Chapter 2

Creating High-Performing HR Systems

Learning Objectives

AFTER READING THIS CHAPTER, YOU SHOULD BE ABLE TO:

1 Discuss the importance and value of an organization's HR systems.

2 Explain the principle of external fit.

3 Explain the principle of internal fit.

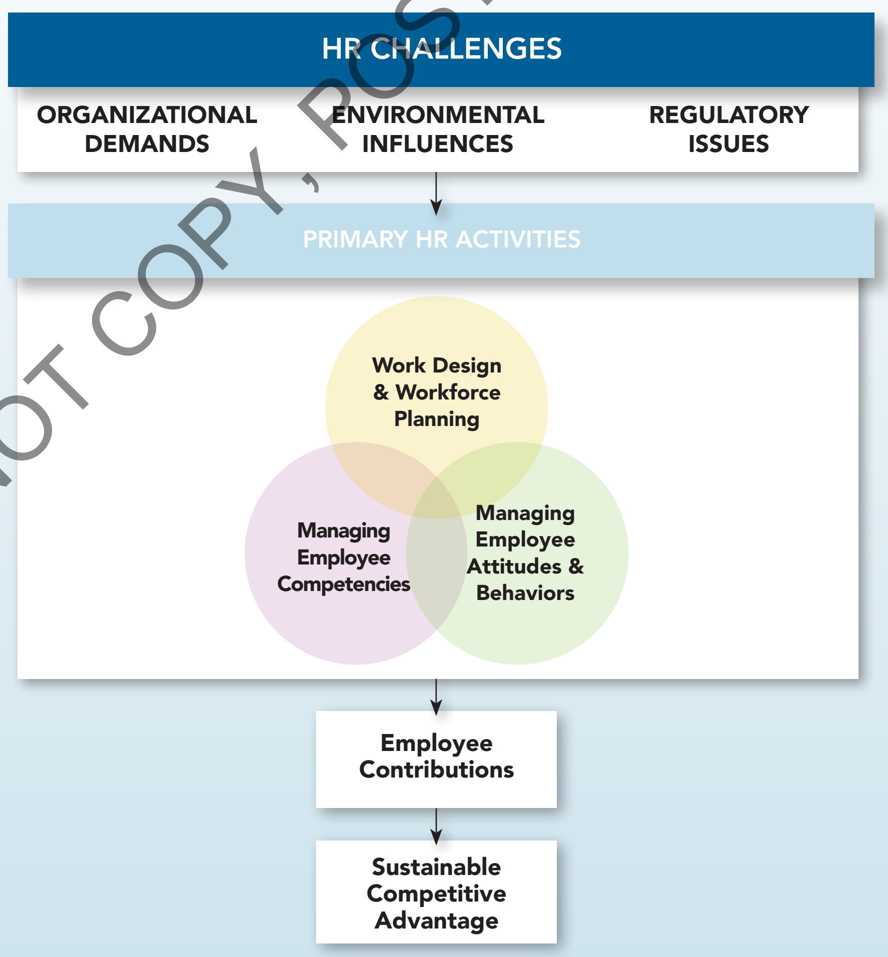
4 Discuss the impact of deadly combinations and powerful connections.

5 Describe how aligning employee contributions with HR systems can benefit an organization.

6 Discuss the management of an employment portfolio.

7 Apply the principles of high-performing HR systems to an organization.

8 Evaluate the effectiveness of an organization's HR systems.



In Chapter 1, we introduced three axioms for effectively managing employees:

1. No two companies are the same.
2. There is no one best way to manage employees.
3. Using the wrong practice or using the right practice poorly can cause more harm than good.

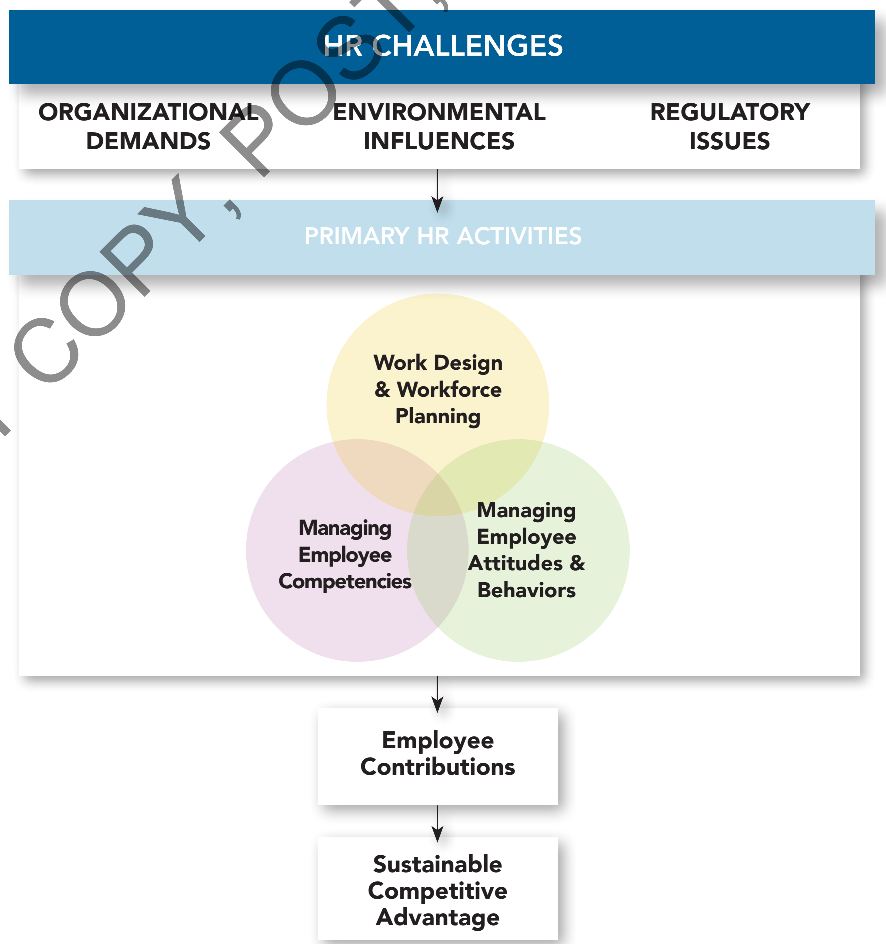
As Axiom 1 states, each company is unique. Although companies in the same industry are likely to offer similar products, use similar technologies, and compete for similar customers, there are likely to be differences in other areas such as their size, organizational culture, stage of development, and composition of their workforce. Similarly, organizations may be subject to the same regulatory and environmental issues, but the impact can be quite different. As shown in Exhibit 2.1, these HR challenges influence the management of employees.

For example, McDonald's and In-N-Out Burger are both fast-food restaurants founded in the 1940s that sell similar products to customers looking for a quick meal or snack. They operate in the same economic and social environments. They must comply with a variety of laws governing businesses in general, the employment relationship, as well as those regulating food handling and service.

Although there are many similarities, there are also significant differences. McDonald's has nearly 40,000 locations in over 100 countries around the world.

EXHIBIT 2.1

Framework for the Strategic Management of Employees



Some McDonald's restaurants are corporate owned whereas others are franchised. In 2020, McDonald's CEO Steve Easterbrook was removed for inappropriate relationships with employees. This was described as "only a symptom of a much bigger corporate culture problem."[1] In contrast, In-N-Out remains a family-owned regional operation with fewer than 400 locations, primarily in the southwestern United States. Its company culture is rated highly on multiple dimensions, including the executive team, CEO, leadership, environment, work culture, and professional development.[2] In-N-Out employees have been called "the happiest fast-food workers in America."[3]

Axiom 2 highlights the fact that when managing employees, you can select from a wide array of HR activities. For example, when an organization needs to hire an employee, they can choose from a number of approaches and tools (e.g., interviews, tests) as will be addressed in detail in Chapter 7. Which device is best in a particular situation depends on how the company is set up and how it competes in its market (see Axiom 1), and how well the organization's HR systems work together to support the organization's strategy. This is directly affected by the HR challenges. Thus, you need to understand how and when to use the different HR practices.

Axiom 3 shifts the focus to issues of design and implementation. If an organization doesn't design its HR systems using the appropriate HR tools for their unique situation, they will likely experience problems that will prevent them from gaining the maximum benefit possible. In some cases, managers choose the wrong practices because they don't have enough knowledge about the alternatives. Even if an organization chooses the correct practices, how they are implemented can be problematic. For example, a bonus based on an individual's productivity would encourage individuals to maximize their production, but it would not provide an incentive for coworkers to help each other in a team-based environment. Although there is no single best HR system for managing employees, there are fundamental principles to guide your decisions so your organization can reap the benefits of high-performing HR systems.

Principles of High-Performing HR Systems

In Chapter 1, we defined HR system alignment as a situation in which a firm's primary HR activities reinforce one another and support organizational goals. When they do, a firm's employees have the skills they need and exhibit the right attitudes and behaviors. The firm is also able to manage and allocate its work to make sure the right people are doing the right things when they need to be done.[4] As we discussed, there are really two forms of alignment to consider. External alignment refers to ensuring that the design of the three primary HR activities takes into account the HR challenges that companies face. In other words, managers must select HR activities that help their companies meet their organizational demands, cope with environmental factors, and comply with regulatory issues. The second form of alignment, internal alignment, focuses on ensuring that specific practices within each HR activity are consistent with one another and aligned across the primary HR activities. Next, we discuss both of these aspects in more detail.

