the first time since inception, Southwest Airlines began posting quarterly losses in 2008,¹³ but its lean structure and efficient practices helped it recover more quickly than competitors.¹⁴ Success

relative to competitors has even allowed Southwest to consider expanding at a time when most other airlines are just trying to survive.¹⁵

The Southwest Airlines example illustrates how a strategic approach to human resource management increases organizational effectiveness. For Southwest, employees are a critical resource in meeting the needs of customers. The overall strategic direction of the organization guides decisions about how people are recruited, selected, trained, and compensated. These human resource practices help create a workforce that provides the talent necessary to serve customers well. Organizations with clear strategies for effectively meeting the needs of customers, and clear human resource practices that match those strategies, simply get better results than other organizations.



Building Strength Through HR

SOUTHWEST AIRLINES

Southwest Airlines is a low-cost airline that employs over 35,000 people to move over 100 million passengers each year. Human resource management at Southwest builds competitive advantage by



- Having a clear strategic direction for competing with other airlines.
- Creating a company culture where everyone is committed to success and doing whatever it takes to serve customers.
- Being highly selective and hiring only the very best employees.
- Paying above-average wages to obtain and keep the best employees.

LEARNING OBJECTIVE 1

How Is Strategy Formulated?

Strategy

Coordinated choices and actions that provide direction for people and organizations.

Competitive business strategy

Strategy that focuses on different ways to provide goods and services that meet customer needs.

Human resource strategy

Strategy that focuses on different ways of managing employees of an organization.

We use the term *strategy* to discuss many things in our lives. We talk about strategies for taking exams, strategies for getting jobs, and strategies for saving money. But just what are we talking about when we use this term? We can think of a **strategy** as a set of coordinated choices and actions. Strategy concerns where you want to go and how you want to get there. A strategy for getting a job thus represents decisions about how to present your resume, where to apply, and what to say in an interview. Strategy is more than just decisions, however; it also concerns putting choices into practice.

With regard to human resource management in organizations, there are actually two types of strategy. One is **competitive business strategy**, which focuses on choices and actions about how to serve the needs of customers. The other is **human resource strategy**, which focuses on choices and actions concerning the management of people within the organization. These two types of strategy must work together to ensure high organizational effectiveness—as they do at Southwest Airlines.

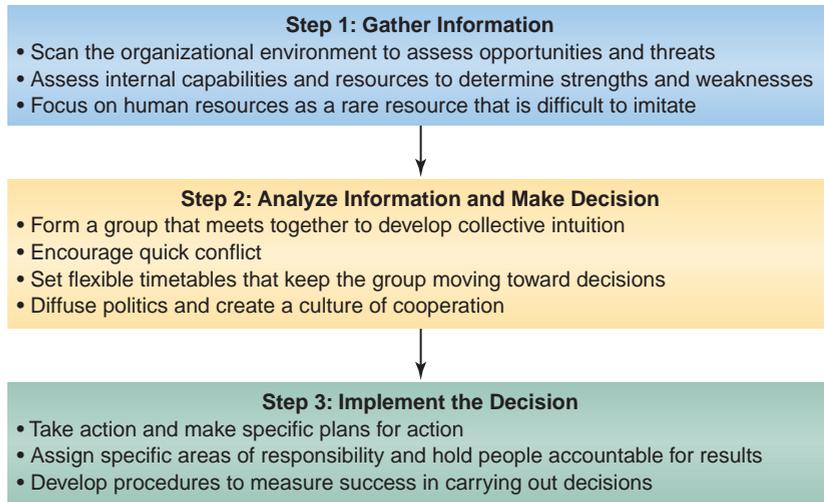


Figure 2.1 Strategy Formulation Process.

One way of understanding similarities and differences in these two forms of strategy is to examine the common elements of strategy formulation. The first step in strategy formulation is gathering information (see Figure 2.1). Information gathering commonly involves assessments both of the external environment and of internal capabilities. Once relevant information has been gathered, it is analyzed and decisions are made. The set of decisions made constitutes a strategic plan, which must then be implemented. In the following sections, we look at the first two steps.

GATHERING INFORMATION

Effective strategic leaders seek a great deal of information. They constantly scan their external environment in an effort to understand their internal resources and capabilities. Such assessments may not allow them to predict the future perfectly but can help them better understand what has already happened, an understanding that will enable them to make better decisions.¹⁶

Assessing the External Environment

An **external environment** consists of all the physical and social factors outside of an organization's boundaries.¹⁷ Some of these elements provide an organization with potentially favorable conditions and are labeled **opportunities**; other elements provide potentially unfavorable conditions and are labeled **threats**. Although opportunities are generally easier to control than threats, a clear understanding of both is critical for effective strategy formulation.¹⁸

One way of thinking about the importance of assessing threats and opportunities is to consider them in relation to your future goal of finding a job. A successful job search depends on a clear strategy, which requires an understanding of environmental conditions. Features of the environment might include the number of businesses hiring people in your field, the number of other new graduates looking for similar jobs, and the geographic location of potential employers. If the economy is bad and few businesses are hiring new employees, or if a large number of new graduates are highly qualified for the position you desire, you will face a threat. In contrast, a new technology that

External environment

Forces outside the organization's boundaries that influence the organization and its outcomes.

Opportunities

Positive elements of an organization's external environment.

Threats

Negative elements of an organization's external environment.

makes your skills valuable to a large number of organizations represents an opportunity. Having information about the job market in general helps you develop a good plan, or strategy, for finding a job.

Just as you will use environmental information in finding a job, organizational leaders use information about environmental opportunities and threats to form their strategies.¹⁹ Important elements of organizational environments include demographic and cultural trends, economic and political conditions, and technological developments.²⁰

Demographic and cultural trends include population growth, the age distribution of the population, the percentage of women in the workforce, and changes in the relative sizes of ethnic groups. As discussed in Chapter 1, people in the United States are living longer, and the percentage of ethnic minorities is growing. These features provide opportunities for organizations offering services to senior citizens and for organizations that produce and sell goods and services especially desired by, for example, Latino individuals.

Critical features of the economic environment include interest rates and new job creation, whereas the political environment includes laws and the positions of elected officials. The economic downturn that began in 2008 presented a major threat to most business organizations, with particular difficulty being experienced in industries such as construction and financial services. Other important threats and opportunities concern legal changes related to international trade. Stories about trade opportunities and threats in countries such as China appear almost every day.

An especially important aspect of current organizational environments is technological change. Trends such as improving manufacturing technologies and increased availability of information create opportunities for some organizations and threats for others. A recent example of technological innovation is Twitter, which is discussed in the accompanying Technology in HR feature.

Effective strategy formulation thus begins with information about threats and opportunities outside the organization. In formulating competitive business strategy, a company's understanding of these trends can help determine what goods and services to provide. Knowledge can also guide choices about whether to focus on lowering costs or on providing goods with superior features. Understanding broad changes outside the organization is also critical for human resource strategy. Organizations need information about demographic and cultural changes, for example, to forecast how many workers with particular skills will be available in the future. An interesting example of how environmental changes influence organizations is currently seen in Taiwan. The rapid rise and economic development of China has opened doors and markets for many companies located in Taiwan. Moreover, the job market in Taiwan has been depressed due to the economic downturn, but workers have found many opportunities in China. At least 1.5 million people from Taiwan are now working in China.²¹ The changing nature of the global market thus provides both opportunity and threat for companies located in Taiwan and China. Problems occurring in one area often create opportunities for companies and workers in another area.

Strengths

Positive elements that define areas in which an organization has high internal capability.

Weaknesses

Negative factors that define areas in which an organization has low internal capability.

Assessing Internal Capabilities

Strategy formulation also requires assessment of an organization's internal resources and capabilities. Areas of high capability are labeled **strengths**, and areas of low capability are called **weaknesses**.



Technology in HR

TWITTER AS AN OPPORTUNITY FOR BUSINESS

The micro-blogging service Twitter offers an exciting opportunity for businesses. Companies can use Twitter to send short messages not only to customers but also to current and prospective employees.

Companies such as Southwest Airlines, KFC, and General Mills have found success in communicating with customers. Southwest uses Twitter to connect with first-time customers by sending them an inexpensive yet personalized message of thanks and invitation for future service. Twitter was an important part of KFC's strategy for launching its grilled chicken product. Potential customers received information and links to vouchers for a free meal. In a similar way, General Mills found success by encouraging tweets about its new line of gluten-free baking products. The benefits of new products were extolled by customers rather than by a marketing department.

Human resource practices can also benefit from micro-blogging. For example, in the United Kingdom the Royal Air Force has employees continually sending short messages about what it is like to work in different roles. These posts on Twitter, along with responses to questions, serve as an important recruiting tool. Twitter can also be used as a training tool. Employees in training classes become more engaged by sending messages to instructors and other participants. Experienced employees can send tweets that help teach others the steps of completing important work tasks.

Of course, companies can also make mistakes as they get involved in social networking. In contrast to traditional communication such as advertising and job posting, micro-blogging creates two-way communication. Customers and potential employees talk back and share their thoughts with many



others. Blatant attempts to sell products or make a company look good are often met with criticism. Here are some steps to keep in mind to avoid some common pitfalls:

1. Listen before you speak. Successful companies begin their interactions by first finding out what is being said about them.
2. Follow key people. Identify people who frequently send tweets that relate to your company and its services or products.
3. Respond with help. Respond to tweets by offering help and addressing customer service issues.

