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MWF
Time
Location

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STRATEGIC HUMAN RESOURCE MANAGEMENT 15.660

Course Overview and Objectives

This course is about both the design and execution of human resource management strategies. This course has two central themes: (1) How to think systematically and strategically about aspects of managing the organization's human assets, and (2) What really needs to be done to implement these policies and to achieve competitive advantage.

This course will not get into the technical details of personnel management such as the psychometric aspects of test validation, the specifics of job evaluation methods, the mechanics of interviewing, or the intricacies of employment law. These topics are primarily relevant to those intending to be human resource professionals. Instead, this course adopts the perspective of a general manager and addresses human resource topics from a strategic perspective.

Many managers and organizations recognize that a critical source of competitive advantage often comes not from having the most ingenious product design, the best marketing strategy, or the most state of the art production technology, but rather from having an effective system for obtaining, mobilizing, and managing the organization's human assets. A number of recent developments, including demographic changes in the labor force, the rapid pace of technological change, increased global competition, experiments with new organizational arrangements, and public policy attention to work force issues, are making human resource management topics increasingly important for all managers in organizations. Although many organizations recognize the importance of managing the work force effectively and even "know" what approaches are effective, it is remarkable how often firms and managers fail to implement these approaches.

This course is designed to be integrative, drawing upon foundational material to which you have been exposed in core curriculum courses. Our orientation will be both analytical and managerial, focusing on the development of concepts and strategies that can increase your effectiveness in developing policies and practices that general managers can use to enhance the value of the people in their organizations.

To integrate the conceptual and applied material the primary course material will be a series of cases illustrating both successes and failures. You will also be provided with supplementary readings and lectures that will supply concepts and frameworks. Each case will provide an opportunity to use the conceptual material in an analytic way. To help focus your analysis, a set of study questions for each case is included. These can be used to guide your case preparation.

It is also important that we take advantage of the experience of class members. So, where relevant, please feel free to bring your own experiences and illustrations into class discussion. Throughout the course--virtually in every session--we will consider how what we are discussing differs across settings. Students with global experiences are especially encouraged to bring this knowledge into the classroom. The employment relationship in the U.S. is different in many respects from many other countries, so it is important that as managers we appreciate these differences in how human resources might be framed differently in other cultures. If we are to meet our goal of increasing your effectiveness in managing human resources, it is important to explore how, why, and under what circumstances various approaches work. Your previous experience, both positive and negative, is a valuable source of data for this learning.

The course is divided into three sections. The first addresses the implementation of strategy and the importance of aligning human resource practices so that they are internally consistent and produce the skills and behaviors required to make the strategy work. The second section addresses a number of key HR levers available to managers in the development of an effective personnel system, including investing in people (training and development), participation and involvement (team-based systems), measurement and incentives (compensation), and information sharing. The third section of the course provides a summary and integration, illustrating how firms have succeeded or failed at tapping the potential of their work force.

Course Reading Materials

Required Materials

This is a case-based course. The primary reading material for each session will be a case study. There will often be recommended readings associated with a session. These readings provide some conceptual frameworks that may help you in your case analysis. These readings come from a number of different sources and have been carefully chosen to reflect a variety of perspectives and stimulate your thinking; however, they are no substitute for your own analyses of the cases. The cases and readings will be available in a packet that is available at the MIT Copy Technology Center located in the basement of building E52.

Optional Readings

There are several other books that you may find useful during the course. These are not required, but should you desire to pursue a topic in greater depth, these might provide a useful starting point for further research. I list these only for your future information:

(1) James N. Baron and David M. Kreps, *Strategic Human Resources: Frameworks for General Managers*. New York: John Wiley & Sons, 1999. This book offers a comprehensive set of theoretical perspectives on human resource management. The authors provide a highly readable integrated way of thinking analytically about a broad range of HR issues. These frameworks often provide significantly greater insight into HR topics than conventional "best practices" approaches.

(2) Edward Lazear, *Personnel Economics for Managers*. New York: Wiley, 1998. Lazear is an innovative labor economist who has creatively used rigorous economic analyses to illuminate HR topics. His book, along with Baron/Kreps, provides an interesting and rigorous way of framing many HR issues. His approach often provides useful but nonintuitive ways of understanding alternative approaches to a problem.

