

# 2

## STRATEGIC AND INCLUSIVE HUMAN RESOURCE MANAGEMENT



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### LEARNING COMPETENCIES

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

- 2.1 Discuss the strategic planning process by classifying the major components of the external environment.
- 2.2 Discuss how visions, missions, and objectives help to define the organization's strategy.
- 2.3 Explain the three major generic strategies.
- 2.4 Explain the difference between diversity, inclusion, and belonging, and cite the challenges of implementing them in the workplace.
- 2.5 Identify some of the tools available to companies to successfully manage diversity and inclusion.
- 2.6 Define how HR technology and predictive analytics help organizations make important decisions.
- 2.7 Identify how human resource management systems (HRMS) can help HR make decisions.
- 2.8 Recall the common measurement tools for strategic human resource management (HRM).
- 2.9 Discuss the latest issues and trends within the HR field as they relate to strategy and diversity, equity, and inclusion in the workplace.

## SHRM HR Content

See Online: *SHRM 2019 Curriculum Guidebook for the complete list*

### H. Human Resource Information Systems (HRIS)

4. Selecting an HR information system
5. Using HR data for enterprise management

### J. Managing a Diverse Workforce

2. Aging workforce
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### O. Strategic HR

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2. HR strategies
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  - 2-e. HR strategies—Measuring HR effectiveness

## Practitioner's Perspective

One of the initiatives that Blount has identified as really being important to the success of our business is increasing women in management. And as a longtime manufacturing company, it's not too surprising that it's taken a while for that to really occur. But the leadership of this organization has identified that as an opportunity. In the last two years, we have implemented a sponsorship program for women in leadership. Senior leaders, not as mentors, but truly as sponsors, to provide visibility and access to the business, have partnered up. We're in our second year of that program, and I think it's going really well. We rolled it out globally this year.

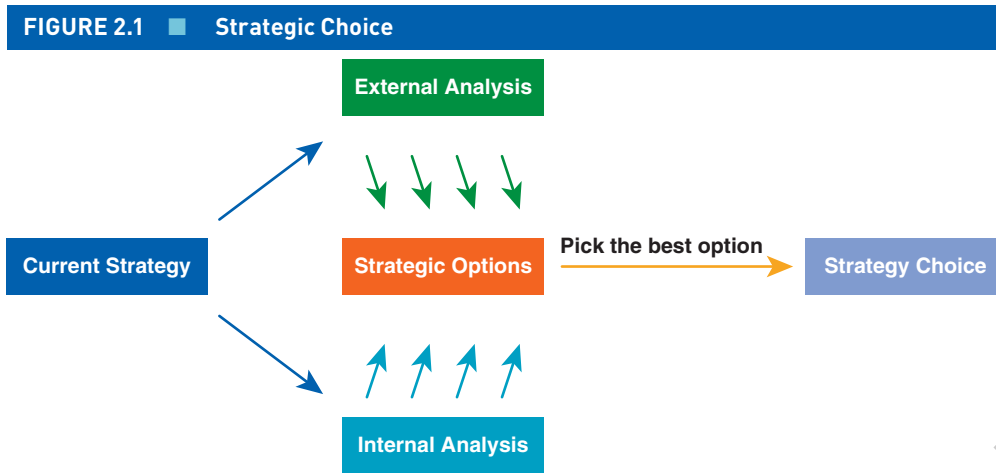
*Doreen Barth, Director of Human Resources, Forestry, Lawn, and Garden Division,  
Blount International*

## AN INTRODUCTION TO STRATEGIC PLANNING AND THE ENVIRONMENT

### LEARNING COMPETENCIES

- 2.1 Discuss the strategic planning process by classifying the major components of the external environment.

Strategy and strategic planning provide us with a process of looking at our organization and its environment—both today and in the expected future—and determining what our organization decides to do to meet the requirements of that expected future (see Figure 2.1). This process of analyzing the



environment and building a coherent strategy is more critical today than it has ever been before. This is because in most worldwide industries today, we have far more capacity and more intense competition than ever before, making it more difficult to create the sustainable competitive advantage we need in order to survive over the long term.<sup>1</sup>

There is an old saying: “When you fail to plan, you plan to fail.” Research confirms the importance of planning.<sup>2,3</sup> Some managers complain they don’t have time to plan, yet research shows that managers who plan are more effective and efficient than nonplanners.

### Human Resource Management’s Role in Strategic Planning

As discussed in Chapter 1, the role of human resource management (HRM) has expanded over the years, and the area of strategy is no exception. That is why more than half of top HRM executives at major corporations now report directly to the chief executive officer (CEO).<sup>4</sup> HRM develops its own strategic plans to help align human resource (HR) practices with the business strategy,<sup>5</sup> because organizations that hire and retain motivated and productive people gain a long-lasting competitive advantage.<sup>6</sup> But, in general, CEOs have little faith that HR is capable of strategic planning for talent acquisition and development, or linking HR planning to organizational strategies.<sup>7</sup> CEOs also lack trust in HR efforts to utilize analytics for decision making.<sup>8</sup> Only about 1 in 10 CEOs say their HR leaders are capable in these areas. Therefore, we need to increase efforts in HRM education to create strategic HR leaders.

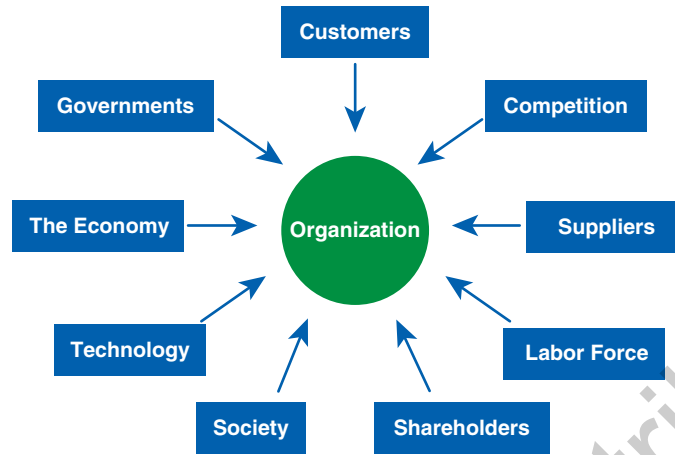
We just noted that strategic planning provides us with a process of looking at our organization and its environment. The environment has two parts: internal and external. First, let’s briefly discuss the external environment. Then, in the next section, we will briefly discuss the internal environment and the strategic planning process.

### The External Environment

The external environment consists of a series of influences originating outside the organization that the company cannot directly control. Each of these forces acts on the firm and requires it to change and adapt, usually in the form of strategic responses to these environmental changes.<sup>9</sup> Successful companies are the ones that keep changing.<sup>10</sup> It is also important to have good relationships with external stakeholders because they provide access to resources.<sup>11</sup> The nine major forces originating in the external environment are shown in Figure 2.2, along with an explanation of each.

- *Customers.* Without customers, there’s no need for an organization. Therefore, companies must continually improve products and services to create value for their customers.<sup>12</sup> This process

FIGURE 2.2 ■ The External Environment



of improvement requires skilled employees who are willing to use their creativity to add to the organization's knowledge and thereby help manage products and services for customers.

- *Competition.* Businesses must compete for customers, and their performance is not simply a function of their own actions. Each firm's performance must be understood relative to the actions of its *competitors*. Organizations also frequently compete for the same employees and sometimes for suppliers.<sup>13</sup>
- *Suppliers.* Organizations buy resources from suppliers. Therefore, partnerships with *suppliers* also affect firm performance.<sup>14</sup> It is important to develop close working relationships with your suppliers.<sup>15</sup>
- *Labor Force.* Current employees and the talent pool available to an organization from which to hire new employees have a direct effect on the organization's performance. Managers recruit new employees from the available labor force in the external environment.
- *Shareholders.* The owners of a corporation, known as *shareholders*, influence management to give them a return on their investment in the company. They vote for the directors of the corporation, who have authority to hire and fire top management.
- *Society.* Society largely determines what business practices are acceptable.<sup>16</sup> Individuals and various groups of stakeholders work in a number of ways to pressure businesses to make changes.<sup>17</sup>
- *Technology.* Computers and the Internet have changed the speed and the manner in which organizations conduct and transact business, and apps rule the business world. Without employees who adapt to changing technologies, today's organizations will soon find themselves unable to compete.<sup>18</sup>
- *The Economy.* No corporation has control over economic growth, inflation, interest rates, foreign exchange rates, or other such factors; thus, the economy has a direct impact on the firm's performance and profits. We always have to take the economy into account when performing strategic planning activities.
- *Governments.* If you think you can just start a business and run it any way you want to, think again. Nations and their state and local governments all set laws<sup>19</sup> and regulations<sup>20</sup> that businesses must obey (telling you what you can and can't do).<sup>21</sup> So although you can try to influence the government, it clearly affects your business.<sup>22</sup>



Technology is one of the nine major forces originating in the external environment. Companies that continue to innovate their technology, like Apple, will have an advantage over the competition.

