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Human Resource Management

LEARNING OBJECTIVES

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

- 1.1 Understand the definition of human resource management (HRM).
- 1.2 Articulate why HRM matters.
- 1.3 Explain the changing context of HRM.
- 1.4 Summarize the HRM profession.

HR in Action: The Case of Costco

Costco is known as a desirable employer. This is partly because it pays an average of \$21 per hour to employees in retail environments where \$10.50 is the average hourly pay. Costco also covers 90% of health insurance expenses for both full-time and part-time employees, which is rare. James Sinegal, former CEO of Costco, is quoted as saying, “When employees are happy, they are your very best ambassadors.” Although HR at Costco is not directly run by its CEO, you can imagine how such a strong set of values at the executive level influences all human resource (HR) practices at Costco. These values, together with the facts that Costco promotes from within, encourages and listens to employee suggestions, and gives managers autonomy to experiment with their departments and stores with an eye toward increasing sales and/or reducing costs (as long as products are never marked up more than 15%), and the fact that he made a modest salary as CEO, are among the reasons why Sinegal was named one of the 100 Most Influential People in Business Ethics in 2008. As a founder and CEO, he made a big profit for the company while putting people first, so it is hard to argue with his success. Although Costco pays considerably more than the industry average, including bonuses and other incentives, its revenues and stock price continue to grow. In fact, the value of Costco stock from 1985 until Sinegal’s retirement in 2012 increased by 5,000%. The next



Barry Sweet/Bloomberg via Getty Images

Former Costco president and CEO James Sinegal pictured in one of the company’s stores near its headquarters in Issaquah, Washington.

CEO, Craig Jelinek, continued this trend. In 2015, Costco's stock rose more than 15% under his leadership, and he was named CEO of the Year by CNN. Costco's stock price has continued to be strong in subsequent years.¹

Case Discussion Questions

1. Why do you think Costco is able to make a profit while paying their employees more than the average wages and benefits?
2. Do you think that Costco's approach could work in other industries?
3. What do you think would happen to Costco's sales and profits if they were to change their HR policies and not offer such attractive benefits to employees?

HRM relates to all aspects of organizational life and is everyone's responsibility. The first chapter of this book gives you an overview of what HRM is and why it is important regardless of what area of business you are pursuing.

Defining Human Resource Management

LO 1.1 Understand the definition of human resource management (HRM).

This textbook provides an introduction to the field of human resource management (HRM). This includes what HRM is, the evolving context and landscape of HRM, best practices, and some of the issues and controversies associated with HRM today. We suspect that, unlike some other areas of study in business, HRM is a subject you already know a great deal about even before reading this book or taking this class. For example, if you have ever filled out a job application or been interviewed for a job, you have been exposed to a major function within HRM called *selection*. Even if you have never applied for a job, you have still interacted with thousands of people who have. Every teacher you have had in the classroom and every customer service interaction you have encountered were the result of HRM in some way or another: Teachers and customer service specialists are hired, trained, paid, and managed via their organization's HRM system. Interactions such as these may have given you some preconceived notions of what HRM is all about. This is a great thing because it means you can jump right in and start participating and discussing the material. But we suspect, as you progress through this book, you will also find yourself seeing the strategic value of HRM practices and why HRM is a key factor in organizational success regardless of the area of business that you intend to focus on in your own career. That is why we set out to write this book.

The world of HRM is changing in new and innovative ways. Much like the *Industrial Revolution* of the mid-1800s, when machines changed the way that manufacturing work was done, we are currently in the midst of a *knowledge revolution*. Never before in history has it been easier to access information, connect globally, and manage employees remotely. We discuss the implications of this recent shift in this chapter, and it is

integrated throughout the book. Chapter 2 specifically addresses how this knowledge revolution has created exciting opportunities for HRM to become invaluable within organizations in a variety of ways, including informing managers with best practices and data to aid decision making throughout the organization. As valued business partners, HRM specialists and generalists can span the range of activities from following procedures to creating and testing hypotheses regarding the most effective ways to manage employees. It is clear that there is a lot to learn, so let us get started with addressing the basic question of what HRM is, who is involved, and where HR is located within organizations.

Human resource management (HRM) refers to the constellation of decisions and actions associated with managing individuals throughout the employee life cycle to maximize employee and organizational effectiveness in attaining goals. This includes functions that range from analyzing and designing jobs; managing diversity and complying with local, national, and global employee laws; recruiting individuals to apply for jobs; selecting individuals to join organizations; training and developing people while they are employed; helping to manage their performance; rewarding and compensating employee performance while maintaining healthy labor relations and helping keep them safe; and managing their exit, or departure, from the organization.

Ultimately, HRM is about making decisions about people. This decision-making process involves many questions that those within an organization must ask and answer. Over time, the answers may change as the firm experiences growth or decline, external factors change, or the organizational culture evolves. For example, those involved in HRM need to address questions such as these:

- Where will we find the best employees?
- How can we help them be safe at work?
- How should we motivate and reward employees to be effective, innovative, and loyal?
- What training do our employees need, and how can we further develop them?
- How can we help ensure that employment relations between employees and managers remain healthy?
- What can we do to ensure that employees engage in ethical decision making and behaviors?
- What do we need to do to remain competitive locally and globally?
- Why are employees leaving, and what can we learn from their exits?

All of these questions and more are part of managing the HRM system of decisions and actions associated with managing individuals throughout the employee life cycle (see Figure 1.1), from the hiring stage through the exit of an employee through voluntary or involuntary turnover.

Viewing HRM from a decision-making perspective has important implications for the success of employees and organizations. HRM systems can help overcome **biases**—types of favoritism or prejudice—that can be inherent in organizational decisions. Evidence indicates that individuals have biases, often unconscious, when engaging in decision

Human resource management (HRM)

The decisions and actions associated with managing individuals throughout the employee life cycle to maximize employee and organization effectiveness

Biases

A tendency, feeling, or opinion, especially one that is preconceived, unreasoned, and unsupported by evidence

Availability bias

The tendency to rely more on information that is more readily available than alternative information

■ FIGURE 1.1 Key Aspects to Manage During the Employee Life Cycle

A critical aspect of HRM is managing key aspects of work throughout the entire employee life cycle.



