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2

Strategy-Driven Human Resource Management

Learning Objectives

After studying this chapter, you should be able to do the following:

- 2.1** Identify and explain the major components of the external environment. [PAGE 35](#)
- 2.2** Identify the factors impacting how an organization makes strategic decisions, and give an example of the impact HR may have on crafting a vision and mission, strategic analysis and design, organizational strategy, and high-performance work systems. [PAGE 39](#)
- 2.3** Describe the major components of organizational structure and why it is important to understand them. [PAGE 48](#)
- 2.4** Discuss how organizational culture affects the members of the organization. [PAGE 51](#)
- 2.5** Identify areas of HRM where data analytics and other HR technologies can have an effect on organizational success. [PAGE 54](#)
- 2.6** Describe human resource management systems (HRMS), and identify how they can help HR make decisions. [PAGE 56](#)
- 2.7** Identify the common measurement tools for strategic HRM. [PAGE 56](#)
- 2.8** Discuss the role of culture, technology, and globalization in HRM. [PAGE 58](#)

SHRM HR Content

See Appendix: *SHRM 2018 Curriculum Guidebook* for the complete list.

A. Change Management

7. Culture

C. Employee and Labor Relations

29. Managing/creating a positive organizational culture

H. Human Resource Information Systems (HRIS)

3. Issues to consider when selecting HRIS software
4. Selecting an HR information system
5. Using HR data for enterprise management

I. Job Analysis and Job Design

6. Organization design (missions, functions and other aspects of work units for horizontal and vertical differentiation)

K. Metrics and Measurement of HR

5. Economic value added
8. Return on investment (ROI)

L. Organizational Development

12. Organizational structure and job design
15. Social networking

O. Strategic HR

1. Strategic management
 - 1-a. Competitive advantage
 - 1-b. Competitive strategy
 - 1-c. Enhancing firm competitiveness
 - 1-f. Mission and vision
 - 1-h. Strategy implementation
 - 1-i. Strategy formulation
 2. HR strategies
 - 2-d. Linking HR strategy to organizational strategy
 - 2-e. Measuring HR effectiveness
 - 2-f. Quality management
 - 2-g. The role of the chief human resource officer (CHRO)
 - 2-h. Trends and forecasting in HR

2.1 AN INTRODUCTION TO STRATEGIC PLANNING: THE ORGANIZATION AND ITS ENVIRONMENT

>> LO 2.1 Identify and explain the major components of the external environment.

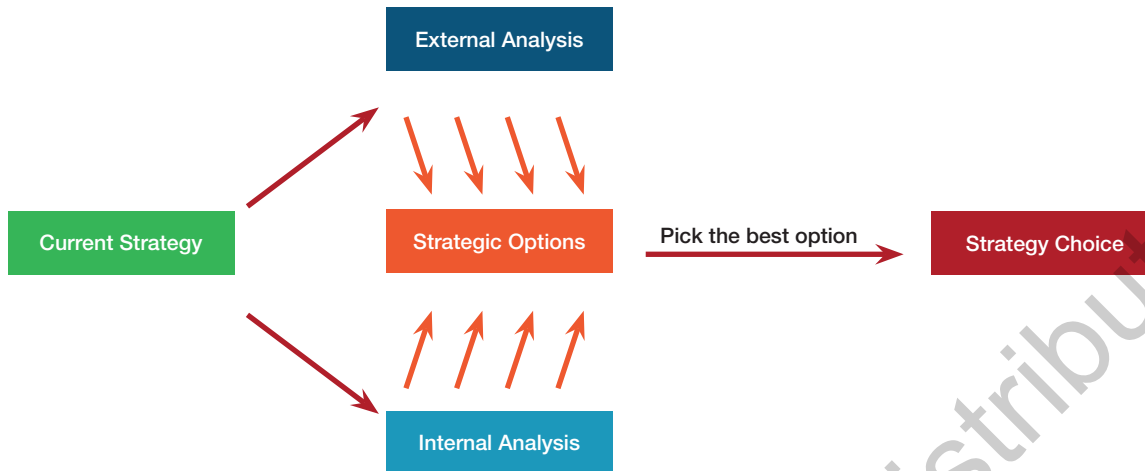
The concepts of strategy and strategic planning were introduced briefly in Chapter 1. As indicated there, strategic planning is the process of looking at our organization and its environment—both today and in the expected future—and determining what our organization decides to do to meet the requirements of that expected future¹ (see Exhibit 2.1). In this chapter, we focus on the organization's environment. The environment has two parts: internal and external. First, let's briefly discuss the external environment. Then, in the next sections, we will describe in detail three key aspects of the internal environment: strategy, structure, and culture.

This process of analyzing the environment and building a coherent strategy is more critical today than it has ever been before.² This is because in most worldwide industries today, we have far more competition and capacity than ever before, making it more difficult to create the sustainable competitive advantage that we need in order to survive over the long term.³ Successful companies move forward via careful planning.⁴

Strategic planning is about planning for the long-term future, and to be successful⁵ you need to plan using goals⁶ and measurable standards.⁷ There is an old saying: "When you fail to plan, you plan to fail." Research supports this saying and confirms the importance of planning.⁸ Some managers complain they don't have time to plan, yet research shows that managers who plan are more effective and efficient than nonplanners. Before we get into the details of strategic planning, complete Self-Assessment 2.1 (available online) to determine your level of planning.

EXHIBIT 2.1

Strategic Choice



HR Management's Role in Strategic Planning

As discussed in Chapter 1, the role of HRM has expanded over the years. Organizations today realize the importance of HRM. That is why more than half of HRM top executives at major corporations now report directly to the CEO.⁹ HRM also develops its own strategic plans to help align HR practices with the business strategy,¹⁰ because organizations that hire and retain motivated and productive people gain a long-lasting competitive advantage.¹¹ But CEOs have little faith that HR is capable of strategic planning for talent acquisition and development or linking HR planning to organizational strategies.¹² CEOs also lack trust in HR efforts to utilize analytics for decision making.¹³ Only about 1 in 10 CEOs say their HR leaders are capable in these areas. Therefore, we need to increase our efforts in HRM education to create strategic HR leaders.

The External Environment

The external environment consists of a series of influences that originate outside the organization and that the company cannot control. Each of these forces acts on the firm and requires it to change and adapt, usually in the form of strategic responses to these environmental changes.¹⁴ The successful companies are the ones that keep changing.¹⁵ It is also important to have good relationships with external stakeholders because they provide access to resources.¹⁶ The nine major forces originating in the external environment are shown in Exhibit 2.2; here is an explanation of each.

- *Customers.* Customers have a major effect on the organization's performance through their purchase of products and services. Therefore, companies must continually improve products and services to create value for their customers. To a large extent, **Amazon** is so successful because it focuses on customer value.¹⁷
- *Competition.* Businesses must compete for customers, and their performance is not simply a function of their own actions. Each firm's performance must be understood relative to the actions of its *competitors*. **Apple** and **Samsung** continue to compete with improved smartphones.
- *Suppliers.* Organizations buy resources from suppliers. Therefore, partnerships with *suppliers* affect firm performance.¹⁸ **Ford** buys auto parts to make its cars from suppliers, and your local Ford dealership is supplied with cars from Ford.

- Labor force.** Current employees and the talent pool available to an organization have a direct effect on the organization's performance. Management recruits new employees from the available labor force in the external environment. **Amazon** said as they staffed up their "HQ2" that they would hire about 50,000 new employees in 2018–2019.¹⁹ The **U.S. Bureau of Labor Statistics (BLS)** predicts that "the labor force is projected to increase by 8.9 million people, to 171.0 million in 2028."²⁰ Unions can sometimes provide employees for the organization, but they are considered an additional external factor because they collectively bargain for those employees.
- Shareholders.** The owners of a corporation, known as shareholders, influence management to give them a return on their investment in the company. They vote for the directors of the corporation, who hire and fire top management, such as **Uber**, when it fired its cofounding CEO **Travis Kalanick**. Most shareholders and directors of large corporations are generally not involved in the day-to-day operation of the firm.²¹
- Society.** Society largely determines what business practices are acceptable.²² Individuals and groups of stakeholders and shareholders work in various ways to pressure businesses to make changes, some with the help of consulting firm **Activist Insights**.²³ For example, employees at **Wayfair**, an online furniture company, put pressure on the company to stop doing business with contractors who were running border detention camps on the U.S.–Mexico border.²⁴
- Technology.** Computers and the Internet have changed the speed and the manner in which organizations conduct and transact business, and apps rule the business world. Without employees who adapt to changing technologies, organizations today will soon find themselves unable to compete.²⁵ 3D printers can even make a car body from basic materials. (You may have heard of the father and son who printed a **Lamborghini**-based car body in December 2019.)²⁶
- The economy.** The economy has a direct impact on the firm's performance and profits. No corporation has control over economic growth, inflation, interest rates, foreign exchange rates, and so on. In general, businesses perform better when gross domestic product (GDP) is growing and inflation and interest rates are low. Thus, we always have to take the economy into account when performing strategic-planning activities. During favorable economic conditions, firms tend to hire, and they lay off during recessions.

EXHIBIT 2.2

The External Environment



WORK APPLICATION 2.1

Give examples of how each of the nine forces (customers, competition, suppliers, labor force, shareholders, society, technology, the economy, and governments) has affected an organization where you work or have worked.

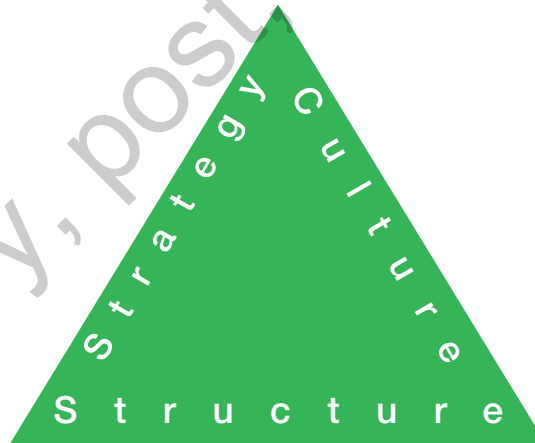
- *Government.* If you think you can just start a business and run it any way you want to, think again. Nations and their state and local governments all set laws²⁷ and regulations²⁸ that businesses must obey (telling you what you can and can't do).²⁹ According to the **Competitive Enterprise Institute**, the annual cost of complying with all federal-government regulations averages about \$15,000 per household annually in the United States.³⁰ Companies like **Pfizer**, **Novartis**, and **Merck** cannot market drugs without **Food and Drug Administration (FDA)** approval, and virtually every employer must follow labor laws, including wage guidelines from the **Department of Labor (DOL)**. To learn more about the U.S. federal government, visit its official Web portal at www.usa.gov. State and local laws and regulations vary; **DraftKings** was required by some state laws to stop fantasy sports games.³¹ At the local level, there are some laws stating that you may need a license (alcohol, gambling) to start a business and where you can conduct business (zoning laws).

The Internal Environment

In addition to our analysis of the major external environmental factors that we can't control, we need to review some critical internal organizational factors that we *can* control to decide what we want to do as an organization as we move into the future. The major factors in our analysis of the internal environment are shown in Exhibit 2.3 and are discussed in the next three sections.

EXHIBIT 2.3

The Internal Environment



2.1 APPLYING THE CONCEPT

The External Environment

Read each statement, and write in the letter corresponding to the external environmental factor it refers to.

