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**Strategic Human Resource
Management**

Professor M. Diane Burton

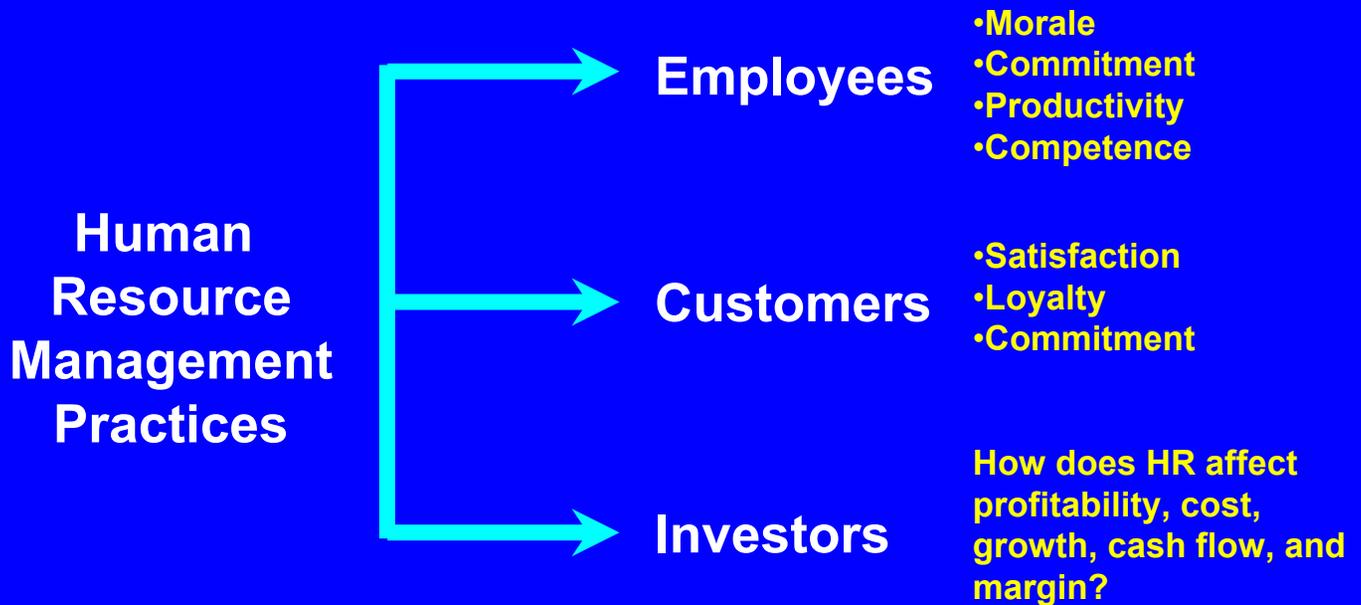
MIT Sloan School of Management

Our Goal for SHRM:

To understand the strategic issues in using Human Resources for sustainable competitive advantage and how to implement the changes necessary to achieve this. This requires that we be able to:

- Think systematically and strategically about managing human assets
- Understand what really needs to be done to implement these policies.

HR Creating Value



“The War for Talent”

“In the new economy, competition is global, capital is abundant, ideas are developed quickly and cheaply, and people are willing to change jobs often. In that kind of environment... all that matters is talent... superior talent will be tomorrow’s prime source of competitive advantage.”

Chambers, E. et al. (1998)
“The War for Talent.”
McKinsey Quarterly, 2-15

Extraordinary People, Ordinary Performance?

		<i>Performance</i>	
		Extraordinary	Ordinary
<i>Quality of People</i>	Extraordinary		?
	Ordinary		

Case Studies

- Southwest Airlines
- Portman Hotel
- Morgan Stanley
- Slade Company
- NUMMI
- Saturn
- ServiceMaster
- John Snow Institute
- Eastern Airlines
- Safelight Autoglass
- Visionary Design Systems
- SAS Institute
- Harrah's Entertainment
- Springfield ReManufacturing
- Nordstrom

Ordinary People, Extraordinary Performance?

		<i>Performance</i>	
		Extraordinary	Ordinary
<i>Quality of People</i>	Extraordinary		
	Ordinary		

Two Mysteries

- **How have these companies achieved extraordinary performance with people who are no different from those employed by the competition?**
- **If what they are doing is so understandable, why haven't their competitors simply replicated them and achieved similar competitive advantages?**

Several Integrative Themes

- **The role of HR in the execution of strategy**

HR is about the Execution of Strategy

“The competitive difference is not in deciding what to do, but in how to do it. Execution becomes paramount.”

