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Human Resources and Organization Success

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Fortune magazine's November 1994 cover story tells us the six reasons "Why Companies Fail"¹:

- (1) **Identity Crisis:** Top managers don't have a "mental model" of the organizations key competencies, so they succumb to management fads, creating "change fatigue", and the work force resists their initiatives (examples include Josten's and Subaru).
- (2) **Failures of Vision:** Managers prepare only for the most obvious future business obstacles, failing to create strategies flexible enough to "deal with the wildest-case scenario" (examples include the Commerce Clearing House and Quotron Systems, both of whom failed to anticipate how computer technology breakthroughs would fundamentally change their business).
- (3) **The Big Squeeze:** Managers take on excessive debt, assuming that present business success will continue, or to discourage predatory raiders. The result can be reduced capability to weather business downturns, resulting in divestitures and layoffs, or even bankruptcy.
- (4) **The Glue Sticks and Sticks:** Organization traditions, once a source of strength, become obstacles to innovation and new thinking. Curing the problem often requires tough decisions about which organizational leaders should leave, and how to create and make room for those who can think differently. Managers at Digital Equipment Corporation (DEC), once the premier provider of networked systems, now struggle to trim a massive work force, and revitalize former flexibility and inventiveness.
- (5) **Anybody Out There?:** Stick close to your customers, an often quoted mantra that is more difficult to follow in practice. One key, a well-trained sales force that can build expertise about key customers or markets, plus a system to motivate them to gather and communicate information about changing tastes, and dissatisfaction among clients. Managers must find a way to create "players", instead of "cheerleaders". High-profile examples include Cross penmakers, Merry-Go-Round fashion retailers, and General Motors.
- (6) **Enemies Within:** Managers who fail to consider the "human factor", risk creating uncooperative or even hostile workers, who often have the means to scuttle even the best-laid business strategies. By the time employees join unions, go out on strike, or engage in sabotage, it's probably too late to deal constructively with the problem. Encouraging risk-taking while penalizing good-faith failures, or admonishing cost-reductions while taking record bonuses can sap employees' loyalty and commitment, and perhaps their willingness to perform.

How can managers prevent their company (or division, region or product line) from having these problems? How could tools such as financial planning, marketing, operations research, and accounting help them cope? Do they offer a complete answer?

HUMAN RESOURCES ARE EVERY MANAGER'S JOB

The pitfalls described above cannot be avoided without managing people well. In fact, as we shall see, evidence suggests that organizations can create sustained and consistent competitive advantage only by mastering the management of their people, or "human resources." Every person who works in organizations plays a role in managing people. This is especially true for those of you who aspire to create, manage, and lead future organizations. Certainly, tools from marketing, finance, operations and other management disciplines will be required. In fact, principles from these areas can even be applied to managing people better. Moreover, even applying the traditional tools will require greater awareness of their impact and relationship to people. Judy Lewent, one of today's "hottest" executives, and CFO of Merck & Co. says even financial analysis should serve to encourage the right behaviors in people, "finance departments can take the nuances, the intuitive feelings that really fine business people have and quantify them"².

This paper introduces human resource management, and shows why it is so important in modern organizations. It will help you understand how human resource management affects your future, and that of your organization. Human resources are every manager's job, both the general manager and the human resource professional. The job of enhancing the value of people in organizations is everyone's job, not the job of "human resource specialists" or the "human resource department".

To emphasize that point, let's examine the challenges faced by organizations, that show how important human resource management is to all organization members.

CHANGING ORGANIZATIONS MAKE HUMAN RESOURCES MORE IMPORTANT

It's almost trite to say that organizations are changing rapidly, perhaps more rapidly than ever before. One study of hundreds of business suggests that 37% of organizations are "transforming" through quality initiatives and fundamental changes in the way work is done³. One pattern in these changes is the increasing importance of people issues that require managers to understand how people contribute to organizational success. Here, we highlight the key role that managing human issues plays in mastering this organizational ambiguity.

Organization Design

The very concept of an organization has fundamentally changed. If an organization ever could be represented by a chart with boxes and lines, that idea is probably passe. Some have suggested using a grid or "matrix", to emphasize that each person in the organization must consider at least two intersecting roles, such as plant manager and regional product team leader. However, even a matrix implies defined organizational boundaries, a concept that also appears rather dated. At Hewlett-Packard, some internal enterprises buy millions of chips from suppliers because H-P's chips are too expensive⁴. Perhaps the appropriate metaphor is a spinning top, built on a base of solid independent businesses, with stability provided by cooperation, teamwork and planning, thrust provided by management "vision and style", and an organizational culture that prevents the parts from spinning off⁵. Successfully creating teamwork, vision, and culture requires that today's managers understand how to manage people well.

