

# The Role of Human Resource Management in Business

## Learning Objectives

- 1 Explain how human resource management (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 Hofstede's five cultural dimensions and how they each might influence HRM in different cultures.
- 7 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.

HRM affects the performance of any business. Although some industries and businesses are more dependent than others on their talent to create a competitive advantage, it is difficult and perhaps impossible to identify a business in which talent does not matter.<sup>1</sup> As Thomas J. Watson, Jr., founder of IBM once said, "I believe the real difference between success and failure in a corporation can be very often traced to the question of how well the organization brings out the great energies and talents of its people."<sup>2</sup> Understanding the role of HRM in business will help you to identify which investments in HRM are likely to matter most.

Data consistently shows that people are one of the highest costs of running an organization, and strategic HRM positively affects business outcomes. For example, the market value of companies that use HRM best practices including selective recruiting, training, and employment security is more than 50 percent higher than that of firms that do not.<sup>3</sup> Many organizations could dramatically improve their business outcomes by investing in the strategic use of HRM, including:<sup>4</sup>

- Creating an HRM strategy that is integrated with the business strategy
- Using effective HRM metrics and analytics
- Ensuring that HRM employees have high levels of business knowledge and skill
- Delivering HRM services effectively and efficiently.

HRM influences business in both direct and indirect ways. In addition to acquiring and developing the skills and the capabilities the organization needs, aligning employee and organizational goals, and motivating employees to perform their best, HRM also influences the

environment in which work is done and how employees get their work done. Great companies often (and appropriately) credit their employees with their success. As Phil Knight, chairman of the board and co-founder of Nike explains, “It’s not a single product model, nor a single manager, nor one ad, nor a single celebrity, not even a single innovation that is key to Nike. It is the people of Nike and their unique and creative way of working together.”<sup>5</sup>

By reinforcing the values of the firm, HRM helps clarify for employees how they are to behave and make decisions. For example, why do you think employees in some companies act more socially responsible than do employees in other firms? Although certainly due in part to differences in the values of the employees, these differences are also driven by the expectations, rewards, goals, and feedback created by the HRM system through organizational culture. Hiring socially responsible people, rewarding employees for acting responsibly, and punishing or removing employees who do not support social responsibility strongly affects employees’ socially responsible behavior and decision making.

In this chapter, we begin by discussing the importance of organizational culture and how HRM supports different types of cultures. These topics are part of effective work processes in our book’s overall model of HRM. We then turn our attention to the importance of ethics and social responsibility and how HRM can reinforce both of these important values. We then discuss the role of HRM in creating high-performance work systems. These topics are part of effective work processes in our book’s overall model of HRM. The chapter ends with a discussion of how HRM supports organizational change and success in mergers and acquisitions. After reading this chapter, you should have a good idea of the variety of ways HRM systems and activities contribute to organizational effectiveness.

## Why Is Organizational Culture Important?

An organization’s culture is like its personality. **Organizational culture** is made up of the norms, values, and assumptions of organizational members. A company’s culture is reinforced by things such as logos, ceremonies, dress codes, and even office decorations and furniture placement. An organization’s culture guides employees’ attitudes and behaviors in the absence of formal policies or rules and creates the context for what they do. Culture is often defined more casually as “the way we see and do things around here” and is critical in aligning employees’ goals with those of the organization.

When asked for tips on building a strong company, Fred Wilson of venture capital fund Union Square Ventures stated that, “You have to start with culture, values, and a commitment to creating a fantastic workplace. You can’t fake these things. They have to come from the top. . . . They are everything.”<sup>6</sup> Research has found that a firm’s culture is positively related to important outcomes, including financial performance (Tobin’s Q and revenue growth), employee attitudes, and analysts’ stock recommendations.<sup>7</sup>

Business strategies can be reinforced or undermined by their fit with the firm’s culture.<sup>8</sup> Isadore Sharp, founder, chairman, and CEO of the Four Seasons hotels, states, “Personal service is not something you can dictate as a policy. It comes from the culture. How you treat your employees is how you expect them to treat the customer.”<sup>9</sup> Similarly, rigid, bureaucratic, rule-oriented cultures are much less likely to support creative new product innovation.

Four broad types of organizational culture are:<sup>10</sup>

- *Entrepreneurial*: Emphasizes creativity, innovation, and risk taking. Electronic Arts and IDEO are examples of companies with entrepreneurial cultures.
- *Bureaucratic*: Emphasizes formal structures and the correct implementation of organizational procedures, norms, and rules. This type of culture is commonly associated with consistency and high ethical standards. Pharmacies and drug manufacturers such as GlaxoSmithKline and Merck often adopt bureaucratic cultures.

- *Consensual*: Emphasizes loyalty and tradition, and encourages employees to stay with the organization for a long time. Promotion is generally from within. Law firms and the military are good examples of this type of culture.
- *Competitive*: Emphasizes competitive advantage and market superiority. Brokerage and currency trading firms are consistent with this type of culture, which often produce a large amount of stress.

