



CHAPTER 1

Changing Nature of Human Resource Management

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

- Identify four major HR challenges currently facing organizations and managers.
- List and define each of the seven major categories of HR activities.
- Identify the three different roles of HR management.
- Discuss the three dimensions associated with HR management as a strategic business contributor.
- Explain why HR professionals and operating managers must view HR management as an interface.
- Discuss why ethical issues and professionalism affect HR management as a career field.

HR Management Contributes to Organizational Success

More effective management of human resources (HR) increasingly is being seen as positively affecting performance in organizations, both large and small.

A joint venture between General Electric and a Japanese company, GE Fanuc is a manufacturer of factory automation and control products. Headquartered in Virginia with 1,500 employees, the HR department primarily performed administrative support activities. But when Donald Borwhat, Jr., took over as Senior Vice President of Human Resources, he and his staff began by restructuring and decentralizing the HR entity so that each functional area of the company has an HR manager assigned to it. The HR managers were expected to be key contributors to their areas by becoming knowledgeable about the business issues faced by their business functional units. Today, HR managers participate in developing business strategies and ensure that human resource dimensions are considered. For instance, the HR manager for manufacturing has HR responsibilities for 600 employees. In that role she contributes to workflow, production, scheduling, and other manufacturing decisions. It also means that she is more accessible to and has more credibility with manufacturing workers, most of whom are hourly workers.

Making the transition in HR management required going from seven to three levels of management, greatly expanding the use of cross-

functional work teams, and significantly increasing training. To ease employee and managerial anxieties about the changes, GE Fanuc promised that no employees would lose their jobs. Managers and supervisors affected by the elimination of levels were offered promotions, transfers to other jobs in GE Fanuc, or early retirement buyouts. Additionally, employees were promised profit sharing, which has resulted in up to three weeks additional pay in profit sharing bonuses in some years.

The test of the change is in the results. GE Fanuc's revenue is up

women employees, who composed about three-fourths of the bank's workers. As a result, several years later about one-fourth of all managers and executives are women. Similar attention also was focused on other diverse groups of employees. So that all employees were given opportunities to grow and learn, the Bank of Montreal's Institute of Learning was established at a cost exceeding \$50 million. The goal of providing five days of training and education to every employee each year has been met for several years.

To focus on performance, each department and every employee have

HR managers participate in developing strategies and ensure that human resource dimensions are considered.

almost 18%. Over 40 work teams meet regularly to discuss work goals, track their performance against established measures, and discuss problems and issues. Employee turnover is also extremely low in most areas.

Transitions in HR management are also paying off in the Bank of Montreal, based in Montreal, Quebec. Emphasizing human resources has involved 35,000 employees in organizational success. This recognition meant focusing greater attention on the talents of diverse employees working at the bank. Specific efforts were made to expand opportunities for

performance targets and measures on such factors as customer service, return on equity, and profitability. Yearly, the scores from all measures are computed as indices, and then compiled into one figure to measure overall bank performance. Executives believe that their emphasis on HR activities has contributed significantly to the Bank of Montreal's achieving period profits for seven years in a row.

In summary, it is evident that the transition of HR management at GE Fanuc and at Bank of Montreal has enhanced organizational competitiveness and success.¹

“HR should be defined not by what it does, but by what it delivers.”
DAVID ULRICH

Human Resource (HR) management

The design of formal systems in an organization to ensure the effective and efficient use of human talent to accomplish the organizational goals.

As human resources have become viewed as more critical to organizational success, many organizations have realized that it is the *people* in an organization that can provide a competitive advantage.² Throughout the book it will be emphasized that the people as human resources contribute to and affect the competitive success of the organization. **Human Resource (HR) management** deals with the design of formal systems in an organization to ensure the effective and efficient use of human talent to accomplish organizational goals. In an organization, the management of human resources means that they must be recruited, compensated, trained, and developed.

HR Management Challenges

The environment faced by HR management is a challenging one; changes are occurring rapidly across a wide range of issues. A study by the Hudson Institute, entitled *Workforce 2020*, has highlighted some of the most important workforce issues.³ From that and other sources, it appears that the most prevalent challenges facing HR management are as follows:

- Economic and technological change
- Workforce availability and quality concerns
- Demographics and diversity issues
- Organizational restructuring

Economic and Technological Change

Several economic changes have occurred that have altered employment and occupational patterns in the United States. A major change is the shift of jobs from manufacturing and agriculture to service industries and telecommunications. This shift has meant that some organizations have had to reduce the number of employees, while others have had to attract and retain employees with different capabilities than previously were needed. Additionally, pressures from global competitors have forced many U.S. firms to close facilities, adapt their management practices, and increase productivity and decrease labor costs in order to become more competitive. Finally, the explosive growth of information technology, particularly that linked to the Internet, has forced many changes throughout organizations of all types.

OCCUPATIONAL SHIFTS Projections of the growth and decline in jobs illustrates the economic and employment shifts currently occurring. Figure 1–1 indicates the occupations with the largest percentage growth anticipated between 1996 and 2006. It is interesting to note that in Figure 1–1 most of the fastest-growing occupations percentagewise are related to information technology or health care. The increase in the technology jobs is due to the rapid increase in the use of information technology, such as databases, system design and analysis, and desktop publishing. The health care jobs are growing as a result of the aging of the U.S. population and workforce, a factor discussed later.

FIGURE 1–1 *The 10 Occupations with the Fastest Employment Growth, 1996–2006*

Numbers in Thousands of Jobs				
Occupation	Employment		Change, 1996–2006	
	1996	2006	Number	Percent
Database administrators, computer support specialists, and all other computer scientists	212	461	249	118
Computer engineers	216	451	235	109
Systems analysts	506	1,025	520	103
Personal and home care aides	202	374	171	85
Physical and corrective therapy assistants and aides	84	151	66	79
Home health aides	495	873	378	76
Medical assistants	225	391	166	74
Desktop publishing specialists	30	53	22	74
Physical therapists	115	196	81	71
Occupational therapy assistants and aides	16	26	11	69

SOURCE: U.S. Department of Labor, Bureau of Labor Statistics, <http://stats.bls.gov/ecopro.table6.htm>

GLOBAL COMPETITION One major factor affecting these shifts is the globalization of economic forces. As seen the past few years, the collapse of Asian economies had significant effects on U.S.-based organizations. One estimate by U.S. government statisticians is that over 25% of all U.S. manufacturing workers hold jobs dependent on exporting goods to other countries. This is particularly true with more highly skilled, technical jobs in technology-driven industries. As a result, these export-driven jobs pay wages averaging 25% higher than most other manufacturing jobs.⁴ On the other hand, the less-skilled manufacturing assembly jobs have been shifting from the higher-wage, developed economies in the United States and Western Europe to developing countries in Eastern Europe, China, Thailand, Mexico, and the Philippines.

Due to the increase in information technology, global linkages are now more extensive and production and transportation can be coordinated worldwide. Therefore, the loss of manufacturing jobs in the United States has been replaced with jobs in information technology, financial services, health care, and retail services.

In summary, the U.S. economy has become a service economy, and that shift is expected to continue. Over 80% of U.S. jobs are in service industries, and most new jobs created by the year 2006 also will be in services. It is estimated that manufacturing jobs will represent only 12% to 15% of all U.S. jobs by that date.

Workforce Availability and Quality

In many parts of the United States today, significant workforce shortages exist due to an inadequate supply of workers with the skills needed to perform the jobs being added. In the last several years news reports have regularly described tight labor markets with unemployment rates in some locales below 3%. Also, continuously there are reports by industries and companies facing shortages of qualified,



LOGGING ON . . .

Workforce Composition

Data on workforce composition and trends from the U.S. Department of Labor, Bureau of Labor Statistics are available at this site.

<http://stats.bls.gov/sahome.html>

experienced workers. Jobs with extreme supply shortages for several years have included specialized information systems technicians, physical therapists, plumbers, air conditioning repair technicians, and many others. Consequently, HR professionals have faced greater pressures to recruit and train workers.

WORKFORCE QUALITY DEFICIT Many occupational groups and industries will require more educated workers in the coming years. The number of jobs requiring advanced knowledge is expected to grow at a much more rapid rate than the number of other jobs. This growth means that people without high school diplomas or appropriate college degrees increasingly will be at a disadvantage, as their employment opportunities are confined to the lowest-paying service jobs. In short, there is a growing gap between the knowledge and skills required by many jobs and those possessed by employees and applicants. Several different studies and projections all point to the likelihood that employers in many industries will have difficulties obtaining sufficiently educated and trained workers.

Estimates are that about half of the U.S. workforce (about 50 million workers) needs or will need new or enhanced workplace training to adapt to the myriad job and technological changes that are occurring. At the same time, many individuals who are obtaining higher education degrees are doing so in nontechnical or nonscientific fields rather than engineering or computer sciences, where the greatest gap between job growth and worker supply exists. On the lower end, far too many students graduating from U.S. high schools lack the basic mathematical, reasoning, and writing skills needed for many jobs.

Unless major efforts are made to improve educational systems, especially those serving minorities, employers will be unable to find enough qualified workers for the growing number of “knowledge jobs.” A number of employers are addressing the deficiencies that many employees have in basic literacy and mathematical skills by administering basic skills assessments to employees. Then they conduct basic mathematics and English skills training classes at workplace sites for employees with deficiencies. Some employers also sponsor programs for employees and their family members to aid them in obtaining general equivalency diplomas. To address the skills deficiencies, HR management must do the following:

- Assess more accurately the knowledge and skills of existing employees, as well as the knowledge and skills needed for specific jobs.
- Make training for future jobs and skills available for employees at all levels, not just managers and professionals.
- Increase the usage of new training methods, such as interactive videos, individualized computer training, and via the Internet.
- Become active partners with public school systems to aid in upgrading the knowledge and skills of high school graduates.

GROWTH IN CONTINGENT WORKFORCE In the past, temporary workers were used for vacation relief, maternity leave, or workload peaks. Today “contingent workers” (temporary workers, independent contractors, leased employees, and part-timers) represent over 20% of the workforce. Many employers operate with a core group of regular employees with critical skills and then expand and contract the workforce through the use of contingent workers.

This practice requires determining staffing needs and deciding in advance which employees or positions should form the “core” and which should be more fluid. At one large firm, about 10% of the workforce is contingent now. The com-

pany sees using contingent employees as a way to stabilize the workforce. Instead of hiring regular workers when work piles up and then firing them when the work is finished, the company relies more on temporary workers and independent contractors. Productivity is measured in output per hour. Thus, if employees are paid only when they are working (as contingents are), overall productivity increases.

