

## **Chapter 2**

### **Making Human Resource Management Strategic**

#### **Chapter 2 Learning Objectives**

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

#### **Chapter 2 Outline**

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##### **2.1 How Can a Strategic Approach to HR Improve an Organization? (pages 40-42)**

- **Research suggests that a major key for long-term profitability is a clear strategy for being better than competitors.**
- **Profitability is also the result of a highly effective workforce that carries out that strategy.**

##### **2.2 How Is Strategy Formulated? (pages 42-48)**

- **Strategy is coordinated choices and actions that provide direction for people and organizations. The two types of strategy must work together to ensure high organizational effectiveness.**
  - ✓ **Competitive business strategy focuses on choices and actions about how to serve the needs of customers.**
  - ✓ **HR strategy focuses on choices and actions concerning management of people within the organization.**
- **One way of understanding similarities and differences in these two forms of strategy is to examine the common elements of strategy formulation: gathering information and analyzing it so decisions can be made.**
- **Gathering Information (pages 43-46)**
  - ✓ **Assessing the External Environment (i.e., physical and social factors outside of an organization's boundaries categorized as Opportunities/favorable conditions and Threats/unfavorable conditions).**
    - **Demographic and cultural trends include population growth, age distribution of population, percentage of women in workforce, and changes in sizes of ethnic groups**
    - **Economic environment includes interest rates and new job creation.**
    - **Political environment includes laws and the positions of elected officials, as well as legal changes related to international trade.**
    - **Technological change involves trends such as improving manufacturing technologies and increased availability of information.**

- **Effective strategy formulation begins with information about threats and opportunities outside the organization.**
- ✓ **Assessing Internal Capabilities** (i.e., organization's internal resources and capabilities categorized as strengths/areas of high capability and weaknesses/areas of low capability).
  - **Most strengths and weaknesses can be thought of in terms of the resources that an organization has. Some are tangible, such as money and equipment; others are intangible, such as reputation. From a resource-based view of organizations, resources—including human resources—are true strengths when they are both valuable and rare.**
  - **Gathering information about HR capabilities is therefore a vital part of an effective assessment of organizational strengths and weaknesses.**
- **Analyzing Information and Making Decisions (pages 46-48)**
  - ✓ **Step 1: Build collective intuition occurs when a group of people meet together often to discuss the information that has been gathered.**
  - ✓ **Step 2: Stimulate conflict occurs when different opinions are considered.**
  - ✓ **Step 3: Maintain appropriate pace refers to keeping decisions as part of a flexible timeline.**
  - ✓ **Step 4: Diffuse politics occurs when a group begins with a common goal and no one person dominates the discussion.**

### **CONCEPT CHECK**

1. **What are the three steps in the strategy formulation process?** *Gather information, analyze information and make decision, and implement the decision.*
2. **What are some components of an organization's external environment?** *Features of the environment might include the number of businesses hiring people in your field, the number of other new graduates looking for similar jobs, and the geographic location of potential employers. Demographic and cultural trends include population growth, the age distribution of the population, the percentage of women in the workforce, and changes in the relative sizes of ethnic groups. The economic environment includes interest rates and new job creation, whereas the political environment includes laws and the positions of elected officials. Among the potential threats and opportunities in these areas are legal changes related to international trade and changes in inflation and interest rates. An especially important aspect of current organizational environments is technological change. Trends such as improving manufacturing technologies and increased availability of information create opportunities for some organizations and threats for others.*
3. **Why does HRM represent an important potential strength for organizations?** *The ability to attract and keep high-quality employees represents a strength for the organization only when high-quality employees are hard to find. Human resource management is critical because high-quality employees are relatively rare. Effective ways to attract and keep employees do, in fact, represent sources of internal strength that can give an organization a competitive advantage. Human resource practices also must provide something that is difficult to imitate and for which there is no substitute.*

**4. What four steps are necessary for effective decision making?** *Build collective intuition, stimulate conflict, maintain an appropriate pace, and diffuse politics.*