Organizations frequently possess a combination of these four types of culture but with an emphasis on one over the others.<sup>11</sup> Another aspect of culture that is particularly related to organizational effectiveness is the degree to which it is focused on high performance. 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. Sports teams such as the New York Yankees and the Pittsburgh Steelers consistently excel because of their strong performance culture, as do restaurants that schedule their highest performing servers to their busiest shifts.

Understanding the power of its strong positive culture, insurer Aflac uses its corporate culture on the corporate careers section of its website to attract recruits:

Join a company that's been named to Fortune Magazine's "100 best Companies to Work For" 16 years in a row. As part of the Aflac team, you'll find yourself in a supportive work environment with an organizational culture that champions an open-door management philosophy, competitive salaries, excellent benefits, and more.<sup>12</sup>

The HRM system strongly influences employees' perceptions of the organization's culture. What type of culture do you think is reinforced by low pay, few benefits, little training, lots of rules, and fast punishment if you break them? Probably not Aflac's culture described above! Investing in establishing and maintaining a culture that supports the organization's goals and business strategy pays off. Customer satisfaction, customer service quality, financial performance, organizational effectiveness, and total quality management outcomes are influenced by employees' perceptions of culture.<sup>13</sup> 3M credits its success at regularly innovating new products to a culture "that stimulates ordinary people to produce extraordinary performances."<sup>14</sup>

Culture and HRM work together to influence employees' performance and behaviors. The HRM system has the most immediate effect on employees' behaviors because it formalizes the company's expectations through explicit goals and formal policies. In situations where formal policies don't exist, the organizational culture takes over. By reinforcing the desirability of certain values or behaviors, the HRM system helps to reinforce the organizational culture. This emphasizes the importance of aligning the HRM system, the organizational culture, and the business strategy.

A negative organizational culture can risk an organization's reputation and even its survival. When an Uber employee went public with reports of managers' misconduct, a movement started to delete their app, and their ability to recruit the top technology on which it is dependent likely decreased.<sup>15</sup> Because small culture failures ultimately lead to big culture crises, an important role of human resources is to monitor the culture and keep things in check. When the Uber employee reported her experience, she was told by both HR and upper management that "even though this was clearly sexual harassment, they wouldn't feel comfortable giving him anything other than a warning and a stern talking-to."<sup>16</sup> For her, HR was the only recourse she had to report managers' wrongdoings, and HR's failure to provide a safe environment in which she could report misconduct left her feeling unsupported and left with no choice but to either ignore the harassment or leave. Ultimately, Uber only addressed the issue because the employee went public with her story.<sup>17</sup> To many people, cultural issues of diversity, equity, and inclusion seem like "soft" issues, but it is becoming clear how important it is for companies

to incorporate these issues into their culture, which ultimately creates an environment where success is possible.<sup>18</sup>

A study of new accounting employees found that new hires stayed an average of 14 months longer in companies with people-oriented cultures.<sup>19</sup> Starbucks is a good example of a people-oriented culture. Starbucks pays above minimum wage, offers health care and tuition reimbursement benefits to part-time as well as full-time employees, and provides additional benefits such as weekly free coffee. These policies help Starbucks benefit from a turnover rate lower than the industry average.<sup>20</sup> On the other hand, a bureaucratic culture that stifled innovation and risk taking is thought to have contributed to Nokia's declining market share.<sup>21</sup>

An organizational culture can have a strong influence on behavior when employees develop a shared interpretation of the organization's policies, practices, procedures, and goals and develop shared perceptions about what behaviors are expected and rewarded. The more HRM practices send strong signals about what strategic goals are most important and what employee behaviors are expected, supported, and rewarded relative to those goals, the more likely it is that those goals will be achieved.<sup>22</sup> Companies can advertise hotlines and encourage employees to report anything improper, but if the culture has too much fear and not enough trust, no one will call. In some cases, these fears are warranted. Some employees who called the Wells Fargo ethics hotline to report unethical sales practices were fired despite it being against the law to suppress whistleblowing.<sup>23</sup>

Hollywood animation hit factory Pixar's culture is as strong as its technology. Pixar communicates and instills its culture through Pixar University, a unique training complex in which all employees learn together. Randy Nelson, Dean of Pixar University, states, "Most companies eventually come around to the idea that people are the most important thing. It's fine to have wildly talented individuals. But the real trick, the higher degree of difficulty, is to get wildly talented people to make productive partnerships."<sup>24</sup> He concludes that for Pixar the most urgent question is, "How do you do art as a team sport?"<sup>25</sup> Pixar's answer has been to build a culture supported by HRM that encourages people to share their works-in-progress and support coworkers. Pixar's president, Ed Catmull, believes that his calling is to create a sustainable creative culture that will persist in the company for a long time.<sup>26</sup> He even comes to all new hires' orientation sessions to reinforce its culture.<sup>27</sup>

A strong HRM system increases the chances that employees will perceive the organization similarly and identify the same culture.<sup>28</sup> A weak HRM system sends either mixed or ambiguous messages that are subject to individual interpretation. This leads to either variability in how the culture is interpreted or the interpretation of a culture other than the one the organization desires.<sup>29</sup> HRM influences organizational cultures by determining the type of person who is hired and fired, what is trained, what goals and expectations exist, what people are held accountable for, and who is rewarded. Volkswagen's "no failure" culture and climate of fear combined with the CEO's ambitious growth goals are blamed for its emissions-test scandal where it installed software to beat emissions tests by using phony data rather than fixing the problem.<sup>30</sup>

