CHAPTER 1

STRATEGIC HUMAN RESOURCES MANAGEMENT

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Learning Objectives

After completing this chapter, you should be able to

- define strategic human resources management;
- outline key human resources functions;
- discuss the significance of human resources management to present and future healthcare executives; and
- describe the organizational and human resources systems that affect organizational outcomes.

Vignette

Jane Seers is the administrator of the Sunset Assisted Living Center in Orlando, Florida. Two years ago she brought her board members, medical staff, and top management team together to develop a new strategic plan for the organization. The new plan identified a series of goals and objectives in the areas of marketing, finance, and information systems. In addition, the organization set a goal of annual growth in resident census of 15 percent per year. The strategic planning group assumed human resources would be available to implement the plan as needed.

Now Jane has discovered that Sunset has not been able to recruit and retain adequate numbers of nurses and other allied health personnel needed to implement the strategic plan. She will now have to report to the board that the patient census goals have not been reached because of the organization's inability to adequately staff growth of the facility.

Introduction

The previous vignette illustrates a mistake many healthcare organizations make when they develop and attempt to implement their strategic business plan without consideration of human resources. Sunset failed to consider the crucial role of an adequate quantity and quality of human resources in the successful implementation of their business strategy.

Like most other service industries, the healthcare industry is labor-intensive. One reason for healthcare's reliance on an extensive workforce is that it is not possible to produce a service and then store it for later consumption. In healthcare, the production of the service that is purchased and the consumption of that service occur simultaneously. Thus, the interaction between healthcare consumers and healthcare providers is an integral part of the delivery of health services. Given the dependence on healthcare professionals to deliver service, the possibility of wide variations in service quality must be recognized within an employee (as skills and competencies change over time) and among employees (as different individuals or representatives of various professions provide a service).

The intensive use of labor and the variability in professional practice require that leaders in the healthcare field manage the performance of the people involved in the delivery of services. Effective management requires that healthcare executives understand the factors that influence the performance of their employees. These factors include the traditional **human resources management (HRM)** activities (i.e., recruitment and selection, training and development, appraisal, compensation, and employee relations) and the environmental and other organizational aspects that impinge on human resources (HR) activities.

Human resources management (HRM)
Includes formal human resource functions (recruitment, selection, training and development, appraisal, compensation, and employee relations) performed within the organization or external to it and more informal management of employees performed by all administrators.

Strategic Human Resources Management

Strategic human resources management (SHRM) is the comprehensive set of managerial activities and tasks related to developing and maintaining a qualified workforce. This workforce contributes to organizational effectiveness, as defined by the organization's strategic goals. SHRM occurs in a complex and dynamic environment within the organizational context. A significant trend today is for HR managers to adopt a strategic perspective of their job and to recognize critical links between organizational and HR strategies (Fottler, Khatri, and Savage 2010; Mathis and Jackson 2008; Pfeffer 2005).

This book explains methods for increasing the probability of hiring competent people and of those people ably performing needed tasks after hire. To implement these methods and practices, organizations must

- determine requirements for positions,
- recruit and select qualified people,

Strategic human resources management (SHRM)
The comprehensive set of managerial activities and tasks related to developing and maintaining a qualified workforce that contributes to organizational effectiveness, as defined by the organization's strategic goals.

- train and develop employees to meet future organizational needs, and
- provide adequate rewards to attract and retain top performers.

All of these functions must be managed within society's legal constraints—legislation, regulation, and court decisions.

This chapter emphasizes that HR functions are performed within the context of the overall activities of the organization. These functions are influenced or constrained by the environment, the organizational mission and strategies that are being pursued, and the systems indigenous to the institution.

Significance of SHRM

Why study SHRM? How does this topic relate to the career interests or aspirations of present or future healthcare executives? Staffing the organization, designing jobs, building teams, developing employee skills, identifying approaches to improve performance and customer service, and rewarding employee success are as relevant to line managers as they are to HR managers. A successful healthcare executive needs to understand human behavior, work with employees effectively, and be knowledgeable about numerous systems and practices available to put together a skilled and motivated workforce. The executive also has to be aware of economic, technological, social, and legal issues that affect human resources and, in turn, facilitate or constrain efforts to attain strategic objectives.

Healthcare executives do not want to hire the wrong person, experience high turnover, manage unmotivated employees, be taken to court for discrimination actions, be cited for unsafe practices, have their patients' satisfaction undermined by poorly trained staff, or commit unfair labor practices. Despite their best efforts, executives often fail at HRM because they hire the wrong people or do not motivate or develop their staff. You are likely to manage people at some point in your career in healthcare management. Research shows that the manner in which you conduct the human resource responsibilities of your management job—recruiting, selecting, training, evaluating, and rewarding—will be key to your effectiveness as a healthcare manager.

Healthcare organizations can gain a competitive advantage by effectively managing their human resources. This competitive advantage may be in the form of cost leadership (e.g., being a low-cost provider) or product differentiation (e.g., having high levels of service quality). A 1994 study examined the HRM practices and productivity levels of 968 organizations across 35 industries (Huselid 1994). The effectiveness of each organization's HRM practices was rated based on the presence of such benefits as incentive plans, employee grievance systems, formal performance appraisal systems, and employee participation in decision making. The study found that organizations with high HRM effectiveness ratings clearly outperformed those with low HRM rankings. A similar study of 293 publicly held companies reported that productivity was highly correlated with effective HRM practices (Huselid, Jackson, and Schuler 1997).