External Fit: Aligning HR Activities with HR Challenges

Throughout this book, we will emphasize the importance of designing and implementing HR practices that address the challenges that managers face and support the overarching organizational goals and strategies. We will focus on three sets of challenges: organizational demands, environmental influences, and regulatory issues. These influences highlight the importance of external fit, which refers to the alignment between the three primary HR activities and the HR challenges.

Each of the HR challenges affects which practices are used within an organization, as well as the effectiveness of those practices. For example, a company's strategy influences how its jobs are designed; the tactics used for workforce planning; how it recruits, hires, trains, evaluates, compensates, and motivates employees; and its approach to employee benefits, wellness, and safety. As you might imagine, companies that emphasize customer service, such as Bloomingdale's and Nordstrom, rely on different practices to manage their employees than companies that prioritize competing based on cost, such as Big Lots and Family Dollar.

Some challenges affect which HR practices an organization needs to implement to effectively cope with changes in the environment. For example, increased diversity in the labor force affects how employees react to the use of various management practices, while the focus on corporate social responsibility affects which practices are viewed as socially acceptable. Similarly, laws and regulations affect how HR practices are implemented. Regulatory issues affect a multitude of HR practices ranging from the questions job applicants can be asked in interviews to how much employees are paid to what companies must do to ensure safety in the workplace.

Some challenges present opportunities for how to better manage employees. Others constrain the options available to an organization. Yet others affect how an organization's HR practices can affect its ability to achieve its goals. Adopting practices that facilitate the management of employees in light of these challenges is the first step toward designing an effective system for managing employees.

Internal Fit: Aligning HR Activities with One Another

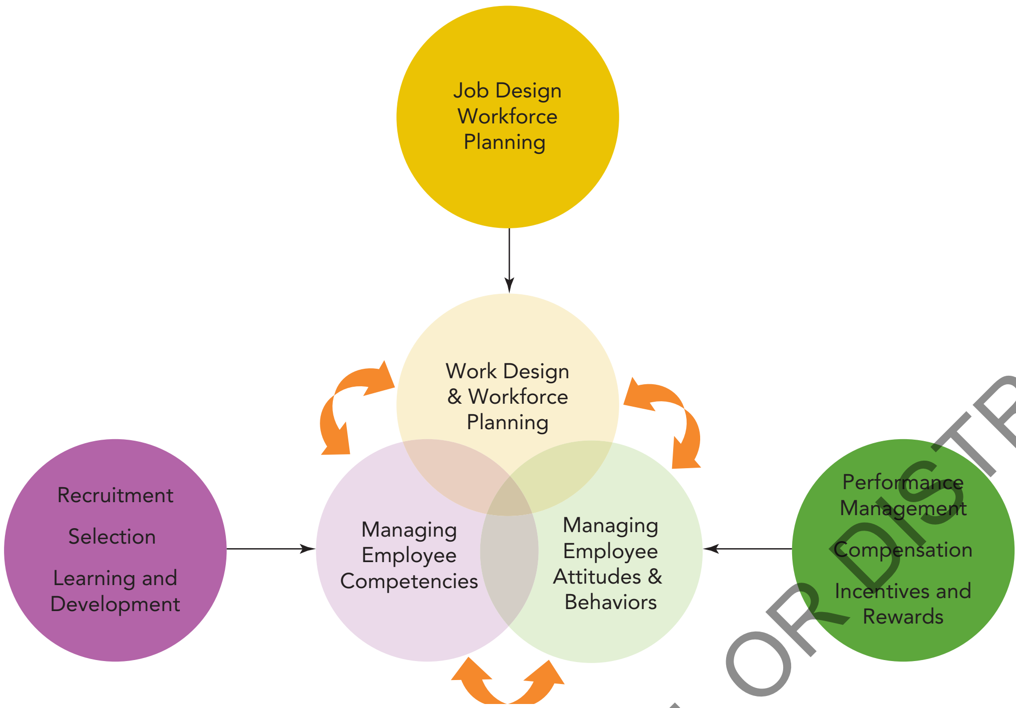
Throughout this text, we will cover a lot of material regarding HR activities and the practices that involve those activities. Although we will focus on them individually in each chapter, the reality is that HR practices are interdependent. Employees are exposed to multiple practices simultaneously, and the impact of one depends on the impact of the others.[5] Just as an organization's strategy influences all aspects of HR, all HR activities must work together to achieve internal alignment in support of the organization's strategy to achieve its goals.

Although decisions about specific HR activities such as hiring, evaluating, and compensating employees might seem to be independent decisions, each decision influences other choices organizations make about managing employees and the effectiveness of those choices. To achieve internal alignment, you must first make sure that the specific practices used *within* each HR activity are consistent and reinforce, not conflict with each other. For example, a state-of-the-art hiring procedure will be useless if the organization does not have enough qualified applicants. In turn, the ability of an organization to hire high-quality employees will affect the types of training programs employees need.

In addition to alignment among the practices within each primary HR activity, there must be alignment *across* the activities. Each of the three activities is critical; however, none operates in isolation. As Exhibit 2.2 shows, work design and workforce planning; identifying, acquiring, building, and retaining employee competencies; and encouraging the right employee attitudes and behaviors must align with each other if they are to be effective.[6] If hiring standards are very low, it limits how a job can be designed and how employees should be evaluated and rewarded. Similarly, if a company hires truly outstanding employees but uses a

EXHIBIT 2.2

Aligning a Firm's Internal HR Practices



performance evaluation method that doesn't allow for a majority of employees to be rated excellent, managers might be forced to make arbitrary distinctions among employees that don't accurately reflect their performance. In turn, this can lead to lower employee satisfaction and increased turnover.

The degree of internal alignment determines the extent to which companies realize synergies among their HR practices. Synergies occur when the combined use of specific HR practices is more powerful than the sum of their individual effects.[7] When we talk about synergies among HR practices, however, it is important to recognize that there can be positive synergies as well as negative synergies.[8] Deadly combinations and powerful connections are two ways to categorize what can happen with various configurations of employee management practices.

Deadly Combinations

Deadly combinations occur when managers rely on HR practices that seem appropriate, but present problems when combined with other HR practices to manage employees.[9] There is a long list of deadly combinations that may potentially exist among the HR practices used to manage employees. The following are some situations that may potentially elicit deadly combinations[10]:

deadly combinations occur when managers rely on HR practices that seem appropriate, but present problems when combined with other HR practices to manage employees

- If employees are motivated to work toward important goals, but do not possess all the competencies to do so, the results will be diminished employee performance and reduced organizational productivity.
- If employees possess the skills they need but lack sufficient motivation, their contributions to the company's success will be limited.
- If employees are capable and motivated but are limited in what they can do or are shorthanded due to poor job design or poor workforce planning, their ability to contribute to the organization will be limited.

Powerful Connections

powerful connections occur when HR practices are used in combinations that support and reinforce other practices that are in place

Powerful connections occur when HR practices are used in combinations that support and reinforce other practices that are in place.[11] For example, the use of a commission-based incentive system will reinforce the use of a performance management system that evaluates employees based on their sales levels. Using either one of these practices alone—the commission-based incentive system or the performance management system that evaluates employee sales—might encourage employees to achieve high sales levels. However, using the two practices together reinforces the importance of this objective for employees and is likely to be more effective than either practice alone. An example of using practices in combination is Cisco, who in the early days of the pandemic, delayed already announced layoffs, continued to pay hourly workers, ramped up communications, and expanded benefits and access to mental health services.[12]

Aligning HR Systems with Employees' Contributions

A company has a competitive advantage when it is able to create more economic value than its competitors. This outcome is achieved by providing greater value to customers relative to the costs of making a product or providing a service.[13] A competitive advantage can stem from a variety of sources. For example, it can result from holding protected assets, having extensive financial resources, maintaining state-of-the-art manufacturing technologies, providing excellent customer service or great product quality, or some other feature that separates a company from its competitors.