(3) Robert S. Kaplan and David P. Norton, *The Balanced Scorecard*. Boston: Harvard Business School Press, 1996. This book outlines the steps necessary to think through the measurements that will drive the execution of strategy. Although not specifically oriented toward HR, the logic for deriving relevant HR measures is similar, and provides a new way for thinking about HR metrics.

(4) Jeffrey Pfeffer, *The Human Equation: Building Profits by Putting People First*. Boston, MA: Harvard Business School Press, 1998. A very thoughtful and persuasive argument for the power of "people-centered" work systems. Pfeffer identifies a set of interrelated HR practices that he believes are key to sustained success. He summarizes evidence concerning the bottom-line effects of "people-centered" management practices, notes some common reasons that organizations fail to utilize these practices, and suggests what steps managers must take to create and sustain a "people-centered" approach to HRM.

(5) Frederick Reichheld (with Thomas Teal), *The Loyalty Effect: The Hidden Force Behind Growth, Profits, and Lasting Value*. Boston: Harvard Business School Press, 1996. Reichheld is a consultant for Bain who has discovered the importance of employee loyalty and human resources management. The book is rich with insights into how economic value is created in business through employee and customer loyalty. Reichheld also discusses the analyses necessary to make sound economic decisions with regard to these issues.

Course Requirements

Class Participation: 50% of grade

Course Project: 50% of grade

Optional Case Write-ups: extra credit toward class participation.

Class Participation

Because this is a case-based class, each student is required to be an active participant in case discussions. Your participation grade will reflect my assessment of your total contribution to the learning environment. This includes not only the frequency of your contributions in class, but also their quality. Quality, includes, among other things: (1) sound, rigorous, and insightful diagnosis (e.g. sharpening of key issues, depth and relevance of analysis); (2) ability to draw on course materials and your own experience productively; (3) ability to advance or sharpen in-class discussion and debate, willingness to take risky or unpopular points of view, use of logic, precision, and evidence in making arguments; (4) professionalism of your conduct (attendance, punctuality, preparedness, and showing respect to all section members and their class contributions). Unexcused absences and lack of preparation will be counted heavily against your grade.

Course Project

The purpose of this assignment is to provide you, in lieu of a final exam, with an opportunity to use the course material in the analysis of an actual human resource management problem. The project and report may be done either individually or in small groups. All members of a group project will receive the same grade.

There are at least three somewhat separate ways you can do this: (1) acting as a consultant (or a consulting team--3-4 members per team), do a strategic analysis of the human resource policies and practices of an organization and make recommendations for changes that will add value given the firm's strategy and competitive positioning; (2) as a consultant or consulting team, focus in depth on a facet of the human resource practices of a firm (e.g., compensation, staffing, etc.) and provide recommendations that will help your client leverage human resources better; (3) choose a rapidly growing organization and assess their current human resource practices against their projected needs and provide recommendations that will help them align their strategy and HR practices as they grow.

I am willing to consider other alternatives providing they fulfill the same pedagogical objective. Feel free to talk to me if you would like to propose other ways to apply the course material.

Case Write-Ups

Some students may be more comfortable demonstrating their mastery of core course concepts in written rather than in oral form. To accommodate those students, there are two opportunities for students to submit written case analyses (no more than 5 pages long). Case write-ups are entirely optional and will be counted as extra credit towards class participation grades. The write-ups will be evaluated according to how well you have demonstrated your mastery of the course material. This includes the application of appropriate conceptual materials; the effective use of evidence to develop your arguments; explicit assumptions and clear logical inferences; and a coherent and integrated analysis and assessment. In addition the written work must be clear and well-organized. Case write-ups should be typed, with reasonable fonts and margins.

Course Schedule

Module 1: USING HR FOR COMPETITIVE ADVANTAGE

Session 1: The Strategic Importance of HR

Case: Southwest Airlines: Using Human Resources for Competitive Advantage (A), Stanford Case #HR-1

Reading: Jeffrey Pfeffer. 1995. *"The Human Equation: Building Profits by Putting People First.* Boston, MA: Harvard Business School Press, 1998. Chapters 1 & 2.

Assignment Questions:

1. What is Southwest's competitive strategy? What are the sources of its success? How does it make money?
2. What are the foundations of Southwest's competitive advantage?
3. How are these sources of competitive advantage produced and sustained by what the organization does and how it does it?
4. To what extent are Southwest's sources of advantage difficult to imitate and likely to persist over time?
5. To what extent is Southwest's success based on Herb Kelleher?
6. How serious is the competitive threat? To what extent can United and/or Continental duplicate Southwest's business model? Why or why not?