### **2.3 What Are Common Competitive Business Strategies? (pages 48-52)**

- **Competitive business strategies involve four types:**
  - ✓ **Corporate-level strategy** concerns the different businesses and diversity of products and services that an organization produces.
  - ✓ **Business-level strategy** concerns how an organization, or part of an organization, will compete with other organizations that produce similar goods or services.
  - ✓ **Cost leadership strategy** seeks to produce goods and services inexpensively. The key to the cost-leadership strategy is in controlling expenses.
  - ✓ **Differentiation strategy** seeks to produce goods and services that are somehow superior to the goods and services provided by competitors; their goal is to create unique value for which customers are willing to pay a higher price. The key to the differentiation strategy is to create value that is perceived as high enough to warrant a higher price.
  - ✓ **Combination strategy**
    - **Organization can pursue both cost leadership and differentiation but can create cost structure that does not allow them to produce goods and services at lowest cost.**
    - **Most organizations must choose one or the other approach and make strategic decisions accordingly.**
      - **Primary cost leadership strategy should seek to differentiate only as long as doing so does not harm its ability to be the lowest-cost producer.**
      - **Primary differentiation strategy should seek to reduce costs wherever possible.**

#### **CONCEPT CHECK**

- 1. What are the basic characteristics of the cost leadership strategy?** *Goal is to become highly efficient, which will allow organization to create value by producing goods and services at lower cost.*
- 2. What are the main features of the differentiation strategy?** *Seek to produce goods and services that are somehow superior to the goods and services provided by competitors; their goal is to create unique value for which customers are willing to pay a higher price.*

### **2.4 What Are Basic Approaches to HR Strategy? (pages 52-59)**

- **The continued success of organizations depends on their possessing capabilities that competitors cannot easily copy.**
  - ✓ **Effective HRM capabilities** are difficult to copy because effectiveness comes not from a single practice but from a number of related practices.
  - ✓ **Social relationships** that arise from HR practices are also extremely difficult to copy.
  - ✓ **HR capabilities** are sources of potentially sustainable competitive advantage.
- **HR practices build capability by encouraging employees to fill certain roles.**
  - ✓ **A role** is a set of behaviors characteristic of a person in a particular setting.

- ✓ Employee roles are strongly influenced by the cues, or signals, that an organization provides.
  - Large pay differences are meant to cue competition and innovation among employees whereas other organizations use group rewards to cue cooperative behavior.
  - Roles become stronger as a variety of HR practices combine to consistently cue the desired behaviors.
  - The result is a complex process that is difficult for other organizations to duplicate.
- Research has identified consistent patterns of good HRM. Researchers have taken two basic approaches in investigating HR patterns.
  - ✓ The Universalistic Approach (pages 53-55)
    - Seeks to identify methods of managing people that are effective for all organizations.
    - HR practices are most effective when bundled together into internally consistent clusters.
      - Sets of HR practices that are internally consistent and that reinforce each other are known as HR bundles.
      - A single effective HR practice provides only limited benefits unless it is combined with other effective practices.
        - ◆ One bundle is based on control strategy: primary focus of HR practices is standardization and efficiency.
        - ◆ Second bundle is based on commitment strategy: primary focus of practices is to empower workers and build strong sense of loyalty and commitment.
      - Strong research conclusion from universalistic approach is that organizations should adopt a commitment strategy.
      - Commitment strategy is often summarized as HR bundle that encourages high involvement.
  - ✓ The Contingency Approach (pages 56-59)
    - Seeks to align people management practices with competitive business strategies.
    - Two key differences in organizations: cost leadership or a differentiation strategy and whether they have an internal or an external labor orientation.
      - Cost Leadership versus Differentiation
        - ◆ Organizations with cost leadership strategy focus their efforts on increasing efficiency and hire generalists who work in a variety of different positions.
          - Cost leadership strategy with a focus on tightly controlled processes makes sense when organization knows exactly what it wants people to do.
          - Result is mass production of standardized goods or services at lowest cost.
        - ◆ Organizations using differentiation strategy focus their HR efforts on innovation and quality enhancement.
          - Employees in these organizations are often specialists.
          - Rather than seeking to control processes, organization concentrates on outcomes.
          - Works best when organizations produce customized goods or services.
      - Internal Versus External Orientation
        - ◆ Internal labor orientation seeks to make its own talent and keep employees for a long time. The primary goal is to identify people who will have long careers within the organization.
          - Strengths

- Predict what skills and capabilities will be available to them in future.
- Employees build strong relationships with one another, so coordination and cooperation are high.
- Save money by reducing expenses for recruiting, interviewing, and hiring employees.
- Weaknesses
  - Long-term commitments make it difficult to adapt.
  - Changes in strategic direction are complicated because workers have outdated skills and bureaucratic structures are inflexible.
- ◆ External labor orientation seeks to buy talent.
  - Hire people who already have the needed skills and in many cases keep them for only short period of time. The primary goal is to identify people who are able to contribute without additional training.
  - Strengths
    - Flexibility (organization can respond quickly to changing conditions).
    - Workers trained by universities or other employers can be quickly added in areas that demand new skills.
    - Labor costs are not fixed and total number of employees can easily be increased or decreased.
  - Weaknesses
    - Lack of consistency.
    - Employees are essentially shared with other organizations.
    - Employees do not provide a unique competitive advantage.

