

STRATEGIC HUMAN RESOURCES MANAGEMENT

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Learning Objectives

After completing this chapter, the reader 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.

Introduction

Like most other service industries, the healthcare industry is very 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 heterogeneity of 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 for service delivery and the possibility of variability in professional practice require that the attention of leaders in the industry be directed toward managing the performance of the persons involved in the delivery of services. The effective management of people requires that healthcare executives understand the factors that influence the performance of individuals employed in their organizations. These factors include not only the traditional *human resources management* (HRM) activities (i.e., recruitment

and selection, training and development, appraisal, compensation, and employee relations) but also the environmental and other organizational aspects that impinge on human resources (HR) activities.

Strategic human resources management (SHRM) refers to the comprehensive set of managerial activities and tasks related to developing and maintaining a qualified workforce. This workforce, in turn, contributes to organizational effectiveness, as defined by the organization's strategic goals. SHRM occurs in a complex and dynamic milieu of forces within the organizational context. A significant trend that started within the last decade is for HR managers to adopt a strategic perspective of their job and to recognize critical linkages between organizational strategy and HR strategies (Fottler et al. 1990; Greer 2001).

This book explains and illustrates the methods and practices for increasing the probability that competent personnel will be available to provide the services delivered by the organization and that these employees will appropriately perform the necessary tasks. Implementing these methods and practices means that requirements for positions must be determined, qualified persons must be recruited and selected, employees must be trained and developed to meet future organizational needs, and adequate rewards must be provided to attract and retain top performers. All of these functions must be managed within the legal constraints imposed by society (i.e., 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.

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 facilitate or constrain efforts to attain strategic objectives.

Healthcare executives do not want to hire the wrong person, to experience high turnover, to manage unmotivated employees, to be taken to court for discrimination actions, to be cited for unsafe practices, to have poorly trained staff undermine patient satisfaction, or to commit unfair labor practices. Despite their best efforts, executives often fail at HRM because they hire

the wrong people or they do not motivate or develop their staff. The material in this book can help executives avoid mistakes and achieve great results with their workforce.

Healthcare organizations can gain a competitive advantage over competitors by effectively managing their human resources. This competitive advantage may include cost leadership (i.e., being a low-cost provider) and product differentiation (i.e., 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).

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," Jeffrey Pfeffer (1998) 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 occur 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. See Figure 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 (or lack thereof) with each other and with the organizational mission, values, culture, strategies, goals, and objectives (Ford et al. 2006).

The bad news about achieving competitive advantage through the workforce is that it inevitably takes time to accomplish (Pfeffer 1998). The good news is that, once achieved, this type of competitive advantage is likely to be more enduring and more difficult for competitors to duplicate. Measurement is a crucial component for implementing the seven HR practices listed in Figure 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 in further development of or changes to practices as well as in monitoring how each practice is achieving its intended purpose.

Most of these HR practices are described in more detail throughout the book. Although the evidence presented in the literature shows that effective

FIGURE 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, among other things, 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.* Pfeffer is particularly keen on the way teams can substitute peer-based control of work for hierarchical control, thereby allowing for the elimination of 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 in the eastern United States had three months to turn the company around or go bust. The new boss increased the salaries of his store managers by 40 percent to 50 percent, enabling managers to concentrate on improving performance rather than complain 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: Pfeffer (1998)

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. First, however, a discussion of environmental trends is in order.

Environmental Trends

Among the major environmental trends that affect healthcare institutions are changing financing arrangements, emergence of new competitors, advent of new technology, low or declining inpatient occupancy rates, changes in physician-organization relationships, transformation of the demography and increase in

diversity of the workforce, shortage of capital, increasing market penetration by managed care, heightened pressures to contain costs, and greater expectations of patients. The results of these trends have been increased competition, the need for higher levels of performance, and concern for institutional survival. Many healthcare organizations are closing facilities; undergoing corporate reorganization; instituting staffing freezes and/or reductions in workforce; allowing greater flexibility in work scheduling; providing services despite fewer resources; restructuring and/or redesigning jobs; outsourcing many functions; and developing leaner management structures, with fewer levels and wider spans of control.

