Chapter 2: Business and Staffing Strategies

LEARNING OBJECTIVES

After studying this chapter, you should be able to:
- Explain how different staffing strategies support different business strategies.
- Describe the resource-based view of the firm and how staffing can contribute to a company's sustainable competitive advantage.
- Explain when an organization would use talent-oriented rather than job-oriented staffing.
- Describe human capital advantage and human process advantage and the differences between them.
- Describe the strategic staffing decisions any organization must make.

TAKEAWAY POINTS

1. If a firm seeks to achieve a competitive advantage, its staffing strategy should support its business strategy. Different strategies require different types of employees. A cost-leadership strategy requires trainable and flexible employees able to focus on shorter-term production objectives, avoid waste, and who are concerned about production costs. The goal in this case is to develop a competitive advantage based on operational excellence. A differentiation strategy based on innovation requires employees who fit the firm's innovative culture. A company pursuing a specialization strategy based on customer intimacy would need to hire adaptable, active learners with good people and customer relations skills, and emotional resilience under pressure.

2. The resource-based view of the firm proposes that a company's resources and competencies can produce a sustained competitive advantage by creating value for customers by lowering costs, providing something of unique value, or some combination of the two. Because the talent resources created by staffing can be valuable, rare, inimitable, and non-substitutable, staffing has the potential to create a competitive advantage for a firm. Acquiring the right talent is not enough, however. The company must be appropriately organized to take full advantage of its talent resources.

3. An organization would use job-oriented staffing when it needs to fill a specific job opening. It would pursue talent-oriented staffing when labor markets are tight and good recruits are hard to find, or to address anticipated skill gaps in advance of actual needs.

4. A firm can achieve a human capital advantage by hiring a stock of quality talent and retaining outstanding people. A human process advantage occurs when the firm's work gets done in a superior way as a result of effective processes that evolve over time, such as learning, cooperation, and innovation on the part of its employees. Human process advantages are very difficult to imitate.

5. Strategic staffing decisions include whether to: have an internal or external talent focus, establish a core or flexible workforce, hire people with the skills the firm needs or train

them to develop those skills, replace or retain talent, and pursue proactive or reactive staffing. It is also important to address what levels of which skills should be sought and which jobs should be focused on, as well as whether staffing should be viewed as an investment or a cost and should be centralized or decentralized.

DISCUSSION QUESTIONS

1.   What are the three most important ethical principles that you feel organizations should adhere to in terms of their staffing philosophies? Why?

Answers typically include fairness, equal treatment, merit-based decision making, honesty, transparency, legal compliance and respect for applicants and employees. Reasons will vary based on the students and the principles identified, but will include the ideas that doing so is morally right, that there is a business case for doing so in terms of hiring and promoting people. The main reason will typically be that this will make the business productive and that these are not adhered to for political reasons, being and remaining an employer that people want to work for, and avoiding legal trouble.

2.   What is the difference between treating employees as assets and as investors? When is it appropriate for an organization to treat employees as investors? When is it appropriate for an organization to treat job applicants and employees as assets?

Treating employees as assets puts the talent management focus on managing costs and controlling people (the asset) as a resource. Like other assets, the focus is on managing the cost of employees, and the goal tends to focus on the acquisition of labor as cheaply and quickly as possible. Treating employees as assets is most appropriate when there is little performance variation among people holding a job. If just about any new hire can do the job at an acceptable performance level, if alternative jobs are hard for employees to find, or if the job is very automated and requires little unique skill or knowledge, then controlling labor costs can be an appropriate perspective. Even in these cases, however, staffing outcomes such as commitment, theft, and motivation probably can be improved if employees are thought of as investors.

Alternatively, if employees are thought of as investors, the focus is on establishing a mutually beneficial relationship in which employees are recognized as investing their resources (time, talents, energy, etc.) in the organization in exchange for a return on that investment (supportive culture, pay, benefits, challenge, professional development, etc.). When workers are able to get other jobs easily, when the organization's success is dependent on their contributions (e.g., research and development, customer service, or knowledge worker positions) it is appropriate for the organization to treat employees as investors and maximize employees' return on the investments they make in the company. The Starbucks vignette is a good example of when it is appropriate to treat employees as investors.

3.   Suppose you were in charge of recruiting and staffing the software engineers who work for Google. Do you think that a company like Google should hire software engineers with the skills it needs or train them to develop those skills? Why?

Google needs people to be able to contribute quickly and be knowledgeable about and skilled in the most current software engineering theories and practices. At the same time, Google has proprietary methods and systems that will need training, and that new hires will be unfamiliar with. Given the challenges inherent in Google's innovative work, creativity is as important as current technological knowledge. Because creativity cannot be brought about by training, Google hires talented and creative people that can then be trained on specific systems.

