

# Chapter 1: The World of Human Resources Management

## Why Study Human Resources Management?

- **Human resources management:** process of managing human talent to achieve an organization's objectives
- **Human capital:** knowledge, skills, and capabilities of individuals that have economic value to an organization
  - Human capital is intangible and cannot be managed the way organizations manage jobs, products, and technologies
  - Employees own their human capital and they take it with them when they leave a company
    - Investment company has made in training and developing these people is lost
- To build human capital, managers must continue to develop superior knowledge, skills, and experience within workforces and retain & promote top performers
- Organizations have to find ways to better utilize knowledge of workers
  - Often, employees have knowledge that is unused

[Figure 1.1 on p. 5]

## Competitive Challenges and Human Resources

### Challenge 1: Responding Strategically to Changes In the Marketplace

- Given the pace of commerce, organizations can rarely stand still for long
- In today's highly competitive environments, being able to adapt has become key to capturing opportunities and overcoming obstacles, as well as the very survival of organizations
- HR professionals can help executives:
  - Improve company's bottom line by streamlining employment costs
  - Improve top line by forecasting labour trends
  - Design new ways to acquire and utilize employees
  - Measure employees' effectiveness
  - Help managers enter new markets
- Examples of means organizations use to modify the way they operate to be more successful:
  - **Six Sigma:** set of principles whose core ideas include understanding customer needs, doing things right the first time, and striving for continuous improvement
  - **Reengineering:** fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in cost, quality, service, and speed

- **Downsizing:** planned elimination of jobs
- **Outsourcing:** contracting out work that was formerly done by employees
- Common denominator of all these strategies is that they require companies to engage in:
  - **Change management:** systematic way of bringing about and managing both organizational changes and changes on the individual level
- To manage change, executives and managers, including those in HR, have to:
  - Envision the future
  - Communicate this vision to employees
  - Set clear expectations for performance
  - Develop the capability to execute by reorganizing people and reallocating assets
- Organizations that have been successful in engineering change:
  - Link change to business strategy
  - Show how change creates quantifiable benefits
  - Engage key employees, customers, and suppliers early when making a change
  - Make investment in implementing & sustaining change
- Some strategic changes companies pursue are *reactive* changes and *proactive* changes
- **Reactive change:** change that occurs after external forces have already affected performance
- **Proactive change:** change initiated to take advantage of targeted opportunities, particularly in fast-changing industries in which followers are not successful
- In addition to serving as strategic partners to management, HR managers are responsible for listening to and advocating on behalf of employees to make sure their interests are aligned with those of the firm and vice versa

### **Challenge 2: Competing, Recruiting, and Staffing Globally**

- **Globalization:** trend to opening up foreign markets to international trade and investment
- Consumers around the world want to be able to buy “anything, anytime, anywhere” and companies are making it possible for them to do so
- “Going Global” requires balancing a complicated set of issues relation to different geographies, including different cultures, employment laws, and business practices
  - Include such things as dealing with employees today who, via the Internet, are better informed about global job opportunities and are willing to pursue them, even if it means working for competing companies (?)
- HR personnel are responsible for implementing training programs and enhancing their firms’ managers’ understanding of other cultures and practices as well as dealing with the culture shock these workers might experience and pay differentials that must be adjusted, depending on the country

### **Challenge 3: Setting and Achieving Corporate Social Responsibility and Sustainability Goals**

- Globalization has led to an improvement in people's living standards
  - As a result of free trade, Canadians can buy products made abroad more cheaply
  - Conversely, people in low-wage countries that make those goods/services are becoming wealthier and are beginning to buy North American-made products
- Some people worry that free trade is creating a "have/have not" world economy, in which people in developing economies are being exploited by companies in richer, more developed countries
- **Corporate social responsibility:** responsibility of the firm to act in the best interests of the people and communities affected by its activities
- Sustainability is closely related to corporate social responsibility
  - Refers to a company's ability to produce a good or service without damaging the environment or depleting a resource
  - Achieving complete sustainability is nearly impossible, but companies are making strides to reduce their "carbon footprints"

