

CHAPTER 1

STRATEGIC HUMAN RESOURCES MANAGEMENT

Myron D. Fottler, PhD

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 strategic 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 10 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. Overall employee turnover averaged 22 percent per year in the last three years. 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 its 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 particular 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.

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).

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

human resources management (HRM)

The processes (recruitment, selection, training and development, appraisal, compensation, labor relations 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 (SHRM)

The process of formulating and executing human resources (HR) policies and practices that produce employee competencies and behaviors required for the organization to achieve its strategic objectives. To produce the required staff competencies and behaviors, the healthcare organization needs to implement the right mix of recruitment, selection, compensation, performance appraisal, employee development, and other HR strategies, policies, and practices.

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. Carefully studying this book and implementing effective HR management techniques will help you avoid the aforementioned mistakes.

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 (Ford et al. 2006; Fottler, Khatri, and Savage 2010; Ramadevi et al. 2016; Huselid, Becker, and Beatty 2005; Messersmith and Guthrie 2010; Wright et al. 2005).

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 late twentieth-century 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 that healthcare executives cannot simply rely on the benchmarks and strategies of others, even though they may be suggestive of better approaches to managing people. Instead, healthcare executives 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. The future belongs to healthcare managers who can improve organization performance while managing change through engaged and committed employees.

Collis and Montgomery (2008) maintain that organizations can achieve a sustainable competitive advantage through people if the following 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 the following reasons:

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

HR BEST PRACTICES

Studies have shown that effective management of human resources can increase profitability, annual sales per employee, productivity, market value, and growth and earnings per share (Messersmith and Guthrie 2010; Kaufman 2010). In these studies, a survey was used to study the sophistication of the organization's HR practices and responses, resulting in a

score from 0 to 100, where a high score represented practices considered “state of the art.” Performance was measured using accounting financial data. Results indicate that organizations with better HR practices experienced greater increases in financial performance relative to others (Becker, Huselid, and Ulrich 2001). In addition, a survey of 200 chief financial officers (CFOs) revealed that 92 percent believed that managing employees effectively also improves customer satisfaction (Mayer, Ehrhart, and B. Schneider 2009). Customers also have reported that they are more satisfied when the climate of the organization is more positive, employees generally get along well, and turnover is low (Nishii, Lepak, and B. Schneider 2008).

Exhibit 1.1 summarizes HRM practices that appear to enhance the effectiveness and outcomes of organizations. These practices seem to be present in organizations that are effective in managing their human resources, and they recur repeatedly 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 (Pfeffer 1998).

While these HR practices generally have a positive impact on organizational performance, their relative effectiveness may also vary depending on their *alignment* (or lack thereof) among themselves and with the organization’s mission, values, culture, strategies, goals, and objectives (Ford et al. 2006). These HRM practices may vary in their impact on various types of healthcare organizations, depending on how well each one is aligned with and reinforces the others as well as how well it is aligned with various aspects with the overall business strategy.

Certain HR practices are associated with excellent organization performance (Lepak 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.

Most of these HR best 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; Snell and Bohlander 2013):

EXHIBIT 1.1
HRM Effective
Practices for
Healthcare
Organizations

Category	Practices	
HR Planning/ Job Analysis	Encourage employee involvement so there is strong “buy-in” of HR practices and managerial initiatives. Encourage teamwork so employees are more willing to collaborate. Provide employment security.	Include self-managed teams and decentralization as basic elements of organization design to minimize management layers. Develop strategies to enhance employee work/life balance.
Staffing	Be proactive in identifying and attracting talent. In selecting new employees, use additional criteria beyond basic skills (i.e., attitudes, customer focus, and cultural fit).	
Training/ Organizational Development	Invest in training and organizational programs to enhance employee skills related to organizational goals. Provide employees with future career opportunities by giving promotional priority to internal candidates.	Include customer service in new employee onboarding and skill development. Provide opportunities for employee growth so employees are “stretched” to enhance all of their skills.
Performance Management and Compensation	Recognize employees by providing monetary and nonmonetary rewards. Offer high compensation contingent on organizational performance as a way to reduce employee turnover and increase attraction to high-quality employees.	Reduce status distinction and barriers such as dress, language, office arrangement, parking, and wage differentials. Base individual and team compensation on goal-oriented results.
Employee Rights	Communicate effectively with employees to keep them informed concerning major issues and initiatives. Share financial, salary, and performance information to develop a high-trust organization. Give higher priority to internal candidates for promotion to enhance employee motivation.	Provide employment security for employees who perform well so they are not downsized because of economic downturns or strategic errors by senior management.

