Key Issues in Strategic Human Resources

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This chapter, on strategic human resource management (SHRM), is really not for the hospitality human resources (HR) director. We already believe—whether through education and training, through insight gained from experience, or through self-interest— that HR directors accept as true the importance of an organization's HR function and its HR assets. The strategic nature of HR decision making extends far beyond the doors of the HR department. Just as money changes hands and is important to more than those in a finance department, nearly all decisions in a company's purview involve HR in some way, shape, or form. The purpose of this chapter is thus to help those already making HR decisions do so in a way that takes advantage of what we have learned from research in SHRM.

There are a number of critical challenges inherent in the nature of HR decision making that make its strategic implementation so difficult. Human assets have characteristics that differ from most other resources in the company, such as its physical product and financial capital. Most notably—and similar to other investments, such as the value associated with a hotel's name recognition or brand—they are intangible and therefore, simply unclear. Human performance is difficult to predict; it is very challenging to make a strong case that a particular investment in employees (e.g., a new pay plan, a new training program) clearly leads to specific improvements in employees' performance, which then has a direct effect on the financial results of a company. We look through a very fuzzy lens when we try to examine the financial value one person brings to an organization.

At the same time, costs associated with people are comparatively crystal clear. While the link from employee pay to employee attitudes to employee behaviors to customer perceptions to customer repurchase behaviors to organizational results is murky at best, the cost of that employee's pay is known with absolutely certainty, as is the direct cost of raising pay and providing training. Our traditional accounting systems add to this contradiction. Employees are not owned by their organizations and thus cannot be found on the asset side of the balance sheet. Instead, they only appear as expenses on the income statement. Because they represent a cost, it is tempting to treat employees as expenses to be minimized. The irony is that the work of people is one of the few organizational assets that can actually appreciate in value. The organizational leader making investment decisions about employees is looking through a very strange pair of bifocals indeed: Looking down, one is confronted by the blur associated with the value of intangible assets; looking over the top, one sees the clear image of their cost. Decision makers are confronted with the temptation of managing that which is easy to understand, especially when the results are immediately apparent. One of the goals of this chapter is to draw attention to the more long-term benefits that can be realized from investments in people.

Nowhere are these ideas more salient than in the hospitality industry. HR remains one of the key challenges hospitality decision makers face. Industry leaders in both the hotel and restaurant industries report human capital challenges—recruiting, retaining, motivating, training, and developing the workforce—as the problems that "keep them awake at night" (Enz, 2001,2004). Hospitality leaders are concerned because in service firms the success of products depends on their delivery by employees. Thus, service organizations rely on their employees to create memorable experiences that develop a loyal customer base and ultimately carry out the firm's strategic initiatives (Liao & Chuang, 2004; Skaggs & Youndt, 2004). Yet, most hospitality organizations operate with extremely lean margins. Many of these companies face triple-digit turnover and find it challenging to attract, retain, and develop a talented labor pool capable of creating relationships with customers that result in repeat business. At the same time, most organizations also are required to offer immediate, significant returns to their investors. Thus, when salaries and wages represent the number one expense item on the profit and loss (P and L) statement, decision makers find it difficult to justify increased investments in HR, as any additional pay or training budget cuts into immediate bottom-line profits.

The challenge decision makers face is thus twofold: How can organizations recognize the value associated with their human capital, and how can they make better decisions to manage the associated investments? While employee behaviors maybe difficult to predict, observe, and measure, investments in employees still need to be strategically managed. Drawing from current knowledge of SHRM, we help those making strategic decisions improve their insight to make choices about HR investments. We review the latest research in SHRM and examine how this research maps onto practical issues of concern in the hospitality industry.

The organization of this chapter is as follows: First, we discuss the challenges inherent in trying to understand and trace investments in employees and HR initiatives to the bottom line, and we consider these issues and challenges in practice. We review the challenge of understanding the impact of employee performance on organizational outcomes and discuss ways the use of HR metrics and analytics can aid in decision making. Following this discussion, the table is turned to the executive voice:

John Longstreet, former senior vice president of people strategy at ClubCorp and current president and CEO of Quaker Steak & Lube Restaurants, weighs in on the dialogue of HR strategy and offers some provocative insights and practices that he put in place at ClubCorp. In the last section, we reconcile different viewpoints between HR practice and research and discuss the implications for both constituencies, as well as for the field of SHRM.

Current Theory

SHRM is rooted in fundamental concepts in strategy, which essentially is about how to achieve firm profitability. Core research in strategy is concerned with identifying both the external and internal factors that enable firms to shape a competitive advantage and achieve superior performance (Harrison & Enz, 2005). To achieve superior performance, firms need to create cost efficiencies that enable them to operate on lean margins or alternatively differentiate themselves so as to charge price premiums. When examining competitive strength within the firm, the resource-based view (RBV) is helpful for identifying sources of advantage (Barney & Wright, 1998). This approach to strategy considers the role that internal resources, such as physical assets, organizational systems, and human capital play in helping a firm create value and become competitively distinct and profitable (Barney, 1991; Peteraf, 1993).

SHRM is concerned with two forms of resources. The first resource is an organization's human capital—the knowledge, skills, and abilities of its employees. The challenge for HR strategic decision makers is to transform human capital into a firm capability that is valuable, rare, and difficult to imitate (Amit & Shoemaker, 1993; Barney, 1991). The second resource is an organization's systems—specifically HR policies and practices—that serve to support the development of human capital. The challenge with this resource is to select the appropriate cost-efficient bundle that will help employees perform best.

Using these two forms of resources, SHRM is shaped by four primary challenges, or overarching goals. The first challenge is to tap into the intellectual and skill-based prowess of a company's employees and use this knowledge and skill set to the organization's best advantage. In other words, research in SHRM considers how to take employees as a source of human capital and turn this resource into a firm capability that creates competitive advantage. The second challenge is to turn an organization's HR infrastructure—or its bundle of HR initiatives and programs—into a source of competitive advantage—usually through setting procedures that enable a firm's human capital to appreciate in value. The third and overlapping challenge is to determine how a firm's HR initiatives can work in tandem to support the overall firm strategy. Central to this challenge is to understand the "black box" of return on investment (ROI) in HR initiatives, based upon the overall short-term and long-term financially based trade-offs that need to be considered. The final challenge is to apply HR tools, such as metrics and analytics, to aid in strategic decision making. We discuss each of these challenges in turn, including their implications for the hospitality industry.