- | | |
|----------------|-----------------|
| a. customers | d. labor force |
| b. competition | e. shareholders |
| c. suppliers | f. society |
| | g. technology |
| | h. the economy |
| | i. governments |

- ___ 1. Are you going to close that sale of shirts to Target?
- ___ 2. Our union will go on strike if management will not give us a 3% raise.
- ___ 3. Ringling Brothers circus stopped having elephant acts because of pressure from activist groups.
- ___ 4. Since GDP increased, we have had an increase in sales.
- ___ 5. Ford and Toyota are working on software so that its cars can be self-driven.
- ___ 6. KFC bought some bad chicken in China, and sales declined.
- ___ 7. The Boeing CEO was replaced by the directors because of the problems with the 737 airplane.
- ___ 8. Facebook wanted to acquire our company, but the Securities and Exchange Commission (SEC) said that would be in violation of antitrust laws, thereby preventing the deal.
- ___ 9. Jamal bought a new oven that will cook our burgers in half the time and make them taste even better.
- ___ 10. eHarmony online dating service is losing some customers to other services focusing on Christian, African American, and older people seeking matches.
- ___ 11. Our purchasing agent, Tina, just closed a deal that will let us buy sugar for our Dunkin' Donuts coffee for a few cents less per pound, saving us thousands of dollars per year.
- ___ 12. Our Old Navy sales to tween girls have decreased as some of our shoppers are now buying Justice clothing.

2.2 ORGANIZATIONAL STRATEGY

>> LO 2.2 Identify the factors impacting how an organization makes strategic decisions, and give an example of the impact HR may have on crafting a vision and mission, strategic analysis and design, organizational strategy, and high-performance work systems.

In a contemporary business context, one should know one's internal and external environments. But how does a modern business go about creating and implementing a strategic plan? Well, strategic planning follows a process,³² so let's discuss that process now.

What Is Strategy?

Research has shown that HRM is an important strategic business function influencing the strategy and performance of both large and small firms.³³ So it is important to develop strategic management competency.³⁴ But what is strategy? At its most basic level, a **strategy** is a *plan of action designed to achieve a particular set of objectives*. The mission is an expression of the end results—objectives; the strategy is the means to achieve the objectives.³⁵ So what does strategy take into account? It looks at the external (industry and macro-) environment and the internal (organizational) environment in order to create strategic advantage.³⁶ Strategic advantage occurs when you analyze the environment better and react to it quicker than your competitors do while using all of your internal resources efficiently, thus creating the sustainable competitive advantage introduced in Chapter 1. **(SHRM O:1)**

In this section, we look at the following three major strategic questions to analyze what kind of strategic plan we need:³⁷

1. What is our present situation? (Where are we now?)
2. Where do we want to go?
3. How do we plan to get there?

Strategy A plan of action designed to achieve a particular set of objectives

These questions are both very simple and very complex. On the surface, you would think that answering Question 1 would be easy—but you must answer many other questions based on the environment before you can confidently answer the question, “Where are we now?” These other questions include but are not limited to the following: “Are we making a profit?” “Do our products satisfy our customers’ current needs?” “Do we have the right kind of workforce in place at this time?” “Is our technology working like it should?” “Do we have sufficient physical resources, like plants, machinery and equipment, and retail locations?” “Are our advertising and marketing programs successful?” Answering these questions creates a picture of your organization at a particular point in time, and that picture has to be comprehensive. (SHRM O:1-a)

Answering Questions 2 and 3 is just as complex. Question 2 is basically asking what we plan to “look like” as an organization at a particular point in the future—meaning it’s asking what our vision and mission are for the organization. Answering Question 3 gives us the necessary information to create the plan that will allow us to reach the goals we identify in our answer to Question 2 so we can become the organization we envision and, at the same time, create a sustainable competitive advantage.

Visions and Missions

A vision and a mission are two of the most critical components of any successful corporate strategy. Together, they provide the information necessary to focus every employee on the company’s goals and objectives. Let’s take a look at them now. (SHRM O:1-f)

The Vision

Vision What we expect to become as an organization at a particular point in time in the future

A **vision** is *what we expect to become as an organization at a particular point in time in the future*. The vision, by necessity, is a fuzzy thing; it is not specific, in that it doesn’t say how we’re going to achieve it. But we identify the vision as a future state of being. It is who we are, what we stand for, what we believe in, and what we want to become. Despite their fuzziness, visions are very powerful when used correctly. A vision provides a focus point for the future; it tells the company where it is headed.³⁸ It allows the company leaders to look into the future and see what they want to look like as a company at that time.³⁹ If everyone is focused on the same future end state, they will work toward that same end state.

The firm is successful only when the followers share the leader’s vision.⁴⁰ **Larry Page** of **Google** and **Jeff Bezos** of **Amazon** are often cited as examples of great visionary leaders. Strategic HR leaders help develop the vision and perform the culture training that promotes a shared vision within the organization.

The Mission

Mission statement A statement laying out our expectation of what we’re going to do in order to become the organization we have envisioned

The **mission statement** *lays out our expectation of what we’re going to do in order to become the organization we have envisioned*. The mission statement is a statement of what the various organizational units will do and what they hope to accomplish, in alignment with the organizational vision. The mission is generally narrower and more specific than the vision, which means it generally must be a bit longer winded. The mission statement takes into account things like our target customers, our products and services, technologies we use, etc.) and how we serve them. The mission should be known by all stakeholders,⁴¹ especially employees, so they can stay focused on accomplishing the mission and goals.⁴² Fundamentally, it answers the question, “What do we need to do in order to become what we have envisioned?” **Walmart’s** mission is to help people save money so they can live better.⁴³ **Mailchimp**⁴⁴ and **Savvy Travelers**⁴⁵ both increased sales by developing and implementing effective mission statements.

Putting the Vision and Mission Together

Let’s use as an example the vision and mission statements of the **College of Business of the University of Arkansas at Little Rock**. Its vision statement is as follows: “The College of Business serves as a catalyst to advance education and economic development in the State of Arkansas.”⁴⁶ Notice that this vision statement does not tell you how the college will be a catalyst. It doesn’t say what the college is going to do. All it tells you is that it expects to be a catalyst. But what is a catalyst? It’s “a substance that

modifies and increases the rate of a reaction without being consumed in the process.⁴⁷ So that means the college is going to be an organization that increases the rate of change in education and economic development in its home state.

However, this vision does not tell us anything about how the college is going to do this. For that information, we look at the mission of the organization, which tells us how the organization expects to do what the vision puts forth. “The mission of the College of Business is to prepare students to succeed as business professionals in a global economy and to contribute to the growth and viability of the region we serve.”⁴⁸ So this means the college of business will achieve its vision by providing education that gives its students the tools they need to succeed in business and create change in the state. This, in turn, will act to improve the state’s economic fortunes.

When you put the vision and mission together, all the people in the organization get a more complete picture of the direction in which they are expected to go. This allows everyone to focus on going in that direction, and that, in turn, makes it much easier for them to help the organization achieve its goals. The fact that they create a focus is the thing that makes a vision and mission so powerful. If everyone in the organization is focused on the same end result, it is much more likely that the organization will achieve that end result.⁴⁹ (SHRM O:1-b)

The mission should also be relevant and known by all stakeholders,⁵⁰ especially employees, so they can stay focused on accomplishing the mission and goals.⁵¹ A strong vision and a good mission statement are critical parts of the strategic-planning process because they guide strategic long-term, short-term, and day-to-day decisions to achieve the vision and live the mission. *Everything* else in strategic planning comes from the vision and mission.

Vision + Mission = FOCUS!

Top management needs to articulate a compelling vision so clear that it can be seen almost as a movie in one’s head, but it’s not easy.⁵² Companies, including **Twitter**, have struggled to define a clear vision, and **Airbnb** has had difficulty defining its mission and brand.⁵³ Once this is done, organizations go through a series of analyses of both external and internal factors to come up with the plan of action that answers Question 3. Strategic planners look at each of the environmental factors that we noted previously, and they analyze the company’s capabilities and limitations to come up with a workable plan. We will discuss some of these factors in the following sections.

STRATEGY TYPES

There are several common generic strategy types. We will keep this simple, for our current purposes. We will break the types of strategies down into three categories: cost leadership, differentiation, and focus or niche strategies.⁵⁴

Cost Leadership

Cost leaders do everything they can to lower the organizational costs required to produce their products or services. However, cost leaders do not necessarily provide their products or services to the customer for a lower price. They can choose to keep their prices down and maintain the same margin as their higher-cost competitors, or they can choose to charge the same price as their competitors and thus increase their profit margin above that of their competitors on each of the goods or services they sell. **Walmart** has had great success with this strategy, but **Amazon** is currently testing Walmart’s cost leadership and, at least in some cases, winning.⁵⁵



Ben Cohen and Jerry Greenfield created a three-part mission for Ben & Jerry's: to make great ice cream, to create prosperity, and to make the world a better place through ethical sourcing.

Ade Johnson/AFP/Getty Images

WORK APPLICATION 2.2

Identify the vision and mission of an organization where you work or have worked.

Differentiation

This strategy attempts to create an impression of difference for the company's product or service in the mind of the customer. The differentiator company stresses its advantage over its competitors.⁵⁶ If a company like **Apple** is successful in creating this impression with its iPhone, it can charge a higher price for its product or service than can its competitors, like **Samsung** Galaxy. Differentiation, it should be noted, is not necessarily based on real difference but on the perception of difference, which is often created through advertising.⁵⁷ **Nike, Harley-Davidson, Margaritaville,** and others place their corporate name prominently on their products to differentiate those products from those of the competition. **Tesla** is a great example of a car company (or is it a technology company?) that has used significant differentiation to create buzz and sell as many vehicles as they can currently produce.⁵⁸

Focus or Niche

With this strategy, the company focuses on a specific portion of a larger market. For instance, the company may focus on a regional market, a particular product line, or a buyer group. Within a particular target segment or market niche, the firm may use differentiation or a cost leadership strategy. Businesses can win big by thinking small.⁵⁹ It is hard to compete head-on with the big companies like **Coca-Cola** and **Pepsi**, but the much smaller **Keurig Dr Pepper** drink offerings have a differentiated taste for a smaller target market. However, it is still very profitable serving those targeted customers.⁶⁰ **Ebony** and **Jet** magazines target African Americans, and **Rolex** watches have a market niche of upper-income people. **Right Guard** deodorant is aimed at men and **Secret** at women.

2.2 APPLYING THE CONCEPT

Types of Strategy

Identify which strategy is used by each brand or company listed, and write the letter corresponding to the company's strategy by the company's name.

- a. cost leadership
- b. differentiation
- c. focus or niche

- ___13. Anytime Fitness
- ___14. Dollar General

- ___15. Nickelodeon
- ___16. iPhone
- ___17. *Bodybuilder* magazine
- ___18. Rolex watches
- ___19. TOMS shoes
- ___20. Target

How Strategy Affects HRM

There are several areas where the generic corporate strategy affects how we do our jobs within HR. Let's first take a look at a few of the differences between generic strategies. A little later in this chapter, we will also review how HRM affects the ability to commit to a particular corporate strategy. We will continue to discuss these areas in greater detail as we progress through the book. (**SHRM O:2**)

HRM and Cost Leadership

If our organization is following a generic cost leadership strategy, we are going to be most interested in minimizing all internal costs, including employee costs. So we are concerned with maximum efficiency and effectiveness.⁶¹ Because we are concerned with maximum efficiency, we will probably create highly specialized jobs within the organization so we have people doing the same thing repeatedly, like **McDonald's**.

This will generally cause employees to get much better and faster at their jobs. We will also have a specific job description for each position and job-specific training with very little, if any, cross-training. We will hire new workers based on technical skills and abilities, and we will most likely emphasize performance pay by which the employees get paid more if they perform their job faster and better. We may also provide incentives that emphasize cost controls and efficiency. Finally, it's quite likely that managers will use narrowly focused performance appraisals as a control mechanism to allow them to weed out less efficient and less effective employees.