### CONCEPT CHECK

1. **How does the contingency approach to HR management differ from the universalistic approach?** *The Contingency Approach seeks to align people management practices with competitive business strategies while the Universalistic Approach seeks to identify methods of managing people that are effective for all organizations.*
2. **What HR practices are associated with cost reduction strategies? Differentiation strategies?** *Organizations with a **cost leadership strategy** focus their efforts on increasing efficiency and hire generalists who work in a variety of different positions. Other practices include control work processes and carefully define employee tasks, specifically prescribe appropriate behaviors, and mass production of standardized goods or services at the lowest possible cost. Organizations using a **differentiation strategy** focus their human resource efforts on innovation and quality enhancement. Employees in these organizations are often specialists. They have more choice about how things should be done and are held accountable for the goods and services they produce. Rather than seeking to control processes, the organization concentrates on outcomes. Best process for completing work is often unknown, and employees are expected to continually look for different ways of doing things. Unique customer expectations require employees to change their actions to best serve each client.*
3. **What are the differences between an internal labor orientation and an external labor**

**orientation?** See Table 2.3. *Internal labor orientation seeks to make its own talent and to keep employees for long periods of time while external labor orientation seeks to buy talent.*

## **2.5 What Are Common HR Strategies? (pages 60-63)**

- **Internal/Cost HR Strategy: The Loyal Soldier (pages 60-61)**
  - ✓ Combining an internal orientation with a cost leadership strategy results in a Loyal Soldier HR strategy (emphasis on long-term employees with a focus on reducing costs).
    - Design work so that employees have broad roles and perform a variety of tasks.
      - People are recruited and hired because they fit the organization culture and because of their potential to become loyal employees.
      - Efforts are made to satisfy the needs of employees and build a strong bond that reduces the likelihood of employee turnover.
      - Hire people early in their careers and provide them with extensive training in a number of different skills.
    - Careers often include a number of very different positions, with promotions often made into positions that are not closely related to previous experiences.
    - Performance appraisals are designed to facilitate cooperation rather than competition.
    - Compensation includes long-term incentives and benefits and is often linked to the overall performance of the organization.
  - ✓ Unions are frequently observed in these organizations.
- **External/Cost HR Strategy: The Bargain Laborer (page 61-62)**
  - ✓ Combining an external orientation with a cost leadership strategy results in a Bargain Laborer HR strategy (emphasis on short-term employees with a focus on reducing costs).
    - Emphasis is on obtaining employees who do not demand high wages.
    - Design work so that managers can tightly control employee efforts.
    - Each employee is given clearly defined tasks that can be learned easily.
    - People are recruited and hired to perform simple tasks that do not require clearly developed skills.
    - Little attention is paid to meeting long-term needs of employees.
    - Performance appraisal focuses on day-to-day feedback; rarely incorporates formal measures.
    - Training is mostly limited to on-the-job techniques that teach specific methods for completing particular tasks.
    - Compensation is frequently based on hours worked, and benefits and long-term incentives are minimal.
  - ✓ The lack of consistency among employees tends to make unions somewhat rare in organizations that pursue cost efficiency through an external labor orientation.
- **Internal/Differentiation HR Strategy: The Committed Expert (page 62)**
  - ✓ Combining internal orientation with differentiation strategy results in Committed Expert HR strategy (emphasis on long-term employees with focus on producing unique goods and services.)
    - Hire and retain employees who specialize in performing certain tasks and are a potential fit with the organizational culture.

- Design work so that employees have a great deal of freedom to innovate and to improve methods of completing tasks.
  - Performance appraisals designed to balance cooperation and competition among employees.
  - Careers generally include numerous promotions into similar jobs with increasing responsibility.
  - Employees receive long-term training that helps them develop strong expertise.
  - Compensation is relatively high and usually includes a good benefits package that ties employees to the organization.
- **External/Differentiation HR Strategy: The Free Agent (page 62-63)**
    - ✓ **Combining external orientation with differentiation strategy forms Free Agent HR Strategy (combines emphasis on short-term employees with focus on producing unique goods and services).**
      - Hiring people who have critical skills but who are not necessarily expected to remain with the organization for a long period of time.
      - Design work so that employees have extensive responsibility within specific areas and substantial freedom to decide how to go about their work.
      - Long-term commitments are avoided, and no efforts are made to encourage strong attachments between employees and the organization.
      - They are not led to expect long-term careers in the organization.
      - Higher-level positions are frequently given to people from outside the organization.
      - Performance appraisal focuses on outcomes and results.
      - Training is rare.
      - Short-term compensation is usually high, which is necessary if the organization is to obtain people with top skills.
      - Pay is linked specifically to individual performance results, and benefits and long-term compensation packages are avoided.
    - ✓ **Rarely see unions in these organizations.**