Session 2: Strategic Execution and Economic Value: Internal and External Alignment

Case: Portman Hotel , HBS 9-489-104

Reading: Peter Capelli and Anne Crocker-Hefter. 1996. "Distinctive human resources are firms' core competencies," *Organizational Dynamics*, 24(3):7-22.

Assignment Questions:

1. What is Portman's strategy for competing successfully in its chosen market?
2. What behaviors, skills, and attitudes will it need from its people, particularly the personal valets, to execute its strategy?
3. How do Portman's human resource management practices (recruitment, selection, compensation, training, career development, performance appraisal, staffing and organizational design, management and supervision) help or hinder the development of the skills and behaviors listed in Question 2.
4. Is Portman having problems? What are the symptoms? What are the causes of the problems Portman is experiencing?
5. What should Portman do?
6. How much should Portman be willing to invest to address its difficulties? Or alternatively, what is the successful implementation of Portman's strategy worth? Some operating figures are given in the case. FYI: the capital costs of the hotel work out to 310,000 per room.

Session 3: Using HR for Competitive Advantage

Case: Human Resources at the AES Corporation: The Case of the Missing Department, Stanford Case #HR-3

Reading: Dave Ulrich. 1997. *Human Resource Champions: The Next Agenda for Adding Value and Delivering Results*. Boston, MA: Harvard Business School Press, 1998. Selections (pp.23-31 and pp. 231-254).

Assignment Questions

1. What are the core competencies and sources of competitive advantages of AES?
2. What are its basic values and operating principles?
3. Make an argument for why the company needs to and should add an HR function to the firm. What kind of HR function (the characteristics of its staff, its functions, etc) do you have in mind?
4. Make an argument for why the company shouldn't add an HR function.
5. What would human resources have to be and do to cause you to change your answer to question 4?
6. What do you see as the future for human resources and its relationship to line management in large, global firms?

Session 4: Using HR for Competitive Advantage

Case: Morgan Stanley: Becoming a One-Firm Firm, HBS #9-400-043

Reading: "Linking the Balanced Scorecard to Strategy," by R.S. Kaplan and D. P. Norton, *California Management Review*, Vol. 39, No.1, Fall 1996

Assignment Questions:

1. What do you think of Mack's strategy for increased integration? Is this compelling to you? Why or why not?
2. Given his strategy, what do you think of his emphasis on revamping the performance management system? What are the pros and cons of implementing a new system of the type being discussed?
3. If Mack is to be successful at changing the strategy and culture at Morgan Stanley, what other actions would you recommend he take? What other HR levers should he be thinking about using?
4. Given your answer to question #3, what recommendations do you have for how he should proceed? How should he implement these changes?

Module 2: HR Levers

Session 5: Performance Appraisal

Case: The Firmwide 360° Performance Evaluation Process at Morgan Stanley, HBS #9-498053 and Rob Parson at Morgan Stanley (A), HBS #9-498-054

Assignment Questions:

1. What is your assessment of Rob Parson's performance? Should he be promoted?
2. Using the data in the case, please complete the Evaluation and Development Summary presented in Exhibit 3 of the Rob Parson (A) case.
3. If you were Paul Nasr, how would you plan to conduct the performance appraisal conversation? What would your goals be? What issues would you raise and why, and how would you raise them?
4. If you were Rob Parson, how would you conduct yourself in the performance evaluation meeting? What are your goals? Be prepared to role-play the appraisal conversation in class as either Nasr or Parson.

Cases to be distributed in class: Rob Parson at Morgan Stanley (B), HBS #9-498-055, (C), HBS #9-498-056, and (D), HBS #9-498-058,

Session 6: Work Systems

Case: Slade Plating Department, HBS #9-496-018

Reading: Ruth Wageman, "Critical Success Factors for Creating Superb Self-Managing Teams," *Organizational Dynamics* (Summer, 1997), Pp. 49-61.

Assignment Questions:

1. How would you describe the culture of the Sarto group? Be specific. How has it evolved? What impact has it had on the effectiveness of the group?
2. What are the determinants of social status and influence within the plating department? The Sarto group? The Clark group?
3. What do you learn by analyzing the data provided in the exhibits? How does this influence your interpretations of what is going on?
4. Why did management previously ignore the illegal "punch-out" system?
5. What actions would you take if you were Porter? What are the risks associated with these actions?