Employees as a Source of Competitive Advantage

While a great deal of research in professional service firms, such as law and medical practices, focuses on the value employees bring to their organizations as human assets (i.e., Hitt, Bierman, Shimizu, & Kochhar, 2001; Kannan & Akhilesh, 2002; Sherer, 1995; Zucker, Darby, & Brewer, 1998), very little research has considered the value of employees performing low-skilled service work, such as those hired for hotels, restaurants, and other types of hospitality service organizations. With annual turnover, even of management staff, often climbing over 100%, the common line of thought and practice has been to curtail investments in employees, as they will likely soon leave the organization. This is despite abundant anecdotal accounts depicting the value associated with great employee service.

What we do know from research findings is that employees as a form of human capital have knowledge, skills, and abilities that can be applied to their work to generate "rents" or value for the organization (Becker, 1962; Bontis, 1998; Bontis, Crossan, & Hullard, 2002; Coff, 1997). When they are highly competent and performing their jobs well, employees are actually able to work in a tacit manner, meaning they are able to attend to a task at a skill level that is almost instinctive and does not require a great deal of planning or conscious thought. When a group of employees collectively act this way, they create an organizational system or routine that is so efficient it becomes a source of advantage or firm capability that other companies cannot replicate (Argote & Ingram, 2000; Coff, 1997; Hall, 1992; Lado & Wilson, 1994; Nelson & Winter, 1982; Nonaka, 1994; Teece, Pisano, & Shuen, 1997). One only has to think of a front desk clerk so competent working the computer system that he or she can seamlessly and simultaneously check-in—and graciously interact with—a hotel guest to picture what this type of performance can mean to a business. At the aggregate level, this application of human capital has been termed "knowledge value added" and refers to core organizational knowledge embedded within its routines and processes. It represents a collective and integrated use of employees' knowledge, skills, and abilities (Kannan & Akhilesh, 2002).

In addition to creating efficient routines, employees—especially those in service-based organizations—can create firm advantages by acting as boundary spanners that form crucial relationships with key stakeholders, such as customers and suppliers (Coff, 1997; Skaggs & Youndt, 2004). These sorts of links act as valuable sources of information that firms can use to shape their product and innovate. For example, employees can connect with restaurant customers in such a way that they can collect and pass along suggestions to the chef on how to create variation on the menu. The boundary spanner role is especially important to service organizations, because these sorts of customer interactions influence not only ways employees collect information but, simultaneously, ways customers help produce the service (Normann, 1984).

HR decision makers have long tried to argue that employees bring value to the organization and actually represent an investment that provides a substantial return. The questions are: What kind of return do they bring? What is the potential risk if employees leave the firm and bring their capital over to the competition (Coff, 1997)? Recent research has suggested intangible assets add approximately 50% to a firm's market value (Ulrich & Smallwood, 2005). As a beginning point in understanding the value of human capital as a type of intangible asset, researchers have found a positive relationship between the aggregated bundle of employees' knowledge, skills, and abilities and the organization's performance as reflected in profitability; however, as mentioned, most of this research has been conducted using professional service firms and more broadly, research-oriented industries, as a context (Bouillon et al., 1995-1996; Carmeli & Tishler, 2004; Hitt et al., 2001; Sherer, 1995; Zucker et al., 1998). With the exception of one exploratory study that offers preliminary ways to gauge human capital and customer capital in the hotel industry (and found an association between human capital and performance) (Engstrom, Westnes, & Westnes, 2003), this type of research is negligible in service firms that offer a basic product for sale. In reality, studies measuring the link between human capital and firm performance represent only a beginning point. The next question to logically consider is: What is the relationship between HR initiatives and firm value? In other words, do HR investments make a difference?

Human Resource Infrastructure as a Source of Competitive Advantage

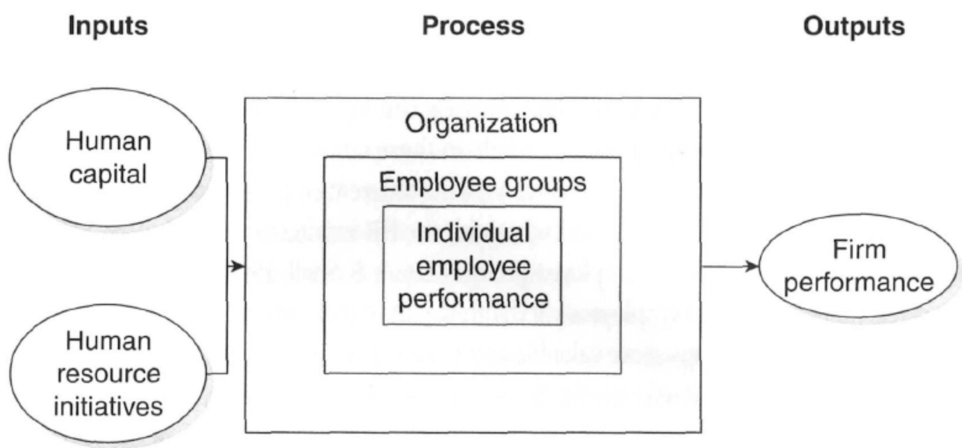
What types of investments in employees yield the highest return? Specifically, what sorts of HR initiatives should organizations use to obtain the most beneficial use of employees' knowledge, skills, and abilities and as a result, create a competitive advantage? Following Huselid's (1995) work, a great deal of research emerged examining the impact of HR policy and practices on outcomes, such as organizational turnover, productivity, profitability, and market value (Becker & Gerhart, 1996; Delaney & Huselid, 1996; Huselid, Jackson, & Schuler, 1997; Wright, Smart, & McMahan, 1995; Youndt, Snell, Dean, & Lepak, 1996). The findings of one study suggest that one standard deviation change in an organization's HR program (termed "high-performing work system") can improve firm market value by $15,000 to $60,000 per employee (Huselid & Becker, 1995). At a minimum, companies with greater investments in their HR programs enjoy higher overall profitability (Becker & Huselid, 1998).