Another reason for the growth in contingent workers is the reduced legal liability faced by employers. As more and more employment-related lawsuits have been filed, some employers have become more wary about adding employees. Instead, by using contract workers supplied by others, they face fewer employment legal issues regarding selection, discrimination, benefits, discipline, and termination.

Demographics and Diversity

The U.S. workforce has been changing dramatically. It is more diverse racially, women are in the labor force in much greater numbers than ever before, and the average age of the workforce is now considerably older than before. As a result of these demographic shifts, HR management in organizations has had to adapt to a more varied labor force both externally and internally. The three most prominent dimensions of the demographic shifts affecting organizations are highlighted next.

RACIAL/ETHNIC DIVERSITY Projections by the U.S. Bureau of Labor Statistics are that the racial/ethnic mix of the U.S. workforce will continue to shift. The white labor force is expected to decline from 80% of the workforce in 1986 to about 73% by 2006. As Figure 1–2 indicates, the Asian and Hispanic labor forces

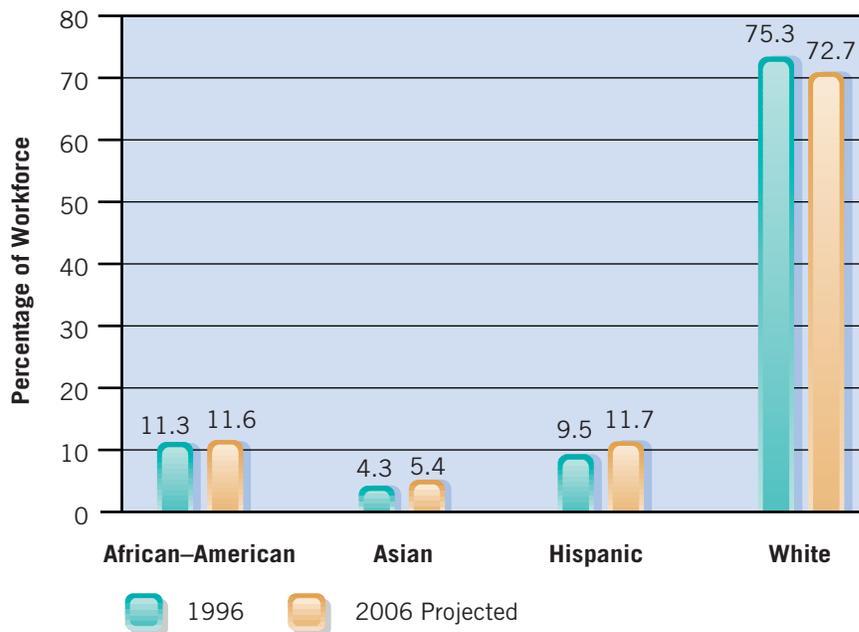


BNA

Using Contingent Workers 445.10

Review the types of contingent workers and the legal issues associated with their use.

FIGURE 1–2 Racial/Ethnic Shifts in U.S. Labor Force, 1996–2006



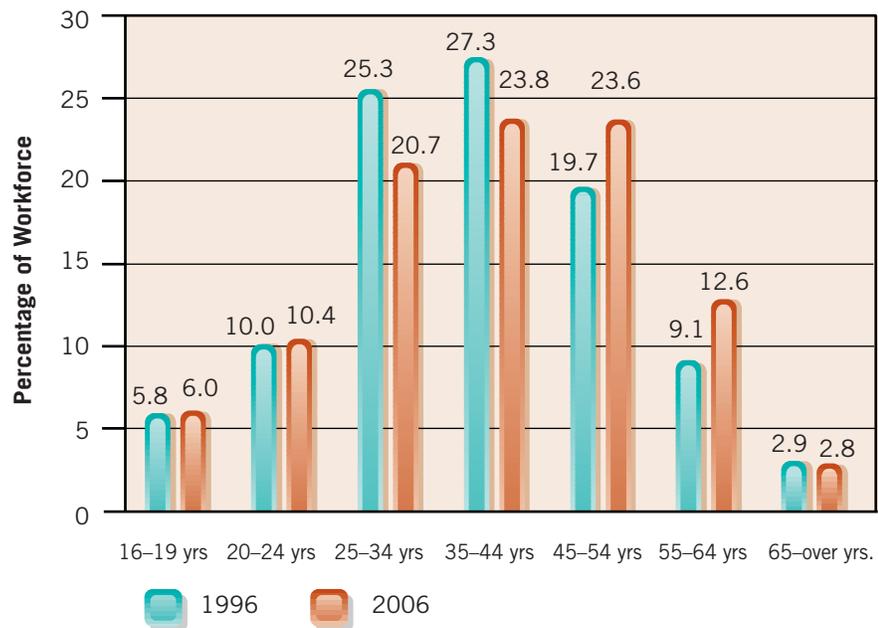
SOURCE: U.S. Department of Labor, Bureau of Labor Statistics, Employment Projections 1996–2006.

are expected to increase faster than the African-American labor force. This increase means that non-whites will compose about 28% of the U.S. labor force by 2006. Also, with 36% of all children under age 18 being non-white, the demographic shifts to greater racial/ethnic diversity are likely to continue. In addition, immigration of individuals into the United States is heavily weighted toward non-whites.

The importance of all these shifts is that HR professionals must ensure that diverse groups are managed and treated equitably in organizations. Also, HR professionals will have to develop diversity-oriented training so that all employees, regardless of background and heritage, can succeed in workplaces free from discrimination and inappropriate behaviors. It also means that more attention will have to be given to recruiting, staffing, and promoting individuals without regard to their racial/ethnic heritage, so that equal employment results for all.⁵

AGING OF THE WORKFORCE Most of the developed countries are experiencing an aging of their populations—including Australia, Japan, most European countries, and the United States. In the United States, the median age will continue to increase from about 31 years in 1986 to over 40 by 2006. This increase is due in part to people living longer and in part to a decrease in the number of younger people, particularly in the 16–24 age bracket. Figure 1–3 illustrates the percentage shifts in the U.S. workforce, with those over age 45 showing the greatest increase. In fact, it is projected that by 2020 about 20% of the U.S. population will be 65 or older, and that there will be as many people over 65 as there will be ages 20–35.⁶

FIGURE 1–3 Age Distribution of U.S. Civilian Labor Force, 1996–2006



SOURCE: U.S. Department of Labor, Bureau of Labor Statistics, Employment Projections 1996–2006.

The aging of the population also is reflected in the occupational shifts noted previously. The growth in medically related jobs will be due primarily to providing care to older persons who will live longer and need greater medical care. Taken together, this aging issue means that HR professionals will continue to face significant staffing difficulties. Efforts to attract older workers through the use of part-time and flexible staffing will increase.⁷ Also, as more older workers with a lifetime of experience and skills retire, HR will face significant challenges in replacing them with workers having the capabilities and work ethic that characterize many older workers.

For HR management, elder care will grow as a major HR issue. More workers will have primary care responsibilities for aging, elderly relatives, with over 22 million U.S. households having elder-care responsibilities. One estimate is that lost productivity due to workers having elder care responsibilities is at least \$11 billion per year.⁸ Even group benefit programs are changing, with long-term care insurance being added by an increasing number of employers. In these programs workers can allocate some of their “benefit dollars” to buy long-term care insurance at lower group rates.

BALANCING WORK AND FAMILY For many workers in the United States, balancing the demands of family and work is a significant challenge. While this balancing has always been a concern, the growth in the number of working women and dual-career couples has resulted in greater tensions for many workers. According to data from the U.S. Census Bureau, families and households today can be described as follows:

- The “traditional family” represents only 10% or less of today’s U.S. households.
- The number of households of married couples with no children living at home is growing and represents more households than those of married couples with children.
- Dual-career couples compose about 60% of all married couples, representing 30.3 million couples.
- Households headed by a single parent make up almost 30% of all families, with women heading most of these households.
- Single-parent households are less prevalent among whites than among other racial/ethnic groups.
- Seventy percent of all women with children under age six are in the workforce, and 60% of all women with children under age three are working.
- Both men and women are marrying at later ages, with the median age of first marriage for men about 27 and for women about 24.
- A majority of both men and women aged 18 to 24 still live with their parents or are considered dependents.

The decline of the traditional family and the increasing numbers of dual-career couples and working single parents place more stress on employees to balance family and work. For instance, many employees are less willing than in the past to accept relocations and transfers if it means sacrificing family or leisure time. Organizations that do get employees to relocate often must offer employment assistance for spouses. Such assistance can include contacting other employers, providing counseling and assistance in resume development, and hiring employment search firms to assist the relocated spouse. Additionally, balancing work and family concerns has particular career implications for



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ElderCare Web

Contains reference materials and resources on elder care issues.

<http://www.ice.net/~kstevens/ELDERWEB.HTM>

women, because women more than men tend to interrupt careers for child rearing.

To respond to these concerns employers are facing growing pressures to provide “family-friendly” policies and benefits. The assistance given by employers ranges from maintaining references on child-care providers to establishing on-site child-care and elder-care facilities. Also, employers must have HR policies that comply with legislation requiring many employers with at least 50 workers to provide up to 12 weeks of unpaid parental/family leave, as noted in the Family and Medical Leave Act.

Organizational Restructuring

Many organizations have restructured in the past few years in order to become more competitive. Also, mergers and acquisitions of firms in the same industries have been made to ensure global competitiveness. The “mega-mergers” in the banking, petroleum, and telecommunications industries have been very visible, but mergers and acquisitions of firms in many other industries have increased in recent years.

