

# **Chapter 2: The Role of Human Resource Management in Business**

## **Chapter Overview**

HRM influences business in both direct and indirect ways. In addition to acquiring and developing the skills and capabilities the organization needs, aligning employee and organizational goals, and motivating employees to perform their best, HRM also influences both the environment in which work is done and how employees get their work done. By reinforcing the values of the firm, HRM helps clarify for employees how they are to behave and make decisions. This chapter discusses the importance of organizational culture and how HRM supports different types of cultures. The importance of ethics and social responsibility and how HRM can reinforce both of these values is also discussed. The chapter ends with a discussion of how HRM supports organizational change and success in mergers and acquisitions. After reading the chapter, students should have a good idea of the variety of ways that HRM systems and activities contribute to organizational effectiveness.

## **Learning Objectives**

1. Explain how HRM reinforces organizational culture.
2. Describe how HRM supports high-performance work systems.
3. Describe the five standards that help us decide if an action is unethical.
4. Explain how HRM influences ethics and corporate social responsibility.
5. Explain how HRM can support organizational change.
6. Describe how employees influence the success of a merger or acquisition, and how HRM can create the foundation for the success of the combined company.

### **Real World Challenge: How Culture Reinforces Business Strategy at Marriott**

J.W. Marriott has built a strong organization culture known as “Spirit to Serve,” emphasizing the importance of the company’s people and the value they bring to the organization. Marriott’s culture focuses on ideals of service to associates, customers, and the community. Marriott asks the students for advice on how the company can use HRM to further enhance its “Spirit to Serve” culture.

## Chapter Outline

- I. WHY IS ORGANIZATIONAL CULTURE IMPORTANT?
  - A. An organization's culture is like its personality.
  - B. **Organizational culture** is made up of the norms, values, and assumptions of organizational members.
  - C. Four types of cultures include entrepreneurial, bureaucratic, consensual, and competitive.
  - D. **Performance culture** focuses on hiring, retaining, developing, motivating, and making work assignments based on performance data and results.
  - E. The HRM system strongly influences employees' perceptions of the organization's culture.
  - F. The HRM system has the most immediate effect on employees' behaviors because it formalizes the company's expectations through explicit goals and formal policies.

### Global Issues Feature: Organizational Culture Preferences and Realities across the World

This chapter's Global Issues feature summarizes one study's assessment of organizational culture preferences in different regions of the world. Employee and organizational preferences for different types of cultures tend to vary across national cultures. This chart shows the differences across Asia, United States, Latin America, and Europe.

### HR Flexibility Feature: Using HRM to Reinforce Different Business Strategies through Culture

This HR Flexibility Feature examines different HRM practices that reinforce different types of cultures. Examples include HRM practices for a low-cost business strategy, an innovation strategy, and an individual performance strategy. There is no "best" HRM system; the HRM policies and practices need to align with the business strategy.

- II. WHAT IS THE ROLE OF HRM IN HIGH PERFORMANCE WORK SYSTEMS?
  - A. High-performing work systems are high-involvement or high-commitment organizations.
  - B. HPWS have workers who are to a large degree self-controlled and self-managed.
  - C. Employees in a high-involvement organization feel responsible for its success because they know more, do more, and contribute more.
- III. THE ROLE OF HRM IN CORPORATE ETHICS AND SOCIAL RESPONSIBILITY

**Ethics** are the standards of moral behavior that define socially accepted behaviors that are

right as opposed to wrong. There are five different types of ethical standards: utilitarian, rights, fairness, common good, and virtue. Company leaders often give too little thought and time to developing and reinforcing an organizational culture in which people can and do act ethically. HRM impacts ethics in a variety of ways.

A. Codes of Conduct and Codes of Ethics

1. **Codes of conduct** specify expected and prohibited actions in the workplace and give examples of appropriate behavior.
2. **Code of ethics** is a decision-making guide that describes the highest values to which an organization aspires.

B. How Does HRM Influence Corporate Ethics?

1. HRM supports corporate ethics by hiring ethical employees and training employees for different ethical situations.
2. HRM also helps foster ethical behavior by rewarding ethical behavior.

### Case Study: The Deepwater Horizon Explosion

This chapter's case study describes how ethical and social responsibility issues contributed to the Deepwater Horizon oil rig explosion and resulting environmental disaster.