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### Applying the Concept 2.1

#### The External Environment

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

- a. Customers
- b. Competition
- c. Suppliers
- d. Labor force
- e. Shareholders
- f. Society
- g. Technology
- h. The economy
- i. Governments

- \_\_\_ 1. Apple buys computer chips from Samsung to put in its iPhones.
- \_\_\_ 2. Various groups pressured us at Juul and the government to stop our sales of vaping products, especially the e-cigarette flavors like bubble gum.
- \_\_\_ 3. The CEO was fired by the owners because our company is not profitable.
- \_\_\_ 4. GE wanted to acquire our company, but the Securities and Exchange Commission (SEC) said that would be in violation of antitrust laws, thereby preventing the deal.
- \_\_\_ 5. Karen bought a new oven that will cook our pizza in half the time and make it taste even better.
- \_\_\_ 6. eHarmony, an online dating service, is losing some customers to other services focusing on Christian, Black, and older people seeking matches.
- \_\_\_ 7. Our purchasing agent just closed a deal that will let us buy sugar for a few cents less per pound, saving us thousands of dollars per year.

**WORK APPLICATION 2.1**

Explain how various external environmental stakeholders affect an organization you work(ed) for.

**STRATEGY****LEARNING COMPETENCIES**

**2.2** Discuss how visions, missions, and objectives help to define the organization's strategy.

Strategy and the strategic planning process have a long history, and businesses have adapted the principles to their own use. “Many military historians and contemporary business students view the Chinese military strategist **Sun Tzu** (ca. 500 BC) as the developer of “the Bible” of strategy . . . Sun Tzu’s principles are divided into two components: (1) knowing oneself and (2) knowing the enemy.”<sup>23</sup> To put Sun Tzu’s words in a contemporary business context, we need to know our internal and external environments. We just discussed the major components of the external environment. But how does a modern business go about analyzing their internal environment and creating and implementing a strategic plan? Well, strategic planning follows a process,<sup>24</sup> so let’s review that process now.

**What Is Strategy?**

Research has shown that HRM is an important strategic business function that influences the performance of both large and small firms.<sup>25</sup> But what is strategy? At its most basic level, a **strategy** is a *plan of action designed to achieve a particular set of objectives*. It looks at the external (industry and macro-) environment and the internal (organizational) environment in order to create strategic advantage. Strategic advantage occurs when you analyze the environment better and react to it more quickly than your competitors do while using all of your internal resources efficiently, thus creating the sustainable competitive advantage we briefly introduced in Chapter 1. **(SHRM O-1 and O:1-b)**

In this context, we look at three major strategic questions to analyze what kind of strategic plan we need:<sup>26</sup> (1) What is our present situation (where are we now)? (2) Where do we want to go? (3) How do we plan to get there? **(SHRM O:1-c and O:1-i)**

These questions are both very simple and very complex. You would think that answering Question 1 would be easy—but you must answer many other questions before you can confidently answer “Where are we now?” These other questions include “Are we making a profit?” “Do our products satisfy our customers’ current needs?” “Do we have the right kind of workforce in place at this time?” “Is our technology working like it should?” “Do we have sufficient physical resources like plant, machinery and equipment, and retail locations?” “Are our advertising and marketing programs successful?” and many more. Answering these questions creates a picture of your organization—a snapshot at a particular point in time—and that picture has to be comprehensive so you know what is happening, good and bad, within the organization in significant detail. If you think about each of these other questions for just a second, you will see how complex answering Question 1 really becomes.

Answering Questions 2 and 3 is just as complex. Question 2 is basically asking what we plan to “look like” as an organization at a particular point in the future—meaning it’s asking what our vision and mission are for the organization. Answering Question 3 gives us the necessary information to create the plan that will allow us to reach the goals we identify in our answer to Question 2 so we can become the organization we envision and, at the same time, create a sustainable competitive advantage. **(SHRM O:1-a)**

**Vision, Mission, and Objectives**

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

## The Vision

A **vision** is *what we expect to become as an organization at a particular point in time in the future*. The vision by necessity is a fuzzy thing; it is not specific in that it doesn't say *how* we're going to achieve it. It is who we are, what we stand for, what we believe in, and what we want to become. Despite their fuzziness, visions are very powerful when used correctly. A vision provides a focus point for the future; it tells the company where it is headed.<sup>27</sup> If everyone is focused on the same future end state, they will work toward that same end state.

So the vision answers the question, "What do we want to become as an organization?" But the firm is only successful when the followers share the leader's vision,<sup>28</sup> and HR is where many organizations perform the onboarding and culture training that promotes a shared vision within the organization.

## The Mission

The **mission statement** *lays out our expectations of what we're going to do in order to become the organization that we have envisioned*. The mission is more specific than the vision, which means it generally must be a bit longer-winded. The mission statement takes into account things like whom we serve (in terms of customer groups, types of products and services, technologies we use, etc.) and how we serve them. Fundamentally, it answers the question, "What do we need to do in order to become what we have envisioned?"

## Putting the Vision and Mission Together

Let's use as an example the vision and mission of **IKEA**, the iconic Swedish home furnishings company. It takes a little work to find their vision, but if you go to [about.ikea.com](http://about.ikea.com) it says, "an inspiring shared vision: to create a better everyday life for the many people."<sup>29</sup> Notice this vision statement does not tell you very much about what IKEA does, but it does tell you they are trying to create a better life for their stakeholders, including customers.

We then look at the mission of the organization, which tells us how **IKEA** expects to do what the vision puts forth. The mission statement says that their (understood) mission is "To offer a wide range of well-designed, functional home furnishing products at prices so low, that as many people as possible will be able to afford them."<sup>30</sup> So the company will achieve its vision of creating "a better everyday life" by providing a broad range of home furnishings that are as affordable as possible, in order to make people's lives better at a minimum cost.



IKEA's mission is to make everyday life better through affordability.

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

A strong vision and a good mission statement are critical parts of the strategic planning process. *Everything* else in strategic planning comes from the vision and mission.

Vision + Mission = FOCUS!

Top management needs to articulate a compelling vision so clearly that it can be seen almost as a movie in one's head, but it's not easy.<sup>31</sup> Companies as large and pervasive as **Facebook**<sup>32</sup> and **Thales Group**<sup>33</sup> (a large European conglomerate) have struggled with vision, mission, and other statements of purpose.

In the last step of creating their plan, organizations go through a series of analyses of both external and internal factors to come up with the final plan of action that answers Question 3. Strategic planners look at each of the environmental factors we noted earlier, and they analyze the company's goals, capabilities, and limitations to come up with objectives and a workable plan. Let's take a look at how we set reasonable objectives.

### Setting Objectives

After developing our vision and mission, the next step is to set those objectives that flow from the mission to address strategic issues. Successful managers have a goal orientation,<sup>34</sup> which means they set and achieve objectives. A survey of CEOs revealed the second biggest challenge that leaders face is staying focused, and setting objectives helps us focus.<sup>35</sup>

Before you develop any plan, you begin with the end result you want to accomplish. Objectives do not state how they will be accomplished; the plan does. Goal orientation can also be learned,<sup>36</sup> and using the objective-setting model and completing Skill Builder 2.1 can help. **Objectives** state what is to be accomplished in singular, specific, and measurable terms, with a target date.

Here is a model adapted from **Max Weber** to help you write effective objectives, followed by a few company examples.