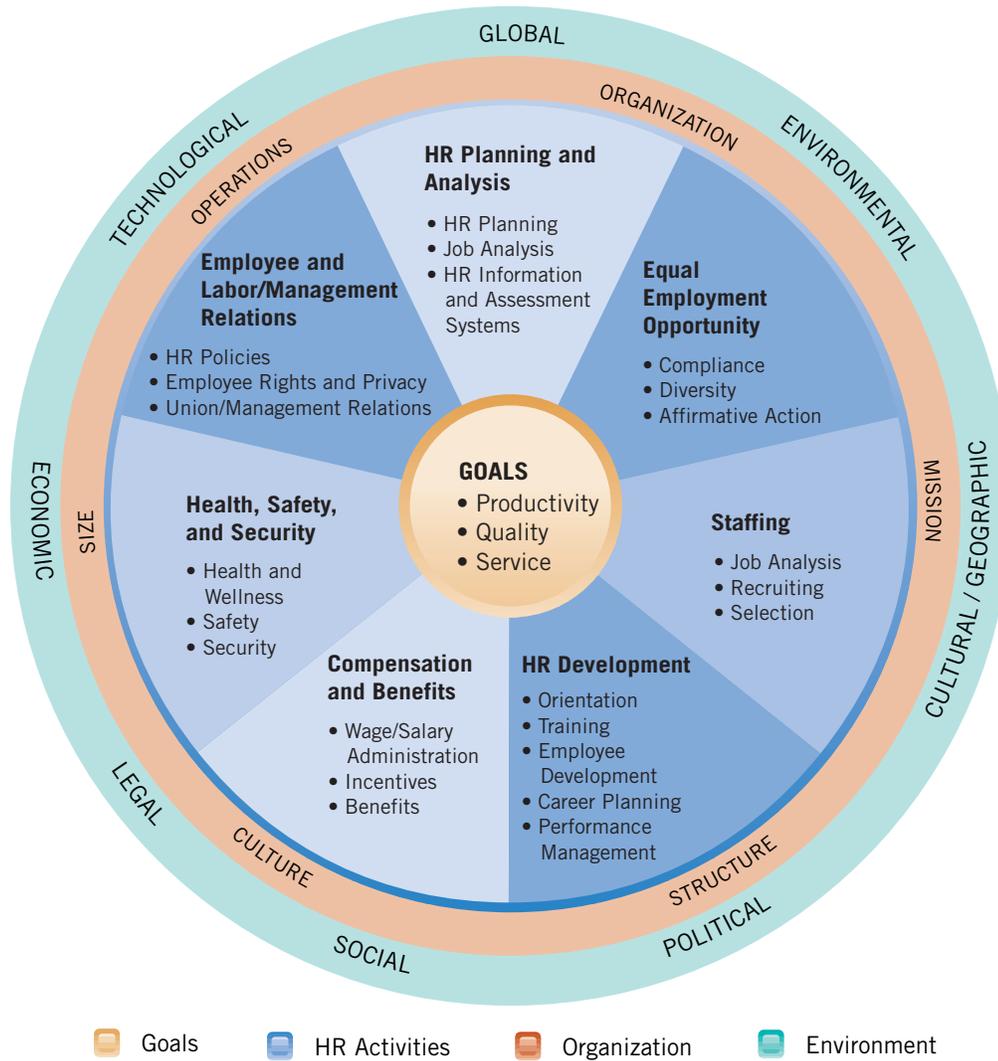
As part of the organizational changes, many organizations have “rightsized” either by (1) eliminating layers of managers, (2) closing facilities, (3) merging with other organizations, or (4) outplacing workers. A common transformation has been to flatten organizations by removing several layers of management and to improve productivity, quality, and service while also reducing costs. As a result, jobs are redesigned and people affected. One of the challenges that HR management faces with organizational restructuring is dealing with the human consequences of change. The human cost associated with downsizing has been much discussed in the popular press: a survivor’s mentality for those who remain, unfulfilled cost savings estimates, loss of loyalty, and many people looking for new jobs.

Whereas many large firms have cut jobs by reducing their workforces, many smaller firms have continued to create jobs. This is particularly true in high-technology industries, such as software development. These entrepreneurial firms are faced with growth, while trying to attract sufficient workers with flexible capabilities and to conserve financial resources. More discussion on HR’s role in organizational restructurings is found in Chapter 2, focusing on strategic HR planning. Consequently, in both large and small organizations the management of HR activities is crucial.

HR Management Activities

The central focus for HR management must be on contributing to organizational success. As Figure 1–4 depicts, key to enhancing organizational performance is ensuring that human resources activities support organizational efforts focusing on *productivity, service, and quality*.

- **Productivity:** As measured by the amount of output per employee, continuous improvement of productivity has become even more important as global competition has increased. The productivity of the human resources in an organization is affected significantly by management efforts, programs, and systems.
- **Quality:** The quality of products and services delivered significantly affects organizational success over the long term. If an organization gains a reputa-

FIGURE 1-4 *Management Activities*

tion for providing poor-quality products and services, it reduces its organizational growth and performance. An emphasis on quality requires continuous changes aimed at improving work processes. That need opens the door for reengineering the organizational work done by people. Customer value received and satisfaction become the bases for judging success, along with more traditional HR measures of performance and efficiency.

- **Service:** Because people frequently produce the products or services offered by an organization, HR management considerations must be included when identifying service blockages and redesigning operational processes. Involving all employees, not just managers, in problem solving often requires changes in corporate culture, leadership styles, and HR policies and practices.

To accomplish these goals, HR management is composed of several groups of interlinked activities. However, the performance of the HR activities must be done in the context of the organization, which is represented by the inner rings in Figure 1–4. Additionally, all managers with HR responsibilities must consider external environmental forces—such as legal, political, economic, social, cultural, and technological ones—when addressing these activities. These external considerations are especially important when HR activities must be managed internationally, as discussed in Chapter 4. The HR activities for which a brief overview follows are:

- HR Planning and Analysis
- Equal Employment Opportunity
- Staffing
- HR Development
- Compensation and Benefits
- Health, Safety, and Security
- Employee and Labor/Management Relations

HR Planning and Analysis

HR planning and analysis activities have several facets. Through *HR planning*, managers attempt to anticipate forces that will influence the future supply of and demand for employees. Having adequate *human resource information systems (HRIS)* to provide accurate and timely information for HR planning is crucial. The importance of human resources in organizational competitiveness must be addressed as well. As part of maintaining organizational competitiveness, HR analysis and assessment of *HR effectiveness* must occur. The internationalization of organizations has resulted in greater emphasis on *global HR management*. These topics are examined in Chapters 2, 3, and 4.

Equal Employment Opportunity

Compliance with equal employment opportunity (EEO) laws and regulations affects all other HR activities and is integral to HR management. For instance, strategic HR plans must ensure sufficient availability of a *diversity* of individuals to meet *affirmative action* requirements. In addition, when recruiting, selecting, and training individuals, all managers must be aware of EEO requirements. The nature of EEO compliance is discussed in Chapters 5 and 6.

Staffing

The aim of staffing is to provide an adequate supply of qualified individuals to fill the jobs in an organization. By studying what workers do, *job analysis* is the foundation for the staffing function. From this, *job descriptions* and *job specifications* can be prepared to *recruit* applicants for job openings. The *selection* process is concerned with choosing the most qualified individuals to fill jobs in the organization. Staffing activities are discussed in Chapters 7, 8, and 9.

HR Development

Beginning with the *orientation* of new employees, HR training and development also includes *job-skill training*. As jobs evolve and change, ongoing *retraining* is nec-

essary to accommodate technological changes. Encouraging *development* of all employees, including supervisors and managers, is necessary to prepare organizations for future challenges. *Career planning* identifies paths and activities for individual employees as they develop within the organization. Assessing how employees perform their jobs is the focus of *performance management*. Activities associated with HR development are examined in Chapters 10, 11, and 12.

Compensation and Benefits

Compensation rewards people for performing organizational work through *pay*, *incentives*, and *benefits*. Employers must develop and refine their basic *wage and salary* systems. Also, *incentive programs* such as gainsharing and productivity rewards are growing in usage. The rapid increase in the costs of *benefits*, especially health-care benefits, will continue to be a major issue. Compensation and benefits activities are discussed in Chapters 13, 14, and 15.

Health, Safety, and Security

The physical and mental health and safety of employees are vital concerns. The Occupational Safety and Health Act of 1970 (OSHA) has made organizations more responsive to *health and safety* concerns. The traditional concern for *safety* has focused on eliminating accidents and injuries at work. Additional concerns are *health* issues arising from hazardous work with certain chemicals and newer technologies. Through a broader focus on health, HR management can assist employees with substance abuse and other problems through *employee assistance programs* (EAP) in order to retain otherwise satisfactory employees. Employee *wellness programs* to promote good health and exercise are becoming more widespread.

Workplace *security* has grown in importance, in response to the increasing number of acts of workplace violence. HR management must ensure that managers and employees can work in a safe environment. Health, safety, and security activities are examined in Chapter 16.

Employee and Labor/Management Relations

The relationship between managers and their employees must be handled effectively if both the employees and the organization are to prosper together. Whether or not some of the employees are represented by a union, *employee rights* must be addressed. It is important to develop, communicate, and update HR *policies and rules* so that managers and employees alike know what is expected. In some organizations, *union/management relations* must be addressed as well. Activities associated with employee and labor/management relations are discussed in Chapters 16, 17, and 18.

HR Management in Transition

The field of HR management is undergoing transition because organizations themselves are changing. As a result, the terminology in the field is in transition. Traditionally called *personnel departments*, many of these entities have been renamed *human resource departments*. But more than the name has changed as HR management continues to be the “people” focus in organizations.

HR as Employee Advocate

Traditionally, HR has been viewed as the “employee advocate” in organizations.⁹ As the voice for employee concerns, HR professionals traditionally have been seen as “company morale officers” who do not understand the business realities of the organizations and do not contribute measurably to the strategic success of the business. Some have even suggested dismantling HR departments totally because they contribute little to the productivity and growth of organizations.¹⁰

Despite this view, HR plays a valuable role as the “champion” for employees and employee issues. One example is the stress that many employees feel when balancing work and family pressures. HR professionals must be the advocate for employees, recognizing that they have other lives besides work, and ensuring that organizational policies and practices consider these pressures. Otherwise, in many cases, the organization loses valuable human resources who do not want to continue working in a “family-unfriendly” environment. Closely related, HR professionals spend considerable time on HR “crisis management” dealing with employee problems that are both work and non-work related.¹¹

Another facet of employee advocacy is to ensure that fair and equitable treatment is given to people regardless of their personal background or circumstances.¹² Some entity inside the organization must monitor employee situations and respond to employee complaints about unfair treatment or inappropriate actions. Otherwise, employers would face even more lawsuits and regulatory complaints than they do now.

As HR management has changed, it has become clear that there is a need for HR to balance being the advocate for employees and being a business contributor.¹³ What this balancing means is that it is vital for HR professionals to represent employee issues and concerns in the organization. However, just being an effective employee advocate is not sufficient. Instead, the HR professionals must be strategic contributors, partners with operating managers, administratively efficient, and cost effective.