Similar to investments in human capital, researchers argue that investments in the HR infrastructure, such as hiring, training, and performance management systems, create "invisible assets" that enhance firm capabilities (Becker & Gerhart, 1996). These sorts of investments (1) teach and encourage employees to improve their knowledge, skills, and abilities; (2) motivate them to exert greater effort on behalf of their organizations; and (3) improve their overall productivity (Delaney & Huselid, 1996; Youndt et al., 1996). They can include job rotation schedules, "empowerment programs, the use of participative decision making, and various forms of compensation strategies. In fact, the initiatives that appear to have the greatest impact on human capital are the presence of intensive and extensive training, competitive pay, and promotion-from-within policies. For organizations that rely on teams, the following HR programs foster the development of social capital and crucial knowledge-sharing among members: socialization activities, mentoring programs, team-based reward structures, and incentives (Youndt & Snell, 2004).

Using resource-based concepts, Wright, Dunford, and Snell (2001) argued that the firm's core competencies are created when HR programs improve a company's human capital through influencing the creation, transfer, and integration of knowledge. In this framework, employees represent stocks of resources. HR programs can be used to increase not only human capital within an organization but also its level of social and organization capital (referring to the value of relationships among people and an organization's routines and processes) (Wright et al., 2001). Each of these "stocks" represents the creation, transfer, and integration of knowledge, respectively. Thus, HR programs are the processes by which a firm creates a combined flow of knowledge that represents a valuable, rare, and inimitable competency. The real advantage comes from treating HR programs as dynamic approaches shaped by a firm's overall strategy. When HR programs are shifting and interdependent, it is difficult for competitors to copy them (Becker & Huselid, 1998; Wright et al., 2001).

When they are effective, HR initiatives work in tandem to create a competitive advantage, such that the effect is both direct and multiplicative (Delaney & Huselid, 1996). Firms gain a competitive advantage not only because they undertake HR programs but also because of the way they selectively choose the appropriate mix of programs (Wright et al., 1995). While we know that a well-designed program of HR initiatives is strongly related to an organization's value, we still understand less about the ways in which they work together to do so. In other words, researchers are now trying to understand the black box of HR investments (see Exhibit 27.1). Specifically, how does the investment mix of HR initiatives help improve a firm's depth of human capital such that the company creates a unique competitive advantage, reflected in enhanced firm performance? What is the process by which this happens? (Becker, Huselid, Pickus, & Spratt, 1997).

Figure 27.1 The Black Box of Human Resources



Identifying and Opening the Black Boxes: From the Strategic Mix to Customer Impact

As one can surmise by reading this chapter so far, while SHRM research has identified appropriate strategic questions and problems, the field is still a long way from providing definitive answers for decision makers to use. In part, this is because of the various approaches researchers take to examine strategic HR issues. Different areas of research in SHRM have treated different phenomena as "black boxes"—that is, researchers have identified inputs and outputs to these boxes and made conclusions about the effects of the inputs based on the associated outputs. Unfortunately, researchers still cannot explain the process by which inputs (i.e., human capital and HR programs) influence outputs (i.e., firm performance); hence, the internal workings of the black box remain a mystery.

The early work by Huselid and Becker (1995) on high-performance work systems treated companies as a whole, as a black box. These researchers examined the HR-related inputs to the box, identified as high performance work systems, considered the associated outputs, and drew conclusions about the relationship between the two (e.g., Delaney & Huselid, 1996; Huselid, 1995; Huselid et al., 1997).Their work leads to the premise that greater use of high-performance work systems is related to better business outcomes. Unfortunately, this work is not definitive in identifying and explaining what goes on inside the "black box" of the company.

In addition, a central problem with treating the entire company as a black box is that the concept implicitly assumes that all employees should be treated similarly—that is, one could conclude that high-performance work systems should be used with all employees to reap the potential benefits. As Boudreau and Ramstad (1997) noted, however, it is naive, and definitely not strategic, to think about managing all HR in the same way. Companies do not invest in all properties in a similar manner; not all products are marketed the same way and not all customers are treated identically. Similarly, HR investments should be selectively managed using a decision science process that Boudreau and Ramstad (2005) termed "talentship." Which employees or groups of employees provide the highest return to the organization? What types of HR investments should be made in these employees?

Questions such as these prompted research viewing different employee groups as the black box to be opened and understood. Researchers who study the HR architecture examine the appropriate strategy to employ with different employee groups (Lepak & Snell, 1999; Youndt & Snell, 2004). These researchers argued that employees vary with regard to their uniqueness and strategic value, making some employee groups more valuable to the organization than others. Applying terminology from the RBV, uniqueness refers to the degree to which the employees work is rare, specialized, and/or firm specific (Lepak & Snell, 2002). Strategic value refers to the ability of the employee to "improve the efficiency and effectiveness of the firm, exploit market opportunities and/or neutralize potential threats" (Lepak & Snell, 2002, p. 519). Employee groups that fall into both categories require different HR investments than, for example, employees that fall into neither.

To create HR capabilities that are valuable, rare, and difficult to imitate, decision makers need to consider how to package HR initiatives to realize employees' potential (Barney & Wright, 1998). The real advantage comes not from initiating HR programs but rather, from actually bundling them together for different groups of employees in coherent, strategic ways (Lepak & Snell, 2002; Wright & Snell, 1991). Thus, the inputs to the black box are customized through different HR initiatives such that the organization creates a unique competency and competitive advantage (Jackson, Schuler, & Rivero, 1989).

