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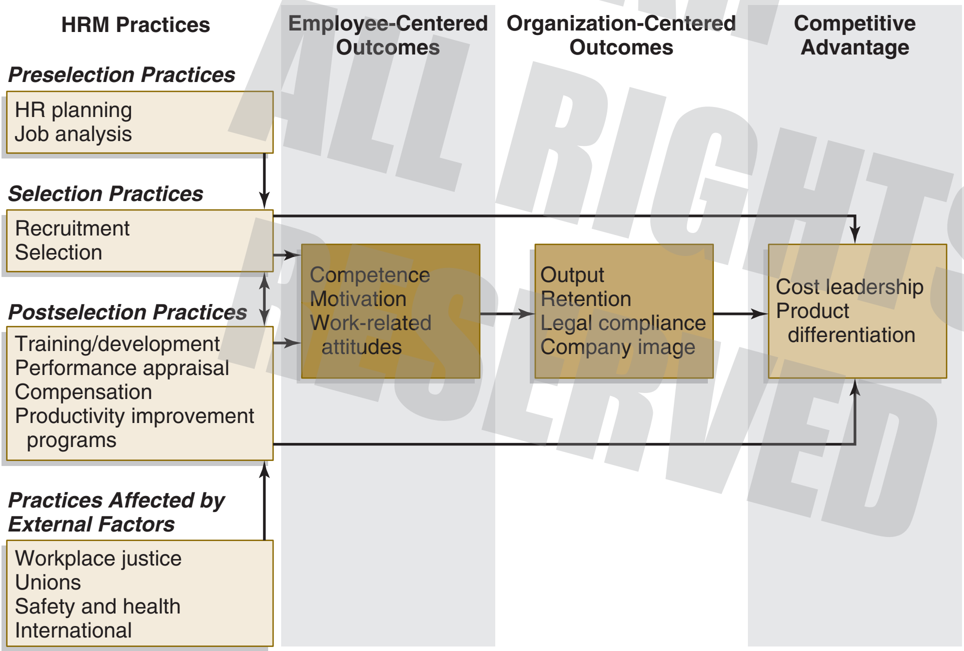
Human Resource Management and Competitive Advantage



CHAPTER OUTLINE

KEY TERMS

benefits
compensation
competitive advantage
cost leadership strategy
development
human resource management
human resource planning
job analysis
job satisfaction
organizational citizenship
organizational commitment
pay
performance appraisal process
product differentiation
productivity improvement programs
recruitment
selection
training
unions
workplace justice

CHAPTER OBJECTIVES

Upon completion of this chapter, you will be able to:

- Understand the nature of a firm's human resource management practices.
- Understand the roles played by line managers and human resource professionals in the human resource management process.
- Understand what competitive advantage is and how companies can achieve it.
- Understand how a firm's human resource management practices can help it gain a competitive advantage.
- Understand why competitive advantage gained from human resource management practices is likely to be sustained over time.

Undoubtedly, any organization's success depends on how it manages its resources. A firm's resources propel it toward its goals, just as an engine propels an automobile toward its destination.

Many organizational resources are nonhuman, such as land, capital, and equipment. Although the management of these resources is very important, a business cannot succeed without also managing its human resources (i.e., its people) properly. Just as automobiles will not operate efficiently (or at all) if they are driven by incompetent people, organizations will not operate successfully unless they too are "driven" by competent people. People determine the organization's objectives, and people run the operations that allow the organization to reach its objectives.

1-1 Human Resource Management

An organization's **human resource management** (HRM) function focuses on the people aspect of management. It consists of practices that help the organization deal effectively with its people during the various phases of the employment cycle: preselection, selection, and postselection.

human resource management The organizational function that consists of practices that help the organization deal effectively with its people during the various phases of the employment cycle.

The preselection phase involves planning practices. The organization must decide what types of job openings will exist in the upcoming period and determine what qualifications are necessary to perform these jobs. During the selection phase, the organization selects its employees. Selection practices include recruiting applicants, assessing their qualifications, and ultimately selecting those who are deemed to be the most qualified.

In the postselection phase, the organization develops HRM practices for effectively managing people once they have "come through the door." These practices are designed to maximize the performance and satisfaction levels of a firm's employees by providing them with the necessary knowledge and skills to perform their jobs and by creating conditions that will energize, direct, and facilitate the employees' efforts toward meeting the organization's objectives.

We discuss these HRM practices throughout the remainder of this book. In the following paragraphs, we provide a preview of what is to come, as we briefly describe each practice and note the chapter in which it appears.

1-1a HRM Preselection Practices

The HRM preselection practices, which are human resource planning and job analysis, lay the foundation for the other HRM practices. In other words, firms must analyze and plan for their treatment of workers before they can carry out the remaining HRM practices.

human resource planning A process that helps companies identify their future HRM needs and how those needs can be met.

HUMAN RESOURCE PLANNING (CHAPTER 3) **Human resource planning** helps managers anticipate and meet changing needs relating to the acquisition, deployment, and utilization of its employees.[1] The organization first maps out an overall plan (called a *strategic plan*). Then, through a process called *demand and supply forecasting*, it estimates the number and types of employees needed to carry out successfully its overall plan. Such information enables a firm to plan its recruitment, selection, and training strategies. For example, let's say that a firm's HR plan estimates that 15 additional engineers will be needed during the next year. The firm typically hires recent engineering graduates to fill such positions. Because these majors are in high demand, the firm decides to begin its campus recruiting early in the academic year, before other companies can "snatch away" the best candidates.

job analysis A systematic procedure for gathering, analyzing, and documenting information about particular jobs.

JOB ANALYSIS (CHAPTER 4) **Job analysis** is a systematic procedure for gathering, analyzing, and documenting information about particular jobs. The analysis specifies what each worker does, the work conditions, and the worker qualifications necessary to perform the job successfully. Job analysis information is used to plan and coordinate nearly all HRM practices, including these (see Figure 1-1):

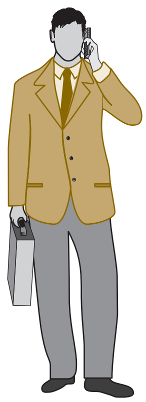
1. Determining job qualifications for recruitment purposes
2. Choosing the most appropriate selection techniques
3. Developing training programs
4. Developing performance appraisal rating forms
5. Helping to determine pay rates
6. Setting performance standards for productivity improvement programs

FIGURE 1-1 Job Analysis

Uses of Job Analysis Information

Bob is the HR director of Spaniel Corp. Bob uses job analysis information to:

- Determine job qualifications for recruitment when he needs to make a hiring decision for the bookkeeping position he has open.
- Choose the best selection techniques for hiring that bookkeeper.
- Develop training programs for the employees of Spaniel Corp., including software training to keep the bookkeeping state-of-the-art.
- Develop performance appraisal rating forms, so everyone is evaluated fairly—from the bookkeeper to the boss.
- Help determine pay raises, so he can give the bookkeeper a salary boost that is appropriate.
- Set performance standards for productivity improvement programs, so that everyone—including the bookkeeper–can do things better.



For example, an organization may decide to use a mechanical aptitude test to screen applicants because a job analysis indicated that mechanical aptitude is an important job skill. Or a firm may raise the pay of one of its employees because a job analysis indicated that the nature of the work had recently changed and was now more demanding.

1-1b HRM Selection Practices

By HRM selection practices, we mean policies and procedures used by organizations to staff their positions. We now briefly describe these practices.