However, achieving a competitive advantage through human resources must be based on the unique combination of an organization's human capital, strategy, and core capabilities that differs from organization to organization (Becker and Huselid 2006). This means healthcare executives cannot simply rely on the benchmarks and strategies of others, even though these may be suggestive of better approaches to managing people. Instead, they must develop their own HR strategies. If they can successfully develop and implement these strategies, they may well achieve a sustained competitive advantage in their markets.

Collis and Montgomery (2008) maintain that organizations can achieve a sustainable competitive advantage through people if these conditions are met:

- The human resources are valuable because they improve the efficiency or effectiveness of the organization.
- The human resources are rare because employees' knowledge and skills are not equally available to competitors.
- The human resources are difficult to emulate and cannot be easily copied by others.
- The human resources are organized so that employee talents can be combined and deployed as needed at a moment's notice.

Organizations achieve competitive advantage through SHRM for these reasons:

- SHRM encourages proactive rather than reactive behavior.
- Company goals are communicated explicitly.
- Gaps between the current situation and a vision of the future are focused on.
- Line managers are involved in the human resources planning process.
- Human resource opportunities and constraints are identified in implementing strategic plans.

HR Best Practices

Based on "extensive reading of both popular and academic literature, talking with numerous executives in a variety of industries, and an application of common sense," Pfeffer (1998, 205) identifies in his book *The Human Equation* the seven HRM practices that enhance an organization's competitive advantage. These practices seem to be present in organizations that are effective in managing their human resources, and they recur in studies of high-performing organizations. In addition, these themes are interrelated and mutually reinforcing; it is difficult to achieve positive results by implementing just one practice on its own.

See Exhibit 1.1 for a list of the seven HRM themes relevant to healthcare. While these HR practices generally have a positive impact on organizational performance, their relative effectiveness may also vary depending on their alignment with each other and with the organizational mission, values, culture, strategies, goals, and objectives (Ford et al. 2006).

Certain HR practices are associated with excellent organization performance (Lepack et al. 2007). It is extraordinarily difficult to prove whether high organization performance leads to excellent HR practices or whether good HR practices cause better organization performance (Wright et al. 2005). However, it seems reasonable that organizations should consider implementation of HR practices associated with the best-performing organizations.

The bad news about achieving competitive advantage through the workforce is that it takes time to accomplish (Pfeffer 1998). The good news is that, once achieved, such competitive advantage is likely to be more enduring and harder for competitors to duplicate. Measurement is a crucial component for implementing the seven HR practices listed in Exhibit 1.1. Failure to evaluate the impact of HR practices dooms these practices to second-class status, neglect, and potential breakdown. Feedback from such measurement is essential to development of, changes to, and monitoring of each practice.

Most of these HR practices are described in more detail throughout the book. Although the evidence presented in the literature shows that effective HRM practices can strongly enhance an organization's competitive advantage, it fails to indicate why these practices have such an influence. In this chapter, we describe a model—the SHRM—that attempts to explain this phenomenon.

The SHRM Model

A strategic approach to human resources management includes the following (Fottler et al. 1999; Bohlander and Snell 2010).

- Assessing the organization's environment and mission
- Formulating the organization's business strategy
- Identifying HR requirements based on the business strategy
- Comparing the current HR inventory—numbers, characteristics, and practices—with future strategic requirements

Exhibit 1.1
Seven HRM Practices for Effective Healthcare Organizations

1. *Provide employment security.* Employees can be fired if they do not perform, but they should not be put on the street quickly because of economic downturns or strategic errors by senior management over which employees have no control. An example that Pfeffer frequently cites is Southwest Airlines, which sees job security as a vital tool for building employee partnership and argues that short-term layoffs would "put our best assets, our people, in the arms of the competition."
2. *Use different criteria to select personnel.* Companies should screen for cultural fit and attitude rather than just for skills that new employees can easily acquire through training.
3. *Use self-managed teams and decentralization as basic elements of organizational design.* Teams can substitute peer-based control of work for hierarchical control, eliminating management layers.
4. *Offer high compensation contingent on organizational performance.* High pay can produce economic success, as illustrated by the story of Pathmark. This large grocery store chain had three months to turn the company around or go bust. The new boss increased the salaries of his store managers by 40 to 50 percent, enabling managers to concentrate on improving performance rather than complaining about their pay.
5. *Train extensively.* Pfeffer notes that this activity "begs for some sort of return-on-investment calculations" but concludes that such analyses are difficult, if not impossible, to carry out. Successful companies that emphasize training do so almost as a matter of faith.
6. *Reduce status distinctions and barriers.* These include dress, language, office arrangements, parking, and wage differentials.
7. *Share financial and performance information.* The chief executive officer of Whole Foods Market has said that a high-trust organization "can't have secrets." His company shares salary information with every employee who is interested.

SOURCE: Adapted from Pfeffer (1998).