4.   In what situations would position-oriented staffing be preferable to talent-oriented staffing?

Position-oriented staffing hires people who are good fits for a particular job that needs to be done. Talent-oriented staffing hires talented people and then finds a place for them in the organization. Organizations often use position-oriented staffing because they have a specific job that needs to be filled. Talent-oriented hiring can be effective when the organization has the opportunity to hire someone with unique talents who can contribute meaningfully to the organization in some way. It can be strategic to hire people with unique talents even if it is not clear yet what job they will fill, as long as their skills complement the organization's goals. For example, a biotechnology company can benefit from finding a place for one of the top scientists in the field who has expressed interest in working for the company, even if no openings currently exist.

Talent-oriented staffing also has the strategic advantage of keeping top talent in key areas away from competitors. If the best talent is working for you, they are not working for a competitor. Position-oriented staffing is frequently easier to use because you are staffing relatively clearly defined jobs or positions. This makes position-oriented staffing less complex and more legally defensible. However, when acquiring the best talent in a particular area is critical to a company's success (e.g., consulting firms), or when a unique opportunity to acquire top talent in an area important to the organization presents itself, then talent-oriented staffing may be more effective.

5.   List the costs and benefits of having an internal staffing focus. Then list the cost and benefits of having an external staffing focus. What are the trade-offs between the two approaches?

An internal staffing focus helps keep employees committed to the company because they can see themselves having a career there. Internal staffing also results in the new hire getting up to speed faster because he or she is already familiar with company policies, culture, customers, etc. An internal staffing focus also prompts a company to develop a pool of talent that is likely to be both able and willing to assume leadership roles when they become available. It can also be faster and cheaper to hire internally and the company has a more accurate assessment of the talents and potential of its employees than it does of outsiders.

Internal staffing focuses on the talents and capabilities of employees who are currently employed in the organization. As a result, possible costs of an internal staffing focus include

10

failure to introduce new ideas and inability to identify new ways of doing things. Additionally, training and development costs may be higher. Finally, the company might also miss out on hiring great talent that does not currently work for it, and these highly talented people often end up working for competitors.

An external staffing focus can help reduce costs in the long term by reducing a firm's training costs. Employees' skills may be more current because the company can hire people trained in the newest technologies and theories. External hires may also be able to see the company from a fresh perspective and have insights that improve the company's performance.

An external staffing focus can generate resentment on the part of employees who are passed over for a job within the company in favor of an outsider. It is also more difficult to fully evaluate external hires because less information is known about them compared to people who already work for the company. External hires may not have as much of an understanding and appreciation of the company's history and culture as an internal hire.

EXERCISES

1. <u>Strategy exercise</u>: Form a small group of four to five students. Identify a business that you could start. What type of business would you propose? What business strategy would you follow? What staffing strategies would you use and why? How does the resource-based view inform your thinking?

    Answers depend on the business identified, but should parallel the contents of Table 2-3.

2. <u>Opening vignette exercise</u>: Working individually, or in a small group, reread the chapter vignette on Starbucks and address the following questions. Be prepared to share your answers with the class after 20 minutes.

    a. What staffing issues would create the biggest obstacles to Starbucks' ability to execute its growth and specialization strategies?

    A shortage of talent produced by a tight labor market could be a problem, as could high turnover rates. If the sourcing, recruiting, and selection systems Starbucks uses stop producing appropriate hires, it will no longer be able to acquire the talent it needs to execute its high level of customer service.

    b. What would you recommend Starbucks do to overcome the obstacles you identified?

    Focusing on retention will help alleviate the effects of a tight labor market. Further enhancing its training, development, and promotion opportunities might further boost retention. It could also continue to invest in new sourcing and recruiting ideas and technologies to continually generate new applicants and build up its database of online

11

candidates, and publicize its strengths and benefits as an employer to maintain its positive employer image.

3. Develop Your Skills Exercise: Think of an organization that you currently work for or have worked for in the past as you complete the "Measuring Your Firm's Climate for Diversity" assessment in the Develop Your Skills feature. How well do you think the organization's climate for diversity score reflects its talent philosophy?

    The main takeaway intended for this exercise is the idea that having any particular philosophy, not just one about diversity, is not enough. Organizations often have good intentions but fail to fully live up to them, in part because they do not assess whether or not they are doing so. Many organizations will have a very impressive statement about valuing diversity and their talent in general, but when employees are asked how valued they feel their responses reflect room for improvement. This links to the importance of having a well-developed and clearly-stated talent philosophy that drives human resource and staffing strategies, and to measure how well the organization is living up to these principles and goals.