RECRUITMENT (CHAPTER 5) Organizations use **recruitment** to locate and attract job applicants for particular positions. Organizations may recruit candidates internally (i.e., recruit current employees seeking to advance or change jobs) or externally. The aim of recruitment practices is to identify a suitable pool of applicants quickly, cost efficiently, and legally.

SELECTION (CHAPTER 6) **Selection** involves assessing and choosing job candidates. To be effective, selection processes must be technically sound (i.e., accurate) and legal.

1-1c HRM Postselection Practices

Companies implement postselection practices to maintain or improve their workers' job performance levels.

TRAINING AND DEVELOPMENT (CHAPTER 7) **Training** and **development** are planned learning experiences that teach workers how to perform their current or future jobs effectively. Training focuses on current jobs, whereas development prepares employees for possible future jobs. Training and development practices are designed to improve organizational performance by enhancing the knowledge and skill levels of employees.

PERFORMANCE APPRAISAL (CHAPTER 8) Through the **performance appraisal process**, organizations measure the adequacy of their employees' job performances and communicate these evaluations to them. One aim of appraisal systems is to motivate employees to continue appropriate behaviors and correct inappropriate ones. Management may also use performance appraisals as tools for making HRM-related decisions, such as promotions, demotions, discharges, and pay raises.

COMPENSATION (CHAPTER 9) **Compensation** entails pay and benefits. **Pay** refers to the wage or salary employees earn; **benefits** are a form of compensation provided to employees in addition to their pay, such as health insurance or employee discounts. The aim of compensation practices is to help the organization establish and maintain a competent and loyal workforce at an affordable cost.

PRODUCTIVITY IMPROVEMENT PROGRAMS (CHAPTER 10) **Productivity improvement programs** tie job behavior to rewards. Rewards may be financial (e.g., bonuses, pay raises) or nonfinancial (i.e., improved job satisfaction). The aim of such programs is to motivate employees to engage in appropriate job behaviors.

recruitment An HRM practice designed to locate and attract job applicants for particular positions.

selection An HRM practice in which companies assess and choose from among job candidates.

training Planned learning experiences that teach workers how to effectively perform their current jobs.

development Planned learning experiences that prepare workers to effectively perform possible future jobs.

performance appraisal process A process used by companies to measure the adequacy of their employees' job performances and communicate these evaluations to them.

compensation The pay and benefits that employees receive from the company.

pay The wage or salary that employees earn.

benefits A form of compensation provided to employees in addition to their pay, such as health insurance or employee discounts.

productivity improvement programs Organizational interventions designed to improve productivity by increasing employee motivation.

1-1d HRM Practices Influenced by External Factors

HRM departments within organizations, like the organizations themselves, do not exist in vacuums. Events outside the work environment can have far-reaching effects on HRM practices. In the following paragraphs, we describe some of these events and indicate how they influence HRM practices.

LEGAL AND ENVIRONMENTAL ISSUES (CHAPTER 2) During the past 50 years, the enactment of federal, state, and local laws that regulate workplace behavior has radically changed nearly all HRM practices. These laws, which are designed to guarantee employees' (and prospective employees') rights to fair and safe treatment, impact the manner in which many HRM practices are implemented.

Consider, for instance, the impact of antidiscrimination laws on firms' hiring practices. Prior to the passage of these laws, many firms hired people in somewhat arbitrary ways. Applicants were often hired because they had a firm handshake or because they graduated from the employer's alma mater. Today, such practices could result in charges of discrimination. For instance, a woman denied a job because of a weak handshake might end up suing the firm for sex discrimination.

To protect themselves from such charges, employers must conduct their selection practices "by the book." This means they should carefully determine needed job qualifications and choose selection methods that accurately measure those qualifications.

Social, economic, and technological events also strongly influence HRM practices. These events include:

- An expanding cultural diversity at the workplace
- The emergence of work and family issues
- The growing use of part-time, temporary employees
- An increased emphasis on quality and teamwork
- The occurrence of mergers and takeovers
- The occurrence of downsizing and layoffs
- Rapid advances in technology
- Emphasis on continuous quality improvement
- A high rate of illiteracy among the workforce

How do these events influence HRM practices? Let's look at some examples:

- Some firms are attempting to accommodate the needs of families by offering benefit options such as maternity leave, child care, flextime, and job sharing.
- Some firms are attempting to accommodate the needs of older workers through skill upgrading and training designed to facilitate acceptance of new techniques.[2]
- Some firms are educating their employees on basic reading, writing, and mathematical skills so that they can learn to keep up with rapidly advancing technologies.

WORKPLACE JUSTICE LAWS (CHAPTER 11) **Workplace justice** addresses the issue of employee rights. To have fair workplaces, organizations must comply with laws that give workers the right to be treated in a nondiscriminatory manner. Workplace justice laws constrain how employers may implement workplace rules, disciplinary and discharge procedures, and policies that infringe on employees' privacy, such as surveillance.

workplace justice A concept that addresses the issue of treating employees in a fair, nondiscriminatory manner.

UNION INFLUENCES (CHAPTER 12) **Unions** often influence a firm's HRM practices. Unionized companies must adhere to written contracts negotiated between each company and its union. Union contracts regulate many HRM practices, such as discipline, promotion, grievance procedures, and overtime allocations. HRM practices in nonunionized companies may be influenced by the threat of unions. For example, some companies have made their HRM practices more equitable (i.e., they treat their employees more fairly) simply to minimize the likelihood that employees will seek union representation.[3]

unions Labor organizations in which employees, acting in concert, deal with employers on work issues.

SAFETY AND HEALTH CONCERNS (CHAPTER 13) Legal, social, and political pressures on organizations to ensure the health and safety of their employees have had a great impact on HRM practices. Organizations respond to these pressures by instituting accident prevention programs and programs such as wellness and employee assistance programs. These are designed to ensure the health and mental well-being of their employees.

INTERNATIONAL INFLUENCES (CHAPTER 14) Today's global economy also influences some aspects of HRM. Many firms realize that they must enter foreign markets in order to compete as part of a globally interconnected set of business markets. From an HRM perspective, such organizations must foster the development of more globally oriented managers: individuals who understand foreign languages and cultures, as well as the dynamics of foreign marketplaces. These firms must also deal with issues related to expatriation, such as relocation costs, selection, compensation, and training.

1-2 Who Is Responsible for Developing and Implementing HRM Practices?

Most firms have an HRM department. However, this department does not have sole responsibility for a firm's HRM practices. This responsibility lies with both human resource (HR) professionals and line managers. The misconception that HR professionals have sole responsibility in this area can lead to serious problems. Consider the following example:

At Roy Rogers Restaurants, the annual turnover had been running between 80 to 90 percent across the corporation, costing the organization more than $3 million per year. The HRM department conducted a survey among field managers to get their views on the problem. The managers attributed the high turnover to several people-related problems, such as poor recruitment, pay, training, performance feedback, and promotional opportunities. Interestingly, restaurant managers who experienced the higher turnover within their own units were much more likely to *hold the HRM department responsible for solving these problems; they did not see how these problems related to their own behavior. On the other hand, managers experiencing fewer turnovers held themselves accountable for solving these problems. Effective managers attempted to resolve them by:*

- Providing input into selection decisions in the first place
- Trying to supervise people in a way that created a team feeling
- Providing training and coaching
- Creating opportunities for their employees' career advancement
- Providing flexible scheduling for students and other part-timers

This case illustrates the importance of the manager's role in the HRM process. It is the interplay between managers and HR professionals that leads to effective HRM practices. For example, consider performance appraisals. The success of a firm's performance appraisal systems depends on the ability of both parties to do their jobs correctly. HR professionals develop the system, and managers provide the actual performance evaluations.