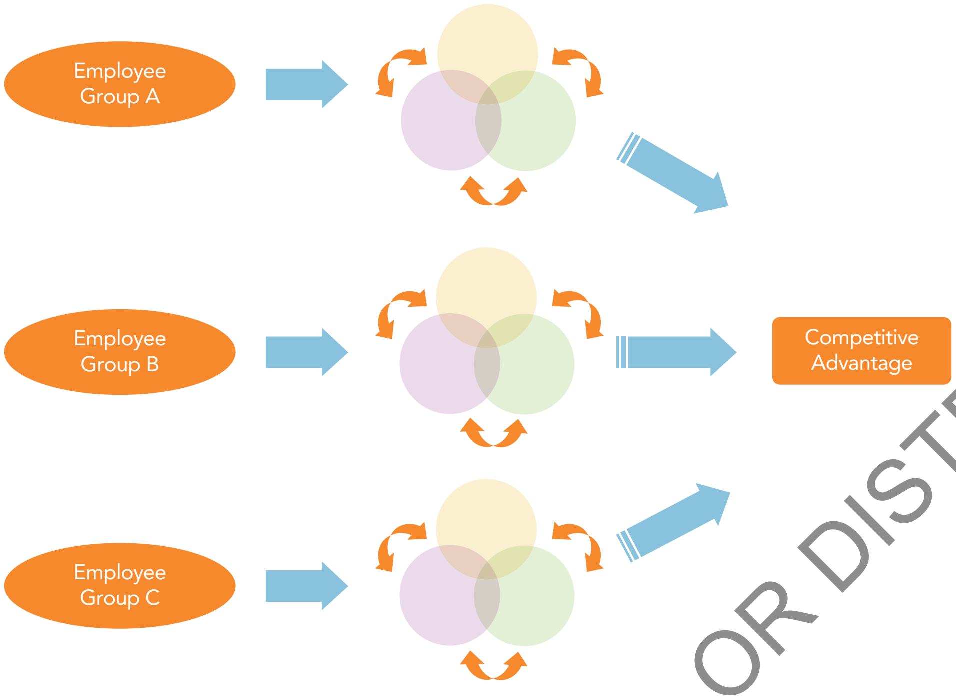
An effective management system helps align the contributions employees make so as to give the firm a competitive advantage. To do so, however, you need to have a clear understanding of how your employees add value in your particular company. Employees add value to their firms in different ways. Consider a firm that pursues a cost leadership strategy, for example. Cost advantages relative to competitors may stem from efficiency manufacturing, low-skilled labor, or very efficient highly skilled labor. The implications for how to manage employees may vary, depending on the source of the competitive advantage to realize cost leadership. Suppose a firm has three groups of employees: production workers, customer service representatives, and research and development employees. The value that production workers add relates to their individual and collective contributions toward achieving manufacturing efficiency for their firm. The research and development employees contribute to their firm by improving the technological superiority of the company's production process and product designs. Finally, the customer service representatives add value by maximizing the satisfaction of the firm's customers.

Although a cost leadership strategy might be the overarching focus of the company, because the firm's different employees contribute to that advantage in various ways, managing them all effectively is critical to achieving the competitive advantage. An effectively managed research and development group alone cannot lead to the achievement of company goals any more than an effectively managed group of production employees alone can lead to success. This approach also has implications for the design of HR systems to maximize employee contributions. As Exhibit 2.3 shows, the HR system you use to manage different groups of employees must reflect how they add value to your company.

Notice in Exhibit 2.3 that we have three groups of employees in a company. Because each group adds value in different ways, the HR system that maximizes their contributions must vary as well. To be most effective, the HR system needs to have a target or an objective (employee contributions); otherwise, employees will

EXHIBIT 2.3

Aligning HR Systems with Employees' Contributions



be left with no direction for how to focus their efforts. This target should reflect employees' contributions to the source of competitive advantage.

Indeed, research has shown that HR systems targeted toward certain company objectives are more effective than others. One study, for example, focused on how to design HR systems to improve employee safety. The study found that a system that included selective hiring and extensive training (managing competencies), contingent compensation (managing behaviors), and employment security, information sharing, high-quality work, teams, and decentralized decision-making (work design and workforce planning) was associated with a positive safety climate, improved safety orientation, and lower injury incidences.[14] Likewise, research has shown that HR systems can be designed to encourage employees to provide high levels of customer service. In firms where customer service is paramount, the HR system should be designed both to provide employees with the skills and resources to be successful and to provide them with the discretion they need to meet their customers' demands immediately and reward workers for doing so.[15] One of the key strategic goals of Trader Joe's is to create an outstanding shopping experience for customers. One way the company accomplishes this is through its hiring and evaluation practices. Trader Joe's recruits, hires, and promotes people who love food and have fun, engaging personalities. Once on the job, employees are frequently evaluated based on customer-oriented metrics such as friendliness, helpfulness, and promotion of high team morale.[16]

As these sample HR systems point out, HR systems may be designed to target a variety of employee contributions, such as safety, customer service, productivity, creativity, quality, and the like. The key point is that to realize its intended impact, a system must align the three primary HR activities with employee contributions and the HR activities must align internally and externally to support the organization's goals and strategies. An example of an organization that is successful in doing so is Liberty Latin America featured in Company Spotlight 2.1.

COMPANY SPOTLIGHT 2.1

Alignment at Liberty Latin America

Liberty Latin America (LLA) is a leading communications company that provides a variety of communications and entertainment services to business and residential customers in over 20 countries across Latin America and the Caribbean. In the words of their president and CEO, Balan Nair, they are a multicultural, multilingual, diverse company with a purpose that is built on strong principles where people treat one another fairly, with respect, and care for one another. The company, founded in 2017 in Denver, Colorado, has been very successful in its short existence, likely a result of the alignment between their vision, strategies, and practices.

When COVID-19 struck in 2020, LLA continued to be guided by their principals to take risks, and be respectful, honest, hardworking, and disciplined when responding to challenges and making decisions. A key priority was to keep their employees safe, well, and informed. As a result, employees were determined to continue to provide quality service to their customers and worked longer hours to maintain and upgrade LLA networks to accommodate the increased demand from people working and attending school from homes. LLA refers to these frontline employees as the "life blood" of the company. During the pandemic, they protected them with new processes, protocols, and safety precautions allowing them to remain focused on the customers. Together they were successful in keeping hospitals, schools, and government offices open and helping families remain connected and businesses continue operations in the midst of a worldwide pandemic.

Sources: P. Gaul, "Performance Management no Longer Is a Numbers Game," *Talent Development* 74, no. 8 (2020): 22–24; Our Culture. *Our Culture* | Liberty Latin America. (n.d.). https://lla.com/our-culture.

Managing the Employment Portfolio

Up to this point, we have highlighted three key components of effective HR systems and how managers should go about aligning them. First, managers must take into account the HR challenges that exist within and outside companies. Second, effective managers strive for synergy among the three primary HR activities. Finally, effective managers target the employee management systems to maximize employee contributions to company success.

Beyond these three factors, however, managers have to consider the fact that different types of HR systems involve different types of costs and benefits. For example, training programs to develop employees' skills involve the costs related to the instruction, the lost labor productivity during the training, and the like. Although your firm might be able to make these investments, the question is whether it should. There are certainly financial considerations, but these decisions also reflect strategic considerations for the potential benefits that stem from those investments. From a strategic point of view, the key question is whether the investments in HR systems and the resulting employee competencies and motivation will actually help your company realize and sustain a competitive advantage. One way to make this determination is by taking a *portfolio perspective* of your employees' contributions. This perspective involves considering two factors: the strategic value and the uniqueness of the contributions they make.

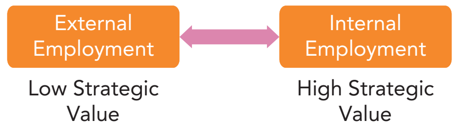
strategic value
the extent to which the contributions of employees help their organization achieve a competitive advantage

Strategic Value

Strategic value is the extent to which the contributions of employees help their organization achieve a competitive advantage. The question is: Are the contributions a key component of how the company competes or are they more peripheral to the

EXHIBIT 2.4

Strategic Value of Employee Contributions



company's competitiveness?[17] The answer to that question affects the decisions managers make as to whether the work should be performed by internal or external workers as shown in Exhibit 2.4. When the employees' contributions have a high strategic value, it makes sense to use internal employees to maintain more control over the work. Conversely, if the work that needs to be done is not key to its strategy, hiring another company to perform the work may allow the organization to focus their efforts on activities that serve as a source for their competitive advantage.[18]

Hiring another company to perform certain tasks may also result in cost savings. If the other company focuses on a single service and provides their services to many organizations, they are often able to attain greater efficiency in the performance of those tasks than a company could realize if it maintained the services in-house. A good example is ADP, a leading provider of payroll processing services, with over 860,000 clients in 140 countries.[19] For many organizations, it is more cost-effective to contract with another company such as ADP to process their payroll instead of doing it in-house due to frequent changes in tax rates and regulations and differences in legal requirements based on geographic location.

Companies may also turn to contingent labor—employees who are hired on a temporary or contractual basis, as opposed to being hired on a full-time or permanent basis—to perform certain tasks and responsibilities.[20] Relying on contingent and other forms of alternative labor is another way to increase strategic focus and reduce costs. It also allows an organization to quickly adjust its workforce and hire workers with specialized skills.[21] According to a Bureau of Labor Statistics (BLS) survey, in May 2017, contingent workers made up between 1.3% and 3.8% of total workers. The last time the same survey was conducted was in February 2005 when the percentages of contingent workers were actually higher, with a range of 1.8% to 4.1%. The range represents three different measures of contingent workers, all of which include persons who do not expect that their jobs will last or who report that their jobs are temporary. Exhibit 2.5 provides additional data about contingent workers and alternative employment arrangements.[22]

When evaluating strategic value, the question is whether your company needs to have full-time employees perform certain tasks internally or whether some external provider of these services could perform them more effectively or more efficiently. When employee contributions have a greater potential strategic impact, their companies are encouraged to make sure these positions are nurtured in-house so as to leverage their potential.[23] Given the importance of these positions, companies are often reluctant to outsource them or turn to contingent workers.[24] In contrast, as the strategic value of an employee's contributions decreases, the potential return from his or her contributions relative to the costs of maintaining the full-time employee internally diminishes. This is when it makes sense to turn to external sources.