CASE STUDY

Integrating McDonald's Business, Human Resource, and Staffing Strategies

People are McDonald's most important asset. The company's success depends on the satisfaction of its customers, which begins with workers who have the attitudes and abilities required to work efficiently and provide good customer service. To execute its growth strategy, McDonald's has identified people as one of its three global corporate strategies. McDonald's claims that as an employer, it wants "to be the best employer in each community around the world"[1] It also makes a "people promise" to its employees that "we value you, your growth, and your Contributions."[2] Its five "people principles" reflected by its human resource strategy are: respect and recognition; values and leadership behaviors; competitive pay and benefits; learning, development, and personal growth; and ensuing that employees have the resources needed to get the job done.[3]

McDonald's has executed its operational excellence strategy well by tracking key indicators of product and service quality, speed, and accuracy. The company has also identified its people practices and approaches that substantially impact the firm's turnover, productivity, customer satisfaction, sales, and profitability. This has allowed it to develop a business model that emphasizes not only financial and operational factors but also people factors that improve the company's results by improving employee commitment, retention, productivity, and customer loyalty. [4]

Because its business strategy relies on providing customers quality, cleanliness, quick service, and value, McDonald's works hard at hiring people who want to excel in delivering outstanding service. Many of its restaurant employees are teenagers, and McDonald's is their first employer. The company tries to recruit and hire the best people, retain them by offering them ongoing training, [5] and then promote from within to fill its managerial positions. To ensure that it is recruiting the right people, the company has identified important skills and behaviors that it

looks for in applicants. McDonald's has found that the best way of hiring quality crew members is to advertise inside the restaurant and attract local people and/or friends of existing employees. McDonald's also recruits at local job centers and career fairs, using hiring material with a clear message targeted at its intended audience. As McDonald's CEO Steve Easterbrook says, "If you get the people part right, the rest will follow."[6]

Questions:

1. How would you describe McDonald's business strategy? What are the foundations of its competitive advantage (what are the sources of its success)?

   McDonald's business strategy is centered on both growth and operational excellence. The foundations of its competitive advantage are both its people and its processes. By carefully recruiting and selecting its people, McDonald's ensures that customer service-oriented people are hired. McDonald's then trains them in additional skills that are needed for good performance. By identifying and tracking the people factors that affect business results, the company is able to evaluate and continually improve the alignment between its staffing and business strategies.

2. How has McDonald's aligned its business, human resource, and staffing strategies?

   Pursuing both growth and operational excellence strategies requires a continual influx of employees with good customer service skills, providing ongoing training and development, and retaining talent. McDonald's has a clear understanding of the skills and behaviors it needs in its new hires, and has developed a staffing strategy that produces these characteristics.

3. What are some possible talent-related threats that could eat away at McDonald's competitive advantage? Would higher turnover or a tight labor market in which it is difficult to find talented people be a problem? What would you recommend the company should do to maintain its competitive advantage over the next five years?

   A tight labor market would make hiring more difficult especially in the younger age bracket, it hires from the most. Higher turnover would also be a problem, and be particularly expensive in light of its training investments. To maintain its competitive advantage, McDonald's could further build its image and brand and find ways to appeal to its biggest labor pool of teenagers (it is in the process of redesigning its uniforms, for example). It could also find ways to retain current workers, and target its recruiting message and benefits as an employer to additional segments of the labor force such as senior citizens and people who need part-time or flexible work arrangements due to school or family responsibilities.

SEMESTER-LONG ACTIVE LEARNING PROJECT

You should have a list of jobs and companies that your team will have access to for the project. You now need to decide which job and organization to use for the semester project and begin collecting information on the company, its business strategy and competitive advantage, and how it currently sources, recruits, and selects for the position you identified. You also need to identify how the position is strategic for the company in some way. Before the next class, you should confirm that you will have access to one or two job experts and solidify the job and organization your team will use for the project.

Specifically, you need to include the following in your report:

1.   A brief summary of the organization, its business strategy, and its culture.

2.   An explanation of why the position you chose is strategic for the company (why should attention be given to improving how it is staffed? What are the implications of having low versus high performers in the job?). Describe the strategic context of your future proposal for recruiting and selecting for this job—what must future hires be able to do to help the company execute its business strategy?

3.   Responses to each of the nine strategic staffing decisions presented in Table 2-6 and a justification for each of your recommendations.

Note: It is a good idea to read the applied case assignments for the rest of the chapters to guide your research and identify how your job experts might provide useful information for future sections of the project.

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[1] "McDonald's People Vision," McDonald's Corporation, http://www.rmhc.org/corp/values/ppromise/people_vision.html. Accessed July 10, 2006.
[2] "McDonald's People Promise," McDonald's Corporation, http://www.rmhc.org/corp/values/ppromise/people_promise.html. Accessed July 10, 2006.
[3] "McDonald's Commitment to Our Employees," McDonald's Corporation, http://www.rmhc.org/corp/values/ppromise/our_commitment.html. Accessed July 10, 2006.
[4] Moore, D., Landa, A., and Nelson, S., "I-O Psychologists' Roles in HR Systems," *Industrial-Organizational Psychologist*, July 2001, http://siop.org/tip/backissues/TipJul01/17barney.aspx. Accessed July 10, 2006.
[5] "World Class Service," http://www.aboutmcdonalds.com/mcd/franchising/us_franchising/why_mcdonalds/world_class_service.html. Accessed September 17, 2010.
[6] Fuller, G., "The Burger Meister: McDonald's CEO Steve Easterbrook's View from the Top," Personnel Today, October 10, 2006. http://www.personneltoday.com/articles/2006/10/10/37557/the-burger-meister-mcdonalds-ceo-steve-easterbrooksview-from-the-top.html. Accessed September 17, 2010.