Research on the HR architecture would suggest that employees, such as hotel employees, have strategic value to the firm but they are not necessarily unique; their skills are widely transferable. Thus, this employee group should be viewed with a short-term orientation. They should be paid market wage, evaluated using a results-oriented measure and managed with the possibility they may leave. More developmentally, long-term HR initiatives, including using above-market compensation plans as well as goal-oriented appraisal systems, should be applied to employee groups whose skills are more unique and firm-specific, such as knowledge-based workers, including perhaps the management staff of a hospitality organization (Lepak & Snell, 2002). However, the more a hospitality organization competes by trying to differentiate its level of service, and the more that employees are expected to utilize company-specific knowledge (e.g., for handling customer complaints, for providing exceptional service), then the more that these companies should invest in these employees, enhance their human capital, and strive for retention.

Treating groups of employees as a "black box" has problems similar to that of treating all employees the same. Even employees within a strategic group respond to stimuli in different ways, have various preferences, and perform in their unique ways. In response, some researchers have treated an individual employee's performance as the black box (Boudreau, Sturman, & Judge, 1994), thus prompting a stream of research termed "utility analysis" (see, for example, Boudreau, 1991, for a review). Utility analysis estimates the value of a HR intervention by first considering the effects of an HR program on employee performance and then by determining the value of the program through an estimate of the value associated with improved employee performance. A more thorough discussion of this method is presented later in the chapter, but the primary concept is that it is possible to quantify the additional benefits employees bring to their organizations through HR interventions. The way that improved performance is converted to a dollar value, though, has long been viewed as one of (if not the most) controversial aspect of this research (Boudreau et al., 1994). Thus, while having a better understanding of how HR programs affect individual employees may be a more useful and accurate way of examining the inputs associated with HR programs, the difficulty of quantifying the outputs associated with the better performance has made the utility analysis tool less than successful in practice.

Finally, one can go beyond the utility analysis perspective and still open the black box of employee performance. Instead of considering employee performance as an outcome that has some associated value, one could specifically look at how HR programs operate, through the employee, to affect outcomes associated with business success. Specifically, how do HR programs influence customer outcomes? Rather than match HR initiatives with the appropriate employee group or focus on stocks of capital and flows of knowledge some researchers argue that all HR initiatives should be focused on meeting not employees' needs but rather, customers' needs.

This concept maps well onto the service-oriented nature of the hospitality industry. Because service quality is so crucial to a hotel, restaurant, or travel firm's customer base and, relatedly, its customer management programs, HR initiatives can add value when they help improve ways employees connect with customers and meet their needs (Kundo & Vora, 2004; McGovern & Panaro, 2004). HR programs, such as staffing and training, can and should be viewed from the customer's perspective (Ulrich & Brockbank, 2005). In other words, decision makers can ask themselves: What would our customers think of the employees we hire? What types of training would be important to our customer base? How do we measure improvement in our customer satisfaction levels or in repeat customer business from these programs? Questions such as these help focus HR decisions on the key product for sale and keep HR decisions aligned with the organization's overall goals (Ulrich & Brockbank, 2005).

Unfortunately, while there is certainly conceptual appeal associated with relating HR programs to customer outcomes, it, too, is a path fraught with obstacles. On one hand, decision makers could again treat the entire company as a black box and examine the association between HR programs and customer outcomes; yet, once again they are confronted with the lack of knowledge as to what really is going on because of the HR programs. On the other hand, if decision makers try to research the links from HR programs to employee behaviors to customer outcomes, they are faced with a daunting research task. The field of HR needs to develop better tools and methods if it is going to make investigations such as these possible.

With all of these approaches to studying the strategic value of HR, researchers are trying to provide information to help companies understand how HR practices affect companywide outcomes. But the field has far to go, and the insights gained from any one perspective must be viewed cautiously, as each method has its own set of assumptions and flaws. We therefore must consider what companies can do on their own behalf to advance their understanding of strategic HR value and how they can make better decisions in this regard.

Human Resources at the Strategic Table

Although many argue that HR decisions have important strategic implications, because decision makers are having difficulty quantifying these implications, as they can more easily do with other types of tangible investment choices, they are not making much progress toward using HR data in meaningful ways (Lawler & Mohrman, 2003). Yet it pays to be strategic, and the vagaries of HR outcomes are not impenetrable obstacles. As an example, consider the field of marketing. Similar to HR, marketing deals with unclear decision paths, psychological phenomena, and hard-to-predict outcomes. Yet the field of marketing has developed the tools and analytics to model customer behavior and help decision makers make better strategic choices. The difficulties inherent in HR decision making present challenges, but the field can follow the model of marketing and develop the methods and analytics (Boudreau & Ramstad, 2005). The benefits of this course of action are becoming evident. The SHRM literature suggests that those who can manage their HR more strategically will be rewarded with greater financial returns (Becker & Huselid, 1998).

Yet as mentioned, while organizations, especially service-based firms, have been quick to cite employees as the most important asset, when expenses need to be minimized, many HR initiatives, such as training programs, are the first to be reduced or eliminated (Barney & Wright, 1998). One reason for this reaction is that many HR professionals lack the type of analytic and data-based decision-making capabilities needed to understand and communicate the return associated with their investments (Lawler, Levenson, & Boudreau, 2004). Thus, to manage HR investments strategically—similar to ways companies manage their financial assets and their products—it is necessary to gather information and use appropriate analytics to guide decision making. This requires the development of HR metrics and the use of HR decision-making models. We review some basic tools at hand.

HR Metrics

Boudreau and Ramstad (2003) identified three categories of metrics that can aid in the understanding and evaluation of HR investments: efficiency, effectiveness, and impact (see Exhibit 27.2 for a summary). Metrics of efficiency ascertain how well the HR function performs its basic administrative tasks and include items such as absence rate, vacancy rate, time-to-fill positions, cost per hire, training cost per employee, etc. These metrics are the easiest to collect and provide useful information on the effectiveness of HR administration. Regrettably, they do not provide insight into how HR practices help improve organizational performance.