Organizations are pursuing various major competitive strategies to respond to the current turbulent healthcare environment, including offering low-cost health services, providing superior patient service through high-quality technical capability and customer service, specializing in key clinical areas (e.g., becoming centers of excellence), and diversifying within or outside healthcare (Coddington and Moore 1987). In addition, organizations are entering into strategic alliances (Kaluzny, Zuckerman, and Ricketts 1995) and restructuring their organizations in various ways. Regardless of which strategies are being pursued, all healthcare organizations are experiencing a decrease in staffing levels in many traditional service areas and an increase in staffing in new ventures, specialized clinical areas, and related support services (Wilson 1986).

Staffing profiles in healthcare today are characterized by a limited number of highly skilled and well-compensated professionals. Healthcare organizations are no longer “employers of last resort” for the unskilled. At the same time, however, most organizations are experiencing shortages of various nursing and allied health personnel.

The development of appropriate responses to the ever-changing healthcare environment has received so much attention that HRM planning is now well accepted in healthcare organizations. However, implementation of such plans has often been problematic. The process often ends with the development of goals and objectives and does not include strategies or methods of implementation and ways to monitor results. Implementation appears to be the major difficulty in the overall management process (Porter 1980).

A major reason for this lack of implementation has been failure of healthcare executives to assess and manage the various external, interface, and internal stakeholders whose cooperation and support are necessary to successfully implement any business strategy (i.e., corporate, business, or functional) (Blair and Fottler 1990). A stakeholder is any individual or group with a “stake” in the organization. *External stakeholders* include patients and their families, public and private regulatory agencies, and third-party payers. *Interface stakeholders* are those who operate on the “interface” of the organization

in both the internal and external environments; these stakeholders may include members of the medical staff who have admitting privileges or who are board members at several institutions. *Internal stakeholders* are those who operate within the organization, such as managers, professionals, and nonprofessional employees.

Involving supportive stakeholders, such as employees and HR managers, is crucial to the success of any HRM plan. If HR executives are not actively involved, then employee planning, recruitment, selection, development, appraisal, and compensation necessary for successful plan implementation are not likely to occur. McManis (1987, 19) notes that “[w]hile many hospitals have elegant and elaborate strategic plans, they often do not have supporting human resource strategies to ensure that the overall corporate plan can be implemented. But strategies don’t fail, people do.” Despite this fact, the healthcare industry as a whole spends less than one-half the amount that other industries are spending on human resources management (*Hospitals* 1989).

The SHRM Model

A strategic approach to human resources management includes the following (Fottler et al. 1990):

- 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—in terms of 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

Figure 1.2 provides some examples of possible linkages between strategic decisions and HRM practices.

SHRM has not been given as high a priority in healthcare as it has received in many other industries. This neglect is particularly surprising in a labor-intensive industry that requires the right people in the right jobs at the right times and that often undergoes shortages in various occupations (Cerne 1988). 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 comparable, although less progressive, organizations do (Gomez-Mejia 1988; Huselid 1994; Huselid, Jackson, and Schuler 1997; Kravetz 1988).

<i>Strategic Decision</i>		<i>Implications on HR Practices</i>
Pursue low-cost competitive strategy	→	Provide lower compensation Negotiate give-backs in labor relations Provide training to improve efficiency
Pursue service-quality differentiation competitive strategy	→	Provide high compensation Recruit top-quality candidates Evaluate performance on the basis of patient satisfaction Provide training in guest relations
Pursue growth through acquisition	→	Adjust compensation Select candidates from acquired organization Outplace redundant workers Provide training to new employees
Pursue growth through development of new markets	→	Promote existing employees on the basis of an objective performance-appraisal system
Purchase new technology	→	Provide training in using and maintaining the technology
Offer new service/product line	→	Recruit and select physicians and other personnel
Increase productivity and cost effectiveness through process improvement	→	Encourage work teams to be innovative Take risks Assume a long-term perspective

FIGURE 1.2
Implications
of Strategic
Decisions on
HR Practices

Figure 1.3 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 in this book. The bottom line of Figure 1.3 is that organizations are moving to higher levels of flexibility, collaboration, decentralization, and team orientation. This transformation is driven by the environmental changes and the organizational responses to those changes discussed earlier.

