



**Strategic**  
Human Resource  
Management

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## CHAPTER 1

# AN INVESTMENT PERSPECTIVE OF HUMAN RESOURCE MANAGEMENT

# The Strategic View of Human Resources

- Employees are **human assets** that increase in value to the organization and the marketplace when investments of appropriate policies and programs are applied.
- Effective organizations recognize that their employees do have value, much as same as the organization's physical and capital assets have value.
- Employees are a valuable source of sustainable competitive advantage.

## EXHIBIT 1-1: SOURCES OF EMPLOYEE VALUE

### **Technical Knowledge**

- Markets
- Processes
- Customers
- Environment

### **Ability to Learn and Grow**

- Openness to new ideas
- Acquisition of knowledge/skills

### **Decision-Making Capabilities**

### **Motivation**

### **Commitment**

### **Teamwork**

- Interpersonal skills
- Leadership ability

# Sources of Employee Value

- Technical Knowledge
  - Markets, Processes, Customers, Environment
- Ability to Learn and Grow
  - Openness to new ideas
  - Acquisition of knowledge and skills
- Decision Making Capabilities
- Motivation
- Commitment
- Teamwork
  - Interpersonal skills, Leadership ability

# Valuation of Human Assets

- Implications for Individuals and Organizations
  - Determination of compensation
    - Internal and external equity for employees in return for their contributions to the organization.
    - Organization placement of resources and returns on employee development are aligned and well-matched.
  - Advancement opportunities
    - Developing current employees creates motivation and permits promotion from within.
  - Development of retention strategies
    - Effective means of retaining valuable employees allows for the recapture of the invested costs of their development.

# Investment Orientation

EXHIBIT 1-2: FACTORS INFLUENCING AN ORGANIZATION'S INVESTMENT ORIENTATION

**Management Values**

**Utilitarianism**

**Attitude Toward Risk**

**Availability of Outsourcing**

**Nature of Employee Skills**

# The Investment-Oriented Organization

- Organizational Characteristics
  - Sees people as central to its mission/strategy.
  - Has a mission statement and strategic objectives that espouse the value of human assets in achieving goals.
  - Has a management philosophy that encourages the development and retention of human assets and does not treat or regard human assets in the same ways as physical assets.

# Investment Orientation Factors

- Senior Management Values and Actions
  - An organization's willingness to invest in its human resources is determined by the "investment orientation" of its managers.
- Attitude Toward Risk
  - Investment in human resources is inherently riskier due to lack of absolute "ownership" of the asset.
- Nature of Skills Needed by Employees
  - The more likely that skills developed by employees are marketable outside the firm, the more risky the firm's investment in the development of those skills.



# Investment Orientation Factors

- Utilitarian (“Bottom Line”) Mentality
  - An attempt is made to quantify employee worth to the organization through a *cost-benefit analysis*.
  - The “soft” benefits of HR programs and policies are difficult to objectively quantify because they affect many different organizational areas and have differential effects on individual employees.
- Availability of Outsourcing
  - If cost-effective outsourcing is available, investments will be made only in HR activities producing the highest returns and largest sustainable competitive advantages.

# Reading 1.1: The SWA Value Cycle

Value at Southwest Airlines is:

1. *Created* through satisfaction of employee needs.
2. *Converted* to customer and share holder value via organizational capabilities (the design of specific operating processes).
3. *Captured* by SWA as competitive advantage through lower costs and superior service (productivity) in relation to its competitors.

# Reading 1.2: Effective HRM Practices

- Employment Security
- Selectivity in Recruiting
- High Wages
- Incentive pay
- Employee Ownership
- Information Sharing
- Participation & Ownership
- Self-Managed Teams
- Training & Development
- Cross-Utilization & Cross-Training
- Symbolic Egalitarianism
- Wage Compression
- Promotion From Within
- Taking the Long View
- Measurement of Practice
- Overall Philosophy