- Developing an HR strategy based on the differences between the current inventory and future requirements
- Implementing the appropriate HR practices to reinforce the business strategy and to attain competitive advantage

Changes in the external and internal environments have a direct impact on how organizations are run and people are managed. Some external changes represent opportunities for the organization and others represent threats. Environmental scanning is the systematic monitoring of major environmental forces impacting the organization. Internally, changes may also occur in terms of the organization's strengths and weaknesses as leadership, culture, and organizational capabilities change.

The organization's mission, vision, and values must also be assessed in order to determine an appropriate business strategy. Examples include being a low-cost provider or differentiating the organization based on a unique service or outstanding customer services. Once the business strategy has been determined, the organization must develop an HR strategy that will reinforce the business strategy by making sure that human resources are available in the right numbers, with the right skills, and at the right time to implement the formulated business strategy.

An HR strategy refers to a company's deliberate use of HR to gain or maintain an edge against its competitors (Ulrich, Youger, and Brockband 2008). Recently, organizations have been paying more attention to strategy implementation and execution (Kaplan 2007; Neilson, Martin, and Power 2008). Human resource management is instrumental in strategy implementation.

SHRM has not been given as high a priority in healthcare as it has received in many other fields. This neglect is particularly surprising in a labor-intensive field that requires the right people to be in the right jobs at the right times and that often suffers staffing shortages. In addition, the literature in the field offers fairly strong evidence that organizations that use more progressive HR approaches achieve significantly better financial results than do comparable, although less progressive, organizations (Huselid 1994; Huselid, Jackson, and Schuler 1997).

Exhibit 1.2 illustrates some strategic HR trends that affect job analysis and planning, staffing, training and development, performance appraisal, compensation, employee rights and discipline, and employee and labor relations. These trends are discussed in more detail in later chapters. The key point of Exhibit 1.2 is that organizations are moving to higher levels of flexibility, collaboration, decentralization, and team orientation.

The SHRM Process

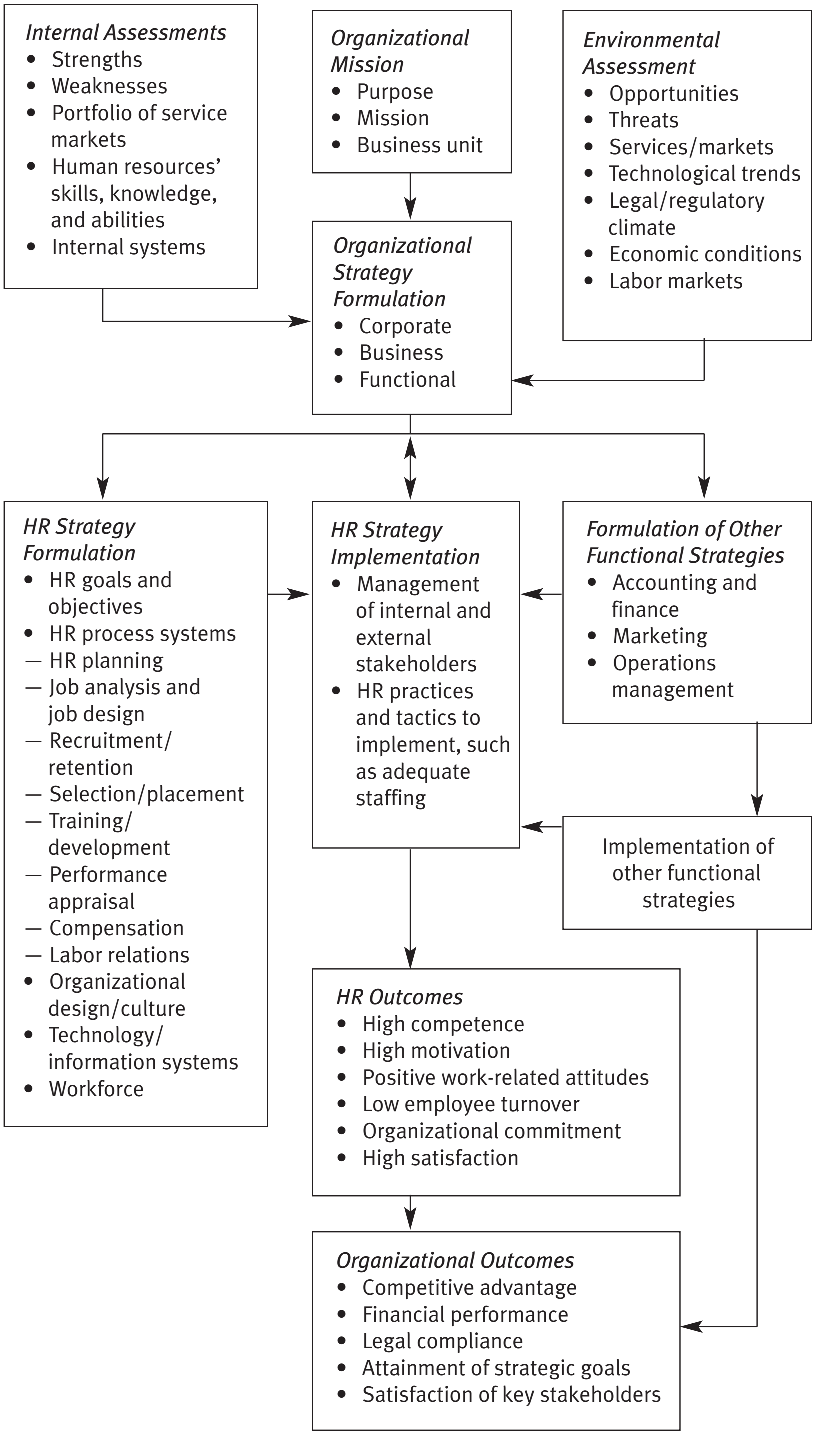
As illustrated in Exhibit 1.3, a healthcare organization is made up of systems that require constant interaction within the environment. To remain viable, an organization must extend its strategic planning and thinking to external changes, because the internal components of the organization are affected by these changes.