Sources: Pfeffer (1995); Pfeffer (1998); Wright et al. (2005); Chuang and Liao (2010); Gomez-Mejia and Balkin (2011).

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- ◆ 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
- ◆ 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 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. After 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 (Ulrick, Younger, and Brockband 2008). In the twenty-first century, organizations have been paying more attention to strategy implementation and execution (S. 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 as early as the 1990s has offered 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 greater detail

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 laid-off 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	Collaborative approach
Preventive labor relations	Employee freedom of choice

EXHIBIT 1.2
Strategic Human
Resources Trends

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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 closely align with one another (internal alignment) and with various levels of organizational strategies (external alignment) (Ford et al. 2006).

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 that healthcare organizations face constantly changing opportunities and threats. These opportunities and threats make particular services or markets more or less attractive.

Among the trends currently affecting the healthcare environment are greater 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. After 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,

environmental assessment

A crucial element of strategic human resources management 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.

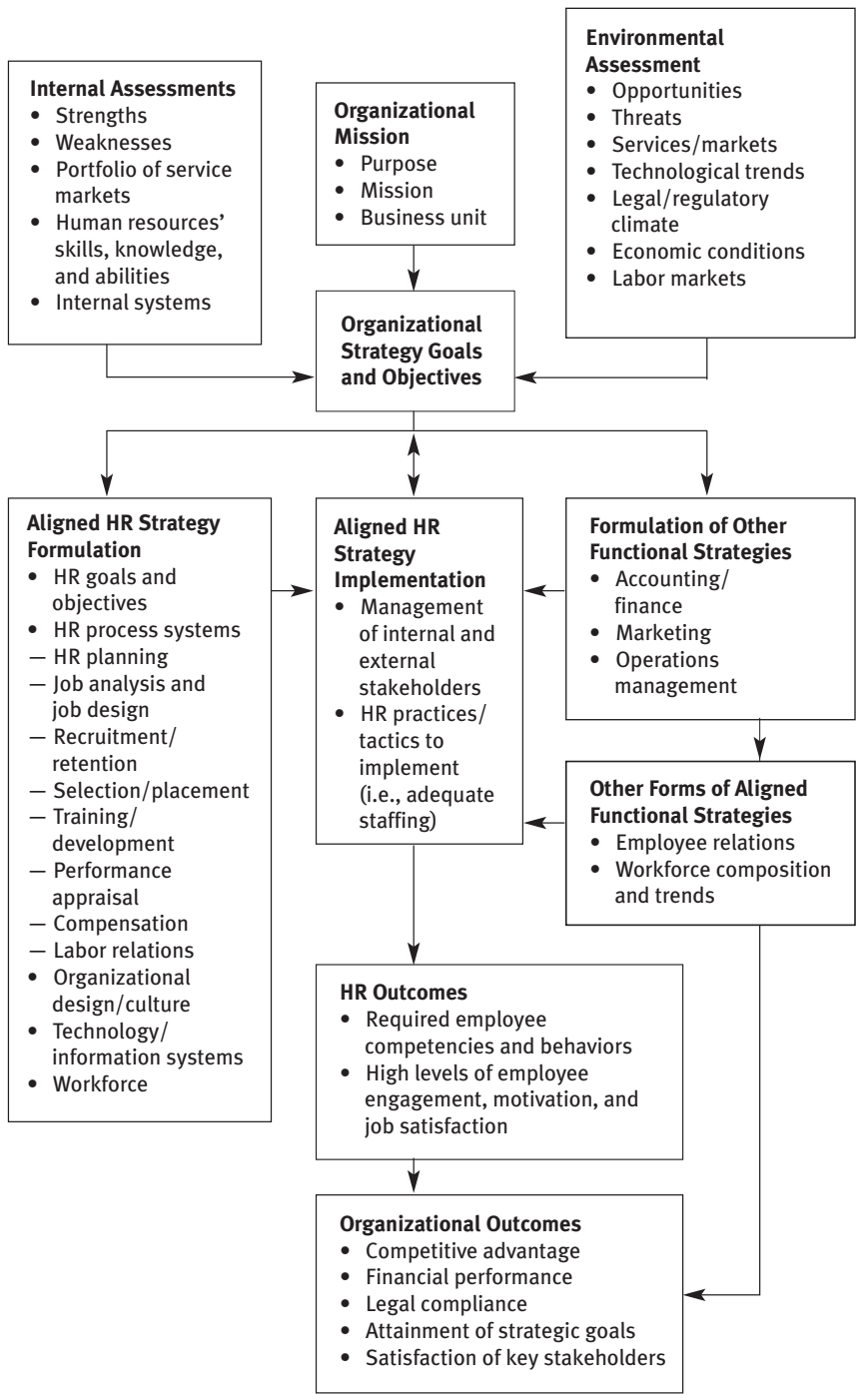


EXHIBIT 1.3
Employee Relations Workforce Composition and Trends

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.

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.

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 on the previous page 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 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.

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 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

After 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,

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training, development, and career planning), and a compensation strategy (salary structure and employee incentives). Formulating an aligned strategy necessitates asking the following questions:

- ◆ What types of individuals do we need to attract and retain?
- ◆ How shall we develop and reward these individuals to better enhance employee productivity?

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 let the others go.

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.

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.

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 than it did during the twentieth century. Then, 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.

Between 2010 and 2022, the American workforce was expected to experience an increased percentage of Hispanics, African Americans, Asians, and older workers. The challenge for healthcare leaders will be how to identify, utilize, and develop the necessary