The second kind of metric captures effectiveness. These metrics help reveal if HR programs have the intended effect on the people whom they are supposed to influence. For example, training programs should be evaluated on more than just participation or cost (efficiency measures); they should be evaluated on the sort of capabilities (i.e., knowledge, skills, abilities) gained by participants. Staffing programs should be evaluated by the effectiveness of new hires provided by the program. Whereas an efficiency measure of staffing may consider time to hire and turnover rate, effectiveness measures should capture the quality of stayers versus leavers, if dysfunctional turnover is decreasing, and if the hiring system is providing employees with the competencies needed to deliver the company's service or product.

The third type of metric helps determine if HR systems are developing and optimizing the capabilities of the company. Lawler et al. (2004) described this sort of metric as allowing one to demonstrate "a link between what HR does and tangible effects on the organization's ability to gain and sustain competitive advantage" (p. 29). Ultimately, the "holy grail" for HR management is to demonstrate the effectiveness of HR programs on the bottom line. The creation of this sort of metric, though, is not a simple process. Relevant numbers cannot be easily looked up in an information system or captured through an employee or customer survey. Rather, one must employ statistical techniques and/or experimental approaches. It is only through this sort of research-based approach, a process we label here human resource analytics, can a decision maker attempt to understand the effects caused by the implementation of HR programs.

Exhibit 27.2 Examples of the Different Types of Human Resources Metrics

	Type of Human Resources Metric		
Human Resources Program	Efficiency	Effectiveness	Impact
Staffing	• Time to hire • Cost per hire • Turnover rate	• Performance level of hires • Turnover rate change	Increase in customer repurchase intentions due to new staffing program
Training	• Training cost per employee • Training program participation	• Skill development achieved by training program	Increase in customer satisfaction due to new training program
Compensation	• Payroll costs • Compensation/ revenues	• Ability to hire top choices • Retention of top performers	Decrease in complaints due to new performance recognition program

Human Resource Analytics

To understand HR analytics, the comparison to the field of marketing again provides a useful illustration. Marketing research is an entire field devoted to developing methods for providing information that can guide marketing decisions. The material is commonly taught as part of a basic education in marketing. Those obtaining degrees in marketing learn about conducting experiments, surveying customers, and using statistical analyses to estimate the affects associated with given programs. Unfortunately, there is little comparable formal "science" in the HR field.

In part, the necessary tools are already present. The fundamental principles behind marketing research can be applied to understanding HR programs. Experiments, surveys, and analyses can be used in conjunction with relevant HR metrics to guide decision making. Just as, for example, an advertising campaign can be evaluated in terms of how well it attracts new customers, the same techniques can be applied to evaluate the effectiveness of a recruiting campaign for job openings; the methods used to evaluate the promotional campaign can be used to assess a new pay-for-performance system. The experimental and analytical techniques employed in marketing research can be used to estimate the affects associated with any number of HR programs, whose effects are captured by the effectiveness and impact metrics discussed earlier. These concepts are beginning to be applied in the training evaluation literature that examines the ways employees' improvements with their job skills (following a training intervention) are tied to improved organizational performance and profitability.

In addition to borrowing techniques from marketing research, there have also been advances in HR analytics specific to the HR field. Specifically, cost-benefit analysis tools have emerged to help guide HR decision making. As mentioned, utility analysis is a tool designed to quantify the benefits associated with HR interventions. Based on the assumption that individual performance has some quantifiable dollar value, utility analysis presents a set of techniques to estimate the benefits and costs associated with specific HR programs (for an introduction to the utility analysis tool, see Sturman, 2003). In brief, the utility analysis tool calculates the impact of an HR program by multiplying the number of employees affected by a program by the impact of the program on individual employee quality improvement. An estimated cost associated with the program is subtracted from this number (Boudreau & Berger, 1985). While the basic technique is fairly straightforward, research developing the tool has made refinements of the technique more accurate, as well as more complex (Sturman, 2000). Specifically, it is often difficult to estimate specific improvements an HR intervention has on an employee's performance.

The potential for sophisticated HR analytics has existed for several decades. The utility analysis tool has existed since the 1950s but is still generally unused by managers. Some have argued that this is a flaw associated with the technique itself (e.g., Latham & Whyte, 1994; Whyte & Latham, 1997). Others have argued, though, that the sophistication of the method combined with little formal training on its use limited its widespread adoption (Sturman, 2000). Similarly, while the field of marketing research goes back to the 1920s (Bartels, 1965), there has not been any sort of widespread application of HR analytics as a component of HR education. Nonetheless, it is our hope that such approaches to HR decision making can become a common element in business education.

In sum, we argue that individuals making strategic HR decisions should be trained in the use of HR analytics to guide that decision making. To obtain the most from a firm's human capital and HR, decision makers need to be able to make good HR choices. Whoever is making decisions regarding the investment in, and deployment of, an organization's human capital needs to have the necessary information and (generally, computerized) tools to assist in analysis.

Issues in Practice

SHRM research provides many general suggestions on how to be more strategic or at least on how to approach HR decision making from a more strategic perspective. Lacking, though, are specific recommendations that have immediate applicability for practice. This is not surprising, nor should it be expected, as the specifics of every business will necessitate different approaches. The purpose of this chapter is not to provide the one path to strategic HR success; rather, our goal is to help readers learn from the advances in the field so that they can strike out on their own path. We offer a basic trail guide—ideas to consider when linking employees with firm strategy.

From an applied perspective, the first key piece of information needed before HR investment decisions can be made is to understand the value associated with employee performance. In an industry focused on the delivery of customer service, there are very few examples of where employee performance does not matter. Instead, the question becomes: How does employee performance make a difference? The more it matters, the more decision makers should examine their HR investments. Investments may be needed to choose the right employees (e.g., invest in a selection system and attract with appropriate salary and benefits), develop the employees that make the biggest difference (e.g., invest in training), and retain these employees (e.g., invest in their pay), as well as collect information on these employees (e.g., invest in performance appraisal systems). The greater the value of employee performance, the more that interventions designed to improve performance can produce value. Thus, the more value there is associated with employee performance, the more a company may want to invest in this human capital.