Anchoring bias

The tendency when making a judgment to rely on the first piece of information that one receives

Overconfidence bias

The tendency for an individual to be more confident in their own beliefs than reality would suggest

making. Each of these biases represents a shortcut to making decisions. Based on years of experience, each of us has developed the ability to sort through huge amounts of information to arrive at decisions. Some are small, and we hardly ever give them a thought, but those can be dangerous decisions because biases such as availability, anchoring, or confirmation can influence the outcome unconsciously. Other choices, such as whether to hire one of three candidates, also have consequences.

For example, consider the **availability bias**, which is the tendency to rely more on information that is readily available to us, and we discount alternative information. To the degree that the information relating to the job candidates is subjective, such as when interviews are used, our past experiences will influence us to a greater degree, and bias can creep into the process. The bias might be subtle, such as your recollection that the last employee you hired from State University has done a great job. This might lead you to lean toward the one candidate on your short list from this same school. But is this a reasonable thing, given that State University graduates 8,000 students per year and the other two candidates graduated from schools from which your company has employed dozens of successful candidates? It probably is not. To avoid this as well as the other types of biases, take

concrete steps, including recognizing that such biases exist; taking the other side of your argument, including others in the decision making; assigning a devil's advocate; and considering the consequences of a suboptimal hire. In other words, one of the functions of HRM is to be aware of and design systems that prevent systemic biases from exerting undue influence over decision making, resulting in better decisions. **Anchoring bias**, the tendency to rely too much on the first piece of information given, can be just as dangerous, as your decision can be influenced simply by the way others present information. Finally, **overconfidence bias**, the tendency to seek confirmation of one's own beliefs or expectations, can shortcut the exploration of a full range of options. All of these biases can hurt the quality of decisions made.



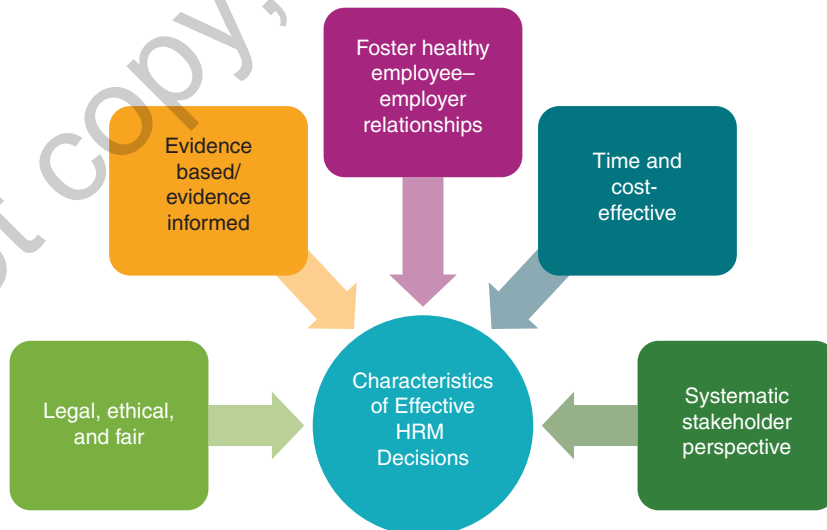
Manager's Toolbox

AM I MAKING A GOOD DECISION?

Making decisions is not easy. Research shows that only about 50% of all decisions made within organizations are successful.² To help you understand whether a particular decision has the hallmarks of success, it makes sense to consider the following key characteristics. Doing so won't guarantee success, but it can help you develop more robust decision-making criteria that help to meet the needs of the entire organization rather than just solving a problem today that may create a larger problem tomorrow.

Ask yourself these questions:

- *Is this course of action legal? Is it ethical? Is it fair?* Just being legal is a good first step, but it is not enough. How would you feel if your course of action were shared on the Internet or on the front page of your local newspaper? If the answer is “not so great,” that's an indication that the course of action you are considering may be legal but may not be ethical or fair.
- *Is this decision based on evidence and data?* While decisions should not be made solely based on prior evidence and relevant data, they should consider both and try to leverage what is possible to know to rule out alternative courses of action.
- *Will pursuing this course of action help to make the organization healthier?* It is easy to make decisions and pursue courses of action in isolation from the larger organization. Doing so can create problems. Stopping to consider whether you are doing something that is likely to help or hinder positive employee–employer relations is helpful in avoiding problems down the line.
- *Is this course of action time and resource efficient?* If the course of action you are considering is not time or resource efficient, it is not likely to be sustainable over time. This can lead to resource



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constraints, including employee energy and burnout as well as financial constraints.

- *Does this course of action take a systematic perspective and consider various stakeholders?* You might have all the information necessary to make a good

decision. But you might not. And even if you do have the relevant information, including stakeholders in the decision-making process is a helpful way of securing acceptance of a decision. Skipping this step will most likely lead to less effective decisions in the long run.

HRM Matters

LO 1.2 Articulate why HRM matters.

You might be taking this class because it is required at your school even if you are not an HRM major. Regardless of your major, HR is valuable for you and your career. For example, knowing about HR policies and practices is important because as a manager or future manager, you will be required to make employee-related decisions. You might be involved in recruiting and hiring employees, and in fact, you will be on the front line of the hiring process. You may play an important role in managing the performance of employees and allocating rewards. You may need to discipline employees or manage their exit. Your decisions, actions, and inactions will be used to assess compliance with the law. Much of the information included in this book is relevant as you build your managerial skills. For any HR practice to be implemented effectively, HR and line managers will need to be partners. This involves each party understanding the rationale behind each practice, line managers remaining true to the spirit of the system in place and giving feedback to HR, and HR departments designing systems that meet the needs of line managers. If you end up working in an area outside of HR, such as accounting or marketing, you will still be a consumer of the HR systems and services available at your organization. For example, your department may require a new training program, and it will be essential to partner with the HR department to design and implement the new training program. It is important to understand how HR systems and services work. In short, even if you have no interest in working in HR, learning about HRM will be a good investment of your time.