Organizational Goals

Organizations have always strived to provide value to their constituents, to survive, and to adapt. Today, many claim that reaching those goals requires a keener focus on "softer" factors. Leading writers argue that the companies that will survive are those with strong "cultures", driven by leaders who relentlessly pursue a "vision", through "simple structures", providing "world-class training", that value "people skills", and that foster "entrepreneurship"⁶. Charles Handy, a leading business futurist, suggests that key challenges facing future managers include: Shorter and more intensive work lives, the demise of corporate pension plans, motivating employees in the manner of not-for-profit organizations, loyalty to the team rather than to the organization, and increasing responsibility for education beyond schools⁷. Managers who master these trends will significantly affect their success in an increasingly global and volatile world. Activities such as employee education, organizational design, pensions and loyalty are no longer the exclusive domain of the "human resources department", they are integral parts of every manager's job, and they are the focus of this book.

Re-Engineering

Re-engineering, redesigning work to streamline processes and combine fragmented tasks for more efficiency, has become a mantra for many organizations. Reengineering efforts have often proceeded from an operational or financial model, resulting in enlarging the work of employees, cutting entire administrative processes, and generally finding ways to do more with less⁸. Astounding returns are possible, but so are increasing work loads, and wrenching decisions about who stays and who must go⁹. After publishing their book, "Reengineering the

Corporation", authors Michael Hammer and James Champy note that up to 70% of reengineering efforts fail¹⁰. They say that "the redesign, as brilliant as it may be, doesn't get results because of managerial thought and ideology."¹¹ Perhaps managers need to be "reengineered", to better understand the effects of reengineering on careers, burnout, and the new social contract between employees and organizations¹². As Michael Hammer puts it,

"The biggest lie told by most organizations is that 'people are our most important assets.' Total fabrication. They treat people like raw material. If you're serious about treating people as an asset, we're looking at a dramatic increase in investment in them."¹³

Managers must understand what it means to "invest in people" to create social contracts, and how those investments pay off, so that organizations can better reconcile and integrate the claims of shareholders, customers, and employees.

Learning Organizations

How do modern business leaders ensure that their organizations remain flexible innovative, and energized? How can managers help their organizations avoid the tendency to become complacent? For many, the "learning organization" concept offers the answer. Is managing people well important to such an organization? Senge says that human resource management is key to knowing who the organization's innovators are, and to diagnosing what's needed to make learning spread, and how to make every aspect of the organization a learning opportunity¹⁴. Such tasks are clearly too important to be left to the organization's "training department." Every employee and manager must understand how people learn, if a learning organization is to become a reality.

"Virtual" Organizations

Organizational boundaries are blurring. The line between an organization and its suppliers, customers, and consultants is less defined. In the early 1980's, few believed Charles Handy's prediction that, by the year 2000, half the working population would make a living outside traditional organizations. Yet, today up to 35% of U.S. workers are unemployed, temporary, part-time, or contractual, and the numbers may be even higher in Europe¹⁵. Employees at General Electric Corporation often spend over 50% of their time sharing management ideas with suppliers, to help suppliers improve their business, so they can provide GE the lowest possible price and highest quality. Thus, suppliers, customers, and the government become direct participants in the organization's activities. In such a "virtual" organization, relationships and intellectual capital are keys to productive value and success. Continuous learning and development must extend beyond the traditional organization

boundaries, as managers focus on developing an array of alliances, both inside and outside the organization. For example, Charles Handy proposes the organizations must either ensure that employees can find work after they leave the company, or suffer heavy taxes from Governments. At British Petroleum, the implication is that business managers must take direct responsibility for employee development. "Gone are the days when a line manager would sift through a list of courses. Instead, we are moving toward providing development which is designed for individuals, to enhance their skills and personal portfolio"¹⁶. Understanding how people are motivated, and how they develop, is a key to nurturing competitive advantage in such an environment. The "virtual" organization fundamentally changes the meaning of ideas such as "performance", "communication", and "competition", and requires a keen understanding of the human consequences of work relationships.