Larry Bossidy
CEO Allied-Signal

“I could leave our strategic plan on a plane and it wouldn’t make any difference. No one could execute it. Our success has nothing to do with planning. It has to do with execution.”

Dick Kovacevich
CEO Norwest

“I spend a lot of time talking about values rather than trying to figure out business strategies... Execution is what spells the difference between success and failure.”

Lew Platt
CEO HP

Competitive Advantage through People

- A worldwide study of the automobile industry showed that people-centered practices were associated with almost twice the productivity and quality as conventional mass production.
- Similar studies in steel, apparel, semiconductors, and oil refining industries reveal similar positive effects for people-centered practices.
- A study of IPOs among 136 firms showed that people-centered practices were associated with a 42% higher survival rate.

Top Performing Stocks: 1972-1992

<u>Company</u>	<u>Percent Increase</u>
<i>Southwest Airlines</i>	<i>21,775%</i>
<i>Wal-Mart</i>	<i>19,807%</i>
<i>Tyson Foods</i>	<i>18,118%</i>
<i>Circuit City</i>	<i>16,410%</i>
<i>Plenum Publishing</i>	<i>15,689%</i>

Money, October, 1992

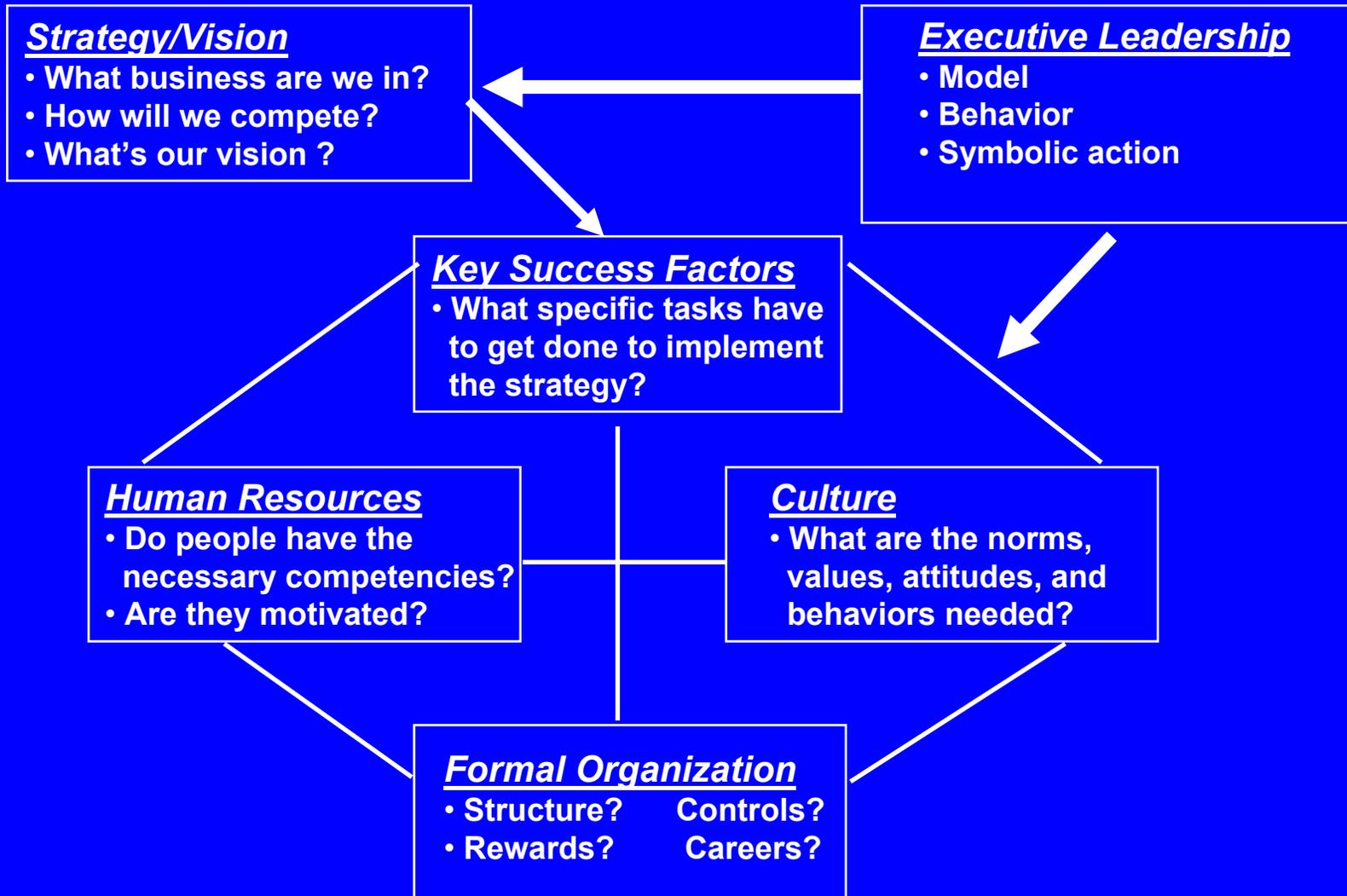
“I’ve tried to create a culture of caring for people in the totality of their lives, not just at work. There’s no magic formula. It’s like building a giant mosaic--it takes thousands of little pieces...The intangibles are more important than the tangibles. Someone can go out and buy airplanes from Boeing and ticket counters, but they can’t buy our culture, our esprit de corps.”