Specific roles played by line managers and HR professionals in each HRM area are discussed throughout the text. Here, we provide a general overview of this topic by describing the roles that have traditionally been played by both parties. As we discuss in Chapter 15, "Working in the HRM Field," however, the distinction between the roles played by HR professionals and line managers is becoming less and less clear.

We must also acknowledge that the nature of these roles varies from company to company, depending primarily on the size of the organization. Our discussion assumes a large company with a sizable HR department. However, in smaller companies without large HRM departments, line managers must assume an even larger role in effective HRM practices.

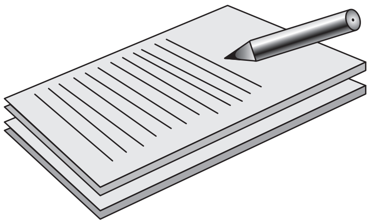
1-2a HR Professional's Role

HR professionals typically assume the three areas of responsibility shown in Figure 1-2.

ESTABLISH HRM PROCEDURES AND METHODS HR professionals typically decide what procedures to follow when implementing an HRM practice. For example, an HR professional may decide that the company's selection process should consist of having all candidates (1) complete an application form, (2) take an employment test, and then (3) be interviewed by an HR professional and line manager. The HR professional may also develop or choose the actual methods to be used in this process. For example, he may construct the application form, purchase a selection test from a test publisher, or devise the actual interview questions that the managers should ask.

MONITOR/EVALUATE HR PRACTICES HR professionals must ensure that the firm's HRM practices are properly implemented. This responsibility involves evaluation and monitoring. For example, HR professionals may evaluate the usefulness of employment tests, the success of training programs, and the cost-effectiveness of HRM outcomes, such as selection, turnover, recruiting, and so forth. They may also monitor records to ensure that performance appraisals have been properly completed.

FIGURE 1-2 **The HR Professional's Role**



1. Establish HRM procedures and methods.

2. Monitor/evaluate HRM practices.

3. Advise/assist managers on HRM-related matters.

ADVISE/ASSIST MANAGERS ON HRM-RELATED MATTERS Both managers and HR professionals view this role as the HRM department's most significant area of responsibility.[4] HR professionals consult on an array of HRM-related topics. They may assist by providing formal training programs on topics such as selection and the law, how to conduct an employment interview, how to appraise employee job performance, or how to discipline employees effectively. HR professionals also provide assistance by giving line managers advice about specific HRM-related concerns, such as how to deal with a "problem employee."

1-2b Line Manager's Role

Line managers direct employees' day-to-day tasks. From an HRM perspective, line managers are the main people responsible for implementing HRM practices and providing HR professionals with necessary input for developing effective practices.

IMPLEMENTING HRM PRACTICES

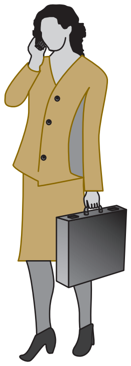
Managers carry out many procedures and methods devised by HR professionals. For instance, line managers might do these tasks (see Figure 1-3):

- Interview job applicants.
- Provide orientation, coaching, and on-the-job training.
- Provide and communicate job performance ratings.
- Recommend salary increases.
- Carry out disciplinary procedures.
- Investigate accidents.
- Settle grievance issues.

FIGURE 1-3 The Line Manager's Role

Allison is a line manager at Spaniel Corp. Using the methods and procedures devised by Bob, the HR director, Allison does the following:

- Interviews job applicants. For an open photography position, she interviews eight applicants and selects Claire.
- Provides orientation, coaching, and on-the-job training. Allison introduces Claire to Spaniel's policies, and Claire is trained in the darkrooms.
- Provides and communicates job performance ratings. After six months, Allison tells Claire that her work review is positive.
- Recommends salary increases. Allison recommends that Claire get a 7 percent raise this year.
- Carries out disciplinary procedures. When Paul continually mishandles Claire's negatives, Allison warns him and puts a letter in his file.
- Investigates accidents. When Claire gets a chemical burn in the darkroom, Allison investigates and makes a report.
- Settles grievance issues. Allison settles a dispute between Claire and Paul over darkroom access and scheduling.



PROVIDING HR PROFESSIONALS WITH NEEDED INPUT The development of HRM procedures and methods often requires input from line managers. For example, when conducting a job analysis, HR professionals often seek job information from managers and ask managers to review the final written product. When HR professionals determine an organization's training needs, managers often suggest what types of training are needed and who, in particular, needs the training.

1-3 Gaining a Competitive Advantage

competitive advantage A status achieved by a company when gaining a superior marketplace position relative to its competition.

Firms can gain a **competitive advantage** over competitors by effectively managing their human resources. Throughout this text, we discuss how each HRM practice can help a firm gain such an advantage. In this section, we introduce the notion of competitive advantage and then discuss how firms can achieve and sustain it through effective HRM practices.

1-3a Competitive Advantage Defined

To succeed, an organization must gain and maintain an edge over its competitors—that is, a firm must develop a competitive advantage or superior marketplace position relative to its competition.[5] Firms can accomplish this aim in one of two ways: through cost leadership or product differentiation.[6]

cost leadership strategy A strategy in which a company gains a competitive advantage by providing the same services or products as its competitors, but produces them at a lower cost.

1-3b Cost Leadership

Under a **cost leadership strategy**, a firm provides the same services or products as its competitors, but produces them at a lower cost. By doing so, the organization earns a better return on its investment in capital and human resources.[7] For example, Restaurants A and B sell the same number of hamburgers at the same price. Restaurant A can gain a competitive advantage over B (i.e., get a better return on its investment) if it is able to reduce its per unit cost, that is, produce each hamburger at a lower cost.

A per unit cost is the cost of producing one unit of product or service. It can be reduced by increasing the number of units produced relative to the total cost of producing them. A firm can reduce its per unit cost by increasing the value of the following ratio:

Number of units produced/Total cost of production

Increasing the numerator or decreasing the denominator can increase the value of this ratio. For instance, let's say that a manufacturer of buttons can produce 1,000 buttons at a cost of $100. The cost of producing one button is thus $.10. One way of lowering per unit costs would be to increase the numerator (i.e., produce more buttons) without increasing the overall cost. For example, the firm could lower its per unit cost to $.05 by producing 2,000 buttons at a cost of $100. Another way of lowering per unit costs would be to decrease the denominator (i.e., lower total production costs) without decreasing the number of units produced. For example, a per unit cost of $.05 could be achieved by producing 1,000 buttons at a cost of $50.

The key question is "How could a firm accomplish this aim?" There are a number of possible ways. For instance, using new technology or devising more efficient work methods could increase productivity. Cutting overhead costs could decrease production costs.

1-3c Product Differentiation

Product differentiation occurs when a firm produces a product or service that is preferred by buyers. A firm can accomplish this aim by:[8]

product differentiation Gaining competitive advantage by producing a product or service that buyers prefer.

- Creating a better quality product or service than its competitors
- Providing innovative products or services that are not offered by its competitors
- Choosing a superior location—one that is more accessible to its customers
- Promoting and packaging its product to create the perception of higher quality

Product differentiation creates a competitive advantage if the firm's customers are willing to pay enough to cover any extra production costs.[9] For example, Restaurant A devises a way to make a better tasting hamburger by putting an extra ingredient into the recipe. This restaurant would gain a competitive advantage if sales increased as the result of this move and the additional revenues generated more than offset the additional costs of producing the better tasting hamburger.