Organizational Ownership

Employee ownership is nothing new. It was the original organizational design. Families owned and ran the means to produce food and shelter. Modern organizations frequently focus on "shareholders" as the real owners of the organization's capital and economic returns. Classic business theory suggests that firms exist to enhance shareholder value, but the notion of ownership is changing, as more organizations provide stock to employees. Some organizations have become fully employee-owned. UAL Corp., parent of United Airlines, awarded various employee groups 55% of the company's stock in exchange for a \$4.9 billion package of labor concessions, such as wage levels and work flexibility¹⁷. When employees own the company, human resource management issues become stockholder issues. Managers aspiring to lead such organizations must understand human resource management as a fundamental business discipline, and integrate it with other business disciplines. As Stephen M. Wolf, outgoing UAL Chairman notes, "our fleet is in place, the route structure is in place, our service strategy is in place. But there was one piece of the puzzle missing: Our labor costs were not competitive."¹⁸ Human resource management comprises the tools that managers must understand to control such costs.

Globalization

Major companies frequently operate across national boundaries. The hard data suggests that this will become a requirement for survival in the future. Companies in all size categories and in all industries grew faster, and had higher sales and profits if they had global activities. In fact, sales for companies with no foreign activities grew at only half the average of the group¹⁹. Major organizations use communication technology to form "virtual teams" that work together simultaneously across national boundaries. Many organizations have actually relocated major

headquarters functions to different countries²⁰. While globalization presents significant challenges for managing financial, marketing and production processes, some of the thorniest issues revolve around managing people. Up to 40 percent of expatriate American managers do not even complete their foreign assignments due to poor performance or inability to adjust, and up to 80 percent perform below par in foreign assignments²¹. Conservatively, such failures cost \$100,000, so it's not hard to see that improving the success rates can significantly affect the bottom line. Moreover, the key business challenges abroad often stem from the availability of human capital, as much as financial and physical capital. Motorola has provided thousands of dollars in scholarships at Tianjina and Nankai Universities in China, in an effort to increase the supply of desperately-needed well-educated workers²². Japan's labor system of employment guarantees still survives, but the 1994 recession forced both Japanese and foreign managers doing business there to realize the significant business implications of traditions such as lifetime employment and wage inflexibility²³. Coca-Cola, with businesses in 25 divisions, 6 regional groups and more than 195 countries, credits innovations in managing its international work force as a key to continued success. Pay and benefits are coordinated across countries, right down to the income tax. Workers pay "hypothetical income taxes" based on the U.S. system, and Coca-Cola pays their actual foreign taxes, adjusting for tax credits, etc²⁴. In many ways, it is the nature of the global workforce that will determine competitive advantage for future organizations²⁵.

The "New" Work

People do their jobs differently now, as organizations increasingly strive to increase quality, speed, innovation and responsiveness. Tasks that used to take months now take days. "Soft factories" have emerged. When a customer orders a pager from Motorola, typically via 800 phone lines or e-mail, the specifications are immediately downloaded at the factory in Florida, where robots pick out the appropriate components, and humans assemble the devices. No matter how unusual the order (Sizzling Yellow color, goes ding-dong, etc.), the pager is often ready in 80 minutes and arrives at the customer's door that day. IBM workers build 12 products at once, assisted by their individual personal computer that automatically tracks the parts to be assembled, and provides on-line assembly assistance if the worker gets in trouble. Robots, once believed to be destined to replace humans, have instead been relegated to simple jobs, and software, computers, and humans have emerged as key manufacturing factors²⁶. In Japan, the factory of the future resembles the craft shops of the past. Small and oddly-shaped assembly pods have replaced linear mass-production conveyor belts. New production methods emphasize "individual workers' skills rather than production teams"²⁷. Human factors also seem

significant in exploiting new technology. It appears that computer technology's benefits have been slow to materialize, despite exponential increases in computer speed and power, because managers were slow to change work practices, and to tailor software to worker needs²⁸. Successful managers must understand human factors at work, if they are to maximize the payoff from new work designs, technologies and production practices. Human resource management is what helps managers make good decisions about these issues.