The characteristics, performance levels, and alignment in operating practices among these systems improve organizational and employee performance. HR goals, objectives, process systems, culture, technology, and workforce must be aligned with each other (internal alignment) and with various levels of organizational strategies (external alignment) (Ford et al. 2006).

Exhibit 1.2
Strategic Human Resources Trends

Old HR Practices	*Current HR Practices*
Job Analysis/Planning	
Explicit job descriptions	Broad job classes
Detailed HR planning	Loose work planning
Detailed controls	Flexibility
Efficiency	Innovation
Staffing	
Supervisors make hiring decisions	Team makes hiring decisions
Emphasis on candidate's technical qualifications	Emphasis on fit of applicant within the culture
Layoffs	Incentives to retire voluntarily
Letting laid-off workers fend for themselves	Providing continued support to terminated employees
Training and Development	
Individual training	Team-based training
Job-specific training	Generic training emphasizing flexibility
"Buy" skills by hiring experienced workers	"Make" skills by training less-skilled workers
Organization responsible for career development	Employee responsible for career development
Performance Appraisal	
Uniform appraisal procedures	Customized appraisals
Control-oriented appraisals	Developmental appraisals
Supervisor input only	Appraisals with multiple inputs
Compensation	
Seniority	Performance-based pay
Centralized pay decisions	Decentralized pay decisions
Fixed fringe benefits	Flexible fringe benefits (cafeteria approach)
Employee Rights and Discipline	
Emphasis on employer protection	Emphasis on employee protection
Informal ethical standards	Explicit ethical codes and enforcement procedures
Emphasis on discipline to reduce mistakes	Emphasis on prevention to reduce mistakes
Employee and Labor Relations	
Top-down communication	Bottom-up communication and feedback
Adversarial approach	Collaboration approach
Preventive labor relations	Employee freedom of choice

EXHIBIT 1.3
Strategic Human Resources Management Model



Internal and External Environmental Assessment

Environmental assessment is a crucial element of SHRM. Changes in the legal and regulatory climate, economic conditions, and labor market realities mean healthcare organizations face constantly changing opportunities and threats. These opportunities and threats make particular services or markets more or less attractive.

Environmental assessment
A crucial element of SHRM in which an organization reviews the changes in the legal and regulatory climate, economic conditions, and labor market realities to understand current opportunities and threats.

Among the trends currently affecting the healthcare environment are increasing workforce diversity, aging of the workforce, labor shortages, changing worker values and attitudes, and advances in technology. Healthcare executives have responded to these external environmental pressures through various internal structural changes, including developing network structures, joining healthcare systems, participating in mergers and acquisitions, forming work teams, implementing continuous quality improvement, allowing telecommuting, leasing employees, outsourcing work, using additional temporary or contingent workers, and implementing medical tourism. In addition to assessing their organizational strengths and weaknesses, healthcare executives need to assess their internal systems; their human resources' skills, knowledge, and abilities; and their portfolio of service markets. Managers should develop HR policies and practices that are closely related to, influenced by, and supportive of the strategic goals and plans of their organization.

Organizations, either explicitly or implicitly, pursue a strategy in their operations. Deciding on a strategy involves determining the products or services that will be created and the markets to which the chosen services will be offered. Once the selections are made, the methods to compete in the chosen market must be identified from among the available or potential internal resources.

As shown in Exhibit 1.3, strategies should consider environmental conditions and organizational capabilities. To take advantage of opportunities and circumvent threats managers must have detailed knowledge of the current and future operating environment. Knowing internal strengths and weaknesses allows managers to develop plans based on an accurate assessment of the organization's ability to perform as desired in the marketplace.

Exhibit 1.3 indicates that the SHRM process starts with the identification of the organization's purpose, mission, and business unit, as defined by the board of directors and the senior management team. The process ends with HR serving as a strategic partner to the operating departments. Under this new view of human resources management, the HR manager's job is to help operating managers achieve their strategic goals by serving as the expert in all employment-related activities and issues.

Purpose
An organization's basic reason for existence.

Mission
A statement created by an organization's board and senior managers specifying how the organization intends to manage itself to most effectively fulfill its purpose.

Organizational Mission and Corporate Strategy

An organization's **purpose** is its basic reason for existence. The purpose of a hospital may be to deliver high-quality clinical care to the population in a given service area. An organization's **mission**, created by its board and senior managers, specifies how the organization intends to manage itself to most effectively fulfill its purpose. The mission

SWOT analysis
Analysis of the organization's strengths, weaknesses, opportunities, and threats.

Corporate strategy
A set of strategic alternatives from which an organization chooses as it manages its operations simultaneously across several industries and markets.