Decision makers also need to consider what resources are needed to make strategic HR choices. Companies must consider whether they should "make or buy" their HR as part of an overall competitive strategy. HR decisions, and even human assets, can be outsourced. For example, when selecting a housekeeper, a hotel can fully handle the hiring process from recruitment to evaluation to selection; alternatively, they can hire agencies to manage the selection process. Then again, they can simply outsource the entire function and thus hire another company to perform all cleaning tasks. This "make or buy" decision must be made very carefully. If one does not consider the potential value associated with employee performance, then the decision will be driven by a cost perspective. The collection of important HR metrics, combined with a scientific approach to HR analytics, can help determine the most *profitable* decision.

Drawing upon a hospitality analogy, so to speak, the strategic management of HR is like playing blackjack. Predicting any single behavior or result, like predicting any single hand dealt, is difficult at best. One could have a perfect photographic memory, a salient understanding of probability, and the ability to cognitively compute all the necessary numbers; but, if one sits down and plays a hand with no prior information, the chances of winning are nearly no better than the intuitive (drunk) player sitting at the next seat. But, as one collects information, plays hand after hand, and makes wise decisions as to when to "invest," the chances of winning increases. For SHRM, while developing the right system is difficult, the house is not nearly as stacked against the decision makers. If decision makers draw upon the existing research, including their understanding of human capital, and build a solid HR system, companies using a strategic approach to HR decision making can win—and win big.

Commentary

By John Longstreet

Much of the debate regarding SHRM revolves around the ROI of HR initiatives. If we assume that, as a rule, HR initiatives are designed to, in some way, improve the "employee experience" at work, the justification for a considerable focus on HR is found in *The Service Profit Chain* by Sasser, Schlesinger, and Heskett (1997). The book focuses on the relationship between employee satisfaction, customer satisfaction, and profitability.

Ten years before the book was written, as a hotel general manager (GM), I embraced a concept that if I took care of my employees, they would take care of my guests, and my hotel would be successful. Certainly appropriate facilities, ongoing capital improvements, sales and marketing, cost control, and a myriad of other details are important. But it was crystal clear to me that if my employees were happy, as a rule so were my guests, and our gross operating profit (GOP) exceeded other operations without a similar "employee focus."

In 1998, with the assistance of Cornell Hotel School researchers, the service-profit chain was "proved up." Looking at 76 hotels, 6,500 employees, and a representative sample of the guests who stayed at those hotels, the researchers were able to establish a statistical correlation between employee satisfaction scores, guest satisfaction scores, and "GOP to budget" comparisons (Simons, 2002). A similar conclusion was reached in a 2005 analysis of 160 businesses and country clubs, their employees, and members at ClubCorp.

So, if we will agree that themes expressed in the service-profit chain are valid, the next question—logically—would be "What HR initiatives are most important in driving employee satisfaction?" I would argue that the best way to answer this question is to ask the employees. Combining our own data with that which has been collected from employees for years and compiled by organizations like the Corporate Leadership Council, clearly a huge component of employee satisfaction was, not surprisingly, "their supervisor." So, at ClubCorp we embarked on a program, designed in simplest of terms to improve our supervisors and managers. The program, called Leadership 101, was introduced in 3-day sessions held around the country to some 1,200 managers and supervisors. This is not to ignore other key indicators of satisfaction, like compensation, benefits, and recognition, but having a team of supervisors equipped to create a great-place-to-work environment seemed like the most logical first step.

This mission of "creating a great place to work" should be the overriding mantra of the HR function. That said, it is the operators who actually impact the work environment on a day-to-day basis, and good HR programs cannot make up for bad managers. Consequently HR's role is as the cheerleader for the cause and as a resource to assist operators in the achievement of this goal. Using a customer service model, the employee is the "customer" of the manager and supervisor, and the manager and supervisor is the "customer" of the HR department. Of course, another key role of HR is to help ensure we find and hire the right supervisors and managers in the first place.

The concept of HR as a service provider to operators leads to another key theme among HR circles and mentioned earlier in this chapter. How can HR professionals get the attention of operators or, put another way, how can they get a "seat at the table"? As an operator turned HR person, I have found that firsthand knowledge and empathy of "ops" has been absolutely critical to gain buy in from the operators on strategic HR initiatives. Operators are more likely to react well to terminology that they understand and conversely tend to bristle at "HR speak." As in reaching any audience, it is important that you speak *their* language.

Besides determining what HR initiatives are most important and how to gain acceptance, the chapter also deals with identifying employee groups that "provide the highest return to the organization" and tailoring HR investments accordingly. While acknowledging that training programs must differ based on the level and position of the employee, we reject that notion that HR programs should be different for one group of employee versus another. One of the most powerful leadership models, in my opinion, is "side-by-side" leadership, recognizing that every employee, manager, and executive works side by side in achieving a common company vision. In a hotel, if there *were* employees more important than others, it might be the room attendants or dish machine operators, since these are the hardest positions to fill and perhaps the hardest jobs to do. Side by side leadership is important in maintaining happy employees.

In summary, the service-profit chain provides the framework by which HR priorities and strategies should be developed. HR needs to recognize operators as their customers, understanding and empathizing with their challenges and needs. In that way, HR is more likely to gain a "seat at the table" and gain acceptance of important strategic initiatives.

Point-Counterpoint

We very much appreciate Mr. Longstreet's comments and ideas; readers should know Mr. Longstreet successfully led an extremely effective HR program at ClubCorp. He is now president and CEO of Quaker Steak & Lube Restaurants. Research has a great deal to learn from business practices that work, and his HR strategic initiatives at ClubCorp are a model to follow. We are grateful for the insights he offers to this chapter. With the goal of learning from dialogue, we'd like to engage in one here and offer a counterpoint to some of Mr. Longstreet's arguments. We specifically focus on the rub between research and practice and identify areas both where we disagree and agree with ideas being applied in industry practice.