GOOD MANAGERS NURTURE HUMAN RESOURCES WELL

Human resource skills are essential to future managerial success, as you can see from observing what the best top managers say about their most critical challenges. Increasingly, successful CEO's describe their success in terms of skillful management of people. Jack Welch, CEO of GE, describes his "lessons for success", including "The only way I see to get more productivity is by getting people involved and excited about their jobs", "Anybody who gets this [CEO] job has got to believe in the gut that people are the key to everything and "If you're not thinking all the time about making every person more valuable, you don't have a chance."²⁹ Harvard management experts admonish future top managers to move "beyond strategy to purpose", proposing that only organizations with purpose can develop employees' broad perspectives and can convert employees from mere contractors to committed members. Tetsuya Katada, the third president of Komatsu, one of Japan's largest heavy-equipment makers, remade the company, with the objective of "revitalizing its human resources"³⁰. Among the lessons learned from giant companies that continue to thrive like startups: Hire Carefully and Teach Continuously³¹. Henry Schact, CEO of Cummins Engine, credits his organization's success in part to embracing work teams, creating a clear path for management succession, and offering 100 hours of training to workers annually³². Should top managers be involved in such "mundane" activities as recruiting new employees? Microsoft, with over 15,000 employees, hires software writers "like we're a ten-person company hiring an 11th", with Bill Gates wooing senior engineers, and requiring even experienced software developers to go through five or six hours of intense interviews³³. Desi DeSimone, CEO of 3M offers "ten commandments" for nurturing a creative company, including "create a culture of cooperation", "stage a lot of celebrations", "be honest and know when to say no", and "make the company a lifetime career"³⁴. At Southwest Airlines, a "principle driving force for changes occurring in the Airline industry", CEO Herb Kelleher is well known for his performance at company festivities, and boasts a work force that is twice as productive as many rivals. Kelleher works to instill what he calls "an insouciance, an effervescence", and admiring competitors say "At other places,

managers say that people are their most important resource, but nobody acts on it. At Southwest, they have never lost sight of the fact."³⁵ Perhaps Hewlett-Packard's CEO, Lewis Platt, put it best, "As CEO, my job is to encourage people to work together, but I can't order them to do it"³⁶. Today's managers need not master the technical details of people management, but must become informed consumers, capable of analyzing fads from facts.

THE THEORY: HUMAN RESOURCES CREATE SUSTAINABLE COMPETITIVE ADVANTAGE

Examples aside, are there good general reasons to expect that managing people better will enhance organizational outcomes? The answer is yes. While there is much to learn, there is also much that is known about human behavior at work. Here, we will summarize theories about how organizations benefit when people are well-managed. These theories emphasize the effects of human resources on the organization. They focus on how the human resource practices affect both the attributes of people (such as their knowledge and skill), their drive to use those attributes, and the results of their behaviors³⁷.

Stakeholder Value, and Sustainable Competitive Advantage

Before we explore why human resources add value, it is appropriate to define what we mean by value to organizations. We will take a broad view in this book, focusing on various "stakeholders".

Stakeholders are the groups and individuals who establish organizational goals. External stakeholders are not organizational members, and include customers, suppliers, communities, regulators, unions and investors. Internal stakeholders are organizational members, and include employees and managers."³⁸

The value of this perspective is seen in examples above. Each example illustrates an organizational issue that requires skillful management of people. Yet each organizational issue has competing and diverse interests. This may be more obvious in not-for-profit organizations, or highly-visible public-service organizations, it is just as true in business organizations as well. Managers who fail to take the broad view risk optimizing one factor while courting disaster on another.

Even considering the diverse views of stakeholders, all organizations strive to grow and survive, and to create a purpose that is unique over time. This unique purpose that lasts over time has been called "sustainable competitive advantage".

Sustainable competitive advantage occurs when an organization is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors, and when other organizations are incapable of duplicating the benefits of that advantage.³⁹

Sustainable competitive advantage may sound like a very aggressive and militaristic term, but in fact it applies as well to philanthropic and public organizations as it does to businesses or armies. To survive and grow, any organization must acquire and use resources in unique and valuable ways or, over time, other organizations will. Consider the case of the U.S. Postal Service, which remains one a cornerstone of U.S. society, but is no longer the delivery method of choice, for example, when speed is of the essence. DHL, UPS and Federal Express now serve that role, because they have found ways to create unique value, relative to the U.S. Postal Service.

Sustainable competitive advantage derives from a "resource-based" view of organizations. Resources include physical capital, human capital, and organizational capital. This view assumes that organizations can influence the quality of the resources available to them, and that these resources do not move easily between organizations. Organizations have a unique competitive advantage when they find ways to increase the quality of their resource, or to use their resources more effectively than others. This advantage is sustainable when it can't be easily copied. Specifically, sustainable competitive advantage is caused by resources that:

1. Add value to the organization,
2. Are unique or rare among competitors,
3. Cannot be perfectly imitated by others
4. Cannot be substituted by resources that others possess⁴⁰.