People Matter

A-S-A framework The process of attraction, selection, and attrition that defines an organization's culture

It is well documented that the individuals who work within an organization matter when it comes to what an organization is like as a place to work and what it is able to do. Individuals influence its culture, informal rules, how hard individuals work, how they should treat one another, how much risk employees should take, and what is considered acceptable in terms of performance and ethics. Influence happens through who is attracted to join the organization, who is selected to join the organization, and who decides to remain or leave the organization. Benjamin Schneider called this the **A-S-A framework**, standing

for attraction-selection-attrition in organizations. In other words, organizations vary in terms of the human capital they have access to based on whom they attract, hire, and retain. Human capital refers to the knowledge, skills, and abilities, as well as other characteristics (KSAOs), embodied in people.³ As you might imagine, human capital might refer to the KSAOs of a handful of people when a company is starting out to thousands of employees if and when the organization grows. It is clear that human capital needs of organizations change over time.

Richard Branson, founder of the Virgin Group, famously said, “Take care of your employees, and they’ll take care of your business.”⁴ He argues that creating a great place to work involves a work climate where people are appreciated, engaged in their work, productive, and thriving rather than simply surviving. Research supports this idea, showing that large percentages of disengaged employees (68% to 70% of survey respondents) cost U.S. businesses up to \$550 billion per year in lost productivity. Disengaged employees also have 49% more accidents on the job and 60% more errors in their work, and their companies have a 65% lower share price over time than those with more engaged employees. Organizations increasingly understand that treating individuals isn’t just about “being nice” to them; it is a win-win, as those employees who feel valued also tend to be more engaged and productive. And we know that organizations that value their employees are more profitable than those that do not.⁵

If employing people who are valued, highly supported, and engaged at work promotes company success, why don’t all organizations create such cultures? That is a great question. The answer is complex, but reasons include not understanding or believing the connection between organizational culture and success and not knowing how to create this connection.

Organizational Culture Matters

Organizational culture refers to shared, “taken-for-granted” assumptions that members of an organization have that affect the way they act, think, and perceive their environment.⁶ Because of this, organizational culture influences how decisions are made within organizations, and it is also influenced by those decisions. For example, if being polite is highly valued within an organization, the approach taken when giving performance feedback would be much different than in an organization that values directness. During the initial pilot of a managerial training program, which involved a simulation and role-play conducted with employees at Hewlett Packard in the 1990s, the entire role-play had to be rewritten when the participants insisted that the role of an employee who argues with their manager vigorously just would never happen. As participants explained, they didn’t know how to react to this because it was so far out of the norm of their business. Since that time, HP’s culture has evolved to be more in line with other cultures, which are more direct and aggressive. This is a useful reminder of how powerful cultures can be. It makes sense to take some time to understand the different types of organizational cultures that exist within organizations.

Types of Organizational Culture

One popular typology of organizational cultures, called the Competing Values Framework, characterizes organizations by their emphasis on collaboration, creating, controlling, or

Organizational culture

Assumptions shared by organization members, which affect their actions, thoughts, and perceptions

competing.⁷ The Competing Values Framework identifies four different types of organizational cultures:

- **Clan cultures** are collaboration oriented and characterized by valuing being cohesive, people oriented, team players, and empowering employees. Examples of organizations that can be seen as having clan cultures are Costco, Southwest Airlines, and SAS Institute.
- **Adhocracy cultures** focus on creating and emphasize being entrepreneurial, being flexible, taking risks, and being creative. Examples of adhocracy cultures are 3M, Google, and Facebook.
- **Market cultures** are characterized by competition and value being aggressive, competitive, and customer oriented. Examples of companies showing signs of a market culture are Amazon, Intel, and Netflix.
- **Hierarchy cultures** focus on controlling and value being efficient, timely, and consistent. Organizations such as Walmart and Boeing are examples of this type of culture.

Clan culture

Organizations with clan cultures are collaboration and people oriented and value cohesion, employee empowerment, and team players

Adhocracy culture

Organizations with adhocracy cultures are creation focused and emphasize entrepreneurship, flexibility, risk taking, and creativity

Market culture

Organizations with market cultures are characterized by competition and are characterized as aggressive, competitive, and customer oriented

Hierarchy culture

Organizations with hierarchy cultures focus on control and value being efficient, timely, and consistent

HRM and Organizational Culture

No one type of culture leads to success and happy employees. The examples given for different cultures are all successful businesses in their industries. It is important to remember that there is a close connection between company culture and HR practices adopted, and in turn, the HR practices adopted will influence and shape the culture into the future. Company HR practices are often a reflection of company culture. For example, Marriott developed an online recruiting platform called “My Marriott Hotel”: Candidates manage different areas of the hotel’s operations, where they lose or gain points for customer satisfaction and profitability. Such a recruitment tool reflects the company’s values, such as being results and customer oriented.⁸ You would not expect to see such a system in place in a company that emphasizes efficient and cost-effective hiring to fill specific positions.

Similarly, the HR practices in use will shape a company’s culture. For example, imagine a company that adopts a performance review system that involves ranking employees on a bell curve and distributing rewards accordingly, such as Yahoo’s adoption of such a system in 2013. Requiring managers to compare employees with each other will shape the culture of the company toward a market culture, as survival in such a system will require competition among employees. Effective HR decisions will need to consider the implications of every decision for the culture the company has and the culture the company would like to have.

Macro Changes and HRM

LO 1.3 Explain the changing context of HRM.

