

15.660

**Strategic Human Resource
Management**



MIT Sloan School of Management

Why a course in Human Resources?



- ✦ Managing people is a central challenge in every organization.
- ✦ All managers need to understand the strategic, general management perspective on HR.
- ✦ HR integrates other core courses
 - ✦ Organizational Processes
 - ✦ Strategy
 - ✦ Economics

Mechanics of the Course



Grading:

- 40% Class Participation
- 20% Case Write-ups
- 40% Final Quiz



A Brief Review of Strategy

Sources of Sustainable Competitive Advantage



- ✦ Valuable to the firm in that it exploits weaknesses or neutralizes threats
- ✦ Must be rare among competitors
- ✦ Must be difficult for competitors to imitate
- ✦ Must not be easily substitutable

The New Competitive Environment



- ❖ Shortened product life-cycles
- ❖ Erosion of patent protection
- ❖ Decreased regulation and protected markets
- ❖ Increased access to capital markets
- ❖ Increasing importance of innovation, both process and product

HR is a key lever in addressing these challenges!

HR & Competitive Advantage



- ❖ The International Motor Vehicle Study, a worldwide research study of the automobile industry conducted at MIT showed that people-centered practices were associated with almost twice the productivity and quality as conventional mass production.
- ❖ Similar studies in steel, apparel, and semiconductors, sponsored by the Alfred P. Sloan Foundation, reveal similar positive effects for people-centered practices.

Prominent HR Issues in the 21st Century United States



- ❖ Widespread corporate restructuring
- ❖ Increases in contingent work
- ❖ New work organizations
- ❖ Growing diversity

Behaviors Driven by HR



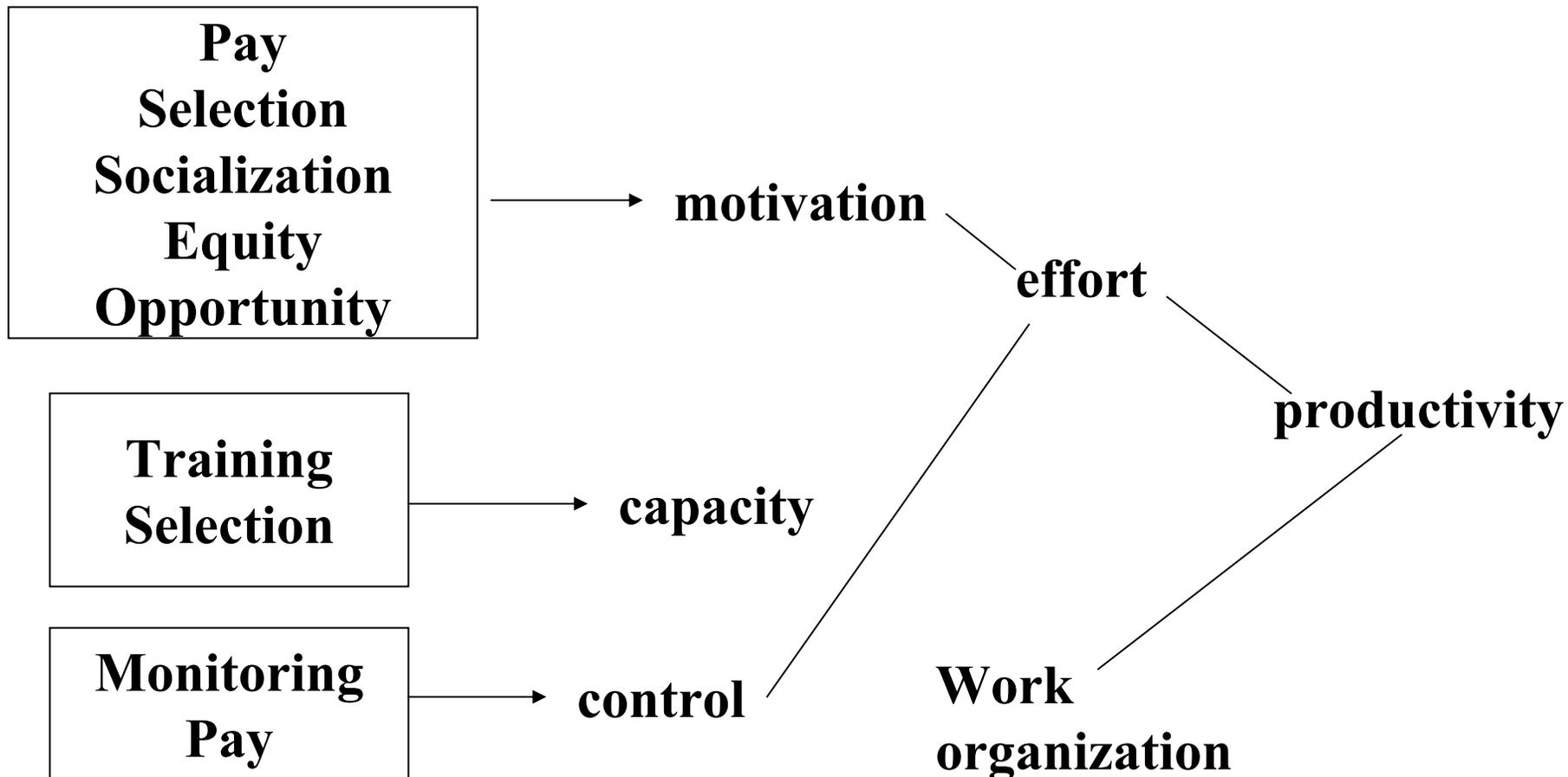
- ❖ Recruitment and Turnover
- ❖ Commitment to Organization
 - ❖ Loyalty
 - ❖ Effort
- ❖ Innovation
- ❖ Attitude towards customers
- ❖ Ability to do the job (skills)