HRM and Differentiation

On the other hand, if our organization is following a differentiator strategy, we're going to be more concerned with employees who are flexible and adaptable, who have the ability to innovate and create new and better processes, and who can work in uncertain environments within cross-functional teams.⁶² In a differentiator organization, we will most likely have much broader job classifications, as well as broader and more decentralized work-planning processes. Individuals will be hired and paid based on individual knowledge and skill sets, not specifically based on skills related to the job they fill upon entering the organization. Training will be broad and designed to provide flexibility in operating the business. Here, our incentive programs will reward innovation and creativity to maximize organizational agility. Finally, in the differentiator organization, performance appraisals will generally be used to develop the skill sets of the valuable knowledge workers within the organization, not as a tool to punish and weed out poor performers. So you can see very quickly that HRM will need to do its job in a significantly different way based on the type of generic strategy the company decides to follow.

Strategic Analysis

Once we determine the type of generic strategy we will utilize based on our vision and mission, we need to do a thorough analysis of the environment in which we will operate because the strategy must realign the firm's resources in response to changes in the environment.⁶³ There are two primary components of this strategic analysis. The first is called five-forces analysis, and it is a primary tool that organizations use to analyze the external competitive environment. The second is called SWOT analysis. SWOT stands for strengths, weaknesses (of our internal environment), opportunities, and threats (primarily in the external environment).

Five-Forces Analysis

Five-forces analysis is brought to us by **Michael Porter** of **Harvard University**, who identified competition within an industry as being a composite of five competitive forces that should be considered in analyzing competitive situations.⁶⁴ See Exhibit 2.4 for a list of the five forces.

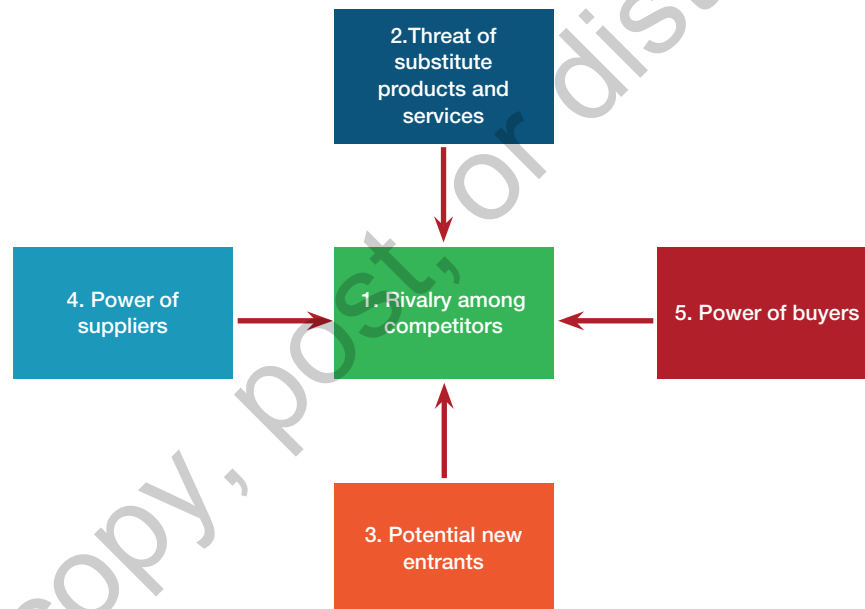
1. *Rivalry among competitors.* Porter calls this scrambling and jockeying for position.⁶⁵ Businesses compete for customers in different ways. Rivals need to anticipate each other's strategic moves, like new products and price changes. **Coke** and **Pepsi** are long-time rivals in the soft-drink industry, while **Nissan** and **Toyota** are long-time rivals in the auto industry.
2. *Threat of substitute products and services.* Companies in other industries may try to take a company's customers away. **Uber** and **Lyft** are lower-cost substitutes for taxis, and **Airbnb** substitutes for hotels.
3. *Potential new entrants.* How difficult and costly is it for new businesses to enter the industry as competitors? Does the company need to plan for new competition? In many industries today, all it takes to enter is the ability to create and host a website. If it is easy to enter an industry and profitability is significant, then the threat of new entrants is much higher than if it is costly and difficult to start a new venture. Would you start a soft-drink business to compete globally with **Coke** and **Pepsi**? If you start a new venture that is

highly profitable and easy to enter, the question isn't will there be new entrants trying take my business; it's how can I stop them from taking away my profits?

4. *Power of suppliers.* How much does our business depend on its suppliers? If we have only one major supplier of a critical component, with no alternatives available, then the supplier has greater bargaining power over our business, such as **GM** over its dealerships. However, if we can get our supplies from several suppliers, then the suppliers will have very little power over the business.
5. *Power of buyers.* How much does our business depend on its buyers? If one buyer or a few large buyers purchase most of what we provide, then the buyer has significant bargaining power over our company, such as **Walmart** and **Costco**. However, if we provide products or services to many different buyers, then they may have very little bargaining power.

EXHIBIT 2.4

Five-Forces Competitive Analysis



Companies use the five-forces analysis and other industry and competitive situation analysis tools primarily at the corporate level to make decisions regarding which lines of business to enter and exit and how to allocate resources among existing lines of business.

SWOT Analysis

In the process of SWOT analysis, the organization creates a list of its strengths, weaknesses, opportunities, and threats. See Exhibit 2.5 for a format in which to list SWOTs. Once this list is created, the organization evaluates each of the sections of the list in order to decide where it can use its resources most effectively.

If, for example, we have an organizational strength that is critical to maintain in order to serve our most important customer groups, then we will allocate resources toward maintenance of that strength. If, however, we have weaknesses on our list that no longer provide us with our profit targets, then we may choose to lower or stop allocating organizational resources. **GM** is selling some of its weaker business lines to focus more on its stronger business units. Focusing on opportunities and threats is critical for firm performance.⁶⁶ **Uber** and **Airbnb** saw an opportunity to take business away from taxis and hotels, creating a threat to taxis and hotels.

EXHIBIT 2.5

SWOT Analysis



So the process of SWOT analysis is a balancing of our available resources in order to make the most of our strengths and opportunities and to minimize any danger to the organization from its weaknesses and threats.

Designing a Strategy

The next steps in the strategic-design process include setting objectives, creating a strategic plan, implementing that plan, and monitoring and evaluating its success. Let's take a brief look at each of these steps.

Setting Objectives

Successful strategic management requires a commitment on the part of managers to a defined set of objectives. Having goals is important⁶⁷ because setting objectives and planning are among the most important drivers of performance.⁶⁸

Objectives are end results; they do not state how they will be accomplished—that's the plan.⁶⁹

Objectives state what is to be accomplished in singular, specific, and measurable terms, with a target date. The organization has to write at least one objective for every major goal that is set forth in its strategy. Each major organizational function also requires at least one objective—and in many cases, significantly more than one.

It is a good idea to write down and review the objectives. Entrepreneur and *Shark Tank* TV star **Daymond John** is goal driven and reads his list of objectives every morning.⁷⁰ Here is a model adapted from Max Weber to help you write effective objectives, followed by a few company examples.

To + action verb + singular, specific, measurable result + target date

Tesla:⁷¹ To + increase + vehicle sales to 500,000 annually + by 2020

Objectives Statements of what is to be accomplished in singular, specific, and measurable terms, with a target date



American Airlines' strategy in 2019 was to focus on new routes and a strong customer loyalty program; however, the COVID-19 outbreak forced them to significantly modify their strategic goals to emphasize social distancing in 2020.

©iStockphoto.com/CHUYUN

Aldi:⁷² To have 2,500 stores in the USA by the end of 2022

Exxon:⁷³ To increase oil output 25% by 2025

Honda:⁷⁴ To make two-thirds of overall unit sales from plug-in hybrid or hybrid vehicles and zero-emission vehicles by 2030

We will talk a little more about organizational objectives a little later.

Create a Strategy

Once we've identified our set of objectives, the next step is to weave them into a cohesive organizational plan. This is the point at which we determine what we're going to do to achieve the objectives we have set. We begin to plan activities within the organization that will allow us to reach those objectives. Looking at this process, you should be able to quickly see that no organization should ever just copy another organization's strategy. Why? The simple answer is that no two organizations are exactly the same. Therefore, no two organizations could ever expect to be successful by following the same strategy. **(SHRM O:1-i)**

Implementing, Monitoring, and Evaluating Strategies

Green Bay Packers coach Vince Lombardi was known to have said, "The best game plan in the world never blocked or tackled anybody."⁷⁵ This is true, no matter the organization and the strategic plan—execution of the plan is the key. The last items in the strategic-planning process are implementing and then monitoring and evaluating the plan's success. The goal here is to ensure the mission and objectives of the organization are achieved. Unfortunately, top managers are usually good at developing strategies, but strategy often fails at the implementation stage.⁷⁶ Successful implementation of strategies requires effective and efficient support systems throughout the organization and dedication to the plan at all levels of the organization.⁷⁷ **(SHRM O:1-h)**

As strategies are implemented, they must also be monitored and evaluated. *Controlling* is the process of establishing and implementing mechanisms to ensure that objectives are achieved. An important part of controlling is measuring progress toward the achievement of the objective and taking corrective action when needed. Another important part of controlling is staying within budgets when appropriate or changing them when necessary to meet changes in the environment.

Quality management is one example of where the controlling process allows the company to adjust its internal processes to reach a predetermined level of quality control. Quality must consistently be monitored—because while quality costs, lack of quality costs much more. So as part of strategy execution, we always need to watch quality through the controlling process. **(SHRM O:2-f)**

2.3 APPLYING THE CONCEPT

Writing Objectives

For each objective, write in the letter corresponding to which "must" criteria is not met.

- a. single result
- b. specific
- c. measurable
- d. target date

- ___ 21. To increase my GPA during the spring semester 2022
- ___ 22. To start working out aerobically within a few weeks
- ___ 23. To double ticket sales
- ___ 24. To sell 7% more sandwiches and 15% more chips in 2022
- ___ 25. To decrease the number of sales returns by end of year 2022
- ___ 26. To be perceived as the best restaurant in the L.A. area by 2022

How HR Promotes Organizational Strategy

So HR managers need to recruit, select, train, evaluate, and interact with employees differently based on different organizational strategies. We showed you earlier how we might manage people differently based on different generic strategies. The same holds true when looking at different sets of objectives, different competitors, different organizational strengths and weaknesses, and many other industry and company characteristics. If the objective is to win a race, you wouldn't hire an **Uber** driver to drive a Formula One race car! Both can drive, but they do it differently to achieve different goals. HR managers have to evaluate all of the organizational characteristics to determine what kinds of people to bring into the organization and then how to retain those people once they have become a part of the company. This is the reason that it's so critical for HR managers to understand organizational strategy.⁷⁸ One of the ways that HR promotes organizational strategies is through the implementation of *high-performance work systems and practices*. Let's take a look at what kinds of things are included in these practices next. **(SHRM O:2-d)**

High-Performance Work Systems and Practices

Early analysis and definitions of *organizational commitment* identified an individual's devotion to the company through a series of factors. However, organizational commitment only captured part of the newer concept of employee engagement, and it does not even tie directly into our idea of employee experience introduced in Chapter 1. But a lot of evidence is beginning to show that employee engagement and experience affect many of the most critical issues in the firm, including overall organizational productivity, job satisfaction, absenteeism, and voluntary turnover. **(SHRM O:1-c)**

In most large organizations today, we do not manage our people based on low-cost leader strategies. We manage the company's human resources through a set of high-performance work practices. According to the **U.S. Department of Health and Human Services**, **high-performance work practices** (HPWP) are *practices that have been shown to improve an organization's capacity to effectively attract, select, hire, develop, and retain high-performing personnel*.⁷⁹ These practices are designed to improve employee commitment and increase involvement in the organization. There are also research claims that increased implementation of HPWPs results in better financial performance and employee outcomes.⁸⁰

The research on high-performance work systems (HPWS) attempts to identify those HR practices that have a positive effect on employee engagement, experience, and productivity. The problem is that there is no set of practices and policies that are agreed upon as HPWS practices, but several items tend to be included in most of the research. Included in this general list are the following:

- Recruiting and staffing: selecting for ability-job fit as well as person-organization fit
- Actions to maximize employee engagement and empowerment
- Self-managed teams: authority for resource use and decision making is pushed down to the team level, allowing the team to have autonomy from larger organizational constraints
- Aligning leadership with the strategy through managerial training, career development, and succession planning
- Communication: more open communication throughout the organization, which allows people to express opinions, concerns, and suggestions without fear of retribution
- Compensation: pay for performance but also *perceived* fairness in all compensation practices, including core compensation and benefits

There is nothing truly "new" in this list (or any other list) of HR issues, but the combination of these practices is receiving a lot of attention by researchers interested in maximizing organizational performance, increasing productivity, lowering turnover,

High-performance work practices Practices that have been shown to improve an organization's capacity to effectively attract, select, hire, develop, and retain high-performing personnel

and increasing employee satisfaction and engagement. As you go through this text, we will emphasize these, as well as other, HPWS practices that can help your organization to continuously improve productivity and create the sustainable competitive advantage that is necessary to carry out your planned strategy.