From a perspective of those who are working with HR's impact and challenges in real time, we agree with Mr. Longstreet that there is a lot of appeal to the service-profit chain, especially the notion of asking managers, as well as HR, to focus on improving the employee experience. These ideas are akin to more recent ideas in the leadership literature of servant or super leadership (Manz & Sims, 1991). While we do not dispute that it is best to treat your employees as customers, and in doing so create a safe and desirable work environment, we do believe that the service-profit chain has the potential to be somewhat limited in its overall usefulness, mostly because of the employee satisfaction-performance link.

While the relationship between job satisfaction and profitability has been substantiated at ClubCorp, as a general notion, the link between job satisfaction and employee performance often proves tenuous. Research continues to suggest that a happy employee is not always high performing (Way, Sturman, & Raab, in press). For example, in an analysis of 312 studies, with a combined sample of over 54,000 employees, the estimated relationship between job satisfaction and job performance was around 0.30 (Judge, Thoresen, Bono, & Patton, 2001). Or in other words, less than 10% of the variance in job performance can be predicted by an employee's level of job satisfaction. (In addition, the causal link between satisfaction and performance is not entirely clear. For example, a good case can be made that if employees are performing well on the job and are recognized for that, they will be happier employees.) While the relationship between the two phenomena is still positive, and focusing on job satisfaction is arguably a very important endeavor, there may exist additional ways for HR to contribute to business success.

Yet, as we'd suggest to Mr. Longstreet, we may just be telling the same story using different words; the "side-by-side" leadership program Mr. Longstreet describes represents a valuable investment in the company's human capital. Both practice and research would agree that the goal of strengthening leadership within organizations is crucial to employees having the ability, motivation, and opportunity to perform well. In fact, Schneider and colleagues (2005) recently found a causal link among service-focused leadership, employees' use of organization citizenship behaviors with customers, customer satisfaction, and sales. Establishing these types of links between leadership, employee performance, and critical measures of success such as sales and employee turnover, may make clear how HR can help drive organizational success.

We believe Mr. Longstreet to be dead-on when he asserts that HR needs to understand the nature of the business and—"must have firsthand knowledge and empathy of operations"— to have the credibility, and hence potential, to make meaningful changes to the workplace. Keith Hammonds recently made quite a stir in the HR field with a paper entitled "Why We Hate HR" (Hammonds, 2005). Part of the problem with HR management that Hammonds identifies is exactly this issue. HR managers need to know who is the company's core customer; they need to know who is the competition, and they need to know what the company does well. This requires knowledge beyond just what is managed within the walls of the HR department; it requires knowledge of the business. It also speaks to one of the four core competencies identified by Ulrich (1997) as crucial to HR's ability to impact its organization.

Training programs aside, Mr. Longstreet rejected our notion that HR programs should be different for one group of employees versus another. In the spirit of good debate, here, we simply have to offer a counterargument. While we agree that employees should uniformly be treated ethically, legally, and with respect and dignity, as expressed by Hammonds (2005), sameness is not a proxy for equity. It is not simply that different jobs contribute to the organizational mission in different ways (as Mr. Longstreet implies when he comments about the critical role of the frontline employee), but also that employees within that job perform at different levels. HR decision making needs to be all about differentiation. Which specific employees need specific skills? How can managers ensure that they retain their top talent? Should top performance be encouraged with pay increases that are among the highest in the organization? How can we encourage average or below-average employees to either increase their performance or perhaps leave the company? Again, our disagreement here is likely a matter of semantics.

Clearly, we are in agreement with Mr. Longstreet that HR needs to contribute to business success, and perhaps we only differ slightly in the mechanisms through which this happens. Yet, this potential disagreement actually highlights one of our other major points in our chapter: HR needs to be able to assess its impact and understand how HR decisions (both at the policy level and at the individual level) make this happen. While the service-profit chain has proved valuable for ClubCorp in identifying a relationship between the "black box's" inputs and outputs, we still needed metrics and analytics to learn more about this issue and explain the process by which value-added occurs. The SHRM field can help here, as can greater researcher-practitioner collaboration. We hope this chapter encourages work in this area.

Reconciliation and Insights

As both research and practice have shown, the business of managing an organization's investment in its human capital is complex. Clearly, one of the central goals of HR decision makers is managing this investment portfolio through assessing the return of its bundle of HR initiatives. We emerge from our discussion of the process of SHRM with a salient, overarching theme.

HR decision makers will not be effective in managing their HR investments without delineating specific ways HR initiatives contribute to a firm's overall competencies, goals, and objectives. While a seemingly simple concept, as we hope we made clear, there exist a variety of ways to approach this goal—none of which are easy to prove. Thus, to even engage operational leaders in the discussion, HR decision makers need to apply the language and metrics that will make all organizational leaders take notice of ways their human capital appreciates in value and, to borrow concepts from the RBV, shape a firm's distinguishing competencies. This includes, as Mr. Longstreet so aptly pointed out, understanding the business' needs and practices, in addition to understanding the industry in which the business operates. With this information in hand, HR decision makers can engage operational leaders in shaping the organization's competitive advantage through reinforcing cultural values and developing employees' knowledge and skill-base. They can also help enact change and create organizational agility through aligning the hiring, training, compensation, and firing processes (Brockbank, 1999). With all of these processes, effective HR decision makers should use business core competency goals and metrics as the benchmark for evaluating HR initiatives (Ulrich, 1997; Wright, Snell, & Jacobson, 2004).

As Brockbank (1999) suggested, HR leaders need to go beyond the logical role of matching HR processes to a firm's strategy and be what he terms "strategically proactive." This means that HR leaders should be focused on tomorrow's organizational challenges. They should work on enhancing an organization's innovative capabilities through removing obstacles to creative processes and streamlining ways operational decisions are made. HR leaders also need to be crystal clear on what their organization knows (knowledge), what it does (skills), and how it thinks (culture). In doing so, they will be able to contribute more effectively to organizational change plans, including mergers and acquisitions (M & As). Finally, HR decision makers need to be in continuous conversion with sales and marketing personnel, staying ahead of customer trends and understanding ways employees can help attract and sustain a loyal customer-base (Brockbank, 1999).