Can people be managed to create sustainable competitive advantage? Yes. In fact, many argue that people may be the most promising source of competitive advantage for today's organizations. Think about it for a moment: The complex relationships among people within and outside your organization can be quite valuable, as the examples above have shown. Moreover, because such relationships are complex, and often depend on the unique culture and history of the organization, it is very difficult to copy them. To overcharacterize, competitors can purchase the same plants and equipment, acquire the same stocks and debt instruments, and match the pricing and distribution practices as your organization, because these are all observable. However, it is particularly difficult to peer inside your organization to decipher exactly how you create capability and motivation among your employees⁴¹. Employees don't show up on the financial statements, and their contributions are often quite subtle. Obviously, skillful managers

must find competitive advantage in all the resources they use, but people certainly rank high among those resources.

Of course, that same complexity means that managers face a significant challenge to manage people in a way that enhances, rather than detracts from the organization. So, in this book we will try to introduce you to theories and ideas to help you do that. Next, we briefly review how general theories of management and business suggest that managing people well creates value.

Economics

Economic theory has long suggested that people, or "human capital" matters in organizations, though much of economic theory focused on the costs of labor, or the behavior of wages in response to the demand and supply of labor, or the skill and productivity of workers⁴². For example, these "human capital" theories suggest that organizations will pay to train workers, and offer higher wages to workers, when their skills are uniquely useful to the organization, but organizations will not pay for skills that could be transported elsewhere.

Theories of "internal labor markets" and the economics of industrial organizations takes a broader view, suggesting that "employment contracts", or bargains between employers and employees are not simply fashioned by external markets, but are created by employers to help coordinate, monitor and motivate employees. They are influenced not only by considerations of economic efficiency, but also by political, cultural and institutional forces⁴³. One interesting variant of these ideas is "agency theory", which views work relationships as contracts between a "principal" who delegates work to an "agent". Designing an appropriate contract is the key to ensuring that the principal's work gets done, even when the agent can't be directly supervised⁴⁴. Managers must understand how to design work and construct incentives that enable and motivate employees to achieve the goals of "principals", such as shareholders and Boards of Directors. These theories all suggest that a well-educated and trained labor force is key to competing on any basis other than cutting costs, and that to make such workforce requires coordinating human resource policies such as how employees are chosen, how they are paid, and how their work is designed.

Political Science

National norms and political conditions pose particular challenges to managers attempting to maximize the value of their people. For example, when external economic shocks occur, countries with highly coordinated national systems of negotiated employment contracts (such as Sweden and Germany) respond better, and produce less unemployment compared to countries with more independent and decentralized systems (such as the U.S.)⁴⁵ Powerful

European unions constrain managers' ability to compete with pay cuts and layoffs. This may seem a disadvantage, but research shows that such constraints cause employers to compete on product quality, and to organize the work so that higher-paid workers are more productive. In fact, German managers say that works councils are actually a positive factor for the competitiveness of their organizations⁴⁶.

Psychology

Perhaps the science most closely linked to human resource management is psychology. Psychological theories of motivation, attitudes, and learning suggest that organizations can significantly affect the capability and willingness of employees to behave in certain ways. There is convincing evidence that workers respond in predictable ways when they are selected, paid, evaluated and trained, and managers who understand these patterns can improve their ability to achieve goals through people. Later chapters in this book will describe many of these theories, and show how they can help managers understand the consequences of decisions about managing people at work. In fact, some industrial psychology models even propose ways to translate the effects of human resource programs into dollars, so they can be compared with the anticipated dollar-valued return from other investments. These models suggest that the return on investments in people is often quite lucrative⁴⁷.

THE EVIDENCE: MANAGING HUMAN RESOURCES AFFECTS THE BOTTOM LINE

We have seen that organizational changes make human factors increasingly important, that top managers manage human resources well, and that management theory suggests that well managed human resources can make a difference. Even the business press has embraced the idea that "intellectual capital" may be a company's "most valuable asset."⁴⁸ Are there real tangible examples of human issues directly affecting the bottom line?

Let's take a few examples of the cost side of human resources. How organizations choose workers can have significant legal implications, as Target Stores learned after settling for more than \$1.3 million (plus court costs) a case brought by security-guard job applicants claimed privacy violations when a selection test asked them about their sexual orientation and religion⁴⁹. Bridgestone/Firestone, Inc. was fined nearly \$7.5 million after a worker died as a result of safety violations⁵⁰. For three months, among 440 unskilled blue-collar workers and low-level clerical employees in financial services, the costs of discretionary absence were estimated to be \$3,223⁵¹. For organizations have thousands of employees, whose absence patterns span many years, multiplying by a factor of 10 or even 100 may better reflect the true impact.