(1) To + (2) action verb + (3) singular, specific, measurable result + (4) target date

**Exxon:**<sup>37</sup> To increase oil output 25% by 2025

**Honda:**<sup>38</sup> To make two-thirds of overall unit sales from plug-in hybrid or hybrid vehicles and zero-emission vehicles by 2030

**Apple:** To become carbon neutral across its entire supply chain by 2030.<sup>39</sup>

**Ford:** To provide connected services to 33 million Ford customers by 2028.<sup>40</sup>

### Applying the Concept 2.2

#### Writing Objectives

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

- a. Single result
- b. Specific
- c. Measurable
- d. Target date



- \_\_\_ 8. To sell 7% more sandwiches and 15% more chips in 2024
- \_\_\_ 9. To decrease the number of sales returns by year end 2025
- \_\_\_ 10. To be perceived as the best restaurant in the Boston area by 2025
- \_\_\_ 11. To start working out aerobically within a few weeks
- \_\_\_ 12. To double ticket sales

## WORK APPLICATION 2.2

Discuss the vision, mission, and an objective for an organization you work(ed) for.

## GENERIC STRATEGIES AND HRM

### LEARNING COMPETENCIES

- 2.3 Explain the three major generic strategies.

There are several generic strategy types that we are able to categorize. However, we will keep this simple and break the types of strategies down into three common categories: cost leadership, differentiation, and focus or niche strategies.<sup>41</sup>

### Cost Leadership

Cost leaders do everything they can to lower the internal organizational costs required to produce their products or services. However, cost leaders do not necessarily provide their products or services to the customer for a lower price. They can choose to keep their prices down and maintain the same margin as their higher-cost competitors, or they can choose to charge the same price as their competitors and thus increase their profit margin above that of their competitors on each of the goods or services they sell. **Walmart** has had great success with this strategy, but **Amazon** is currently testing Walmart's cost leadership and, at least in some cases, winning.<sup>42</sup>

### Differentiation

This strategy attempts to create an impression of difference for the company's product or service in the mind of the customer. The differentiator company stresses its advantage over its competitors.<sup>43</sup> If a company like **Apple** is successful in creating this impression, it can charge a higher price for its product or service than can its competitors.<sup>44</sup> **Nike**, **Harley Davidson**, **Margaritaville**, and others place their corporate name prominently on their products to differentiate those products from those of the competition. **Tesla** is a great example of a car company (or is it a technology company?) that has used significant differentiation to create buzz and sell as many vehicles as they can currently produce.<sup>45</sup>

### Focus or Niche

With this strategy, the company focuses on a specific portion of a larger market. For instance, the company may focus on a regional market, a particular product line, or a buyer group. Within a particular target segment or market niche, the firm may use either a differentiation or a cost leadership strategy. It is hard to compete head-on with the big multinationals like **Coca-Cola** and **Pepsi**, but



Margaritaville is a brand that differentiates based upon lifestyle.

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the much smaller **Keurig/Dr Pepper's** drink offerings have a differentiated taste for a smaller target market. However, it is still very profitable serving those targeted customers.<sup>46</sup> *Ebony* and *Jet* magazines target Black Americans, and **Rolex** watches have a market niche of upper-income people. Right Guard deodorant is aimed at men, and Secret at women.

### Applying the Concept

#### Generic Strategies 2.3

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

- a. Cost leadership
  - b. Differentiation
  - c. Focus or niche
- \_\_\_ 13. Rolex watches
  - \_\_\_ 14. TOMS shoes
  - \_\_\_ 15. Target stores
  - \_\_\_ 16. Gucci handbags
  - \_\_\_ 17. *Iron Man* magazine

### How Strategy Affects HRM

There are several areas where the generic corporate strategy affects how we do our jobs within HR. In discussing HRM aspects, it does not matter whether the strategy is broad or a niche/focus strategy, so we will only look at the two major strategy options. Let's take a look at what we need to consider. We will also continue to discuss these areas in greater detail as we progress through the book. **(SHRM O:2-d)**

## HRM and Cost Leadership

If our organization is following a generic cost leadership strategy, we are going to be most interested in minimizing all internal costs, including employee costs, to maximize efficiency and effectiveness.<sup>47</sup> We will probably create specific job descriptions that are highly specialized within the organization so we have people doing the same thing repeatedly, as is the case with **McDonald's**, for example. We will also have a specific job description for each position and job-specific training with very little, if any, cross-training. We may provide incentives that emphasize cost controls and efficiency.

## HRM and Differentiation

On the other hand, if our organization is following a differentiator strategy, we're going to be more concerned with employees who have the ability to innovate and create new processes and who can work in uncertain environments within cross-functional teams.<sup>48</sup> In a differentiator organization, we will most likely have much broader job classifications, as well as broader work-planning processes. Individuals will be hired and paid based on individual knowledge and capabilities rather than skills related to the job they fill when they enter the organization. Here, our incentive programs will reward innovation and creativity to maximize organizational agility.

## HRM Promotes Strategy Through High Performance Work Practices

So, HR managers need to recruit, select, train, evaluate, and interact with employees differently based on different organizational strategies. The same holds true when looking at different sets of company objectives, different competitors, and many other industry and company characteristics.

### (SHRM O:2)

In *most* large organizations today, we do not manage our people based on low-cost leader strategies. HR managers have to evaluate all of the organizational characteristics to determine what kinds of people to bring into the organization and then how to retain those people once they have become a part of the company. This is the reason it's so critical for HR managers to understand organizational strategy.<sup>49</sup> One of the ways HR promotes organizational strategies is through the implementation of *high performance work systems and practices*. According to the **U.S. Department of Health and Human Services**, **high performance work practices (HPWPs)** are *practices that have been shown to improve an organization's capacity to effectively attract, select, hire, develop, and retain high-performing personnel*.<sup>50</sup> These practices are designed to improve employee commitment and increase involvement in the organization. There are also research claims that increased implementation of HPWPs results in better financial performance and employee outcomes.<sup>51</sup>

### (SHRM O:1-h)

Among the common HPWPs are

- Recruiting and staffing: selecting for ability–job fit as well as person–organization fit.
- Actions to maximize employee engagement.
- Talent acquisition and development programs.
- Compensation: pay for performance but also perceived fairness in all compensation practices, including core compensation and benefits.
- Aligning leadership with the strategy through managerial training, career development, and succession planning.

There are many other pieces to a potential high performance work system (the set of practices that we choose). Regardless of the specific practices, the intended outcomes are increases in productivity and engagement, while lowering absenteeism and voluntary turnover. As you go through this text, we will emphasize these, as well as other HPWPs that can help your organization to continuously

improve productivity and create the sustainable competitive advantage that is necessary to carry out your planned strategy.

In fact, as you go through the remainder of this book, you will see continuing references to how HRM will affect the company's ability to do its work over the long term. Everything that HR does must mesh with the chosen strategy to provide the right kinds of employees, who will learn and do the right types of jobs so the company can achieve its goals. So, essentially, this book focuses on developing HPWPs. One of the ways in which we create high performance organizations and sustainable advantage is through the creation of a diverse, fair, and inclusive work environment.

## ETHICAL DILEMMA 2.1

### WHAT WOULD YOU DO?

A major objective of all businesses is to make a profit and to develop strategies to increase profits, and most businesses try to legally minimize the taxes they pay. Some U.S. corporations have used the strategy of inversion—to acquire a foreign company and move headquarters overseas—to reduce the corporate taxes they pay. **Burger King's** acquisition of Canada's **Tim Hortons** a few years ago was an inversion.<sup>52</sup> **Apple** and other corporations keep cash overseas to keep it from being taxed in the United States.<sup>53</sup>

Some members of Congress say that individuals also use legal tax deductions, sometimes called loopholes, to lower their personal income taxes and this is unethical. But most businesses and people take all the deductions and other methods they can to pay lower taxes.

1. Are inversions and keeping money in other countries to avoid paying taxes ethical or unethical?
2. If you became the new CEO of Burger King, would you have the company pay a higher U.S. corporate tax even though it is not required to do so by law?
3. As an individual taxpayer, will (or do) you take deductions to lower the amount you pay in taxes?
4. Are your answers to Questions 2 and 3 consistent, or do you believe businesses should pay the extra taxes but individuals shouldn't?
5. Review the HR disciplines, and describe how a company can be ethical and socially responsible in performing these functions.

## WORK APPLICATION 2.3

Identify which generic strategy was used at an organization you work(ed) for, and explain how it was implemented.

## DIVERSITY AND INCLUSION

### LEARNING COMPETENCIES

- 2.4 Explain the difference between diversity, inclusion, and belonging, and cite the challenges of implementing them in the workplace.