Human resource management does not exist in a vacuum. Companies have gone from personnel departments exclusively using paper forms and tracking benefits to HR becoming a strategic partner in organizational decisions. Because of this, as the world and the fundamental characteristics of work continue to evolve, so must human resource

FIGURE 1.2 Macro Changes Affect HRM

Forces shaping human resource management continue to evolve.



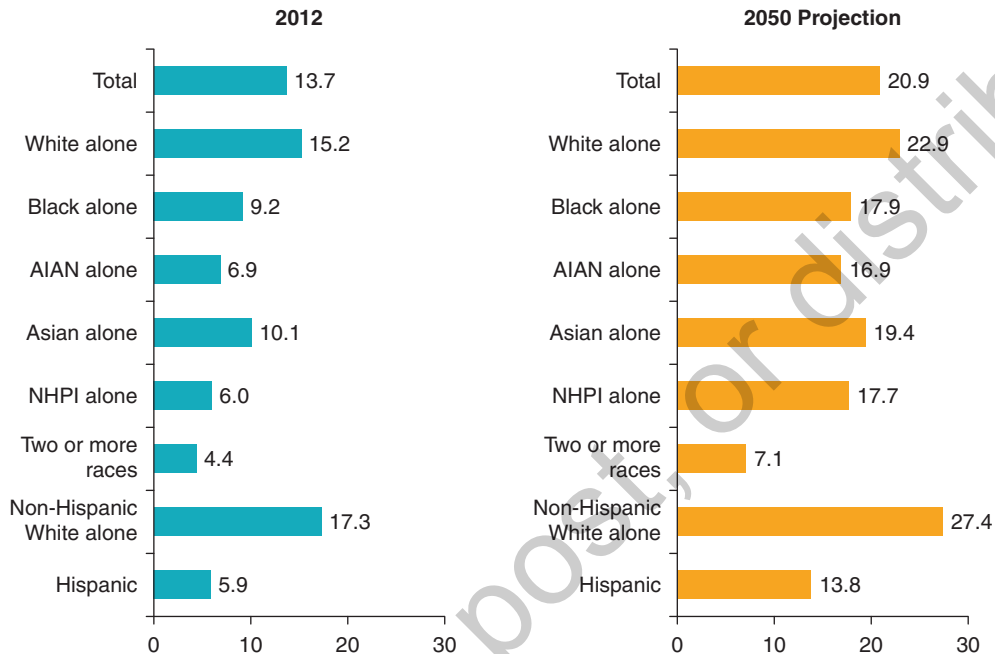
management. This section outlines a number of these important changes in the contextual landscape that have major implications for HRM. These include changing demographics, the emerging gig economy, increased globalization, technology, the availability of data, and the ongoing and rising importance of ethics and corporate social responsibility (see Figure 1.2).

Demographics Are Changing

One of the largest impacts on HRM is that of the increasingly changing demographics of individuals in the United States and around the world (see Figure 1.3). Changes include the aging population and increasing demographic diversity. Given how prevalent this topic is, you are probably aware that the American workforce is aging. By 2030, 20% or more of those in the United States are projected to be aged 65 or older, which is more than double the percentage in 1970.⁹ This represents a major shift in the working population, as nearly 75 million baby boomers (those born between 1946 and 1964) are expected to retire in the next 25 years, with only 46 million new workers from later generations joining the organizational ranks.

■ **FIGURE 1.3** Percent Age 65 and Older by Race and Hispanic Origin for the United States: 2012 and 2050 (percent of each group's total population)

The distribution of U.S. population is projected to change, which has implications for HR.



Sources: U.S. Census Bureau, 2012 Population Estimates and 2012 National Projections; Ortman, J. M., Velkoff, V. A., & Hogan, H. (2014). An aging nation: The older population in the United States. U.S. Department of Commerce. Retrieved August 2, 2019, from <https://www.census.gov/prod/2014pubs/p25-1140.pdf>

Note: AIAN = American Indian and Alaska Native; NHPI = Native Hawaiian and Other Pacific Islander.

Increasing diversity in the workplace is also an aspect of the changing demographic landscape, which has implications for HRM. For example, race is an area where we still see challenges with equal pay for equal work. Research finds that ethnic subgroups experience both an earnings gap and a glass ceiling. In 2015, for every dollar a Caucasian male employee made, Asian males made \$1.20, whereas African American males made around 76 cents, and Hispanic employees made 69 cents.¹⁰ In 2019, only three *Fortune* 500 companies (Merck & Co, Inc., JCPenney's, and TIAA) were run by African American chairpersons and CEOs. It is interesting that although, as a group, ethnic subgroups face challenges in terms of pay and promotion, the demographic trends are such that by 2055, Caucasians are estimated to constitute less than one half of the population in the United States.¹¹ This demographic shift has already taken place in some parts of the United States, such as the Los Angeles area, where only 29% of the population is Caucasian, non-Hispanic.¹²

Such core changes in who is available to work have major implications for how to recruit, select, train, reward, and manage the workforce. Given that HRM is responsible for these functions, being aware of the changes as well as their associated challenges and opportunities is essential for organizations to remain competitive.

The Gig Economy Is Growing

A **gig economy** is characterized by the prevalence of temporary employment positions, and individuals are employed as independent workers rather than actual employees of an organization. And a gig is defined as a single project or task that a worker is hired to do on demand. Think of Uber drivers or substitute teachers. In 2018, of the 161 million employed in the United States, nearly 21 million (or 13%) reported working part-time jobs for noneconomic reasons.¹³ A survey found that 75% of full-time and 68% of part-time freelance employees noted scheduling flexibility as a key reason for their attraction to freelance work.¹⁴ Other positives reported are variety and the ability to pursue one's interests. Reported downsides include inconsistency in pay and scheduling and the lack of benefits associated with this type of employment contract. As the U.S. Department of Labor noted about the gig economy, "These workers often get individual gigs using a website or mobile app that helps to match them with customers. Some gigs may be brief. . . . Others are much longer but still of limited duration, such as an 18-month database management project. When one gig is over, workers who earn a steady income this way must find another. And sometimes, that means juggling multiple jobs at once."¹⁵ Some occupations are more likely than others to employ contract workers. Arts and design, computer and information technology, construction and extraction, media and communications, and transportation and material moving are industry sectors at the top of the list for contract work. The implications of the emerging gig economy are vast. Because this class of employment is so relatively new, the legal environment has not yet kept up, and it remains an area that is unclear.