#### Challenge 4: Advancing HRM with Technology

- Advancements in information technology have enabled organizations to take advantage of the information explosion
- **Collaborative software:** software that allows workers to interface and share information with one another electronically
- Advanced technology tends to reduce the number of jobs that require little skill and to increase the number of jobs that require considerable skill
- This transformation has been referred to as a shift from "touch labour" to knowledge workers
- **Knowledge workers:** workers whose responsibilities extend beyond the physical execution of work to include planning, decision making, and problem solving
- Technology, transportation, communications, and utilities industries tend to spend the most on training
- Most central use of technology in HRM is an organization's human resources information system (HRIS)
- **Human resources information system (HRIS):** computerized system that provides current and accurate data for purposes of control and decision making
  - HR affects entire workforce since everyone who works for the company must be hired, trained, paid, and promoted, usually through HR
  - Therefore, impact of HRIS has been dramatic
    - Has become potent weapon for lowering administrative costs, increasing productivity, speeding up response times, improving decision making, and tracking a company's talent
  - Most obvious impact has been operational:
    - Automating routine activities, alleviating administrative burdens, reducing costs, and improving productivity internal to HR function itself

- Most frequent uses include:
      - Automating payroll processing, maintaining employee records, and administering benefits programs
    - “Self-service” -- setting up systems, usually on an intranet
      - Allows managers to access employee records themselves for administrative purposes and to access and change their own benefits and other personal information
  - Second way in which IT affects HRM is relational:
    - Connecting people with each other and with HR data they need
    - Companies are using software to recruit, screen, and pretest applicants online before hiring them as well as to train, track, and promote employees once they’re hired
  - Third effect of HRIS is transformational:
    - Changing the way HR processes are designed and executed
    - Ex. Corning, Inc. uses HR software to set developmental goals of its employees to gauge how well they are meeting them
      - Employees can look online to see their own goals and mark their progress as well as see everyone else’s goals
  - When an effective HRIS is implemented, the biggest advantage gained is that HR personnel can concentrate more effectively on the firm’s strategic direction instead of on routine tasks
    - Can include forecasting personnel needs (for firms planning to expand, contract, or merge), planning for career and employee promotions, and evaluating impact of firm’s policies
  - Initial drive to adopt HRISs was related to cutting HR costs, however, HR manager have discovered that systems have allowed them to share information with departmental managers that have been able to come up with better production practices and cost control solutions

### **Challenge 5: Containing Costs While Retaining Top Talent and Maximizing Productivity**

- Organizations take many approaches to lowering labour related costs, including carefully managing employee’s benefits, downsizing, outsourcing, furloughing employees, and engaging in employee leasing in an attempt to enhance productivity
- Downsizing is no longer being regarded as a short-term fix when times are tough
  - It has become a toll continually used by companies to adjust to changes in technology, globalization, and the firm’s business direction
- Advocates of a no-layoff policy note that layoffs may backfire due to hidden costs:
  - Severance and rehiring costs
  - Accrued vacation and sick-day payouts
  - Pension and benefit payoffs
  - Potential lawsuits from aggrieved workers
  - Loss of institutional memory and trust in management

- Lack of staffers when the economy rebounds
  - Survivors who are risk averse, paranoid, and political
- Companies that avoid downsizing may get important benefits:
  - A fiercely loyal, more productive workforce
  - Higher customer satisfaction
  - Readiness to snap back with the economy
  - A recruiting edge
  - Workers who are not afraid to innovate, knowing their jobs are safe
- You do not get dedicated and productive employees if at first sign of trouble you show that they are expendable
  
- An alternative to downsizing is furloughing
- **Furloughing:** situation in which an organization asks or requires employees to take time off for either no pay or reduced pay
  - Companies utilize creative furlough strategies to avoid downsizing and losing talent to competitors
- Furloughs might sound preferable to downsizing, but they have drawbacks as well
  - Costs are not cut as significantly as they would be with downsizing since employees retain their benefits while furloughed
  - Employees not furloughed often end up with more work and feel resentful -- product/service quality and innovation suffer as a result of higher workloads
  - Like downsizing, furloughs can hurt company's recruiting efforts when public discovers it has resorted to such measure
  
- Relationship between companies and employees has shifted from relationship based to transaction based
- Internet has created workforce that is constantly scanning for new opportunities
  - People are choosing to work on a freelance, or contract, basis or to work part-time, especially women and seniors
- Companies hire accounting firms to take care of financial services, advertising firms to handle promotions, software firms to develop data-processing systems and law firms to handle legal issues
- Maintenance, security, catering, and payroll are outsourced to increase organization's flexibility and lower overhead costs
  