FIGURE 1.3

Strategic
Human
Resources
Trends

Old HR Practices**Job Analysis/Planning**

Explicit job descriptions
Detailed HR planning
Detailed controls
Efficiency

Staffing

Supervisors make hiring decisions
Emphasis on candidate's technical qualifications
Layoffs
Letting laid-off workers fend for themselves

Training and Development

Individual training
Job-specific training
"Buy" skills by hiring experienced workers
Organization responsible for career development

Performance Appraisal

Uniform appraisal procedures
Control-oriented appraisals
Supervisor inputs only

Compensation

Seniority
Centralized pay decisions
Fixed fringe benefits

Employee Rights and Discipline

Emphasis on employer protection
Informal ethical standards
Emphasis on discipline to reduce mistakes

Employee and Labor Relations

Top-down communication
Adversarial approach
Preventive labor relations

Current HR Practices

Broad job classes
Loose work planning
Flexibility
Innovation

Team makes hiring decisions
Emphasis on "fit" of applicant within the culture
Voluntary incentives to retire
Providing continued support to terminated employees

Team-based training
Generic training emphasizing flexibility
"Make" skills by training less-skilled workers
Employee responsible for career development

Customized appraisals
Developmental appraisals
Appraisals with multiple inputs

Performance-based pay
Decentralized pay decisions
Flexible fringe benefits (i.e., cafeteria approach)

Emphasis on employee protection
Explicit ethical codes and enforcement procedures
Emphasis on prevention to reduce mistakes

Bottom-up communication and feedback
Collaboration approach
Employee freedom of choice

The SHRM Process

As illustrated in Figure 1.4, a healthcare organization is made up of systems that require constant interaction within the environment. To remain viable, an organization must adapt its strategic planning and thinking to extend to external changes. The internal components of the organization are affected by these changes, so the organization's plans may necessitate modifications in terms of the internal systems and HR process systems. There must be harmony among these systems.

The characteristics, performance levels, and amount of coherence in operating practices among these systems influence the outcomes achieved in terms of organizational and employee-level measures of performance. HR goals, objectives, process systems, culture, technology, and workforce must be aligned with each other (i.e., internal alignment) and with various levels of organizational strategies (i.e., external alignment) (Ford et al. 2006).