Herb Kelleher
CEO Southwest
WSJ 8/31/99

Several Integrative Themes

- **The role of HR in the execution of strategy**
- **The importance of alignment and consistency of HR with business strategy**

Organizational Alignment



Strategic HR Consistency

Business Unit

Strategy/ Vision / Objectives

- Products/Services
- Customers/Markets
- Technology
- Timing

Key Success Factors

1. 2. 3. 4. 5.

Human Resource Levers

- Vision\Purpose
- Recruitment/Selection
- Training/Development
- Reward and Recognition
- Careers/Promotions
- Job Design/Teamwork
- Measurement
- Information Sharing
- Culture

Degree of Alignment (- / 0 / +)

+	0	0	0	-
+	+	+	0	+
+	+	+	0	+
+	+	-	0	-
+	0	-	0	-
+	0	-	0	0
0	0	0	0	0
+	+	-	0	0
+	+	-	0	+

Several Integrative Themes

- **The role of HR in the execution of strategy**
- **The importance of alignment and consistency of HR with business strategy**
- **The range of HR levers available to managers**

Looking Back on the course....

Exposure to some intriguing HR practices

- *Vision, values, and key success factors*
- *Open Book Management (critical #s)*
- *Team-based systems (social control)*
- *Selection for “fit” as well as skills*
- *Investing in people (intellectual capital)*
- *Long-term employment vs. free agency*
- *Psychological vs. financial ownership*
- *Performance management*

HR and Competitive Advantage

- *The bad news: It's not easy to do.
The good news: It's hard to imitate.*
- *The HR levers for competitive advantage are identifiable. The only issue is whether we consciously manage them.*

To do this effectively requires us to think about motivation in a non-intuitive way.

Conventional Model of Motivation

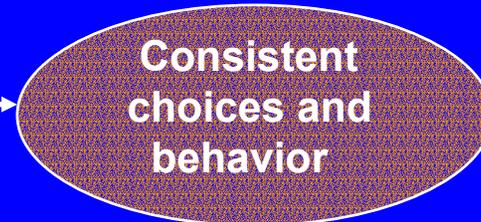
As individuals we have



These shape our



Which lead to



This approach:

- Fits our intuition
- Makes us feel good
- Doesn't work very well

Personality → Attitudes → Behavior

Brigham Young University Study

Visible 90%

Not Visible 16%

Stanford University Prison Experiment

“I was surprised at myself... I made them call each other names and clean the toilet out with their bare hands. I practically considered the prisoners cattle...”

“I was tired of seeing the prisoners in their rags and smelling them. I watched them tear at each other on orders given by us.”

**Stanford students acting
as guards in Zimbardo's experiment**

Milgram Obedience Study

Question:

What proportion of a group of normal adults would voluntarily deliver what they believed to be a fatal electric shock to another human being?

The Fundamental Attribution Error

When we watch people behave, we tend to “see” their behavior as being “caused” by something about their personality or dispositions.

When we explain our own behavior, we are far more conscious of the pressure of the situation (e.g., deadlines, rewards, the opinions of others.)

An Alternative Model of Motivation

This approach is

- less intuitive
- more useful to managers
- more powerful

We work in settings with

Strategies
Structures
Reward systems
Leaders

Which get us focused on

Specific tasks
Subunit objectives
Salient information
Coworkers

Which shape our

Expectations
Choices
Interpretations
Behavior

Attitudes



Behavior



Context

What really “explains” behavior?