Important supplemental information: The 1996 starting salary in the Slade Plating Department was \$8.00; Tony Sarto's hourly wage was \$12.00. The average wage for semi-skilled workers in the U.S. was \$12.00. Firms similar to Slade in the Michigan area, such as suppliers to the auto industry, paid an average hourly wage of \$14.70. United Auto Workers working at the 'Big Three (General Motors, Chrysler and Ford), had starting salaries around \$13.00 an hour and earned on average \$19.00 an hour. The minimum wage in 1996 was \$4.25, raised to \$4.75 on October 1, 1996.

Session 7: Work Systems

Cases: New United Motors Manufacturing, Inc (NUMMI), Stanford Case #HR-11.

Reading: Saul R. Rubinstein and Thomas A. Kochan, *Learning from Saturn: Possibilities for Corporate Governance and Employee Relations*. Ithaca, NY: Cornell University/ILR Press, 2001. Chapters 1 and 6.

Assignment Questions:

1. What is motivating the workers at NUMMI?
2. What are the design elements of the Toyota team-based manufacturing system?
3. Why has General Motors had so much trouble learning from NUMMI and Saturn?
4. Jamie Hresko is now running one of GM's largest assembly plants. What advice would you give him for how he might introduce some of the NUMMI methods to this facility?

Session 8: Training and Development

Case: ServiceMaster Industries, Inc., HBS #9-388-064

Assignment Questions:

1. What role have ServiceMaster's values and goals played in the firm's success?
2. Why haven't other companies successfully copied the ServiceMaster approach?
3. How important are training and development in the ServiceMaster system? How does ServiceMaster socialize its employees? How does training and development affect the organization's continued growth?
4. Why has ServiceMaster been willing to spend the resources it has on training and development for a set of jobs that many might see as comparatively low-skilled and for positions that typically experience high turnover?
5. There have been proposals (particularly by former U.S. Secretary of Labor, Robert Reich) that the U.S. follow the lead of some other countries (e.g., France, Singapore) and mandate a certain level of training--for instance, as a percentage of the firm's payroll. What do you think of this policy? Why and when might organizations spend less than a socially optimal amount on training? What else might be done if one believes that too little training and skill development are occurring in the economy?

Session 9: Training and Development

Case: The Men's Wearhouse: Success in a Declining Industry, Stanford Case #HR-5.

Assignment Questions:

1. How has The Men's Wearhouse been able to take market share away from competitor's? What is their source of competitive advantage?
2. What do you think of Zimmer's philosophy and approach to leadership?
3. Economists might argue that Zimmer is investing in general human capital; that is, the skills employees are trained in can be used in other retail settings. According to human capital theory, firms generally should invest in only firm-specific human capital. Why has this investment paid off for The Men's Wearhouse?
4. Can Zimmer's approach be easily imitated by his competitors? Why or why not?

Session 10: Participation and Involvement

Case: Inland Steel Industries (A) HBS#9-992-006

Reading: David A. Thomas and Robin J. Ely. "Making Differences Matter: A New Paradigm for Managing Diversity." *Harvard Business Review*, September-October 1996, pp. 80 to 90. (10 pp)

Assignment Questions:

1. Why are the four employees frustrated at the opportunities for women and minorities at the company? Evaluate their complaints.
2. What risks will they face if they voice their complaints to management?
3. What options do they have for raising their concerns? Which option should they choose?
4. How applicable are the concerns of these employees to non-U.S. settings?
5. What HR policies and practices are needed if an organization is to be able to capture the value from a diverse work force? Of the cases we have discussed so far, which practices do you think are particularly effective or ineffective when operating in environments with significant employee diversity?

We will consider what happens in follow-up cases (B), (C), and (D) to be distributed in class.

Session 11: Participation and Involvement

Film: Breakdown at Eastern Airlines

Reading: Paul Osterman, Thomas Kockan, Richard Locke and Michael Piore. 2000. The Task Force on Reconstructing America's Labor Market Institutions. Chapter 1. "Reframing the Debate."

Session 12: Measurement and Incentives

Case: Performance Pay at Safelight Autoglass (A) HBS#9-800-291.