Globalization Is Increasing

U.S.-based businesses recognize the importance of international business and international presence. India and China are the fastest growing economies, each of them being home to around 18% of the world's population. Major U.S. businesses are realizing that a big portion of their revenues comes from overseas. For example, Intel receives 82% of its revenue from overseas. For Qualcomm, this ratio is over 98%. Half the revenue of Dow Chemical, Exxon Mobil, Apple, and Johnson & Johnson comes from overseas.¹⁶ If you are not convinced that international business is here to stay, consider these iconic, everyday brands normally associated with the United States: Budweiser, 7-Eleven, Holiday Inn, Shell, and T-Mobile. All of these are foreign owned. Globalization of business introduces a number of HRM challenges. Businesses recruit and hire employees from a more diverse pool of applicants given the realities of global mobility of potential employees. Businesses will need to consider the local laws and regulations in the different operations they run. It is also important to consider the role of cultural differences in the use of different HRM practices around the world. It is tempting to transport best practices developed in corporate headquarters, but

Gig economy

The prevalence of temporary employment positions, where individuals are employed as independent workers instead of actual employees of an organization

such efforts, without sensitivity to the local culture, are often doomed to fail. As a result, in companies operating worldwide, effective HRM takes into account local differences in local laws and norms to create an effective global organization.

Technology Is Rapidly Evolving

Technology has been evolving at a rapid pace. A key reason behind this can be explained via Moore's Law, put forth in 1965, which states the capacity of computer chips would double roughly every 2 years at around the same cost. George E. Moore was the cofounder of Intel Corporation. As part of its 50-year celebration of Moore's Law, Intel calculated that if fuel efficiency were to improve at the same rate as the law over 50 years, a person could drive their car for a lifetime on a single tank of gas.¹⁷ Moore's Law is important to HRM because it illustrates how rapidly technology will continue to evolve as the cost and availability of processing power become increasingly accessible. This aligns with the increasing rate of technology's impact on HRM processes and procedures. As you will see throughout this book—and especially in Chapter 3—technology matters a great deal when it comes to HRM.

Availability of Data Is Increasing

It may seem like everyone is talking about big data. We discuss this in greater detail in the next two chapters, but for now, it is helpful to know that *big data* refers to data that are large in volume, variety, and velocity. Technology has allowed for greater and greater computing power, and the Internet has generated so much data that recent estimates are that Amazon, Facebook, Google, and Microsoft stored at least 1,200 petabytes among them in 2013 alone. A petabyte is 1 million gigabytes. Every second, there are over 8,000 tweets, nearly 1,000 Instagram photos uploaded, over 1,500 Tumblr posts, 3,600 Skype calls, over 72,000 Google search queries, and 2.8 million e-mails sent. These numbers continue to grow over time.¹⁸ That's a lot of data. In addition, companies often gather annual opinion surveys, as well as other employment data from millions of workers each year. As more and more transactions, communications, and shopping move online, more information is available each day. Over 70% of business executives are investing, or plan to invest, in analytics related to big data, but only 2% say they have yet achieved what they called "broad, positive impact."¹⁹

Ethical Challenges and Corporate Social Responsibility

Business ethics is a system of principles that govern how businesses operate, how decisions are made, and how people are treated. It includes the conduct of individual employees as well as the entire organization. These concepts should look familiar from our earlier discussion of the characteristics of effective HRM decision making. The concept of business ethics arose in the 1960s and 1970s in the United States as values shifted from strict loyalty to the organization to a stronger loyalty toward one's own guiding principles and ideals.²⁰ This manifested itself through environmental issues, increasing employee-versus-employer tension, human rights issues surrounding unfair and unsafe labor practices, and civil rights issues. Over time, additional issues surfaced, such as bribes and illegal contracting practices, deception in advertising, and lack of transparency in business transactions.

Business ethics A system of principles that govern how business operates, how decisions are made, and how people are treated

By the early 2000s, concerns regarding business scandals such as financial mismanagement, increased corporate liability for personal damage, and fraud had come to the forefront. Such scandals led to several changes on the global stage, such as the UN Convention Against Corruption and the 2004 Global Compact adopting the 10th principle against corruption, and the Association of Advanced Collegiate Schools of Business (AACSB) included ethics as part of an accredited business education, including a key provision on the importance of ethical decision making.²¹ Given that HRM is defined as the constellation of decisions and actions associated with managing individuals throughout the employee life cycle, addressing ethical challenges and corporate social responsibility are key aspects of HRM. You will find an exercise called *Ethical Matters* in each chapter of this book. We encourage you to take the time to consider the ethical challenges you have and may encounter at work.

This book explicitly focuses on the importance of data in making effective HRM decisions. We offer examples and insights throughout the book as well as special features to help bring data analytics to help you become more familiar and more effective at thinking about and leveraging the availability of data. Knowing that technology and big data are major trends that affect HRM throughout the world are the key points we want you to take away from this section.



Spotlight on Data and Analytics

DESCRIPTIVE, PREDICTIVE, AND PRESCRIPTIVE ANALYTICS

A survey of business leaders conducted by Deloitte found that concerns exist regarding the gap between the perceived need for data-driven approaches to HR and the existing skill base. Of the companies surveyed, 75% reported a belief that HR analytics is important, but just 8% reported a belief that their own organization is strong in this area.²² A Society for Human Resource Management (SHRM) Foundation report on analytics found that two key skills are lacking: analytics skills and the ability to present findings in a convincing way to senior executives.²³ As more organizations such as Pfizer, AOL, and Facebook continue to focus on analytics, we suspect that other organizations will continue to follow suit.