Business strategy
A set of strategic alternatives from which an organization chooses to most effectively compete in a particular industry or market.

Functional strategies
Strategies that consider how the organization will manage each of its major functions, such as marketing, finance, and human resources.

Staffing strategy
A set of activities used by an organization to determine its future HR needs, recruit qualified applicants with an interest in the organization, and select the best of those applicants as new employees.

statement often provides subtle clues about the importance the organization places on its human resources.

The first step in formulating a corporate and business strategy is doing an analysis of the organization's strengths, weaknesses, opportunities, and threats—a **SWOT analysis**. The managers then attempt to use the organization's strengths to capitalize on environmental opportunities and cope with environmental threats. Human resources play a fundamental role in SWOT analysis because the employees' skills and the organization's ability to attract new talent represent significant strengths and weaknesses.

Most organizations formulate strategy at three basic levels: corporate, business, and functional. **Corporate strategy** is a set of strategic alternatives from which an organization chooses as it manages its operations simultaneously across several industries and markets. **Business strategy** is a set of strategic alternatives from which an organization chooses to most effectively compete in a particular industry or market. **Functional strategies** consider how the organization will manage each of its major functions, such as marketing, finance, and human resources.

A key challenge for HR managers in organizations using a corporate growth strategy is recruiting and training the many qualified employees needed to provide services in added operations. New-hire training programs may also be needed to orient and update the skills of incoming employees. When HR is a true strategic partner, all organizational parties consult with and support one another.

HR Strategy Formulation and Implementation

Once the organization's corporate and business strategies have been determined, managers can develop an HR strategy. This strategy commonly includes a staffing strategy (planning, recruitment, selection, and placement), a developmental strategy (performance management, training, development, and career planning), and a compensation strategy (salary structure and employee incentives).

A **staffing strategy** is a set of activities used by the organization to determine its future HR needs, recruit qualified applicants with an interest in the organization, and select the best of those applicants as new employees. This strategy should be put into place only after a careful and systematic development of the corporate and business strategies so that staffing activities mesh with other strategic elements. For example, if a reduction of force is part of the business strategy, the staffing strategy will focus on determining which employees to retain and how to terminate the others.

A **developmental strategy** helps the organization enhance the quality of its human resources. For example, if the organization wishes to differentiate itself from competitors through customer focus and service quality, it will need to invest heavily in training its employees to provide the highest-quality service and to ensure that performance management focuses on measuring, recognizing, and rewarding performance—all of which lead to high service quality. Alternatively, if the business strategy is to be a leader in providing low-cost services, the developmental strategy may focus on training to enhance productivity to keep overall costs low.

Developmental strategy
Methods that facilitate the enhancement of an organization's human resources' quality. Must be consistent with corporate and business strategies.

A **compensation strategy** must also complement the organization's other strategies. For example, if the organization is pursuing a strategy of related diversification, its compensation strategy must be geared toward rewarding employees whose skills allow them to move from the original business to related businesses—for example, inpatient care to home health care. The organization may choose to pay a premium to highly talented individuals who have skills that are relevant to one of its new businesses.

Compensation strategy
The set of rewards that organizations provide to staff in exchange for their performance of various organizational tasks and jobs.

Finally, **workforce composition** and trends also affect HR strategy formulation and implementation. The American workforce has diversified in numerous ways. It has more women, older employees, Latinos, Asians, African Americans, foreign-born workers, people with disabilities, single parents, gay and lesbian individuals, and people with special dietary preferences. During the twentieth century, most employers observed a fairly predictable employee pattern: people entered the workforce while young, maintained stable employment for many years, and retired at the usual age—at or around age 65. This pattern has changed and continues to evolve as a result of demographic factors, improved health, and the abolition of mandatory retirement.

Workforce composition
The demographics of the workforce, including factors such as gender, age, ethnicity, marital status, and disability status.

The HR strategy implementation requires motivational and communication processes, goal setting, and leadership. Specific practices or tactics, such as training, are also necessary to implement the HR strategy. Methods for implementation also need to be chosen. For example, should the training be provided in-house or externally? How will each employee's success in applying the principles learned be measured and rewarded? The answers to such questions provide the specific tactics needed to implement the HR strategy.

HR Outcomes and Performance

An organization should provide its workforce with job security, meaningful work, safe conditions of employment, equitable financial compensation, and a satisfactory quality of work life. Organizations cannot attract and retain the number, type, and quality of professionals required to deliver quality health services if the internal work environment is unattractive. Employees are a valuable stakeholder group whose concerns are important because of the complexity of the service they provide. Job satisfaction, commitment to the organization, motivation, level of job stress, and other constructs can be used as measures of employee attitude and psychological condition.

Measuring the HR Function

HR metrics
Measures of HR outcomes and performance.

HR metrics are measures of HR outcomes and performance. Part of HR's role as a strategic business partner is to measure the effectiveness of both the HR function as a whole and the various HR tasks. More recently, HR is under some scrutiny, as management and other areas of the organization inquire how various HR activities contribute to performance outcomes (Fottler, Erickson, and Rivers, 2006; Greer 2005a). Specifically, the questions often focus on the return on investment (ROI) of HR activities.