1. What are some of the core ethical and social responsibility issues presented by BP's behavior?

*Engineers were hurrying to reduce delay and expenses by cutting corners on well design, safety features, and safety tests. Management was arguing over procedures and the decision was made to use the less-expensive option.*

2. If you were an employee of BP, would you have spoken up about the safety issues? Why or why not?

*Students should respond by including information about the power of the culture and the role of the supervisor in decision making. The strong culture resulted in resistance by employees to engage in whistle-blowing. Fear of retaliation and potentially being fired for speaking up about the problems impacted employee behavior.*

3. How can HRM improve the ethical and social responsibility culture at BP?

*HRM policies for whistle-blowers and protection for employees who speak up and voice concerns positively improve ethical and social responsibility.*

C. How Does HRM Influence Corporate Social Responsibility?

1. **Corporate social responsibility** happens when businesses show concern for the common good and value human dignity.
2. Adopting a broader **stakeholder perspective** that considers the interests and opinions of all people, groups, organizations, or systems that affect or could be affected by the organization's actions supports social responsibility.
3. Human rights are increasingly being incorporated into HR vision, mission, and values statements.
4. Corporate social responsibility is also increasingly included as a factor in performance evaluations and merit pay increases.
5. Training in corporate social responsibility awareness and skills, training managers to report abuses, developing an ethical corporate culture, and ensuring that global contractors act in ethical and socially responsible ways are examples of other HRM initiatives that support social responsibility.

**Develop Your Skills Feature: The Perceived Importance of Ethics and Social Responsibility**

This chapter's Develop Your Skills feature will help students to evaluate how they view the role of ethics and social responsibility in business. This can help students determine how important it might be to work for an organization with similar values. Students answer the questions using the 1–5 scale and calculate their score.

*Interpretation:*

- Scores between 10 and 20 show a tendency to place a higher value on performance than on social responsibility and business ethics.
- Scores between 21 and 35 have a tendency to strike a balance between performance and social responsibility and business ethics.
- Scores between 36 and 50 tend to realize that high moral and ethical standards are in the best long-run interest of profits and shareholders.

IV. HOW DOES HRM SUPPORT ORGANIZATIONAL CHANGE?

- A. Targeting HRM efforts to develop, motivate, and retain the people who are critical to implementing a new strategy may expedite its adoption and ultimately improve the strategy's effectiveness.
- B. Employee participation can also be a positive tactic for change management, as it is ultimately the employees who need to adopt different behaviors and goals to support a change if it is to succeed.
- C. Mergers and acquisitions are often a stimulus to organizational change.

### **Strategic Impact Feature: Culture Change at HP**

Culture change at HP involves requiring staff to formulate three personal and three professional goals each year. Employees and managers are encouraged to cheer those who meet their goals. HP increased retention rates and found no loss in productivity even when employees were working shorter hours.

#### **V. HRM DURING MERGERS AND ACQUISITIONS**

- A. Culture mismatch is often blamed as a cause of the failure in mergers and acquisitions.
- B. HR managers need to identify and address cultural issues that are potential problems in mergers and acquisitions.
- C. HR managers are also critical in ensuring effective communication during any layoffs.

#### **VI. HRM METRICS**

- A. Metrics and measurements are essential in both identifying where the HRM system can be improved and helping HRM best meet the needs of the organization and its stakeholders, including its employees.
- B. Metrics include absence rates, cost per hire, customer service ratings, engagement measures, healthcare costs, innovation, job offer acceptance rates, percentage of performance goals met, profit for employee, ROI, revenue per employee, tenure, time to fill, turnover, and worker's compensation.

#### **V. SUMMARY AND APPLICATION**

HRM can have a large influence on business performance and strategy execution through its effects on culture, ethics, and social responsibility.

### **Real World Response: How Culture Reinforces Business Strategy at Marriott**

Marriott is committed to diversity, social responsibility, and community engagement. The organization promotes the "Spirit to Serve" culture by hiring friendly employees and providing necessary training. Employee retention, total compensation packages, and promotion from within are HR practices that link with the culture of the organization. Marriott understands that taking care of employees translates to customer satisfaction.

## Discussion Questions

**1. What type of culture do you find most desirable as a potential employee? What HRM clues can you identify that might let you know the degree to which a prospective employer has this type of culture?**

Students may respond with a variety of different culture preferences. Information students provide to support the culture they describe should include the reward structure, the approach to training and development, the focus on the employees as important for the success of the organization, and hiring practices.

**2. How can HRM support a performance culture? How could HRM undermine a performance culture?**

A performance culture focuses on hiring, retaining, developing, motivating, and making work assignments based on performance data and results. Because all employees are focused on winning, performance permeates every aspect of the firm. The HRM systems that support this culture include rewards for achieving high-performance targets, training for performance goals, and promoting the high performers. HRM systems that undermine a performance culture include low pay, few benefits, little training, and no recognition for achieving performance goals.