What our intuition says that drives behavior

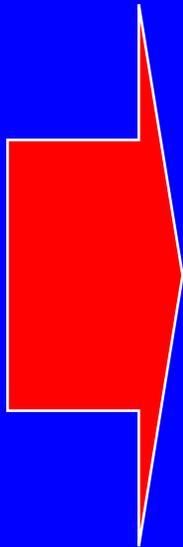
What we observe

What we don't “see” because of our focus on the individual

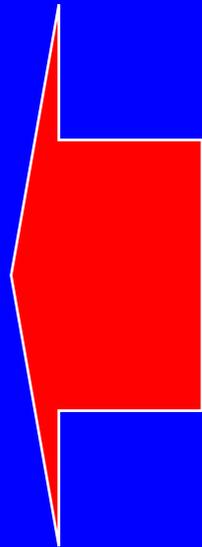
Personality

Values and Beliefs

Demographics



Attitudes and Behavior



Rewards

Roles

Background

Organizational Culture

Situational Pressures

These can be managed only through selection

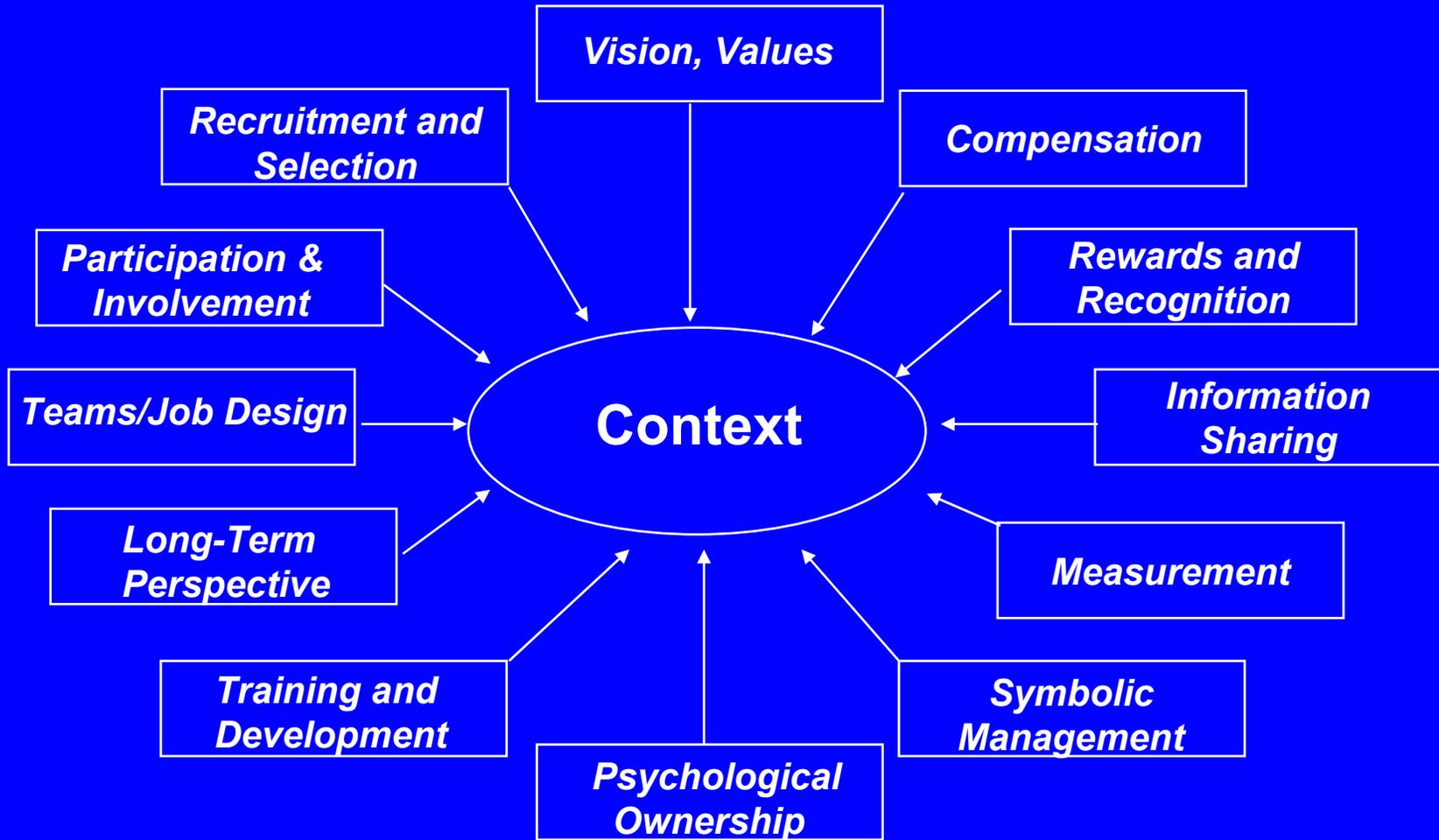
These can be managed by designing the context