2.3 STRUCTURE

>> LO 2.3 Describe the major components of organizational structure and why it is important to understand them.

Organizational structure The way in which an organization groups its resources to accomplish its mission

A company organizational structure must be designed to achieve strategic objectives.⁸¹ A company is a group of people,⁸² and how we organize our resources is the organizational structure.⁸³ **Organizational structure** refers to *the way in which an organization groups its resources to accomplish its mission*.

In HRM, managers need to have an understanding of organizational structure to do their jobs correctly. An organization is a system that is typically—but not always—structured into departments, such as finance, marketing, production, human resources, and so on. **Russ Ackoff** developed *systems effect*—each of these departments affects the organization as a whole, and each department is affected by the other departments.⁸⁴ Organizations structure their resources to transform inputs into outputs. All of an organization’s resources must be structured effectively if it is to achieve its mission.⁸⁵ As a manager in any department, you will be responsible for part of the organization’s structure.

Basic Organizational Structure

Managers design formal structures to organize their resources,⁸⁶ and the structure of the firm must align with the environment in which it operates⁸⁷ to achieve the strategic objectives.⁸⁸ One way to look at organizational structure is to identify a series of fundamental components. Each of these components identifies a way in which we divide the organization up and group its resources to make them more efficient and effective. Let’s discuss complexity, formalization, and centralization as structural components.

Complexity

Complexity Degree to which three types of differentiation exist within the organization

Complexity, the first major component of organizational structure, is the *degree to which three types of differentiation exist within the organization*. These three types of differentiation are vertical differentiation, horizontal differentiation, and spatial differentiation. Each of these three subcomponents demonstrates a way in which we break the organization up into smaller and more differentiated pieces. How we do this is very important. For example, **PepsiCo** went through restructuring of its operations in 2019 due to advances in automation of factories and the need to focus more on knowledge workers instead of production employees.⁸⁹ (**SHRM I:6**)

Vertical differentiation deals with how we break the organization up vertically, meaning how many layers there are in the organization from the top to the bottom. How many bosses are there, and to whom does each one report? The federal government’s General Schedule (GS) Pay System has 15 vertical grades, plus 10 steps within each grade, for a whopping 150 vertical tiers!⁹⁰ The organizational chart illustrates the management hierarchy, chain of command, division and type of work, and departments. It doesn’t include day-to-day activities performed. A typical firm has two org charts: the formal one on paper and the real, informal one in terms of knowing whom to talk to with power and political skills to help you get the job done.

Horizontal differentiation identifies how we break the organization up horizontally. We usually do this by breaking the organization up into departments. For example, HR is commonly a department within the organizational structure, advising and assisting all the other departments in the firm. But there are other ways in which we can segment the organization horizontally, including by customer type, product or process type, geographic divisions, and so on. **Zappos** famously changed to a *holacracy* form of structure, meaning a structure in which there are no departments, job titles, or managers. This is a radical way to wipe out vertical *and* horizontal differentiation.⁹¹

Spatial differentiation deals with the physical separation of different parts of the organization. For instance, we may have headquarters in Los Angeles, California, while we may have a production plant in Indonesia. Spatial differentiation can make it much more difficult to manage the organization due to the fact that the organization is spread out among many locations. For example, **Netflix** operates in more than 190 countries.⁹² Now that is complex!

So complexity involves the way in which we divide the organization into different segments, both physically and within artificial boundaries, such as departments. Why does this matter to managers? The more the organization is broken into segments, the more difficult it becomes to manage within it. It's more difficult to communicate between the different parts of the organization, to make decisions within the organization, and to find needed information when it's in another part of the organization. In fact, duplication of processes is a common problem in highly complex organizations.⁹³ As a result, the cost of managing an organization goes up as it becomes more complex and bureaucratic. **Jim Hackett**, CEO of **Ford**, recognized this issue and noted that Ford was "right in the middle of that work of eliminating complexity" and that "the costs of complexity are hard to see until they're gone."⁹⁴ So we want to minimize complexity as much as possible in order to minimize organizational costs.

Formalization

Formalization, the second major component of organizational structure, is the *degree to which jobs are standardized within an organization, meaning the degree to which we have created policies, procedures, and rules that "program" the jobs of the employees.*⁹⁵ Routines are a foundational concept in strategy because they explain how work is accomplished.⁹⁶ If we make things routine by creating standard operating procedures and other standard processes, we can usually increase the efficiency and effectiveness of the people within the organization, in turn making the entire organization more productive on a per unit basis.⁹⁷ So the more we can formalize the jobs within the organization, the easier it is to manage the people in those jobs.⁹⁸ We also tend to see lower costs in organizations that are highly formalized because jobs in such organizations are done in a routine, repetitive manner—at least when it is possible to do so.

As a result, we generally want to formalize all of the processes we can within the organization, but we can't always formalize everything we do. How much we're able to formalize jobs depends on what the organization is designed to do. If the organization is designed to do the same thing over and over, such as producing a low-cost commodity, then we can usually formalize many of its procedures, like at **McDonald's**. On the other hand, if the organization is designed to do unique and nonroutine things, then we will probably not be able to formalize very much of what the organization does.

Centralization

Centralization, the third major component of organizational structure, is the *degree to which decision making is concentrated within the organization.* The degree of centralization in an organization has to do with dispersion of authority for decision making and delegation of authority. With *centralized decision making*, important decisions are made by top managers. With *decentralized decision making*, important decisions are made at lower levels in the organizational structure.⁹⁹ Standing plans are a form of centralized decision making.

With centralization, you have more control, and the more decisions you make, the better you get at making high-quality decisions.¹⁰⁰ If we can concentrate authority in decision making with one or a few individuals, we can concentrate on hiring people who are very good at making business decisions in those few positions.¹⁰¹

However, there's a tradeoff to centralized decision making. As the organization gets larger, we may have to go through many layers of the organization in order to get a decision made. This can slow down the processes within the firm—in some cases, to such an extent that by the time a decision is made, it becomes irrelevant. Managers at **Boeing** warned about problems with the 737 MAX aircraft months before two of those planes crashed, killing everyone aboard.¹⁰² However, either the warnings didn't get to the right people who had authority to stop production and fix the aircraft, or the information was ignored by people far removed from the actual production lines.

Formalization Degree to which jobs are standardized within an organization, meaning the degree to which we have created policies, procedures, and rules that "program" the jobs of the employees

Centralization Degree to which decision making is concentrated within the organization

**WORK
APPLICATION 2.3**

Briefly describe the complexity, formalization, and centralization of the organizational structure where you work or have worked.

How Does Structure Affect Employee Behavior?

Does the way in which we combine complexity, formalization, and centralization cause employees to act in different ways? In fact, it does. Think for a second of an organization that is a true bureaucracy, such as a government agency, a corporation, or a university. This bureaucratic firm is highly complex and has many standard procedures or ways of doing things, centralized decision making, and very clear job descriptions. If you work in this bureaucracy and someone asks you to do something that is outside the scope of your job description, then you most likely would say, “That’s not my job,” and tell them to go to a different person to accomplish that task. A firm with a strong bureaucracy is often referred to as having a *mechanistic organization structure*. This structure tends to work well in stable environments, in which uniformity and the traditional command and control are important.¹⁰³

Now let’s look at a different kind of organization, such as a startup company, which **Amazon** started as. It’s flexible, with minimal focus on procedures and rules; it has decentralized decision making; and it has no or very broad job descriptions. There are no departments and few standard procedures, and you were hired at least in part because of your ability to “think on your feet” and make decisions. Someone again asks you to do something that is outside the scope of your normal job. In this environment, you’re much more likely to take upon yourself the task of figuring out a way to assist the other person instead of passing them to someone else. The structure of the organization has changed the way you react to a request to do something that is outside the scope of your job. Either that, or the request becomes part of your job. This structure is commonly referred to as an *organic organizational structure*, and it works well in the current trend of more dynamic environments.¹⁰⁴ (**SHRM L:12**)

Is There One “Best” Structure?

No. The best structure is one that fits the firm’s current competitive situation, as well as its internal capabilities, and that enables it to implement its strategies successfully. **Peter Drucker** said, “The simplest organization structure that will do the job is the best one. What makes an organization structure ‘good’ is the problems it does not create. To obtain both the greatest possible simplicity and the greatest ‘fit,’ organization design has to start out with a clear focus on KEY ACTIVITIES needed to produce KEY RESULTS.”¹⁰⁵

The key to success seems to be having the right balance between centralized and decentralized decision making.¹⁰⁶ Within companies, it is common to have centralized standing plans and production processes and decentralized marketing. Franchise operations, including **KFC** and **McDonald’s** need to be centralized to ensure standardized systems and product consistency, but they also give managers decentralized authority to offer new food items to meet local consumer tastes and preferences.¹⁰⁷ Although firms, such as **Amazon** start up with very organic structures and continue to innovate, as they grow they tend to move toward using mechanistic structure traits, such as for product order taking and delivery.

How Does Structure Affect HRM?

As the HR manager, would your job change if your organization adopted the structure of McDonald’s? How about if you went to work for Zappos? Would you need to recruit and hire different types of people in a bureaucratic organization like **McDonald’s** than you would in an entrepreneurial organization like **Zappos**? Indeed, you would—even at managerial levels.

In the more bureaucratic organization, you would most likely look for and hire people who had significant depth of expertise in a narrow area within their field of knowledge, so they could apply that expertise in a highly efficient manner. That would make the organization more productive over the long term. Your training programs would also probably be more specific and geared toward particular jobs. In addition, your performance appraisal processes would be aimed at evaluating more specific tasks and functions than would be the case in the entrepreneurial organization. In fact, the organizational structure will affect virtually every function of the HR manager. So in order to be a successful HR manager, you have to understand and adapt to the particular organizational structure of your firm.

2.4 ORGANIZATIONAL CULTURE

>> LO 2.4 Discuss how organizational culture affects the members of the organization.

Organizational culture should be how the firm achieves its vision and mission by living its values and belief on a daily basis.¹⁰⁸ Fostering the right organizational culture is one of the most important responsibilities of a chief executive, say **Google** cofounders.¹⁰⁹ Plus, in a survey of 3,300 executives, respondents stated that culture is even more important than leadership.¹¹⁰ It is also one of the most important responsibilities of the HRM and other corporate executives.¹¹¹

Every group of people that gathers together anywhere at any point in time creates a unique group culture. They have their own group standards, called norms, which create pressure for the group's members to conform. Social groups have societal cultures, nations have national cultures, and organizations have their own distinct organizational cultures. (SHRM C:29)

What Is Organizational Culture?