As you consider how analytics in general and HR analytics in particular may play a role in your future, keep in mind these different levels of

analytics: *descriptive*, *predictive*, and *prescriptive*. *Descriptive analytics* is focused on understanding what has happened. By definition, it is focused on understanding the past. Descriptive analytics might include understanding what percentage of an employee sample has a college education versus a high school education. *Predictive analytics* focuses on what is likely to happen given what is known. By definition, it is forward looking. For example, predictive analytics might focus on understanding how going to high school versus continuing to college relates to job performance based on probabilities. *Prescriptive analytics* focuses on what should be done in the future based on what is known. By definition, it is also forward looking. Prescriptive analytics might focus on what the best mix of high school- versus college-educated employees the firm *should* have for optimal firm performance.

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Descriptive Analytics

- **What has happened?**
- Most of HRM employs descriptive analytics
- Includes sums, averages, percentages that describe the situation
- For example, for HRM, how many employees went through training last year?

Predictive Analytics

- **What could happen?**
- Includes forecasts, developing models to predict and explain employee and organizational outcomes
- For example, for HRM, understanding which types of employees will benefit the most from different training programs

Prescriptive Analytics

- **What should be done?**
- Consider different possible outcomes of actions and optimal solutions; rarely used
- Advice on which course of action the organization *should* take
- For example, for HRM, what should the organization do so employees will benefit most from training?

The Profession of HRM

LO 1.4 Summarize the HRM profession.

We realize that not every person reading this book plans to go into HRM as a profession. Nevertheless, understanding who is involved in HRM, the types of HR careers available, and what the core HRM competencies are should be helpful to all interested in business. We start with an overview of who is involved in HRM.

Who Is Involved in HRM?

The short answer to this question is everyone within an organization. This is because everyone is responsible for helping the organization be successful. Some individuals, groups, and departments are more involved in HRM decision making and actions on a day-to-day basis than others. These include CEOs and the associated leadership team, HR managers, line managers, and HR specialists and generalists. In addition, other areas of the organization, such as information systems technology, play an important role in making sure the right people have the right information in place to make the most effective decisions possible. The marketing of products influences whether potential applicants know about and are attracted to the organization. The accounting and finance functions are critical to the fiscal health of an organization and also play an

important role in keeping the organization's finances supporting human capital. They may be involved in compensation and benefits-related decisions as well. And every one of these departments also has managers who oversee them. It would be a missed opportunity to *only* focus on what happens within the Department of Human Resource Management within an organization.

Because this book is written with a special focus on best practices and functions of HRM, we focus primarily on the ways in which four important groups affect the culture and functioning of HRM within an organization. These include the top management leadership team, line managers, HRM practitioners, and, finally, HR departments.

Top Management Teams

The top members of the organizational team, such as the CEO, top management team, and/or owner of the organization, set the tone for HR and how much or how little human capital is valued. They also set the tone for how much HRM is valued as a strategic function to enhance the organization's effectiveness. The organization's chief human resource officer (CHRO) is also critical in this regard. Organizations often use executive recruiting functions within their organizations or hire external search firms to help them find the right talent at this level.

HR Managers

An HR manager is someone who oversees the personnel department or HR functions within a group. The degree to which they are passive versus proactive in terms of asking questions, gathering data, and helping to address the major challenges and opportunities of the organization can influence how effective HRM and, relatedly, the organization ultimately becomes. One of the other major functions of these individuals is to partner with other managers across the organization. This is a critical coordination function. These individuals might hold a variety of job titles such as HR manager/director, which is the most frequently advertised job position in HR.

Line Managers

Managers also play a critical role in making people decisions. For example, a hiring manager's opinion can be the difference between a person being hired, promoted, or fired. Managers also play a critical day-to-day role in managing workflows, helping support new employee development, and developing talent for greater responsibilities over time. Managers help to set the tone of a work group or department. Research shows that the climate managers set can influence the level of innovation, safe behaviors, and ethical behaviors within the group.²⁴ Most position announcements for HR manager require 3 to 5 years of HR-related experience to be considered for the job.

HR Careers

HR practitioners work on HR-related activities and regularly engage in HR-related strategic and process-related people or personnel decisions within the organization. They might be called HR manager, HR partner, or HR specialist. Each of these titles connotes different



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aspects of the HR practitioner's core job functions. And each might perform an **HR specialist** function where they attend to all aspects of one specific HRM function, such as recruitment, compensation, or training. Or they might be an **HR generalist** function where they span the multiple HR functions. As you might imagine, the needs for specialists versus generalists are related to the size and scope of the HR function, as well as the industry the organization is in. The larger the organization is, the more likely it is to employ specialists. You might see job titles such as recruiter, compensation analyst, or HR analyst.

HR Business Partners

HR business partner (HRBP) is the second most frequently advertised job position in HR. An **HR business partner** is a more recent term and refers to someone who serves as a consultant to management on HR-related issues. As the Society for Human Resource Management notes, the "HRBP is responsible for aligning business objectives with employees and management in designated business units. . . . The successful HRBP will act as an employee champion and agent of change." The key aspect of HRBPs is that their role is to anticipate HR-related needs, as well as being available to share advice and proactively address small problems before they become big ones.

What Employers Look for in HR Applicants

The answer to this question depends on the level of the HR position in the organization, as well as the degree to which HR plays a strategic role within the organization. For example, an HR assistant position typically only requires a high school diploma. To move up in the organization, a college degree can make a big difference. An analysis of HR position announcements for jobs found that the top requested areas of college study included human resource management, business administration, psychology, and organizational development. Getting the first job and some HRM experience is only the first step. Those in HR need to stay up to date on the latest developments—especially as they relate to the ever-shifting legal environment.