**3. Why do you think some employees act unethically? How could you use HRM to help address these causes and encourage more ethical behavior?**

Some unethical behaviors occur because some people are simply less ethical than others, but the broader organizational context and systems are also relevant. Company leaders often give too little thought and time to developing and reinforcing an organizational culture in which people can and do act ethically. Organizations need to proactively identify their ethical values, and reinforce these values with their employees. Ethical employee behavior results from ethical values, clear expectations, and rewards and punishments supporting ethical behavior. Organizations frequently adopt a code of conduct or a code of ethics to clarify what is and what is not acceptable.

**4. Do you consider ethics or social responsibility in evaluating prospective employers? What do you look for?**

Yes, evaluating the employer for ethics and social responsibility is an important consideration during the interview process. Examining their web page content to determine any socially responsible policies, asking about ethical codes of conduct during the interview process, and seeking out prior examples in the press of the organization's conduct are important approaches.

**5. What type of business strategy do you think is most compatible with a high-performance work system? Why?**

HPWS workers are to a large degree self-controlled and self-managed. With the help of leaders who develop a clear vision, mission, and goals, HPWS workers are expected to adapt to changing circumstances. Organizations need a business strategy that allows for decision making at all levels of the organization and extensive sharing of financial and performance information throughout the organization.

**6. What type of business strategy do you think would be a poor fit with a high-performance work system? Why?**

A business strategy that is traditionally hierarchical, focusing on the top of the organization as the primary decision makers, is not an effective approach for high-performance work systems. In addition, a business strategy that only empowers a few individuals at the top of the organization is a poor fit.

**7. If your company was about to be acquired by another, how would you want to be treated by HRM? What are some of the biggest mistakes you feel HRM could make during the acquisition process?**

Effective talent planning is essential to the success of a merger or acquisition. In addition, culture is a big factor in effective mergers and acquisitions, requiring HRM practices that recognize and address cultural issues before the merger or acquisition and begin to develop integration approaches. Finally, HRM practices are critical in the communication of any employee changes, including layoffs and restructuring, to clearly inform employees of the potential implications.

## **Personal Development Exercise**

### **Managing Ethical Issues in HRM**

Students work in groups of —three to five people and brainstorm at least five ethical issues that can exist in HRM. Next, have students identify how the company can use HRM to handle these ethical challenges. Students share two issues and HRM solutions with the class.

*Example:*

**Ethical Issue**—Very productive manager bullies his subordinates and treats them in ways inconsistent with the corporate culture.

**HRM**—Subordinates are asked to provide anonymous feedback to HR about the supervisor behavior. HR integrates the material and gives training to the supervisor to change his behavior.



## Strategic HRM Exercises

### Culture Choice at Amazing Apps

Students form groups of —three to five students and have them develop a start-up company called Amazing Apps to write applications for the iPad. The company needs to hire more people quickly. Students answer the following questions:

1. Describe the type of culture you would like to create in your company.

*The culture for this company should be a high-performance culture that empowers employees at all levels to take initiative and make necessary decisions. The culture should also promote and reward teamwork.*

2. How would you use HRM to reinforce this culture?

*HRM systems needed for a high-performance work culture include reinforcing power-sharing, rewarding teamwork and performance, promoting information-sharing, and training employees to make effective decisions. The recruiting and selection process also should involve seeking out employees who are self-starters and comfortable in a high-performing organization.*

3. What would be the biggest threats to establishing your intended culture, and how could you overcome them?

*The biggest threats include developing a power and hierarchical structure that reduces the level of employee empowerment within the organization. Too much management oversight and involvement will reduce the power given to employees to generate ideas and make necessary decisions, reducing the impact of a high-performance work environment.*

### Creating a High Performance Work System

Students form groups of —three to five students. Half of the teams are to imagine that they are owners of a high-end local restaurant. Students are asked to use HRM functions that support a high-performance work system.

*Example:* HRM systems needed for a high-performance work culture include reinforcing power-sharing, rewarding teamwork and performance, promoting information-sharing, and training employees to make effective decisions. The recruiting and selection process also should involve seeking out employees who are self-starters and comfortable in a high-performing organization.

The other half of the teams are to imagine that they are owners of a local fast-food restaurant. The business strategy is to be a low-cost provider of quality food. Turnover is fairly high, and you are only able to pay market wages. Teams should apply HRM functions and activities in designing a high-performance work system that would best accomplish your goals.



*Example:* As a low-cost provider, these owners need to recognize and reward employees for cost-cutting approaches and savings. Training should focus on reducing costs and improving profits. In this organization, managers control most of the decision-making and use rules and procedures to run the business.

## **Additional Exercises**

### **What Would You Do?**

Students form groups of —three to five students and discuss what they would do in these different situations.

Groups share ideas with the class.