Organizational culture consists of the values, beliefs, and assumptions about appropriate behavior that members of an organization share. Culture is an important part of management¹¹² because it describes how employees do what they do (standards of behavior) and why they do what they do (values, profits, customers, employees, society).

A critical role of HRM today is to help create a workplace culture with its own standards of behavior and hold everyone to them.¹¹³ HRM also needs to recruit and hire people that fit the organizational culture to achieve its strategic objectives.¹¹⁴ Organizational culture is primarily learned through HR onboarding and training, observing people, and artifacts in the organization. (SHRM A:7)

Organizational culture The values, beliefs, and assumptions about appropriate behavior that members of an organization share

Artifacts of Organizational Culture

There are five artifacts of organizational culture that help employees learn the culture:¹¹⁵

1. *Heroes*, such as founders Steve Jobs of **Apple**, Mark Zuckerberg of **Facebook**, Elon Musk of **Tesla**, and others who have made outstanding contributions to their organizations
2. *Stories* are narratives,¹¹⁶ often about founders and others who have made extraordinary efforts. These include stories about Sam Walton visiting every **Walmart** store yearly. Public statements and speeches can also be considered stories.
3. *Slogans*, such as at **McDonald's**: QSCV (or quality, service, cleanliness, and value)
4. *Symbols*, such as plaques, pens, jackets, or a pink Cadillac at the cosmetics firm **Mary Kay**, including logos
5. *Ceremonies*, such as awards luncheons and dinners for top achievers at **Macy's**

Three Levels of Culture

The three levels of culture include behavior, values and beliefs, and assumptions. Exhibit 2.6 illustrates the three levels of culture.

- *Level 1: Behavior.* Behavior includes the observable things people do and say or the actions employees take. *Artifacts* result from behavior and include written and spoken language, dress, material objects, and the organization's physical layout. The behavior level is also called the *visible level* because values, beliefs, and assumptions cannot actually be observed.
- *Level 2: Values and beliefs.* Values represent the way people believe they ought to behave; and beliefs represent "if, then" statements, like "If I do *x*, then *y* will happen." Values and beliefs provide the operating principles that guide

WORK APPLICATION 2.4

Briefly describe some of the organizational culture artifacts where you work or have worked.

decision making and shape the behaviors that result in Level 1 culture. Values and beliefs are invisible because they cannot be observed directly; we can only infer from people's behavior what they value and believe.

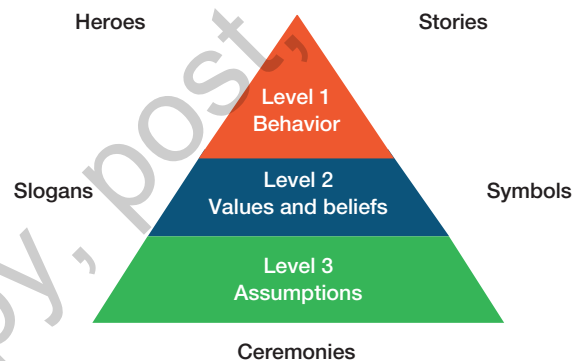
Although organizations use heroes, stories, symbols and logos, and ceremonies to convey important values and beliefs, slogans are critical to Level 2 culture. A slogan expresses key values. Slogans are part of organizational mission statements, while a *philosophy* (e.g., FedEx's philosophy of people-service-profit) is a formal statement of values and beliefs.

- *Level 3: Assumptions.* Assumptions are values and beliefs that are so deeply ingrained they are considered unquestionably true. Because assumptions are shared, they're rarely discussed. They serve as an automatic pilot to guide behavior. In fact, people often feel threatened when assumptions are challenged. If you question employees about why they do something or suggest a change, they often respond with statements like, "That's the way it's always been done." Assumptions are often the most stable and enduring part of culture and are difficult to change.

Notice that behavior is at the top of the diagram in Exhibit 2.6. Assumptions, values, and beliefs affect behavior, not the other way around; in other words, cause and effect work from the bottom up.

EXHIBIT 2.6

Culture Artifacts and Levels of Culture



How Culture Controls Employee Behavior

Because organizational culture is based at least partly on assumptions, values, and beliefs, it is a very powerful force in controlling how people act within its boundaries. For instance, if the culture says that we value hard work and productivity but an individual on one of the teams fails to do his or her part, work hard, and be productive, then the other members of the team are quite likely to pressure that individual to conform to the culture or to leave the organization. Since assumptions, values, and beliefs are so strong, shirking individuals will most likely change their actions to conform to those the cultural values.

You may not believe that culture has the ability to cause you to change the way you act, but it does. Have you ever done something to fit in, or have you ever done something you really didn't want to do because of peer pressure? Doesn't peer pressure control most people—at least sometimes? Think about the way you act as part of your family, and then compare that to the way you act as a student at school, with a group of your friends, or as an employee at work. Chances are quite high that you act differently within these different "cultures." We all act to conform, for the most part, to the culture that we happen to be in at that point in time because the culture's values push us to act that way.

Social Media and Culture Management

Recall that there is an internal and an external environment with which every organization is concerned. See Exhibit 2.7 for a review of the components making up the environment.

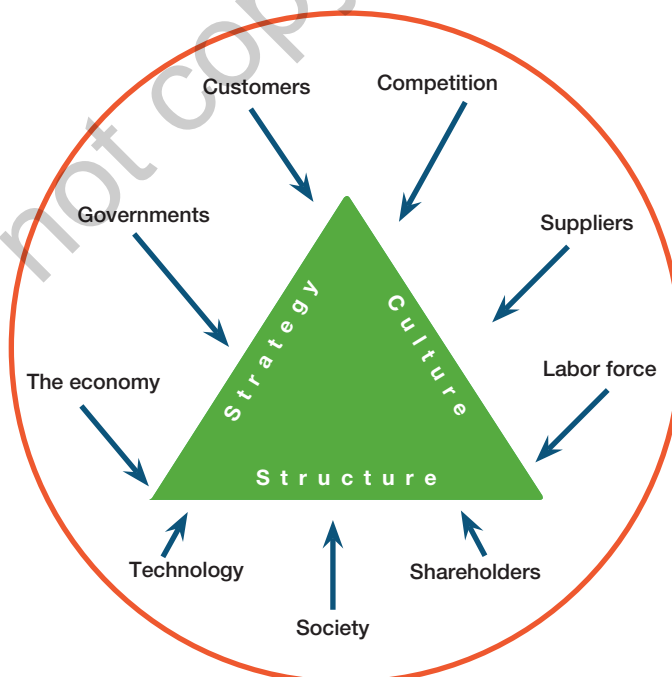
Social media is one of the mechanisms we now use to both monitor and—at least partially—control organizational environments, either from the inside or outside of the organization.¹¹⁷ Whether it is finding that an employee posted some things she should not have when the company was monitoring social media and happened to find the posting she made or using a company **Facebook** page to provide sustainability information to customers and workers, social media can be used to identify and defend the company and its values.¹¹⁸ This is a form of monitoring and managing both the internal and external environment, which gives management more control over the culture within the organization.

Companies can also actively seek out information internally using various forms of social media¹¹⁹ and can even ask company members to interact on social-media platforms, such as **LinkedIn** and **Facebook**. Have you ever known someone whose organization asked employees to “like” them on Facebook? This mechanism is becoming more important every day and will continue to do so for the immediate future. **(SHRM L:15)**

The same is true for the external environment, from following competitors on social-media sites to following government webpages and media links. Governments and other entities are even using social media to extend their reach into communities that are generally hard to reach because they don’t pay much attention to standard methods of communication like State of the Union addresses and regulatory bulletins. In the United States, former president **Barack Obama**’s administration turned to social media to attract younger individuals (who don’t tend to get as involved with government issues) to the federal health care exchanges. The administration did this because the Affordable Care Act required younger people to sign up to offset the higher cost of insuring older individuals.¹²⁰

EXHIBIT 2.7

The Internal and External Environment



Social media continues to become more important to business and government. You can bet that governments will pay more attention to social media in the future, since many of the Arab Spring uprisings, as well as the 2019 Hong Kong protests, were coordinated via social media.¹²¹ This is just one example of the power of social media.

2.4 APPLYING THE CONCEPT

The Internal Environment

Identify which internal environmental factor is referred to in each statement, and then write the letter corresponding to that factor before the statement.

- a. strategy
- b. structure
- c. culture

- ___ 27. "At Amazon, customers are important, so we provide high quality service with fast delivery."
- ___ 28. "At Victoria's Secret, we focus on selling clothes and other products to women."
- ___ 29. "At the SEC, we have several layers of management."
- ___ 30. "At Ford, quality is job one."
- ___ 31. "Walking around the office at IBM, I realized that I would have to wear a jacket and tie every day."
- ___ 32. "I work in the production department, and she works in the marketing department at Craftsman Tools."
- ___ 33. "At Nike, we differentiate our product from our competitors."

2.5 AN INTRODUCTION TO HR TECHNOLOGY

>> LO 2.5 Identify areas of HRM where data analytics and other HR technologies can have an effect on organizational success.

According to a recent SHRM symposium, "HR is ripe for disruption and transformation."¹²² As HR practices become more automated and data driven, HR managers will have to be even more knowledgeable of managing and manipulating big data in order to continue to do their jobs.¹²³ Data scientists are in demand.¹²⁴ AI and intelligent apps, like chatbots and virtual HR assistants (think Siri or Alexa), are growing exponentially.¹²⁵

Data Analytics and HR Technology

Data analytics Process of accessing large amounts of data in order to analyze those data and gain insight into significant trends or patterns within organizations or industries

One area of required managerial knowledge is data analytics.¹²⁶ **Data analytics** is the *process of accessing large amounts of data in order to analyze those data and gain insight into significant trends or patterns within organizations or industries*. This ability to create huge amounts of data has led to the concept of *big data*. The HR-specific process is often called people analytics.

Big data involves the collection and analysis of extremely large data sets. It can reveal patterns and opportunities that 99% of businesspeople would miss.¹²⁷ Have you ever been online or in a store and received customized ads for products you bought in the past or are likely to buy or ads telling you it's time to reorder? That's big data. **Fortune 500** executives are all talking about big data¹²⁸ because it allows us to make important organizational decisions—especially strategic decisions—faster.¹²⁹

Jack Ma, chairman of **Alibaba**, said, "Data will become the biggest production material in the future."¹³⁰ Executives must transform into math machines¹³¹ because whoever has the most exact data—and knows how to use it—wins today.¹³² **United Airlines** uses big data to decide where to fly, how often, and how many people they should carry on how big or small a plane.¹³³ Many other companies have joined this movement as well, including **Tencent**, **Telstra**, and **GE**, who are all looking for strategic advantage through big data and AI.¹³⁴

Analysis of big data is providing information that companies can immediately act on. **Visier**, a *business intelligence* company, identifies one success story: **First West Credit Union**, the third-largest credit union in Canada, had an increasing turnover problem, but that is all they knew. Through a big-data analysis, they discovered where exactly they were having an issue, and by changing strategies on “recruitment, hiring, promotion, and training,” they lowered their turnover, leading to an annual revenue increase of \$2.5 million.¹³⁵

Because of big data, we can now analyze thousands—or even millions—of instances of interaction between people in and between organizations and look for patterns to those interactions. If we find a pattern, it may tell us what we should do based on data rather than instinct, and then we can take action on those data. The ability to measure actions and reactions in large numbers and find patterns in them is going to change the management of people in organizations—not just in the long term but in the immediate future.