### CONCEPT CHECK

1. **What two HR strategies are associated with cost leadership strategy? How do these two HR strategies differ?** *Combining internal orientation with cost leadership strategy results in **Loyal Soldier HR strategy** (emphasis on long-term employees with a focus on reducing costs.) Combining external orientation with cost leadership strategy results in **Bargain Laborer HR strategy** (emphasis on short-term employees with a focus on reducing costs.)*
2. **What two HR strategies are associated with the differentiation strategy? How do these two HR strategies differ?** *Combining internal orientation with differentiation strategy results in **Committed Expert HR strategy** (emphasis on long-term employees with focus on producing unique goods and services). Combining external orientation with differentiation strategy forms **Free Agent HR Strategy** (combines emphasis on short-term employees with focus on producing unique goods and services).*

## 2.6 How Do HR Strategies Align with Competitive Business Strategies? (pages 63-66)

- Organizations with a cost leadership competitive strategy are expected to do best when they have either a Bargain Laborer or Loyal Soldier strategy.
- Organizations with a competitive business strategy of differentiation are expected to do best when they have either a Committed Expert or Free Agent HR strategy.
- Research supporting the contingency perspective (pages 64-65)
  - ✓ Many organizations do have HR strategies that fit their competitive strategies.
  - ✓ Organizations are more successful when they broadly adapt their HR practices to fit their competitive strategies.
  - ✓ Organizations with a cost leadership or differentiation strategy do perform better when they have a matching human resource strategy.
- Putting it all together (pages 66)
  - ✓ Although there are important exceptions, many organizations improve their long-term success when they adopt an internal labor orientation.
    - Organizations using internal orientation develop strong bonds with employees
    - Research suggests that organizations with a cost leadership competitive strategy excel when they follow a Loyal Soldier HR strategy.
    - Similarly, organizations with a differentiation competitive strategy excel when they use a Committed Expert strategy.

### CONCEPT CHECK

1. **In what ways does research support the contingency approach to HR management?** *Although research related to this question does not always use the four human resource strategies, the results are mostly supportive. Firms benefit from having human resource practices that support their overall strategy. For instance, law firms with a competitive strategy of expanding into new markets, which is consistent with a strategy of differentiation, have been shown to perform better when they hire and retain highly skilled lawyers. Call centers with a competitive strategy of customizing responses to customers—also, consistent with differentiation—perform better when their human resource practices ensure good training and high pay. Overall, this line of research confirms that organizations perform better when they use human resource practices that help them secure and motivate employees who have skills that match their approaches for providing value to customers.*
2. **How does the commitment strategy fit with the contingency approach?** *The commitment strategy is similar in many ways to the internal labor orientation of the contingency approach.*

## Chapter 2 Teaching Notes

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The following presents suggestions designed to help you utilize the special features and cases found in *Human Resource Management: Linking Strategy to Practice*.



### **Summary: (pages 67-68)**

Summaries of each of the five learning objectives are presented. It is recommended that students review each objective and discuss in class or in teams as a means of gaining better understanding and comprehension.

### **Learning Objectives:**

The chapter contains five learning objectives. Each is presented at the beginning of the concept being discussed and can be found on:

Learning objective 1- page 42  
Learning objective 2- page 48  
Learning objective 3- page 52  
Learning objective 4- page 60  
Learning objective 5- page 63

### **Concept Checks**

The chapter contains five concept checks. Each is presented at appropriate points in the learning objective being discussed and can be found on:

Concept 1- page 48  
Concept 2- page 52  
Concept 3- page 59  
Concept 4- page 63  
Concept 5- page 66

### **Tables and Figures**

The tables and figures presented in the chapter help illustrate the concepts of the chapter. They should be brought to the attention of the students and, perhaps, included in the exams where appropriate.

Table 2.1- page 54	Examples of Commitment Strategy Practices
Table 2.2- page 56	Strategic Human Resource Differences
Table 2.3- page 57	Differences in Labor Orientation
Figure 2.1- page 43	Strategy Formulation Process
Figure 2.2- page 47	Effective Decision Making
Figure 2.3- page 61	Strategic Framework for Human Resources

**A Manager's Perspective (pages 38-39), What do you think? (page 39), and A Manager's Perspective Revisited (page 66)**

The chapter begins with Elizabeth, an owner of a small chain of convenience stores, thinking about effective HR management and how it will be an important asset to her strategic plan if she wants to be able to compete with larger national chain stores.