Internal and External Environmental Assessment

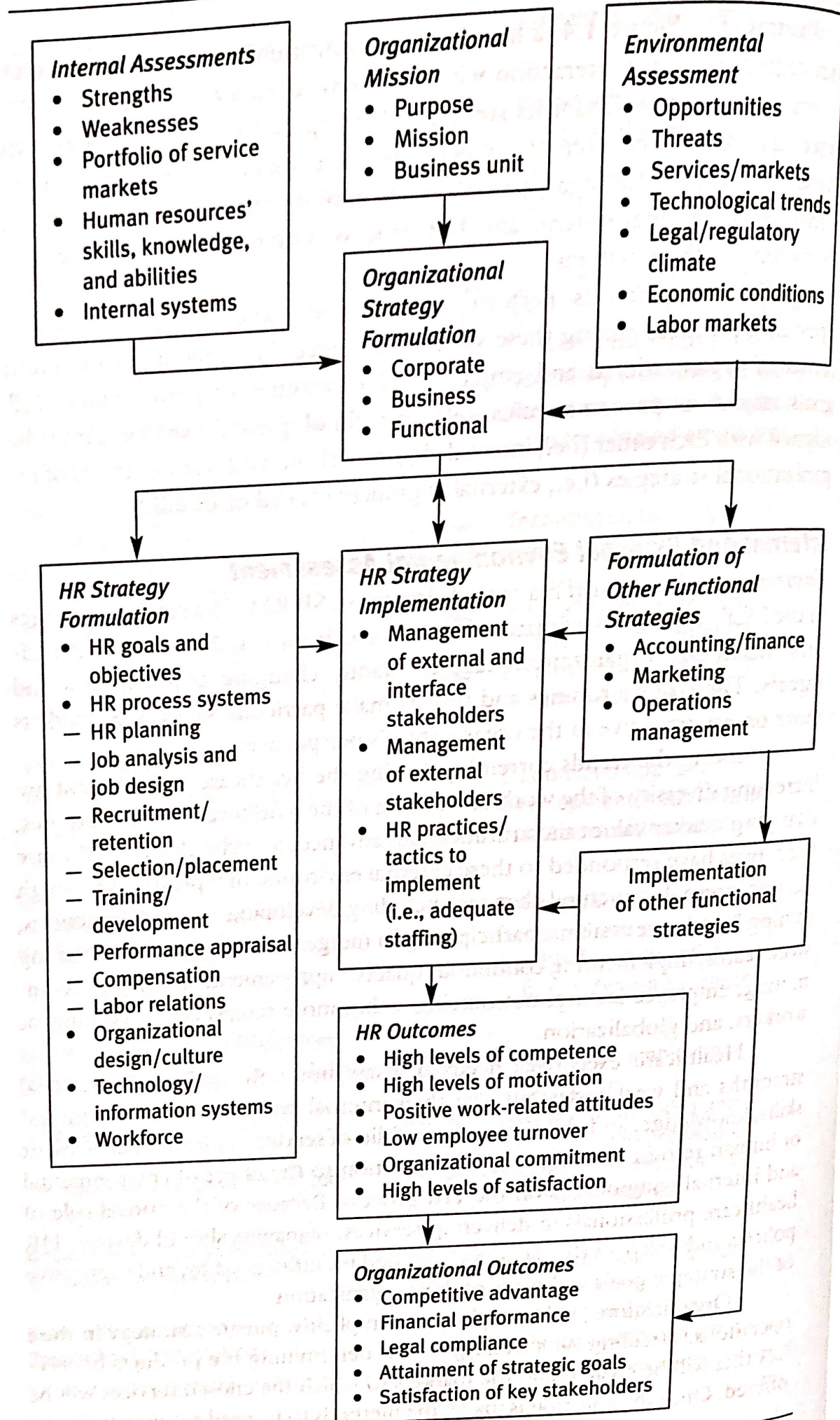
Environmental assessment is a crucial element of SHRM. As a result of changes in the legal/regulatory climate, economic conditions, and labor-market realities, healthcare organizations face constantly changing opportunities and threats. These opportunities and threats make particular services or markets more or less attractive in the organization's perspective.

Among the trends currently affecting the healthcare environment are increasing diversity of the workforce, 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, employee leasing, outsourcing, using more temporary or contingent workers, and globalization.

Healthcare executives need to assess not only their organizational strengths and weaknesses but also their internal systems; human resources' skills, knowledge, and abilities; and portfolio of service markets. Management of human resources involves paying attention to the effect of environmental and internal components on the HR process. Because of the critical role of healthcare professionals in delivering services, 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 means determining the products or services that will be created and the markets to which the chosen services will be offered. Once the selection is made, the methods to be used to compete in the

FIGURE 1.4
SHRM
Model



chosen market must be identified. The methods adopted are based on internal resources available, or potentially available, for use by managers. As shown in Figure 1.4, strategies should consider environmental conditions and organizational capabilities. To be in a position to take advantage of opportunities that are anticipated to occur, as well as to parry potential threats from changed conditions or competitor initiatives, managers must have detailed knowledge of the current and future operating environment. Cognizance of internal strengths and weaknesses allows managers to develop plans based on an accurate assessment of the organization's ability to perform in the marketplace at the desired level.

SHRM does not occur in a vacuum; rather, it occurs in a complex and dynamic constellation of forces in the organizational context. One significant trend has been for HR managers to adopt a strategic perspective and to recognize the critical links between human resources and organizational goals. As seen in Figure 1.4, 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 the HR function 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.

When HR is viewed as a strategic partner, talking about the single best way to do anything makes no sense. Instead, the organization must adopt HR practices that are consistent with its strategic mission, goals, and objectives. In addition, all healthcare executives are HR managers. Proper management of employees entails having effective supervisors and line managers throughout the organization.

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 on the importance the organization places on its human resources. The purpose and mission affect HR practices in obvious ways. A nursing home, for example, must employ nursing personnel, nurse aides, and food service workers to meet the needs of its patients.