staffing strategy

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

developmental strategy

A set of methods that facilitate the enhancement of an organization's human resources' quality. Must be consistent with corporate and business strategies.

compensation strategy

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

workforce composition

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

human resources to deliver high-quality health services given the anticipated demographic changes (US Bureau of Labor Statistics 2013). Between 2010 and 2050, the percentage of Hispanics in the US population was expected to double to 30 percent while the percentage of Asians was expected to nearly double to 7.8 percent (US Bureau of Labor Statistics 2013).

The best strategic HR plans may fail when specific HR programs and tactics are poorly chosen and implemented. They are more likely to be successful when they are compatible with the business strategy, environment, organization characteristics, and HR capabilities. HR strategies are also more effective when they reinforce one another rather than work as cross forces. For example, work teams are more likely to be successful if performance appraisals use workgroup performance rather than individual performance as a criterion.

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, employee engagement, motivation, level of job stress, and other constructs are the usual measures of employee attitude and HR outcomes.

HR outcomes, in turn, will influence organizational outcomes, as was shown in exhibit 1.3. These organizational outcomes feed back into both internal and environmental characteristics, and the whole process is continuous, evolving, and changing.

MEASURING THE HR FUNCTION

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. HR has been under some scrutiny, as management and other areas of the organization inquire how various HR activities contribute to performance outcomes (Fotter, Erickson, and Rivers 2006; Greer 2005). Specifically, the questions often focus on the return on investment (ROI) of HR activities. The process of using metrics (i.e., data, facts, and scientific rigor) and critically evaluated research to support HR proposals, decisions, strategies, and tactics, is often referred to as *evidence-based HRM*.

HR metrics

Measures of human resources outcomes and performance.

Human capital metrics determine how HR activities contribute to the organization's bottom line (HR Focus 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; C. 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 (R. Kaplan and Norton 1996). The *balance* in the 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 the following 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)

The Society of Human Resources Management provides a benchmarking service that enables employers to compare their own HR metrics with those of similar employers in the same geographic region and size (see <http://shrm.org/shrmbenchmarks/>). While such benchmarks show how an organization's HR metrics compare to competitors, they do not show the extent to which they support your strategic goals. However, strategy-based HR metrics will show the extent to which these metrics will achieve your strategic goals.