On the Road to Competitive Advantage 1-1 provides an illustration of how one organization, Trader Joe's, has achieved a competitive advantage by using cost leadership and product differentiation strategies. A specialty grocer offering a varied assortment of bargain gourmet-style foods, wines, and health food supplements, Trader Joe's has achieved enormous success by offering unique products at relatively low prices.

On the Road to Competitive Advantage 1-1

Gaining Competitive Advantage at Trader Joe's

Trader Joe's started out about 55 years ago as a specialty grocery store located in Southern California. From humble beginnings, it has grown into a $3-billion-a-year national chain with 217 stores, adding 8 to 25 stores per year. Sales at most stores average about $15 million per year, or $1,500 per square foot. Its closest competitor, Whole Foods, generates about $750 per square foot, half the Trader's Joe's rate. Here's how Trader Joe's has done it:

Trader Joe's management team focuses on making money by saving money (cost leadership). They use private labels instead of name brands for nearly every product in the store; they deal directly with producers to cut out the middleman; they keep their stores small, renting cheap real estate in existing neighborhood shopping centers. Trader Joe's success is also due to product differentiation; it differentiates itself from competitors by constantly changing its stock as its buyers travel the world looking for new and interesting products that can be packaged and sold profitably at a relatively low price.

Source: Speizer, I. (2004). Shopper's special. *Workforce Management*, September, 51–54.

1-4 Competitive Advantage and HRM

The HRM practices of an organization can be an important source of competitive advantage. As we shall see, effective HRM practices can enhance a firm's competitive advantage by creating both cost leadership and product differentiation. In the following paragraphs, we document this assertion with evidence derived from research and expert opinion. We then provide a model that attempts to explain why HRM practices can have such a dramatic impact on competitive advantage.

1-4a Evidence Linking HRM Practices to Competitive Advantage

A growing body of research-based evidence indicates that a firm's HRM practices can have a rather strong impact on competitive advantage. A growing number of studies have been published that link specific HR practices to profits. As noted by Shari Caudron, "Not only are executives beginning to understand that the human resource is the most valuable resource they have, but there's also proof available now to show that investment in human resources does pay off."[10] Studies linking specific HRM practices to competitive advantage are noted throughout this text. Here we report the results of three studies that examined the impact of the entire set of HRM practices used by various companies.

One study examined the HRM practices and productivity levels of 968 firms across 35 industries.[11] The effectiveness of each company's set of HRM practices was rated based on the presence of such things as incentive plans, employee grievance systems, formal performance appraisal systems, and worker participation in decision making. The study uncovered a strong link between HRM effectiveness and productivity: Specifically, companies with high HRM effectiveness ratings were five percent more productive than companies with average HRM ratings.

A similar study conducted among 293 publicly held U.S. firms yielded virtually the same results: Improving HRM practices from average to highly effective leads to a five percent productivity increase. The study went on

Taking a Closer Look **1-1**

Sixteen HRM Practices That Enhance Competitive Advantage

1. *Employment security:* A guarantee of employment stating that no employee will be laid off for lack of work; provides a signal to the employees of long-term commitment by the organization to the workforce. This practice generates employee loyalty, commitment, and a willingness to expend extra effort for the organization's benefit.
2. *Selectivity in recruiting:* Carefully selecting the right employees in the right way. On average, a highly qualified employee produces twice as much as a poorly qualified one. Moreover, by being selective in its recruitment practices, the organization sends the message to applicants that they are joining an elite organization that has high expectations regarding employee performance.
3. *High wages:* Wages that are higher than that required by the market (i.e., higher than that paid by competitors). High wages tend to attract better-qualified applicants, make turnover less likely, and send a message that the firm values its employees.
4. *Incentive pay:* Allowing employees who are responsible for enhanced levels of performance and profitability to share in the benefits. Employees consider such a practice to be fair and just. If all the gains generated from the employees' ingenuity and efforts go to top management, people will view the situation as unfair, become discouraged, and abandon their efforts.
5. *Employee ownership:* Giving the employees ownership interests in the organization by providing them with such things as shares of company stock and profit-sharing programs. Employee ownership, if properly implemented, can align the interests of employees with those of other shareholders. Such employees will likely take a long-term view of the organization, its strategy, and its investment policies.
6. *Information sharing:* Providing employees with information about operations, productivity, and profitability. Information sharing provides an informed basis for employees to appreciate how their own interests and those of the company are related, and thus provides them with the information they need in order to do what is required for success.
7. *Participation and empowerment:* Encouraging the decentralization of decision making and broader worker participation and empowerment in controlling their own work process. Organizations should move from a system of hierarchical control and coordination of activity to one in which lower-level employees are permitted to do things to enhance performance. Research has shown that participation

(continued)

increases both employee satisfaction and productivity.

8. *Teams and job redesign:* The use of interdisciplinary teams that coordinate and monitor their own work. Teams exert a powerful influence on individuals by setting norms regarding appropriate work quantity and quality. Positive results from group influences are more likely when there are rewards for group efforts, when groups have some autonomy and control over the work environment, and when groups are taken seriously by the organization.
9. *Training and skill development:* Providing workers with the skills necessary to do their jobs. Training not only ensures that employees and managers can perform their jobs competently, but it also demonstrates the firm's commitment to its employees.
10. *Cross-utilization and cross-training:* Train people to perform several different tasks. Having people do several jobs can make work more interesting and provide management with greater flexibility in scheduling work. For instance, it can replace an absent worker with one who has been trained to perform those duties.
11. *Symbolic egalitarianism:* Equality of treatment among employees established by such actions as eliminating executive dining rooms and reserved parking spaces. The reduction in the number of social categories tends to diminish the "us" versus "them" thinking and provides a sense of everyone working toward a common goal.
12. *Wage compression:* Reducing the size of the pay differences among employees. When tasks are somewhat interdependent and cooperation is needed to accomplish the work, pay compression can lead to productivity gains by reducing interpersonal competition and enhancing cooperation.
13. *Promotion from within:* Filling job vacancies by promoting employees from jobs at a lower organizational level. Promotion increases training and skill development, offers employees an incentive for doing well, and can provide a sense of fairness and justice in the workplace.
14. *Long-term perspective:* The organization must realize that achieving competitive advantage through the workforce takes time to accomplish, and thus a long-term perspective is needed. In the short run, laying off people is probably more profitable than trying to maintain employment security, and cutting training is a quick way to maintain short-term profits. But once achieved, competitive advantage brought about by the use of these HRM practices (i.e., employment security and training) is likely to be substantially more enduring.
15. *Measurement of practices:* Organizations should measure such things as employee attitudes, the success of various programs and initiatives, and employee performance levels. Measurement can guide behavior by indicating "what counts," and it can provide the company and its employees with feedback as to how well they are performing relative to measurement standards.
16. *Overarching philosophy:* Having an underlying management philosophy that connects the various individual practices into a coherent whole. The success of the separate practices listed in items 1 through 15 is somewhat dependent on having a system of values and beliefs about the basis of success and how to manage people. For instance, the overarching philosophy at Advanced Micro Devices is "continuous rapid improvement; empowerment; seamless organizational boundaries; high expectations; and technical excellence."