The strategic value employees contribute varies across organizations. Think about the difference between a free-standing restaurant and a golf course. Both would have grass and landscaping that needs to be maintained. For the restaurant, grounds maintenance would not have high strategic value because it would have

EXHIBIT 2.5

Contingent and Alternative Employment Arrangements—May 2017

Type of Employment Arrangement	Number of Workers	Percent of Total Employment
Contingent workers	5.9 million	3.8%
Alternative work arrangements		
• Independent contractors	10.6 million	6.9%
• On-call workers	2.6 million	1.7%
• Temporary help agency workers	1.4 million	0.9%
• Contract firms	933,000	0.6%

Source: "Contingent and Alternative Employment Arrangements—May 2017," Economic News Release, Bureau of Labor Statistics, U.S. Department of Labor, bls.gov, June 7, 2018, https://www.bls.gov/news.release/conempl.nr0.htm.

COMPANY SPOTLIGHT 2.2

Strategic Value Decisions at Intel

You have almost certainly used one of their products. In fact, you may be using one right now. Intel is a major manufacturer of semiconductor chips used in everything from automobiles and computers to smartphones and televisions. For decades, Intel produced the chips entirely in its own facilities, but in 2020 after a number of production problems resulted in significant delays of new products, then CEO Bob Swan announced that they would consider having some of their most advanced chips manufactured either entirely or partially by other companies. The goal was to allow more flexibility in manufacturing to most effectively and economically produce their chips on schedule.

In early 2021, the Intel board ousted Swan and replaced him with Pat Gelsinger whom they recruited from VMWare, a software firm. Gelsinger has a strong technical background and extensive experience in the industry, including 30 years previously at Intel. On March 23, 2021, Gelsinger announced his vision for "IDM 2.0" a major evolution of Intel's Integrated Device Manufacturing (IDM) model. The new three-pronged approach will use a combination of its own in-house manufacturing, which is viewed as a competitive advantage, increased use of third-party foundry capacity, and creating their own world-class foundry business. While ultimate success of this approach remains to be seen, the intent is to increase the strategic value of employee contributions.

Sources: A. Fitch, "Intel's Success Came with Making Its Own Chips. Until Now," November 06, 2020, https://www.wsj.com/articles/intel-chips-cpu-factory-outsourcing-semiconductor-manufacturing-11604605618; "*Intel CEO Announces 'IDM 2.0' Strategy for Manufacturing, Innovation,* Product Leadership," Intel, March 23, 2021, https://www.intel.com/content/www/us/en/newsroom/news/idm-manufacturing-innovation-product-leadership.html#gs.00dwop; J. Valinsky and C. Duffy, "Intel Ousts CEO and Names Successor," CNN, January 13, 2021, https://www.cnn.com/2021/01/13/investing/intel-new-ceo-pat-gelsinger/index.html.

little, if any, effect on how many people dine there. On the other hand, how well the grounds are maintained is key to the success of a golf course because the condition of the grounds is often a significant consideration for people deciding where to play golf. Thus, having the grounds maintenance performed by internal employees would have more strategic value at a golf course than at a restaurant. Thus, a highly valuable employee group in one company may be less valuable in another company, even when they are performing the same job.[25] In some cases, an organization may reevaluate their previous decisions about the strategic value of work performed by an employee group as illustrated in Company Spotlight 2.2.

Uniqueness

Uniqueness refers to the extent to which the contributions employees make, and the necessary competencies to realize those contributions, are specialized to a company and not readily available in the open labor market.[26] When employees make unique contributions to a company, they can set it apart from its competitors. In these cases, companies are more willing to invest in employees to realize those contributions.[27] In contrast, when the uniqueness of their contributions is based on competencies that are widely available in the labor market, there will be little incentive for a company to invest extensively to develop those skills.[28]

uniqueness
the extent to which the contributions employees make, and the necessary competencies to realize those contributions, are specialized to a company and not readily available in the open labor market

Of course, all employees require some degree of investment. The question that uniqueness raises is what type of investment to make. In general, the type of investment companies make depends on the nature of the relationship they have with their employees. This investment spans a continuum ranging from transactional to relational.

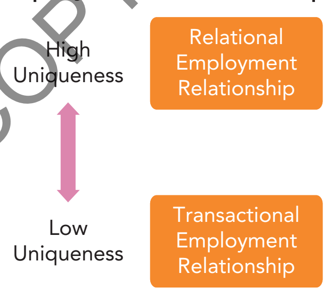
Transactional relationships are best described as quid pro quo, or "a fair day's work for a fair day's pay."[29] Transactional relationships are economic in nature and focus on both parties meeting the basic terms of the contract they have with one another. These relationships tend to focus narrowly on the performance of the necessary tasks, duties, and responsibilities that must be performed during a predetermined time period. In contrast, **relational relationships** involve a much greater commitment to the individual by the company and vice versa. Relational relationships contain more of an emotional or social component that translates into a higher level of concern the parties have for one another. As Exhibit 2.6 shows, when employees make unique contributions, their companies tend to focus on building relational relationships with them. When they don't, companies tend to maintain transactional relationships with them.[30]

transactional relationship
a relationship that tends to focus narrowly on the performance of the necessary tasks, duties, and responsibilities that must be performed during a predetermined time period

relational relationship
a relationship that involves a social or emotional commitment to the individual by the company and vice versa

EXHIBIT 2.6

Uniqueness of Employee Contributions and the Employment Relationship

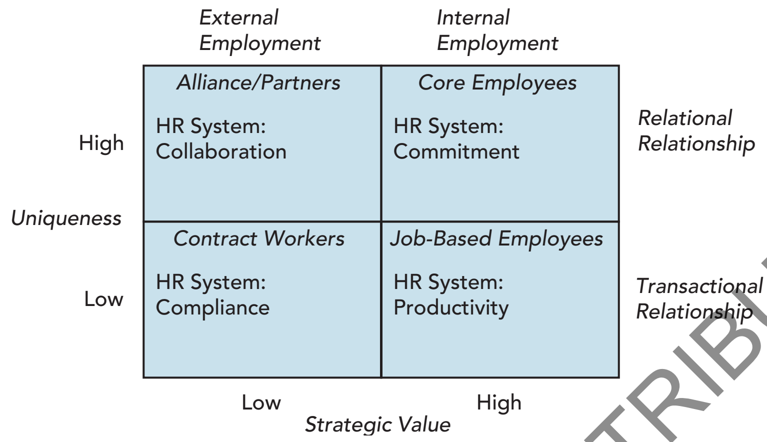


Mapping Your Employment Portfolio

It is possible to map the contributions employees make based on the strategic value and uniqueness of their contributions. As we have noted, the strategic value of certain positions influences whether a company will retain those positions internally or turn to external labor sources for them. Uniqueness influences the types of relationship that companies have with different groups of employees. In combination, the potential combinations of these two variables results in four types of employment groups: core employees, job-based employees, contract workers, and alliance/partners. In addition, four different approaches to HR investments emerge to manage each group: commitment-based, productivity-based, compliance-based, and collaborative-based HR systems. These are highlighted in Exhibit 2.7.

EXHIBIT 2.7

Diagram of an Employment Portfolio



core employee

an employee who is most likely to contribute directly to a firm's core competencies

commitment-based HR system

an HR system of investing extensively in the development of core employees' competencies, empowering them to use their competencies in the performance of their jobs, and encouraging their full participation in decision making and discretion on the job

Core Employees

Based on their highly unique and valuable contributions, **core employees** are most likely to contribute directly to a firm's core competencies on the basis of what they know and how they use their knowledge.[31] As a result, these employees tend to be employed internally and treated as core workers in whom companies invest for their long-term success. The HR system used to manage these employees involves practices that support a **commitment-based HR system**. For example, a company may invest extensively in the development of core employees' competencies, empower them to use their competencies in the performance of their jobs, and encourage their full participation in decision-making and discretion on the job. Likewise, a firm might offer long-term incentives (stock ownership, extensive benefits, and so forth) to ensure that its core employees receive continued and useful feedback and adopt a long-term orientation to help the company achieve success.[32]

job-based employee

an employee who creates value for a firm but does not contribute in unique ways, and can be found in large numbers in the external labor market

productivity-based HR system

a system that involves standardized jobs and selecting people from the external labor market who can contribute immediately in these jobs, rewards based on efficiency and productivity improvements, and short-term results-oriented performance management systems

Job-Based Employees

In addition to core employees, **job-based employees** also create value for firms. However, because these employees do not contribute in a unique manner, there is likely to be a fairly large number of them in the external labor market. As a result, companies do not have the same level of incentive to extensively invest in job-based employees' long-term development, well-being, and retention as they do for core employees.[33] Rather, managers are more likely to rely on a **productivity-based HR system**—a system that involves standardized jobs and selecting people from the external labor market who can contribute immediately in these jobs.[34] The types of rewards and incentives that are used for employees in positions such as these tend to focus on efficiency and productivity improvements. And, of course, companies are less likely to expend a great deal of money to develop people in these positions. Instead, they are more likely to emphasize a short-term, results-oriented performance management system.[35] Examples of job-based employees would include most retail associates and other service industry workers.

contract worker

an external employee whose contributions are neither unique nor of high strategic value to the organization