On a more positive note, human resource management can also improve performance. Companies with high-performance management systems averaged 10.2% return on equity, compared to 4.4% for companies without such systems⁵². Individual human resource activities can payoff handsomely. At Adolph Coors Company showed a 124% to 833% return on investment from its wellness promotion activities⁵³. Helene Curtis company's flexible work time program increased the number of new mothers returning to work from 69% to 93%, saving the company \$360,000 in one year⁵⁴. McDonnell Douglas Corporations programs assisting employees with psychological problems and chemical dependency produced savings of \$6 million, over four years.

Beyond single programs it appears that integrated human resource strategies may be even more lucrative than merely the sum of the parts. Research shows that automobile assembly plants, steel mini-mills and a diverse sample of U.S. firms perform significantly better when they combine flexible production arrangements, team-based work systems and "sophisticated" or "high-commitment" human resource practices such as performance-based pay and extensive training⁵⁵. Even the business press has embraced the idea that "intellectual capital" may be a company's "most valuable asset."⁵⁶

Managing human resources affects many organizational constituents, so merely looking at the bottom-line effects may not always tell the whole picture. However, there is no doubt that those who manage people issues well see the benefits in financial terms. They may be as obvious as a reduction in payroll or training costs, or they may be more subtle, such as long-run increases in efficiency and creativity that make investments in technology and marketing pay off. It is not always easy to tease out the independent effects of managing people well, but the effects are there, and managers can ignore them at their peril, or exploit them for their benefit.

THE PROPER DOMAIN OF HUMAN RESOURCES

What is the domain of human resource management? Managing people well influences every aspect of organizations. Still, because human resource management involves the employment relationship, its goals and activities focus there. Exhibit 1-1 shows how 1,200 experts from 12 countries rated the HR goals and practices that would help them achieve competitive advantage in the 21st century. U.S. experts placed high priority on "rewarding employees for customer service", Germans and French rated "rewarding employees for customer service" as the top priority, while Japanese gave top priority to "communicating business directions, problems and plans."⁵⁷ When countries are statistically grouped by their priorities, the Anglo-Saxon countries of United Kingdom, Australia, Canada and the U.S. form a

group, with Germany and Italy located close by. France and Korea each form their own cluster, the fourth cluster is the Latin countries of Brazil, Mexico and Argentina, and the fifth cluster includes only Japan. The major differences seem to be that Japanese experts placed lower priority on promoting a culture of empowerment than did the U.S. and Latin country experts, both Japan and France placed lower priority on promoting diversity and cultural equality, and the U.S. placed significantly higher emphasis on flexible work practices than France or Brazil⁵⁸.

Traditionally, those who study and practice human resource management focus on the activities of managing people. The activities are important, but the activities are merely means to an end. Managers must focus on the results, not just the activities, or else human resource management becomes merely a set of administrative decisions, disjointed and insignificant.

HUMAN RESOURCES AND ORGANIZATIONAL PERFORMANCE

Exhibit 1-2 contains the model that summarizes what we have seen. Human resources are part of a system, with each part of the system interacting with the others. The Environment provides context, opportunities and constraints. The Organization which combines many resources to survive, grow, and create value for constituents. The Human Resources represent the employees of the organization, and the results they create through the employment relationship. The vertical arrows spanning the levels represent relationships. Relationships may be exchanges, or mutual influence. Each component of the model has relationships with the others. For example, for business Organizations to survive they must receive materials, capital and labor from the Environment, and in turn they must provide payments, return-on-investment, and rewards. Just as real, but perhaps less obvious, Organizations receive Cultural inputs such as social values, norms, and history, and in turn their behavior affects society's values, norms and history. Within the Organization, the Human Resources are influenced by the Organization's Culture, Structure, Products and Strategy. In turn, the Human Resources support these Organizational components by returning value through such things as performance, attitudes, loyalty and creativity.