Sources: Tim Bradshaw, "It Pays to Think Before You Tweet; Twitter May Be the Latest Hot Marketing Tool, but Companies Need to Ensure the Tone of Their Message Suits the Medium before Launching a Campaign," *Financial Times*, July 21, 2009, p. 14; Anonymous "Make Twitter an Effective Business Tool in 4 Steps," *PR News* 65, no. 29 (2009); Emily Bryson York, "Social Media Allows Giants to Exploit Niche Markets," *Advertising Age* 80, no. 25 (2009): 3-4; Pat Gallagan, "Twitter as a Learning Tool. Really," *Training and Development* 63, no. 3 (2009): 28-30; Anonymous, "RAF Uses Twitter and Flickr to Show Potential Recruits Life in Force," *New Media Age*, July 23, 2009, p. 3.

The example of a job search can also be helpful for thinking about strengths and weaknesses. Threats and opportunities focus on the environment—in the case of your job search, environment signifies things other than you. Strengths and weaknesses focus internally—in the job search example, on your own characteristics. Your strengths might include past experience working in the industry or your graduation from a school with a strong reputation for producing high-quality graduates. These are all capabilities that help set

you apart from other job seekers. At the same time, you probably have some weaknesses. Perhaps you have decided you must live in a certain city, or maybe your grades are lower than you wish. These weaknesses might work against your ability to obtain a desirable job. The strengths and weaknesses of organizations are similar in that they focus on characteristics that are part of the organization itself.

While obviously it is more desirable to have strengths than weaknesses, an understanding of both is essential for true success. Just as an honest assessment can help you get a job, organizations do better when they continually assess both strengths and weaknesses. Most strengths and weaknesses can be thought of in terms of the resources that an organization has. Some are tangible, such as money and equipment; others are intangible, such as reputation.

One way of thinking about potential sources of strength and weakness is the strategic concept of the value chain. The value chain suggests that an organization's primary purpose is to transform various inputs to create goods and services that are valuable to customers. To create this transformation, the organization must first obtain necessary resources. It combines these resources through a production process to create goods and services, which are then delivered to customers. Effective delivery requires marketing activities to identify potential customers and service activities to ensure that customers are satisfied.

The primary production process is supported by procurement processes, technology, infrastructure, and human resource management. Procurement helps the organization obtain high-quality resources; technology helps improve the production process; infrastructure—the structure of the organization and the relationships among its parts—helps coordinate actions; and human resource practices involve acquiring and motivating employees, which are a particularly important source of support. As illustrated by Southwest Airlines, a strategy is only effective if an organization has the talent needed to carry it out. Since our focus is on human resource management, we will concentrate on this part of the value chain. Our goal is to understand how effective management of people can be a source of internal strength.

In the resource-based view of organizations, resources—including human resources—are true strengths when they are both valuable and rare. Accordingly, the ability to attract and keep high-quality employees represents a strength for the organization only when high-quality employees are hard to find. After all, if such employees are easy to find, every company will have them.

Good human resource management is critical because high-quality employees are relatively rare. A recent report by the Task Force on Workforce Development concluded that much of the workforce lacks required skills. There is a shortage not only of technological and computer skills but also of more general skills such as critical thinking and communication.²² This shortage is not confined to the United States; similar issues have been identified in other countries, such as the United Kingdom, France, and Germany.²³ Thus, effective ways to attract and keep employees do, in fact, represent sources of internal strength that can give an organization a competitive advantage.

To be true strengths, human resource practices must also provide something that is difficult to imitate and for which there is no substitute. As you will see later in this chapter, creating an integrated set of human resource practices is extremely difficult. Competitors are often able to imitate parts of a human resource strategy, but they can rarely imitate the entire package.²⁴ This is particularly true when an organization is able to retain high-quality

employees throughout long careers. In terms of substitutability, there is always the possibility that machines can replace employees, as has already occurred in some manufacturing organizations. However, people are still needed to design and operate the machines. Given the current emphasis on knowledge and service work, it appears that most organizations will continue to need employees, and thus human resource strategies, well into the future.

In summary, human resource practices can represent a critical internal strength for organizations. Conversely, lack of effective human resource management can represent a major weakness. Gathering information about human resource capabilities is therefore a vital part of an effective assessment of organizational strengths and weaknesses.

ANALYZING INFORMATION AND MAKING DECISIONS

Once information has been gathered, the next step in the strategy formulation process is to analyze the information and make decisions. Spending time and effort to gather information is of little value unless it is used to arrive at high-quality decisions that are then carried out.

Research suggests four steps that can be used to make decisions effectively.²⁵ These steps are illustrated in Figure 2.2. The first step, to build collective intuition, develops when a group of people meet together often to discuss the information that has been gathered. Through these meetings, each member can share what he or she knows with other group members. The outcome is a sense of intuition, or “gut feel,” about the proper strategic direction.

The second step is to stimulate conflict. It may seem strange, but experiencing conflict about how to do things is very important for making good decisions.²⁶ In the absence of conflict, important threats and weaknesses are often ignored. Making sure that the team of decision makers includes



Figure 2.2 Effective Decision Making. *Source: Information from Kathleen M. Eisenhardt, “Strategy as Strategic Decision Making,” Sloan Management Review 40 (1999): 65–72.*

people with different backgrounds can be helpful. Experienced managers and younger managers, for example, bring different insights to the decision-making process, as do marketing personnel and operations personnel. Another way to encourage conflict is to assign team members to advocate different possibilities, even if they don't really believe those possibilities are best.

The third step in good decision making is to maintain an appropriate pace. Decision makers too often see their task as so large that they become paralyzed. The key to effective decisions is to focus on issues that are large enough to be meaningful but small enough to be resolved. In this way, the team can view each decision as part of a larger set of decisions. The best plan is to set a flexible timeline that provides guidance for moving the decision forward but does not force the group to make the decision prematurely.

The final step is to diffuse politics. Bad decisions result when members of the decision-making team focus on making themselves look good at the expense of others. To avoid this problem, the team should begin with a common goal that develops a sense of cooperation rather than competition. Each team member should have a clear area of responsibility, in which he or she can provide expert input.

Strategy formulation is best done by a group of decision makers working together to carefully analyze the information obtained from assessing the organization's external environment and internal capabilities. The group then makes decisions about the best way to provide goods and services. This process of gathering and analyzing information is fundamental in determining how to compete with other organizations. Good decision making also provides plans for building a high-quality workforce.



CONCEPT CHECK

1. *What are the three steps in the strategy formulation process?*
2. *What are some components of an organization's external environment?*
3. *Why does human resource management represent an important potential strength for organizations?*
4. *What four steps are necessary for effective decision making?*

LEARNING OBJECTIVE 2

What Are Common Competitive Business Strategies?

Earlier we made the point that competitive business strategy and human resource strategy must work together to ensure high organizational effectiveness. In this section, we look more closely at competitive business strategies, which encompass various types of strategies. For instance, large corporations have strategies that guide their choices concerning the types of businesses they will pursue. Some corporations are made up of business units that are

very similar; Whirlpool Corporation, for example, focuses only on making and selling appliances. Other corporations are made up of business units that are very different from one another. At General Electric, business units do very different things: some make small appliances, others provide financial services, and still others manufacture plastics. Decisions related to business types make up **corporate-level strategy**.

Good corporate-level strategy is important, but a different kind of strategy is most critical for day-to-day human resource activities. This other type of strategy is **business-level strategy**, which concerns how the organization will compete with other companies that provide similar goods and services. A corporation with several different business units may have a business-level strategy for each unit. Because each unit provides a specific type of good or service to meet a particular set of customer needs, strategies for the various units might be similar, or they might be very different. In any case, it is within business units that strategic human resource practices add the most value. Throughout this textbook we therefore focus on business-level competitive strategy.

Organizations can pursue a wide variety of strategies, but two generic business-level strategies capture the main ways in which business units compete: cost leadership and differentiation. Organizations with a **cost leadership strategy** seek to become low-cost producers of goods and services; their goal is to develop efficient production methods that enable them to sell at a lower price than competitors. Organizations with a **differentiation strategy** seek to produce goods and services that are somehow superior to the goods and services provided by competitors; their goal is to create unique value for which customers are willing to pay a higher price.²⁷

COST LEADERSHIP STRATEGY

An organization chooses the cost leadership strategy when its decisions and actions focus on providing value by reducing cost. The goal of a business pursuing cost leadership is to become highly efficient, which will allow the organization to create value by producing goods and services at lower cost. Many organizations using a cost leadership strategy sell at prices lower than their competitors. However, not every company that sells at low prices is using a cost leadership strategy. Cost is, of course, not the same thing as price. Cost captures the expenses associated with creating the product, whereas price is what the organization receives for the product. The difference between cost and price creates profit. The key to the cost leadership strategy is in controlling expenses, not in simply setting low prices.

Southwest Airlines provides a good example of a firm with an effective cost leadership strategy. Southwest tries to have the lowest prices, but that is not the real basis of its strategy. Its strategy, rather, is to reduce the expenses associated with providing air travel. Other airlines often sell tickets at prices similar to Southwest's, but their costs are higher, which results in lower profits. These firms are sometimes forced to match Southwest's ticket prices, even when the matching price is below what it costs them to fly passengers. The practice of setting prices below costs is one reason for the high bankruptcy rate in the airline industry.

Organizations with a successful cost leadership strategy usually produce basic and standardized products and services and often have a relatively large share of the market. They pay lower prices for raw materials because they buy

Corporate-level strategy

A competitive strategy that concerns the different businesses and diversity of products and services that an organization produces.