Contract Workers

When the tasks a firm needs to be done are neither strategically valuable nor unique, the company may turn to **contract workers** to do these tasks.[36] Because of the limited uniqueness in these employees' contributions, external workers are often used to perform these tasks. And with limited strategic value, these employees do not contribute as much as core and job-based employees, and there is usually a good supply of them in the labor market. When managing contract workers, firms tend to emphasize **compliance-based HR systems**—systems that focus on meeting preset rules, regulations, and/or procedures. For example, these systems focus on short-term productivity and the efficient performance of tasks that are limited in scope, purpose, or duration. The job descriptions for positions such as these are likely to be standardized, and the training and performance management for these positions, if conducted, is likely to be limited to ensuring that the company's policies, systems, and procedures are met.[37] In addition, the compensation for employees in these positions is likely to be based on hourly wages and the accomplishment of specific tasks or goals.[38] Recall the example mentioned earlier in this chapter of the trucking company providing contract workers for Walmart warehouses.

compliance-based HR system
a system that focuses on meeting preset rules, regulations, and/or procedures, with an emphasis on short-term productivity and the efficient performance of tasks that are limited in scope, purpose, or duration

Alliance Partners

The fourth group of employees are those who make unique contributions but whose contributions are limited in terms of strategic value. Because the contributions of these employees are not directly central to a firm's strategy, companies often look externally for these individuals. However, the contributions of these individuals are also unique to a company. To manage this group of employees, companies focus on establishing a **collaborative-based HR system** and turn to external labor on a long-term basis through alliances or partnerships.[39] While companies may be reluctant to invest in these **alliance partners** directly, there is investment in the relationship with these individuals. For example, many companies hire consultants to serve as an external source of knowledge for a particular project. Although some consulting relationships last only a short while, many constitute a partnership such that the external consultant works with internal employees on an ongoing basis. While both alliance partners and contract workers are external to a company, they contribute in different ways, with alliance partners applying their competencies in some unique capacity over a longer time frame. The longer-term relationships help preserve continuity and ensure trust among partners, and they engender reciprocity and collaboration between external individuals and internal employees.[40] Given the need for ongoing exchange, alliance partners are more likely to be managed with group incentives, cross-functional teams, and the like.

collaborative-based HR system
an HR system of managing external labor on a long-term basis through alliances or partnerships with a reliance on group incentives, cross-functional teams, and the like

alliance partner
an external employee who makes unique contributions but whose contributions are limited in terms of strategic value

Many companies are under pressure to keep their HR costs down. From a strategic perspective, not all forms of employee contributions are equally critical to a company's success. While there are certainly many ways a firm can structure and manage its employment portfolio, adopting an architectural perspective helps managers make decisions regarding the level of investment in various employee groups to align their potential contributions with the long-term success of the company.

The first step is to evaluate the contributions of different employees of your firm, based on their levels of strategic value and uniqueness. This evaluation involves rating each group individually to arrive at a relative scoring for all employee contributions within your company. The second step involves mapping out your employees' contributions. Once you have done this, you will see how different employee groups contribute to your company's success. Exhibits 2.8 and 2.9 provide a hypothetical evaluation of the strategic value and uniqueness of a company's employee contributions. Exhibit 2.8 shows that in this case, customer service and sales add the most value, given this particular firm's strategic priority of providing good customer service. In contrast, the contributions of employees working in the firm's IT, logistics, and finance departments are not key factors for this company.

EXHIBIT 2.8

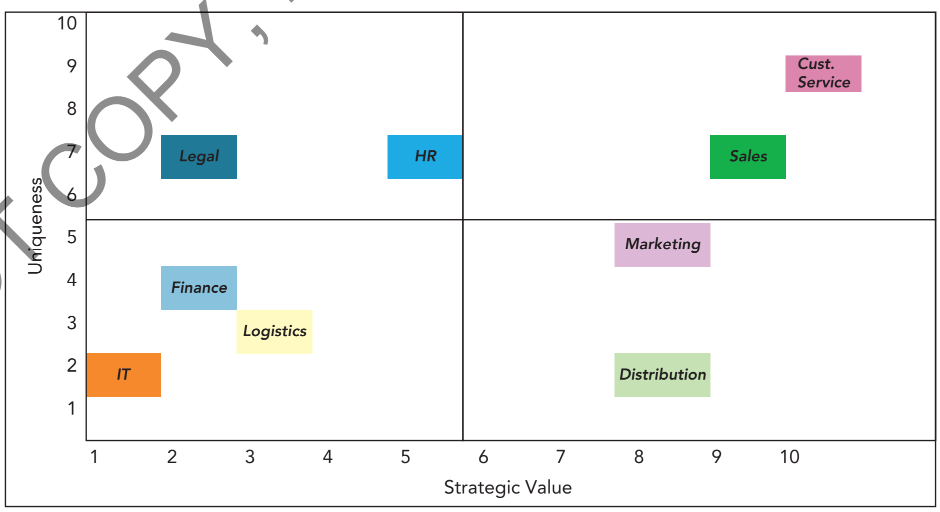
Constructing an Employment Portfolio: Evaluating the Contributions of Your Employees

Business Strategy: Customer Service______________________
Evaluate the extent to which each employee group provides strategic value and is unique.
1 No value added
5 Modest level of strategic value
10 High level of strategic value
NA Not applicable to our firm

Employee Group	How Much Value Added?	How Much Uniqueness?
Manufacturing	NA	NA
Research and development (R&D)	NA	NA
IT	2	2
Distribution	8	2
Legal	2	7
Marketing	8	5
HR	5	7
Customer service	10	9
Sales	7	7
Finance	2	4
Logistics	3	3
Other: _____	NA	NA

EXHIBIT 2.9

Constructing an Employment Portfolio: Ranking Your Employees' Contributions



Evaluating Your HR System: The HR Scorecard

Effectively creating a high-performing HR system involves evaluating the system. Is the HR system in place helping the company achieve its strategic objectives? Although there are a variety of ways to evaluate HR systems, one approach that has gained tremendous popularity is to build an HR scorecard. Pioneered by

Professors Brian Becker, Mark Huselid, and Dave Ulrich, an HR scorecard[41] helps assess the degree to which the links within HR systems and the contributions employees make to their firms actually help them realize a competitive advantage. To create an HR scorecard, you need to take the following steps:

1. Identify your firm's strategic performance drivers.
2. Evaluate your firm's external alignment.
3. Evaluate your firm's internal alignment.

Step 1: Identify Your Firm's Strategic Performance Drivers

Earlier in this chapter, we discussed the fact that a company's competitive advantage can stem from a variety of sources, such as low costs, product quality, customer service, and the like. **Strategic performance drivers** are the activities that enable a company to realize the potential of its source of competitive advantage. Companies pursuing a low-cost leadership strategy, for example, rely on operational excellence and cost controls to attain or maintain their position of cost leadership. Some key strategic performance drivers might be improved operational efficiency, reduced overhead, and increased productivity. Similarly, in a company with an innovation-based differentiation strategy, the key strategic performance drivers might be an increase in patent applications or a greater percentage of sales from new products. A company with a quality-based differentiation strategy might emphasize strategic performance drivers such as reduced scrap rates or fewer customer returns.

strategic performance driver
an activity that enables a company to realize the potential of its source of competitive advantage

To translate a firm's strategic objectives into actionable activities, the source of a company's competitive advantage must be translated into strategic performance drivers. Senior managers within companies are often responsible for identifying their companies' strategic performance drivers.

Step 2: Evaluate Your Firm's External Alignment

The second step in creating an HR scorecard is to evaluate your employee management system to assess the alignment of your primary HR activities with the source of your competitive advantage. Doing so involves two activities: translating your firm's strategic performance drivers into *HR deliverables* and evaluating the effectiveness of those deliverables.

Translate the Strategic Performance Drivers into HR Deliverables

HR deliverables are what is needed from a firm's HR activities, or the mechanism by which an HR system creates value for a company.[42] Consider the strategic performance driver high-quality customer service. To realize high levels of customer service, companies need to attract and retain talented employees who are able to build and sustain long-term relationships with customers. As a result, the HR deliverables for the strategic driver high-quality customer service might be employment stability and high-quality employees. Consider an industry such as insurance that depends on long-term relationships with customers. Companies in that industry want professional sales staff and experienced customer service representatives who stay with the company to maintain strong relationships with customers while building relationships with new customers based on their experience. Similarly, consider another strategic performance driver: increasing new product offerings. What types of HR deliverables would be needed for this driver? Employee collaboration and creativity could be the HR deliverables that would enable companies to realize a strategic performance driver of new products. Many start-up tech companies rely heavily on employee collaboration and creativity to move the business forward.

HR deliverable
what is needed from a firm's HR activities, or a mechanism by which an HR system creates value for a company

Most strategic performance drivers incorporate elements of employee contributions, either directly or indirectly. A key strategic performance driver in a manufacturing plant, for example, might be the quality of the technology used in a production process and the efficiency of the employees. Employee productivity is an HR deliverable that is directly linked to achieving low costs, and the ability of employees to work with technological advancements may be an indirect contributor that enables the realization of technologies in place.[43] In other words, some HR deliverables are directly related to strategic performance drivers, and others serve as "enablers" to the drivers. Increasingly companies are realizing that AI alone won't get the job done in many instances. It is the combination of the right employees and AI that create the competitive advantage for the firm.