For example, customer service training should contribute to patient satisfaction, customer compliments, and intent to return to the organization.

Examples of HR metrics from the Society for Human Resource Management (2017) include the following:

- ◆ HR to employee ratio
- ◆ HR expenses to operating expense ratio
- ◆ HR expense to FTE [full-time equivalency] ratio
- ◆ Number of positions filled
- ◆ Time to fill positions
- ◆ Cost per hire
- ◆ Annual overall turnover rate
- ◆ Annual voluntary turnover rate
- ◆ Annual involuntary turnover rate
- ◆ Physicians within the organizational succession plan
- ◆ Percentage of employees participating in tuition reimbursement
- ◆ Revenue per FTE

Strategic HR metrics provide new material to allow healthcare managers to use “evidence” to support their decisions, practices, proposals, and conclusions. A recent *Harvard Business Review* article argues that “all managers must become more scientific and think like scientists when making business decisions” (Anderson and Simester 2011). Thinking like scientists requires the manager to be both objective and experimental in evaluating and gathering information about what works and does not work in terms of HR strategies, which may facilitate strategic goals. For example, if you wish to evaluate the particular training program on a patient satisfaction plan, don’t wait to implement the plan on all staff members. Instead, implement it for an “experimental” group, which receives the training, and do not implement it for a similar control group. Then compare changes over time between the experimental group and the control group in terms of patient satisfaction scores.

Strategic HR metrics that have been found to be associated with higher overall organizational performance as measured by revenue per employee, innovation, and employee retention include the following: (Becker, Huselid, and Ulrich 2001; Society for Human Resource Management 2001):

- ◆ Average percentage of employees hired based on a validated test
- ◆ Average number of hours of training for new employees

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- ◆ Average percentage of employees receiving a regular performance appraisal
- ◆ Average percentage of employees eligible for incentive pay
- ◆ Average percentage of employees routinely working on teams
- ◆ Employees receiving relative financial and operational reporting information
- ◆ Number of qualified applicants per position

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.

**DID YOU KNOW?****SHRM for a Winning Season**

The concept of strategic human resources management (SHRM) is known and applied not just in healthcare businesses but also in professional sports. A prime example is the Golden State Warriors of the National Basketball Association (NBA). Unlike traditional power teams such as the Boston Celtics, Los Angeles Lakers, Miami Heat, and San Antonio Spurs, the Warriors are recent winners of the NBA Championship crown. How did they do it?

A Silicon Valley financier and other executives with limited basketball experience bought the floundering team in 2010. Even though the three-point line (about 24 feet from the basket) had been added to every NBA court in 1979, no more than one out of five shots were attempted from that distance until the Warriors decided to win championships by taking shots from beyond the three-point line. To achieve this goal, they recruited Stephen Curry to take three-point shots and built their offense around him. The result was two NBA championships, with Curry winning the league's most valuable player award in both 2015 and 2016. From a strategic human resources management perspective, the strategy was three-point shooting and the major HR employee selected was Curry.

In 2015, NBA players sank a combined total of 1,025 three-point shots, the most for any single year in NBA history. A whopping 403 of those three-pointers, or 46 percent, were scored by one player: Curry, who in doing so set a world record. The Warriors' team philosophy was that any possession ending in a three-pointer by Curry was a good one. This strategy was one that no one in the NBA figured out how to beat until the finals in 2016 when LeBron James and the Cleveland Cavaliers defeated Golden State in a close seven-game series.

The Warrior executive team has been data driven since the beginning. These leaders noted that the same percentage of players made about the same number of shots from 23 feet as from 24 feet. However, shots from 23 feet resulted in an average of .076 points overall while the shots from 24 feet resulted in an average of 1.06 points. By moving the players back just 1 foot to take a shot, they increased the points scored by 43 percent. To double-cover Curry while he was beyond the three-point line, they recruited Clay Thompson, a six-foot, seven-inch-tall guard, who was also a good three-point

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**DID YOU KNOW?**SHRM for a Winning Season (*continued*)

shooter. The Warriors also recruited tall inside players with rebounding and defensive skills to complement their two outside shooters.