Business-level strategy

A competitive strategy that concerns how an organization, or part of an organization, will compete with other organizations that produce similar goods or services.

Cost leadership strategy

A business-level strategy that seeks to produce goods and services inexpensively.

Differentiation strategy

A business-level strategy that seeks to produce goods and services that are in some manner superior to what is produced by competitors.

them in large quantities, and they use technology to develop efficient manufacturing methods. Walmart is an outstanding example of an organization that has succeeded with a cost leadership strategy. Walmart has extremely efficient operations. It buys in high volume, which enables it to obtain favorable prices from suppliers. It also has a very efficient transportation system, which allows it to move goods at relatively low cost. Overall, this efficiency enables Walmart to sell products at low prices but still earn a profit.

A focus on cost reduction cannot come at the expense of producing goods and services with at least acceptable levels of quality and desirable features. Even if an organization's products are lower-priced than competing products, customers will not purchase them if their quality is unacceptable. Of course, it isn't always easy to tell what customers will consider when making the tradeoff between price and desirable features. For instance, observers long thought that Southwest's policy of no assigned seats would cause problems, but customers don't seem to care enough about seat choice to pay a higher price. In fact, the CEO recently posted a blog about doing away with the open seating policy, but quickly received over 700 email messages that were mostly against such a move.²⁸ Now, however, new competitors such as JetBlue have begun to provide benefits such as individual television screens for passengers. These airlines also focus on cost reduction and often have costs similar to Southwest's. If they can produce something of higher value at almost the same cost, then the cost leadership strategy of Southwest might be in trouble. The question is whether Southwest will need to add features such as individual televisions to retain customers. The key to success is not necessarily providing all the unique features that other airlines offer, but rather reducing costs while providing enough of those features to satisfy passengers.

One problem with a cost leadership strategy is that usually just one organization can be the lowest-cost provider in any industry, and this is often an organization that has a large share of the market and is defending its territory.²⁹ Therefore, only a relatively small number of business organizations can be successful with this strategy. Another problem occurs when the market changes in such a way that the goods or services provided are no longer valued. Changes in technology can have this effect. Such changes can result in an organization that is a highly efficient provider of goods or services that no one needs or wants.

Nevertheless, the cost leadership strategy can result in long-term success for organizations such as Walmart and Southwest Airlines. But what is it that allows firms such as these to succeed with a cost leadership strategy? Both firms are obsessed with cost reduction. They have cultures that create a sense of frugality, discipline, and attention to detail, as well as tight control structures that carefully track cost changes, and they continually focus on learning how to do what they do more efficiently. Much of their cost leadership ability stems from their strategic human resource management practices: Their employees work more efficiently than employees at other organizations.

DIFFERENTIATION STRATEGY

An organization following the differentiation strategy focuses on offering value by providing something better than competitors—something for which customers are willing to pay a higher price. The organization may differentiate its goods or services in any one of several ways. For example, the product itself

may be unique, as when a pharmaceutical firm has a drug that no other firm has. A marketing approach is another way of differentiating goods and services. Most advertising is created to generate perceptions that goods or services are somehow different from those offered by competitors. Yet another area for differentiation is excellent customer service. Customers are often willing to pay more for a product if they know that the organization will help them if a problem arises. The effect of differentiation for fast-food restaurants is described in the accompanying “How Do We Know?” feature.

Target is a retail store that employs a business-level strategy of differentiation, seeking to set prices close to those of retailers such as Walmart. But the source of competitive advantage is not the cost structure itself. Rather, Target seeks to provide something slightly different from Walmart at a similar but perhaps slightly higher price. For instance, Target has store designer brands that are geared toward slightly more upscale customers. It also focuses on having clean, well-organized stores, as well as enough employees to ensure rapid checkout. In the end, Target tries to beat Walmart not by having lower cost but rather by providing a different value. Target’s unique value is attractive to a certain set of customers as long as costs are only slightly higher. This differentiation strategy works best when economic conditions are generally favorable. Consumers have been less willing to shop at Target instead of Walmart when economic conditions have been poor and their confidence in their ability to continue earning and spending has been low.³⁰



How Do We Know?

WHAT DIFFERENTIATES FAST-FOOD RESTAURANTS?

Have you ever wondered why some people like to eat at McDonald’s, but others prefer Burger King? What sets one fast-food chain apart from another? To find out, Bonnie Knutson asked 200 college students about their perceptions of Arby’s, Burger King, KFC, McDonald’s, Subway, Taco Bell, and Wendy’s. She asked the students to rate these restaurants on features such as atmosphere, menu choices, consistency, and price.

The study found that students have common beliefs about differences between fast-food restaurants. McDonald’s received the highest overall ratings. Students saw McDonald’s as particularly strong in terms of combination meals, kid’s meals, consistency, and value. They gave Taco Bell the highest rating for low-priced food. Subway received the highest rating for good nutrition, and Wendy’s for menu variety.

The Bottom Line. The results of this study illustrate the concepts of cost leadership and differentiation. Taco Bell is seen as a low-cost provider, which can be an effective strategy as long as the cost structure really allows it to produce and serve food at low cost. Subway has been successful at differentiating itself based on nutrition, and Wendy’s has differentiated based on menu variety. These restaurants also have different human resource strategies that help support their competitive strategies. Professor Knutson concludes that fast-food restaurants should place high importance on creating a clear brand image that is consistent with their strategy for competing with other restaurants.

Source: Bonnie J. Knutson, “College Students and Fast Food: How Students Perceive Restaurant Brands,” *Cornell Hotel and Restaurant Administration Quarterly* 41, no. 3 (2000): 68–74.

Another example of a firm with a differentiation strategy is BMW, which produces automobiles that are more expensive than those of many of its competitors. Consumers are willing to pay a higher price for a BMW because they perceive it has greater value, particularly in the areas of reliability, comfort, and image. People expect a BMW to be a more enjoyable car to drive than a less expensive alternative.

Whereas few organizations in a given industry can successfully use the cost leadership strategy, a large number of organizations can simultaneously pursue differentiation strategies. Each simply seeks to differentiate in a unique way. The key is to create value that is perceived as high enough to warrant a higher price. Of course, organizations with a differentiation strategy cannot simply ignore cost. Usually, their cost structures, and associated prices must be close to those of competitors. If costs and prices are too far out of line, the added value of the unique features may not be sufficient to encourage purchases.

The requirements for succeeding with a differentiation strategy are quite different from those needed by the cost leadership strategy. Organizations using a differentiation strategy must continually struggle to show that their products are truly unique, which often requires them to adapt rapidly to changing customer preferences. Differentiators must also be highly innovative, and they must take risks and continually prospect for new ways of doing things. But differentiation and cost leadership are similar in one respect: Organizations that succeed with differentiation do so because of their human resource practices. Organizations using the differentiation strategy are creative and innovative because they have employees who do things better than the employees of their competitors, which helps them to be perceived as providing a different value.

COMBINATION STRATEGY

An interesting question is whether an organization can simultaneously pursue both cost leadership and differentiation. Theoretically, this is difficult. Organizations trying to pursue both strategies often end up doing neither very well; they are stuck in the middle with no real competitive advantage. Their desire to add unique features creates a cost structure that does not allow them to produce goods and services at the lowest cost. Yet their focus on cost does not allow them to develop features that are truly exceptional.

Most organizations must therefore choose one or the other approach and make strategic decisions accordingly. An organization with a primary cost leadership strategy should seek to differentiate only as long as doing so does not harm its ability to be the lowest-cost producer. Similarly, an organization with a primary differentiation strategy should seek to reduce costs wherever possible. But cost reduction only makes sense if it does not destroy the features that make the organization's product unique and valuable.

Organizations can sometimes be successful at simultaneously pursuing cost leadership and differentiation strategies, but these cases are rare and tend to occur in markets where competition is not strong. If the market does not include a truly low-cost provider, and if most competitors are stuck between cost and differentiation, then an organization may be able to have it both ways for a while. An organization may also pioneer a unique innovation that provides it with a secret or protected way of doing things that is both unique and low in cost. Unfortunately, such scenarios do not typically last very long.³¹



CONCEPT CHECK

1. What are the basic characteristics of the cost leadership strategy?
2. What are the main features of the differentiation strategy?

LEARNING OBJECTIVE 3

What Are Basic Approaches to Human Resource Strategy?

Our discussion of competitive strategy shows that successful organizations create value by doing things for customers that other organizations do not do as well. The continued success of these organizations depends on their possessing capabilities that competitors cannot easily copy. One source of potential capability is physical resources, such as technology and equipment, which are often easy for competitors to duplicate. As we have seen, another source of potential capability—one that is less easy to copy—is human resources.³²

Effective human resource management capabilities are difficult to copy because effectiveness comes not from a single practice but from a number of related practices. These practices are developed over extended periods of time. Social relationships that arise from human resource practices are also extremely difficult to copy. Taken together, these factors make human resource capabilities a source of potentially sustainable competitive advantage.³³

Human resource practices build capability, in part, by encouraging employees to fill certain roles.³⁴ A **role** is a set of behaviors characteristic of a person in a particular setting. Employee roles are strongly influenced by the cues, or signals, that an organization provides. For instance, some organizations pay high performers a lot more than other people in the organization. Such large pay differences are meant to cue competition and innovation among employees. Other organizations use group rewards to cue cooperative behavior. Cooperative cues can also come from training programs that teach people conflict negotiation skills, or from employee selection practices that seek to identify agreeable workers. Roles, which reflect patterns of behavior, thus become stronger as a variety of human resource practices combine to consistently cue the desired behaviors. The result is a complex process that is difficult for other organizations to duplicate.