Source: Pfeffer, J. (1994). *Competitive Advantage through People*. Boston: Harvard Business School Press.

to find that the net gain in annual productivity brought about by effective HRM practices equates to $44,380 per employee.[12]

The third study, conducted by Chris Ryan and his associates, evaluated the impact of a broad range of HRM practices on shareholder return. They concluded that 15–30 percent of the total value of a company could be attributed to the quality of its HRM practices. Those having the greatest impact were: [13]

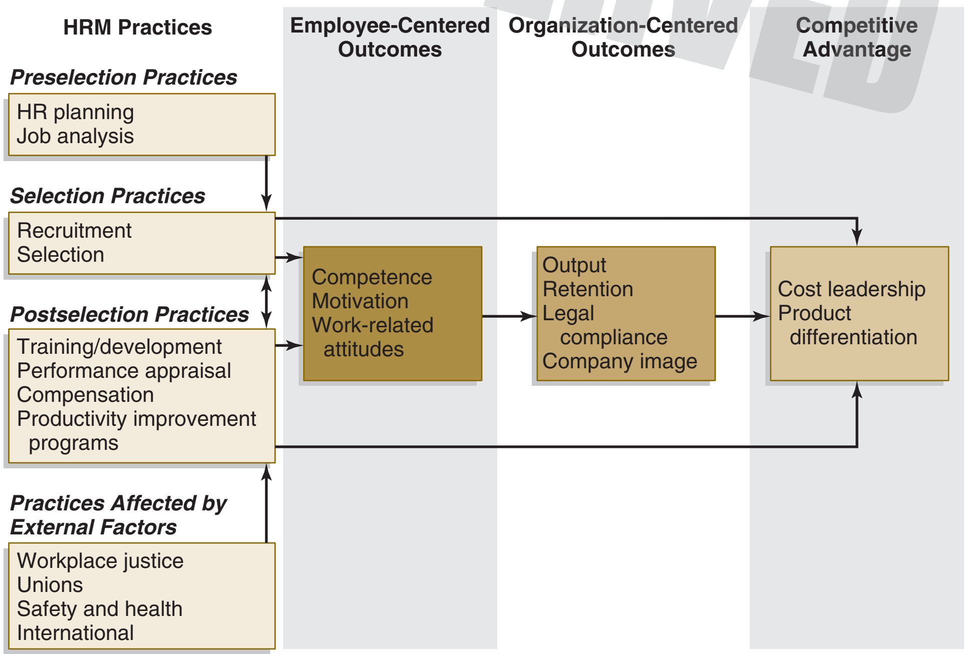
- Providing employees with effective orientation training
- Letting employees know what is expected of them
- Discharging employees that are chronically poor performers

Stanford professor Jeffrey Pfeffer describes the potential impact of HRM practices on competitive advantage.[14] Pfeffer identified 16 HRM practices that, in his opinion, can enhance a firm's competitive advantage. These practices are listed in Taking a Closer Look 1-1; most of them are described in greater detail throughout this text.

1-4b A Model Linking HRM Practices to Competitive Advantage

Although the evidence just presented shows that effective HRM practices can strongly enhance a firm's competitive advantage, it fails to indicate why these practices have such an influence. In the following sections, we describe a model that attempts to explain this phenomenon. The model is illustrated in Figure 1-4, where the arrows indicate two paths from HRM practices to competitive advantage: direct and indirect. By direct path, we mean that the way an HRM practice is carried out can, by itself, have an immediate impact on competitive advantage. By indirect path, we mean that an HRM practice can impact competitive advantage by causing certain outcomes, which, in turn, create competitive advantage. We now take a closer look at this model.

FIGURE 1-4 **A Model Linking HRM Practices to Competitive Advantage**



THE DIRECT IMPACT OF HRM PRACTICES ON COMPETITIVE ADVANTAGE In some instances, firms can achieve cost leadership through the use of effective HRM practices. HRM-related costs associated with recruitment, selection, training, compensation, and so forth comprise a significant portion of a firm's expenditures. These costs are especially high in service-related industries, where firms spend about 70 percent of their budgets on payroll costs alone. These HRM-related costs can vary significantly from competitor to competitor. Those doing the best job of containing them, therefore, stand to gain a financial advantage over their competitors.

Let's return to Restaurants A and B to illustrate how the containment of HRM costs can lower per unit cost. Assume that both restaurants produce 1,000 hamburgers per day at the same per unit cost. Restaurant A can gain a cost advantage over B if it can lower its HRM-related costs without decreasing its productivity. One way it could accomplish this aim would be to devise a less expensive means of recruitment. For instance, the restaurant may attempt to recruit new employees by asking its current employees to "spread the word" to their friends. This method of recruitment is certainly less expensive than the approach it had used in the past—placing a help-wanted ad in the local paper. If the applicants recruited by this method perform their jobs as well as those recruited through help-wanted ads, the restaurant will have lowered its costs without sacrificing productivity.

THE INDIRECT IMPACT OF HRM PRACTICES ON COMPETITIVE ADVANTAGE A firm's HRM practices can also impact competitive advantage in an indirect way. As the model illustrates, this path involves the following links:

HRM practices → Employee-centered outcomes
Employee-centered outcomes → Organization-centered outcomes
Organization-centered outcomes → Competitive advantage

We now examine each of these links. Specific examples illustrating each of them are given in Taking a Closer Look 1-2.

HRM Practices → Employee-Centered Outcomes

We first examine the nature of employee-centered outcomes and then describe how effective HRM practices can lead to them.

Employee-centered outcomes refer to the competence, motivation, and work-related attitudes of a firm's employees, as defined in the following list:

- *Competence:* The extent to which employees possess the knowledge, skills, and abilities that their jobs require.
- *Motivation:* The extent to which employees are willing to exert the necessary effort to perform their jobs well.
- *Work-related attitudes:* The extent to which employees are satisfied with their jobs, committed to their organizations, and act as good organizational citizens.

job satisfaction The favorableness of employee attitudes toward their jobs.

Let's take a closer look at the work-related attitudes. **Job satisfaction** concerns the favorableness of employee attitudes toward their jobs. Employees

Taking a Closer Look **1-2**

Examples of HRM Practices → Competitive Advantage Linkages

HRM Practices → Employee-Centered Outcomes

- Because the firm's performance appraisal practices are too subjective and require no documentation, supervisors can give their "favorites" an unduly high evaluation and "non-favorites" an unduly low one (**Poor HRM performance appraisal practice**). A highly competent, but non-favored employee loses a promotion because of an unfairly low rating, and thus becomes quite dissatisfied with his job (**Unsuccessful Employee-centered outcome: job dissatisfaction**).
- When the math department at a university screens applicants for the job of professor, it requires them to conduct a sample class, with faculty serving as "students." It then hires only those candidates who have demonstrated the ability to clearly explain abstract mathematical concepts (**Effective HRM selection practice**). Because of this selection process, all those hired have excelled in the classroom (**Successful Employee-centered outcome: competence**).
- A firm uses an incentive system that rewards employees based on the quality and quantity of their output (**Effective HRM productivity improvement practice**). The employees consequently work long and hard each day in order to maximize their pay (**Successful Employee-centered outcome: motivation**).

Employee-Centered Outcomes → Organization-Centered Outcomes

- Because its agents are so knowledgeable and persuasive (**Successful Employee-centered outcome: competence**), a long-distance telephone service increased its customer base by 20 percent during the past year (**Successful Organization-centered outcome: output**).
- Mary Smith, the firm's best manager, is highly committed to her current employer (**Successful Employee-centered outcome: commitment**) and thus refuses a job offer from a competitor (**Successful Organization-centered outcome: retention**).

Organization-Centered Outcomes → Cost Leadership and Product Differentiation

- A sizable number of its customers do business with a bank because they like dealing with Betty Smith, the bank's manager for the past five years. These customers believe this bank is the best one in town because Betty provides them with such outstanding service. Fortunately, because Betty loves her work and is committed to the bank, she has no intention of ever quitting (**Successful Organization-centered outcome: retention**). Thus, the bank is spared the cost of replacing Betty and the loss of business that would ensue by replacing her with someone less able to provide high quality service (**Gaining competitive advantage through cost reduction and product differentiation**).

are likely to be satisfied with their jobs when they (1) enjoy their work, (2) have a realistic opportunity to advance within the company, (3) like the people they deal with, (4) like and respect their supervisors, and (5) believe their pay is fair.