1. Imagine that you just joined the leadership team of a large financial services company that wants to improve its financial performance. The rest of the leadership team wants to reduce the company's workforce through outsourcing or selling some business units and then hiring back some of the former employees as contract labor so it can pay them less and not provide benefits. Essentially, they want to find ways to pay people less for doing the same work without benefits and with fewer legal obligations. What would you recommend?

*Consider the ethical issues involved this type of decision. Changing the employment contract from full-time to contract worker as a strategy to improve financial performance shows unethical decision making and a financially based value system for the senior leadership of the organization. Students should consider the long-term implications for an organization that makes decision using only financial indicators as the tools to guide change.*

2. Imagine that your CEO recently read about another company focusing its training and compensation resources on the highest performing 10 percent of its employees and asks for your opinion.

*This type of training and compensation system demonstrates that the organization only values the top 10 percent of the employees and gives little regard to the other 90 percent of the organization. Using this type of system, the organization will reduce the motivation and satisfaction of 90 percent of the employees, directly impacting the performance of the organization. The CEO should consider other models for the company that may include a specialized leadership development program for the upper 10 percent of the organization while still maintaining training and compensation practices for the entire organization.*

3. Imagine that you are starting a new online marketing company and are trying to establish the compensation system for your employees. In percentages, how much more would you pay the highest paid employee than the lowest paid employee?

*The approach taken to pay employees is typically driven by skills and expertise as well as market value for the particular position. The difference in pay between the highest and the lowest paid employee should not be too large as to create issues of fairness and equity within the organization.*

## **Ethics**

Students form groups of —three to five students. Each team has 20 minutes to identify HRM behaviors that are represented in the different functional areas of the work behaviors and decisions that fit in one of the four quadrants of the matrix:

1. Legal and ethical: hiring, training, promotion, rewarding, compensation
2. Legal and unethical: unfair treatment of employees, fairness and equity issues with compensation practices
3. Illegal and ethical: none
4. Illegal and unethical: hiring illegal employees, not paying employees, known illegal financial transactions, bribery, violent acts against employees, harassment, abuse

## **Ethics Codes**

Use the Internet to research the ethics codes (also called a “code of ethics”) for at least three organizations. Write a one-page paper comparing and contrasting the codes. Be sure to include your thoughts about what an organization’s ethical code should contain.

*Student answers will vary.*

## **Applying the Five Ethical Perspectives**

Students are responsible for cutting the cost of your sales force by at least \$100,000 within one month. Each of the company’s six sales people is described. Apply the five ethical standards to your decision and describe how your decision differs depending on which ethical standard you are applying.

*Five Ethical Standards:*

1. *Utilitarian standard balances good over harm by doing the most good or doing the least harm. Using this approach, the least harm will be attempted by using an equal approach to reduce costs.*
2. *Rights standard respects and protects the moral rights of everyone affected by the action, including the right to privacy, to be told the truth, or to be safe. Using this approach, individual pay reductions would be private, employees would be told the truth about the necessary cuts, and all employees would receive the lowest possible cuts to achieve the necessary outcome.*

3. *Fairness standard treats all people equally, or at least fairly, based on some defensible standard. Using this approach, a specific metric based on performance outcomes that was defensible would be used to reduce pay across the sales force.*
4. *Common good standard shows respect and compassion for everyone, especially the most vulnerable. Using this approach, pay cuts would be less for the most vulnerable employees such as T.J., and all others would receive equal treatment.*
5. *Virtue standard is consistent with certain ideal virtues including civility, compassion, benevolence, etc. Using this approach, pay cuts would also be equal across all the sales force.*

## **Integrative Project**

In the last chapter, students identified a company and industry to focus on for this project. Students also described the business strategy, competitive advantage, and talent philosophy they would use to create a competitive advantage for their business. The student assignment for this chapter is to think about and formalize the company's position on social responsibility and ethics. Students should record their company's formal statement about each. Students should describe the culture they would create at their company, explain why it is best suited to their company's needs, and explain how it will contribute to its success.

## **Now What? Video Cases**

- 1. What are the ethical issues involved in using peer feedback solicited for developmental purposes for determining pay raises as well?**

*The ethical issue is that the company told employees it would only be used for developmental feedback, not for pay raises. If the situation changes, employees should be notified about the change.*

- 2. If your coworkers gave you constructive feedback to help you improve, and then the feedback negatively affects your pay raise, would you think that was fair? Why or why not?**

*Using the feedback in this way is not fair. Employees should be notified upfront that this will also impact pay raises.*

- 3. What do you think would be the best information to use in determining pay raises? What is the best way to collect this information?**

*The best information to use to determine pay raises is a combination approach such as supervisory ratings combined with evaluation of accomplishment of individual performance plans.*