The same characteristics that make human resource practices difficult to duplicate can sometimes make their results difficult to understand and predict. Nevertheless, research has identified consistent patterns of good human resource management. Researchers have taken two basic approaches in investigating human resource patterns:

- The **universalistic approach** seeks to identify a set of human resource practices that is beneficial for all organizations. The goal of universalistic research is therefore to find the one best way of managing human resources.
- The **contingency approach** seeks to match human resource practices with competitive business strategies. In this view, the human resource practices that work best for organizations pursuing a certain competitive strategy will not necessarily work best for organizations pursuing a different strategy.³⁵

Role

Behaviors that define how a person is expected to act in a given setting, such as the workplace.

Universalistic approach

A human resource perspective that seeks to identify methods of managing people that are effective for all organizations.

Contingency approach

A human resource perspective that seeks to align different ways of managing people with different competitive strategies for producing goods and services.

Research supports both approaches. Fortunately, the two approaches are not contradictory. Whereas some human resource practices are beneficial for all organizations, the benefits of other practices seem to depend on the organization's competitive business strategy. Furthermore, the two approaches have different areas of interest. The universalistic approach tends to focus on broad principles, whereas the contingency approach focuses more on specific practices.³⁶ The two approaches are thus complementary and often work together to form an overall human resource strategy.

THE UNIVERSALISTIC APPROACH

The universalistic approach, as we have seen, seeks to identify the best practices for all organizations to follow. One important finding of universalistic research is that human resource practices are most effective when they are bundled together into internally consistent clusters.³⁷ A single effective human resource practice, such as the use of a good employee selection test, provides only limited benefits unless it is combined with other effective practices. For instance, using a computer knowledge test to select employees offers more benefits when such testing is combined with a compensation system that rewards people who actually use the computer skills to do their jobs. In a similar way, a training program that encourages innovation is most effective when it is combined with appraisal and compensation systems that measure and reward the behaviors taught during training. Sets of human resource practices that are internally consistent and that reinforce each other are known as **human resource bundles**.

Human resource bundles

Groups of human resource practices that work together to create a consistent work environment.

Control strategy

A human resource bundle that emphasizes managerial control and tries to streamline production processes.

Commitment strategy

A human resource bundle that builds strong attachment to the organization and emphasizes worker empowerment.

Many practices related to hiring and motivating employees cluster naturally into two bundles. One bundle is based on a **control strategy**; the primary focus of human resource practices in this bundle is standardization and efficiency. The second bundle is based on a **commitment strategy**; the primary focus of practices in this bundle is to empower workers and build a strong sense of loyalty and commitment.³⁸

Both the control and commitment strategies have been found in a number of different settings.³⁹ For example, in the steel production industry, researchers found that the practices of a distinct group of plants represented a commitment strategy. These plants reported widespread use of incentive pay, careful screening of recruits, high teamwork, and extensive sharing of information. Another group of plants used practices representing a control strategy. These practices included close supervision, strict work rules, narrow job responsibilities, and little formal training.⁴⁰ Similar observations were made in a study of automobile assembly plants. One set of plants reported using commitment strategy practices such as extensive recruiting, employee involvement groups, and widespread training. These practices fostered a strong sense of cooperation between employees and managers. Other assembly plants reported using control strategy practices such as narrowly defined jobs and close supervision. The control practices created large status differences between employees and managers.⁴¹

Studies comparing the control and commitment strategies almost always conclude that the commitment strategy is best. Organizations with commitment strategies have higher productivity, and they generally produce higher quality goods and services.⁴² The superiority of a commitment strategy is consistent across various types of organizations and industries, but particularly strong in manufacturing organizations.⁴³ Moreover, its benefits have been

documented in countries other than the United States, such as New Zealand and Korea.⁴⁴ A strong research conclusion from the universalistic approach is therefore that organizations should adopt a commitment strategy.

The commitment strategy is often summarized as a human resource bundle that encourages high involvement. (The major human resource practices in the commitment strategy bundle are summarized in Table 2.1.) What do these practices have in common? Why are they consistently related to higher productivity and quality?

One answer to the question of what the practices have in common is that they communicate a message that management cares about employees. Organizations with managers who value people tend to use good human resource practices to effectively deliver goods and services.⁴⁵ These organizations provide employees with opportunities for personal growth. Selective hiring, extensive training, and pay linked to performance provide employees opportunities to excel, which lead to deeper commitment to the organization.⁴⁶ The organizational climate conveys a sense of concern for employees, which increases job satisfaction and employee commitment.⁴⁷ Extensive training also improves employee skills. Employees develop a strong attachment to the organization and are less likely to quit.⁴⁸ Employees who think that human resource actions simply minimize cost at the expense of employees are less committed and satisfied than employees who see personnel actions as increasing quality and ensuring their well-being.⁴⁹ In essence, the commitment strategy bundle of human resources is beneficial because these practices treat employees as a critical resource.

Such strong support for the commitment strategy may seem to suggest that all organizations should simply adopt this strategy and the related human resource practices. Unfortunately, it's not quite this simple. The commitment

Table 2.1

Examples of Commitment Strategy Practices

Practice Area	Typical Examples
Job Tasks	Broad job responsibilities Meaningful tasks Rotation across a variety of tasks
Empowerment	Inclusive decision making High levels of responsibility Building employee confidence
Teams	Organizing around work teams Self-management within teams
Communication	Two-way communication Quality-of-life surveys Encouraging suggestions
Training	Extensive new employee training Formal training for everyone Multiple job skill development
Compensation	Pay for performance High levels of pay Ownership forms of pay such as stock
Staffing	Highly selective recruiting Identification of skilled workers Long-term relationships with employees



How Do We Know?

DO GOOD HUMAN RESOURCE PRACTICES IMPROVE PERFORMANCE?

Is it wise for an organization to spend money to find, hire, and train good employees? What are the effects of better hiring, training, and compensation? Are the benefits that these practices bring worth the costs? Christopher Collins and Ken Smith set out to answer these questions by obtaining data from 136 technology firms. They measured high-involvement work practices, which are consistent with the commitment strategy. Specific items asked about human resource practices of selection, training, compensation, and performance appraisals. The researchers linked these practices to revenue from new products and sales growth. They also assessed climates for trust and cooperation, as well the exchange of knowledge.

The study found that organizations using the commitment strategy had increased revenue and growth. The data also provided insight into the process by which human resource practices improve financial returns. Better methods for hiring, training, and paying employees create a climate of trust and cooperation. This good organizational climate

leads to more learning and exchange of information among employees. The improved learning and sharing of ideas in turn corresponds with increased financial performance.

The Bottom Line. Effective human resource practices build a sense of trust and cooperation among workers, which leads them to share information and learn from each other. These positive interactions among employees, which are set in motion by good human resource management, help innovative firms grow and make money. Professors Collins and Smith conclude that leaders of technology firms should carefully choose their human resource practices used to manage knowledge workers.

Source: Christopher J. Collins and Ken G. Smith, “Knowledge Exchange and Combination: The Role of Human Resource Practices in the Performance of High-Technology Firms,” *Academy of Management Journal* 49 (2006): 544–560.

strategy is a broad concept that includes few specific details. The strategy recommends that organizations hire high-quality employees and give them freedom and responsibility. As explained in the “How Do We Know?” feature, the commitment bundle creates a climate of trust and cooperation, which in turn leads to knowledge exchange and ultimately increased performance. However, the commitment strategy is not clear and consistent about specific ways to do these things.⁵⁰

THE CONTINGENCY APPROACH

The contingency approach to human resource strategy seeks to align people management practices with competitive business strategies. Because this book takes a strategic view of human resource management, we emphasize the contingency approach. In this section, we look at two key differences in organizations: whether they have a cost leadership or a differentiation strategy and whether they have an internal or an external labor orientation. In the remainder of the chapter, we examine how these differences combine to define an organization’s human resource strategy.

Cost Leadership Versus Differentiation

We’ve already discussed the differences between the competitive business strategies of cost leadership and differentiation. We’ve also suggested that these two strategies differ in terms of human resource practices. Table 2.2 summarizes important differences in how organizations with these strategies approach human resource management.

Organizations with a cost leadership strategy focus their efforts on increasing efficiency and hire generalists who work in a variety of different positions.⁵¹ Organizations tightly control work processes and carefully define what they want employees to do. Appropriate behavior is specifically prescribed for employees, and human resource practices focus on minimizing labor costs.⁵²

A cost leadership strategy with a focus on tightly controlled processes makes sense when the organization knows exactly what it wants people to do. This situation usually arises when the preferences of consumers are well known and seldom change. The result is mass production of standardized goods or services at the lowest possible cost. As described above, Walmart is a good example of a company pursuing this strategy. The company carefully standardizes practices and focuses on reducing deviations within its processes. Employees focus their efforts on shipping and selling goods as efficiently as possible.

In contrast, organizations using a differentiation strategy focus their human resource efforts on innovation and quality enhancement. Employees in these organizations are often specialists who perform very specific tasks. Rather than seeking to control processes, these organizations concentrate on outcomes. Workers have more choice about how things should be done,⁵³ and accordingly, they are held accountable for the goods and services they produce.