Discussion of the chapter could start by posing these questions and asking for the class to vote on which statements are true through a show of hands, thumbs-up/thumbs-down, clickers, or paper copies of the questions. To keep student interest, the methods for identifying true answers should be varied.

The activity could be repeated near the end of the chapter discussion. At that time, students could be asked if they agree with the answers. The students also could be asked to identify how Tara should respond to the statements and if she should respond during this first meeting with the new President.

During the discussion of the chapter material, you could refer to these questions at appropriate points. This will add both variety in the instructor's presentation and more realistic application of the chapter concepts

For some chapters, you may wish to address the questions at the end of discussing the chapter. In this case, you may want to bring the students' attention to these questions informing the students that they will be asked to answer the questions near the end of the chapter discussion. At that time, students (individually or in groups) could be asked to explain why the answers are true or false. Students also could add questions to the list and briefly explain why they think a new question should be asked. This could be done as a class or in smaller groups. If done in smaller groups, each group could be asked to briefly report on an aspect of their discussion.

Of course, one or more of the questions or more detailed versions of the questions could be included in an exam. If included in an exam, students should be warned that these questions might be part of the exam. The questions could be presented as true/false or as statements to which each student should briefly respond to in an essay answer.

**Building Strength Through HR: Southwest Airlines (page 42)**

This special feature highlights several issues noted in this opening case regarding Southwest Airlines (refer to pages 40-42). This case illustrates how human resource management can help build an organization's competitive strength.

The inset box (refer to page 42) presents most of the HR practices mentioned in the case but not all. Other HR issues noted in the case include developing a culture of fun, hiring people who have the right attitude and who are willing to work hard, having employees pitch in where needed, and focusing on keeping costs low. It also notes recent management-employee conflict over demands for higher wages.

**Most students know of Southwest Airlines and many may have flown with the airline. Therefore, you could ask the students what other HR practices may help Southwest be a low cost leader with loyal employees and customers. This discussion could be supplemented with information found on Southwest's webpage: <http://www.southwest.com/>. Southwest's website is informative but it takes several clicks to get to details. It is presented mostly in black print on white background so it is not visually stimulating.**

**Supplemental information also could be provided by a student responsible for updating the case and finding relevant information from the organization's website or other sources. If you elect to have the students provide information, you should inform the students of any school policies that address contacting organizations.**

**At this point in the semester, guided class, group discussion, or briefly mentioning the case in a mini-lecture should adequately introduce the chapter topics and establish relevance. Additional ways to address the opening cases could include individual students or teams of students presenting the main points and how the case answers the opening question of that section. These opening cases also could be used as starting points for a more comprehensive assignment due later in the term or semester.**

#### **Technology in HR: Twitter as an Opportunity for Business (page 45)**

**This inset box (refer to page 45) briefly addresses some of the opportunities and threats a company can face by using the micro-blogging service Twitter. The last paragraph addresses a few issues related to social networking using a medium like Twitter.**

**During a mini-lecture, you may want to refer to the information in this box as illustrating some strategic issues related to using Twitter. If a more general discussion is desired, students could be asked in what ways Twitter presents opportunities and threats for a company. Students could be asked how employees and HRM practices could help Twitter be more of an opportunity for their organization than a threat. For example, employees are part of the delivery system noted in the inset box. Students could discuss their experiences with using Twitter and how "tweets" are used as part of a company's training regime.**

**The last paragraph of this box discusses specific mistakes companies can make as they get involved in social networking as well as three steps to take to avoid some common pitfalls. Students could debate each of these mistakes as well as the suggested tips.**

#### **How Do We Know? What Differentiates Fast-Food Restaurants? (page 51)**

**This inset box (on page 51) is briefly mentioned above the box. This provides a natural transition to the information presented in the box. The results of the study summarized in this box illustrate how various fast food restaurants have communicated their cost leader or differentiator strategies.**

During the lecture or class discussion of the chapter, the study, conclusions, and recommendations could be summarized. This could be accomplished through your lecture (asking for student input) or by assigning the box to an individual student.

Most students will be familiar with most or all of these fast food outlets. Potential questions include: Do they agree with the strategies that the students in the study associated with each restaurant and on what information are they basing their opinions (e.g., advertisements, personal comparisons)? Have they seen fast food employees supporting or demonstrating knowledge of their organization's strategies? (You may need to specifically address several of the strategies. For example, you could ask how employees support Subway's differentiating on the basis of good nutrition.)