The Social Construction of Reality

“Three people were at work on a construction site. All were doing the same job, but when each was asked what his job was, the answers varied. ‘Breaking rocks,’ the first replied. ‘Earning my living,’ said the second. ‘Helping to build a cathedral,’ said the third,”

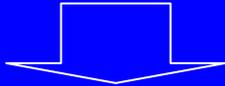
Peter Schutz
Former CEO
Porsche

HR Levers to Manage Context

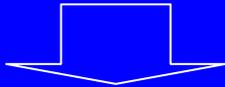


Conventional View of Strategy

Strategy



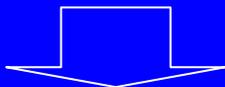
Functional Strategies



Key Success Factors



Organizational Alignment



Senior Management Role

What business are we in?
How will we compete?

Marketing, manufacturing,
finance, HR, etc.

What critical tasks must get
done to execute the strategy?

Design practices and systems
(recruitment and selection,
performance management,
Training and development, etc.)

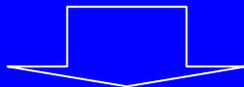
Monitor alignment and
compliance

A Values-Based View of Strategy

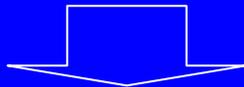
Fundamental values or beliefs



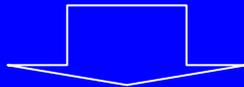
Design management practices that reflect and embody these values



Use these to build core capabilities



Invent a strategy consistent with the values using capabilities to compete in new and unusual ways



Senior Management's Role

- What are our basic principles?
- What do we believe in?

- What policies and practices are consistent with these values?

- What can we do for the customer better than our competitors?

- Given our capabilities, how can we deliver value to customers in a way our competitors cannot easily imitate?

- Manage the values and culture of the firm.

All Organizations Have “Values”

“Business people don’t like to talk about values. But without these, all business is about is making money. To me, achieving business goals is great. But no business goal is worth sacrificing your values...You *can* build an organization based on mutual loyalty, even in today’s economy. But you can’t do it if you treat people as disposable.”

Pat Kelly
CEO, PSS World

What are the values of this organization?

- Career resilience
- Employment at will
- “Buy” rather than “Make”
- Lean staffing
- Periodic downsizing
- Outsourcing
- Individual incentives
- Pay-for-performance
- Wage dispersion
- Shareholder value first and last

Values-based Organizations

“These organizations place less emphasis on following a clear strategy than on building a rich, engaging corporate purpose...focus less on formal structural design and more on effective management processes...and are less concerned with controlling employees’ behavior than with developing their capabilities. Such a transformation can start only with top management.”

Chris Bartlett and Sumantra Ghoshal

Value-based Practices

- Values and culture come first.
- Hiring for fit.
- Investment and opportunities for *all* people in the company.
- Widespread information sharing of operational and financial data.
- Reliance on teams and involvement.
- Emphasis on equity and non-monetary rewards.
- Leaders, not managers.

Two Bases of “Ownership”

Financial Ownership

Yes

No

Yes

Southwest

ServiceMaster
SAS Institute
NUMMI

Psychological Ownership

No

Many High Tech
Firms

Traditional
Companies

HR's Role

- **The job of Human Resources is *NOT* primarily to:**
 - Keep the company out of court
 - Enforce rules and maintain consistency.
 - Manage administrative processes.
 - Tell people “No”.
- **HR's job is to:**
 - Help build and reinforce the company's values and culture
 - Play a leadership role in building capabilities that ensure the successful execution of business strategy.

“The most effective way to forge a winning team is to call on the player’s needs to connect with something larger than themselves.”

Phil Jackson
Former coach of the
Chicago Bull, now coach
of the L.A. Lakers

References and Resources

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Note: This presentation draws heavily from lectures given by Professor Charles O'Reilly in an MBA course, "Strategic Human Resource Management" given at the Harvard Business School in 1999-2000. Professor O'Reilly is a faculty member at the Stanford Graduate School of Business.