Human capital metrics determine how HR activities contribute to the organization's bottom line (Greer 2005b). Some employers gather data on the ROI of various recruitment sources, such as print advertising, Internet advertising, college recruitment, internal transfers, and career fairs (Garvey 2005). Other employers track productivity using cost metrics such as the time to fill positions, the percentage of diverse candidates hired, interview-to-offer ratios, offer-to-acceptance ratios, hiring manager satisfaction, new hire satisfaction, cost per hire, headcount ratios, turnover costs, financial benefits of employee retention, and the ROI of training (Garvey 2005; Schneider 2006).

Such metrics relate to specific HR activities, but the overall contribution of the HR function to organizational performance and outcomes should also be measured. The HR scorecard is one method to measure this contribution. This tool is basically a modified version of the balanced scorecard, which is a measurement and control system that looks at a mix of quantitative and qualitative factors to evaluate organizational performance (Kaplan and Norton 1996). The *balance* in balanced scorecard reflects the need for short-term and long-term objectives, financial and nonfinancial metrics, lagging and leading indicators, and internal and external performance perspectives. Huselid, Becker, and Beatty's 2005 book *The Workforce Scorecard* extends research on the balanced scorecard to maximize workforce potential. The authors show that traditional financial performance measures are *lagging* performance indicators that can be predicted by the way organizations manage their human resources. HR practices are *leading* indicators, predicting subsequent financial performance.

The Mayo Clinic has developed its own HR balanced scorecard that allows the HR function to become more involved in the organization's strategic planning (Fottler, Erickson, and Rivers 2006). Based on the assumption that what gets measured gets managed, Mayo's HR balanced scorecard measures and monitors many input and output HR indicators that are aligned with the organization's mission and strategic goals. This HR scorecard measures these areas:

- Financial (e.g., staff retention savings)
- Customer (e.g., employee retention, patient satisfaction)
- Internal (e.g., time to fill positions)
- Learning (e.g., staff satisfaction, perceived training participation)

Organizational Outcomes and Performance

Growth, profitability, ROI, competitive advantage, legal compliance, strategic objectives attainment, and key stakeholder satisfaction are outcome measures that can be used to determine how well the organization is performing in the marketplace and whether it is producing a service that is valued by consumers. Key stakeholder satisfaction may include such indexes as patient satisfaction, cost per patient day, and community perception.

The mission and objectives of the organization are reflected in the outcomes that management stresses and in the strategies, general tactics, and HR practices the organization chooses. For example, almost all healthcare organizations need to earn some profit for continued viability. However, an organization might refrain from initiating possibly profitable new ventures that do not fit its overall mission of providing quality services needed by a defined population group. Conversely, an organization may start services that are break-even propositions at best because those services are viewed as critical to their mission and the needs of their target market.

An organization's concerns are reflected in the services it offers, the HR approaches it uses, and the outcome measures it views as important. A quality-centric organization likely emphasizes assessment criteria that stress the provision of quality care more than criteria concerned with efficient use of supplies and the maintenance of staffing ratios. This prioritization does not mean that the organization is ignoring efficiency of operations; it just signals that the organization places greater weight on the quality-care criteria. The outcome measures used to judge the institution should reflect its priorities.

Another institution may place greater emphasis on economic return, profitability, and efficiency of operations. Quality of care is also important to that organization, but the driving force to become a low-cost provider causes the organization to make decisions that reflect its business strategy; therefore, it stresses maintenance or reduction of staffing levels and strictly prohibits overtime. Its recruitment criteria stress identification and selection of employees who will meet minimum job requirements and expectations and, possibly, will accept lower pay levels. In an organization that strives to be efficient, less energy may be spent on social maintenance activities designed to meet employee needs and keep them from leaving or unionizing. The outcomes in this situation will reflect higher economic return and lower measures of quality of work life.

Regardless of their specific outcome objectives, most healthcare organizations seek competitive advantage over similar institutions. The ultimate goal of the HR function should be to develop a distinctive brand so that employees, potential employees, and the general public view that particular organization as the *choice* rather than as the last resort.

CURRENT ISSUE
Economic Stimulus and Health Reform

The Obama administration attempted to address the global financial meltdown by supporting banks, reducing housing foreclosure rates, and increasing demand for goods and services through the American Recovery and Reinvestment Act of 2009, commonly known as the stimulus package. Despite this legislation, unemployment rose from 7.8 percent in 2008 to 9.7 percent in 2010. Americans postponed physical exams, elective surgery, and other needed but nonurgent care as a result of job loss, health insurance coverage loss, and declining income. Consequently, most healthcare organizations' revenues have also declined. This unexpected decline in revenues has caused many healthcare organizations to rethink their strategic plans, as their assumptions about the external environment turned out to be overly optimistic.

The number and types of employees needed to provide service to the projected patient population also needed to be rethought. The challenges of recruiting and retaining health professionals in short supply, such as nurses, were less acute as service demand declined. Fewer patients and lower revenues resulted in reduced staffing, which reduced labor shortages. However, the lower revenue often resulted in both lower staffing levels and lower staff skill levels. This situation has adversely affected the clinical and service quality provided to patients in some health facilities. The 2010 passage of health reform legislation will phase in over four years. It will involve budget cuts for Medicare patients, subsidized insurance benefits for previously uninsured patients and some insured patients, higher insurance premiums for the previously insured, and higher taxes for many individuals and corporations. The net impact of this legislation is uncertain in terms of its implications for healthcare providers and their strategic plans and related HR needs.