You need to understand the terms *equal employment opportunity* (EEO), *affirmative action*, *diversity*, and *inclusion*. Diversity, equity, and inclusion are *not* just EEO legal issues. These concepts should not be used interchangeably. In this section, we discuss how to manage and improve organizational diversity. We review the legal issues of EEO and affirmative action in Chapter 3. Before we get into the details of diversity, though, complete the Implicit Association Test (IAT). Go to the Project Implicit website at <https://implicit.harvard.edu/implicit/demo>. From there, under "Project Implicit Social

Attitudes,” you can select a “language/nation” and hit “Go”; then click “I wish to proceed” and select 1 of 15 tests to take, based on our diversity types with a breakdown of several races, or your professor will select one for you to complete. Simply follow the instructions at the site to complete a test and get interpretations of your attitudes and beliefs about the diversity group you selected. It’s free, and you can take as many as you want to.

## Diversity and Inclusion in the Workforce

The terms *diversity* and *inclusion* are often used interchangeably, but they are different.<sup>54</sup> **Diversity** is simply *the existence of differences—in HRM, it deals with different types of people in an organization*. **Inclusion** is *a practice of ensuring that all employees feel they belong as valued members of the organization*. Inclusion “builds upon diversity by ensuring a culture of belonging, respect, value, and engagement for all.”<sup>55</sup> An inclusive value system creates a sense of **belonging**—*a feeling of being respected and being valued for who you are, and feeling a level of supportive energy and commitment from others so that everyone can do their best work*.<sup>56</sup>

The general business community in the United States and many (if not most) countries around the world have finally awakened to the fact that diversity is everywhere and within everyone. Race, color, religion, sex (including LGBTQ+ persons), national origin, age, intellectual and physical differences, the differently abled or disabled are just a few of the obvious differences, but diversity can also be different life experience even if we look the same as another person.

This diversity provides opportunities, but at the same time, increasing diversity in the workforce poses one of the most challenging HR and organizational issues of our time.<sup>57</sup> So, let’s discuss why many organizations value diversity and inclusion and are choosing to promote them.<sup>58</sup>

## Demographic Diversity Is Increasing

According to the U.S. Census Bureau,<sup>59</sup> the U.S. population continues to grow slowly, with around 332 million people in 2021, and it is rapidly diversifying. The white population is decreasing, and in the 2020 census the Latino population was slightly higher than had been expected.<sup>60</sup>

Companies, including **Target**,<sup>61</sup> **USAA**, and **AIG**,<sup>62</sup> say diversity is a business imperative, and they are training employees to be inclusive. By around 2040, less than half of the total U.S. population will be white. By 2060, whites are estimated to be 43% of the population, and one in three people (33%) will be Hispanic. What does this shift mean to organizations? It means that employee diversity will continue growing and we will have to become better at managing that diversity than we have been in the past.

Many employee stakeholders who are members of underrepresented groups are also beginning to receive much more attention than has historically been the case. Among these groups are older workers, women, and people of color in management and the executive suite; LGBTQ+ employees; and a more racially and ethnically diverse employee pool. Public pressure has contributed to the interests of these and other groups in organizations, and therefore companies are having to figure out how to meet the needs of these stakeholders in the organization.

Leaders have to learn to face their own biases and to “walk the talk”—they *need* diversity in all forms. Because they need this diversity, their success in promoting it should be a significant part of their performance appraisal in every circumstance. How well have they managed their company’s diversity? What programs have been created, and what metrics were established? How well has the company met those metric goals? Diversity is going to continue to grow, and the better you can work with other people of all types, the greater are your chances of having a successful business career.

### (SHRM J:2, J:3, and J:11)

**Josh Bersin** says when companies commit to diversity, they are 3.8 times more likely to be able to coach people for improved performance, 3.6 times more able to deal with performance problems, and 2.9 times more likely to identify and build successful leaders.<sup>63</sup> So, develop your global mind-set.<sup>64</sup> Are you willing to commit to offering inclusion for diverse people into your homogeneous groups?

### Benefits of a Diverse and Inclusive Workforce

Diversity helps increase sales, revenues, profits, and organizational innovation—in other words, embracing diversity and inclusion creates business opportunities.<sup>65</sup> If employees don't feel included, they generally will not place a high value on organizational membership and will not be as productive as those who do.<sup>66</sup> **Ajay Banga**, former CEO of **Mastercard**, says, “You have to care about the people who work with you, for you, above you, around you. That's where inclusion comes in. If I can make it part of my business, then I can bring the whole company to the party.”<sup>67</sup>

There is evidence that companies who practice diversity and inclusion gain tangible benefits from their employees and customers, including the following<sup>68</sup>:

1. Cost savings due to lower turnover, absenteeism, and increased productivity
2. An increase in workers that fill the current shortage of skilled employees
3. Winning the competition for diverse talent by being more attractive to women, people of color, and diverse workforce members
4. An increase in customers as a result of having diverse employees with cultural sensitivity to a diverse customer base
5. Improved corporate image

In addition to these valuable outcomes,<sup>69</sup> there is evidence that other, less tangible returns accrue to companies that practice inclusion in the broadest sense.<sup>70</sup> For these, and other reasons, we will continue to discuss the value of diversity and inclusion as we go through the remainder of this book.

### Creativity and Innovation

In addition to the benefits of a diverse workforce discussed that tend to focus on current business operations, diversity also affects the ability to develop creative and innovate products and processes.

A wealth of evidence shows that diversity helps teams and organizations perform better in terms of creativity, innovation, revenue, and profits.<sup>71</sup> **Creativity** is a *basic ability to think in unique and different ways and apply those thought processes to existing problems*, and **innovation** is *the act of creating useful processes or products based on creative thought processes*. Being creative and implementing those ideas on improving how the business processes work to improve productivity and offering new products through innovation result in increased revenue and profits. Take a look at Figure 2.3 for a quick illustration of the difference between creativity and innovation.

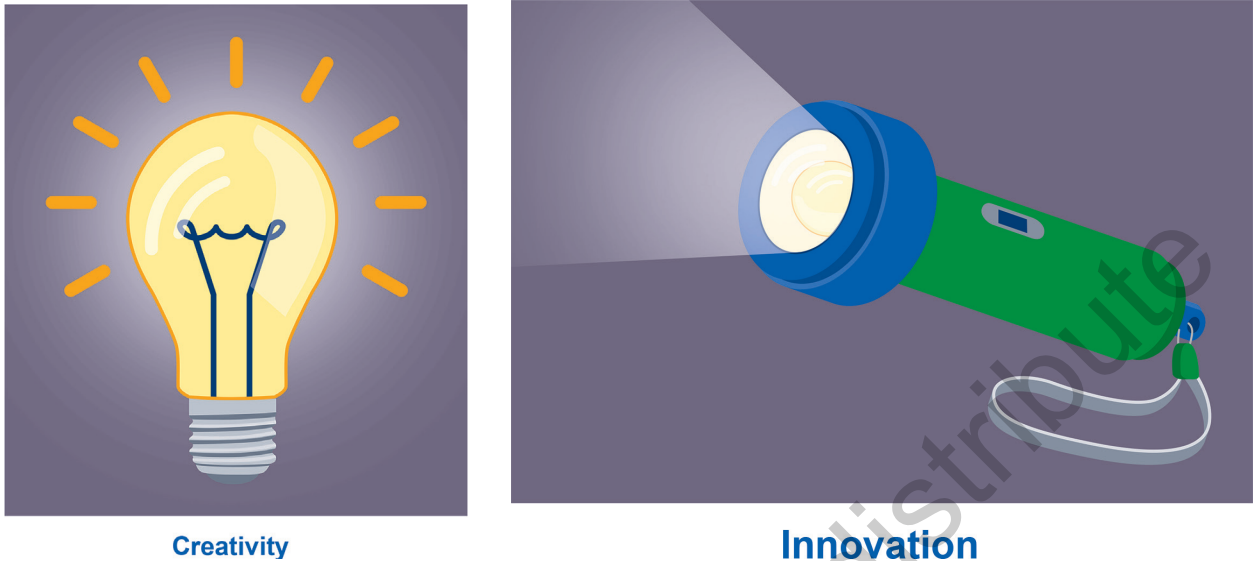
A diverse group looking at a problem will analyze the problem from different directions and in different ways, and will discover more of the aspects of the problem than would a single person or a more homogeneous work group.<sup>72</sup> This ability, called divergent thinking, is necessary in order to come up with creative solutions to a problem.<sup>73</sup> **Divergent thinking** is *the ability to find many possible solutions to a particular problem, including unique, untested solutions*.

By introducing diversity into our workforce, we assist the process of divergent thinking. Different people think differently because they have different backgrounds and have solved problems differently in the past, so this has the effect of increasing the creativity and innovation in the organization without the individual having to relearn the ability to be highly creative.