The first step in formulating a corporate and business strategy is doing a *SWOT* (strengths, weaknesses, opportunities, and threats) *analysis*. The managers then attempt to use the organization's strengths to capitalize on

environmental opportunities and to cope with environmental threats. Human resources play a fundamental role in SWOT analysis because the nature and type of people who work within an organization and the organization's ability to attract new talent represent significant strengths and weaknesses.

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

A key challenge for HR managers when the organization is using a corporate growth strategy is recruiting and training large numbers of qualified employees, who are needed to provide services in added operations. New-hire training programs may also be needed to orient and update the skills of incoming employees. In Figure 1.4, the two-way arrows connecting "Organizational Strategy Formulation" and "HR Strategy Formulation" indicate that the impact of the HR function should be considered in the initial development of organizational strategy. 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 then develop an HR strategy. This strategy commonly includes a staffing strategy (planning, recruitment, selection, placement), a developmental strategy (performance management, training, development, career planning), and a compensation strategy (salary structure, employee incentives).

A *staffing strategy* refers to 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 undertaken only after a careful and systematic development of the corporate and business strategies so that staffing activities mesh with other strategic elements of the organization. For example, if retrenchment is part of the business strategy, the staffing strategy will focus on determining which employees to retain and what process to use in termination.

A *developmental strategy* helps the organization enhance the quality of its human resources. This strategy must also be consistent with the corporate and business strategies. For example, if the organization wishes to follow a strategy of differentiating itself from competitors through customer focus and service quality, then it will need to invest heavily in training its employees to provide the highest-quality service and to ensure that performance manage-

ment focuses on measuring, recognizing, and rewarding performance—all of which lead to high levels of 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 (e.g., 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. When formulating and implementing an HR strategy and the basic HR components discussed earlier, managers must account for other key parts of the organization, such as organizational design, corporate culture, technology, and the workforce (Bamberger and Fiegelbaum 1996).

Organizational design refers to the framework of jobs, positions, groups of positions, and reporting relationships among positions. Most healthcare organizations use a *functional design* whereby members of a specific occupation or role are grouped into functional departments such as OB-GYN, surgery, and emergency services. Management roles are also divided into functional areas such as marketing, finance, and human resources. The top of the organizational chart is likely to reflect positions such as chief executive officer (CEO) and vice presidents of marketing, finance, and human resources. To operate efficiently, and allow for seamless service, an organization with a functional design requires considerable coordination across its various departments.

Many healthcare organizations have been moving toward a flat organizational structure or *horizontal corporation*. Such an organization is created by eliminating levels of management, reducing bureaucracy, using wide spans of control, and relying heavily on teamwork and coordination to get work accomplished. These horizontal corporations are designed to be highly flexible, adaptable, streamlined, and empowered. The HR function in such organizations is typically diffused throughout the system so that operating managers take on more of the responsibility for HR activities and the HR staff play a consultative role.

Corporate culture refers to the set of values that help members of that culture understand what they stand for, how they do things, and what they consider important. Because culture is the foundation of the organization's internal environment, it plays a major role in shaping the management of human resources, determining how well organizational members will function together and how well the organization will be able to achieve its goals. There is no ideal culture for all organizations, but a strong and well-articulated culture enables employees to know what the organization stands for, what it values, and how to behave. A number of forces shape an organization's culture,

including the founder or founders, institutional affiliations, shared experiences, symbols, stories, slogans, heroes, and ceremonies.

Managers must recognize the importance of culture and take appropriate care to transmit that culture to others in the organization. Culture can be transmitted through orientation, training, consistent behavior (i.e., walking the talk), corporate history, and telling and retelling of stories. Culture may facilitate the work of either HR managers or line managers. If the organization has a strong, well-understood, and attractive culture, recruiting and retaining qualified employees become easier. If the culture is perceived as weak or unattractive, recruitment and retention become problematic. Likewise, the HR function can reinforce an existing culture by selecting new employees who have values that are consistent with that culture.

Technology also plays a role in the formulation and implementation of an HR strategy. The HR activities of healthcare organizations are quite different from those in the manufacturing industry. In healthcare, different criteria for hiring and methods of training are used. In addition, healthcare organizations typically emphasize educational credentials. Many aspects of technology play a role in HR in all healthcare settings. For example, automation of certain routine functions may reduce demand for certain HR activities but may increase it for others. Computers and robotics are important technological elements that affect HRM, and rapid changes in technology affect employee selection, training, compensation, and other areas.