Exhibit 2.10 shows a hypothetical example of a company's assessment of the effectiveness of its strategic performance drivers. The company illustrated in this exhibit has identified three strategic performance drivers that are believed to help the company improve its competitiveness: improved customer service, improved product quality, and more new product offerings. To achieve these three strategic performance drivers, the firm has determined that employment stability, employee creativity, high-quality employees, and employee collaboration are the HR deliverables that, if fully realized, would maximize the strategic performance drivers.

Evaluating the Alignment of HR Deliverables with the Strategic Performance Drivers

The second part of the second step in creating an HR scorecard is to evaluate the effectiveness of the HR deliverables. This evaluation is done by rating the extent to which the HR deliverables actually contributed to the strategic performance drivers. In Exhibit 2.10, for example, we can see some positives and some negatives for the company whose HR system we're evaluating. On the positive side, the company's ability to attract high-quality employees is a positive contributor to all three strategic performance drivers. However, the firm's employment stability is troubling because its turnover is a negative contributor to sustaining all three performance drivers. In addition, employee collaboration is positively related to the creation of new product offerings, as is employee creativity. At the same time, however, employee collaboration is not contributing to the realization of improving

EXHIBIT 2.10

Evaluating the Alignment of a Firm's HR Deliverables*

Please indicate the degree to which each HR deliverable in the chart below would currently enable each strategic driver, on a scale of –100 to +100. Empty cells indicate this is not a "key" deliverable for a particular driver. Examples of the extremes and midpoints on that continuum are as follows:

–100: This deliverable is **counterproductive** for enabling this driver.
0: This deliverable **has little or no effect** on this driver.
+100: This deliverable **significantly enables** this driver.
DNK: Don't know or have no opinion.

	HR Deliverable			
Strategic Performance Driver	**Employment Stability**	**Employee Creativity**	**High-Quality Employees**	**Employee Collaboration**
1. Improve customer service	–80		+30	
2. Improve product quality	–20		+20	–20
3. Increase new product offerings	–10	+30	+30	+10

**Source:* Adapted from Brian Becker, Mark Huselid, and Dave Ulrich, *The HR Scorecard* (Cambridge, MA: Harvard Business School Press, 2001).

product quality. Clearly, some adjustments are needed to improve this company's odds of competing based on its strategic performance drivers.

Conducting an evaluation such as this will help you determine whether your HR deliverables are successful, as well as identify areas of your company that are underperforming. You can then target the deliverables that are unsatisfactory. To do so, however, you will have to further explore the HR practices that are used to manage employees. Step 3 of evaluating the HR system builds on the information from step 2 and focuses on examining how well or how poorly the practices used within the three primary HR activities are in alignment with the needed HR deliverables.

Step 3: Evaluate Your Firm's Internal Alignment

The third step in creating an HR scorecard is to evaluate the degree of alignment between the firm's HR practices and its HR deliverables and evaluate the degree of alignment among the various HR practices themselves.

Evaluating the Alignment of the HR Practices with the HR Deliverables

One of the key objectives of the third step of the HR system evaluation process is to determine whether the practices you are using for your primary HR activities (work design and workforce planning, managing employee competencies, and managing employee attitudes and behaviors) are helping or hurting the achievement of your firm's HR deliverables. This type of evaluation is easy to conduct. Exhibit 2.11 shows an example of such an assessment. Completing this assessment involves evaluating each practice on a scale of –100 to +100 in terms of whether the practice enables the HR deliverables.

In Exhibit 2.11, we can see that some of the practices are contributing in a positive way to the HR deliverables. For example, the activities associated with training and development and with compensation are helping to foster employment stability among the workforce. At the same time, the activities associated with selection, performance management, incentives, and benefits are negatively related to employment stability. With regard to selection, it may be the case that the company is failing to hire workers who are a good fit for the jobs for which they are being hired and/or the firm's culture. It is also possible that the performance management process is contributing to employee turnover if employees perceive that there is a lack of distributive, procedural, or interactional justice with regard

EXHIBIT 2.11

Evaluating the Alignment of a Firm's HR System with Its HR Deliverables*

Please indicate the degree to which the following elements of the HR system facilitate the HR deliverables shown, on a scale of –100 to +100. Examples of the extremes and midpoints on that continuum are as follows:

–100: This dimension is **counterproductive** for enabling this driver.
0: This dimension **has little or no effect** on this driver.
+100: This dimension **significantly enables** this driver.
DNK: Don't know or have no opinion.

HR Deliverable	Job Design	Workforce Planning	Recruitment	Selection	Training and Development	Performance Management	Compensation	Incentives	Benefits
Employment stability	0	0	0	–20	+10	–30	+30	–30	–40
Employee creativity	+40	0	0	0	+20	–30	0	–40	0
High-quality employees	0	–20	+20	+30	–20	–20	+20	–20	0
Employee collaboration	+20	0	+20	+30	–20	–40	0	–60	0

***Source:** Adapted from Brian Becker, Mark Huselid, and Dave Ulrich, *The HR Scorecard* (Cambridge, MA: Harvard Business School Press, 2001).

to their performance evaluations. Similarly, the firm's incentive systems might be misaligned, such that what is rewarded is not what employees value. Finally, the benefits package provided to employees might not meet the company's needs or be attractive compared to what other companies are offering.

Of course, these are simply speculations. But they do provide valuable information by showing areas of alignment and misalignment. When misalignments are identified, managers can look for ways to adjust the firm's HR activities to improve the realization of the company's HR deliverables and, ultimately, the firm's strategic performance drivers.

Evaluating the Alignment Among the Firm's HR Practices

It is important to evaluate the alignment among a firm's HR practices themselves. As we have discussed, it is possible that the failure to achieve a firm's HR deliverables is due to negative synergies, or "deadly combinations," among the company's HR practices. As Exhibit 2.12 shows, evaluating the alignment among a firm's HR practices is done by assessing the degree to which each HR practice is consistent with each of the other practices.

In Exhibit 2.12, for example, we can see examples of positive connections and deadly combinations. On the positive side, the firm's training and development activities are consistent with how its jobs are designed and with the company's recruitment and selection activities. However, although the firm's performance management system and the incentive system are aligned with one another, they are inconsistent with how the company's jobs are designed and how employees are recruited, selected, and trained. Comparisons like these illustrate that managers can face numerous alignment issues among their firms' HR practices, which, in turn, can affect their firms' HR deliverables. When areas of misalignment are identified, this comparison provides a focus for discussion among managers to identify the sources of the problem. This diagnostic also pinpoints specific practices that are inconsistent with practices that are effective in achieving the desired HR deliverables. Using an HR Scorecard can help ensure an organization's primary

EXHIBIT 2.12

Evaluating the Internal Fit Among a Firm's HR Activities*

In the chart below, please estimate the degree to which the various HR management subsystems work together harmoniously, or "fit" together. Think of the degree of fit and internal consistency as a continuum from –100 to +100, and assign a value in that range to each relationship. Examples of the extremes and midpoints on that continuum are as follows:

–100: The two subsystems work at **cross-purposes.**
0: The two subsystems have **little or no effect on one another.**
+100: Each subsystem is **mutually reinforcing and internally consistent.**
DNK: Don't know or have no opinion

	Job Design	Workforce Planning	Recruitment	Selection	Training and Development	Performance Management	Compensation	Incentives	Benefits
Job design	—	–30	0	–20	+10	–20	+20	–50	0
Workforce planning		—	0	–10	–20	0	0	0	0
Recruitment			—	+20	+20	–40	–10	–40	–10
Selection				—	0	–20	0	–10	–20
Training and development					—	–10	+10	–10	–10
Performance management						—	0	+20	0
Compensation							—	+50	0
Incentives								—	
Benefits									—

***Source:** Adapted from Brian Becker, Mark Huselid, and Dave Ulrich, *The HR Scorecard* (Cambridge, MA: Harvard Business School Press, 2001).

COMPANY SPOTLIGHT 2.3

Walking the Talk at Kraft Heinz

Most people are familiar with the Kraft Heinz Company, one of the largest food and beverage companies in the world, with a lengthy product list that includes familiar brands like Jell-O, Kool-Aid, Maxwell House, Oscar Mayer, Ore-Ida, Planters, and Grey Poupon. While large companies often rely on a plethora of formal processes for managing employees, in 2019, Kraft Heinz launched a global HR initiative to emphasize people instead of processes. This focus on people is in keeping with their stated corporate purpose, "Let's make life delicious," and vision, "To sustainably grow by delighting more consumers globally" both of which are focused on people.

As an organization, Kraft Heinz has a strong culture based on meritocracy where people are rewarded and advance based on their ability and talent. Attracting, nurturing, and developing talent is their top priority, and they pride themselves on promoting from within. Employee achievements both in the workplace and in the community are recognized. Annually, they conduct an employee engagement survey and use the results when making decisions.

Based on the results of MIT's Culture 500 index that compares the cultures of over 500 of the largest U.S. companies, it appears that their initiative is working. Kraft Heinz was ranked in the 99th percentile for Performance, which the index defines as rewarding results with compensation, informal recognition, and promotions, and dealing effectively with underperforming employees. They also ranked high on Execution, which means employees are empowered to act, have the resources they need, adhere to process discipline, and are held accountable for results. These results led to the index concluding that Kraft Heinz "walks the talk" on execution and performance because there is a strong correlation between their stated company values and their actual cultural performance.