As Figure 1–5 depicts, HR management has three roles in organizations. The traditional administrative and operational roles of HR management have broadened to include more strategic facets. It should be emphasized that as HR roles shift to the right, the previous roles still must be met and the additional ones performed. Also, the continuum shows that the primary focus of HR as it becomes more strategic, changes to considerations with longer time horizons and the broader impact of HR decisions.

Administrative Role of HR Management

The administrative role of HR management is heavily oriented to processing and record keeping. Maintaining employee files and HR-related databases, processing employee benefits claims, answering questions about tuition and/or sick leave policies, and compiling and submitting required state and federal government reports are all examples of the administrative nature of HR management. These activities must be performed efficiently and promptly.

However, this role resulted in HR management in some organizations getting the reputation of paper shufflers who primarily tell managers and employees what cannot be done. If limited to the administrative role, HR staff are seen primarily as clerical and lower-level administrative contributors to the organization.¹⁴

FIGURE 1–5 *HR Management Roles*

	Administrative	Operational	Strategic
Focus	Administrative processing and record keeping	Operational support	Organization-wide, global
Timing	Short term (less than 1 year)	Intermediate term (1–2 years)	Longer term (2–5 years)
Typical Activities	<ul style="list-style-type: none"> • Administering employee benefits • Conducting new employee orientations • Interpreting HR policies and procedures • Preparing equal employment reports 	<ul style="list-style-type: none"> • Managing compensation programs • Recruiting and selecting for current openings • Conducting safety training • Resolving employee complaints 	<ul style="list-style-type: none"> • Assessing workforce trends and issues • Engaging in community workforce development planning • Assisting in organizational restructuring and downsizing • Advising on mergers or acquisitions • Planning compensation strategies

In some organizations these administrative functions are being outsourced to external providers, rather than being done inside the HR departments. Also, technology is being used to automate many of the administrative tasks. More about the outsourcing of HR administrative processes is discussed later in this chapter.

Operational Role of HR Management

Operational activities are tactical in nature. Compliance with equal employment opportunity and other laws must be ensured, employment applications must be processed, current openings must be filled through interviews, supervisors must be trained, safety problems must be resolved, and wages and salaries must be administered. In short, a wide variety of the efforts performed typically are associated with coordinating the management of HR activities with the actions of managers and supervisors throughout the organization. This operational emphasis still exists in some organizations, partly because of individual limitations of HR staff members and partly because of top management's resistance to an expanded HR role.

Typically, the operational role requires HR professionals to identify and implement operational programs and policies in the organization. They are the major *implementors* of the HR portion of organizational strategic plans developed by top management, rather than being deeply involved in developing those strategic plans.

Strategic Role of HR Management

Organizational human resources have grown as a strategic emphasis because effective use of people in the organization can provide a *competitive advantage*, both

domestically and abroad. The strategic role of HR management emphasizes that the people in an organization are valuable resources representing significant organizational investments. For HR to play a strategic role it must focus on the longer-term implications of HR issues.¹⁵ How changing workforce demographics and workforce shortages will affect the organization, and what means will be used to address the shortages over time, are illustrations of the strategic role. The importance of this role has been the subject of extensive discussion recently in the field, and those discussions have emphasized the need for HR management to become a greater strategic contributor to the success of organizations.

HR Management as Strategic Business Contributor

One of the most important shifts in the emphasis of HR management in the past few years has been the recognition of HR as a strategic business contributor. Even organizations that are not-for-profit, such as governmental or social service entities, must manage their human resources as being valuable and in a “business-oriented” manner. Based upon the research and writings of a number of scholars, including David Ulrich of the University of Michigan, the importance of HR being a *strategic business partner* has been stressed.¹⁶ This emphasis has several facets to it.

Enhancing Organizational Performance

Organizational performance can be seen in how effectively the products or services of the organization are delivered to the customers. The human resources in organizations are the ones who design, produce, and deliver those services. Therefore, one goal of HR management is to establish activities that contribute to superior organizational performance.¹⁷ Only by doing so can HR professionals justify the claim that they contribute to the strategic success of the organization.

INVOLVEMENT IN STRATEGIC PLANNING Integral to being a strategic partner is for HR to have “a seat at the table” when organizational strategic planning is being done. Strategically, then, human resources must be viewed in the same context as the financial, technological, and other resources that are managed in organizations. For instance, the strategic planning team at one consumer retailer was considering setting strategic goals to expand the number of stores by 25% and move geographically into new areas. The HR executive provided information on workforce availability and typical pay rates for each of the areas and recommended that the plans be scaled back due to tight labor markets for hiring employees at pay rates consistent with the financial plans being considered. This illustration of HR professionals participating in strategic planning is being seen more frequently in organizations today than in the past.

DECISION MAKING ON MERGERS, ACQUISITIONS, AND DOWNSIZING In many industries today, organizations are merging with or acquiring other firms. One prime illustration is the banking and financial services industry, in which combinations of banks have resulted in changes at Bank of America, Wells Fargo, Nations Bank, First Union, and others large and small. The merger of Chrysler and

Daimler-Benz has had significant implications for the automobile industry. Many other examples could be cited as well.

In all of these mergers and acquisitions there are numerous HR issues associated with combined organizational cultures and operations. If they are viewed as strategic contributors, HR professionals will participate in the discussions prior to top management making final decisions. For example, in a firm with 1,000 employees, the Vice-President of Human Resources spends one week in any firm that is proposed for merger or acquisition to determine if the “corporate cultures” of the two entities are compatible. Two potential acquisitions that were viable financially were not made because he determined that the organizations would not mesh well and that some talented employees in both organizations probably would quit. But according to one survey of 88 companies, this level of involvement by HR professionals is unusual. That study found that less than one-third of those involved in mergers surveyed have adequately considered HR issues.¹⁸

REDESIGNING ORGANIZATIONS AND WORK PROCESSES It is well established in the strategic planning process that organization structure follows strategic planning. The implication of this concept is that changes in the organization structure and how work is divided into jobs should become the vehicles for the organization to drive toward its strategic plans and goals.

A complete understanding of strategic sources of competitive advantages for human resources must include analyses of the internal strengths and weaknesses of the human resources in an organization. Those in HR management must be the ones working with operating executives and managers to revise the organization and its components. Ulrich likens this need to that of being an organizational architect. He suggests that HR managers should function much as architects do when redesigning existing buildings.¹⁹ In this role HR professionals prepare new ways to align the organization and its work with the strategic thrust of each business unit.

ENSURING FINANCIAL ACCOUNTABILITY FOR HR RESULTS A final part of the HR management link to organizational performance is to demonstrate on a continuing basis that HR activities and efforts contribute to the financial results of the organization.²⁰ Traditionally, HR was seen as activity-oriented, focusing on what was done, rather than what financial costs and benefits resulted from HR efforts. For instance, in one firm the HR director reported every month to senior management how many people were hired and how many had left the organization. However, the senior managers were becoming increasingly concerned about how long employment openings were vacant and the high turnover rate in customer service jobs. A new HR director was hired who conducted a study that documented the cost of losing customer service representatives. The HR director then requested funds to raise wages for customer service representatives and also implemented an incentive program for those employees. Also, a new customer service training program was developed. After one year the HR director was able to document net benefits of \$150,000 in reduction of turnover and lower hiring costs for customer service representatives.

In the past HR professionals justified their existence by counting activities and tasks performed. To be strategic contributors, HR professionals must measure what their activities produce as organizational results, specifically as a return on the investments in human resources.²¹ HR management that focuses on high-performance work practices has been linked to better financial performance of the organization.²²

This shift to being a strategic business contributor requires that all HR activities be examined and justified as producing results and value for the organization. Figure 1–6 indicates the HR priorities according to a recent survey of HR executives. For instance, training must be justified by the increase in capabilities of employees and the value that training produces in greater organizational results. In summary, HR must justify its existence as an organizational contributor, and not just a cost center.

Expanding Human Capital

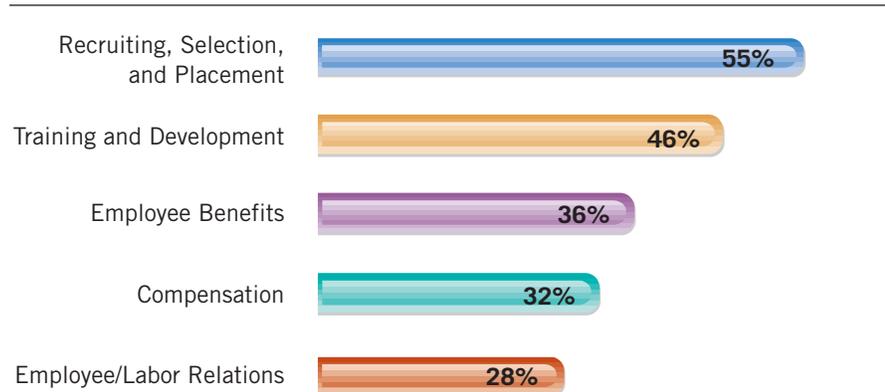
Another goal for those focusing on HR management, as well as operating executives and managers, is to enhance the human capital of the organization. **Human capital** is the total *value* of human resources to the organization. Also sometimes referred to as *intellectual capital*, it is composed of the people in the organization and what capabilities they have and can utilize in their jobs.

A critical part of expanding human capital is to utilize the talents of all people inside the organization and to bring in the best from the diverse population outside. Due to the shifting demographics in the workforce, HR management must be built to maximize the capabilities of all the diverse human resources. Thus, HR professionals must be those who ensure that all people, regardless of their life circumstances or backgrounds, are provided opportunities to develop their capabilities.

ATTRACTING AND RETAINING HUMAN RESOURCES As strategic business contributors, HR professionals must ensure an adequate supply of people with the capabilities needed to fill organizational jobs. Various experts on human capital have predicted a skills shortage for U.S. organizations that would hurt their competitive edge unless more investment is made in human capital. If that trend spreads as predicted, being able to attract people to the organization with the requisite capabilities currently requires more planning and creative implementation than in the past. For instance, at a computer software firm, growth is being limited by shortages of programmers and systems analysts. The company plans to open a new facility in another state so that a different labor market can be tapped, and the HR director heads up the site-selection team.

Human capital
The total *value* of human resources to the organization.