Reading: TBA

Assignment Questions:

TBA

Session 13: Measurement and Incentives

Case: Visionary Design Systems, HBS #9-495-011

Reading: TBA

Assignment Questions:

1. What is the basic philosophy and values of VDS?
2. How would you characterize the VDS compensation (base, bonus, and stock) system? On what principles is it based?
3. Why has VDS had problems with its Product Data Management effort? To what extent do you see incentive issues as important? What other issues are important?
4. What should VDS do about the Product Data Management (PDM) problems?
5. Would you recommend any changes to VDS' compensation systems? What? Why?

Session 14: Measurement and Incentives

Case: The SAS Institute: A Different Approach to Incentives and People Management Practices in the Software Industry, Stanford Case #HR-6

Reading: Pfeffer, Jeffrey. 1998. "Six Dangerous Myths About Pay." *Harvard Business Review*, May-June:109-119.

Assignment Questions:

1. What are the complementary elements of the SAS HR system that make the compensation system effective?
2. Why has SAS been able to get away with a compensation system that seems to violate industry conventions?
3. Could the SAS approach work in other high technology organizations?
4. What would happen if VDS tried to emulate the SAS approach? Why?

Session 15: Measurement and Incentives

Case: Club Med (A) and (B) HBS#9-687-046 and #9-687-047

Assignment Questions:

1. What information would you need (in addition to the provided in the case) to estimate the cost of turnover? How might you obtain such information if you were in Club Med?
2. What are the most important causes of the problems facing Jacky Amzallag, Director of Human Resources?
3. What should he do about them? (For every change proposed, be prepared to justify your cost estimates).

Session 16: Information Sharing

Case: Jack Stack (A) and (B), HBS #9-993-009 and #9-993-010

Reading: John Case, "Opening the Books" Harvard Business Review, March-April 1997, pp.118-127. (Reprint 97201)

Assignment Questions:

1. What does it take to succeed in the engine remanufacturing business? What are the critical skills and organizational competencies?
2. What is it like to work in such a plant?
3. What are the major risks of a leveraged buy-out such as this?
4. What do you think of Stack's ideas about management?
5. What are the key elements of the program Stack put in place?
6. How do the employees feel? Why?
7. Can this approach be used elsewhere? Under which circumstances would it be more (less) appropriate? How could it be implemented?

Session 17: Information Sharing

Case: PSS World Medical: The Challenges and Growth and the Financial Markets, Stanford Case #HR-12

Assignment Questions:

1. Evaluate PSS's strengths and weaknesses. What have been their key success factors?
2. Do you agree or disagree with Kelly's emphasis on the importance of growth for PSS?
3. Should Kelly try to take the company private? What does he gain or lose if he does this?
4. Can Kelly's approach be replicated in other industries?

Module 3: Summary and Integration

Session 18

Case: Nordstrom Department Store. Center for Human Resources, Wharton School of the University of Pennsylvania.

Reading: Simons, Robert, "Control in an Age of Empowerment" *Harvard Business Review*. Reprint #95211

Assignment Questions:

1. How effective is Nordstrom's human resource management system? In what ways does it contribute to the firm's success?
2. Do you have any concerns about the practices described in the case?
3. Would you change management systems at Nordstrom? Why? Which systems?

Session 19

Final Class

Assignment Questions:

1. Reflecting on the companies we have studied in this course, as well as your own work experience, what lessons do you draw about the respective roles that general managers and the HR function in organizations should play in the management of human resources?

Summary of Class Sessions and Assignment Due Dates

MONDAY	WEDNESDAY	FRIDAY
April 2 (1) Southwest Airlines	April 4 (2) Portman Hotel	April 6 (3) Human Resources at the AES Corporation
April 9 (4) Morgan Stanley: Becoming a One-Firm Firm	April 11 (5) Rob Parson Grading Commitment Form Due	April 13 (6) Slade Plating Department 1st Case Write-up Due
April 16 Patriot's Day Holiday No Class	April 18 (7) NUMMI and Saturn Project Proposal Due	April 20 (8) ServiceMaster Industries
April 23 (9) The Men's Wearhouse	April 25 (10) Inland Steel Industries	April 27 (11) Eastern Airlines
April 30 (12) Safelight Autoglass	May 2 (13) Visionary Design Systems	May 4 (14) The SAS Institute 2nd Case Write-up Due
May 7 (15) Club Med	May 9 (16) Jack Stack	May 11 (17) PSS World Medical
May 14 (18) Nordstrom	May 16 (19) Final Class	May 18 Final Project Report Due