### Challenges to Diversity and Inclusion

Several things can cause diversity to break down the organization instead of allowing it to become better and more creative.<sup>74</sup> The first issue is conflict. **Conflict** is simply *the act of being opposed to another*. Conflict occurs in interactions between individuals. There are many reasons for conflict, but it is

FIGURE 2.3 ■ The Difference Between Creativity and Innovation



typically greater when people are significantly different from each other, which means if we create a more diverse workforce, there's a greater likelihood for more conflict.

The second big issue is group cohesiveness. **Cohesiveness** is *an intent and desire for group members to stick together in their actions*. In organizations, we have learned that in order for a work group to become as good as it possibly can be, the group has to become cohesive. The members have to learn to *want* to be part of the group and want to interact with other members of the group in order for the group to perform at a high level. However, the more diversity there is within the group, the more difficult it is to create the cohesiveness necessary for high performance. So, more diverse groups tend to be less cohesive—not always, but as a general rule.<sup>75</sup>

#### WORK APPLICATION 2.4

Describe the diversity at an organization where you worked. Do the various diverse groups all work well together? Explain.

## MANAGING DIVERSITY AND INCLUSION

### LEARNING COMPETENCIES

- 2.5 Identify some of the tools available to companies to successfully manage diversity and inclusion.

Managing diversity and inclusion so we gain the benefits available is one of the most critical jobs today and into the future as the world becomes more diversified as the white population continues to decline globally. Although effective management of diversity and inclusion is difficult,<sup>76</sup> here we present initiatives that are being used successfully by major corporations. As the foundation of the effort, HR must develop and initiate diversity and inclusion policies and practices. **Johnson & Johnson** said in 2020 they would spend \$100 million over five years on diversity initiatives.<sup>77</sup>

## An Inclusive Equal Opportunity Culture

A primary HR goal in managing diversity is to create an inclusive equal opportunity organizational culture for everyone that also recognizes the value of each individual.<sup>78</sup> Inclusion must be part of every manager's job starting with the CEO down.<sup>79</sup> CEO **Lip-Bu Tan** says diversity is a top priority at **Cadence**, where 95% of its 6,500 employees state Cadence is an inclusive workplace.<sup>80</sup>

## Diversity Recruiting and Promoting

HR must work to recruit and promote a broadly diverse workforce. Records of diverse group hiring and promoting should be kept, and efforts should be made to help these groups succeed in the workplace, often called a *diversity, equity, and inclusion audit*. **Experian** continually analyzes their workforce diversity, equity, and inclusion, and 88% of their employees feel the company is “committed to building a diverse and inclusive culture.”<sup>81</sup> Chief Diversity and Inclusion Officer (CDIO) **Danielle Brown** is studying the numbers and found equal pay is now working to improve advancement and retention among underrepresented populations at **Intel**.<sup>82</sup>

We discuss staffing in Chapters 4, 5, and 6 and how to improve diversity and also avoid illegal discrimination.

## Diversity Training

HR can offer diversity training to teach people how to get along better with diverse workers through inclusion. It helps people to talk about bias and better understand each other by becoming aware of and more empathetic toward people different from themselves.<sup>83</sup> **Starbucks** closed thousands of stores for an afternoon to conduct antibias training.<sup>84</sup>

Mentoring programs are a form of diversity training, because no one gets to the top alone. Most large corporations, including **Caterpillar**, **Intel**, and **Boeing**, offer formal mentoring programs for employees.<sup>85</sup> Mentoring is especially recommended for women and people of color who want to advance to top-level positions because it can help them break into the “good old boy” networks that often make the selections for these jobs.<sup>86</sup> **Rosalind Fox**, of **John Deere**, states the importance of role models and mentors: “When students can see someone who looks like them doing something they’re interested in, they are definitely more confident that they can do it as well. I always say, ‘You can’t be it unless you see it.’ And that’s why I say yes to those speaking requests—so that people can see a Black female engineer and they can aspire to do that, too.”

## Diversity Business Resource Groups

HR can also offer diversity business resource groups.<sup>87</sup> They provide diverse employees (of *all* types) throughout the organization with the opportunity to share information about how to succeed in the company and how to help the company succeed. **KPMG** invests in “a number of diversity-focused Business Resource Groups.”<sup>88</sup>

All these diversity and inclusion initiatives take time and money. But they have been shown over and over to be HR investments rather than expenses (productivity centers vs. cost centers; see Chapter 1) because they can increase effectiveness and efficiency, which increase revenue and profits.<sup>89</sup> Unfortunately, the HR department always has to compete for limited resources. So, the better you can measure and calculate a return on investment (see the section on Measurement Tools for Strategic HRM later in this chapter), the greater funding HR will get.

## Being Inclusive

Diversity, equity, inclusion, and the ability to create a feeling of *belonging* will never truly exist unless we can successfully teach our people to treat *everyone equitably*. We are not *the same*—no two of us are equal in every thing we do, but we are all human. Every one of us has value. This does not (and cannot)





All people should be made to feel they have a place at the table to share their thoughts and ideas with the group.

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mean that we cater the organization's needs to every individual employee. And nothing, within law *or* reason, says we have to cater to every demand an individual or group makes. What it does mean is that we treat people fairly and provide the same access, training, mentoring, and opportunity to all. Some will choose to take the opportunity and some won't. We don't control that.

*As a personal observation from your authors*—Creating a workplace that is inclusive of every person that contributes to that workplace allows each person to feel like they *belong* in that workplace and with the other people there. This focus on belonging is not a new phenomenon. Between your two authors, we have nearly 100 years at work and have seen organizations that created and maintained inclusion and organizations that did not. Organizations that foster inclusiveness always run more smoothly and can accomplish complex tasks that other organizations cannot. Organizations that create and maintain inclusion and make people feel like they belong are superior—period. There are dozens of recent research studies showing organizations that create a welcoming environment have less absenteeism and turnover, have higher productivity, and provide more revenue and profit to owners/shareholders.

### WORK APPLICATION 2.5

Describe the level of overall inclusion at an organization you work(ed) for. Did you personally have a feeling of belonging?"

## THE HR TECHNOLOGY REVOLUTION

### LEARNING COMPETENCIES

**2.6** Define how HR technology and predictive analytics help organizations make important decisions.

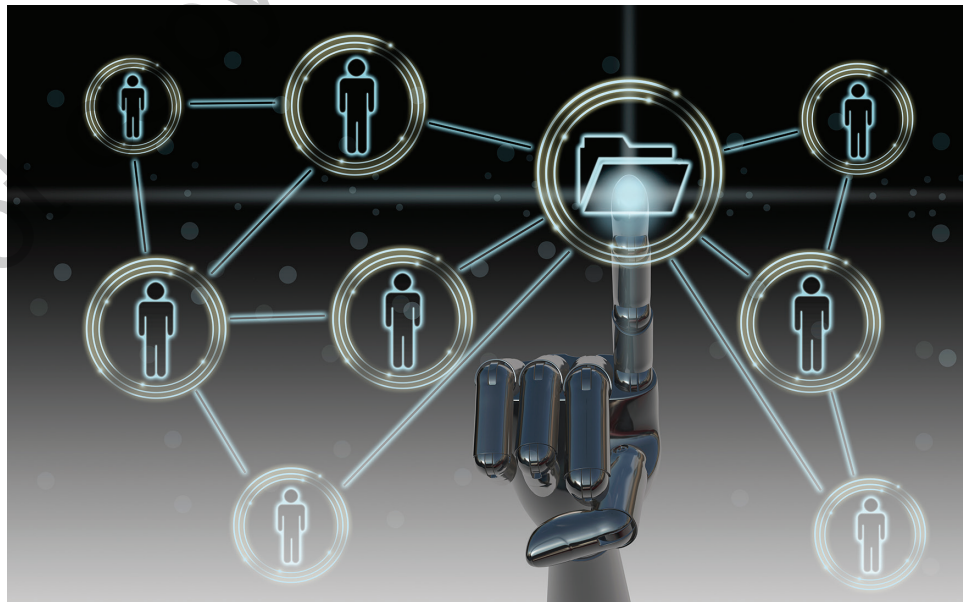
One tool we now have available for managing our strategic diversity and inclusion is HR technology and the data analytics capabilities this technology brings to the organization.<sup>90</sup> According to **Deb Muller**, CEO of **HR Acuity**, building a diverse and inclusive organization “requires data and analytics technology to make sense of it all.”<sup>91</sup> If we can take human bias out of certain HR decisions, we can avoid having that bias skew our workforce toward or away from a group of applicants or employees. We have to be careful in evaluating how the technology is applied to avoid creating new biases, but the opportunity to avoid *human* bias is certainly there.