Students then could be asked if it is important for the employees to communicate the strategy to customers. A follow-up question could be for them to consider the impact of employees engaging in behaviors that contradict the organization's strategy. When the students generally agree that employees have some impact on customer perceptions, students could discuss how employees might be prepared and encouraged to do so.

You could summarize the discussion by mentioning that most (if not all) of what they have suggested are HR practices.

### **How Do We Know? Do Good Human Resource Practices Improve Performance (page 55)?**

This inset box (found on page 55) is mentioned in the accompanying text.. The study described in the box notes the benefits of HR practices associated with the commitment strategy. The researcher concludes that the human resource practices of high-involvement organizations should emphasize doing things to keep valuable employees.

The information reported in the inset box could be part of a lecture or class discussion through which a commitment strategy could be defined. Students could be asked to speculate why the specific high-involvement HR practices (e.g., internal promotions, group-based pay, employee stock ownership, training, etc.) might result in high productivity. You may want to ask them to address each practice noted in the box separately.

Students could be asked to discuss the findings related to turnover rates and productivity. Potential questions include: Are high-involvement work practices the best way for all organizations in various industries? Why might high rates of quitting reduce productivity in organizations with high-involvement work practices yet increase productivity in other organizations? (Note: training and development is given as a reason in the box. You may want to press for other reasons such as more selective recruiting and self-selection). Since high-involvement work practices tend to be costly and involve more of management's time, how can an organization justify these costs when employees quitting will multiply those costs (and there is no guarantee that people will remain with the organization)? How might organizations (with high involvement work practices) encourage excellent employees to stay? Do the students think

that many who quit organizations without high-involvement practices had lower productivity (than those who did not quit) because they were frustrated by the lack of high-involvement practices? (Note: this could lead to a discussion of whether all employees prefer high-involvement work practices. Those employees with low growth needs or more of a Theory X orientation would not.)

Finally, you may want to ask the students if a study of 190 New Zealand organizations generalizes to U.S. employees or employees in other countries. You also could address whether the sample size is adequate and if their answers would depend on the types and sizes of organizations included in the study.

### **Building Strength Through HR: Fenmarc Produce Ltd (page 58)**

As noted on page 58 of this chapter, this inset box (refer to page 58) illustrates how Fenmarc Produce has benefited from emphasizing an internal labor orientation. Their website (<http://www.fenmarc.com/>) is very colorful and illustrates the concepts noted in the box. The “Fenmarc Culture” link lists the six key principles noted in the box. Their website also includes a video, their history and awards, community involvement, map, and pictures of employees. Their philosophy is found on most pages.

You could show the video (if internet is available in classroom), ask students what appears to be Fenmarc’s strategy (Cost Leadership), how each of the six key principles might help Fenmarc keep costs low and profits high, and which HR strategy appears to be consistent with their six key principles and cost leadership (Loyal Soldier) and why. You could finish by asking the students if these key principles could work in organizations (and for all types of people) in the U.S. and other countries or if they are specific to the United Kingdom. You also could ask if they’d like to work for a company like Fenmarc.

A web-based assignment is described at the end of this chapter found in the Instructors’ Manual.

### **How Do We Know? Do Human Resource Practices Influence Customer Service? (page 65)**

This inset box asks the questions: Why is the customer service at some banks better than others? Is it by chance, or do successful banks encourage specific actions to assure that employees meet the needs of customers?

Samuel Aryee, Fred Walumbwa, Emmanuel Seidu, and Lilian Otaye sought answers to this question by obtaining data from 37 branches of 2 different banks located in Ghana.

Human resource practices that emphasize decentralized decision making, service quality-focused feedback, extensive service training, and performance contingent compensation increase feelings of empowerment. Empowerment results in increased customer service performance for both individuals and bank branches.