FIGURE 1–6 Human Resource Priorities



SOURCE: Reprinted with permission from *Bulletin to Management (BNA Policy and Practice Series)* Vol. 49, No. 4, Pt. II, Pp. 1 (January 29, 1998) Copyright 1998 by The Bureau of National Affairs, Inc. (800-372-1033) <<http://www.bna.com>>

HR PERSPECTIVE

Workforce Availability—Tight Now and Getting Worse

Michael Ottenweller can tell you about the tight labor market—first-hand. His family-owned metal fabrication business in Fort Wayne, Indiana, has turned down contracts with Caterpillar ranging in value from \$3 to \$6 million. He had no choice—he simply could not find enough workers to do the jobs. In fact, throughout the midwestern United States the low unemployment rate has resulted in many job openings going unfilled. Consequently, some slowing of economic growth has begun.

To find clear evidence that a workforce shortage exists, one need go no farther than many shopping malls, grocery stores, or other retail stores. The jobs available in the retail industry typically pay less and are less exciting than jobs in some other industries. As a result, retail employees are being recruited by high-technology firms offering more

money, better benefits, and different work. The void in staffing retail businesses can be painfully apparent to customers who have to wait for service or who find clerks with little knowledge of merchandise.

But perhaps no segment of the economy has felt the workforce shortage more than the trucking industry. The amount of truck freight is growing rapidly and is projected to continue to increase through 2004. The industry needs from 300,000 to 500,000 new drivers each year. Turnover rates range from 80% to 200%. In many trucking firms drivers regularly jump to competitors for more money. Working conditions such as spending up to 14 days on the road, sleeping in a truck, and rarely being home do not appeal to many workers. It is estimated that 50,000 truckers leave the industry each year and 300,000 switch jobs within the

industry. Increasingly tight deadlines, only five hours of sleep per night, and employer monitoring of rigs on the road by satellite make drivers less satisfied with jobs that used to appeal to freedom-loving “knights of the road.” With the increased demand for drivers has come the inevitable upward pressure on wages. Starting annual salaries average \$34,000 and many companies pay \$55,000 or above for experienced drivers. Special retention bonuses, safety incentives, and other strategies are being used to attract and retain drivers.

In many other industries availability of sufficient workers with the necessary capabilities and experience is a problem as well. Based on current population and workforce projections, the worker shortages appear likely to grow in future years.²³

As the HR Perspective indicates, in many geographic locations in the United States and in many occupations, it is difficult to find sufficient qualified workers with the necessary capabilities. Truck drivers, welders, computer software engineers, legal assistants, and many others are just some jobs for which difficulty in recruiting has occurred. In many geographic locales in the United States, the official unemployment rate has been below 3%, which creates more staffing pressures.

To meet the staffing challenges, HR professionals are using a greater number of options. Traditionally, work was done by people who were employees. Increasingly today, work is done by independent contract workers, consultants, temporary workers, and others who are not employees of organizations. Developing policies, negotiating contracts, evaluating staffing suppliers, and monitoring work performance of these non-employees requires a broader role than when all workers are employees.

But recruiting and selecting new employees is only part of the challenge. The HR activities in organizations must be revised in order to retain employees. For every employee who does not leave the organization for a new job elsewhere, that is one less employee who has to be recruited from outside. Therefore, significant emphasis is being placed on keeping existing employees and providing growth opportunities for them.

DEVELOPING HUMAN RESOURCE CAPABILITIES The human capital in organizations is valuable because of the capabilities that the people have. As part of the strategic role, HR managers are often seen as responsible for expanding the capabilities of the human resources in an organization. Currently, considerable emphasis is being focused on the competencies that the employees in the organization have and will need for the organization to grow in the future.

HR management must lead in developing the competencies that employees have in several ways. First, the needed capabilities must be identified and linked to the work done in the organization. This identification often requires active cooperation between HR professionals and operating managers. Next, the capabilities of each employee must be assessed. This approach requires that the competencies and depth of those competencies be identified. For example, in a firm with 100 employees, the HR director is developing career plans and succession charts to determine if the firm has sufficient human resources to operate and manage the 70% growth it expects over the upcoming four years.

Once the comparison of the “gap” between capabilities needed in the organization and those existing in employees is identified, then training and development activities must be designed. The focus throughout is providing guidance to employees and creating awareness of career growth possibilities within the organization. For many individuals, continuing to enhance their capabilities and knowing that there are growth opportunities in the organization may lead to greater job satisfaction and longer employment with that organization.

IDENTIFYING AND REWARDING PERFORMANCE The formal reward systems in organizations must be aligned with the strategic goals for the organization. It is important that the human capital in organizations be rewarded competitively for their capabilities. Currently, many organizations are emphasizing compensation based on individual, team, and organizational performance.

If performance is going to be emphasized, then the means of identifying employee performance must be developed or reviewed. This is particularly true when employees work in teams or if their supervisors and managers are located elsewhere.

Once employee performance has been measured, it must be linked to compensation programs. Unlike traditional compensation programs that provide “cost-of-living” or other across-the-board pay increases, HR is having to develop and implement more performance-oriented reward programs. In this regard they are having to serve as agents of change because of the increasing complexity of compensation issues.²⁴

Base pay for many jobs and fields has increased faster due to worker shortages than pay structures have increased in organizations. This imbalance has affected employee retention, and has required HR professionals to develop more and different compensation programs tailored to the demands of different employee groups and business unit realities.²⁵

There has been a significant increase in variable pay programs, such as gain-sharing, team-based incentives, and others. These programs link rewards directly to organizational performance goals, so that the compensation system is integrally linked to the strategic objectives and results of the organization. Benefit programs also have had to become more varied and cost-effective as well.

Delivering Cost-Effective Compliance Systems

The third part of HR management being a strategic business contributor is to deliver HR services and activities in a cost-effective manner that ensures compliance with applicable laws and regulations. Figure 1–7 indicates that there has been a mismatch between the way HR professionals have allocated their efforts and what contributes value for the organization. Based on a study of HR's role in organizations, the study results show that the greatest amount of time and costs of HR management are concentrated at the administrative level. However, HR management adds the greatest value at the strategic level, and the administrative activities produce a limited value for the organization. Two aspects that must be considered in this area are legal compliance and administrative systems.

ENSURING LEGAL COMPLIANCE Over the past thirty years numerous laws and regulations have been enacted at national, state, and local levels. Every year these regulations have been expanded due to regulatory actions and judicial decisions. As a result, considerable time and effort must be spent by HR professionals and other managers in organizations ensuring that compliance with HR-related laws and regulations occurs. Just to name a few, consider the following areas that must be managed daily by HR staff members.

- Equal employment
- Sexual harassment prevention
- Health benefit portability
- Pension compliance reporting
- Family/medical leaves
- Safety and health management
- Union contract grievances
- Disability accommodations

The role of HR is to ensure that the organization and its managers and employees know of these regulations, and that HR management reduces the legal liabilities and complies with the myriad regulations. With more and more people willing to file lawsuits, and more government enforcement agencies inspecting HR practices in organizations, it is crucial that HR management be done in ways that reduce the legal exposures faced by the organization.



LOGGING ON . . .

Employment Laws Assistance for Workers and Small Business (elaws)

Contains an interactive system to help employers and employees understand and comply with numerous employment laws enforced by U.S. Department of Labor.

<http://www.dol.gov/elaws/>

FIGURE 1–7 Cost of HR vs. Value Added of HR



SOURCE: Lyle M. Spencer, *Reengineering Human Resources* (New York: © John Wiley & Sons 1995), 16. Reprinted by permission of John Wiley & Sons, Inc.

DEMONSTRATING ADMINISTRATIVE EFFICIENCY A final part of HR management is to deliver HR services and activities in a cost-effective and timely manner. Many HR professionals are aware that there is too much “administrivia” affecting HR. One study of senior-level HR executives found that 59% of their time is spent on administrative matters, and only 6% is spent on strategic issues with the remainder being operational in nature. But the HR executives indicated that they would rather spend only 6% on administration and 92% on strategy.²⁶ Three trends in this area are currently affecting HR delivery systems.

First is the growing use of information systems to replace the manual record keeping and processing of HR data. There are numerous federal, state, and local laws requiring that organizations keep many different records on employees. The requirements are so varied that it is difficult to identify exactly what should be kept and for how long. Generally records relating to employment, work schedules, wages, performance appraisals, merit and seniority systems, and affirmative action programs should be kept by all employers who are subject to provisions of the Fair Labor Standards Act (FLSA). Other records may be required on issues related to EEO, OSHA, or the Age Discrimination Act. The most commonly required retention time for such records is three years. Throughout the book, details on the most important laws and regulations are presented in appropriate content sections.

Second, rather than HR information being centrally processed and controlled, it has been more dispersed, so that managers and employees can access HR data themselves. The distribution of HR information has changed dramatically as a result of the widespread usage of e-mail, the Internet, distributed information processing, and other technology. However, with wider access has come the need for greater security to protect employee privacy of certain types of data and to preserve the integrity of the data from improper alteration.

A third trend is the growing use of outsourcing of HR activities. Increasingly, HR departmental functions are being examined to determine if outside providers can perform them more efficiently and at lower cost than when done internally. Figure 1–8 indicates the HR activities for which outsourcing has occurred or is likely to occur. Not reflected in those figures is the large number of employers that have outsourced payroll administration, which is often done by HR or accounting staff members.

In summary, HR professionals must cost-justify their existence and administratively deliver HR activities efficiently and responsively. Otherwise, HR management is seen as a cost center that does not produce results for the organization.

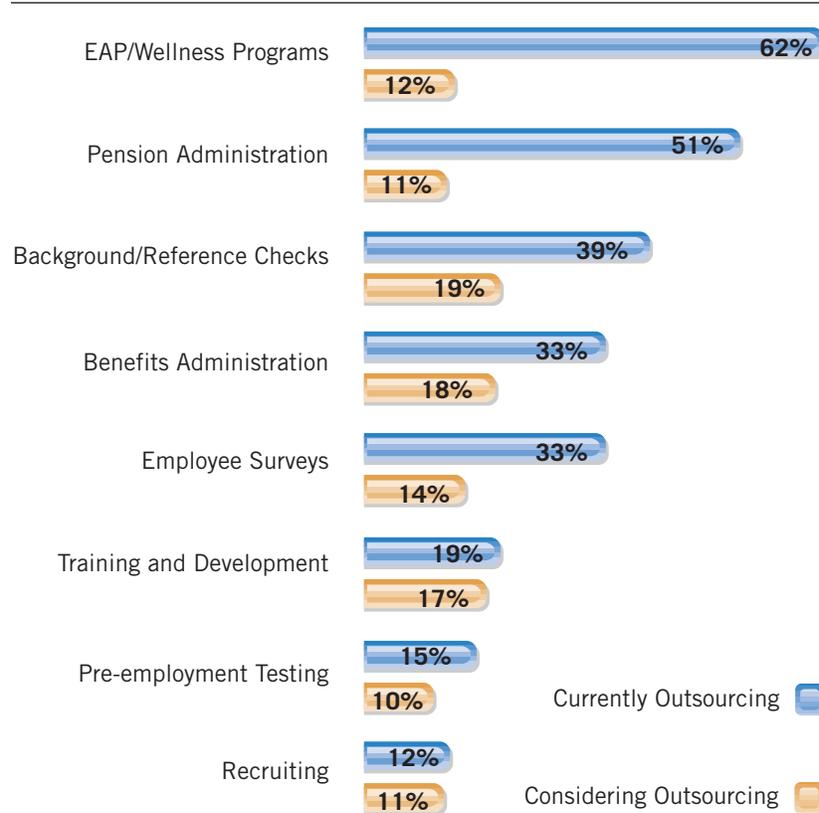
Managing HR Activities

Managers and supervisors throughout organizations are responsible for the effective use of all the resources available to them. Therefore, effective management of the human resources is integral to any manager’s job, whether as a hospital head nurse, assistant manager in a retail store, director of engineering, or president of a nonprofit agency.