To maximize your satisfaction with your career, it is helpful to put as much thought into the industry and the organization in which you will work as you do into the work in which you will specialize. Some industries, including pharmaceuticals and chemical manufacturing, are inherently more formalized and bureaucratic due to extensive legal regulations. Other industries, including entertainment and advertising, are inherently more creative and informal. Understanding your preferences for different cultural features can help you choose the best fit for you. Here are some of the characteristics you might consider:

- A focus on competition versus cooperation
- Formal versus flexible procedures
- A focus on company success versus the public good

- Individual versus team-based rewards
- Well-defined versus flexible career paths
- A formal versus informal atmosphere
- Centralized versus decentralized decision making
- Clearly defined responsibilities versus varied responsibilities.

Employee and organizational preferences for different types of cultures tend to vary across national cultures.<sup>31</sup>

Because it guides employee attitudes and behaviors, organizational culture is essential to the establishment of corporate ethics and corporate social responsibility. We now turn our attention to how HRM can reinforce both values.

## What Is the Role of HRM in High-Performance Work Systems?

Companies that implement **high-performance work systems** (HPWS) utilize a fundamentally different approach to managing than do more traditional hierarchical and bureaucratic organizations. HPWS, sometimes known as *high-involvement* or *high-commitment* organizations, enable high performance through employees. HPWS organizations should be structured so that individuals at the lowest level in the organization not only perform work but also are responsible for improving work methods and procedures, solving problems on the job, and coordinating their work with that of others. Employees also can and should be expected to operate without a controlling supervisor.<sup>32</sup>

In 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. Because employees in HPWS identify with, are committed to, and fully participate in the organization, they give greater effort and are more effective than workers in control-oriented organizations.<sup>33</sup> Research has, in fact, found that using a wide variety of power-sharing, reward, information-sharing, and training practices has positive outcomes.<sup>34</sup> Noted management scholar Jeffrey Pfeffer concluded that, “Substantial gains, on the order of 40 percent or so in most of the studies reviewed, can be obtained by implementing high performance management practices.”<sup>35</sup>

In his book *The Human Equation*,<sup>36</sup> Pfeffer identified seven elements of HPWS:

1. Employment security
2. Selective hiring of new talent
3. Self-managed teams and decentralization of decision making as the basic principles of organizational design
4. Comparatively high compensation contingent on organizational performance.
5. Extensive training
6. Reduced status distinctions and barriers, including dress, language, office arrangements, and wage differences across levels
7. Extensive sharing of financial and performance information throughout the organization.

The particular set of managerial and HRM practices supporting a HPWS varies across companies, but it must always be internally consistent and reinforcing.<sup>37</sup> Employees in a high-involvement organization feel responsible for its success because they know more, do more, and contribute more.<sup>38</sup> They have the power, information, knowledge, and rewards to perform at the highest level.<sup>39</sup> Among the successful companies making use of this approach are Men’s Wearhouse, Southwest Airlines, and Virgin Atlantic Airways.<sup>40</sup>

## table 2.1

### Benefits of HPWS

Employee Benefits
Greater personal development
Higher work engagement, satisfaction, and commitment
Greater involvement in organizational decisions
Higher quality of life
Higher self-esteem
Organization Benefits
Higher productivity
Greater flexibility and competitiveness
Higher customer satisfaction
Higher product quality
Lower turnover

Although some employees find the increased responsibility of HPWS to be stressful, many are motivated by it. The benefits of HPWS to employees and to the organization are summarized in Table 2.1.

Aligning HRM activities and policies with the goals and processes that support HPWS is particularly important because HPWSs require a heavy investment in employees that is lost if the firm cannot attract and retain quality people.<sup>41</sup> This is a core theme that runs throughout this book: the most effective HRM systems are *internally aligned* and are *targeted toward clear organizational objectives*.

## 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. Honesty, tolerance, and responsibility are basic moral values that guide ethical evaluations. Although it might seem intuitive that firms should behave ethically, a glance at the news headlines often suggests that unethical behavior is more common than you might think. Bernie Madoff's Ponzi scheme defrauded investors of tens of billions of dollars and was called, "extraordinarily evil" by the judge handling the case.<sup>42</sup> Fertilizer producer Intrepid Potash's Chief Operating Officer Patrick L. Avery resigned after confirming that he didn't receive previously claimed degrees.<sup>43</sup> Corporate espionage by the Formula One racing team McLaren on rival Ferrari,<sup>44</sup> unsanitary manufacturing conditions in a ConAgra peanut manufacturing plant,<sup>45</sup> and the intentional contamination of baby formula and pet food with melamine<sup>46</sup> are just a few additional high-profile ethical lapses. When ethical lapses occur, as happened during the U.S. Secret Service agents' misconduct in Columbia, a "culture problem" is often blamed.<sup>47</sup> HRM professionals are uniquely positioned to build and reinforce an ethical culture because their role in hiring, training, evaluating, and rewarding employees allows them to influence ethical values and practices at all levels of an organization.<sup>48</sup>