Organizational commitment refers to "the psychological attachment to, identification with, and involvement in the organization.[15] Employees who are committed to their organizations are very loyal toward them. Such individuals stick with their company through "thick and thin."

organizational commitment The relative strength of an individual's identification and involvement in a particular organization.

organizational citizenship The willingness of employees to engage in behaviors that help the organization to achieve its goals.

Organizational citizenship refers to the willingness of employees to engage in behaviors that help the organization achieve its goals. Such behaviors include: [16]

- *Conscientiousness:* Performing tasks well beyond the minimum required levels.
- *Altruism:* Giving help to others.
- *Civic virtue:* Participating in the political life of the organization.
- *Sportsmanship:* Doing things with a positive attitude; not complaining.
- *Courtesy:* Treating others with respect.

In essence, good organizational citizens go out of their way to help coworkers with job-related activities. They also accept orders willingly, tolerate temporary impositions without fussing, and make sacrifices for the good of the company, such as being willing to work overtime when necessary.[17] Although these work behaviors contribute to an organization's goals, they are not usually specified in workers' job descriptions. Employees engage in these behaviors because they want to do so. They want to because the company has treated them well; that is, the company's HRM practices are effective.

Poor HRM practices can harm employee-centered outcomes by creating negative attitudes and destructive behaviors, such as low organizational commitment, distrust in management, job dissatisfaction, absenteeism, psychological stress, aggressive behavior, theft, and turnover.[18] Effective HRM practices, on the other hand, can lead to the opposite results. For instance, good selection practices can help identify applicants who are competent, motivated, and have good work attitudes. An effective training program can teach workers ways to improve their job performance, thus increasing their competence. It has also been found to increase workers' job satisfaction and organizational commitment.[19] Training can also teach managers how to better motivate their employees and to treat them in a way that will improve their job satisfaction. An effective productivity improvement program can motivate workers to try harder to help the company meet its goals.

Employee-Centered Outcomes → Organization-Centered Outcomes

As illustrated in the HRM-Competitive Advantage Model, effective HRM practices can enhance competitive advantage when the employee-centered outcomes they produce lead to certain organization-centered outcomes. We first examine these organization-centered outcomes and then examine how they are affected by employee-centered outcomes.

Organization-centered outcomes consist of output, employee retention, legal compliance, and company reputation or image. Output refers to the quantity, quality, and innovativeness of the product or service offered by a firm. Retention rates reflect the amount of employee turnover a firm experiences. Legal compliance concerns the issue of whether the firm's HRM practices conform to the requirements imposed by the various employment laws. Company reputation concerns how favorably "outsiders"—potential applicants and customers—view the organization.

Let's now discuss how the achievement of employee-centered outcomes can lead to favorable organization-centered outcomes. When employee-centered outcomes are favorable, employees have a positive job attitude and are both competent and motivated. Such people are usually very productive (with regard to both quality and quantity of work) because they have both the ability and the desire to perform well.

The results of a study conducted by Sears at 800 different stores illustrate the powerful impact that positive employee attitudes can have on service quality and, hence, customer satisfaction. When Sears improved its HRM practices, employee satisfaction rose. This rise led to a corresponding rise in customer satisfaction. Specifically, the study found that a five percent increase in employee satisfaction led to a 1.3 percent increase in customer satisfaction. The increase in customer satisfaction led to a 1/2 percent increase in total revenues for the chain.[20]

Satisfied employees are also less likely to quit. One study, for instance, found that workers' intentions to stay with their organizations are heavily dependent on their levels of organizational commitment and job satisfaction.[21] Another study, which surveyed 8,000 workers in 35 industries, found that the most important factors driving employee retention are such things as: [22]

- Career growth and learning opportunities
- Fair pay
- Company pride/organizational commitment
- Employee empowerment

In a similar vein, researcher Rosemary Batt found retention rates were higher for companies using "high involvement" HR systems. Such systems give employees the discretion to use their skills as they see fit and provide financial incentives to enhance employee motivation and commitment.[23]

Organization-centered outcomes can also be enhanced by employees' organizational citizenship behaviors. Specifically, a recent study found that when experienced employees demonstrated organizational citizenship by helping less experienced ones solve work-related problems and taught them the "tricks of the trade," the quality/quantity of the recipient's performance improved. This behavior also increased group cohesiveness, making the company a better place to work, and thus reduced turnover.[24]

Organizational citizenship behaviors can also enhance customer satisfaction. As noted by management expert Daniel Koys, employees exhibiting positive citizenship behaviors will exceed customer expectations, make suggestions aimed at improving quality and customer satisfaction, and create a positive climate among employees that spills over to customers.[25]

The occurrence of employee-centered outcomes can also improve organizational outcomes by reducing the likelihood of an HRM-related lawsuit. As we will note throughout this book, employers can generally comply with employment laws by instituting fair HRM practices. However, employees are more likely to legally challenge an HRM practice, even if fair, if they are dissatisfied with their jobs or lack organizational commitment. Once an employee's work attitude has soured, he or she is likely to perceive these practices as being unfair. For example, when a dissatisfied employee is rejected for a promotion, that individual is likely to cry "foul" even if the promotion decision was a just one. Unfortunately, employers sometimes lose such suits because they have not properly documented their decisions and thus cannot convince a court that they acted properly. On the other hand, employees who are satisfied and loyal are less likely to challenge the legality of their firm's HRM practices.

The achievement of employee-centered outcomes can also affect the image or reputation of a company. Employees who are satisfied and committed to their jobs are likely to "spread the word" that their company is a good place to work. Moreover, when employees are competent and deal with customers in a helpful and friendly manner, the customers will view the company in a favorable light.

Organization-Centered Outcomes → Competitive Advantage

When organization-centered outcomes are favorable, competitive advantage is usually achieved. We first examine the impact of these outcomes on cost leadership and then on product differentiation.

As noted earlier, cost leadership can be achieved by increasing the size of the ratio:

Number of units produced/Total cost of production

When firms can increase their quantity of output through effective HRM practices, their per unit costs are lowered. For example, let's say that, in a given year, a production worker earned $20,000 while producing 1,000 units. The labor cost would thus be $20 ($20,000/1,000) per unit. If the firm can motivate this worker to increase his or her productivity to 1,500 units, the per unit cost of production would be reduced from $20 to $13.33 ($20,000/1,500).

One of the most common ways of cutting HRM costs is to employ technology to replace some of the more expensive HR professional-delivered services. For instance, rather than conducting classroom-training sessions, companies are using e-learning to deliver programs. Expensive employee handbooks are now being put online. Baxter International, an Illinois firm, for example, slashed annual printing costs by $1.5 million by using a PC-based system to give employees online access to personnel information.[26]

The ability to minimize turnover rates can also enhance cost leadership by preventing unnecessary costs. When turnover occurs, not only does the organization lose a possibly productive member, but it must also face the costs of replacing this individual. Replacement costs include recruiting, selecting, and training new employees, and they can be quite high, typically ranging from $3,300 to $6,300.[27] In some cases, they can be much higher. For instance, it cost one company $418,000 to replace a single executive.[28]

Firms that do a good job of retaining employees can often reap an additional benefit—better customer retention. Customers prefer doing business with firms that have a stable workforce. This notion was confirmed in a study of 17 insurance companies that compared the customer retention rates of companies with low and high employee turnover. Firms with low turnover retained 10 percent more of their customers, a difference that has a financial value of $300 million for a typical insurance company![29]

The positive impact of reducing turnover is greatest under the following conditions[30]

- Turnover costs are high.
- Employees leaving the organization are high performers.
- Quality replacements are difficult to find.