The HR Brand

Branding
The organization's corporate image or culture.

In HR, **branding** refers to the organization's corporate image or culture. Because organizations are constantly competing for the best talent, developing an attractive HR brand is important. A brand embodies the values and standards that guide employee behavior. It indicates the purpose of the organization, the types of people it hires, and the results it recognizes and rewards (Barker 2005). If an organization can convey that it is a great place to work for, it can attract the right people (Greer 2005c). Being acknowledged by an external source is a good way to create a recognized HR brand. Inclusion on national "best" lists, such as the following, helps an organization build a base of followers and enhances its recruitment and retention programs:

- *Fortune*'s 100 Best Companies to Work For
- *Working Mother*'s 100 Best Companies for Working Mothers
- *Computerworld*'s Best Places to Work in IT
- The Great Place to Work Institute's best lists, which include the *Fortune* list

Being selected for *Fortune*'s 100 Best Companies list is so desirable that some organizations try to change their culture, philosophy, and brand just to be included (Phillips 2005).

Cardinal Health in Dublin, Ohio, ranks nineteenth on *Fortune*'s list and is a major provider of healthcare products, services, and technologies (Schoeff 2006). Corporate leaders at Cardinal recently decided that the organization's competitive advantage lies with its people. As a result, the organization is concentrating its HR efforts on more strategic issues and outsourcing more administrative functions. Among its strategic activities are identifying and developing talent and more closely linking HR activities to strategic objectives. Cardinal's management believes these changes will enable HR to become a strategic player and will increase the organization's global HR capability.

The immediate goal of building a strong HR brand is to attract and retain the best employees. However, the ultimate goal is to enhance the organization's outcomes and performance—that is, to achieve competitive advantage.

A Strategic Perspective on Human Resources

Managers at all levels are becoming increasingly aware that critical sources of competitive advantage include appropriate systems for attracting, motivating, and managing the organization's human resources. Adopting a strategic view of human resources involves considering employees as human assets and developing appropriate policies and programs to increase the value of these assets to the organization and the marketplace. Effective organizations realize that their employees have value, much as the organization's physical and capital assets have value.

In a survey by *USA Today* and Deloitte and Touche, nearly 80 percent of corporate executives said the importance of human resources had grown substantially over the years and two-thirds said human resources expenditures are now viewed as a strategic investment rather than simply a cost to be minimized (Bohlander and Snell 2007). Moreover, research shows that strategically designed and implemented HR systems increase the value of organizations. Executives are now demanding that HR departments go beyond short-term projections and provide detailed forecasts of human resource needs, benefits, and costs over longer-term horizons (Becker and Huselid 2006).

Viewing human resources from an investment perspective, rather than as variable costs of production, allows the organization to determine how to best invest in its people. This leads to a dilemma. An organization that does not invest in its employees may be less attractive to current and prospective employees, which causes inefficiency and weakens the organization's competitive position. However, an organization that does invest in its people needs to ensure that these investments are not lost by developing strategies to retain employees long enough to realize an acceptable return on its investment in employee skills and knowledge.

Not all organizations realize that human assets can be strategically managed from an investment perspective. Management might not appreciate the value of its human assets relative to its other assets such as brand names, distribution channels, real estate, and facilities and equipment. Organizations may be characterized as HR-oriented or not based on their answers to the following:

- Does the organization see its people as central to its mission and strategy?
- Do the organization's mission statement and strategy objectives mention or espouse the value of human assets?
- Does the organization's management philosophy prevent the depreciation of its human assets, or does the organization view its human assets as a cost to be minimized?

Organizations often hesitate to adopt an HR investment perspective because it involves making a longer-term commitment to employees. Because employees can leave and most organizations use only short-term performance measures, investments in human assets are often ignored. Well-performing organizations may feel no need to change their HR strategies. Those that are not doing as well usually need a quick fix to turn things around and therefore ignore longer-term investments in people. However, although investment in human resources does not yield immediate results, it yields positive outcomes that are likely to last longer and are more difficult for competitors to duplicate.

Who Performs HR Tasks?

Which exact person or unit performs HR tasks has changed drastically in recent years. In recent years, there has been no typical HR department, and no particular unit or individual is charged with performing HR tasks (Greer 2005b). Internal restructuring often results in a shift of who carries out HR tasks, but it has not eliminated those functions identified in Exhibit 1.3. In fact, in some healthcare organizations, the HR department continues to perform the majority of HR functions. The evolution of HR raises these questions:

- Can some HR tasks be performed more efficiently by line managers or by outside vendors?
- Can some HR tasks be centralized or eliminated altogether?
- Can technology perform HR tasks that were once previously done by HR staff? (Rison and Tower 2005)

The number of HR staff continues to decline as others have begun to assume responsibility for certain HR functions (*HR Magazine* 2005). Outsourcing, shared service centers, and line managers now assist in many HR functions and activities. While most organizations are expected to outsource more HR tasks in the future, the strategic components of HR will likely remain within the organization itself (Pomeroy 2005; *HR Focus* 2006a). HR managers will continue to be involved with strategic HR matters and other key functions, including performance management and compensation management (Davolt 2006; Pomeroy 2005).