Organizations can help HR practitioners stay informed of best practices and up to date on the latest trends that might affect HR. One such organization is the Society for Human Resource Management (SHRM). SHRM is the world's largest HR professional society, representing 285,000 members in more than 165 countries. Its headquarters are located in Alexandria, Virginia, and it has 575 affiliated local chapters throughout the United States, China, India, and the United Arab Emirates.²⁵ One of the key benefits of such professional organizations is that they have a wide view of what it takes to be effective in HRM. In fact, SHRM has spent a great deal of time and energy studying just that, as seen in the section on competencies.

Salary and Job Outlook

The Bureau of Labor Statistics reports that the median pay for an HR manager in 2017 was \$110,120 per year, which equals \$52.94 per hour. Moving up to become an HR manager happens, on average, about 5 years after starting out. In addition, job growth is projected to be 9% in the next 10 years, which is above the average for all jobs that year.²⁶ Overall, HRM is considered to have solid career prospects and to be an attractive job. For example, a 2018 survey by Glassdoor.com found that human resource manager was the fifth-best job based on job projections, median base salary, and career opportunity ratings.²⁷

HRM certifications. The two major certifications in HRM are administered by SHRM (SHRM-CP and SHRM-SCP) and the HR Certification Institute (SPHR and PHR). One

HR specialist

A person who fulfills an HR specialist function attends to all aspects of one specific HRM function

HR generalist

A person who fulfills an HR generalist function attends to multiple HR functions

HR business partner

Someone who serves as a consultant to management on HR-related issues

question that those interested in business and HRM practitioners alike ask is the value of HRM certifications. In an analysis of job postings for HRM, 42% noted a preference or requirement for certification. Further, some positions, such as HR business partner, were more likely than not to require certification, which indicates that certification may be beneficial in securing a job.²⁸ In addition, having a deeper knowledge of HRM should help the individual to master the HRM knowledge domain more fully and signals a deeper interest in HRM than noncertified individuals.²⁹

HR Competencies

You probably know what it means to be competent. A person who is competent is perceived to be able to perform specific functions reasonably well. A **competency** is a cluster of knowledge, skills, abilities, and other characteristics (KSAOs) necessary to be effective at one's job. Competencies are much like this but at a broader level, as they refer to a set of technical or behavioral KSAOs that, together, help to define what it takes to be successful within a specific job, organization, or profession.³⁰

SHRM developed its competency model to create a model that is applicable to all HR professionals regardless of characteristics such as job function or career level, organization size, industry, or location. What emerged was a set of core technical competencies called *HR expertise/knowledge*. In addition, it identified eight behavioral competencies that form three additional clusters of competencies with *interpersonal competencies*, including relationship management, communication, and global and cultural effectiveness; *business competencies*, including business acumen, critical evaluation, and consultation; and *leadership competencies*, including leadership and navigation and ethical practice (see Figure 1.4).

Staying Up to Date: Evidence-Based Management

We have seen how important learning the functions of HRM is. It is also important to stay abreast of changes in

Competency

A cluster of knowledge, skills, abilities, and other characteristics (KSAOs) necessary to be effective at one's job

■ FIGURE 1.4 SHRM Competency Model

SHRM developed the SHRM Competency Model. Technical competencies are encompassed within HR expertise/knowledge. Interpersonal competencies include relationship management, communication, and global and cultural effectiveness. Business competencies include business acumen, critical evaluation, and consultation. Leadership competencies include leadership and navigation and ethical practice.



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the field as they evolve by taking workshops and education courses (and continuing education) separately or as part of being certified. Another important way that managers, HRM practitioners, consultants, and researchers stay up to date on the latest findings and changes in the field is by learning about research findings conducted by others. In this way, practitioners can learn best practices to give their organization a competitive advantage by saving time by learning from others' mistakes and considering their successes.

Information regarding HRM comes from three main places. First, organizations often engage in benchmarking. **Benchmarking** refers to a measurement of the quality of an organization's practices in comparison with peer organizations using similar metrics. The best benchmarking follows the standards of good decision making and includes identifying the goal and parameters of the benchmarking, gathering data, analyzing data, and communicating the results. Benchmarking might occur within a specific industry sector or across functions such as HRM benchmarking. Benchmarking is often done at different levels as well, with *Fortune* 500 organizations often benchmarking against one another. For example, asking what the top 10 best companies in your industry do in terms of surveys with departing employees could be useful information if you are planning to make changes to your own exit process. One thing to keep in mind is that simply meeting benchmarks is not an advantage, but understanding them and moving beyond them can be.

Second, reports are written based on surveys and trends by HR organizations, such as SHRM, The Conference Board, or the Association for Talent Development, and HR consulting firms, such as PwC, SAP/SuccessFactors, and Aberdeen Group. These findings might be shared at industry conferences or in practitioner outlets such as *HR Focus*, *HR Magazine*, *Harvard Business Review*, *People Management*, *Workforce*, and *T+D*, as well as via blogs or newsletters. These outlets may be reviewed but do not go under the same scrutiny as peer-reviewed research articles.

Third, researchers within universities and in industry in the fields of HRM and industrial-organizational (I-O) psychology³¹ generate new knowledge about best practices through their research streams. The findings are published in academic journals, which are peer reviewed by experts in that research area who evaluate the rigor of the studies and their contribution to the research and practice of HRM. Research findings are also presented at annual conferences such as the Academy of Management and Society for Industrial and Organizational Psychology.³² Papers presented at these particular conferences are also peer reviewed but with less detailed peer review than for a journal, and attending sessions at conferences allows HRM practitioners and researchers to learn what some of the most current research is on a given topic. And of course, books on HRM topics are also important ways to stay up to date.

Given how important we feel evidence-based practice is, we include research findings throughout the book. When we can, we focus on key findings from meta-analyses in each chapter. Although we base much of this textbook on findings across many individual studies, a meta-analysis is unique in that it summarizes and synthesizes everything that researchers have found on a given topic up to that point using a statistical process. Another way to think about staying up to date is to follow the scientific process in gathering information within your own organization.