Luckily, the HR technology market has exploded in the past couple of years. One reason for this was the COVID-19 pandemic. As companies had to shift almost exclusively to remote or hybrid work, technology that supports remote work, such as productivity monitoring software, developed at an astonishing rate. Other reasons included the ability of technology to take bias out of company processes, and still other reasons include making things, like training, easier to manage remotely through the use of tools such as virtual reality (VR).

Today, artificial intelligence (AI) and, of course, predictive analytics have become a normal part of nearly every HR manager’s daily routine. Voice AI might be used to converse with employees as a chatbot for advice on what benefits to change because the worker has a new baby while analytics has gone from “What did turnover look like in the production department last year?” to “Who is most at risk of leaving the company in the next six months?,” thus the ‘predictive’ part of predictive analytics. Let’s briefly review these technologies next.

### Artificial Intelligence

Most of us routinely interact with AI today, and often we don’t even know it. When we interact with systems that direct our phone call to tech support, that is a simple AI system. However, more complex AI can interact with us to help make decisions about what benefits we may want to add or delete at our jobs, or chatbots may interact with us as applicants to keep us informed about where our application is in the process at any point in time. Questions about leave balances, and even about approving or denying a specific leave period can be answered with AI. AI might be used to scan social media for applicant data and can then anonymize that data to avoid potential illegal bias. Chinese companies may even use AI to “nudge managers to take action or speak with employees”



The use of AI is on the rise and likely here to stay. It will be important to achieve standards and regulations in its use in the future.

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when there are concerns!<sup>92</sup> There are some potential concerns, which we discuss later, but AI is seeing a massive increase in use within HR departments worldwide.

## Predictive Analytics

In the previous edition of this book, we wrote, “HR is ripe for disruption and transformation.”<sup>93</sup> The COVID-19 pandemic only accelerated the disruption as well as the onset of deep HR technology and analytics. Because we had so many workers who were remote from a central office, various forms of HR tech monitoring and analytics allowed us to maintain connections with those employees as well as analyzing their productivity, engagement, and stress levels in many cases. It also allowed us to recruit, hire, manage performance, and, if necessary, terminate individuals in some cases literally around the world.

**Data analytics** is the process of accessing large amounts of data in order to analyze those data and gain insight into significant trends or patterns within organizations or industries. Advanced analytics has become an indispensable tool for analyzing workforce information and trends on very large scales.<sup>94</sup> This analysis can lead to information on everything from what kind of person will be most likely to succeed in a job to what types of training will provide the best return on investment for an existing group of employees, or *who may leave* the organization in the near future. This type of forward-looking analysis is called *predictive analytics*.

Because of big data, we can analyze thousands or even millions of interactions between people in and between organizations and look for patterns to those interactions. According to a report in the *Harvard Business Review*, “We can measure, and therefore manage, more precisely than ever.”<sup>95</sup> If we find a pattern, it may tell us what we should do based on data rather than instinct—predictive analytics. We can “directly translate that [pattern] knowledge into improved decision making and performance.”<sup>96</sup>

## Desired HR Tech Outcomes

Businesses continually evaluate internal people processes in order to predict the impact of those processes on their business results.<sup>97</sup> Remember that efficiency is one of the areas that may allow HR to become a productivity center. And, as we have repeatedly noted, there is strong evidence that “companies that are highly skilled in core HR practices are 1.4 times more likely to report outperforming competitors and 2.5 times more likely to report the effective management of talent.”<sup>98</sup> There is also strong evidence (that we noted in Chapter 1) that return on investment and net profit, along with other significant financial measures, are improved through good, evidence-based HR practices. That is a shocking differential between skilled and less skilled talent management.

HR managers who understand and use such metrics can gain their “seat at the table” when strategy is being discussed in their firms. The only way they get and maintain that seat is to speak the language of business. We have to understand the numbers. We will discuss a few of the basic metrics that every HR manager needs to understand shortly.

## Dangerous HR Tech Outcomes

There is no doubt that analytics is becoming a critical area of expertise for HR managers—especially at higher management levels. We can, however, make significant errors if we base HR decisions only on predictive analytics models.<sup>99</sup> Some human review of data is always necessary. A system that is not transparent in its management of data and is not monitored by human reviewers has the potential to be *consistently* biased, which is likely to be even more harmful than having humans make the decision because they are not as consistent!

Wharton professor **Peter Capelli** notes that data science is “a language of optimization,” while HR “has an awful lot to do with fairness questions, and fairness and optimization don’t often go together very nicely.”<sup>100</sup> He also notes that algorithms are written based on historical data, which can be massively biased in some cases. The core of his, and other expert, arguments is that algorithms tend to be

a “black box” where we know what data go in and what data come out, but we do not know all of what happens with those data within the box. Often, the analysis of the data inside the box can be flawed, and if it is biased—maybe because of bad programming—we may have to explain the decision that the algorithm made to a judge in a courtroom.

A quick example may help illustrate the dangers. **Amazon** is a company that receives a massive number of applications, so in 2014 they decided to design an AI hiring tool to “give job candidates scores ranging from one to five stars.”<sup>101</sup> They built the system and trained it with 10 years of historical data on applicants. The problem occurred based on the fact that men historically dominate tech industries. So—you guessed it—the AI provided biased ratings that were massively slanted toward male candidates! They were ultimately unable to guarantee that the system would not maintain a bias as it continued to learn and finally decided to completely scrap the project around 2018. We always have to pay attention and monitor the results of HR tech we use. **Huma Abidi** of **Intel** states,

We need to make sure that our current and future algorithms are not just powerful but also ethical and fair, concerned about bias, unpredictability and opaqueness and these are not solely a technical challenge. To build a correct AI system you need domain experts, technologists, data scientists, lawyers, consumer advocates, public health professionals, industrialists, designers, ethicists, anthropologists, and policymakers: a diverse workforce representative of the population that solution will be serving.<sup>102</sup>

### WORK APPLICATION 2.6

Discuss how HR technology is affecting an organization you work(ed) for.

## HUMAN RESOURCE MANAGEMENT SYSTEMS (HRMS)

### LEARNING COMPETENCIES

2.7 Identify how human resource management systems (HRMS) can help HR make decisions.

Most organizations today use complex computer systems to manage and manipulate data. While many of the most recent developments in HR tech have been stand-alone, it is likely that they will shortly be incorporated into the top human resource management systems (HRMS). HRMS are used to manage and analyze people-related data in organizations, so that HR can use hard data to influence business performance.<sup>103</sup>

### What Are HRMS?

**Human resource management systems (HRMS)** are interacting database systems that aim at generating and delivering HR information and allow us to automate some human resource management functions.<sup>104</sup> A slightly older term for such systems that you may hear is human resource information systems (HRIS). Some of the most common features in HRMS include modules for tracking attendance and leave, job, and pay history and logging appraisal scores and review dates. Others include modules for benefits enrollment and tracking, succession management, training management, and time logging. There are additional modules available depending on the size and type of the organization.<sup>105</sup> (**SHRM H:5**)

## How Do HRMS Assist in Making Decisions?

Today's HRMS platforms include such key features as workforce management, performance monitoring of the recruiting process, e-mail alert systems, and predictive analytics.<sup>106</sup> These new systems are very user-friendly. We can use the information stored in the database to make daily decisions within the HR department. For example, since training records are available in the HRMS, if we need to determine who has completed conflict management coursework for a new team being created in the company, we can quickly identify individuals with that skill set. We also use the same databases when considering promotions, transfers, and many other daily activities that are required inside the organization.

More recently, however, core HR systems for very large companies like **SAP**, **Workday**, and **Oracle** have been struggling to keep up with all of the new technology. These large companies typically move more slowly than some of the entrepreneurial firms that have cropped up during and shortly after the pandemic to solve HR problems that older systems didn't have the capability for. But, according to **Josh Bersin** of the **Josh Bersin Academy**, the larger companies "are making major upgrades."<sup>107</sup> **Microsoft's** Viva app that ties in with its Office suite through Microsoft Teams is an example of a new "employee experience platform" that acts as a one-stop portal for employees.<sup>108</sup> We can expect others will soon be entering the market. **(SHRM H:4)**

### WORK APPLICATION 2.7

Describe the HRMS system at an organization you work(ed) for.