The shift toward strategic HR permits the HR function to shed its administrative image and to focus on more mission-oriented activities (*HR Focus* 2006b). This shift also means that all healthcare executives need to become skilled managers of their human resources. More HR professionals are assuming a strategic perspective when it comes to managing HR-related issues (Greer 2005d; Meisinger 2005). As they do so, they continually upgrade and enhance their professional capabilities (Khatri 2006). This means that HR professionals must be given a seat at the board of director's table to help the chief officers, senior management, and board members make appropriate decisions concerning HR matters (Greer 2004; Fottler, Erickson, and Rivers 2006).

The three critical HR issues to which an HR professional can lend expertise and therefore help organizational governance include (1) selecting the incoming CEO, (2) tying the CEO's compensation to performance, and (3) identifying and developing optimum business and HR strategies (Kenney 2005). In addition, the HR professional can contribute to leveraging HR's role in major change strategies (such as mergers and acquisitions), developing and implementing HR metrics that are aligned with business strategies, and helping line managers achieve their unit goals.

In a study of HR leaders in more than 1,000 organizations, 67 percent of the respondents reported that they belonged to the executive team in their organization (*HR Focus* 2003). A 2006 survey of 427 HR professionals revealed that of the respondents who oversaw the HR department, 63 percent directly reported to the CEO or president (Greer 2006). The same survey found that more than half of the respondents worked for an organization that had an established strategic HR plan, and most of the respondents worked directly with senior management in developing organizational strategies.

Of course, these data are not necessarily representative of the healthcare industry. If such data were available for the healthcare industry, the results might indicate somewhat lower levels of HR function influence.

Summary

In healthcare, the intense need for professionals to deliver high-quality services requires organizations to focus attention on strategic HR management and to be aware of the factors that influence employees' performance. To assist healthcare executives in understanding this dynamic, this chapter presents a model that explains the interrelationship among corporate strategy, selected organizational design features, HRM activities, employee outcomes, and organizational outcomes.

The outcomes achieved by the organization are influenced by numerous HR and non-HR factors. The mission determines the organization's direction and goals. The amount of integration or alignment of mission, strategy, HR functions, behavioral components, and non-HR strategies defines the level of achievement that is possible.

A sophisticated, valuable healthcare human resource management system is responsive to the highly competitive marketplace, aligned with the business strategy, jointly conceived and implemented by both line and HR managers, and focused on the highest priority organization performance indicators. Such indicators might include clinical quality, customer service, productivity, or employee retention. These outcomes, in turn, will enhance market share in various measures of financial performance.

Healthcare organizations are increasingly striving to impress a distinctive HR brand image upon employees, potential employees, and the general public by modifying their cultures and working hard to be included on various national lists of best companies. Successful branding yields competitive advantage in labor and service markets. Organizations are also increasing the volume and quality of HR metrics in an effort to better align their HR strategies with their business strategies. Finally, the locus of HRM is shifting as strategic functions are retained by HR professionals within the organization while administrative tasks are outsourced or delegated to line managers.

Key points to remember include:

- Managing HR strategically is critical to the viability and success of any healthcare organization.
- HR must be integrated and aligned with the business strategy.
- Healthcare organizations identified as "best to work for" have a competitive advantage.

- Healthcare organizations need to determine which HR functions should be done in-house and which should be outsourced.

For Discussion

1. How may an organization's human resources be viewed as a strength or a weakness when doing a SWOT analysis? What could be done to strengthen human resources if it is seen as a weakness?
2. List factors under the control of healthcare managers that contribute to the decrease in the number of people applying to health professions schools. Describe the steps that healthcare organizations can take to improve this situation.
3. What are the organizational advantages of integrating strategic management and human resources management? What are the steps involved in such an integration?
4. One healthcare organization is pursuing a business strategy of differentiating its service product through providing excellent customer service. What HR metrics do you recommend to reinforce this business strategy? Why?
5. In what sense are all healthcare executives human resources managers? How can executives best prepare to perform well in this HR function?

Experiential Exercises

Exercise 1

Before class, review the seven HR practices developed by Jeffrey Pfeffer and shown in Exhibit 1.1. Consider how your current or most recent employer follows any three of these seven practices. Write a one- to two-page summary that lists the three practices you selected and their compatibilities or incompatibilities with your employer's HRM practices. In class, form a group of four or five students and share your perceptions. Discuss the following:

- What similarities and differences arise among the chosen employers' practices?
- Which of the seven practices seem to be least often followed, and why?

Exercise 2

Each year, *Fortune* magazine publishes a list of the best companies to work for in America. Editors of the magazine base their selections on an extensive review of the HR practices of many organizations as well as on surveys of those organizations' current and former employees.

Use the Internet to identify three healthcare organizations on the latest *Fortune* best companies list. Next, visit the websites of these organizations, and review the posted information from the perspective of a prospective job applicant. Then, as a potential employee, answer the following:

- What information on the websites most interested you, and why?
- Which organization's website is best, and why?

Based on the information posted on these websites, what are the implications for you as a future healthcare executive who will be planning and implementing HRM practices? What information will you include on your organization's website that will attract and retain employees?