INTELLECTUAL BASIS FOR HR



- ❖ **ECONOMICS:**
compensation/incentives
- ❖ **SOCIOLOGY:** group norms
- ❖ **PSYCHOLOGY:** motivation
- ❖ **POLITICAL SCIENCE:** the environment

A MODEL OF HUMAN RESOURCES



HR CHOICES: FUNCTIONAL



- ❖ **Individual work v. team work**
- ❖ **Pay for job v. pay for individual v. pay for group v. pay for need**
- ❖ **Make or buy skills**
- ❖ **Promote from within v. recruit at all levels**
- ❖ **Job security v. no commitments**

HR CHOICES: PHILOSOPHY



- ❖ **Motivate by money v. peers v. the work**
- ❖ **Egalitarianism v. meritocracy**
- ❖ **Assume shirking v. assume inherent desire to do good work**
- ❖ **Centralized v. decentralized control**

WHY DIFFERENT CHOICES ARE MADE



EXTERNAL FACTORS

- **External Labor Market**
- **Government Policy**
- **Business and Union Organization**

INTERNAL FACTORS

- **Technology/Work Organization**
- **Business Strategy/Markets**
- **Values**

SOME TECHNICAL CONSIDERATIONS



- ❖ **Degree of proximity**
- ❖ **Degree of skill specificity**
- ❖ **Degree of coupling across worker tasks**
- ❖ **Ease of monitoring**
- ❖ **Ambiguity of worker tasks**
- ❖ **Importance of creativity/discretion**

MOTIVATIONS



- ❖ **LOAFING/FREE RIDING**
- ❖ **OUTPUT RESTRICTION**
- ❖ **CRAFT PRIDE**
- ❖ **ORGANIZATIONAL COMMITMENT**
- ❖ **GIFT EXCHANGE**
- ❖ **MONEY=EFFORT**

Southwest Airlines



Case Discussion

Southwest Airlines



“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
Wall Street
Journal
8/31/99

Southwest Airlines



- ✦ Only major airline to have earned a profit every year for nearly three decades.
- ✦ Southwest has won the Triple Crown (best on time performance, fewest complaints, fewest lost bags) for 5 years in a row. No other airline has won this award.
- ✦ Southwest's operating costs are 20% below the industry average. Company is 84% unionized.
- ✦ Now serves over 52 cities with 26,000 employees.
- ✦ In 1998 they had over 140,000 job applicants.

Three Questions:



1. What does it take to make money in Southwest's business? What are Southwest's sources of competitive advantage? Are they sustainable?
2. How serious is the threat of competition? Can other airlines copy the Southwest model? How?
3. What are your concerns? What does Southwest need to do to continue their success?

Southwest Airlines



Talking about Southwest's recruiting. Kelleher says, "We draft great attitudes. If you don't have a good attitude, we don't want you, no matter how skilled you are."

What are your reactions to this approach?

Mission Statement



“The mission of Southwest Airlines is dedicated to the highest quality of customer service delivered with a sense of warmth, friendliness, individual pride, and company spirit.”

Does this matter at Southwest? Why?

To Our Employees:

“We are committed to provide our employees a stable work environment with equal opportunity for learning and personal growth. Creativity and innovation are encouraged for improving the effectiveness of Southwest Airlines. Above all, employees will be provided the same concern, respect, and caring attitude within the organization that they are expected to share externally with every Southwest Customer.”



“Every company I have ever gone in, they say people are number one, but they’re just not. They don’t live up to that, and we do.”

**Gary Kelly
Chief Financial Officer
Southwest Airline**

Airline Performance, January 1999

	<u>On-time Percent</u>	<u>Lost bags per 1000</u>	<u>Complaints per 100,000</u>
Southwest	76.7% - 1	5.70 - 3	0.40 - 1
Continental	72.0% - 2	8.49 - 6	1.46 - 3
Delta	71.4% - 3	7.63 - 5	1.52 - 4
American West	68.3% - 4	5.21 - 1	3.21 - 8
American	67.1% - 5	7.20 - 4	2.12 - 6
Alaska	66.5% - 6	8.87 - 7	1.34 - 2
United	66.5% - 7	11.3 - 9	1.92 - 5
Northwest	62.7% - 8	10.3 - 8	3.89 - 10
TWA	60.0% - 9	12.0 - 10	3.88 - 9
USAir	58.2% - 10	5.37 - 2	3.06 - 7

Southwest Takeaways

- ❖ A simple, consistent strategy
- ❖ Aligned and consistent HR practices

Long-term perspective on employment

Stability

Job design

Training and development

Careers

Compensation

Performance-based

Ownership

Compressed wages

Selection for "attitude" and "fit"
Strong culture -- family, performance
Leadership reinforcement
Information sharing
Psychological Ownership

Wrap-up



Brief Overview of this Course

Organization of the Course



- Section 1: The importance of **HR alignment** as a basis of competitive advantage.
- Section 2: **HR levers** for general managers in linking HR to strategy
- Section 3: Summary and integration

Course Objectives



- ✦ Think analytically about management systems.
- ✦ Recognize the strategic and competitive advantage associated with effective human resource management practices.
- ✦ Understand key HR levers available to managers.

Cases this term



- **Airlines**

- Southwest, Eastern Airlines

- **Services**

- Portman Hotel, Morgan Stanley, Safelight, ServiceMaster, John Snow Institute, Harrah's

- **Retailing**

- Nordstrom

- **Technology**

- Visionary Design Systems, SAS Institute

- **Manufacturing**

- NUMMI, Slade, Springfield ReManufacturing

Conclusion



- ✦ Next Class:
 - ✦ Portman Hotel