## MEASUREMENT TOOLS FOR STRATEGIC HRM

### LEARNING COMPETENCIES

**2.8** Recall the common measurement tools for strategic human resource management (HRM).

Housed within many HRMS are statistical packages for HRM. Just as we have to quantify and measure other parts of the organization, we also have measurement tools specific to HRM. There are many common HR metrics that measure everything from recruiting success, to the cost of health care and other benefits, to turnover. Two of the most common tools that help us identify whether or not we are spending the organization's money wisely are economic value added (EVA) and return on investment (ROI). Let's take a brief look at these two tools.

### Economic Value Added (EVA)

Economic value added (EVA) is designed as a method for calculating the creation of value for the organization's shareholders. **Economic value added (EVA)** is a *measure of profits that remain after the cost of capital has been deducted from operating profits*. It provides shareholders and managers with a better understanding of how the business is performing overall. As an equation, EVA would look like this:

$$\text{EVA} = \text{Net operating profit after tax} - (\text{Capital used} \times \text{Cost of capital})^{109}$$

EVA is a measure of how much money we made through our operations minus the amount of money we had to spend or borrow (at a particular interest rate) in order to perform those operations. For a company to grow, it must generate average returns higher than its capital costs. **(SHRM K:5 and O:2-e)**

As an example, let's look at a fictitious company's incentive program to see if we gained value. Acme Mega Corp decided to create a bonus program to increase productivity. They set aside \$1 million for the program, and their cost to acquire the million dollars was 6%. For now, don't worry too much about why it was 6%. You will learn about weighted average cost of capital (WACC) and other financial measures later in your career if you need them. Ultimately Acme was able to measure *productivity improvements* at the end of one year of the incentive program, and they increased productivity by \$1.2 million (after taxes were calculated on the increased productivity). The EVA calculation would be as follows:

$$\text{EVA} = \text{Net operating profit after tax} - (\text{Capital used} \times \text{Cost of capital})$$

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

So we made \$140,000 on our \$1 million investment—a 14% return.

### Return on Investment (ROI)

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

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

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

So, as an example, if we create a training course to improve the skills of our assembly workers and send all of the workers through the training, that training will cost us \$1 million. We know historically, during a normal year of production, the assembly workers have been able to assemble \$5 million worth of our product. However, after the training is complete, we measure our assembly process over the ensuing year and find our amount of product created that year has increased to \$8 million. This gives us a \$3 million gain from the investment. We can plug these numbers into our calculation and find out the following:

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

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

#### Applying the Concept 2.4

##### Return on Investment (ROI)

For all your HR investment programs, the objective is to get at least 0.25 or 25% ROI. In each of the four HR programs:

1. Calculate the ROI and place the number and percentage (%) on the line before the number.
2. State if it (a) does or (b) doesn't meet the objective on the line after the number and explain the results of the ROI calculations.

- \_\_\_\_ 18. \_\_\_\_\_. HR developed a new program to reduce absenteeism. The program cost \$1,000. Absenteeism decreased, resulting in a cost savings of \$2,000.
- \_\_\_\_ 19. \_\_\_\_\_. HR developed a new program to improve employee morale. Morale increased at an estimated cost savings of \$6,000, and the program cost \$5,000.
- \_\_\_\_ 20. \_\_\_\_\_. HR developed a new program to increase the percentage of minorities employed during the next 6 months. Although you hired more minorities, some current employees left the company and you hired more whites, resulting in a 1% gain, at an estimated value of \$5,000. The extra recruiting cost targeted at minorities was \$50,000.
- \_\_\_\_ 21. \_\_\_\_\_. HR developed a new safety training program to decrease the number of accidents, resulting in paying employees while out of work due to injuries. The training cost \$40,000, and the savings was \$100,500.

### WORK APPLICATION 2.8

Identify the measurement tools at an organization you work(ed) for.

## TRENDS AND ISSUES IN HRM

### LEARNING COMPETENCIES

- 2.9** Discuss the latest issues and trends within the HR field as they relate to strategy and diversity, equity, and inclusion in the workplace.

Here we continue our discussion of some of the most important trends and issues in HRM today. In this chapter, we discuss how changes in HR technology help us evaluate employee experience.

### HR Tech Gives Us a New Opportunity—Employee Experience (EX)

Employee engagement has become one of the most critical issues in HRM over the past 10 years. However, with new technology, companies are now moving even one step further in the search for a great employee experience (EX). According to SHRM, “A design-oriented focus on the employee experience is the prevailing trend in HR technology.”<sup>110</sup> HR tech is making an effort to seamlessly connect every technology that is designed to care for and manage the employee. **Josh Bersin**, an HR Tech industry leader and analyst, says that new systems can provide “a continuous response strategy”<sup>111</sup> by these connected systems, and HR tech companies are beginning to create the ability to manage these connected systems.

Intuitively, being able to connect talent acquisition through the recruiting and selection process with talent management once the individual is onboard, and those items with performance management and feedback tools, gives us the beginning of this seamless experience. Then connecting those items with payroll, benefits, employee health and wellness plus strong people analytics allows us to make vastly superior decisions about the human capital in the firm. Look for this to become a significant point of competitive advantage in companies that are successful in creating this interconnected experience.

## CHAPTER SUMMARY

### 2.1 Discuss the strategic planning process by classifying the major components of the external environment.

Strategic planning provides a process to evaluate our organization and its environment—both today and in the expected future—and determine what our organization wants to do to meet the

requirements of that expected future. There are nine major external environmental forces that must be taken into account:

1. *Customers.* Companies must continually improve products to create value for their customers.
2. *Competition.* Organizations must compete against each other for customers, for the same employees, and sometimes for suppliers. Competitors' changing strategic moves affect the performance of the organization.
3. *Suppliers.* The firm's performance is affected by its suppliers. Therefore, it is important to develop close working relationships with your suppliers.
4. *Labor Force.* The recruits available to, and the employees of, an organization have a direct effect on its performance. Management must recruit human resources from the available labor force outside the company's boundaries.
5. *Shareholders.* The owners of a corporation, known as shareholders, influence management. Most shareholders are not involved in the day-to-day operation of the firm, but they do vote for the board of directors, and the top manager reports to the board of directors.
6. *Society.* Individuals and groups within society have formed to pressure businesses to change. People who live in the same area with the business do not want it to pollute the air or water or otherwise abuse natural resources.
7. *Technology.* Computers and the Internet have changed the speed and the manner in which organizations conduct and transact business. Changing technologies require technologically savvy employees who have the ability to adapt to new processes.
8. *The Economy.* No organization has control over economic growth, inflation, interest rates, foreign exchange rates, and so on. In general, as measured by gross domestic product (GDP), businesses do better when the economy is growing than they do during recessions.
9. *Governments.* National, state, and local governments all set laws and regulations that businesses must obey. To a large extent, a business may not do whatever it wants to do; the government tells business what it can and cannot do.

## 2.2 Discuss how visions, missions, and objectives help to define the organization's strategy.

A strategy is a plan of action designed to achieve a particular set of objectives. Visions and mission statements help focus organizational activities on achieving the strategic goals of the organization. The vision is what we expect to become as an organization at a particular point in time in the future. The vision is who we are, what we stand for, what we believe in, and what we want to become. The mission is where we start to become specific. It lays out our expectations of what we're going to do in order to become the organization we have envisioned. When you put the vision and mission together, all the people in the organization get a more complete picture of the direction in which they are expected to go. Setting objectives creates targets that enable management to measure its progress at achieving its vision and mission and other goals.

## 2.3 Explain the three major generic strategies.

- **Cost Leadership**—Cost leaders do everything they can to lower the internal organizational costs required to produce their products or services. This can give them a powerful edge in commodity product/service environments.
- **Differentiation**—This strategy attempts to create an impression of difference for the company's product or service in the mind of the customer. The differentiator company stresses its advantages to the customer over its competitors.
- **Focus/Niche**—With this strategy, the company focuses on a specific portion, or segment, of a larger market. Within a particular target segment or market niche, the firm may use either a differentiation or a cost leadership strategy.

## 2.4 Explain the difference between diversity, inclusion, and belonging, and cite the challenges of implementing them in the workplace.

Diversity and inclusion are often used interchangeably, but they are different. *Diversity* is simply the existence of differences—in HRM, it deals with different types of people in an organization.