AI and Intelligent Apps

In addition to analytics, HR has begun using other technologies to reach and inform workers to a much greater extent than in the past. Part of this shift is because of the comfort level of most employees with using technology. According to **Insperty**, an HR technology company, just about every aspect of employment—from selection and onboarding to training, compensation and benefits, performance reviews, and mobile workforce management—is being managed through a variety of computers and personal technology devices like smartphones and tablets.¹³⁶ We use intelligent apps and devices, such as sensors, monitors, and badges connected to the *Internet of Things* (IOT), to manage work, breaks, attendance, access to classified areas, and other similar purposes.¹³⁷

AI is rapidly changing the way we work in HR. We are using AI-driven chatbots for recruiting, training and development, and benefits management (and probably in other HR fields as well). According to SHRM, “There are now apps that use AI to create interactive tests and assessments to match test takers’ personal learning styles and engagement levels.”¹³⁸

There are, however, cautions being noted. **Josh Bersin** of **Bersin by Deloitte** says to “evaluate AI based on the amount and quality of data underpinning it, on the maturity of the model, and on how applicable it is to your particular HR challenges and company.”¹³⁹ AI is not a one-size-fits-all solution to HR problems, and the same can be said for other HR technology. We have to be cautious concerning how we use technology and what the outcomes are in order to protect our people from bad programming or data inputs.

Desired Outcomes

Companies shouldn’t do anything without good reason. What are the outcomes we seek from data analytics and HR technology? A **Boston Consulting Group** (BCG) study found that “companies that are highly skilled in core HR practices experience up to 3.5 times the revenue growth and as much as 2.1 times the profit margins of less capable companies.”¹⁴⁰ That is a shocking differential between skilled and less skilled organizations. Successful discovery and utilization of data in HR metrics is one major point of difference between top companies and others. HR managers who can use such metrics can gain their “seat at the table” when strategy is being discussed in their firms. There is no doubt that data analytics is becoming a critical area of expertise for HR managers—especially at higher management levels.



The Coffee Bean uses data analytics to appraise employees' performance, including the revenue each employee brings in at the cash register. This creates an incentive for employees to upsell products.

Jeff Greenberg/UiG via Getty Images

2.6 HUMAN RESOURCE MANAGEMENT SYSTEMS (HRMS)

>> LO 2.6 Describe human resource management systems (HRMS), and identify how they can help HR make decisions.

Strategic planning requires the management and manipulation of large amounts of data through the use of the data analytics processes introduced previously, and HR serves as a broad-based organizational system using data to influence business performance.¹⁴¹ As a result, most organizations today use complex computer systems to manage and manipulate those data. Human resource management systems are one type of system used to manage and analyze data in organizations, as HR uses data to influence business performance. **(SHRM H:3)**

Human resource management systems (HRMS) (sometimes called *human capital management*, or HCM, software) are *interacting database systems that “aim at generating and delivering HR information and allow us to automate some human resource management functions.”*¹⁴² According to **bambooHR**, a leading HR software company, they are “basically a digital personal assistant to do tedious work for HR professionals.”¹⁴³ A slightly older term for such systems that you may hear is human resource information system, or HRIS. Some of the most common features in HRMS include modules for tracking attendance and leave, for tracking job and pay history, for scheduling shifts, and for logging appraisal scores and review dates. Others include modules for benefits enrollment and tracking, succession management, and training management. There are additional modules available, depending on the size and type of the organization. The latest systems have tools to manage and improve employee engagement and to analyze corporate trends using analytics.¹⁴⁴ **(SHRM H:4)**

Human resource management systems (HRMS) Interacting database systems that aim at generating and delivering HR information and allow us to automate some human resource management functions

WORK APPLICATION 2.5

How does the HR department where you work or have worked use HRMS? If you don't know, ask an HR manager.

How Do HRMS Assist in Making Decisions?

According to a recent *HR Magazine* article, “HRMS platforms have come a long way. . . [T]oday’s systems include such key features as workforce management, performance monitoring of the recruiting process, e-mail alert systems, and predictive analytics.”¹⁴⁵ And these new systems are very user-friendly. If we are planning a new strategic initiative that is going to require certain training and skill sets, we can immediately search the HRMS database to see how many individuals have the requisite skills and training. We can also use the information stored in the database to make daily decisions within the HR department. For example, since training records are available in the HRMS, if we need to determine who has completed conflict management coursework for a new team being created in the company, we can quickly identify those individuals with that skill set. We can also use the same databases when considering promotions, transfers, and many other daily activities that are required inside the organization. **(SHRM H:5)**

2.7 MEASUREMENT TOOLS FOR STRATEGIC HRM

>> LO 2.7 Identify the common measurement tools for strategic HRM.

Housed within many HRMS are statistical packages for HRM. Just as we have to quantify and measure other parts of the organization, we also have measurement tools specific to HRM. Some of the most common tools for analyzing strategic HRM are economic value added and return on investment (ROI). We will also discuss recruiting- and selection-specific HR metrics in Chapter 5. Let’s take a brief look at these two strategic tools here. **(SHRM O:2-e)**

Economic Value Added

Economic value added is designed as a method for calculating the creation of value for the organization’s shareholders. **Economic value added (EVA)** is a *measure of profits that remain after the cost of capital has been deducted from operating profits*. It

Economic value added (EVA) Measure of profits that remain after the cost of capital has been deducted from operating profits

provides shareholders and managers with a better understanding of how the business is performing overall. As an equation, EVA would look like this:¹⁴⁶

$$\text{EVA} = \text{net operating profit after tax} - (\text{capital used} \times \text{cost of capital})$$

So EVA is a measure of how much money we made through our operations minus the amount of money we had to spend or borrow (at a particular interest rate) in order to perform those operations. For a company to grow, it must generate average returns higher than its capital costs. **(SHRM K:5)**

As an example, let's look at a fictitious company's incentive program to see if we gained value. Acme Mega Corp decided to create a bonus program to increase productivity. They set aside \$1 million for the program, and their cost to acquire the million dollars was 6%. Don't worry too much about why it was 6% for now. You will learn about weighted average cost of capital (WACC) and other financial measures later. Ultimately, Acme was able to measure *productivity improvements* at the end of one year of the incentive program, and they increased productivity by \$1,200,000 (after taxes were calculated on the profit from the increased productivity). The EVA calculation would be as follows:

$$\text{EVA} = \text{net operating profit after tax} - (\text{capital used} \times \text{cost of capital})$$

$$\text{EVA} = \$1,200,000 - (\$1,000,000 \times 1.06) = \$1,200,000 - \$1,060,000 = \$140,000$$

So we made \$140,000 on our \$1 million investment—a 14% return after accounting for the cost of capital.

Return on Investment

The concept of ROI is, at its core, very simple. **Return on investment (ROI)** is a *measure of the financial return we receive because of something that we do to invest in our organization or its people*. ROI is most commonly used in financial analyses, but many areas of HR lend themselves to ROI calculations. These areas include training, outsourcing, benefits, diversity, and many others. In each of these areas, we can calculate the cost of the process—whether that process is training, diversity management, or anything else—and compare that to the returns we get from the process. **(SHRM K:8)**

To calculate ROI, you need two figures: the cost of the investment and the gain you receive from making the investment. From there, the calculation is pretty simple:

$$\text{ROI} = \frac{\text{Gain from investment} - \text{Cost of investment}}{\text{Cost of investment}}$$

Let's use a quick example to illustrate. Assume we create a training course to improve the skills of our assembly workers, and also assume we send those workers through that program. To send all of the workers through the training costs us \$1,000,000. We know that historically, during a normal year of production, the assembly workers have been able to assemble \$5,000,000 worth of our product. However, after the training is complete, we measure our assembly process over the ensuing year and find that our amount of product created that year has increased to \$8,000,000. This gives us a \$3,000,000 gain from the investment. We can plug these numbers into our calculation and find out the following:

$$\text{ROI} = \frac{\$3,000,000 - \$1,000,000}{\$1,000,000} = \frac{\$2,000,000}{\$1,000,000} = 2 \text{ or } 200\%$$

So in this case, our return on investment over the course of one year is 2 times the cost of the investment.

It is always important to calculate at least a rough ROI for any investment in organizational resources. There's a definite need to understand how much we get in return for an investment in our people. Don't just assume that the return on investment is always positive—because it's not.

Return on investment (ROI)
Measure of the financial return we receive because of something that we do to invest in our organization or its people

2.5 APPLYING THE CONCEPT

Return on Investment (ROI)

For all your HR investment programs, the objective is to get at least .25 or 25% ROI. In each of the four HR programs, do the following:

1. Calculate the ROI, and place the number and percentage (%) on the line before the number.
 2. State if it (a) does or (b) doesn't meet the objective on the line after the number, and explain the results of the ROI calculations.
- ___ 34. ___ HR developed a new program to reduce absenteeism. The program cost \$1,000. Absenteeism decreased, resulting in a cost savings of \$2,000.
- ___ 35. ___ HR developed a new program to improve employee morale. Morale increased at an estimated cost savings of \$6,000, and the program cost \$5,000.
- ___ 36. ___ HR developed a new program to increase the percentage of minorities employed over the course of six months. Although you hired more minorities, some current employees left the company, and you hired more whites, resulting in a 1% gain, at an estimated value at \$5,000. The extra recruiting cost targeted at minorities was \$50,000.
- ___ 37. ___ HR developed a new safety training program to decrease the number of accidents resulting in paying employees while out of work due to injuries. The training cost \$40,000, and the savings was \$100,500.

WORK APPLICATION 2.6

Which measurement tools are used where you work or have worked? If you don't know, ask a financial manager whether EVA and ROI are used.

2.8 TRENDS AND ISSUES IN HRM

» LO 2.8 Discuss the role of culture, technology, and globalization in HRM.

Here, we continue our discussion of some of the most important issues and trends in HRM today. In this chapter, we chose the following issues: the issue of people analytics starting to drive everything else in HR and the requirements for HR to be far more strategic than it has historically been. (SHRM O:2-h)

People Analytics Is Overpowering Classic HRM

Much of managing people has historically been based on gut feeling, but that has all changed. We have previously discussed what analytics is and why people analytics is becoming such a big issue in companies. However, we may not have provided you with sufficient information on just how much management time and company money is being spent on the people analytics effort and what some of the outcomes have been so far. According to *Harvard Business Review*, in 2018, “more than 70% of companies consider[ed] people analytics to be a high priority,”¹⁴⁷ and the numbers continue to grow. In 2020, there were more than 4,000 HR tech firms that provided analytics and AI assistance and support to companies worldwide,¹⁴⁸ and with new offerings coming almost weekly, 89% of organizations said that people analytics was implemented or in process in their companies.¹⁴⁹

However, there are some issues, at least as this is being written. People analytics has not yet been as valuable in an organizational sense as have other analytics efforts in corporations. The first issue is skilled HR managers with analytics training. According to OrgVue, a UK-based analytics and software firm, 62% of companies say that existing skill sets in their HR workforce is the biggest barrier to an analytics effort.¹⁵⁰ However, about a third of these companies in 2020 were planning to provide training to their HR managers in order to begin to overcome this problem.

The second issue is that people analytics has not yet proven to provide significant value to most organizations. There may be multiple reasons for this. One reason is likely the lack of training in HR departments, which, as noted previously, is being worked on. Another reason is that people are not like financial markets or production processes—people have free will. This makes an analytics process more difficult. However, it appears that analytics and AI providers are beginning to overcome this problem as they get more data on where their systems are and are not working for their clients.

Lastly, there have been ongoing concerns about programming bias being built into analytics programs, as well as ongoing concerns about effects on employee motivation and privacy. As Benjamin Erb of Ulm University in Germany notes, “There is a thin line between detailed, individual performance metrics collection and total surveillance of employees,” and “a negative consequence on talent prediction is the potential devaluation of less promising candidates. Being permanently characterized as ‘low potential’ based on the personal profile and an algorithmic comparison with similar profiles may negatively affect motivation and commitment of human beings as well as their emotional well-being.”¹⁵¹

Strategic HRM in an Analytics World

The next few years will be a wild ride for CHROs and for HR managers in general. The need to maximize the business skills we discussed in Chapter 1 will be critical. The rise of people analytics requires this more than ever before. HR managers will have to be capable of the depth of analysis that is required in order to manage both people and technology in today’s workplace. This means many senior HR managers will need specific skills training in analytics and AI and in how to use these tools to maximize organizational value.