This concept of linking employees with customers leads to our final insight. We believe the area of greatest potential for service organizations lies in understanding the crucial ways employees create value for the purchasers of the organization's product. More recent research in marketing examines the lifetime potential revenues customers bring to an organization, as well as the value of maintaining customer relationships (Duffy, 2000; Gupta & Lehmann, 2003). It is widely understood that frontline service employees play crucial roles in the reproduction of intangible service experiences or products (Bowen, 1986). The wild cards in the equation are the customers, who often are not even cognizant of their own service expectations let alone their satisfaction with service experiences—or their own role in shaping those experiences. We understand that service encounters are complex and variable and as a result, often difficult to script.

What we need to understand are the financial ways employees contribute to the lifetime value of loyal and repeat customers. Broadly, we know that employees can contribute through communicating customer needs to preferred-customer databases, to learning various ways customers wish to reproduce service experiences, and to being such an efficient and recognizable part of the service experience that loyal customers are willing to pay price premiums for the ease and predictability of the service encounter (Reichheld, 1996). These types of behaviors turn what is termed "encounter-based" service experiences into "relationship-based" service experiences that add value to the firm. The customer switches from doing business with an organization to doing business with people who represent the organization (Gutek & Walsh, 2000). Research suggests that the customers who form relationships with their service organizations actually appreciate in potential value, quite similar to the investments in employees (Reichheld, 1996). What we do not know is how to measure the specific ways employees contribute to the long-term potential of an established customer base, as well as help attract a new one. Numerically linking these contributions to long-term revenue brings home the crucial ways employees contribute to any successful service business. Human capital—-and its associated HR investments—represent intangible assets that have remarkable potential to enhance both current and future firm value.

Implications for Strategic Human Resource Management in Hospitality

What do these insights suggest for future research and practice in hospitality? As we mentioned, industry leaders in both the hotel and restaurant industries report human capital challenges recruiting, retaining, motivating, training, and developing the workforce—as the problems that "keep them awake at night" (Enz, 2001, 2004). While short-term recruiting and turnover issues may ebb and flow with economic conditions, the general problem of acquiring, developing, and retaining a high-quality workforce that is ready to meet one's future organizational needs is a problem that does not go away in any financial environment. Obviously, industry leaders recognize the serious challenge of understanding the investment return from what is typically viewed in the short term, as a very significant P and L expense. Coupled with this contradiction is the fact that, as any GM, financial planner, and/or hotel controller would advise, critical strategic decisions must be based on sound financial analysis—even of an organizations crucial intangible assets, such as investments in its employees.

Yet, at the same time, it is not difficult to realize in a service-oriented business, how crucial employees, especially frontline employees, are to an organization's success. Building from the concepts discussed by Mr. Longstreet, as well as the recognition that frontline employees are the ones carrying out a firm's strategic initiatives (Liao & Chuang, 2004; Skaggs & Youndt, 2004), we offer that both hospitality-based HR research and practice should begin with these employees. In other words, when determining the return on investing in and developing a hospitality firm's human capital, both research and practice should begin with the crucial customer-employee interaction.

More specifically, hotel or restaurant guests have many "touch points" or encounters with employees, as throughout their visit, they consume the product for sale. We suggest focusing on the data embedded in these encounters. Through guest comments systems and client feedback programs, most organizations already know which aspects of their service delivery system are working and which are candidates for improvement. We argue that these data represent points for future investigation from not a service quality perspective but perhaps in a more nuanced manner, from an HR, operational one. For example, what are *specific* employees *specifically* doing to manage the service encounter in ways that the most valuable, repeat customers appreciate? Or alternatively, how do these employees create efficiencies around the work they do that are reflected in high-volume exchanges with satisfied customers and clients? How are efforts such as these reflected in additional revenues or cost savings to the hotel or restaurant? Questions such as these help identify what employees are doing right—all the critical and significant things they do to help build and sustain a successful business.

With an understanding of data such as these in hand, HR decision makers can then assess not only what outstanding performance "looks like" in terms of bottom-line impact, but they can also determine the routines that outstanding employees enact, that can be embedded in the organization's processes. At a broader level, decision makers can conduct similar analyses examining the impact of past and current investments in various employee groups (reflected in the wages and benefits required to obtain them) on the hotel's current revenue stream and even profitability. Ideas such as these are aimed at applying financial modeling to understand the impact of human capital at both the individual and group level.

The same type of analyses would be useful to analyze the impact of different HR investments. For example, with information from loyal guests in hand, decision makers could examine ways criteria provided by these guests are embedded into performance appraisal systems, are used to identify training standards, and/or are shaped into hiring guidelines for evaluating job candidates. In this way, HR policies and practices become aligned to not only support and develop these high-performing employees but also to encourage others to adopt similar behaviors. Practices such as these would help create and sustain a high-performing work culture. In addition, the success of HR initiatives could be calibrated against how well employees are succeeding in managing those crucial customer linkages that help generate repeat business.

The linkages between customer and employees represent one leverage point from which our ideas could be directly applied to hospitality research and practice. Connecting employee performance to what matters most to a hotel or restaurant, along with the ability to accurately strengthen and measure this connection through HR processes, metrics, and analytics pose exciting opportunities for decision makers. The impact of human capital and HR initiatives is obviously critical to a service-oriented business. Understanding the financial depth of this impact likely represents an occasion for hotel and restaurant organizations to differentiate themselves in significant ways from their competition. We look forward to future hospitality research and practice that focuses on this opportunity and offers a greater understanding of the strategic value of HR.

Conclusion

In this chapter, we sought to not only review key issues in SHRM but also to identify areas of opportunity and leverage. Our review made salient for us that research has a long way to go in providing definitive answers for hospitality practitioners. Yet, it is clearly moving in that direction. Applying metrics and adopting a financial decision-making framework will help all decision makers—whether HR or operational—examine the return associated with human capital investments and HR initiatives. The key lies in understanding ways these assets appreciate in value to the organization. The business leaders who can best leverage their human capital will be the ones contributing to the long-term strength of their companies.

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