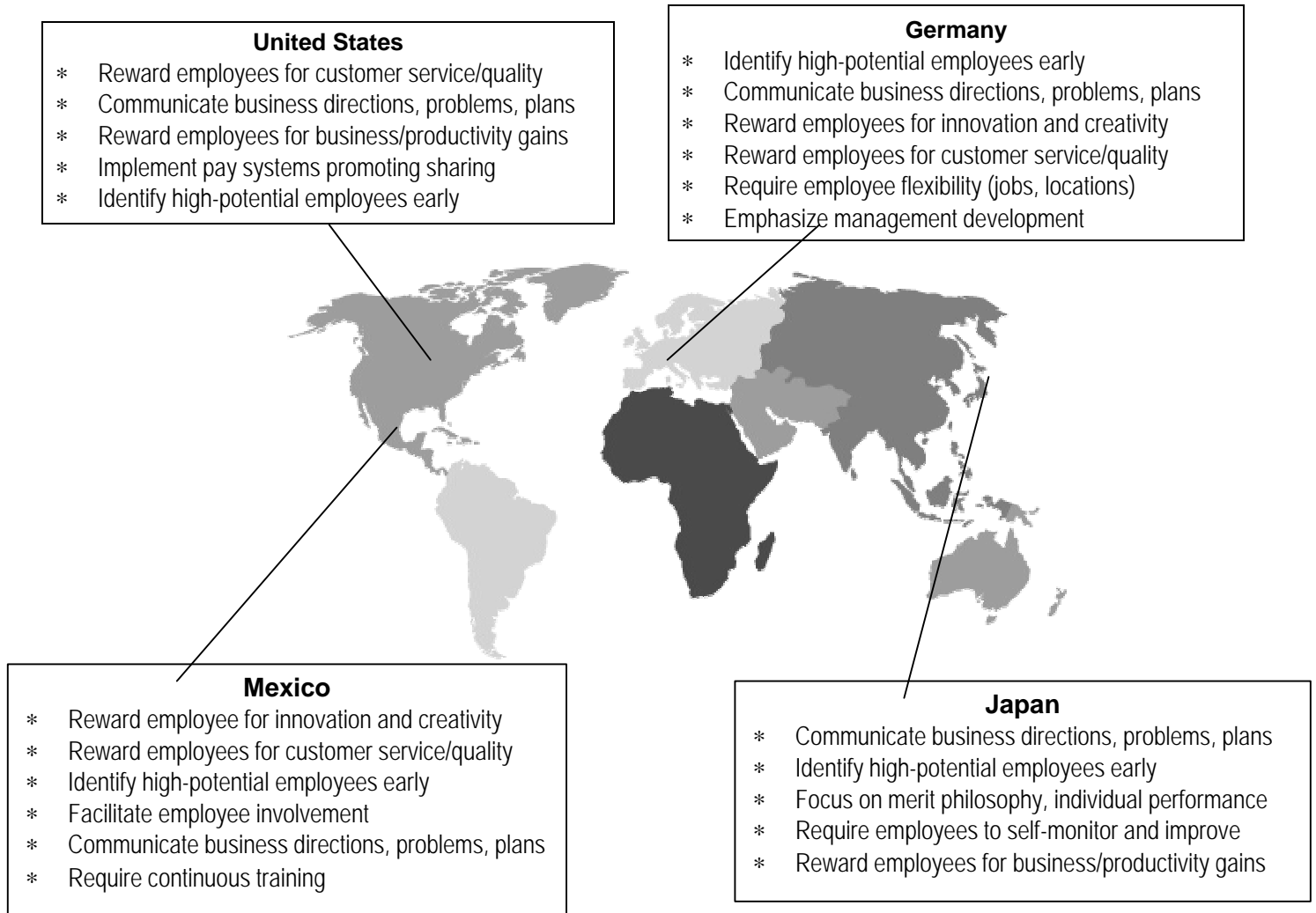
Within the Human Resources box are the three components of Human Resource value:

1. Opportunity, which is the necessary circumstances for employees to create value for the organization;
2. Capability, which is the capacity of employees to create value; and
3. Motivation, which is the drive or force employees feel to contribute to organizational value.

All three components must be present for human resources to contribute to organizational value. For example, many businesses traditionally organized work to minimize the demands on workers, and to make them interchangeable. Today, we see a resurgence of teams, individual accountability, and reliance on front-line employee ideas and suggestions. It seems quite likely that employees were always somewhat capable and motivated to creatively contribute through teams and suggestions, but because the work was not organized properly, they had no Opportunity. Or, consider organizations that redesign the work to require teamwork and creativity, and have highly intelligent and experienced workers, but recognize and reward workers only as individuals. Here, there is Opportunity and Capability, but the Motivation is lacking. Thus, Human Resources are enhanced when managers find ways to build Opportunity, Capability, and Motivation. The enhanced Human Resources bring greater value to the Organization, which supports the Organization's ability to bring greater value to its Environment. In turn, the Organization receives necessary inputs from the Environment, and can use those inputs to further increase the value of Human Resources.