Continuous change will be the order of the day. Change management skills will have to be sharper than ever. Leading change efforts will be absolutely mandatory. Many HR managers are afraid of the technology of analytics and AI and what may happen to human resources in the organization because of them. At the same time, they are afraid that they do not have the necessary skills to learn to manage these tools—even though they know this skill set will be increasingly necessary. **(SHRM O:2-g)**

The Jack Welch Management Institute suggests five steps for earning that CHRO “seat at the table” and being viewed as a strategic asset:¹⁵²

1. Be seen as the talent management expert.
2. Sharpen your business acumen, and align your actions with the company’s strategy.
3. Turn your department from a cost center into a profit center.
4. Communicate clearly and concisely.
5. Build trust; become a valued advisor.

We have already started your education on these five steps by identifying the necessary skills and the concept of a profit center—and more importantly, a productivity center—in Chapter 1. We have also shown you the basic tools for aligning your actions with the company strategy in this chapter. We will further discuss trust and communication in later chapters of this text, and we will continue to provide you with the means to become a talent expert and valued advisor. It’s an interesting road ahead!

CHAPTER SUMMARY

LO 2.1 Identify and explain the major components of the external environment.

There are nine major external forces:

- *Customers.* Companies must continually improve products to create value for their customers.
- *Competition.* Organizations compete against each other for customers, for the same employees, and sometimes for suppliers. Competitors’ strategic moves affect the performance of the organization.
- *Suppliers.* The firm’s performance is affected by its suppliers. Therefore, it is important to develop close working relationships with your suppliers, and close relationships require employees who have the ability to communicate, empathize, negotiate, and come to mutually advantageous agreements.
- *Labor force.* The recruits available to and the employees of an organization have a direct effect on its performance. Management recruits human resources from the available labor force outside the company’s boundaries.

- *Shareholders.* The owners of a corporation, known as shareholders, influence management. Most shareholders of large corporations are not involved in the day-to-day operation of the firm, but they do vote for the board of directors, and the top manager reports to the board of directors.
- *Society.* Individuals and groups within society pressure business for changes. People who live in the same area with the business do not want it to pollute the air or water or otherwise abuse natural resources.
- *Technology.* Technology has changed the speed and the manner in which organizations conduct and transact business. Changing technologies require technologically savvy employees who have the ability to adapt to new processes.
- *The economy.* No organization has control over economic growth, inflation, interest rates, foreign exchange rates, and so on. In general, businesses do better when the economy is growing than they do during recessions.
- *Governments.* National, state, and local governments all set laws and regulations that businesses must obey. Governments create both opportunities and obstacles for businesses. To a large extent, business may not do whatever it wants to do; the government sets guidelines.

LO 2.2 Identify the factors impacting how an organization makes strategic decisions, and give an example of the impact HR may have on crafting a vision and mission, strategic analysis and design, organizational strategy, and high-performance work systems.

- The *vision* is fuzzy; it is not specific, in that we don't say how we're going to do a particular thing. Instead, we identify a future state for the organization. So the question that we answer with the vision is, "What do we want to become as an organization?"
- In contrast, the *mission* is more specific. It is a statement of what the various organizational units will do and what they hope to accomplish, in alignment with the organizational vision. So the mission statement answers the question, "What do we need to do in order to become what we have envisioned?" When you put the vision and mission together, the people in the organization get a more complete picture of what direction they are expected to go in.
- The three types of strategy are (1) *cost leadership*, focusing on keeping the cost of producing products or services down, often selling at lower prices; (2) *differentiation*, focusing on creating an impression of difference and charging higher prices; and (3) *focus or niche*, focusing on a specific portion of a larger market.
- The two methods of strategic analysis are (1) the *five-force analysis* to determine the external competitive situations, analyzing the rivalry among competitors, threat of substitute products or services, potential new entrants, power of suppliers, and power of buyers, and (2) the *SWOT analysis* to analyze the internal environment of strengths, weaknesses, opportunities, and threats.

- The writing objective model is: To + action verb, + singular, specific, measurable result + target date.
- HR managers have to evaluate all of the organizational characteristics to determine what kinds of people to bring into the organization and then how to retain those people once they have become a part of the company.
- High-performance work systems are practices that have been shown to improve an organization's capacity to effectively attract, select, hire, develop, and retain high-performing personnel.

LO 2.3 Describe the major components of organizational structure and why it is important to understand them.

All of an organization's resources must be structured effectively if it is to achieve its mission. Structure is made up of three major components:

- *Complexity*, which is the degree to which three types of differentiation exist within the organization. These three types are vertical differentiation, horizontal differentiation, and spatial differentiation. The more the organization is divided—whether vertically, horizontally, or spatially—the more difficult it is to manage.
- *Formalization*, which is the degree to which jobs are standardized within an organization. The more we can standardize the organization and its processes, the easier it is to control those processes.
- *Centralization*, which is the degree to which decision making is concentrated within the organization at a single point—usually at the top. A highly centralized organization would have all authority concentrated at the top, while a decentralized organization would have authority spread throughout. If authority can be centralized, we can take advantage of learning curve effects that help to improve our decision making over time.

LO 2.4 Discuss how organizational culture affects the members of the organization.

Organizational culture consists of the values, beliefs, and assumptions about appropriate behavior that members of an organization share. Organizational culture is primarily learned through observing people and events in the organization.

Because organizational culture is based at least partly on assumptions, values, and beliefs, the culture can control how people act within its boundaries. Since assumptions, values, and beliefs are such strong influences, individuals will generally act to conform to the culture. For the most part, we all act to conform to the culture that we happen to be in at any given point in time, and that's because cultural values push us to act that way.

LO 2.5 Identify areas of HRM where data analytics and other HR technologies can have an effect on organizational success.

Analytics can tell us what to do based on data rather than instinct. We can directly translate historical patterns that we find into improved decision making and performance. Virtually

every aspect of HR in organizations is being affected by this and other technologies.

LO 2.6 Describe human resource management systems (HRMS), and identify how they can help HR make decisions.

Human resource management systems (HRMS) are interacting database systems that aim to generate and deliver HR information and allow us to automate some HRM functions. They are primarily database management systems, designed especially for use in HR functions.

HRMS allow us to maintain control of our HR information and make it available for use during the strategic-planning process. Having this information immediately available makes the strategic-planning process both quicker and smoother. We can also use the information stored in the database to make daily decisions within the HR department, such as a decision on whom to send to a particular training class. We can also use these databases when considering promotions, transfers, team

assignments, and many other daily activities that are required inside the organization.

LO 2.7 Identify the common measurement tools for strategic HRM.

We discussed two common tools in this chapter: economic value added (EVA) and return on investment (ROI).

EVA is a measure of profits that remain after the cost of capital has been deducted from operating profits. ROI is a measure of the financial return we receive because of something that we do to invest in our organization or its people.

LO 2.8 Discuss the role of culture, technology, and globalization in HRM.

Managers and executives will need to foster a culture where individuals can adapt to workplace changes driven by technology and globalization. They may do this through increased use of people analytics and strategic decision making.

REVIEW

Key Terms

centralization, 49
complexity, 48
data analytics, 54
economic value added (EVA), 56
formalization, 49
high-performance work practices, 47
human resource management systems (HRMS), 56

mission statement, 40
objectives, 45
organizational culture, 51
organizational structure, 48
return on investment (ROI), 57
strategy, 39
vision, 40

Key Terms Review

Complete each of the following statements using one of this chapter's key terms.

- ___ is a plan of action to achieve a particular set of objectives.
- ___ is what we expect to become as an organization at a particular future point in time.
- ___ consists of our expectations of what we're going to do in order to become the organization that we have envisioned.
- ___ state what is to be accomplished in singular, specific, and measurable terms, with a target date.
- ___ refers to the way in which an organization groups its resources to accomplish its mission.
- ___ is the degree to which three types of differentiation exist within the organization.
- ___ is the degree to which jobs are standardized within an organization.
- ___ is the degree to which decision making is concentrated within the organization at a single point—usually at the top of the organization.
- ___ consists of the values, beliefs, and assumptions about appropriate behavior that members of an organization share.
- ___ is the process of accessing large amounts of data in order to analyze those data and gain insight into significant trends or patterns within organizations or industries.
- ___ are interacting database systems that aim at generating and delivering HR information and that allow us to automate some human resource management functions.
- ___ is a measure of profits that remain after the cost of capital has been deducted from operating profits.
- ___ is a measure of the financial return we receive because of something that we do to invest in our organization or its people.
- ___ measures financial, customer service, internal process, and learning and growth (sustainability).
- ___ identifies HR deliverables, identifies HR system alignment, compares HR alignment with strategy, and measures organizational gains created by HR practices.

Communication Skills

The following critical-thinking questions can be used for class discussion and/or for written assignments to develop communication skills. Be sure to give complete explanations for all answers.

1. Can you name a business that you know of in which competition has increased significantly in the past few years? Why do you think competition has increased in this case?
2. What are some of the ways in which the environmental factors that we discussed in this chapter directly affect the organization?
3. Do you agree that every organization needs a strategic plan? Why, or why not?
4. Think about the technological changes that have occurred since you were born. Do you think those changes have affected the strategic-planning process? How?
5. What should a mission statement focus on: customers, competitors, products/services, the employee environment, or something else? Identify why you chose a particular answer.
6. We discussed the three major generic strategies in this chapter. Can you think of examples of each of the three strategies in specific businesses you know of? In your opinion, how successful have these companies been with their strategy?
7. If you were going to design the structure for a new, innovative startup company, what kind of structure would you try to create in regard to level of complexity, formalization, and centralization? Why would you set up this type of structure?
8. Which of the five artifacts, or important ways in which employees learn about culture, do you think is most important? Why?
9. Name some situations in HRM when you would want to use either economic value added (EVA) or return on investment (ROI) as an analytical tool.

CASE 2.1 CATALYA HATS: PULLING A RABBIT OUT OF THE HAT OR COMING UP EMPTY-HANDED?

Catalya Hats, a millinery company, began from a simple design of a Panama hat in Ricardo Catalya's home in Ecuador. Mr. Catalya had no idea that when he created his first Panama hat in 1906 to protect himself from the sun that it would become an iconic fashion classic. His hats were crafted from the finest natural toquilla straw fiber; no fibers were ever the same. In fact, each hat had its own character because the materials were different in shape and color. Toquilla comes from a straw plant, which cannot be woven by a machine. It can be woven only by hand. Depending on the weave count, one hat could take anywhere between one week and three months to manufacture.

It did not take long for many powerful businesspersons and celebrities from the United States to take recognition of these handcrafted pieces at the time. The company's strategy was to become a globally integrated, quality hat company. For over 100 years, the industry has praised the company and helped the company raise its annual revenue to \$25.5 million by 2006.

Nearly all of the top managers started their careers with the firm and had worked their way up to their positions. The firm's practice, started by its founder, was for all employees to learn the business from the ground up, starting with working on the production line assisting the hatmakers (regardless of their actual field of expertise) and then rotating through every job dealing with hat production and distribution, including actual hat making. This approach to employee training ensured that everyone in the firm, regardless of their specific tasks and responsibilities, had a personal connection not only to every job performed but also to most of the people who performed them.