Sources: "The Kraft Heinz Company," April 8, 2021, https://www.kraftheinzcompany.com/purposevisionvalues.html; N. Pradhan, "How Does Kraft Heinz Recruit and Retain Top Talent? Q&A with Lisa Alteri, Chief People Officer," April 8, 2021, https://www.hrtechnologist.com/interviews/recruitment-onboarding/lisa-alteri-kraft-heinz-recruit-and-retain-top-talent/; This is what employees are saying about the culture at Kraft Heinz Company, April 8, 2021, https://sloanreview.mit.edu/culture500/company/c398/Kraft_Heinz; M. Weinstein, "Putting the H back in HR," *Training* 56, no. 4 (2019): 26-29.

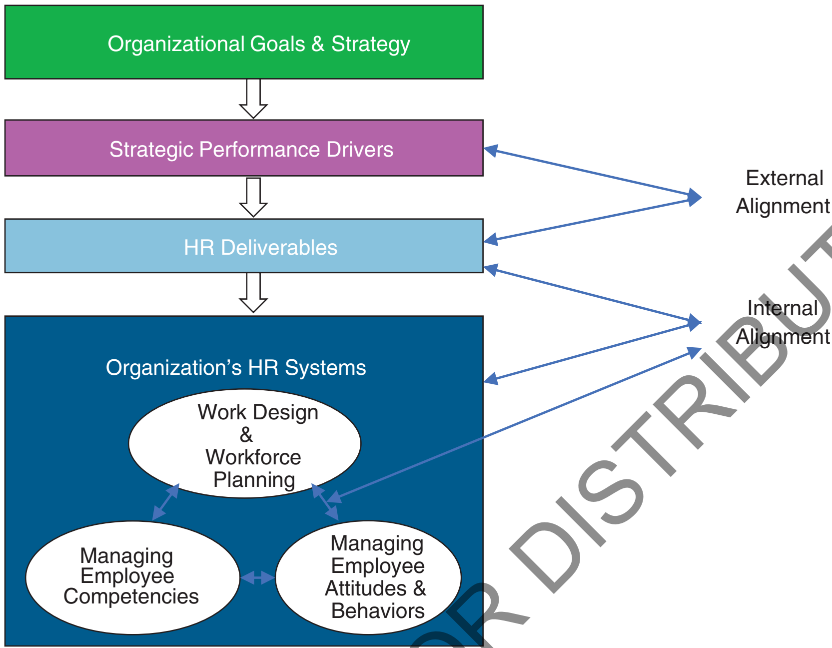
HR activities are in alignment with the HR challenges and the HR activities are in alignment with each other all in support of the organization's strategy. An example of a company that has done this successfully is Kraft Heinz, featured in Company Spotlight 2.3.

Applying the Principles of High Performing HR Systems

Clearly, it is valuable for an organization's HR systems to be aligned with the organization's strategy. Since every organization has its own unique circumstances and strategy, the question is how to effectively do that in your organization. There is no one-size-fits-all when it comes to designing and implementing HR systems. Thus, you have to be able to apply the principles of high-performing HR systems to your organization's specific situation. It begins with assessing your unique situation and the ability of your HR systems to meet the organization's needs as depicted in Exhibit 2.13.

EXHIBIT 2.13

Assessing HR System Effectiveness



Assessing HR System Effectiveness

Assessing the effectiveness of an HR System is a process. Using the organization's goals and strategy as a guide, identify the performance drivers for your organization. What is your organization's strategy? Is the focus on product innovation, cost leadership, product quality, customer service, or something else? What are the characteristics of the company in terms of size and stage of development? What is the culture within the organization? Is it competitive, supportive, team-based, innovative, and so on? Is the relationship between the organization and its employees transactional or relational?

What are the current environmental influences? Is the overall economy booming with low unemployment rates? Or is it struggling with many people looking for work? Are there enough workers with the skills needed available? What are the current social conditions? Are there increased concerns about the environment, social responsibility, or safety? As businesses suddenly learned in early 2020, operating in the midst of a pandemic is vastly different than at any other time in modern history. What regulatory issues are factors? Are governmental regulations increasing or decreasing?

The answers to these questions will help you identify the performance drivers that will help your organization strengthen its competitive advantage. Does your organization need creativity and innovation to be successful? Does the focus need to be on controlling costs and improving efficiency? How important is quality and customer service? Once you have identified the performance drivers, you can then use those to help identify the specific HR deliverables needed to support strategy. To what extent do you need employees who are creative or able to work together in a team-based environment? Does the work require extensive training or advanced education, or can new hires be taught how to successfully perform their job in a short amount of time? How important is stability in the workforce? What is the impact of employee turnover? Are employees who leave easily replaced or is there a shortage of qualified workers?

After identifying the HR deliverables, you can evaluate external and internal alignment. How well do the HR deliverables support the performance drivers (i.e., external alignment)? If your organization needs efficiency and cost control, to what extent are the labor costs controlled? If your organization is focused on customer service, to what extent do your employees meet the service expectations of customers?

To what extent do your HR systems support the HR deliverables and each other (i.e., internal alignment)? If your organization needs to control costs, are the jobs designed so they can be performed as efficiently as possible? Do the recruitment and selection systems lead to hiring the people with the knowledge, skills, and abilities (KSAs) the organization needs? If high-quality products are needed, does the compensation system reward quality? Do the individual HR systems work in concert? Are there any disconnects between the systems?

If you identify HR deliverables that are needed but not addressed/supported by the existing HR systems or if there are disconnects between HR systems, they need to be addressed. This may involve modification to one or more HR systems or even completely redesigning them. We explore the design and intricacies of the individual HR systems in detail in subsequent chapters, but overall, you need to be consistent and specific when designing/redesigning systems and follow up after implementing any changes.

Being Consistent

A key point to remember is that much of the success of HR systems comes down to consistency. The presence of powerful connections or deadly combinations rests directly on the degree of alignment among your HR practices. In other words, you need to be sure that all the practices used to manage your employees reinforce, rather than counteract, one another. If employees are assigned to teams, for example, your performance management and incentive systems should involve a team component. Rewarding team members based solely on their individual accomplishments will undermine the power of the system. If your HR practices are not consistent, employees won't accurately interpret the messages the firm is sending them and thus may not behave in expected ways.[44] In contrast, when the practices are consistent with one another, they create an environment in which employees share a common interpretation of what behaviors are important, expected, and rewarded. This, in turn, will motivate them to work toward the business objectives the firm is trying to achieve.

Being Specific

Employees need to have a clear understanding of what it is they need to do to help their company succeed. In many ways, the various practices we talk about in this text may be viewed as communications between management and employees. Practices determine the competencies of the workforce—how employees are expected to interact, as well as how they are to act in the performance of their jobs. One prominent part of understanding HR system effectiveness is that companies use different practices in an attempt to elicit needed role behaviors from employees given different considerations regarding strategy, technology, and the like.[45] Telling employees to make fewer mistakes on the job is not likely to be as powerful as explaining to employees how the number of mistakes they make affects company performance. If employees don't have a clear objective, they are not likely to reach that objective. Thus, implementing an effective HR system requires managers to be specific about what they expect from their employees and what the company needs them to do.

In many ways, implementing an effective HR system comes down to good communication. One of the keys to the successful implementation of a new performance review process at Adobe was providing bonuses every quarter that were clearly linked to performance. Prior to implementation of this new system, the company had noted an increase in attrition every year following the annual review process and awarding of the annual bonuses. Now, there is a more direct line of sight between performance and bonuses because the conversations about how employees are performing are more frequent. The bonuses, then, are tied to the results of those conversations.[46] However, there is a cautionary note to be offered here. One research study reported that workers who received performance-based pay were likely to work harder, but also were likely to experience high stress and low job satisfaction levels.[47]

Following Up on the Implementation of a Redesign

Just because a company designs a particular HR policy doesn't mean the policy will be carried out is as it should.[48] In other words, what should be done might not be what is actually done.[49] For example, a company might institute a merit-based pay program to reward employees for their outstanding efforts. However, if the firm's managers rate all employees equally high on their performance evaluations, the pay program will fail to differentiate high versus medium or low performers. One outcome from this disconnection between the design and implementation of the program might be a decrease in motivation among the high performers. Similar situations may exist for other practices as well. A company policy for increased empowerment may be interpreted differently by different managers, resulting in inconsistency in its implementation throughout an organization. Some managers may view this as soliciting input from employees, while others may actually push decision-making down to employees.

This highlights an important component of implementation: A company must take the time to help its managers understand how to implement a practice. Failure to follow up on the actual implementation of the policies that are intended to be used to help realize employee contributions will dramatically decrease their effectiveness in improving company performance.

SUMMARY

One of the key themes of this chapter, and of this entire book, is that there is no single best way to manage employees. Rather, how employees should be managed depends on several HR challenges related to organizational demands, environmental influences, and regulatory issues. In addition to these considerations, there are several principles of high-performing HR systems that separate successful companies from not-so-successful ones. First, high-performing companies look at how their HR activities fit with the three HR challenges—organizational, environmental, and regulatory—they face. Second, high--performing companies internally align their HR practices to realize synergies from them. Third, high-performing HR systems target specific employee contributions that are critical for helping companies achieve a competitive advantage in the marketplace.