A differentiation strategy with a focus on outcomes is particularly beneficial when organizations produce customized goods or services. In these organizations, the best process for completing work is often unknown, and employees are expected to continually look for different ways of doing things.⁵⁴ Service organizations such as investment firms and healthcare providers frequently have an outcome focus because their customers have very different needs and expectations. Unique customer expectations require employees to change their actions to best serve each client.⁵⁵ For instance, the investment banking firm Morgan Stanley works to build long-term relationships and meet the specific needs of clients, adapting its services for each client. This customization approach has helped Morgan Stanley obtain important clients such as Google.⁵⁶

Table 2.2

Strategic Human Resource Differences

Cost Strategy	Differentiation Strategy
Emphasis on group contribution	Emphasis on individual contribution
Focus on improving processes	Focus on outcomes and results
Development of general employee skills	Development of specific employee skills
Cooperation among employees	Moderate competition among employees
Efficiency culture	Innovation culture
Clearly prescribed tasks	Flexible task assignments
Rules and procedures that standardize work	Few rules and procedures; exceptions to rules allowed

Internal labor orientation

A human resource perspective that emphasizes hiring workers early in their careers and retaining those workers for long periods of time.

External labor orientation

A human resource perspective that limits attachment to a specific organization and emphasizes hiring workers who already possess the skills they need to complete specific tasks.

Internal Versus External Orientation

In addition to differing in competitive strategy, organizations differ in the extent to which they develop employees' skills within the organization. An organization with an **internal labor orientation** seeks to make its own talent and to keep employees for long periods of time. In contrast, an organization with an **external labor orientation** seeks to buy talent. These organizations hire people who already have the needed skills and in many cases keep them for only a short period of time.⁵⁷ Internal and external orientations have been identified across a number of organizations and industries, including sales, manufacturing, technology, food, and legal firms.⁵⁸ Basic differences between the two orientations are summarized in Table 2.3.

Organizations with an internal labor orientation generally hire young employees; a primary goal of hiring is to identify people who will have long careers within the organization. Because employee turnover is undesirable, human resource practices focus on developing loyalty and commitment. The idea is to develop a close relationship with employees and to provide employees with a sense of stability and security. In exchange, employees agree to sacrifice some of their own personal interests. For example, they agree to develop skills that may not be valuable to other organizations, which decreases their chances of receiving other job offers.⁵⁹

An internal orientation has several potential strengths. Organizations are able to predict what skills and capabilities will be available to them in the future, and employees build strong relationships with one another, so coordination and cooperation are high. Organizations with an internal labor orientation also save money because they reduce expenses for recruiting, interviewing, and hiring employees. One company that has benefited from emphasizing an internal labor orientation is the British grocery producer Fenmarc, which is profiled in the accompanying "Building Strength Through HR" feature.

An internal labor orientation has potential weaknesses as well. Organizations develop long-term commitments that make it difficult for them to adapt. Changes in strategic direction are complicated because workers have been encouraged to develop specific skills necessary for carrying out the old strategy. Long-term commitments may also make it difficult for organizations to replace workers whose skills are not up to date. In addition, such organizations tend to develop bureaucratic structures that make them inflexible.⁶⁰

Organizations with an external labor orientation look very different. These organizations seek out people who have already developed skills, and the

Table 2.3*Differences in Labor Orientation*

Internal	External
Hiring of people early in their careers	Hiring of people who have already developed skills
Extensive orientation for new employees	Limited orientation of company policies
Focus on internal promotions	Focus on bringing in new talent
Ongoing training opportunities	Limited training opportunities
Development of skills valuable only to the specific organization	Development of skills valuable to many organizations
Bias against laying off employees	Acceptance of employee layoffs
Employees contribute because of loyalty	Employees contribute because of money
People identify closely with the organization	People identify closely with a profession



Building Strength Through HR

FENMARC PRODUCE LTD

Fenmarc Produce is a vegetable processor and packer located in the United Kingdom. For a number of years, the company was not consistently profitable. A few years ago, the privately held company was purchased by a leadership team that placed special emphasis on linking competitive strategy to human resource management. Company leaders, recognizing that vegetables are commodities, decided to focus on making the company a low-cost producer. Fenmarc also sought to become a preferred supplier for the Walmart affiliate Asda, which is a supermarket giant in the United Kingdom.

In order to improve its production processes and ensure the delivery of safe produce, Fenmarc implemented a widespread training program. The program uses case studies, group activities, and coaching to improve the individual skills of employees. Employees who complete the training report more confidence in their abilities.

Fenmarc sees each of its employees as a valuable contributor. An important part of the organizational philosophy is that every individual has important opinions that should be valued. Six key principles capture this emphasis on people:

- Say it as it is.
- Challenge it, improve it, learn from it.



- Integrity before profit.
- Make it fun, make it happen.
- One team, one purpose.
- Respect for the individual.

Treating people well has helped Fenmarc retain its employees and has also improved efficiency. In a two-year period, the company received 2,200 suggestions for continuous improvement, and accidents fell by 20 percent. Investing more in people has paid off by improving company profitability.

Source: Information from David Pollitt, "Investment in Training and Development Bears Fruit for Fenmarc," *Human Resource Management International Digest* 15, no. 1 (2007): 27–29; www.fenmarc.com/general.php.

primary goal of hiring is to identify people who are able to contribute without additional training. Employee turnover can be desirable in some cases because it provides a way to make sure that the organization is able to continually hire people with the most up-to-date skills. Long-term commitments are avoided. The relationship between the organization and its employees is weak and based on contractual agreements. Employees work because they are paid, not necessarily because they are loyal. They usually do not develop a strong feeling of attachment to the organization.

A primary strength of the external orientation is flexibility; it allows the organization to respond quickly to changing conditions. Workers trained by universities or other employers can be quickly added in areas that demand new skills. Labor costs are not fixed, and the total number of employees can easily be increased or decreased. A primary weakness of this orientation is lack of consistency. Employees do not really provide a unique competitive advantage. Employees are essentially shared with other organizations, which makes it more difficult to create a rare resource that cannot be imitated.⁶¹

What is the basis for choosing an internal or an external labor orientation? Several considerations are important:

- Will the organization continue to need certain skills and inputs over a long period of time? If so, the organization is more likely to find an internal orientation useful.
- Does the organization produce goods and services that require unique labor inputs? If so, the organization may not be able to buy the labor inputs it needs. Employees must be trained to perform tasks that exist only in that organization, so an internal orientation is more appropriate than an external one.
- Does the organization know exactly what it needs employees to do? Sometimes an organization is unclear about what it wants from employees in certain areas. Organizational leaders may know that they need to improve a certain area, but they may be unfamiliar with the employee skills needed to carry out the improvement. In such cases, an internal labor strategy allows the organization to enter into a long-term agreement that enables a new employee to become a committed member of the team and change the way some work tasks are completed. In contrast, an external labor strategy allows an organization to quickly acquire specialized skills that are taught in other places such as universities. Organizational leaders know the skills and abilities needed, and they also know that current employees are unable to fill the needs. In many cases it is easier to hire specialized workers such as computer programmers with the latest skills than it is to train them.⁶²



CONCEPT CHECK

1. How does the contingency approach to human resource management differ from the universalistic approach?
2. What human resource practices are associated with cost reduction strategies? differentiation strategies?
3. What is the difference between an internal labor orientation and an external labor orientation?

LEARNING OBJECTIVE 4

What Are Common Human Resource Strategies?

As we have just seen, the contingency approach identifies two strategic choices underlying an organization's human resource strategy: whether to focus on cost leadership or differentiation and whether to make or buy talent. We can combine the four possible results in a grid describing four different forms of human resource strategy, as shown in Figure 2.3. Based on the grid, we could call these four HR strategies the internal/cost, external/cost, internal/differentiation, and external/differentiation approaches. For ease of reference in this book, though, we will call the strategies the Loyal Soldier HR strategy, the Bargain Laborer HR strategy, the Committed Expert HR strategy, and the Free Agent HR strategy.

A word about these terms is in order before we begin our discussion. The strategies we will discuss reflect common differences related to managing people at work, but even human resource professionals do not have terms that describe these strategic differences clearly. Because the technical terms are somewhat awkward and hard to conceptualize, we have developed the descriptive terms just mentioned. We believe these descriptive terms make this textbook more interesting and easier to read, but you should be aware that the terms may not be the exact terms you will hear used in other courses or in the business world. So it is important to remember that you may sometimes need to explain the meaning of the terms when you talk to others who have not read this book. However, using the terms *Loyal Soldier*, *Bargain Laborer*, *Committed Expert*, and *Free Agent* should help you get a clearer picture of what we mean when we describe the four different strategies.

INTERNAL/COST HR STRATEGY: THE LOYAL SOLDIER

Combining an internal orientation with a cost leadership strategy results in what we will call a **Loyal Soldier HR strategy**. We chose this label because this strategy emphasizes hiring and retaining loyal employees who do whatever the company asks of them. Organizations with this strategy design work so that employees have broad roles and perform a variety of different tasks. People are recruited and hired because they fit the organization culture and because of their potential to become loyal employees. Efforts are made to satisfy the needs of employees and build a strong bond that reduces the likelihood of employee turnover. Organizations with this human resource strategy hire people early in their careers and provide them with extensive training in a number of different skills. Careers often include a number of very different positions, with promotions often made into positions that are not closely related to previous experiences. Performance appraisals are designed to facilitate cooperation rather than competition. Compensation includes long-term incentives and benefits and is often linked to the overall performance of the organization. Unions, which can help build feelings of unity, are frequently observed in these organizations.