Finally, the team brought in Steve Kerr, a member of five NBA championship teams who retired with a 45 percent rate of three-pointers, the previous record before Curry's. In 2016, the Warriors fielded several players who were all threats as three-point shooters.

This offense forced opponents to spread out, extending their defense out toward the three-point line instead of the basket, which then left the Warriors with lots of open space. In 2016, many of Curry's three-point shots were from way beyond the line, which stretched opposing defenses even more.

After the defeat to the Cavaliers in the 2016 finals, Golden State acquired Kevin Durant from the Oklahoma City Thunder. Durant proved to be both a "team first player" and one who could excel when needed in terms of offensive scoring. When Golden State again faced the Cavaliers in the 2017 NBA final, Durant scored 38 points in the first game, leading Golden State to victory. Analysts attribute the championship to Durant's ability to both "fit in" and "stand out" in the "team-first" Golden State culture.

The bottom line regarding the Warriors' success is that the executives identified a clear strategy to enhance their team's chances of winning games and then set about recruiting the necessary players (i.e., human resources) to execute this strategy. The fact that the team won the championship in 2015 and 2017, while losing a very close series in 2016, has caused many analysts to consider them the best team in the history of professional basketball.

Sources: B. Cohen (2017a; 2017b).

THE HR BRAND

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, it can attract the right people (HR Focus 2005a). 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:

branding

The organization's corporate image or culture.

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- ◆ 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. One successful healthcare organization is Mayo Clinic, which as of 2017 had been listed among Fortune's "100 Best Companies to Work For" for 14 consecutive years. The basis for this designation includes delivering higher-quality patient care; placing the needs of patients first; fostering a culture of teamwork, professionalism, and mutual respect; providing "life changing" careers; and giving credit to the employees for this designation (Mayo Clinic 2017b, 2017c).

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 (Snell and Bohlander 2013). 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, which 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?

All healthcare managers must deal effectively with HR issues regardless of their functional area and the size of their organization. In the twenty-first century there has been a clear trend toward reducing the size of the HR department and shifting traditional HR functions (i.e., recruitment, selection, and training) to line managers (Mathis, Jackson, and Valentine 2014; Schramm 2011). This trend has been driven by a desire to reduce “overhead” and empower managers to take ownership of HR decisions in their own units.

Which exact person or unit performs HR tasks has changed drastically in the twenty-first century. In recent years, there has been no typical HR department, and no particular unit or individual is charged with performing HR tasks (Schramm 2011). 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 strategic components of HR will likely remain within the organization itself (Mathis, Jackson, and Valentine 2014).

The evolution of HR raises the following questions (Rison and Tower 2005):

- ◆ 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?

The number of HR staff members continues to decline as others have begun to assume responsibility for certain HR functions. 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. HR managers will continue to be involved with strategic HR matters and other key functions, including performance management and compensation management.

The shift toward strategic HR permits the HR function to shed its administrative image and to focus on more mission-oriented activities (HR Focus 2006). 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 (Mersinger 2005). As they do so, they continually upgrade and enhance their professional capabilities. This means that HR professionals must be given a seat at the board of directors' table to help the chief officers, senior management, and board members make appropriate decisions concerning HR matters (HR Focus 2004; Fottler, Erickson, and Rivers 2006).

The three critical HR issues to which an HR professional can lend expertise and therefore help organizational governance are (1) selecting the incoming CEO, (2) tying the CEO's compensation to performance, and (3) identifying and developing optimum business and HR strategies. 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.

HR TRENDS IMPACTING THE HEALTHCARE INDUSTRY

A survey was sent to hospital CEOs who were members of the American College of Healthcare Executives (ACHE) in 2015. Respondents cited their top five concerns as patient safety and quality, government mandates, personnel shortages, and patient satisfaction. While the first two were not related to human resource management, the latter three were (ACHE Division of Research 2015).