## figure 2.1

A Formula for Ethical Behavior



It is important to remember that “unethical” is not always the same as “illegal.” Some unethical behaviors can be acceptable under the law. This makes it critical that organizations proactively identify their ethical values and reinforce these values with their employees. As shown in Figure 2.1, ethical employee behavior results from ethical values, clear expectations, and rewards and punishments supporting ethical behavior.<sup>49</sup>

The challenge of managing workplace ethics is complicated by the diverse values of today’s global workforce. Because some people feel that the business ethics message of “do the right thing” only states the obvious, they don’t take business ethics seriously. For many others, ethical principles go right out the door when they are highly stressed.<sup>50</sup>

How can we tell if an action is unethical? There are five different types of ethical standards that help us evaluate the ethics of an action:

1. The **utilitarian standard**: The ethical action best balances good over harm by doing the most good or doing the least harm. When Southwest Airlines cuts all employees’ pay rather than laying anyone off, it is following a utilitarian standard.
2. The **rights standard**: The ethical action is the one that best 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. If a supervisor tells an employee to handle a toxic substance without appropriate protective gear, the employee has a right to refuse.
3. The **fairness standard**: The ethical action treats all people equally, or at least fairly, based on some defensible standard. The fairness standard is central in the debate over the appropriateness of CEO salaries and bonuses that are hundreds of times larger than the pay of the average employee.
4. The **common good standard**: The ethical action shows respect and compassion for everyone, especially the most vulnerable. Ensuring that suppliers do not employ child labor or provide unsafe working conditions is an example of applying the common good standard.
5. The **virtue standard**: The ethical action is consistent with certain ideal virtues including civility, compassion, and benevolence. This standard asks, “Is this action consistent with my behaving at my best?” A company valuing honesty quickly recalling products that might be defective or dangerous reflects the virtue standard.

These five different types of ethical standards sometimes suggest different actions in a given situation. Different people may even disagree on the execution of some of the approaches or support different ethical standards. Nonetheless, each ethical standard provides guidance in evaluating the ethics of a situation or decision.

Some unethical behaviors occur because some people are simply less ethical than others,<sup>51</sup> 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. There are three types of systemic errors organizations often make that undermine their ethics efforts:<sup>52</sup>

1. *Omission errors*—a lack of written rules
2. *Remission errors*—pressure to make unethical choices
3. *Commission errors*—a failure to follow sound, established operational and ethical practices.

All three of these errors can have obvious negative consequences. One of the strongest predictors of unethical behavior is the employee's emphasis on self-gain. In fact, the factor most likely to cause an employee to compromise an organization's ethical standards is the pressure to meet unrealistic business objectives or deadlines.<sup>53</sup>

You are probably already familiar with the moral benefits of attending to ethics. Additional benefits from managing corporate ethics include:<sup>54</sup>

- Promoting a strong public image
- Substantially improving society
- Helping to manage change
- Cultivating teamwork and productivity
- Supporting employee growth
- Helping to ensure that policies are legal
- Helping to avoid criminal acts on the part of employees
- Helping to manage employee values associated with quality management, strategic planning and diversity management.

Ethical employee behavior determines short-term organizational performance and long-term organizational success. If employees do not consistently behave ethically, long-term sustainability is unlikely for any organization. As management experts Wayne Cascio and Peter Cappelli state, "Ethics, values, and strong organizational cultures are the very fabric of business."<sup>55</sup> Despite the obvious problems that can result from unethical employee behavior, most organizations do not have a comprehensive ethics and compliance program.

In addition to the ethical challenges facing all managers, HRM has its own ethical issues. Some common ethical issues in HRM are described in Table 2.2.

HRM promotes ethics by hiring ethical employees, setting clear goals for ethical behavior, training employees in recognizing ethics issues and properly handling ethical situations, and holding employees accountable for ethical behavior. To guide ethical behavior, organizations frequently adopt a code of conduct or a code of ethics to clarify what is and what is not acceptable.

## table 2.2

### Common Ethical Issues in HRM

**Privacy Issues:** Keeping employees' and applicants' personal and medical information private; deciding on the appropriate use of employee surveillance (including via e-mail and video cameras); maintaining confidentiality.

**Staffing:** Handling pressure to hire a friend or family member; dealing with employees found to have faked their credentials during the hiring process; avoiding illegal discrimination.

**Layoffs and Downsizings:** Managing employee separations fairly and equitably.

**Rewards:** Responding to pressure to classify a person into a job grade higher than they deserve in order to give them a raise; responding to pressure to give executives more generous incentives or benefits than is necessary; paying fair wages.

**Safety:** Deciding how to handle bullying; creating and enforcing safety and health policies; managing work stress and employee wellness.

**Performance Appraisal:** Ensuring objectivity and fairness; avoiding the use of nonperformance factors in the performance evaluation.

**Labor Practices:** Using child labor; limiting working hours; exploiting workers; respecting human rights.



### table 2.3

#### How HRM Can Support Corporate Ethics

- Hire employees likely to behave ethically.
- Train employees how to recognize and handle different ethical situations.
- Implement a company code of conduct, and make all employees accountable for following it.
- Include ethics information in regular company communications to reinforce its importance.
- Promptly remove employees involved in unethical behavior or decision making.
- Create a reward program that reinforces ethical behavior.
- Develop a support system that helps employees make the right decisions and anonymously report others' unethical behavior.