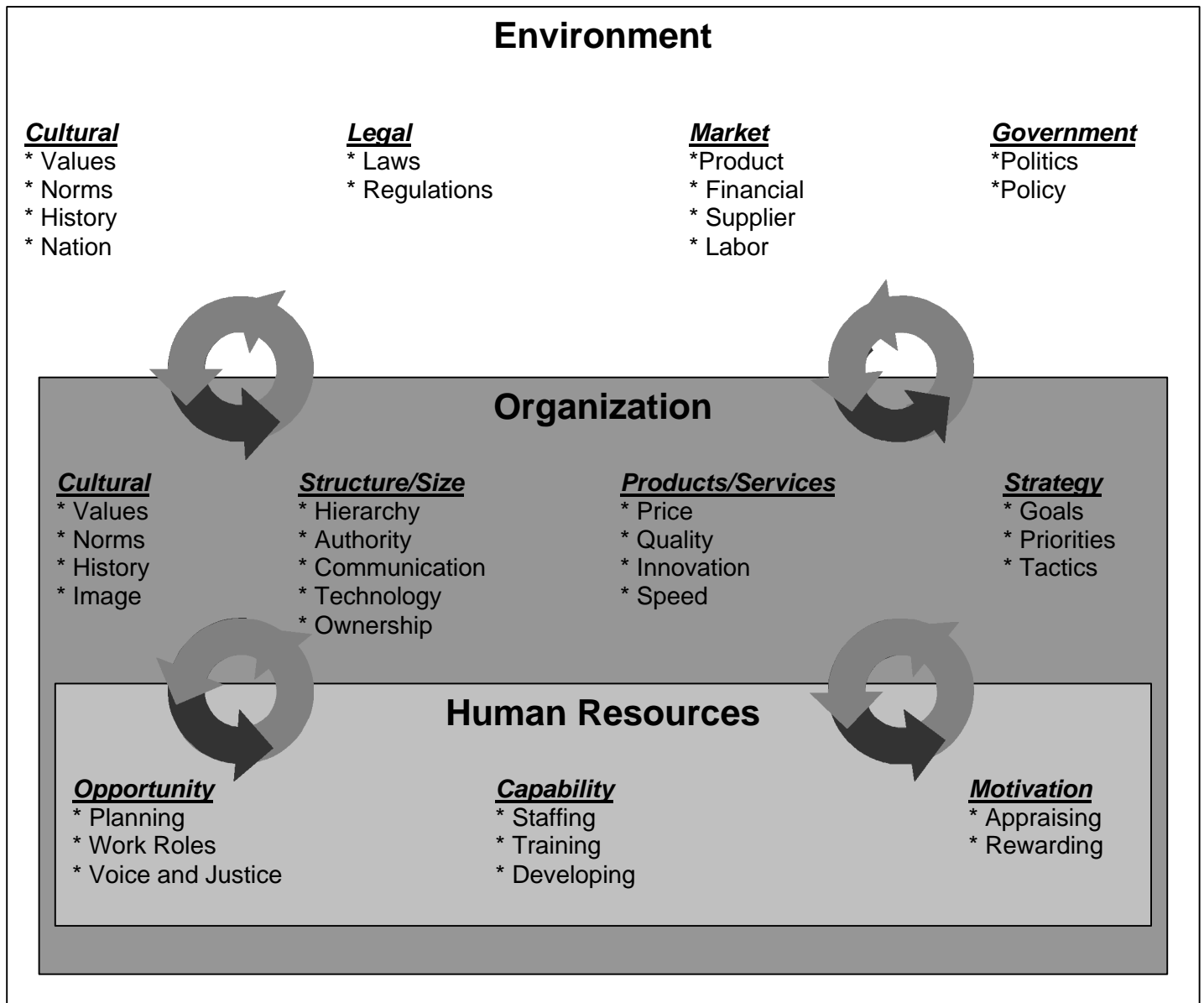
Exhibit 1-1

Highest-Rated HR Goals



Source: George T. Milkovich and John W. Boudreau, Human Resource Management (7th ed.), 1994, p. 8.

Exhibit 1-2
Human Resources and Organizational Performance



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