The benefits for healthcare organizations able to deliver service quality that yields customer satisfaction include higher customer satisfaction, reduced cost due to higher

employee retention, and reduction in errors, resulting in enhanced quality of service. HR practices and policies are crucial in creating and maintaining a positive work culture. Such an environment is characterized by well-trained employees who have the tools they need to do their jobs, the opportunity to participate in decisions affecting their jobs, and the services and support they need from other organizational members. Thus, HR can be a strategic leader in ensuring that policies, procedures, and practices produce employee behaviors that are supported, rewarded, and contributing toward a superior-quality service climate (B. Schneider and Barbera 2011).

Much of the growth of the HR function since the 1930s is attributable to the crucial role of keeping all employers out of trouble with the law. Most large healthcare organizations are deeply concerned about whether their personnel decisions may violate laws, regulations, and court decisions at the federal, state, or local government levels. The result has been an administrative nightmare that grows by the day so that no individual can comprehend its scope and depth. This challenge is exacerbated by the fact that the regulatory burden on employers continues to increase in the United States, according to the US Equal Employment Opportunity Commission (EEOC 2017b).

The impact of one particular government mandate—the Affordable Care Act (ACA)—on all types of organizations, including 15 percent of healthcare organizations, was assessed by the Society for Human Resource Management in 2013. The greatest HR challenges were keeping up with regulations and making preparations (25 percent), understanding details of the law (20 percent), and understanding the impact of healthcare costs (18 percent). The most beneficial aspect of the law was healthcare availability for more Americans (35 percent). However, 29 percent of the respondents did not see anything positive in the law. The main implementation barriers were the complexity of the law (41 percent) and lack of understanding of the law's details and its impact on organizations (27 percent) (Society for Human Resource Management 2013). As of June 2017, the challenges outlined here were being debated in Congress, with only a low probability that new legislation would be approved. In that case, the ACA and its challenges would continue.

Patient satisfaction has been studied since the 1970s, and various metrics to measure it are highly correlated with various aspects of human resources management (B. Schneider and Barbera 2011). This research shows that when employees work in a positive working climate with the right tools to do their job, the result is more satisfied customers and improved financial performance. HR has a key role to perform in enhancing patient satisfaction by creating and sustaining a workplace culture of HR management practices and initiatives that encourage, reward, and support behavior focused on quality service.

Personnel shortages in healthcare affect most clinical occupations, although the severity of such shortages tends to vary over time. Shortages of nonclinical staff have been problematic for lower-skilled occupations due to the deficiencies of public education systems (Zakaria 2010). As a result, healthcare organizations and their leaders have begun to support local high schools and university programs to supply resources for potential

hires. They have also enhanced their own organizational and hiring efforts, which will be discussed in chapter 6 of this book.

The nursing profession has exhibited periodic shortages of registered nurses over many decades. One of the major sources of such shortages is the role conflict between work requirements and family necessities, which affects nursing as well as other female-dominated professions. Work–family conflict lowers job satisfaction, increases the intent to leave the job and profession, and is positively impacted by age, health, and family responsibilities (Unruh, Raffenaud, and Fottler 2016). Various attempts to mitigate such conflict will enhance nurse retention on the job and in the profession, thus reducing the negative impact of an aging workforce and mitigating nursing shortages.

Once again, the work stressors of nurses are not unique. Unless all organizations support mechanisms to keep stress manageable, both individuals and organizations pay a heavy price (Capelli and Keller 2013). Stress-related ailments cost employers an estimated \$2 billion a year in absenteeism, tardiness, and loss of talented staff. One survey found that 67 percent of employers nationally categorized their work-related stress as high (Brummelhaus and DerLippe 2010). Many of the most progressive employers, such as the Mayo Clinic, are introducing family-friendly programs to gain a competitive advantage in recruiting and retaining the best nurses and other healthcare professionals.

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 on 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 performed 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. What factors under the control of healthcare managers 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?
6. What can healthcare management students and executives learn from the example of the Golden State Warriors NBA team?
7. Why are knowledge and proficiency in HRM concepts and techniques important to all healthcare managers?

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.

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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 the United States. 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?