### Codes of Conduct and Codes of Ethics

**Codes of conduct** specify expected and prohibited actions in the workplace and give examples of appropriate behavior. A **code of ethics** is a decision-making guide that describes the highest values to which an organization aspires. It specifies the company's ethical rules regarding what employees should and should not do. Companies maintaining high-quality codes of conduct are more likely to be ranked higher on corporate citizenship, ethical behavior, sustainability, and public perception.<sup>56</sup>

Relying solely on a code of conduct to manage ethical behavior in the workplace is not enough. Companies must also treat employees fairly, align HRM systems to promote ethical behavior, and hire and promote ethical leaders at all levels of the company who reinforce the values behind the code. A clear system of reward and punishment is particularly important in establishing an ethical culture. Effective managers both reward ethical behavior and respond quickly to ethical violations. Table 2.3 highlights some of the ways HRM can support corporate ethics.

### How Does HRM Influence Corporate Ethics?

According to the Federal Sentencing Guidelines for Organizations, six basic elements are important to a complete ethics and compliance program.<sup>57</sup> Note how many of these are the responsibility of the HRM function:

1. Written standards for ethical conduct
2. Ethics training
3. Providing a way for seeking ethics-related advice or information
4. Providing a mechanism for anonymously reporting misconduct
5. Disciplining employees who violate the law or the standards of the organization
6. Evaluating ethical behavior as part of an employee's regular performance appraisals.

We will regularly discuss the role of ethics in HRM throughout this book.

### How Does HRM Influence Corporate Social Responsibility?

**Corporate social responsibility** happens when businesses show concern for the common good and value human dignity. This can include philanthropy and social initiatives such as giving employees paid time off to engage in community service projects. Corporate social responsibility can also involve hiring diverse employees, protecting employees on the job, protecting the environment, and making safe products.

In the area of social responsibility, eco-friendly candle company Altered Seasons provides a meal to an American in need through Feeding America for every candle it sells.<sup>58</sup> Rather than offering money or prizes to survey takers, SurveyMonkey donates 50 cents per completed survey to the taker's charity of choice, including the Humane Society, Boys & Girls Club of America, and Teach for America.<sup>59</sup> Hotelier Marriott International replaced plastic and paper containers in its cafeteria with real plates and compostable, potato-based containers called SpudWare. Marriott employees also receive thermoses to eliminate paper cups and can trade in burnt-out regular light bulbs from home or work for compact fluorescents. Green ambassadors throughout the company spread the word on shutting off lights and electronics, printing double-sided, and forgoing paper whenever possible.<sup>60</sup>

Some organizations blend their social responsibility initiatives with employee development activities. Mars Chocolate's Mars Ambassador Program allows employees to spend up to six weeks on projects run by one of the company's partner organizations, such as the World Wildlife Federation, or on projects initiated in partnership with local sites and communities. The projects allow employees to share their professional or technical expertise to enhance their partners' capabilities and improve employees' understanding of the communities that support the business.<sup>61</sup>

How an employer treats its employees is an important part of corporate social responsibility.<sup>62</sup> Organizations are increasingly interested in balancing their financial performance with their employees' quality of life and improving the local community and broader society. One expert defined corporate social responsibility this way: "Regardless of how many people with whom you come in contact, every one of them should be better off for having known you and your company."<sup>63</sup>

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. The stakeholder perspective puts responsibility above shareholder value or profitability. Ethical behavior and social responsibility are increasingly seen as the appropriate ways of managing and conducting business. Environmental issues, ethics, employee and product safety, and corporate governance are the four primary categories that encompass corporate social responsibility.

Can socially responsible behavior also help a company? In fact, it can help a firm attract the best talent,<sup>64</sup> and customers are increasingly patronizing companies that do the right thing. As Walter J. Cleaver, President and CEO of the Human Resource Planning Society puts it, "Sustainability is not just looking at the short term; it's building for the long haul. A lot of companies are looking at the financial, social and environmental impact of what they do. Starbucks pays more for coffee beans because it donates a certain amount to the farmers and schools (of a foreign country) so they can keep a good supply source. A company's long-term existence is in many ways connected to how the public perceives it in terms of values."<sup>65</sup>

Socially responsible business practices are becoming a core part of how many organizations do business. Nonetheless, some people still believe that companies and their managers should focus solely on stockholders' interests. Others believe that because business is an influential element of society it has a duty to help solve public problems. Social responsibility supporters also believe that ethical and socially responsible behavior is more rational and more profitable, and, therefore, it is essential for organizational effectiveness.<sup>66</sup>

So how are organizations using HRM to support corporate social responsibility? Human rights are increasingly being incorporated into HR vision, mission, and values statements. Starbucks Coffee's Global Human Rights Statement states, "Starbucks Global Human Rights Policy emphasizes Starbucks commitment to basic human rights as a core component of the way Starbucks does business and how Starbucks engages its employees."<sup>67</sup> Corporate social responsibility is also increasingly included as a factor in performance evaluations and merit pay increases. 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.