**The authors concluded that effective human resource practices do indeed represent an effective method for pursuing a strategy of providing excellent service.**

### **SUMMARY (pages 67-68)**

**A short summary of each of the chapter's five learning objectives is presented on pages 67 – 68. Each learning objective question emphasizes the key points needed to understand each question and concept involved.**

### **KEY TERMS (page 69)**

**Bargain Laborer HR strategy 61**  
**Business-level strategy 48**  
**Committed Expert HR strategy 53**  
**Commitment strategy 62**  
**Competitive business strategy 42**  
**Contingency approach 53**  
**Control strategy 53**  
**Corporate-level strategy 48**  
**Cost leadership strategy 48**  
**Differentiation strategy 48**  
**External environment 43**  
**External labor orientation 57**  
**Free Agent HR strategy 62**  
**Human resource bundles 53**  
**Human resource strategy 42**  
**Internal labor orientation 57**  
**Loyal Soldier HR strategy 60**  
**Opportunities 43**  
**Strategy 42**  
**Strengths 44**  
**Threats 43**  
**Universalistic approach 53**  
**Weaknesses 44**

### **DISCUSSION QUESTIONS (page 69)**

- 1. Why are effective human resource practices often a better competitive resource than equipment and buildings?** *Answer: HR practices involve acquiring and motivating employees. A strategy is only effective if an organization has the talent needed to carry it out. Since our focus is on human resource management, we will concentrate on this part of the value chain. Effective management of people can be a source of internal strength.*

*HRM is critical because high-quality employees are relatively rare.*

2. **What are some external opportunities and threats that you think organizations will face in the next 10 years? What types of organizations will benefit most?** *Students' answers regarding the future may vary. Generally, the organizations that will benefit are those who are effective in monitoring the external and internal environments and meet the needs of current and future customers.*
3. **Why can groups be more effective than individuals for making decisions?** *Answer: Various individuals have differing views, insights, information, etc. which (when shared and discussed) should result in decisions that consider as many elements as possible. Furthermore, one part of effective strategy formulation is to encourage decision makers not to agree with one another too quickly. Making sure that the team of decision makers includes people with different backgrounds can help in this regard. Experienced managers and younger managers, for example, bring different insights to the decision-making process, as do marketing personnel and operations personnel.*
4. **What are the primary differences between a cost leadership and a differentiation strategy?** *Answer: Cost leadership emphasizes efficiency and minimizing costs. This allows the organization to create value by producing goods and services at lower cost. Differentiators seek to produce goods and services that are somehow superior to the goods and services provided by competitors; their goal is to create unique value for which customers are willing to pay a higher price. In contrast to cost leaders, differentiators reward innovation, individual performance, and results and outcomes, which results in some competition among employees.*
5. **What are the key elements of the commitment strategy from the universalistic approach? Why does this approach generally contribute to success for organizations?** *Answer: The primary focus of practices in the commitment strategy is to empower workers and build a strong sense of loyalty and commitment. This strategy typically involves extensive recruiting and careful screening of recruits, employee involvement groups, widespread training, widespread use of incentive pay, and high teamwork. This strategy fosters a strong sense of cooperation between employees and managers, which results in higher productivity and generally higher quality goods and services.*
6. **What human resource practices might be associated with a cost reduction emphasis? What practices might be associated with a differentiation emphasis?** *Answer: Organizations with a **cost leadership strategy** focus their efforts on increasing efficiency and hire generalists who work in a variety of different positions. Other practices include controlling work processes and carefully defining employee tasks, specifically prescribing appropriate behaviors, and mass producing of standardized goods or services at the lowest possible cost. Organizations using a **differentiation strategy** focus their human resource efforts on innovation and quality enhancement. Employees in these organizations are often specialists. They have more choice about how things should be done and are held accountable for the goods and services they produce. Rather than seeking to control processes, the organization concentrates on outcomes. Best process for completing work is often unknown, and employees are expected to continually look for different ways of doing things. Unique customer expectations require employees to change their actions to best serve each client.*

7. **What are the strengths and weaknesses of internal and external labor orientations?** *Answer: Strengths of the **Internal Labor Orientation** include predicting what skills and capabilities will be available to them in the future; employees building strong relationships with one another (high coordination and cooperation); and saving money by reducing expenses for recruiting, interviewing, and hiring employees. Weaknesses include long-term commitments make it difficult to adapt, changes in strategic direction are complicated because workers have outdated skills, long-term commitments make it difficult for organizations to replace workers whose skills are not up to date, and bureaucratic structures are inflexible. Strengths of the **External labor Orientation** include flexibility, workers trained by universities or other employers can be quickly added in areas that demand new skills, labor costs are not fixed, and the total number of employees can easily be increased or decreased. Weaknesses include weak relationship between organization and its employees, employees work because they are paid and not necessarily because they are loyal, employees usually do not develop a strong feeling of attachment to the organization, and employees do not provide a unique competitive advantage.*
8. **Choose a company where someone you know works. Which of the four human resource strategies do you think is most common in the company?** *Student answers will vary.*
9. **What are the key elements of the four human resource strategies: Loyal Soldier, Bargain Laborer, Committed Expert, and Free Agent?** *Answer: Loyal Soldier combines emphasis on long term employees with a focus on reducing costs, Bargain Laborer combines an emphasis on short-term employees with a focus on reducing costs, Committed Expert combines an emphasis on long-term employees with a focus on producing unique goods and services, and Free agent combines an emphasis on short-term employees with a focus on producing unique goods and services.*
10. **The chapter text pointed out that a majority of organizations have a human resource strategy that fits their competitive strategy. What should an organization do if the strategies don't match?** *Answer: Such an organization should consider reassessing its human resource strategy to align with its competitive strategy to optimize its performance.*