Moreover, cooperation among people who specialize in HR and other managers is critical to organizational success, especially when global operations are involved.²⁷ This cooperation requires contact, or **interface**, between the HR unit and managers within the organization. These points of contact represent the “boundaries” that determine who does what in the various HR activities. In

Interfaces

Areas of contact between the HR unit and managers within the organization.

FIGURE 1–8 Prevalance of HR Outsourcing

SOURCE: Aon Consulting: "HR . . . Today and Tomorrow," Supplement to *HR Magazine*, August 1997, 5. Reprinted with the permission of *HR Magazine* published by the Society for Human Resource Management, Alexandria, VA.

organizations, decisions must be made to manage "people-related" activities; they cannot be left to chance.

Figure 1–9 illustrates how some of the responsibilities in the process of selection interviewing might be divided between the HR unit and other managers. A possible division of HR responsibilities is outlined throughout the book, illustrating HR responsibilities in a particular area and who typically performs what portion of them. These are not attempts to indicate "the one way" all organizations should perform HR activities but are simply illustrations of how these activities can be divided. For example, in one medium-sized bank, all new non-management employees are hired by the HR department. In another equally successful company, applicants are screened by the HR department, but the new employees actually are selected by the supervisors for whom they will work.

In smaller organizations without separate HR departments, cooperation among managers at different levels and in different departments also is essential if HR activities are to be performed well. For instance, in a small distribution firm hiring a new sales representative, the sales manager coordinates with the office supervisor, who may place a recruiting ad in a local newspaper, respond to telephone inquiries about the job from interested applicants, and conduct a telephone screening interview.

FIGURE 1–9 Typical Selection Interviewing Interface between HR Unit and Other Managers

HR Unit	Managers
<ul style="list-style-type: none"> ● Develops legal, effective interviewing techniques ● Trains managers in conducting selection interviews ● Conducts interviews and testing ● Sends top three applicants to managers for final interview ● Checks references ● Does final interviewing and hiring for certain job classifications 	<ul style="list-style-type: none"> ● Advise HR of job openings ● Decide whether to do own final interviewing ● Receive interview training from HR unit ● Do final interviewing and hiring where appropriate ● Review reference information ● Provide feedback to HR unit on hiring/rejection decisions

Evolution of HR Management

Before 1900, improving the working life of individuals was a major concern of reformers. Some employees attempted to start unions or strike for improved conditions. However, HR management as a specialized function in organizations began its formal emergence shortly before 1900. Before that time, most hiring, firing, training, and pay-adjustment decisions were made by individual supervisors. Also, the scientific management studies conducted by Frederick W. Taylor and others, beginning in 1885, helped management identify ways to make work more efficient and less fatiguing, thus increasing worker productivity.

As organizations grew larger, many managerial functions such as purchasing and personnel began to be performed by specialists. The growth of organizations also led to the establishment of the first personnel departments about 1910. Work by individuals such as Frank and Lillian Gilbreth dealt with task design and efficiency. The Hawthorne Studies, conducted by Elton Mayo in the mid-1920s, revealed the impact of work groups on individual workers. Ultimately, these studies led to the development and use of employee counseling and testing in industry.

1930s TO 1950s In the 1930s, the passage of several major labor laws, such as the National Labor Relations Act of 1935, led to the growth of unions. The importance of collective bargaining and union/management relations following the labor unions' rise to power in the 1940s and 1950s expanded the responsibilities of the personnel area in many organizations, especially those in manufacturing, utilities, and transportation. Such work as keeping payroll and retirement records, arranging stockholder visits, managing school relations, and organizing company picnics was often the major role of personnel departments. The role of the HR department in the organization as a staff function to support operational (line) departments expanded during this period, and line/staff issues grew to influence HR departments in the following decades.

1960s TO 1980s Increased legal requirements and constraints arising from the social legislation of the 1960s and 1970s forced dramatic changes in the HR

departments of most organizations. HR departments had to become much more professional and more concerned about the legal ramifications of policies and practices. Also, organizations took a new look at employee involvement and quality of work as a result of concerns about the impact of automation and job design on worker productivity.

During the 1980s, the strategic role of HR management became essential as organizations reduced staff, closed plants, or “restructured.” Outplacing employees and retraining the rest became prime concerns of HR departments. Containing the costs of health-care benefits also grew in importance.²⁸

1990s During the 1990s, organizational restructuring continued. A study of HR executives involved in reengineering the HR management in their companies found that the traditional HR function began shifting its emphases.²⁹ As Figure 1–10 indicates, the HR managers of the future will need to be more strategic and proactive.

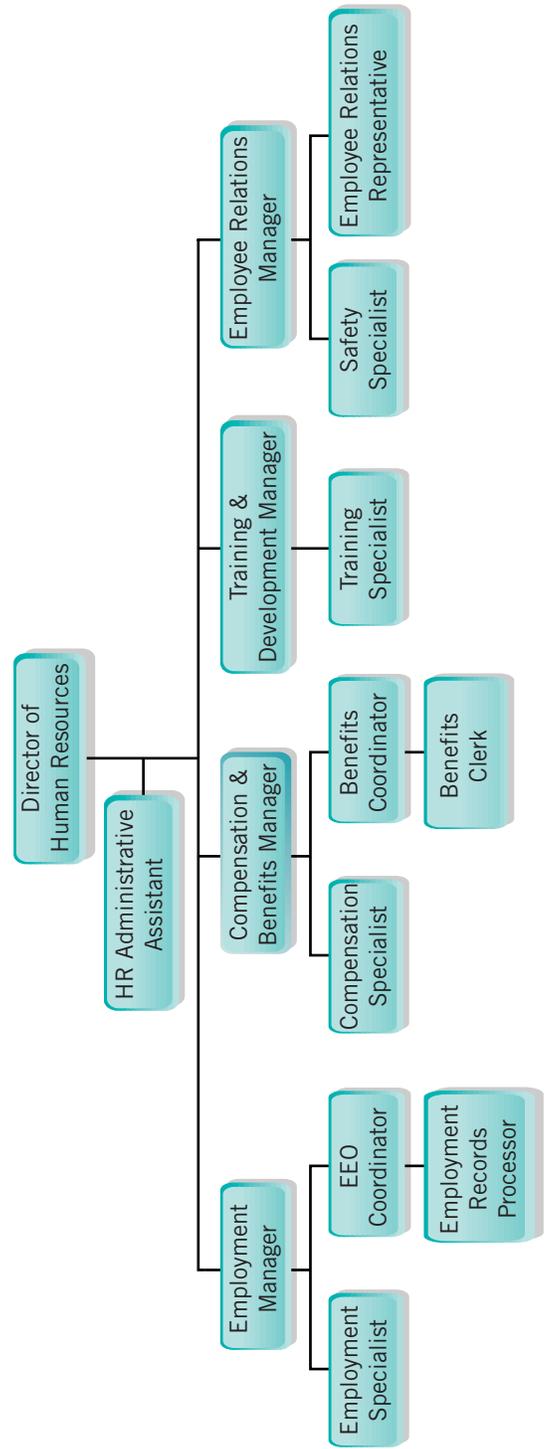
Changing demographics and increasing shortages of workers with the needed capabilities have grown in importance. Related to the demographic shifts, HR management has had to address the issues and implications of workforce diversity. Both the outsourcing of HR activities and the computerization of the administrative aspects of HR activities, even in small firms, have received attention as well. Finally, growth in issues involving employee rights, such as drug testing and smoking restrictions, are affecting how HR activities are managed.

FIGURE 1–10 *Shifts in HR Management*



SOURCE: *HR 21: Human Resources for the Next Century* (Washington, DC: Watson, Wyatt Worldwide.) Used with permission.

FIGURE 1–11 Sample HR Unit Structure



Organizing the HR Unit

HR management as an organizational function traditionally was viewed as a *staff* function. Staff functions provide advisory, control, or support services to the *line* functions. Line functions are those portions of the organization directly concerned with operations resulting in products or services. Line authority gives people the right to make decisions regarding their part of the workflow; however, traditional staff authority only gives people the right to advise the line managers who will make the decisions.

Two different organizational arrangements that include an HR department are common. In one structure the HR function reports directly to the CEO, which is likely to result in greater status and access to the strategy-making process in organizations. Another structure that is still frequently found has the head of the HR unit reporting to the Vice President of Finance/Administration. This structure often leads to HR being focused more on operational and administrative issues.

Within the HR unit, it is common to structure jobs around the major HR activities. Figure 1–11 shows a typical HR department organization for a firm with no workers represented by unions.

A wide variety of jobs can be performed in HR departments. As a firm grows large enough to need someone to focus primarily on HR activities, the role of the **HR generalist** emerges—that is, a person who has responsibility for performing a variety of HR activities. Further growth leads to adding **HR specialists** who have in-depth knowledge and expertise in a limited area. Intensive knowledge of an activity such as benefits, testing, training, or affirmative action compliance typifies the work of HR specialists.

HR generalist

A person with responsibility for performing a variety of HR activities.