Inclusion is a practice of ensuring all employees feel they belong as valued members of the organization. *Inclusion* “builds upon diversity by ensuring a culture of belonging, respect, value, and engagement for all.” An inclusive value system creates a sense of *belonging*—a feeling of being respected and being valued for who you are, and feeling a level of supportive energy and commitment from others so everyone can do their best work.

The major challenges to managing these issues include the potential for increased conflict and lower cohesiveness. *Conflict* occurs in interactions between individuals, and it is typically greater when people are significantly different from each other, which means if we create a more diverse workforce, there’s a greater likelihood of more conflict. Also, the more diversity there is within the group, the more difficult it is to create the *cohesiveness* necessary for high performance. So, more diverse groups tend to be less cohesive—not always, but as a general rule.

### 2.5 Identify some of the tools available to companies to successfully manage diversity and inclusion.

- *Create an inclusive, equal opportunity culture* for everyone that also recognizes the value of each individual.
- *Recruit and promote a broadly diverse workforce.* Records of diverse group hiring and promoting should be kept, and efforts should be made to help these groups succeed in the workplace, often called a *diversity, equity and inclusion audit*.
- *Offer diversity training* to teach people how to get along better with diverse workers through inclusion. It helps people to talk about bias and better understand each other by becoming aware of and more empathetic toward people different from themselves.
- *Offer diversity business resource groups* that provide diverse employees with the opportunity to share information about how to succeed in the company and how to help the company succeed
- *Be inclusive.* Treat people fairly and provide the same access, training, mentoring, and opportunity to all.

### 2.6 Define how HR technology and predictive analytics help organizations make important decisions.

*HR tech and analytics* allow us to maintain connections with remote, as well as local, employees, analyzing their productivity, engagement, and even stress levels. It also allows us to recruit, hire, manage performance, and, if necessary, terminate individuals around the world, if necessary.

*Data analytics* is the process of accessing large amounts of data in order to analyze those data and gain insight into significant trends or patterns within organizations or industries. Advanced analytics has become an indispensable tool for analyzing workforce information and trends on very large scales.<sup>112</sup> This analysis can lead to information on everything from what kind of person *will be* most likely to succeed in a job to what types of training *will provide* the best return on investment for an existing group of employees, or *who may leave* the organization in the near future—*predictive analytics* that we could not do just a few years ago.

### 2.7 Identify how human resource management systems (HRMS) can help HR make decisions.

*Human resource management systems (HRMS)* are interacting database systems that aim to generate and deliver HR information and allow us to automate some HRM functions. They are primarily database management systems, designed especially for use in HR functions. We can use the information stored in the database to make daily decisions within the HR department, such as a decision on whom to send to a particular training class. We can also use these databases when considering promotions, transfers, team assignments, and many other daily activities that are required inside the organization.

### 2.8 Recall the common measurement tools for strategic human resource management (HRM).

We discussed two common tools in this chapter: economic value added (EVA) and return on investment (ROI). EVA is a measure of profits that remain after the cost of capital has been deducted from operating profits. ROI is a measure of the financial return we receive because of something that we do to invest in our organization or its people.

## 2.9 Discuss the latest issues and trends within the HR field as they relate to strategy and diversity, equity, and inclusion in the workplace.

Increasing technology is being developed and used to connect employment process from time of hire through time of departure. This use of technology is focused on creating an engaging and seamless experience for employees within the company.

### KEY TERMS

belonging (p. 41)	human resource management systems (HRMS) (p. 48)
cohesiveness (p. 43)	inclusion (p. 41)
conflict (p. 42)	innovation (p. 42)
creativity (p. 42)	mission statement (p. 35)
data analytics (p. 47)	objectives (p. 36)
divergent thinking (p. 42)	return on investment (ROI) (p. 50)
diversity (p. 41)	strategy (p. 34)
economic value added (EVA) (p. 49)	vision (p. 35)
high performance work practices (HPWPs) (p. 39)	

### KEY TERMS REVIEW

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

- \_\_\_\_\_ is a plan of action to achieve a particular set of objectives.
- \_\_\_\_\_ is what we expect to become as an organization at a particular future point in time.
- \_\_\_\_\_ is our expectations of what we're going to do in order to become the organization that we envisioned.
- \_\_\_\_\_ are statements of what is to be accomplished in singular, specific, and measurable terms, with a target date.
- \_\_\_\_\_ are practices that have been shown to improve an organization's capacity to effectively attract, select, hire, develop, and retain high-performing personnel.
- \_\_\_\_\_ is the existence of differences—in HRM, it deals with different types of people in an organization.
- \_\_\_\_\_ is a practice of ensuring that all employees feel they belong as valued members of the organization.
- \_\_\_\_\_ is a feeling of being respected and being valued for who you are, and feeling a level of supportive energy and commitment from others so that everyone can do their best work.
- \_\_\_\_\_ is a basic ability to think in unique and different ways and apply those thought processes to existing problems.
- \_\_\_\_\_ is the act of creating useful processes or products based on creative thought processes.
- \_\_\_\_\_ is the ability to find many possible solutions to a particular problem, including unique, untested solutions.
- \_\_\_\_\_ is simply the act of being opposed to another.
- \_\_\_\_\_ is an intent and desire for group members to stick together in their actions.
- \_\_\_\_\_ is the process of accessing large amounts of data in order to analyze those data and gain insights into significant trends or patterns within organizations or industries.

15. \_\_\_\_\_ are interacting database systems that aim at generating and delivering HR information and allow us to automate some human resource management functions.
16. \_\_\_\_\_ is a measure of profits that remain after the cost of capital has been deducted from operating profits.
17. \_\_\_\_\_ is a measure of the financial return we receive because of something that we do to invest in our organization or its people.

### CASE 2.1 STRUCTURE AND CULTURE AT OLD TOWN CAPE

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

Several miles away, near Interstate-55, the city has seen a growth spurt of new retail, restaurants, and service businesses, mostly national chains. This has naturally drawn traffic away from the downtown area near the river, potentially hurting the sales of those businesses in the oldest part of the city. Fortunately, there is an organization dedicated to the resurgence of the original city streets; the organization is called Old Town Cape.

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

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

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

work ethic, passion for the organizational mission, and are open to constructive criticism and feedback.” Overall, it is a satisfying and enriching job for employees.

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

### Questions

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

### Source

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

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

## SKILL BUILDER 2.1 WRITING OBJECTIVES

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

### Objective

To develop your skill at writing objectives

### Skills

The primary skills developed through this exercise are as follows:

1. *HR management skills*—Conceptual and design
2. SHRM 2019 Curriculum Guidebook—O: Strategic HR

### Part 1

Indicate which of the criteria each of the following objectives fails to meet in the model and rewrite the objective so that it meets all those criteria. When writing objectives, use the following model:

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

1. To improve our company image by the end of 2025

**Criteria not met:** \_\_\_\_\_

**Improved objective:** \_\_\_\_\_

2. To increase the number of customers by 10%

**Criteria not met:** \_\_\_\_\_

**Improved objective:** \_\_\_\_\_

3. To increase profits during 2025

**Criteria not met:** \_\_\_\_\_

**Improved objective:** \_\_\_\_\_

4. To sell 5% more hot dogs and 13% more soda at the baseball game on Sunday, June 14, 2024

**Criteria not met:** \_\_\_\_\_

**Improved objective:** \_\_\_\_\_

## Part 2

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

- Educational Objectives
- Personal Objectives
- Career Objectives

## Apply It

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

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

*Case created by Herbert Sherman, PhD, and Theodore Vallas, Department of Management Sciences, Long Island University School of Business, Brooklyn Campus.*

## SKILL BUILDER 2.2 STRATEGIC PLANNING AT YOUR COLLEGE

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

### Objective

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

### Skills

The primary skills developed through this exercise are as follows:

1. *HR management skills*—Business and conceptual and design
2. SHRM 2019 Curriculum Guidebook—O: Strategic HR

### Part A: Strategy

Step 1: Develop a Mission

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

Step 2: Identify a Strategy

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

Step 3: Conduct Strategic Analysis

1. Complete a SWOT analysis by identifying the strengths, weaknesses, opportunities, and threats facing your school.
2. Determine the competitive advantage (if any) of your university/college or school/department.

Step 4: Set Objectives

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

Step 5: Implement, Monitor, and Evaluate Strategies

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

**Part B: Structure**

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

**Part C: Culture**

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

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

**Apply It**

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

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