**EXAMPLE CASE: United Parcel Service (page 69-70)**

**Questions**

1. **How do practices such as internal promotion and assignment of broad job duties help UPS achieve its competitive business strategy?** *Answer: The managers have to make thousands of decisions in the field to keep things moving. In order to make these decisions in the most efficient and effective manner, they need to know how the system of UPS works together and how one decision will affect other aspects of UPS. The experience with UPS and broad job duties helps reduce the learning curve and the chances of improving the system.*
2. **How do the human resource practices at UPS help build teamwork?** *Answer: The HR practices noted in the above question help in that people recognize that their work will be rewarded. The sharing of the wealth, emphasis on fairness, inclusiveness, and coaching also*



help in that the employees see the value of working together. Furthermore, they are given the tools (through inclusiveness, coaching, etc) to contribute to the team. Another factor is that managers know a lot of functional areas requiring interaction with people from various orientations, a better understanding of those orientations, and willingness of those in various areas to work with each other.

3. **Why are training and experience so important at UPS?** *Answer: As noted above, training and experience are important for efficiency and effectiveness in a demanding work environment. Many decisions have to be made quickly with the least amount of negative impact on the UPS system and customers. Knowing one's job and the organization also allows everyone to make quick, effective decisions, interact with customers and employees with a positive attitude, and help UPS be successful in achieving its strategy.*

### **DISCUSSION CASE: Mountain Bank (page 70-71)**

#### **Questions**

1. **What competitive business strategy do you recommend for Mountain Bank?** *Answer: Differentiation.*
2. **Based on the universalistic approach and commitment strategy, what types of human resource practices do you recommend for Mountain Bank with respect to its tellers?** *Answer: For any of the following HR practices that Mountain Bank has not already implemented, they should add: broader job responsibilities, meaningful tasks, job rotation, inclusive decision making, high levels of responsibility, building employee confidence, two-way communication, quality-of-life surveys, and encourage suggestions, extensive new employee training, formal training for everyone (full- and part-time), multiple job skill development, pay for performance, higher levels of pay, ownership forms of pay such as stock, highly selective recruiting of full- and part-time tellers, identification of skilled workers, and long-term relationships with employees. They also should consider keeping some of the successful tellers as tellers rather than transferring them to another job. They could give them the opportunity to be lead persons or give them a different title (e.g., Senior Teller, Master Teller) or supervisors of the part-time and floating employees. Perhaps the more experienced tellers should be included as floaters (even if they have been transferred to customer service positions).*
3. **Which of the four human resource strategies do you recommend for Mountain Bank with respect to its tellers? Why?** *Answer: Committed Expert HR strategy because they want to hire and retain employees who are specialists and innovators. They also want people who fit their organizational culture (of excellent customer service, cooperation, and coordination) and that have the aptitude for becoming experts in particular areas (e.g., corporate banking). They typically hire people early in their careers and give them long-term training that helps employees develop strong expertise. The bank will need to make several changes to achieve this strategy, including increasing their base pay and paying for performance.*

## **ADDITIONAL WEB-BASED ACTIVITIES**

### **Overview of activity**

Refer back to the inset box on page 58 describing how Fenmarc Produce has benefited from emphasizing an internal labor orientation. This activity gives students the opportunity to investigate and justify Fenmarc's practices.

### **Exercise:**

As noted previously, Fenmarc's website (<http://www.fenmarc.com/>) is **very colorful and illustrates the concepts described in the inset box on page 58**. Through Fenmarc's website, students could describe how Fenmarc appears to be implementing each of their six key principles, Cost Leadership strategy, internal labor orientation, and Loyal Soldier HR strategy. Their philosophy is found on most pages.

### **Alternate Approaches to the Exercise:**

Students could compare Fenmarc to an organization found in the top ten of the 100 best companies in America. (refer back to the "How Do We Know" inset box on page 12). Fenmarc's six key principles could provide the basis for comparison.

### **Links to relevant information**

The organization's website (<http://www.fenmarc.com/>) provides the information needed for the students to accomplish this exercise.