HR specialist

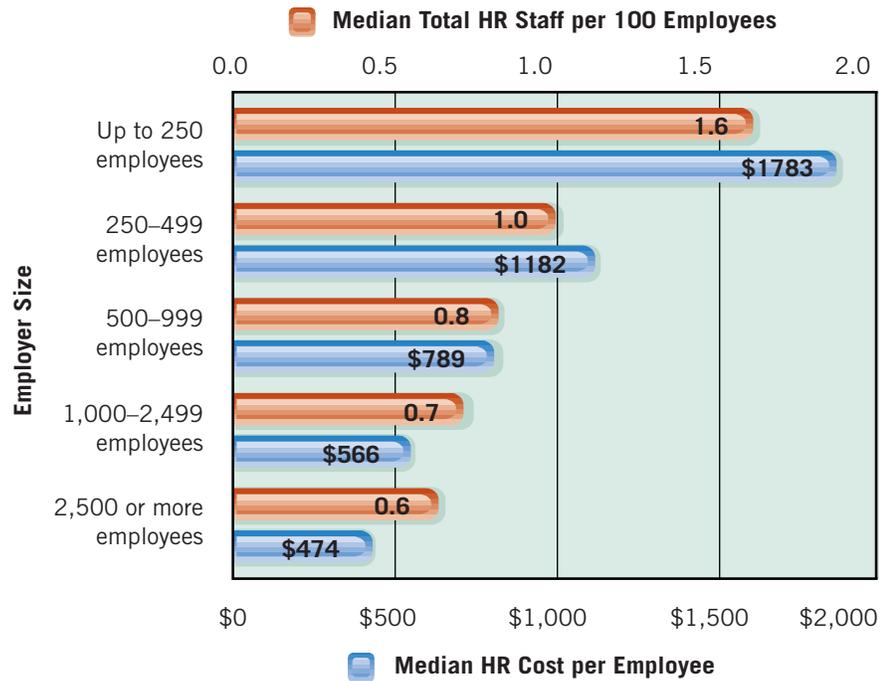
A person with in-depth knowledge and expertise in a limited area of HR.

HR MANAGEMENT COSTS As an organization grows, so does the need for a separate HR department, especially in today's climate of increasing emphasis on human resources. As might be expected, the number of HR-unit employees needed to serve 800 employees is not significantly different from the number needed to serve 2,800 employees. The same activities simply must be provided for more people. Consequently, the cost per employee of having an HR department is greater in organizations with fewer than 250 employees, as Figure 1–12 shows.

Two HR management trends are evident today in a growing number of organizations. One is the decentralization of HR activities and the other is outsourcing of HR activities.

DECENTRALIZING HR ACTIVITIES How HR activities are coordinated and structured varies considerably from organization to organization. Many organizations have centralized HR departments, whereas these departments are decentralized throughout other organizations.

Centralization and *decentralization* are the end points on a continuum. Organizations are seldom totally centralized or decentralized. The degree to which authority to make HR decisions is concentrated or dispersed determines the amount of decentralization that exists. With centralization, HR decision-making authority/responsibility is concentrated upward in the organization; whereas with decentralization HR decision-making authority/responsibility is distributed downward throughout the organization. How large an HR staff is or should be, or the extent of centralized or decentralized HR decision-making in organizations, is determined by many factors: culture of the organization, management style of the executives, geographic location, industry patterns, extent of unionization, and others.

FIGURE 1–12 Costs of the HR Function

SOURCE: Adapted from *Bulletin to Management (BNA Policy and Practice Series)*, Vol. 49, No. 24, Pt II (June 18, 1998) Copyright 1998 by The Bureau of National Affairs, Inc. (800-372-1033) <<http://www.bna.com>>

What is occurring in some organizations is that HR activities are being aligned more with the specific business needs of individual operating entities and subsidiaries. The result is the shrinking of the staff in a centralized HR department for an entire organization. For instance, a financial services company has six different subsidiaries. Each subsidiary has its own HR director and HR staff; and compensation, training, and employment are all handled by the HR professionals in each of the strategic business units. The only centralized HR activities are benefits design and administration, human resource information systems design and administration, and equal employment compliance reporting and monitoring. In this way the HR central and administrative functions can be centralized for efficiency, while also allowing each business unit to develop and tailor its HR practices to its own needs.

Even smaller organizations are decentralizing HR activities. In one hospital with about 800 employees, four HR representatives are designated for different sections of the hospital. These individuals are the primary contact for all HR needs of managers and employees in the various hospital departments. The only centralized HR functions are those mentioned earlier. The Vice President of Human Resources serves primarily as a strategist with the CEO and other senior-level managers. As a result of this shift, the hospital has had to train the HR professionals who specialized in an HR function such as employment to become HR generalists. In this way the HR “partnership” with operating managers has become stronger.

HR PERSPECTIVE

Research on HR Outsourcing

Outsourcing of HR management activities has grown in recent years. In a research study published in *Human Resource Planning*, Scott Lever surveyed HR executives to identify HR outsourcing trends and reasons that outsourcing decisions were made. The 69 HR professionals surveyed who were using outsourcing were primarily in light manufacturing and service industry firms. The greatest amounts of outsourcing were in the areas of payroll, benefits, recruiting, and training. However, there was limited outsourcing of compensation activities.

The primary reasons given for outsourcing some HR activities were to outsource processes in which the organization had limited internal investments in systems and where there was significant variation in workload levels during the year. Those factors were especially evident in the outsourcing of payroll and benefits. For outsourcing of training and recruiting, the primary reasons were to respond to rapidly changing needs and provide special technical expertise.

Overall, outsourcing was seen by the HR executives surveyed as being

beneficial to tapping external expertise in areas where HR practices and challenges are shifting rapidly. Also, being able to use outsourcing to obtain skilled assistance in training and recruiting was especially noted. Finally, the degree to which human resource information systems (HRIS) are outsourced was found to be a concern if they were not coordinated well with other HR activities, whether performed inside or outsourced.³⁰

OUTSOURCING HR ACTIVITIES In a growing number of organizations, various HR activities are being outsourced to outside providers and consultants. The HR Perspective discusses research done on HR outsourcing.

Outsourcing some HR activities can be beneficial for organizations for several reasons. First, the contractor is likely to maintain more current systems and processes, so that the employer does not have to keep buying new items, such as computer software, programs, and hardware.³¹ Also, many contractors have special expertise that is unavailable to HR managers in smaller organizations, whose time and experience both may be limited. A major benefit is to reduce HR payroll costs and shift activities to the outsourcing contractor. This shift means that the HR department has fewer people and more flexibility in changing its structure and operations as organizational changes require.³²

But outsourcing HR activities has some disadvantages also. First, the success of outsourcing rests in the competence of the outside vendor. Having a contract that identifies what will be done and what continuing support will be provided is crucial. Obviously, selecting an outsider who fails to provide good services or results reflects negatively on the HR staff in the organization. Second, some concerns exist about “losing control” by utilizing outsourcing. When data are available from and services are provided by an outsider, the HR staff may feel less important and more anxious because they do not have as much access and control. This concern can be partially addressed by clearly identifying the outsourcing relationship.³³ In addition, sometimes outsourcing may cost more than providing some HR activities in-house, particularly if the contract is not clear on a variety of factors. In summary, there definitely are risks associated with outsourcing, but there are distinct advantages as well. Detailed analyses should be done by HR managers before outsourcing occurs, followed by periodic evaluations.³⁴



LOGGING ON . . .

Outsourcing

General information on starting a company outsourcing program is available from the Outsourcing Institute at

<http://www.outsourcing.com>

Ethics and HR Management

As the issues faced by HR managers have increased in number and complexity, so have the pressures and challenges of acting ethically. Ethical issues pose fundamental questions about fairness, justice, truthfulness, and social responsibility. Concerns have been raised about the ethical standards used by managers and employees, particularly those in business organizations.

It appears that the concerns are well-founded, if the results of one study of 1,300 employees and managers in multiple industries is an indication. About 48% of those surveyed admit engaging in unethical behavior at work. Some of the most frequently mentioned items were cheating on expense accounts, paying or accepting bribes and kickbacks, forging signatures, and lying about sick leave.³⁵



BNA

Ethics Policy 1432.20.20

Many organizations have ethics policies. Review the information on types of ethics policies and then compare the ethics policy for an employer you can access.

WHAT IS ETHICAL BEHAVIOR? Ethics deals with what “ought” to be done. For the HR manager, there are ethical ways in which the manager *ought* to act relative to a given human resource issue. However, determining specific actions is not always easy. Ethical issues in management, including HR issues, often have five dimensions:³⁶

- *Extended consequences:* Ethical decisions have consequences beyond the decisions themselves. Closing a plant and moving it to another location to avoid unionization of a workforce has an impact on the affected workers, their families, the community, and other businesses.
- *Multiple alternatives:* Various alternatives exist in most decision-making situations, so the issue may involve how far to “bend” rules. For example, deciding how much flexibility to offer employees with family problems, while denying other employees similar flexibility, may require considering various alternatives.
- *Mixed outcomes:* Decisions with ethical dimensions often involve weighing some beneficial outcomes against some negative ones. For example, preserving the jobs of some workers in a plant might require eliminating the jobs of others. The result would be a mix of negative and positive outcomes for the organization and the affected employees.
- *Uncertain consequences:* The consequences of decisions with ethical dimensions often are not known. Should employees’ personal lifestyles or family situations eliminate them from promotion even though they clearly are the most qualified candidates?
- *Personal effects:* Ethical decisions often affect the personal lives of employees, their families, and others. Allowing foreign customers to dictate that they will not have a female or minority sales representative call on them may help with the business relationship short term, but what are the effects on the employees denied career opportunities?

RESPONDING TO ETHICAL SITUATIONS To respond to situations with ethical elements, the following guides are suggested for thought:³⁷

- Does the behavior or result achieved comply with all *applicable laws, regulations, and government codes*?
- Does the behavior or result achieved comply with all *organizational standards* of ethical behavior?
- Does the behavior or result achieved comply with *professional standards* of ethical behavior?

HR PERSPECTIVE

SHRM Code of Ethics

As a member of the Society for Human Resource Management (SHRM), I pledge myself to:

- Maintain the highest standards of professional and personal conduct.
- Strive for personal growth in the field of human resource management.
- Support the Society's goals and objectives for developing the human resource management profession.
- Encourage my employer to make the fair and equitable treatment of all employees a primary concern.
- Strive to make my employer profitable both in monetary terms

and through the support and encouragement of effective employment practices.

- Instill in the employees and the public a sense of confidence about the conduct and intentions of my employer.
- Maintain loyalty to my employer and pursue its objectives in ways that are consistent with the public interest.
- Uphold all laws and regulations relating to my employer's activities.
- Refrain from using my official positions, either regular or volunteer, to secure special privilege, gain or benefit for myself.
- Maintain the confidentiality of privileged information.