Loyal Soldier HR strategy

A human resource strategy that combines emphasis on long-term employees with a focus on reducing costs (an internal/cost approach).



Figure 2.3 Strategic Framework for Human Resources.

United Parcel Service (UPS) is a good example of a company with a Loyal Soldier HR strategy. UPS's competitive strategy is to provide low-cost shipping. UPS has a strong internal promotion policy. A typical employee enters UPS as a part-time worker moving and sorting boxes. As employees work their way through the ranks, they may perform several different jobs, such as driver and facility manager. The company provides training in a number of areas, with an emphasis on teaching the company's philosophy and policies. Teamwork, cooperation, and a strong work ethic are encouraged. Long-term incentives are tied specifically to UPS, and over half of the drivers and fulltime employees own stock in the company. Extensive benefit packages include excellent medical and dental plans. The company takes an interest in employees and offers wellness programs that encourage physical activity. These programs help reduce injuries and absenteeism.⁶³ The end result is a strong bond between UPS and its employees. Most employees report a great sense of pride in working for UPS. The bottom-line result is that even during difficult economic times, UPS has seen profits that are higher than competitors.⁶⁴

EXTERNAL/COST HR STRATEGY: THE BARGAIN LABORER

Bargain Laborer HR strategy

A human resource strategy that combines emphasis on short-term employees with a focus on reducing costs (an external/cost approach).

Combining an external orientation with a cost leadership strategy results in a **Bargain Laborer HR strategy**. The emphasis of this strategy is on obtaining employees who do not demand high wages. Organizations with this strategy design work so that managers can tightly control employee efforts. Each employee is given clearly defined tasks that can be learned easily. People are recruited and hired to perform simple tasks that do not require clearly developed skills. Little attention is paid to meeting the long-term needs of employees. Organizations with this human resource strategy do not provide careers with clear paths for promotion and advancement. Performance appraisal focuses on day-to-day feedback and rarely incorporates formal measures. Training is mostly limited to on-the-job techniques that teach specific methods for completing particular tasks. Compensation is frequently based on hours worked, and benefits and long-term incentives are minimal. Short-term employment tends to make unions somewhat rare in organizations that pursue cost efficiency through an external labor orientation.

The Bargain Laborer HR strategy is very common for many positions in the hotel industry. For instance, a regional hotel located in Phoenix, Arizona, is constantly searching for employees to work in jobs such as housekeeping and food services. Most people who apply for these jobs are hired. Once hired, employees are given minimal on-the-job training that focuses on how to perform specific tasks. They are expected to carefully follow their supervisor's instructions. Pay is based on the number of hours worked. Most employees do not receive benefits. The hotel's focus is on reducing labor costs, and employees who receive better job offers from other companies frequently leave.

Committed Expert HR strategy

A human resource strategy that combines emphasis on long-term employees with a focus on producing unique goods and services (an internal/differentiation approach).

INTERNAL/DIFFERENTIATION HR STRATEGY: THE COMMITTED EXPERT

Combining an internal orientation with a differentiation strategy results in the **Committed Expert HR strategy**. The primary objective of this strategy is to hire and retain employees who specialize in performing certain tasks. Organizations using this strategy design work so that employees have

a great deal of freedom to innovate and to improve methods of completing tasks. People are recruited and hired because of their potential fit with the organizational culture, as well as their aptitude for becoming experts in particular areas. These organizations hire people early in their careers and train them to be experts in specific fields, such as accounting or sales. Performance appraisals are designed to balance cooperation and competition among employees. Careers generally include numerous promotions into similar jobs with increasing responsibility. Employees receive long-term training that helps them develop strong expertise. Compensation is relatively high and usually includes a good benefits package that ties employees to the organization.

Merck, the pharmaceutical company, employs a Committed Expert HR strategy, focusing a great deal of attention on developing employees during long careers. When employees enter Merck, they choose a career in research, sales and marketing, manufacturing and engineering, finance, or information services. They receive extensive training to provide them with the latest information and skills in their chosen area of expertise. Many Merck employees have a mentor who guides their careers and shares important information about the organizational culture. Compensation includes base pay and bonuses for exceptional performance. Many employees also receive long-term incentives, such as stock options. Merck's human resource practices help support a culture that stimulates creativity and innovation.⁶⁵

EXTERNAL/DIFFERENTIATION HR STRATEGY: THE FREE AGENT

Combining an external orientation with a differentiation strategy forms what we refer to as a **Free Agent HR strategy**. The main emphasis associated with this strategy is hiring people who have critical skills but who are not necessarily expected to remain with the organization for a long period of time. Organizations using this strategy design work so that employees have extensive responsibility within specific areas and substantial freedom to decide how to go about their work. Long-term commitments are avoided, and no efforts are made to encourage strong attachments between employees and the organization. People are recruited because they already have the skills and experience they need to perform specific jobs. They are not led to expect long-term careers in the organization. Higher-level positions are frequently given to people from outside the organization. Performance appraisal focuses on outcomes and results. Training is rare. Short-term compensation is usually high, which is necessary if the organization is to obtain people with top skills. Pay is linked specifically to individual performance results. Benefits and long-term compensation packages, which tie employees to the organization, are avoided. We rarely see unions in these organizations.

Free Agent HR strategies are quite common for information technology firms. Information technology changes rapidly, and top skills are often in short supply. Many companies in information technology offer relatively high salaries to get skilled people to leave jobs with competitors. People with in-demand skills earn high salaries by frequently jumping from one firm to the next. At the extreme, many companies hire technology specialists on short-term contracts.⁶⁶ As a result of these practices, people working in the field of information technology are often more loyal to the profession than to a particular company.

Free Agent HR strategy

A human resource strategy that combines emphasis on short-term employees with a focus on producing unique goods and services (an external/differentiation approach).

**CONCEPT CHECK**

1. *What two human resource strategies are associated with the cost leadership strategy? How do these two HR strategies differ?*
2. *What two human resource strategies are associated with the differentiation strategy? How do these two HR strategies differ?*

LEARNING OBJECTIVE 5

How Do Human Resource Strategies Align with Competitive Business Strategies?

The four strategies just outlined provide a general framework for describing human resource practices. Of course, most organizations don't fit perfectly into one of the four boxes shown in Figure 2.3. For a majority of organizations, human resource practices fall mostly into one of the categories, with some practices that don't exactly fit. Some organizations have a more equal mix of two different strategies. In general, however, organizations fall on one continuum from internal to external and another continuum from cost leadership to differentiation, which means that they fit somewhere within the framework. The four basic categories are therefore useful for illustrating important issues and discussing differences across organizations. We will examine many specific human resource strategies within the framework of the four strategies in Chapters 4 through 13. In Chapter 14, we will return to the question of how well the practices of actual organizations fit into the four basic strategies.

Recall that the four basic human resource strategies arise from the contingency approach. The core idea of the contingency perspective is the notion that human resource strategies are most effective when they match competitive business strategies. Accordingly, organizations with a cost leadership competitive strategy are expected to do best when they have either a Bargain Laborer or Loyal Soldier HR strategy. Organizations with a competitive business strategy of differentiation are expected to do best when they have either a Committed Expert or Free Agent HR strategy. How well does research support these expectations? We answer this question next.

RESEARCH SUPPORTING THE CONTINGENCY PERSPECTIVE

The strategic approach to human resource management is relatively new. Researchers have only been studying the contingency perspective for the last decade or so, which means that there are still a number of things we don't clearly understand. However, preliminary research generally supports the notion that organizations are most successful when they take a strategic approach to managing people. Research related to the contingency perspective provides three specific insights.

1. Many organizations do have human resource strategies that fit their competitive strategies.
2. Organizations are more successful when they broadly adapt their human resource practices to fit their competitive strategies.

3. Organizations with a cost leadership or differentiation strategy do perform better when they have a matching human resource strategy.

Let's look more specifically at the research related to each insight.

A starting point for contingency research has been simply to determine the percentage of organizations that report matching strategies. For instance, research in steel manufacturing mills examined whether plants pursuing a cost leadership or differentiation strategy had matching human resource strategies. About 90 percent of the plants with a cost leadership strategy had human resource practices consistent with the Bargain Laborer or Loyal Soldier HR strategies. About 60 percent of the plants with a competitive business strategy of differentiation had practices consistent with the Committed Expert HR strategy.⁶⁷ Other studies have found support for the notion that organizations naturally tend to adopt the human resource practices that match their competitive strategies.⁶⁸ Other factors such as organizational structure and values, which correspond with strategy, have also been linked to different approaches to human resource management that range from minimizing cost to maximizing employee commitment.⁶⁹

The next question is whether organizations with matching strategies really have better performance. Although research related to this question does not always use the four human resource strategies outlined in Figure 2.3, the results are mostly supportive. Firms benefit from having human resource practices that support their overall strategy. For instance, law firms with a competitive strategy of expanding into new markets, which is consistent with a strategy of differentiation, have been shown to perform better when they hire and retain highly skilled lawyers.⁷⁰ Call centers with a competitive strategy of customizing responses to customers—also, consistent with differentiation—perform better when their human resource practices ensure good training and high pay.⁷¹ Compared to hotels where customers' service expectations are not as high, hotels providing higher levels of service benefit more from good hiring, training, and compensation practices.⁷² Overall, this line of research confirms that organizations perform better when they use human resource practices that help them secure and motivate employees who have skills that match their approaches for providing value to customers.⁷³

The final question is whether organizations with a cost leadership or differentiation strategy perform better when they have matching human resource strategies. Research in this area is generally supportive. For instance, a study of manufacturing firms found that plants with a differentiation strategy have higher performance when their human resource practices include selective staffing, comprehensive technical training, and group incentives to ensure that employees are well paid. These practices fit with the Committed Expert HR strategy. At the same time, manufacturing plants using a cost leadership strategy were found to have higher performance when their practices focused on ensuring compliance with policies and procedures, consistent with the Loyal Soldier HR strategy.⁷⁴ In another study, organizations in both service and manufacturing performed best when they combined a cost leadership competitive strategy with a Loyal Soldier HR strategy rather than a human resource strategy focused on differentiation. Also, organizations following a competitive strategy of differentiation performed best with a Committed Expert HR strategy rather than human resource practices associated with a cost focus. Employees working in firms with matching competitive and human resource strategies were also found to have higher morale.⁷⁵ An interesting example of the benefits that come from matching human resource strategy



How Do We Know?