Appropriately designed management information systems provide data to support planning and management decision making. HR information is a crucial element of such a system, as such information can be used for both planning and operational purposes. For example, strategic planning efforts may require data on the number of professionals in various positions who will be available to fill future needs. Internal planning may require HR data in categories such as productivity trends, employee skills, work demands, and employee turnover rates. The use of an intranet (an internal internet that is available to all members of an organization) can improve service to all employees, help the HR department, and reduce many routine administrative costs (Gray 1997).

Finally, *workforce composition* and trends also affect HR strategy formulation and implementation. The American workforce has become increasingly diverse in numerous ways. It has seen growth in the number of older employees, women, Latinos, Asians, African Americans, foreign born, the disabled, single parents, gays, lesbians, and people with special dietary preferences. Previously, most employers observed a fairly predictable employee pattern: People entered the workforce at a young age, maintained stable employment for many years, and retired at the usual age—on 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.

As mentioned earlier, the successful implementation of an HR strategy generally requires identifying and managing key stakeholders (Blair and Fottler 1990, 1998). The HR strategy, as all other strategies, can only be implemented through people; therefore, such implementation requires motivational and communication processes, goal setting, and leadership. Specific practices or tactics are also necessary to implement the HR strategy. For example, if a healthcare organization's business strategy is to differentiate itself from competitors through its high-level focus on meeting customer (patient) needs, then the organization may formulate an HR strategy to provide all employees with training in guest relations.

However, that training strategy alone will not accomplish the business objective. Methods for implementation also need to be decided; for example, should the training be provided in-house or externally through programs such as those run by the Disney Institute? 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 associated with the business goal of differentiation through customer service. Obviously, the organization will also develop and implement other functional strategies in accounting/finance, marketing, operations management, and other areas. Positive or negative organizational outcomes are determined by how well all of these functional strategies are formulated, aligned, and implemented.

HR Outcomes and Performance

The outcomes achieved by a healthcare organization depend on its environment, its mission, its strategies, its HR process systems, its internal systems and the consistency with which the operating practices are followed across these systems, and its capability to execute all of the above factors. The appropriate methods for organizing and relating these factors are determined by the outcomes desired by managers and other major stakeholders, and numerous methods exist for conceptualizing organizational performance and outcomes (Cameron and Whetten 1983; Goodman and Pennings and Associates 1977). For this discussion, the specific outcomes are HR outcomes and organizational outcomes (see the two bottom boxes in Figure 1.4).

Numerous HR outcomes are associated with HR practices. 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 will not be able to attract and retain the number, type, and quality of professionals required to deliver quality health services if the internal work environment is unsuitable. In addition, employees are a valuable stakeholder group whose concerns are important because of the complexity of the service they provide. Job satisfaction (Starkweather and Steinbacher 1998), commitment to the organization (Porter et al. 1974), motivation (Fottler et al. 2006), levels of job stress (DeFrank and

Ivancevich 1998), and other constructs can be used as measures of employee attitude and psychological condition.

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 the HR function as a whole as well as the various HR tasks. Today, HR is under some scrutiny, as management and other areas of the organization inquire how various HR activities contribute to performance outcomes (*HR Focus* 2005a). Specifically, the questions often focus on the return on investment (ROI) of HR activities.

Human capital metrics have been developed to determine how HR activities contribute to the organization's bottom line (*HR Focus* 2005b). Some employers now 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 there is also a need to measure the overall contribution of the HR function to organizational performance and outcomes (Lawler, Levenson, and Boudreau 2004).

The HR Scorecard is one method to measure this contribution. This tool is basically a modified version of the balanced scorecard (BSC), 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" reflects the need for short-term and long-term objectives, financial and nonfinancial metrics, lagging and leading indicators, and internal and external performance perspectives. A book entitled *The Workforce Scorecard* extends research on the BSC to maximize workforce potential (Huselid, Becker, and Beatty 2005). The authors show that traditional financial performance measures are "lagging" performance indicators, which can be predicted by the way organizations manage their human resources. HR practices are the "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 "what gets measured gets managed," Mayo's HR balanced scorecard measures and monitors a large number of input and output HR indicators that are aligned with the organization's mission and strategic goals. This HR scorecard measures financial (i.e., staff retention savings), customer (i.e., employee

retention, patient satisfaction), internal (i.e., time to fill positions), and learning (i.e., staff satisfaction, perceived training participation) areas.