Benchmarking

The measurement of the quality of an organization's practices in comparison with those of a peer organization



Spotlight on Legal Issues

U.S. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION

The U.S. Equal Employment Opportunity Commission (EEOC) is the primary federal agency responsible for handling workplace discrimination claims. In 2017, the agency received over 84,000 individual filings. In the United States, federal law prohibits discrimination in employment decisions based on protected characteristics. These laws are referred to as equal employment opportunity (EEO) laws. Most EEO laws pertaining to private, government, and state institutions are monitored and enforced by the EEOC, which is an independent federal agency. The EEOC

ensures compliance with the law, in addition to providing outreach activities and preventing discrimination from occurring in the first place. EEO laws typically apply to organizations with 15 or more employees and cover businesses, private employers, government agencies, employment agencies, and labor unions and aim to prevent discrimination against employees, job applicants, and participants in training and apprenticeship programs. You will learn more about the laws that the EEOC covers in Chapter 4, but for now, the key point is to understand that this agency exists.³³

CHAPTER SUMMARY

HRM influences a company's success from start-up through years of expansion, including successes and setbacks. At this point, you know a great deal about what HRM is, why it matters, and different types of organizational cultures. We also covered an overview of six key aspects of the changing context of HRM, including changing demographics, the emergence of a gig economy, globalization, technology, availability

of data, and ethical challenges and corporate social responsibility. The overview of HRM as a profession included understanding who is involved in HRM, different aspects of HRM careers, and HRM competencies. Finally, Spotlights on the manager's tool box, data and analytics, and legal issues, as well as HR in Action, highlighted key points and examples.

KEY TERMS

human resource
management (HRM) 5
biases 5
availability bias 6
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overconfidence bias 6
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organizational
culture 9
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HR REASONING AND DECISION-MAKING EXERCISES

EXERCISE 1.1: SEEKING INFORMATION AS A NEW EMPLOYEE

You have started work at a small company, Johnson Natural Shoes, which designs and produces children's shoes. The company has an innovative approach and uses all-natural materials. Its product has been increasing in demand in the few short years since it began. The company was founded by Shannon McKenzie. You found out about the position because you are friends with Shannon's daughter, who is an old friend of yours from high school. You were hired after you met with the founder, who remembered you from soccer games and birthday parties.

You do not have a job description or formal job title. But you are the only person in the organization with a degree in business, and Shannon mentioned to you that you were hired in the hopes you could help the company manage its rapid growth. At this point, the company is on track to double in size this year compared with last year, when it had only 28 employees.

You notice from the first days on the job that employees enjoy collaborating and making decisions together, and you feel welcomed right away. You see great things in the company's future and want to help make Johnson Natural Shoes an international brand. You can't wait to start making a contribution.

Now it is your turn to decide how to help.

Questions

1. Given that you are still new to the company, how would you approach learning more about the company and its employees?
2. What are specific key questions you might want to ask employees about the company?
3. Based on your knowledge of business, what would you advise Shannon to consider as HR priorities as the organization experiences high growth?

EXERCISE 1.2: THE CHANGING CONTEXT OF HRM

Making HRM decisions is often a group activity, as seldom does one person have all the required information, context, and expertise to tackle every HR issue. Working in a group, review the six trends we identified as affecting HRM today and into the future (changing demographics, the emerging gig economy, increasing globalization, technology, availability of data, and ethical and corporate social responsibility challenges).

Questions

1. Form your group.
2. Decide if there are additional trends your group believes might be as important or more important than these six.
3. As a group, decide which trend your group collectively feels is the *most* important factor that will influence HRM. It is as important to justify your answer in terms of your selection of the most important factor as it is to defend why the others are not seen as equally important.

ETHICAL MATTERS EXERCISE: SHRM CODE OF ETHICS

Ethics is critically important to the effective practice of HRM. Ethical decisions and actions lead to greater trust and engagement within organizations and allow for all types of information to emerge, which is important for effective decision making. Given the importance of ethics to HRM, the Society for Human Resource Management (SHRM), which is the world's largest professional society for human resource management, developed a code of ethics. We encourage you to read this code of ethics whether you are an aspiring manager or HRM professional or one who is seasoned. The core principles noted are easily transferable to different organizational roles, and following them can help you avoid serious problems as you are faced with ethical dilemmas and decisions throughout your career. The six core principles described in the code provisions include the idea that professionals should engage in their work with a focus on professional responsibility, professional development, ethical leadership, fairness and justice, conflicts of interest, and use of information.

Questions

1. Describe a hypothetical scenario in which you would benefit from applying certain principles from the SHRM Code of Ethics.
2. Choose a business situation from the news or the HR literature where principles from the SHRM Code of Ethics could have made a difference. Specifically, what did the decision makers do right, or what could they have done better?

Professional Responsibility

As HR professionals, we are responsible for adding value to the organizations we serve and contributing to the ethical success of those organizations. We accept professional responsibility for our individual decisions and actions. We are also advocates for the profession by engaging in activities that enhance its credibility and value.

Professional Development

As professionals, we must strive to meet the highest standards of competence and commit to strengthen our competencies on a continuous basis.

Ethical Leadership

HR professionals are expected to exhibit individual leadership as role models for maintaining the highest standards of ethical conduct.

Fairness and Justice

As human resource professionals, we are ethically responsible for promoting and fostering fairness and justice for all employees and their organizations.

Conflicts of Interest

As HR professionals, we must maintain a high level of trust with our stakeholders. We must protect the interests of our stakeholders as well as our professional integrity and should not engage in activities that create actual, apparent, or potential conflicts of interest.

Use of Information

HR professionals consider and protect the rights of individuals, especially in the acquisition and dissemination of information while ensuring truthful communications and facilitating informed decision making.