WHAT MAKES COLLEGE BASKETBALL PROGRAMS SUCCESSFUL?

We've suggested that an organization is more productive when its employees are chosen for characteristics that help the organization achieve its competitive strategies. How about athletic teams? Are university athletic teams more successful when coaches choose players who fit with the culture and objectives of the team? Patrick Wright, Dennis Smart, and Gary McMahan sought to answer this question for basketball teams by obtaining information from 143 NCAA basketball programs.

When they asked about the teams' competitive strategies, they found several variations. Some teams had a finesse strategy based on well-designed plays and outside shooting; other teams had a speed strategy, which included pressure and a fast-breaking offense; still other teams had a power strategy that focused on working for inside, high-percentage shots. The researchers also asked about the type of players that the coaches preferred to recruit and the type of players currently in the program. They compared this information with measures of team performance.

Not surprisingly, the study found that coaches tried to recruit players who fit with their competitive

strategies. Teams won more games in years when they had players who allowed the coaches to follow their preferred strategies. Programs with players who had skills matching the team strategies also had higher performance than programs with players who did not have matching skills.

The Bottom Line. College basketball teams are different in many ways from the kinds of business organizations we've been discussing. Still, we can draw several generalizations from this study to learn how competitive strategies relate to workers. The study supports the view that organizations can benefit from seeking to recruit people with skills needed to help them achieve their competitive strategies. The study also shows that performance is highest when people's skills and abilities match the organization's strategic objectives. The authors conclude that there is indeed an important link between strategy and human resource practices.

Source: Patrick M. Wright, Dennis L. Smart, and Gary C. McMahan, "Matches between Human Resources and Strategy among NCAA Basketball Teams," *Academy of Management Journal* 38 (1995): 1052–1074.

with competitive strategy in college basketball programs is described in the accompanying "How Do We Know?" feature.

PUTTING IT ALL TOGETHER

Although research is still developing, the evidence suggests that organizations do better when their human resource strategies fit their competitive strategies. As we have seen, these results support the contingency approach to human resource strategy. At this point, we can also tie in the more general universalistic approach. Recall that this approach suggests that organizations benefit from a commitment strategy. The commitment strategy is similar in many ways to the internal labor orientation of the contingency approach. Thus, we can combine the two approaches and conclude that, although there are important exceptions, many organizations improve their long-term success when they adopt an internal labor orientation. Organizations using an internal orientation develop strong bonds with their employees. People are treated as a valuable resource that helps the organizations meet the needs of customers.

Given the choice of an internal orientation, the remaining choice concerns whether the organization will use a Loyal Soldier or Committed Expert HR

strategy. This choice depends on the competitive business strategy of the organization. Organizations seeking cost reduction benefit from the Loyal Soldier HR strategy, whereas those seeking innovation and creativity benefit from the Committed Expert strategy.⁷⁶ In the chapters that follow, we will explore how specific human resource practices differ depending on which strategy is chosen. We will also explore practices associated with the external orientation strategies.



CONCEPT CHECK

1. In what ways does research support the contingency approach to human resource management?
2. How does the commitment strategy fit with the contingency approach?

A MANAGER'S PERSPECTIVE REVISITED

IN THE MANAGER'S PERSPECTIVE THAT OPENED THE CHAPTER, TARA WAS THINKING ABOUT WAYS TO TIE HUMAN RESOURCE STRATEGY TO COMPETITIVE BUSINESS STRATEGY. SHE FELT THAT HER COMPANY COULD BENEFIT FROM A BETTER STRATEGY FOR COMPETING WITH OTHER BUSINESSES. SHE ALSO WANTED TO FIND WAYS TO USE HUMAN RESOURCE PRACTICES TO HELP THE ORGANIZATION ACHIEVE ITS STRATEGY. TARA WONDERED WHETHER HER EMPHASIS ON EMPLOYEE LOYALTY WAS THE BEST APPROACH FOR HER ORGANIZATION. FOLLOWING ARE ANSWERS TO THE WHAT DO YOU THINK? QUIZ THAT FOLLOWED THE DESCRIPTION OF TARA'S CIRCUMSTANCES. WERE YOU ABLE TO CORRECTLY IDENTIFY THE TRUE STATEMENTS? COULD YOU DO BETTER NOW?

1. Having good employees is more important than having good production equipment. **TRUE.** *Good employees are an organizational resource that is rare and difficult to imitate.*
2. Much of the workforce lacks needed skills, so high-quality employees are difficult to find and retain. **TRUE.** *Quality employees represent a critical internal strength for organizations, but surveys suggest that companies find it difficult to hire and retain enough employees who have not only technical skills but also critical thinking and communication skills.*
3. The most effective way for an organization to compete with other organizations is to produce similar goods and services at lower prices. **FALSE.** *Organizations can*

compete through either cost reduction or differentiation. Because only one firm can be the true lowest cost producer, a majority of successful organizations adopt a differentiation strategy.

4. Organizations are most effective when they develop a highly committed workforce. **TRUE.** *The commitment strategy, which emphasizes treating employees well and seeking to retain them, has been linked with higher overall productivity for organizations.*
5. An organization seeking to produce the highest quality products should have different human resource practices than an organization seeking to produce inexpensive products. **TRUE.** *The contingency perspective focuses on aligning human resource practices with competitive strategies.*

Tara's questions are common to all organizations. Organizational leaders must make decisions about how they will compete with other organizations that produce similar goods and services. The strategy formulation process can help guide their decisions. Focusing on either cost leadership or differentiation provides them with a way to focus on things that customers value. Organizations also benefit from ensuring that human resource practices match competitive strategies.



SUMMARY

LEARNING OBJECTIVE 1

How is strategy formulated?

A strategy is a set of coordinated choices and actions. The first step in strategy formulation is gathering information from outside and inside the organization. Information about the organization's external environment describes opportunities, which are favorable conditions, and threats, which are unfavorable conditions. Demographic and cultural trends, economic and political conditions, and technological developments represent important threats and opportunities for most organizations. Information is also gathered about the organization's internal resources and capabilities. Areas of high capability are labeled strengths, and areas of low capability are labeled weaknesses. A strategic set of human resource practices can represent a valuable and rare strength.

Once information has been gathered, the next step is to analyze the information and make decisions. Encouraging a group of decision makers to work together can facilitate this process. Members of the group should meet often and develop their collective intuition. They should also make sure that they explore different points of view and numerous alternatives. In addition, they should set flexible timelines that keep them moving forward and making decisions. Minimizing organizational politics also facilitates decision making.

LEARNING OBJECTIVE 2

What are common competitive business strategies?

Business-level strategies determine how an organization will compete with other companies that provide similar goods and services. One common strategy is the cost leadership strategy. Organizations using this strategy strive to produce goods and services at the lowest possible cost. They usually produce basic and standardized products. The key to success for these organizations is having employees who are more efficient than the employees of other organizations.

Another common competitive business-level strategy is differentiation. Organizations using a differentiation strategy strive to produce goods and services that are somehow better than those produced by competitors. They usually strive to produce unique products and to offer exceptional service. The key to success for these organizations is having employees who do better things than the employees of other organizations.

LEARNING OBJECTIVE 3

What are basic approaches to human resource strategy?

Two basic approaches to human resource strategy are the universalistic approach and the contingency approach. The universalistic approach focuses on identifying a set of practices that are beneficial to all organizations. This approach has identified a bundle of practices, labeled the commitment strategy, that appear to be generally beneficial. Practices in the commitment bundle communicate the message that management cares about employees. The commitment strategy also helps ensure that employees have the training and freedom to pursue important job tasks.

The contingency approach seeks to align human resource practices with competitive business practices. One distinction within this approach is a focus on cost leadership versus a focus on differentiation. Organizations mainly concerned with reducing costs emphasize processes and general roles. They carefully prescribe appropriate behaviors for performing work. Organizations that focus on differentiation are more interested in innovation and quality enhancement. They emphasize career development and having good results. Another distinction of interest in the contingency approach is whether an organization has an internal or an external labor orientation. Organizations with an internal labor orientation seek long-term relationships with employees, whereas organizations with an external labor orientation seek flexibility and do not make long-term commitments to employees.

LEARNING OBJECTIVE 4

What are common human resource strategies?