Organizational Outcomes and Performance

For long-term survival, a healthcare organization must have a balanced, exchange relationship with the environment. This equitable relationship must exist because it is mutually beneficial to the organization and to the environment with which it interacts. A number of outcome measures can be used to determine how well the organization is performing in the marketplace and is producing a service that will be valued by consumers, such as growth, profitability, ROI, competitive advantage, legal compliance, strategic objectives attainment, and key stakeholder satisfaction. The latter 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 are stressed by management and in the strategies, general tactics, and HR practices that are chosen. Management makes decisions that, combined with the level of fit achieved among the internal systems, determine the outcomes the institution can achieve. For example, almost all healthcare organizations need to earn some profit for continued viability. However, some organizations refrain from initiating new ventures that may be highly profitable if the ventures do not fit their overall mission of providing quality services needed by a defined population group. Conversely, some organizations may start some services that are acknowledged to be break-even propositions at best because those services are viewed as critical to their mission and the needs of their target market.

The concerns of such an organization are reflected not only in the choice of services it offers but also in the HR approaches it uses and the outcome measures it views as important. This organization likely places more emphasis on assessment criteria for employee performance and nursing unit operations that stress the provision of quality care than on criteria concerned with efficient use of supplies and the maintenance of staffing ratios. This selection of priorities does not mean that the organization is ignoring efficiency of operations; it just signals that the organization places greater weight on the former 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 for becoming 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 and selection 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 to keep them from leaving or unionizing. The outcomes in this situation will reflect, at least in the short run, 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.”

The HR Brand

In HR, *branding* refers to the organization’s corporate image or culture (Johnson and Roberts 2006). Because organizations are constantly competing for the best talent, developing an attractive HR brand is extremely 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 (HR Focus 2005c). Being acknowledged by an external source is a good way to create a recognized HR brand. Inclusion on national, published “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 Mothers’s* 100 Best Companies for Working Mothers
- *Computerworld’s* Best Places to Work in IT
- Robert Levering and Milton Moskowitz’s 100 Best Companies to Work for in America

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 19th 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 that these changes will enable HR to become a strategic player and will greatly 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.

Human Resources and the Joint Commission

The Joint Commission initiated a pilot project to assess the relationship between adequate staffing and clinical outcomes (Lovern 2001). The project was led by a 20-member national task force composed of hospital leaders, clinicians, and technical experts, among others (Joint Commission 2002). The task force submitted its recommendations, which became a standard—Standard HR 1.30—that was implemented in January 2004. This standard requires health-care organizations to assess their *staffing effectiveness* by continually screening for issues that can potentially arise as a result of inadequate staffing. Staffing effectiveness is defined as the number, competency, and skill mix of staff related to the provision of needed care, treatment, and services. The Joint Commission's focus is on the link between HR strategy implementation (i.e., adequate staffing) and organizational outcomes (i.e., clinical outcomes)—see these two boxes in Figure 1.4.

Under Standard HR 1.30, a healthcare facility selects a minimum of four screening indicators—two for clinical/service and two for human resources. The idea behind using two sets of indicators is to understand their relationship with one another; it also emphasizes that no indicator, in and of itself, can directly demonstrate staffing effectiveness. An example of a clinical/service screening indicator is an adverse drug event, and examples of HR screening indicators are overtime and staff vacancy rates. Staffing inefficiencies may be revealed by examining multiple screening indicators related to patient outcomes.

A facility has to choose at least one indicator for each clinical/service and HR category from the Joint Commission's list, and additional screening indicators can be selected based on the facility's unique characteristics, specialties, and services. This selection also defines the expected impact that the absence of direct and indirect caregivers may have on patient outcomes. The data collected on these indicators are analyzed to identify potential staffing-effectiveness issues when performance varies from expected targets—that is, ranges of performance are evaluated, external comparisons are made, and improvement goals are assessed. The data are analyzed over time against the screening indicators to identify trends, patterns, or the stability of a process. At least once a year, managers report to the senior management team regarding the aggregation and analysis of data related to staffing effectiveness and regarding any actions taken to improve staffing.