In addition to these three key principles, companies must also consider the costs and benefits related to maximizing the contributions their employees make. Different types of HR systems and activities involve different types of investments and costs. The key question is whether a particular investment will help a company achieve and sustain a competitive advantage. One approach to making tough investment decisions such as these is to view your workforce as an employment portfolio. By assessing the strategic value and uniqueness of their firm's different employee groups, managers are in a better position to evaluate the potential benefits that could stem from making those investments in terms of employee contributions. From a strategic point of view, will the investments in HR systems, and the resulting employee competencies and motivation, help the company realize a sustainable source of competitive advantage?

Many companies are now using HR scorecards to help evaluate the effectiveness of their HR systems. By identifying a firm's strategic performance drivers and key HR deliverables, an HR scorecard helps managers focus their attention on value-added activities. In addition, the scorecard helps managers evaluate the alignment between their firms' HR practices and HR deliverables. An HR scorecard provides managers with a clear snapshot of how well or how poorly they are managing their employees. This helps managers pinpoint specific practices that are inconsistent with one another and practices that reinforce one another and lead to the HR deliverables their firms desire.

KEY TERMS

alliance partner
collaborative-based HR system
commitment-based HR system
compliance-based HR system
contract worker
core employee
deadly combination
HR deliverable
job-based employee
powerful connection
productivity-based HR system
relational relationship
strategic performance driver
strategic value
transactional relationship
uniqueness

DISCUSSION QUESTIONS

1. Why is it important for an organization's HR systems to be designed for their unique circumstances?
2. Evaluate the role of alignment between HR challenges and HR activities (i.e., external fit) in organizations.
3. Evaluate the role of alignment between and within the three HR activities (i.e., internal fit) in organizations.
4. Discuss how deadly combinations and powerful connections can impact the success of an organization's HR systems.
5. Discuss how aligning employee contributions with HR systems can provide a competitive advantage.
6. Identify the employee groups at your place of employment and assess the strategic value and the uniqueness of the contributions of each of the groups.
7. Citing the three principles of high-performing HR systems in the chapter (i.e., external fit, internal fit, aligning HR systems with employees' contributions), evaluate what is currently being done well and what could be done to improve things at your place of employment.

LEARNING EXERCISE 1

Following the process of evaluating the effectiveness an HR system as described in the chapter, evaluate the effectiveness of the HR systems at your organization or an organization with which you are familiar. Record your results using the worksheet below.

Organization's Goals and Strategy: ______________________________

____

____

____

Strategic Performance Drivers: ______________________________

____

____

____

HR Deliverables needed: ______________________________

____

____

____

HR Systems

Work Design & Workforce Planning: ______________________________

____

____

Managing Employee Competencies: ______________________________

____

____

Managing Employee Attitudes & Behaviors: ______________________________

____

____

External alignment: ______________________________

____

____

____

Internal alignment: ______________________________

____

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LEARNING EXERCISE 2

Companies are increasingly acknowledging that their employees are a potential source of competitive advantage. At the same time, however, companies are increasing their reliance on external employees, such as contract labor and temporary workers.

1. As a manager, how would you strike a balance between the number of employees you retain internally and the number of external workers you employ?
2. What implications do you think your decisions would have for the morale, commitment, and effort of your employees?

CASE STUDY: THE PUZZLING CLIMATE AT DIGITAL GAMING

Sitting at his desk, Bob Menendez is distraught over his current situation. Bob is the founder of a relatively young, small company called Digital Gaming (DG), which designs computer games. He has personally earned a lot of money and has a strong reputation in the electronic gaming industry for his vision and creativity. His computer games are routinely best sellers and rated among the top products in the industry, particularly for being lifelike, creative, and challenging. Recently, however, several industry analysts have noted that DG's games are not as creative as they once were, and that occasionally the company's software contains glitches.

Bob knows there is something true about these reviews. As an avid gamer himself, he sees that his products, although still high quality, have slipped a notch. Bob is equally concerned about the climate at DG. In the early years of the company's history, employees were highly engaged, full of energy, and completely committed to the company's success. Recently, however, Bob has noticed that some of the 100 programmers he employs seem distant and disengaged. Moreover, the turnover rate of his top programmers has more than tripled from its seven-year average of 10% to a point where DG continually has to hire new programmers. Interestingly, absenteeism and employee complaints are not a problem, and employees put in long hours.

Bob is confused: People are leaving his firm, but he doesn't really know why. As he tries to figure out what is causing the diminished product quality and increased turnover in his company, he wonders if the way he is managing his employees is the problem. He goes out of his way to hire the best and brightest job candidates. He doesn't recruit at top-notch schools because, in his experience, many of the really gifted programmers do not bother with school. Instead, he focuses on referrals from current employees, word of mouth, and advertisements in the top trade outlets. Rather than give applicants a typical employment test or interview, he simply asks them to do some programming on a computer in order to showcase their creativity and skills. Bob usually hires people with potential right on the spot, and he provides them with very attractive signing bonuses. Given the tight labor market for programmers, he is afraid that if he waits to make the offer, the most qualified candidates will take another job.

Once hired, DG employees typically work long hours. However, they have a lot of control over how they work. DG has a very informal culture. Some people show up for work in shorts and T-shirts, and many people work odd hours. For example, some programmers work all night and take the afternoons off. Employees are also given liberal training budgets that they personally manage to help stay on the cutting edge of their business.

The pay package Bob offers is also fairly generous. Base pay for employees is roughly the market average, but they can earn considerably more based on the amount of programming code they complete each month. Employees' computers are monitored by electronic software, not necessarily to evaluate what they do while they work, but to track how much work they finish by the end of the week. Bob then divides a monthly bonus among the programmers based on the volume of code they have completed. Each employee can access the company's intranet to see the status of his or her volume relative to that of DG's other programmers. As shown in the following table, employees in the top 10% of volume of code receive 40% of the bonus pool—a disproportionate share of the rewards available to employees.

Employee Ranking on Performance Curve	Percentage of Bonus Pool
90th–100th percentile	40%
70th–90th percentile	30%
40th–70th percentile	25%
20th–40th percentile	5%
0–20th percentile	0%

Bob evaluates an employee based on several key criteria: volume of completed work, ability to meet deadlines, and sales of the products he or she personally coded. Bob also considers how well each programmer complies with the stylistic preferences and unique formula that he developed for creating code when he founded the company. Although forcing programmers to stick to this protocol limits their creativity, Bob insists that the protocol is instrumental in producing successful programming games.

As Bob is thinking about the current climate at DG, his assistant interrupts to let him know that two more of his top programmers just submitted their letters of resignation. They are leaving to join a new start-up firm that competes directly with DG.

Discussion Questions

1. What are the major problems at DG?
2. Create a table identifying the primary HR activities noted for DG and indicating whether or not they are contributing toward success or contributing to the problems identified. Indicate a reason for each response.
3. What changes to DG's HR activities would you advise Bob Menendez to make? Why?
4. How well do your changes work together. Specifically, what is the internal alignment of your proposed HR system? What additional changes would you suggest to achieve internal alignment?

CASE FOR DEBATE: BUSINESS AS USUAL OR TIME FOR CHANGE?

Based on your understanding of the following case and knowledge of the current environment, identify the alternatives for Burgers, Burgers, Burgers. What changes, if any, are likely to occur at Burgers, Burgers, Burgers? Be prepared to debate the alternatives from the perspective of Knox/Fisher.

Burgers, Burgers, Burgers Inc. is a fast-food company that offers customers large portion size burgers, fries, and drinks at a low cost. Their slogan is "We'll fill you up without leaving your wallet empty." The company was founded by Russ Knox in 1981 at the time the United States was in the worst recession since the Great Depression. Inflation, unemployment, and interest rates were all very high. Knox felt the pain of the working-class people who were particularly hard hit. He wanted these people to be able to enjoy going out to eat as a family despite the tough economic times. To facilitate this, Burgers, Burgers, Burgers provided a good value by offering large quantities of food at very low prices.

To support the concept, they adopted a low-cost strategy so they could keep their prices significantly lower than their competitors. To keep food costs low, they aggressively negotiated contracts with their suppliers. Their no-frills restaurants were located in working-class neighborhoods to be close to their customers and where property costs were lower. The work didn't require experience or college education, so they were able to hire virtually anyone and quickly teach them what they needed to know to be able to perform the job. They hired primarily part-time workers, kept wages low, and offered minimal employee benefits. As a result, employees typically quit if they were able to find a different job, but because unemployment rates were high, they were easily able to hire new employees to take the place of those who left.

Over time Burgers, Burgers, Burgers grew steadily, and today they have numerous locations throughout the United States, primarily in urban areas. Knox, now in his 60s, is still at the helm. The company has never strayed from the original concept of large portions at low prices, but today making that work is becoming increasingly difficult. The economy is good, unemployment is very low, and it is very difficult to find people willing to work for minimum wage. Socially there is a push for low-wage workers to earn at least $15 an hour.

Knox understands the problem this is causing in the restaurants but doesn't want to change their tried-and-true strategy. He believes changing the original concept would require changing everything in the business and would result in a loss of customers. Recently, he hired May Fisher as their first HR director to oversee the employment practices throughout the company. Fisher, who has a degree in human resources and several years of experience in the industry, believes that change is needed to continue business operations in the current environment.

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