- **Offshoring:** business practice of sending jobs to other countries
  - Also referred to as "global sourcing"
- **Nearshoring:** process of moving jobs closer to one's home country
- **Homeshoring** consists of bringing jobs back to domestic markets
  - Ex. Call centre jobs are outsourced to domestic independent contractors working out of their homes
- As an alternative to downsizing, outsourcing, offshoring, and furloughing:

- Many companies, especially small ones, sign **employee leasing** agreements with professional employer organizations (PEOs)
  - A PEO (typically larger company) takes over the management of a smaller company's HR duties
    - Performs all the HR duties such as hiring, payroll, and performance appraisal
    - Can provide employees with benefits that small companies cannot afford since they coemploy a large number of people working at different companies
      - Ex. Vision care plans
    - Many PEOs offer flextime, job sharing, part time employment, consulting arrangements, seasonal work, and on-call work
    - Value of employee leasing lies in the fact that an organization can maintain its working relationships with its employees but shift some employment costs to the PEO, in return for a fee

### **Challenge 6: Responding to the Demographic and Diversity Challenges of the Workforce**

- Imbalance in the age distribution of the labour force is having a significant effect on employers
  - Companies are finding that large portions of their workforces are nearing retirement
- Managers are concerned that the expertise of these employees is likely to be drained too rapidly from the company
- Employees are making positive efforts to attract older workers and workers are taking them up on the offer
- Many baby boomers say they expect to work past traditional retirement age
  - Good health and longer life expectancies play biggest role
- Millennials, Generation Y, are generally regarded as having good technological know-how and initiative, especially when it comes to starting their own businesses
  - Ex. Mark Zuckerberg
  - Particularly interested in meaningful work that will improve world around them
- Generation X (born between 1964 and 1979) members watched their baby-boomer parents get downsized at some point
  - Consequently, as they are now raising children themselves, they value job security
  - They are independent, they like challenging rather than repetitive work and dislike supervisors who look over their shoulders
- Managers find themselves challenged in terms of getting the three generations to work well together
  - Baby boomers categorize younger workers as having poorer work ethic
  - Younger workers have the perception that older workers are set in their ways and technologically challenged

- **Line managers:** non-HR managers responsible for overseeing the work of other employees
  
- HR managers are typically responsible for the following major activities:
  - (1) *Advice and counsel*
    - Serves as in-house consultant to supervisors, managers, and executives
    - HR managers can be an invaluable resource for making decisions since they have knowledge of internal employment issues as well as their awareness of external trends
  - (2) *Service*
    - Perform a host of service activities, such as recruiting, selecting, testing, planning and conducting training programs, and hearing employee concerns/complaints
    - Managers must be convinced that HR staff are there to increase their productivity rather than impose obstacles to their goals
  - (3) *Policy formulation and implementation*
    - Propose and draft new policies/policy revisions to address recurring problems or to prevent anticipated problems
      - These are usually proposed to senior executives of the organization who actually issue the policies
    - May monitor performance of line departments and other staff departments to ensure conformity with established policies, procedures, and practices
    - HR is a resource which managers can turn to for policy implementation
  - (4) *Employee advocacy*
    - Serve as an employee advocate to ensure that interests of employees and interests of organization are aligned
      - Listening to employees' concerns and representing their needs to managers
  
- Competencies expected from HR managers in order to assume a broader role in overall organizational strategy:
  - (1) *Business mastery*
    - HR professionals need to know the business of their organization thoroughly
      - Requires an understanding of its economic and financial capabilities so they can become a key member and help develop firm's strategic direction
      - Also requires HR professionals to develop skills at external relations focused on their customers
  - (2) *HR mastery*
    - HR professionals are organization's behavioural science experts
    - Should develop expert knowledge in areas of staffing, development, appraisals, rewards, team building, and communication

- (3) *Change mastery*
  - HR professionals must be able to manage change processes so firms' HR activities are effectively merged with business needs of organization
  - Involves interpersonal and problem-solving skills, innovativeness and creativity
- (4) *Personal credibility*
  - HR professionals must establish personal credibility in the eyes of internal and external customers
  - Credibility and trust are earned by developing personal relationships with customers, demonstrating the values of the firm, standing up for one's own beliefs, and being fair-minded when dealing with others
- Good HR managers help their organizations build a sustained competitive advantage