## table 2.4

Examples of Socially Responsible HRM Practices

- Workplace diversity
- Favorable working conditions
- Nonexploitation of workers, including discrimination and harassment
- Work-life balance initiatives
- Community volunteerism and charitable giving programs

To be lasting, social responsibility efforts must be integrated into the culture of the organization. Accordingly, corporate social responsibility has the biggest impact when it is integrated with HRM. HRM's threefold role in corporate social responsibility includes making sure people management practices are ethical, giving employees the right support and training to embed corporate responsibility in their behaviors, and embedding ethics into the organizational culture.<sup>68</sup> Serving stockholders as well as the larger population of stakeholders, which includes workers, customers, the community, and even our planet, are not mutually exclusive.

Table 2.4 highlights some of the socially responsible HRM programs and policies being implemented by U.S. corporations.

Employee participation in social responsibility initiatives can motivate employees and generate some good ideas. When a printing company set a goal to reduce its waste by 20 percent over five years, its executive team naturally focused on streamlining its printing operations to reduce paper waste. A receptionist pointed out that the number of individual lunches delivered to the office every day created a significant amount of food packaging waste. By investing in a small café and encouraging employees to eat a buffet-style lunch, the printer reduced twice as much waste as it did by streamlining its printing operations.<sup>69</sup>

The International Organization for Standardization (ISO), the world's largest developer and publisher of international standards,<sup>70</sup> has created a variety of standards that help organizations meet their environmental and social responsibility objectives. In addition to environmentally related standards such as sustainability and carbon emissions, the ISO publishes management standards including those for leadership, customer focus, involvement of people, and continual improvement.

Managers have a great deal of influence over the execution of corporate responsibility programs, and they need to be aware of any likely challenges to successful implementation. Some of the greatest obstacles to successful execution of corporate responsibility programs are:<sup>71</sup>

1. A focus on quarterly earnings or other short-term targets
2. The cost of implementation
3. Difficulty in measuring and quantifying return on investment
4. A nonsupportive corporate culture.

## How Does HRM Support Organizational Change?

Strategy implementation and strategic change often require large-scale organizational changes. Two of the largest changes are often the change to the new organizational culture and the installation of new employee behaviors. Some of the most common changes managed by HRM include:

1. New production processes
2. Opening a new location
3. Rolling out a new benefits program
4. Implementing a new human resource information system (HRIS) or upgrading the current HRIS system
5. Expanding international operations.

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Depending on the nature of a strategic change, some employees are likely to lack the willingness or even the ability to support a new strategy. 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. 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.

Imagine an organization currently manufacturing semiconductor chips. The competitive environment requires the organization to compete on cost, so it focuses on operational efficiencies to control expenses. The culture reinforces strict adherence to operating rules to help achieve these low-cost goals. What do you think would change if the organization adopts a new business strategy of designing new and innovative computer chips and outsourcing their production? The organization's focus would now change to innovation, problem solving, and collaboration. Managers would need to be trained and reinforced for doing less rule enforcement and more leading, motivating, and communicating. Intel went through this type of transformation in the early 1970s when it moved from being a producer of semiconductor memory chips to programmable microprocessor chips.

The HRM system supporting organizational change necessarily varies depending on the nature of the change.<sup>72</sup> It is essential to first identify the key goals of the change initiative and focus on these in developing new HRM practices and redesigning the HRM system. A variety of HRM initiatives are possible to support change. Lockheed Martin designed a cultural change management program around its core competencies of candid and open communication, taking personal action to remove obstacles to effective performance, and acting when a need exists rather than ignoring issues.<sup>73</sup>

One of the most important factors in successfully creating organizational change is the creation of a culture of trust.<sup>74</sup> There is a great deal of uncertainty before and during a change effort. Trust is the glue that keeps employees committed to the organization and focused on making the change effort successful. Because resistance to change is common when behavioral patterns need to be changed, clear communication and training, goals, feedback, and rewards linked to the new behaviors align employees' goals and behaviors with the new goals and needs of the organization. When quick, radical change is necessary, it may be appropriate to use coercion, but whenever possible, it is best to use more collaboration and consultation to promote engagement and commitment to the change.<sup>75</sup>

## Global HRM

Cultural differences can influence the appropriateness and the effectiveness of different HRM practices. Noted scholar Geert Hofstede performed thousands of interviews and substantial research on over 40 countries, ultimately identifying five dimensions that tend to distinguish cultures across countries.<sup>76</sup> Here is a description of each dimension and how it might affect HRM practices in different cultures:

1. **Power Distance:** **Power distance** is the amount of inequality that exists and that is accepted among people with and without power; higher power distance (e.g., Philippines, Guatemala, and Malaysia) is associated with more hierarchical companies that have large gaps in authority and compensation, while lower power distance (e.g., Austria, Israel, and Denmark) is reflected in flatter organizations in which employees and supervisors are considered and treated more equally.
2. **Individualism:** **Individualism** refers to the strength of the ties people have with others in their community. Higher individualism (e.g., United States, Australia, and New Zealand) is reflected in greater valuation of people's time and need for freedom with an emphasis on individual and extrinsic rewards, whereas lower individualism (e.g. Guatemala, Ecuador, and Bangladesh), is reflected in placing a high value on harmony rather than honesty with an emphasis on intrinsic and collective rewards.