HR screening indicators include the following:

- Overtime
- Staff vacancy rates
- Staff turnover rates

- Understaffing, as compared to the facility's staffing plan
- Nursing hours per patient day
- Staff injuries on the job
- On-call per diem use
- Sick time

Clinical/service screening indicators include the following:

- Patient readmission rates
- Patient infection rates
- Patient clinical outcomes by diagnostic category

The healthcare organization is expected to drill down to determine the causes of variation when data vary from expectation. The organization then undertakes steps leading to appropriate actions that are likely to remedy identified problems. For example, analysis of the data may indicate the need for evaluation of the organization's staffing practices. If so, the organization takes specific actions to improve its performance. Examples of strategies that may be used to address identified staffing issues include the following:

- Staff recruitment
- Education/training
- Service curtailment
- Increased technology support
- Reorganization of work flow
- Provision of additional ancillary or support staff
- Adjustment of skill base

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.

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 both 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. Consequently, an organization needs to develop strategies to ensure that its employees stay on long enough so that it can 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 may or may not have an appreciation of 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 human-resources 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 encourage the development of any strategy that prevents the depreciation of its human assets, or does the organization view its human assets as a cost to be minimized?

Often, an HR investment perspective is not adopted because it involves making a longer-term commitment to employees. Because employees can leave and most organizations are infused with short-term measures of performance, investments in human assets are often ignored. Organizations that are performing well 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 to duplicate by competitors.

Who Performs HR Tasks?

The person or unit that performs HR tasks has changed drastically in recent years. Today, the typical HR department does not exist, and no particular unit or individual is charged with performing HR tasks (*HR Focus* 2005b). Internal restructuring has often resulted in a shift as to who carries out HR tasks, but it has not eliminated those functions identified in Figure 1.4. In fact, in some healthcare organizations, the HR department continues to perform the majority of HR functions. However, questions are now being raised such as, 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).

Over time, the number of HR staff has declined, and 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 performing 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 is beginning to permit the HR function to shed its administrative image and to focus on more mission-oriented activities, as noted earlier (*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 (*HR Focus* 2005d; Meisinger 2005). As they do so, they are continually upgrading and enhancing their professional capabilities (Khatri 2006). This means that they 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 (*HR Focus* 2004; Fottler et al. 2006).

The three critical HR issues to which an HR professional can lend expertise and therefore help organizational governance include selecting the incoming CEO, tying the CEO's compensation to performance, and identifying and developing optimum business and HR strategies (Kenney 2005). In addition, the HR professional can also contribute to leveraging HR's role in major change strategies (e.g., mergers and acquisitions), developing and implementing HR metrics that are aligned with business strategies, and helping line managers achieve their unit goals (Pinola 2002).

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). Similarly, 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 (*HR Focus* 2006c). Moreover, 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 may indicate somewhat lower levels of HR function influence.

Summary

In healthcare, the intensive reliance on professionals to deliver high-quality services requires organizations and their leaders to focus attention on the strategic management of their human resources and to be aware of the factors

that influence the performance of all their employees. 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 direction that is being taken by the organization and the goals it desires to achieve. 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.

Healthcare organizations are increasingly striving to impress a distinctive HR brand image upon employees, potential employees, and the general public. They are doing this by modifying their cultures and working hard to be included on various national lists of "best companies." Successful branding results in competitive advantage in both labor and service markets. Organizations are also increasing the volume and quality of HR metrics they collect and use 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 elsewhere or delegated to line managers.

Discussion Questions

1. Distinguish among corporate, business, and functional strategies. How does each strategy relate to human resources management? Why?
2. How may an organization's human resources be viewed as either a strength or a weakness when doing a SWOT analysis? What could be done to strengthen human resources in the event that it is seen as a weakness?
3. 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.
4. What are the organizational advantages of integrating strategic management and human resources management? What are the steps involved in such an integration?
5. 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?
6. In what sense are all healthcare executives human resources managers? How can executives best prepare to perform well in this HR function?