- Improve public understanding of the role of human resource management.

This Code of Ethics for members of the Society for Human Resource Management has been adopted to promote and maintain the highest standards of personal conduct and professional standards among its members. Adherence to this code is required for membership in the Society and serves to assure public confidence in the integrity and service of human resource management professionals.

Source: Society for Human Resource Management, used with permission.

What the preceding three points make clear is that just complying with the laws does not guarantee ethical behavior. Laws and regulations cannot cover every situation that HR professionals and employees will face. Instead, people must be guided by values and personal behavior “codes,” but employers have a role to play through HR management.³⁸ A code of ethics adopted for HR professionals by the Society for Human Resource Management (SHRM) is reproduced in the accompanying HR Perspective.

ETHICAL ISSUES IN HR MANAGEMENT HR professionals regularly are faced with ethical issues.³⁹ According to a study by SHRM and the Ethics Resource Center, a majority of the HR professionals surveyed indicated that they had seen unethical workplace conduct in the previous year. The most common unethical incidents by employees were lying to supervisors, employee drug or alcohol abuse, and falsification of records. Almost half of the HR professionals also indicated that their organization had pressured them to compromise their own ethical standards in order to meet financial, scheduling, or other operational goals.⁴⁰

With HR management in an international environment, other ethical pressures arise. Such practices as gift giving and hiring vary in other countries, and some of those practices would not be accepted as ethical in the United States. Consequently, all managers, including HR managers, must deal with ethical issues and be sensitive to how they interplay with HR activities. One way to address ethical issues in organizations is to conduct training of executives, managers, and employees. Training of managers and employees in ethics compliance has been found to reduce the incidence of ethical problems.⁴¹

The complete study of ethics is philosophical, complex, and beyond the scope of this book. The intent here is to highlight ethical aspects of HR management. Various ethical issues in HR management are highlighted throughout the text as well.

HR Management Competencies and Careers

As HR management has become more and more complex, greater demands are placed on individuals who make the HR field their career specialty. Although most readers of this book will not become HR managers, it is important that they know about the competencies required for those choosing HR as a career field.

Changes in the HR field are leading to changes in the competencies and capabilities of individuals concentrating on HR management. The development of broader competencies by HR professionals will ensure that HR management plays a strategic role in organizational success. One study by SHRM found that HR professionals must have core competencies, level-specific competencies, and role-specific competencies.⁴² Based on these and other studies and surveys, it appears that three sets of capabilities are important for HR professionals:

- Knowledge of business and organization
- Influence and change management
- Specific HR knowledge and expertise

Knowledge of Business and Organization

HR professionals must have knowledge of the organization and its strategies if they are to contribute strategically. This knowledge also means that they must have understanding of the financial, technological, and other facets of the industry and the organization.⁴³ As illustration, in some organizations the top HR executive jobs are being filled by individuals who have been successful operations managers, but have never worked in HR. The thinking behind such a move is that good strategic business managers can rely on the HR specialists reporting to them, while bringing a performance-oriented, strategic view of HR management to the top of the organization. In other organizations, top HR managers have come up through HR specialties, and have demonstrated that they understand broader business and strategic realities, not just HR management functional issues.

Influence and Change Management

Another key capability that HR professionals need is to be able to influence others and guide changes in organizations. Given the myriad HR-related changes affecting today's organizations, HR professionals must be able to influence others. One study at Eli Lilly and Company found that influencing through relationship building, leadership, and effective communication are important HR competencies.⁴⁴

Specific HR Knowledge and Expertise

The idea that “liking to work with people” is the major qualification necessary for success in HR is one of the greatest myths about the field. It ignores the techni-

cal knowledge and education needed. Depending on the job, HR professionals may need considerable knowledge about tax laws, finance, statistics, or computers. In all cases, they need extensive knowledge about equal employment opportunity regulations and wage/hour regulations. The body of knowledge of the HR field, as used by the Human Resource Certification Institute (HRCI), is contained in Appendix A. This outline reveals the breadth and depth of knowledge necessary for HR professionals. Additionally, those who want to succeed in the field must update their knowledge continually. Reading HR publications, such as those listed in Appendix C, is one way to do this.

PROFESSIONAL INVOLVEMENT The broad range of issues faced by HR professionals has made involvement in professional associations and organizations important. For HR generalists, the largest organization is the Society for Human Resource Management (SHRM). Public-sector HR professionals tend to be concentrated in the International Personnel Management Association (IPMA). Other major functional specialty HR organizations exist, such as the International Association for Human Resource Information Management (IHRIM), the American Compensation Association (ACA), and the American Society for Training and Development (ASTD). A listing of major HR-related associations and organizations is contained in Appendix B.

CERTIFICATION One of the characteristics of a professional field is having a means to certify the knowledge and competence of members of the profession. The C.P.A. for accountants and the C.L.U. for life insurance underwriters are well-known examples. The most well-known certification program for HR generalists is administered by the Human Resource Certification Institute (HRCI), which is affiliated with SHRM. The program has seen significant growth in the number of those certified in the 1990s. Over 12,000 HR professionals annually sit for the HRCI exam now, compared with 3,000 in the early 1990s. Currently over 30,000 HRCI certified individuals are active in the HR field.⁴⁵

Increasingly, employers hiring or promoting HR professionals are requesting certification as a “plus.” One survey of HR professionals found that about two-thirds of them felt that HR certification gave them more credibility with corporate peers and senior managers.⁴⁶ Certification by HRCI is available at two levels; and both levels have education and experience requirements.

Additional certification programs exist for both specialists and generalists sponsored by other organizations. For specialists, here are some of the most well-known programs:

- Certified Compensation Professional (CCP), sponsored by the American Compensation Association
- Certified Employee Benefits Specialist (CEBS), sponsored by the International Foundation of Employee Benefits Plans
- Certified Benefits Professional (CBP), sponsored by the American Compensation Association
- Certified Safety Professional (CSP), sponsored by the Board of Certified Safety Professionals
- Occupational Health and Safety Technologist (OHST), given by the American Board of Industrial Hygiene and the Board of Certified Safety Professionals



LOGGING ON . . .

SHRM

This site contains HR News On-Line and information on all of the services and products available through the Society for Human Resource Management.

<http://www.shrm.org>

Summary

- HR management is concerned with formal systems in organizations to ensure the effective and efficient use of human talent to accomplish organizational goals.
- HR challenges faced by managers and organizations include economic and technological changes, workforce availability and quality concerns, demographics and diversity, and organizational restructuring.
- HR management activities can be grouped as follows: HR planning and analysis, equal employment opportunity compliance, staffing, HR development, compensation and benefits, health, safety and security, and employee and labor/management relations.
- HR management must perform three roles: administrative, operational, and strategic.
- It is important for HR management to be a strategic business contributor in organizations.
- To enhance organizational performance, HR management must be involved in strategic plans and decision making, participate in redesigning organizations and work processes, and demonstrate financial accountability for results.
- Expanding human capital requires HR management to develop means to attract and retain human resources, develop their capabilities, and identify and reward performance.
- Decentralization and outsourcing are being utilized more frequently in the management of HR units than they were in past years.
- Ethical behavior is crucial in HR management, and a number of HR ethical issues are regularly being faced by HR professionals.
- HR as a career field requires maintaining current knowledge in HR management.
- Professional certification has grown in importance for HR generalists and specialists.

Review and Discussion Questions

1. How have some of the HR challenges listed in the chapter affected organizations at which you have worked?
2. What are the seven major sets of HR activities, and what activities fall within each set?
3. Why is it important for HR management to evolve from the administrative and operational roles to the strategic one?
4. To be a strategic business contributor, HR management must enhance organizational performance, expand human capital, and be cost-effective. Discuss how HR professionals must balance the competing demands made on them.
5. Discuss the following statement: “In many ways, all managers are and must be HR managers.”
6. What do you see as the most interesting part of HR as a career field?

Terms to Know

HR generalist	27	Human Resource (HR)	
HR specialist	27	management	4
human capital	18	interfaces	22

Using the Internet



Outsourcing

Assume that you are the HR Manager for a large company. Department managers are requesting information on outsourcing non-core functions in their departments. Prepare a general memo to all department managers. In this memo, include what outsourcing is, the benefits of outsourcing, and the three phases involved in the outsourcing process.

Log onto the web site mentioned earlier in this chapter (see “Outsourcing HR Activities”) to assist you with writing this memo. The site is from the Outsourcing Institute at:

<http://www.outsourcing.com>.

CASE

Remedy for HR Management

HR management is contributing to the success of both large and small organizations. One smaller organization, Remedy Corporation of Mountain View, California, has seen management of human resources as contributing to its business success. Based in California’s Silicon Valley, Remedy provides internal help desks for computer networks and databases. Customers contact Remedy for assistance with network computing problems. Started in 1990 by three high-technology experts, Remedy currently has almost \$40 million in annual revenue.

When the founders started the company, they established as one basic value that working at Remedy should be enjoyable as well as profitable. That belief has helped create a company culture today that gives Remedy competitive advantages when recruiting and retaining workers in the challenging labor market of Silicon Valley.

Because recruiting of employees to handle growth at Remedy is so crucial, the HR unit has used various unique approaches. For instance, they rent mini cars at local tracks and invite promising job applicants to drive the cars. An aggressive employee referral program pays employees up to \$5,000 for referring new hires who stay with the firm. In another effort, Remedy had its executives wearing animal costumes as part of a “jungle” recruiting campaign.

All of these “fun” programs have a more important

business purpose: to demonstrate that people are important at Remedy. The HR unit prides itself on prompt feedback to potential employees. In one recent program, managers washed the cars of their employees to indicate their appreciation for employees’ efforts at the company.

But traditionalists would ask if all this fun pays off. Remedy’s answer is an unqualified *yes*. Over 40% of all Remedy’s new employees came from the employee referral program. The firm’s cost to hire each new employee is about \$2,000 less than the industry average. Even more important, those hired stay longer with Remedy, as indicated by its retention rate of 42 months compared to the Silicon Valley average of 20 months. Also, employee turnover is about 8% annually—significantly below the industry average. It is obvious that Remedy’s approach to HR management is paying off, both in an enjoyable company culture and in contributing to organizational success.⁴⁷

Questions

1. What is your view about “fun at work” being used as a specific part of HR management?
2. Compare the approach to HR management at Remedy to that at a current or previous job you have had.

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