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3. *Masculinity*: **Masculinity** refers to how much a society values and exhibits traditional male and female roles. In highly masculine cultures, men are expected to be assertive and be the sole provider for the family. Higher masculinity (e.g., Japan, Hungary, and Slovakia) is reflected in a distinction between men's work and women's work, while lower masculinity (e.g., Denmark, Sweden, and Norway) is reflected in equal employment opportunity, often supported with legislation.
4. *Uncertainty Avoidance*: **Uncertainty avoidance** reflects the degree of anxiety felt in uncertain or unfamiliar situations. Higher uncertainty avoidance (e.g., Greece, Portugal, and Uruguay) is associated with a need for structure and very formal and rule-driven business conduct, whereas lower uncertainty avoidance (e.g., Singapore, Jamaica, and Hong Kong) is associated with an informal business culture, greater acceptance of risk, and more concern with long-term performance than with daily events.
5. *Long-Term Orientation*: **Long-term orientation** reflects a focus on long-term planning, delivering on social obligations, and avoiding "losing face." A longer-term orientation (e.g., China and Taiwan) is reflected in a strong work ethic and placing high value on education and training, whereas a shorter-term orientation (e.g., West Africa and Canada) is characterized by higher individualism, creativity, and equality.

Understanding a society's culture can help you design more effective HRM systems. The desire to apply best practices from an organization's home country must be balanced with the need to adopt local HRM practices. Business locations in high uncertainty avoidance cultures may benefit from more detailed policies and plans, and HRM managers' leadership style may need to be more independent and achievement-oriented in more masculine cultures and more collaborative in more feminine cultures. Incentives should be individual or group based, depending on the local culture, and the time frame for incentives may need to be adjusted to match each culture's long- or short-term orientation.<sup>77</sup> In cultures with a shorter-term orientation, you can introduce changes more quickly and expect employees to be more innovative.<sup>78</sup>

It is important to remember that belonging to a particular culture or being from a particular country does not ensure that the culture describes a particular individual. Individuals from the same area or culture are not all the same, and cultural values can change over time.

One common stimulus to organizational change is a merger or acquisition. Let's briefly discuss the role of HRM during these events.

## HRM During Mergers and Acquisitions

Corporate mergers and acquisitions such as the one between Delta and Northwest Airlines or acquisitions such as Facebook's acquisitions of LiveRail and Oculus VR frequently make business headlines. Unfortunately, as many as 85 percent of mergers fail to accomplish their objectives, and the cost of failure can be enormous.<sup>79</sup> Culture mismatch is often blamed as a cause of the failure,<sup>80</sup> as was the case in the Daimler-Chrysler merger, as well as conflicts between managers coming from each firm.

Different HRM activities become important during different stages of a merger or acquisition.<sup>81</sup> During the due diligence phase, the cultures of both organizations need to be evaluated to determine their compatibility. Focusing on talent planning and retention efforts early in this phase is also a good idea. During the integration phase, deciding which employees will be retained and which will be separated and developing retention strategies for key employees becomes critical as well as the establishment of a common culture for the combined organization. During the post-close phase, stakeholder satisfaction is addressed, the new culture is strengthened, and employee development plans are developed and implemented.

Because cultural issues are a frequent reason for derailed mergers, it is important that HR managers assure that cultural issues are recognized and addressed before, during, and after the merger.<sup>82</sup> Through their behaviors and decisions to stay or leave the merged company, employees have an enormous impact on the ultimate success or failure of a merger or acquisition. In

some cases, companies are acquired because the acquiring company needs the talent and skills of the other company. If those key employees leave after the acquisition, the effort is futile.

Communication is critical to the success of a merger or acquisition,<sup>83</sup> and HRM must carefully manage the treatment of and impact on employees who are let go and on those who survive. HR can and should act as both a facilitator and a coach during the process.<sup>84</sup> In addition to deciding what skills and competencies the combined organization needs, HRM is also typically responsible for identifying which employees, if any, will be let go. It is important to identify and try to retain key performers at the acquired company. When Oracle launched its hostile takeover of PeopleSoft, many top executives and other employees left PeopleSoft.<sup>85</sup> Employee retention plans during a hostile takeover can include cash bonuses, raises, and promotions.

Let's next discuss how to assess different aspects of HRM.