Cost leadership can also be enhanced when an organization is able to avoid lawsuits resulting from noncompliance. Litigation costs can be enormous. These costs include attorney's fees, court costs, expert witness retainers, and the time spent by managers and support personnel to attend depositions and court hearings and to probe company records for documentation that supports company actions.[31] Of course, if the company loses the case, the settlement can be very expensive, costing as much as several million dollars. In a recent six month period, 62 companies were forced to pay settlements exceeding $2 million in discrimination cases. Among them were Texaco ($176 million), Mitsubishi ($34 million), Coca-Cola ($192.5 million), and Voice of America ($508 million).[32]

The presence of organization-centered outcomes brought about through effective HRM practices can also serve to enhance competitive advantage through product differentiation. As noted previously, two ways of establishing product differentiation are to produce quality products or services that are superior to those offered by one's competitors or to produce products or services that are not offered by competitors.

The quality or uniqueness of a product or service depends on the actions of the people who produce it. To produce a quality service or product, individuals working for a company must perform their jobs well. The "secret" to Trader Joe's success that was cited in On the Road to Competitive Advantage 1-1 was its employees. The employees are the front line, the first customer contact. They are the soul of Trader Joe's that sets it apart from the competition, serving as a powerful marketing tool. Probably the most important thing that employees do is to create a very engaging experience for the customers. The upbeat and informal interactions they have with customers demonstrates how much they enjoy being at the stores, which, in turn, makes the customers enjoy being there. The bottom line is that cheerful and helpful clerks know how to move groceries![33] On the Road to Competitive Advantage 1-2 describes the HRM practices that Trader Joe's employs to create such a workforce.

When a company produces a better product or service, customers are satisfied and business improves. As noted by management expert Patrick Kiger, a company with strong customer satisfaction can prosper even when faced with a tough economy or an unforeseen disaster.[34] Southwest Airlines, for example, consistently ranks first among airlines in customer satisfaction. Following the September 11, 2001, terrorist attacks, which nearly bankrupted many airline companies, Southwest actually posted a profit in the last quarter of 2001.

On the other hand, low customer satisfaction can be devastating. Kmart, the once mighty retailer, was forced to file for bankruptcy because it could not compete with customer-friendly Wal-Mart. McDonald's lost $750 million in a recent year because of customer dissatisfaction.[35]

Competitive advantage can also be enhanced when a company improves its image. Image affects competitive advantage by influencing customers' confidence in a company's products and services and thus affects their inclination to purchase from that company.[36]

1-4c HRM Practices and Sustained Competitive Advantage

It is one thing to create a competitive advantage, but another to sustain it over a prolonged period of time. Many of the strategies used to gain a competitive advantage are difficult to sustain because they can be easily imitated.

On the Road to Competitive Advantage 1-2

The Trader Joe's Case Revisited

The creation of a helpful and cheerful workforce begins with the hiring process. Trader Joe's seeks people who are ambitious and possess qualities that might apply equally to a cruise ship crew: out-going, engaging, upbeat, fun-loving, and adventurous. Applicants are immediately eliminated from consideration if they do not smile in the first 30 seconds of the interview.

Trader Joe's also strives to hire employees who understand and appreciate the company's products. Applicants for full-time positions must be Trader Joe's shoppers and be able to describe their favorite Trader Joe's products. Management imposes this requirement because it believes that the best sales associates are those who like the store and its products. The store keeps its employees' knowledge of its ever-changing stock up-to-date by offering them weekly tastings to sample the latest goods.

Trader Joe's uses performance appraisals to keep employees motivated. The store managers rate their employees' job performances every three months. To earn raises, employees must score well on such indicators as being friendly, creating a shopping experience that is fun for customers, providing customers with assistance in a helpful and friendly manner, and promoting high morale within the store.

To ensure that the store attracts and retains the best employees, Trader Joe's offers a very generous compensation package. Full-time employees earn \$16/hour, which is well above the industry average of \$12. They also earn an average annual bonus of \$950 and are provided with \$6,300 in retirement plan contributions. Assistant managers earn \$94,000 per year; managers, \$132,000.

For instance, Supermarket A can create a competitive advantage by offering special sales. However, if this policy is successful, competitors are likely to imitate it; the initial advantage is thus quickly lost. As management expert Larry Myler notes:[37]

> *In today's business environment, traditional sources of competitive advantage . . . no longer offer the same advantage as they once did. Today, these strategies . . . have become prerequisites to simply remaining competitive . . . . Employers . . . must now look instead to their employees for sustainable competitive advantage.*

Because the management of human resources is less susceptible to imitation, the competitive advantage achieved through HRM practices is likely to be more sustainable than that achieved by other means. Jeffrey Pfeffer explains why this is so:[38]

1. Competitors rarely have access to a firm's HRM practices; that is, these practices are not very visible to outsiders and, thus, cannot be easily imitated.
2. Even when these practices are visible, their impact may not be as favorable when used by competitors. HRM practices represent an interrelated system. One particular HRM practice may be successful only when used in combination with other HRM practices.

These points are well illustrated by the unique success experienced by Trader Joe's. Its competitors can rather easily imitate their non-HRM initiatives, such as using private labels, cutting out the middleman, and finding inexpensive real estate. It would be more difficult for them to imitate their HRM practices, many of which are not known to the public. Moreover, these competitors would not be able to gain the type of competitive advantage enjoyed by Trader Joe's by simply imitating one of its HRM practices. For instance, matching Trader Joe's compensation rates would not enhance competitive advantage unless this action was taken in conjunction with Trader Joe's selection, appraisal, and training practices.

Chapter Objectives Revisited

1. Understand the nature of a firm's human resource management practices.
   - HRM preselection practices: HR planning and job analysis
   - HRM selection practices: Recruitment and selection
   - HRM postselection practices: Training, performance appraisal, compensation, and productivity improvement programs
   - HRM practices impacted by external factors: These factors include legal and environmental issues, workplace justice laws, union influences, safety and health concerns, and international influences.
2. Understand the roles played by line managers and human resource professionals in the human resource management process.
   - HR professionals: Establish HRM procedures and methods, monitor/evaluate HRM practices, and advise/assist managers on HRM-related matters.
   - Line managers: Implement HRM practices and provide input to HR professionals.
3. Understand what competitive advantage is and how companies can achieve it.
   - A firm gains a competitive advantage when it develops a superior marketplace position relative to its competition.
   - It is achieved through cost leadership (lowering production costs relative to output) and product differentiation (providing a service or product that is preferred by buyers).
4. Understand how a firm's human resource management practices can help it gain a competitive advantage.
   - Directly, by increasing the ratio of the number of units produced to the total cost of production
   - Indirectly, by causing employee-centered outcomes that trigger organization-centered outcomes, which, in turn, create a competitive advantage
5. Understand why competitive advantage gained from human resource management practices is likely to be sustained over time.
   - HRM practices are not visible to competitors.
   - Even when visible, the impact of an HRM practice may not be as favorable when used in a different organizational setting.

Review Questions

1. The human resource management function
   a. is concerned with ensuring that a firm's human resources have the land, capital, and equipment needed to perform their jobs effectively.
   b. helps an organization deal effectively with its people during the various phases of the employment cycle—preselection, selection, and postselection.
   c. is necessary only in those organizations where labor-management relations are strained.
   d. is irrelevant in an age of rapidly changing work processes.