The company's accomplishments were due in no small part to its cross-functional corporate structure, a structure that

reinforced egalitarian decision making. By definition, the company's team or project members came from more than one functional area of the company, working together toward a common goal and a common bond: a love of hats. This structure ensured that the work groups were able to carry out the company's mission of making every hat a unique experience. Catalya's organizational culture was therefore family based and family driven, as enlivened through the managers' and employees' work attitudes and behaviors. The top-level managers were leaders who set and implemented these values and beliefs, as well as how an employee should be treated; they modeled how an employee should perform when representing the firm, both within and without. The firm finally maxed out its production capacity at the turn of the 21st century, stalling the family's plans for international growth and expansion. Although profitable, the family did not have the financial wherewithal to support a sizable plant investment and thereby continued to focus on process and production improvements through technological innovation. In 2016, the firm was reluctantly sold to a private investor, Ralph Dweck, who had the capital needed to expand the name and brand. Essential parts of the purchasing agreement were that Mr. Dweck agreed to retain the current employees and staff for a minimum of two years and that he would remain true to the quality and traditions of the firm. Mr. Dweck understood that his new staff might not see or agree with his "big picture," his vision for international growth and expansion, and he hoped that he could move them out of their "familial" surroundings and transition them into a more corporate, professional milieu and mindset.

At the first major executive meeting, he rolled out his plans to enter into new international markets and distribution channels. Everyone seemed on board with these growth plans until Mr. Dweck discussed the need to find international

business partners in order to expand the firm's operation. These partners, specifically firms with innovative technology and excess production capability, would dramatically increase the firm's production capacity while leveraging Catalya's good name. Some form of outsourcing of production seemed to make the most sense to Mr. Dweck, given the limited financial investment required. Nonetheless, his proposal received opposition from many of the top managers within the firm.

Brian Bianco, the vice president of operations, argued that no one could make Catalya hats like Catalya employees and that unless these "partners" were going to be trained by Catalya hatmakers, the products would be of inferior quality. He proposed instead to increase the current plant size and capacity, take on a larger workforce, and continue the tradition of producing high-quality hats made in Ecuador. He felt that local monitoring and quality control techniques would ensure that the firm would maintain high production standards, standards that would allow the firm to continue to excel as a top-flight connoisseur hatmaker.

Evelyn Choi, manager of production, echoed Bianco's concerns about outsourcing production, reminding everyone of Ricardo Catalya's legacy and the pride employees had in working for such a prestigious firm. Janice Warling in Public Relations thought that they would garner far more public support by "making local, being global" and that they could leverage the "fair trade" movement by touting how well their workers were paid, as well as their pristine working conditions. She thought that they could even seek government funding and support to help them grow the business (low- or no-interest loans, tax abatements or rebates, etc.). Tori Baumgart, the vice president of human resources, reinforced these sentiments and indicated that labor was plentiful, fairly well skilled, and not overly costly as compared to other workforces.

In response to these negative comments, Mr. Dweck tried to explain to his team the need to ride the wave of consumer demand for these hats without committing a huge amount of resources for gearing up production. He was afraid that this increased demand might be short-lived, having quadrupled in the last five years, and that the firm might get caught in a fad downturn rather than climbing up the surging wave of a fashion trend. Outsourcing seemed to be the best short-term solution to solving the supply gap, a gap that could not be shrunk through price increases.

Questions

1. What is Catalya Hats' vision/mission, and how might it explain why the Catalya family sold their firm to a private investor, Ralph Dweck?
2. What external environmental factors underlie the discussion of whether production of Catalya hats should or should not be outsourced?
3. What is the strategy of Catalya Hats, and how does it affect its HR policies?
4. The discussion around outsourcing of production to foreign partners is an example of which five forces of competitive analysis?
5. What was the firm's basic structure, and how did it reinforce their strategy?
6. How did the firm's culture support their strategy?

Case written by Dr. Herbert Sherman and Theodore Vallas, Long Island University. This is a real, field-based case where the organization and individual names have been changed to protect their anonymity. This is an abridged version of the case by Amanda DiResto and Herbert Sherman (2017), "The 'Mad' Hatter: Catalya Hats." Under review at Management and Organizational Studies.

CASE 2.2 STRUCTURE AND CULTURE AT OLD TOWN CAPE

Cape Girardeau, Missouri, is an old 18th-century river town along the Mississippi River in the southeastern part of the state. Ancient streets have French and Spanish names or the names of the founders of the city. The river is a lifeline, with tourists frequenting the area via bus, car, and even 19th-century paddleboats that dock a couple of times each week in the summer months. With about 40,000 citizens, it's a surprisingly busy town with numerous restaurants and retail establishments, plenty of banks and churches, and two very large regional hospitals. At the heart of the downtown area near the river is the central business district. Here, there are a variety of independent small businesses: bars and restaurants, boutiques, old furniture stores, ice cream shops, art galleries, antique malls, and more.

Several miles away, near Interstate-55, the city has seen a growth spurt of new retail, restaurants, and service businesses—mostly national chains. This has naturally drawn traffic away from the downtown area near the river,

potentially hurting the sales of those businesses in the oldest part of the city. Fortunately, there is an organization dedicated to the resurgence of the original city streets: Old Town Cape.

The executive director, Liz Haynes, described the focus of the nonprofit organization. "Our mission," said Haynes, "is to preserve, promote, revitalize, and enrich the historic, cultural, and economic landscapes of downtown Cape Girardeau, Missouri." The organization's vision builds on this mission. It states that Old Town Cape "imagines a thriving, diverse downtown that is cultured, historic, and the pulse of the community." The area that Old Town Cape covers is approximately 130 blocks containing over 300 organizations. In addition, there are nearly 5,000 people residing in this geographic area. "We are happy to work with any business in the Cape Girardeau region, but our attention is primarily those in the historic, downtown area," said Haynes. What Old Town Cape does for these small firms is provide marketing, offer consultation, hold workshops, and coordinate concerts

and other events that bring sometimes thousands of people into the heart of the city, as well as anything else that accomplishes the mission Haynes and her team hold dear.

All these efforts are achieved with a small staff. Again, Haynes serves as the executive director of Old Town Cape. Reporting directly to her are three employees: an assistant director, an events coordinator, and a marketing and communication coordinator. Occasionally, a student worker and intern from nearby Southeast Missouri State University work at Old Town Cape, gaining valuable experience working in a fast-paced nonprofit organization. "It's a very flat organization as far as our structure," Haynes said, "but we are able to get so much accomplished. It's nice not having multiple layers of management. If you need to get something done, you just ask without having to get multiple approvals or write lengthy request proposals." The entire team occupies office space in a historic building known as the Marquette Tower—this central location assures nearby businesses that they have ready access to Haynes and her staff.

What is it like to work at Old Town Cape? "We boast a collaborative culture," Haynes said. "It's a positive and productive environment in which team members care about each other, not just as colleagues but as fellow human beings." It's a place where employees feel they are making a difference in the lives of those associated with the historic area of Cape Girardeau. They can readily see the impact they have when coordinating and holding events that bring in much-needed dollars to the businesses. "There is room for a strong work-life balance at Old Town Cape," said Haynes. "Team members have a strong work ethic, have passion for the organizational mission, and are open to constructive criticism and feedback." Overall, it is a satisfying and enriching job for employees.

When asked how important the small staff is to setting and achieving strategic objectives for Old Town Cape, Haynes said, "Our employees are absolutely vital to the strategy

of the organization. The staff is actively engaged in annual strategic planning and budgeting." Given that the office is a small, community-driven one, aligning organizational priorities with the mission is paramount. "Because we are so small, everyone has to wear a lot of hats," said Haynes. "But this is good because it means all team members are actively involved in decision making." Employees feel they have a lot of say in how Old Town Cape operates and the service that is provided to the business community and the citizens that live within its geographic area. Overall, the flat structure of the organization coupled with a small, dedicated team of employees results in a strong office that achieves its mission and objectives.⁽¹⁾

Questions

1. What is the mission and vision of Old Town Cape? Do you think these are well-written mission and vision statements? Why, or why not?
2. What type of strategy does it appear that Old Town Cape is utilizing: cost leadership, differentiation, or focus?
3. Describe the organizational structure of Old Town Cape. How would you characterize the complexity of the structure (vertical differentiation, horizontal differentiation, or spatial differentiation)?
4. Is Old Town Cape's organizational structure centralized or decentralized? Explain.
5. How would you characterize the organizational culture of Old Town Cape?

Reference

(1) Stovall, S. (2020, March 23). Personal interview with L. Haynes.

Case written by Dr. Steven Austin Stovall, Southeast Missouri State University

SKILL BUILDER 2.1 WRITING OBJECTIVES

For this exercise, you will first work at improving ineffective objectives. Then, you will write nine objectives for yourself.

Objective

To develop your skill at writing objectives

Skills

The primary skills developed through this exercise are as follows:

1. *HR management skills*—conceptual and design
2. SHRM 2018 Curriculum Guidebook—O: Strategic HR

PART A

Indicate which of the criteria each of the following objectives fails to meet in the model, and rewrite the objective so that

it meets all those criteria. When writing objectives, use the following model:

To + action verb + single, specific, and measurable result + target date

1. To improve our company image by the end of 2020
 Criteria not met: _____
 Improved objective: _____

2. To increase the number of customers by 10%
 Criteria not met: _____
 Improved objective: _____

3. To increase profits during 2020
 Criteria not met: _____
 Improved objective: _____

4. To sell 5% more hot dogs and 13% more soda at the baseball game on Sunday, June 14, 2020
 Criteria not met: _____
 Improved objective: _____

2. _____

3. _____

PART B

Write three educational, three personal, and three career objectives you want to accomplish. These may be short-term (something you want to accomplish today), long-term (something you want to have accomplished 20 years from now), or medium-term objectives. Be sure to structure your objectives using the model and meeting the criteria for effective objectives.

Educational Objectives

1. _____

2. _____

3. _____

Personal Objectives

1. _____

Career Objectives

1. _____

2. _____

3. _____

Apply It

What did I learn from this experience? How will I use this knowledge in the future?

- _____
- _____

Your instructor may ask you to do this Skill Builder in class in a group. If so, the instructor will provide you with any necessary information or additional instructions.

SKILL BUILDER 2.2 STRATEGIC PLANNING AT YOUR COLLEGE

This exercise enables you to apply the strategic-planning process to your college or university as an individual and/or a group. Complete each step by typing or writing out your answers. You can also conduct this exercise for another organization.

Objective

To develop your strategic-planning skills by analyzing the internal environment of strategy, structure, and culture

Skills

The primary skills developed through this exercise are as follows:

1. *HR management skills*—conceptual and design
2. SHRM 2018 Curriculum Guidebook—O: Strategic HR

PART A: STRATEGY

Step 1: Develop a Mission

1. What is the vision and mission statement of your university/college or school/department?
2. Is the mission statement easy to understand and remember?
3. How would you improve the mission statement?

Step 2: Identify a Strategy

Which of the three generic strategies does your school or department use?

Step 3: Conduct Strategic Analysis

1. Conduct a five-forces competitive analysis, like that in Exhibit 2.4 (page 44).
2. Complete a SWOT analysis, like that in Exhibit 2.5 (page 45).
3. Determine the competitive advantage (if any) of your university/college or school/department.

Step 4: Set Objectives

What are some objectives of your university/college or school/department?

Step 5: Implement, Monitor, and Evaluate Strategies

How would you rate your university/college's or school/department's strategic planning? How could it be improved?

PART B: STRUCTURE

Describe your school or department's organizational structure in terms of its complexity, formalization, and centralization.

PART C: CULTURE

Identify artifacts in each of the categories of heroes, stories, slogans, symbols, and ceremonies.

Identify the cultural levels of the organization's behaviors, values and beliefs, and assumptions.

Apply It

What did I learn from this experience? How will I use this knowledge in the future?

Your instructor may ask you to do this Skill Builder in class in a group. If so, the instructor will provide you with any necessary information or additional instructions.

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