The dimension of cost versus differentiation can be combined with the dimension of internal versus external labor orientation. The result is four different forms of human resource strategy. Organizations using the Loyal Soldier HR strategy focus on developing long-term relationships with employees and encouraging efficiency by having them contribute in a number of different roles. Organizations using the Bargain Laborer HR strategy also encourage efficiency but do not develop strong relationships with employees. Organizations using the Committed Expert HR strategy develop long-term relationships with employees and encourage them to become experts in a particular area. Finally, organizations using the Free Agent HR strategy seek employees who make short-term contributions in highly specialized roles.

LEARNING OBJECTIVE 5

How do human resource strategies align with competitive business strategies?

Organizations are likely to have human resource practices that fit with their competitive business strategies. Organizations that effectively recruit, select, train, and compensate their employees develop an advantage that is hard for other organizations to copy. This advantage is maximized when the organization has a clear competitive strategy and a matching human resource strategy. Organizations whose human resource strategies match their competitive strategies do indeed perform better. A strategic approach to human resource management sees people as an important resource vital to organizational effectiveness. Research suggests that organizations with a cost leadership competitive strategy excel when they follow a Loyal Soldier HR strategy. Similarly, organizations with a differentiation competitive strategy excel when they use a Committed Expert strategy.

KEY TERMS

Bargain Laborer HR strategy	60	Free Agent HR strategy	61
Business-level strategy	47	Human resource bundles	52
Committed Expert HR strategy	60	Human resource strategy	40
Commitment strategy	52	Internal labor orientation	56
Competitive business strategy	40	Loyal Solider HR strategy	59
Contingency approach	51	Opportunities	41
Control strategy	52	Role	51
Corporate-level strategy	47	Strategy	40
Cost leadership strategy	47	Strengths	42
Differentiation strategy	47	Threats	41
External environment	41	Universalistic approach	51
External labor orientation	56	Weaknesses	42

DISCUSSION QUESTIONS

1. Why are effective human resource practices often a better competitive resource than equipment and buildings?
2. What are some external opportunities and threats that you think organizations will face in the next 10 years? What types of organizations will benefit most?

3. Why can groups be more effective than individuals for making decisions?
4. What are the primary differences between a cost leadership and a differentiation strategy?
5. What are the key elements of the commitment strategy from the universalistic approach? Why does this approach generally contribute to success for organizations?
6. What human resource practices might be associated with a cost reduction emphasis? What practices might be associated with a differentiation emphasis?
7. What are the strengths and weaknesses of internal and external labor orientations?
8. Choose a company where you or someone you know works. Which of the four human resource strategies do you think is most common in the company?
9. What are the key elements of the four human resource strategies: Loyal Soldier, Bargain Laborer, Committed Expert, and Free Agent?
10. The chapter text pointed out that a majority of organizations have a human resource strategy that fits their competitive strategy. What should an organization do if the strategies don't match?

EXAMPLE CASE

United Parcel Service

Of course, every company wants to attract the best people it can. Equally important at UPS is attracting people who fit the company culture, which encourages high energy, hard work, fairness, inclusiveness, teamwork, and sharing the wealth.

Those who work at UPS are more than employees; they're business partners. Promotions come largely from within the organization. Managers typically will handle assignments in about a half dozen different functional areas of the business during their careers. This employer/employee relationship remains relevant in today's economy, because the nature of UPS's business involves an extraordinary degree of teamwork.

Every business day, UPS moves 13 million packages around the globe. In effect, UPS is the world's conveyor belt for commerce, one that requires 350,000 employees to work in harmony and with precision. Every day, 85,000 drivers take responsibility for roughly 6 percent of the nation's GDP, which is delivered from their package cars.

Every day, thousands of decisions must be made by managers in the field to keep the conveyor belt moving smoothly—decisions about lost packages, transportation schedules, preparations for bad weather, and myriad other details. And every day, logistics and financial services people are creatively exploring ways for customers to streamline their supply chains to improve productivity and service.

Successfully coaching people is also critical to the company's success. Managers must be empathetic to one of the world's largest and most diverse employee workforces. They must be team builders. That takes experience and training; it's not something that can be gotten from a textbook or learned overnight.

How does UPS attract and retain such leaders? The answer lies in *connection*, the way the company connects to the world. This connection begins with the way UPSers connect inside, to each other and, as in any enduring culture, to their roots.

QUESTIONS

1. How do practices such as internal promotion and assignment of broad job duties help UPS achieve its competitive business strategy?
2. How do the human resource practices at UPS help build teamwork?
3. Why are training and experience so important at UPS?

Source: Lea Soupata, “Managing Culture for Competitive Advantage at United Parcel Service,” *Journal of Organizational Excellence* 20, no. 3 (2001): 19–26. [Reprinted with permission of John Wiley & Sons, Inc.]

DISCUSSION CASE

Mountain Bank

Mountain Bank is located in the northwest United States. The bank has four major business lines: retail banking, consumer lending, real estate and mortgage banking, and corporate banking. Traditionally, Mountain Bank has had a strong presence in the retail banking line, with only a limited presence in the other lines. However, deregulation in the banking industry has led to mergers and acquisitions for Mountain Bank, as well as for several of its competitors.

Retail banking includes traditional banking activities such as providing checking and savings accounts. Mountain Bank currently has about 50 percent of the market for retail accounts in its area. Often, however, these accounts are not very profitable. Consumer lending encompasses a variety of secured and unsecured consumer loans, such as home equity lines of credit, automobile loans, boat loans, and card lines of credit. Mountain Bank currently has about 25 percent of this market. Real estate and mortgage banking involves obtaining and servicing home mortgage loans, which are seen as a stable form of income for most banks. Mountain Bank currently has less than 10 percent of this market. Corporate banking provides services to businesses. Corporate clients are provided with a wide variety of basic services, as well as financing for equipment acquisitions and plant expansions. These services are often seen as very profitable. However, Mountain Bank has a very small presence in the corporate market—less than 5 percent of the market, according to current estimates.

Mountain Bank has established a strategy of leveraging its strong retail banking presence into gains in the real estate and corporate areas. Past experience suggests that one of the best methods for achieving this leverage is cross-selling, which occurs when tellers and customer service representatives convince customers with retail accounts to open corporate accounts or to obtain home mortgages from Mountain Bank.

Recent studies have found that bank tellers are critical to the success of Mountain Bank. In fact, one study found that customers’ experiences with tellers is the single most important driver of customer satisfaction. After all, a bank teller is often the only person an individual customer has contact with when visiting a bank branch. Although fewer tellers are needed every year due to technological improvements, tellers are still the heart and soul of a bank.

A typical branch of Mountain Bank has three to seven tellers, depending on size and location. Floating tellers (part-timers) are also used to increase the staff during lunch hours and pay days. Mountain Bank has traditionally approached the teller position as a low-paying, entry-level position. Tellers are frequently

part-time employees. Turnover is quite high, and successful tellers are often transferred to customer service positions.

Job Description

Job: Bank Teller

Pay: \$14 per hour

Receives and pays out money and keeps records of money and negotiable instruments involved in financial transactions. Receives checks and cash for deposit, verifies amount, and examines checks for endorsements. Cashes checks and pays out money after verification of signatures and customer balances. Enters customers' transactions into a computer to record transactions and issues computer-generated receipts. Places holds on accounts for uncollected funds. Orders daily supply of cash and counts incoming cash. Balances currency, coin, and checks in cash drawer at end of shift, using calculator, and compares totaled amounts with data displayed on computer screen. Explains, promotes, and sells products and services, such as traveler's checks, savings bonds, money orders, and cashier's checks.

QUESTIONS

1. What competitive business strategy do you recommend for Mountain Bank?
2. Based on the universalistic approach and commitment strategy, what types of human resource practices do you recommend for Mountain Bank with respect to its tellers?
3. Which of the four human resource strategies do you recommend for Mountain Bank with respect to its tellers? Why?

EXPERIENTIAL EXERCISE

Explore Company Websites

Explore the websites of several companies. Choose at least two companies from the same industry. See what you can learn about their competitive strategies. Visit the part of their website that links to employment opportunities.

See if you can find answers to the following questions:

1. Does the website clearly identify either a cost or a differentiation strategy?
2. Does the information on the website fit with your general beliefs about the company?
3. Does the website have a portal for selling goods or services? If so, does it seem to emphasize price or quality features?
4. What has happened to the stock price of the company over the past 10 years?

5. What types of jobs are advertised in the employment section of the website?
6. Does the website emphasize long-term relationships between the organization and employees? Does it emphasize training programs?

Based on the information you obtain, do the following:

1. Evaluate how well the websites succeed in communicating information.
2. Determine whether you think each company's competitive strategy and human resource strategy match.
3. Identify any relationships between strategies and stock prices.
4. Compare and contrast the strategies and practices of the companies that are direct competitors.

INTERACTIVE EXPERIENTIAL EXERCISE

HR Strategy in Action: Selling the HR Function at Mega Manufacturing
<http://www.wiley.com/college/sc/stewart>

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

In this exercise, you meet with senior management at Mega and try to convince other members of the management team that HR needs to have a “seat at the table” and function as a business partner within the company. The CFO, however, expresses the opinion that HR is just a “touchy feely” department that adds no legitimate business value. Your objective is to gain credibility and show that a strategic approach to HR can improve Mega Manufacturing. Based on previous discussions, you have learned that Mega believes that its products are better than those of its competitors. You also know that the company prefers to hire experienced people who won’t require much training. How will you defend the HR function to the CFO and others in the meeting who may share the same opinion of HR? •

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