2. Human resource planning has as its primary goal
   a. gathering, analyzing, and documenting information about jobs.
   b. locating and attracting job applicants.
   c. helping managers anticipate and meet the changing need for human resources.
   d. measuring the adequacy of an employee's job performance.

3. Unions are most likely to influence company policies regarding
   a. human resource planning, job analysis, and recruitment.
   b. discipline, promotions, and grievances.
   c. international human resource management.
   d. strategic planning and resource allocation.

4. Which statement best describes the relationship between line management and HR professionals?
   a. HR professionals focus more on developing human resource programs; line managers are more involved in implementing those programs.
   b. HR professionals are solely responsible for evaluating programs designed to manage human resources.
   c. Line management requires the services of the HR professional only infrequently.
   d. Line management focuses more on developing human resource programs; the HR professional is more involved in implementing programs.

5. A competitive advantage is defined in the text as
   a. a demonstrated willingness to take on all competitors in the marketplace.
   b. hiring a workforce that has a high need for achievement.
   c. achieving a superior marketplace position relative to one's competition.
   d. organizational self-confidence.

6. Product differentiation can offer a firm a competitive advantage because
   a. it allows a firm to offer a unique product not being offered by competitors.
   b. it can reduce a product's cost per unit.
   c. it reduces a firm's dependence on one supplier for raw materials.
   d. imitating a competitor's strategy is the surest way to be competitive.

7. The use of HRM practices can promote a sustained competitive advantage because
   a. being the first to institute an innovative HR practice discourages a firm's competition.

b. HR practices cannot be imitated.
c. people are a firm's most valuable resource.
d. the organizational environment in which innovative HR practices are implemented can rarely be duplicated.

8. Organizational citizenship concerns
   a. an employee's willingness to engage in work behaviors that are not usually specified in a job description.
   b. the relative strength of an employee's identification with and involvement in a particular organization.
   c. the favorableness of an employee's attitude toward his or her job.
   d. the tendency of an organization to be involved in the civic affairs of the community in which it resides.

9. Which of the following pairs of HRM practices is most likely to influence employee motivation?
   a. job analysis and HR planning
   b. selection and productivity improvement programs
   c. training and safety and health programs
   d. Motivation is one of the few variables that cannot be improved using HR practices.

10. An employee is overheard saying "I think the company is doing the right thing by introducing this new product line. I hope I get the chance to work on it." This statement most likely reflects the employee's
    a. organizational commitment.
    b. organizational citizenship.
    c. job satisfaction.
    d. self-efficacy.

Discussion Questions

1. Define human resource management.
2. Why are HR planning and job analysis considered preselection HRM practices?
3. What are the external factors that affect the practice of HRM? Choose one external factor and explain how it affects HRM practices.
4. Describe the roles played by a firm's HR professionals with respect to HRM.
5. What is the line manager's role in the area of HRM?
6. Define the following terms: competitive advantage, cost leadership, and product differentiation. Describe how cost leadership and product differentiation can create a competitive advantage.
7. Describe how effective HRM practices can ensure a competent workforce.
8. Choose two organization-centered outcomes included in the model and show how each is influenced by employee-centered outcomes.
9. The chapter states that the impact of HRM practices on competitive advantage is likely to be sustained. Explain.

Experiential Exercises

Do These Practices Enhance Competitive Advantage?

Overview

The class will evaluate the 16 HRM practices suggested by Pfeffer in the context of the model linking HRM practices to competitive advantage.

Steps

1. Divide the class into small groups.
2. Your instructor will assign one or more of the 16 HRM practices to each group.
3. Groups should prepare themselves to discuss the following issues:
   (a) What impact do you think this practice would have on competitive advantage?
   (b) Using the HRM-Competitive Advantage Model, explain how the HRM practice would affect the various components of the model (e.g., competence, motivation, etc.).

What HRM Practices Contribute to Competitive Advantage?

Overview

The class will be asked to discuss their own experiences as customers in order to gain an appreciation of how HRM practices can create or hinder product differentiation.

Steps

1. Choose an organization (e.g., restaurant, department store, auto repair) with which you have done business. Pick one that you either liked very much or disliked very much.
2. When called upon, give the name and type of organization and explain why you liked or disliked it.
3. In your estimation, how could the firm's HRM practices have contributed to the positive or negative experience that you had? For example, if you chose a restaurant because of its friendly and efficient service, describe the possible role played by the restaurant's HRM practices in producing this service (e.g., good selection and training of servers; effective performance appraisal system; effective productivity improvement program).

The Manager's HRM Role

Overview

Each class member will interview a manager about one of his or her HRM experiences in order to gain a better understanding of the manager's HRM role.

Steps

1. Interview a person holding a management position. Questions should focus on one specific incident dealing with the process the manager followed when performing one of the following tasks:

a. Dealing with a specific discrimination complaint filed by (or threatened to be filed by) an employee
b. Filling a specific position opening in the department/unit
c. Orienting/training/mentoring a newly hired employee
d. Evaluating the job performance of an employee and giving that employee feedback
e. Disciplining and/or discharging an employee for misbehavior
f. Dealing with a safety violation
g. Dealing with an employee grievance in a union environment

2. Ask the manager to describe the situation (e.g., if performance appraisal were the topic, the manager should briefly describe the appraisal system used by the company and give some background about the particular employee being evaluated).
3. Ask these specific questions during the interview:
   a. What major challenges did you face in this situation?
      Example: "The person being evaluated had very good technical skills, but poor interpersonal skills. I had to decide how low to rate him on the latter skills and find some nonthreatening way to make him aware of this weakness and help him overcome it."
   b. How did you handle the situation?
   c. What were the positive and/or negative consequences of your actions?
   d. In retrospect, would you handle the situation differently if you had to do it over again? If yes, how? If no, why not?
4. Summarize the manager's answers in an oral presentation. At the conclusion of your presentation, state your opinion about how well the manager handled the incident.
   a. If handled well, describe how competitive advantage was enhanced.
   b. If handled poorly, describe how competitive advantage was hindered.

Improving HR Practices

Overview

The employee morale and motivation at the the ABC Golf and Country Club had reached an all-time low. Consequently, the Club was experiencing poor job performance and high turnover rates. ABC hired a consulting team to interview the employees in an effort to determine the cause of these problems. The interviews yielded the following information:

- Management requires the servers at the restaurant to pool their tips. At a shift's conclusion, the tips are allotted equally among all servers. Prior to distributing the money, management takes a percentage for itself "off the top." That percentage has increased in each of the past three years without warning or explanation. As a result, the servers at the restaurant felt they were undercompensated.
- Employee health insurance is extraordinarily expensive, so most employees opt out of it and thus have no coverage for themselves or their family members.
- The pay rate for each job does not vary by tenure. That is, new employees are paid at the same rate as more experienced ones.
- No performance appraisals are given to employees.

- New wait staff members are given insufficient training on using the computer, resulting in frequent billing errors.
- Poor training, plus an unexpectedly low first pay checks have caused a high turnover among new employees.
- Female wait staff members are often sexually harassed by club members. Management has done nothing to prevent or correct this problem.
- There is no opportunity for promotion, as all higher level positions are filled by external candidates.
- Employee suggestions are ignored. For instance, an interviewee noted that he made the suggestion to install steps along a steep incline from the clubhouse to parking lot. Management ignored this suggestion despite it merits.

Assignment

Divide into teams of 4–5 students. Pretend that you are the consulting team that conducted these interviews. Construct a list of suggesting for improving its HR practices in order to resolve these problems.

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