## HRM Metrics

Metrics and measurements are essential in identifying where the HRM system can be improved and helping HRM best meet the needs of the organization and its stakeholders, including its employees.<sup>86</sup> Without meaningful data, it is difficult to make sound decisions in support of the business and strategic execution. Table 2.5 highlights some standard metrics organizations use to measure HRM performance.

table 2.5

### Common HRM Metrics

Metric	Definition
Absence rate	Number of employee absences/(average number of employees during the period X the number of workdays)
Cost per hire	Recruitment costs/(cost of compensation + benefits)
Customer service ratings	Average customer ratings of employee customer service performance
Engagement	Level of employee satisfaction or engagement with the company
Healthcare cost per employee	Total cost of employee health care/number of covered employees
Innovation	Percent of sales coming from products introduced in the last five years
Job offer acceptance rate	Number of job offers accepted/number of job offers extended
Percent of performance goals met or exceeded	Number of individual or group performance goals met or exceeded/total number of performance goals
Profit per employee	Profit/total number of employees
Return on investment (ROI)	[(value of a program or intervention's benefits - total cost)/total cost] X 100
Revenue per employee	Revenue/total number of employees
Tenure	Average years of service at the organization
Time to fill	Days to fill a position
Turnover rate	Number of employees leaving/average number of employees during the same period
Workers' compensation cost per employee	Total annual workers' compensation cost/average number of employees

It is not practical or necessary to measure every HRM activity. It is most important to identify and measure the HRM activities that contribute to business strategy execution and the organization's financial performance. Software exists to facilitate the data collection and calculation of HR metrics, including OrcaEyes' SonarVision and IBM's Cognos. By carefully mapping metrics to business goals and objectives, organizations can better identify their best recruiting sources and performers, select the best incentive systems, and align workforce skills with business objectives.

To be most effective, metrics should be tied to business goals, drive employee behaviors, and be tied to rewards. Metrics must be based on accurate data and should be used to guide decision making. Organizations pursuing a product differentiation strategy might track innovation indicators, whereas organizations pursuing a low-cost strategy might focus on efficiency indicators.<sup>87</sup>

## Summary and Application

Clearly, HRM can have a large influence on business performance and strategy execution through its effects on culture, ethics, and social responsibility. HRM activities play a strong role in high-performance work systems and in organizational change initiatives including mergers and acquisitions. Understanding a society's culture is important in designing effective HRM systems. Best practices from an organization's home country may not work in other cultures and must be balanced with the need to adopt local HRM practices.

Although it is rarely practical or necessary to measure every HRM activity or outcome, sound metrics and accurate data are essential to understanding where the HRM system can be improved. Without meaningful and accurate data, making sound HRM decisions is difficult to impossible.

In this chapter, you have learned how HRM influences organizations in both direct and indirect ways. In addition to acquiring and developing the appropriate talent, aligning employee and organizational goals, and motivating employees to perform their best, HRM influences the organizational culture and environment in which work is done. By reinforcing the values of the firm, HRM helps clarify for employees how they are to behave and make decisions.

Understanding the best fit between your ethics and social responsibility preferences and that of a potential employer, as well as understanding the fit between its culture and your values and preferred work styles, is critical in choosing a job and organization you will succeed in and enjoy. Because HRM systems create and reinforce these organizational characteristics, understanding your preferences can help you better manage your own career.

## Takeaway Points

1. By reinforcing the desirability of certain values or behaviors, the HRM system helps to reinforce the organizational culture.
2. HRM supports high-performance work systems through goals and processes that support employee participation, commitment, and identification with the organization. HRM practices promoting power-sharing, information-sharing, and training tend to best support HPWS.
3. There are five standards that help us evaluate the ethics of an action: Utilitarian, rights, fairness, common good, and virtue. The utilitarian standard strikes the best balance of good over harm. The rights standard best respects and protects the moral rights of everyone affected by the action. The fairness standard promotes the equal or at least fair treatment of everyone. The common good standard promotes respect and compassion for everyone. The virtue standard promotes consistency with ideal virtues including civility, compassion, and benevolence.
4. By setting direct expectations of employees and through their influence on corporate culture, HRM policies and practices promote both ethics and corporate social responsibility.
5. HRM supports organizational change by creating a culture of trust, managing employee resistance to change, and aligning employees' goals and behaviors with the new goals and needs of the organization.
6. Hofstede's five cultural dimensions are power distance, which reflects how much inequality exists and is accepted and influences preferences for hierarchy and how equally employees are treated; individualism, which reflects the strength of the ties people have with others in their community and influences whether individual or collective rewards are preferred; masculinity, which is the degree to which a society values and exhibits traditional male and female roles and affects equal employment opportunity; uncertainty avoidance, which involves the anxiety felt in uncertain or unfamiliar situations and is associated with culture formality, risk acceptance, and concern with long-term versus short-term performance; and long-term orientation, which reflects a focus on long-term planning, delivering on social obligations, and avoiding "losing face" and influences work ethic, the value placed on training and education, and creativity.
7. Through their behaviors and decisions to stay or leave the merged company, employees affect the success or failure of a merger or acquisition. To promote success, HR must carefully manage the treatment of and impact on employees who are let go and on those who survive. HR should act as both a facilitator and a coach during the merger process and objectively identify which employees, if any, need to be let go based on the combined organization's needs.

## 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 culture?
2. How can HRM support a performance culture? How could HRM undermine a performance culture?
3. Why do you think some employees act unethically? How could you use HRM to help address these causes and encourage more ethical behavior?



4. Do you consider ethics or social responsibility in evaluating prospective employers? What do you look for?
5. What type of business strategy do you think is most compatible with a high-performance work system? Why?
6. What type of business strategy do you think would be a poor fit with a high-performance work system? Why?
7. If you were assigned to work in another culture, how would you use Hofstede's cultural dimensions to be a more effective manager?
8. 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?

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