



Univerza v Ljubljani

Filozofska fakulteta

Oddelek za psihologijo

*Katedra za psihologijo dela*

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## RETOOLING HR AS FUTURE PERSPECTIVE OF HRM: Work performance example

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Seminar pri predmetu *Psihološka diagnostika in ukrepi v delovnem okolju*

Avtorica: Marta Banjac

Mentorica: doc. dr. Eva Boštjančič

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## STRATEGIC ROLE OF THE HUMAN RESOURCES: HR AS BUSINESS PARTNER

The role of human resources management (HRM) within the organization has changed over time. HRM as we know it today is developed from personnel management, and was meant to encompass a broad range of employee concerns and employment policies (Van Buren, Greenwood and Sheehan, 2011). Human relations and human resources school's insights, from the middle of the previous century, impacted HRM to take the role to make organization-employee relations more humane, thus avoiding some organization-centric employment practices and perspectives on employees engendered by scientific management (Taylor, 1903; cited in Van Buren et al., 2011) and administrative theory (Fayol, 1949; cited in Van Buren et al., 2011). From the other side, theories of strategic management have historically acknowledged the importance of internal activities, resources or capabilities as potentially important sources of competitive advantage (Buller and McEvoy, 2012). As a matter of fact, strategy is about building sustainable competitive advantage that in turn creates above-average financial performance (Becker and Huselid, 2006).

In the last several decades HRM kept shifting focus, with the impression that the focus and function of HRM follow wider trends in organizations, strategies, and management philosophies rather than leading them (Ferris, Hochwarter, Buckley, Harrell-Cook and Frink, 1999; cited in Van Buren et al., 2011). Changes in HRM theories and practices have generally been driven by changes in the broader social, legal, and political climate (Ferris et al., 1999; cited in Van Buren et al., 2011) in addition to organizational demands for efficiency (Van Buren et al., 2011). Human resource management has also been compelled to justify its existence and contributions by demonstrating how the function adds value and, consequently, the success of organizations in the globalized current business environment (de Wet Fourie and Nel, 2013). Contemporary HRM managers are compromised and face moral dissonance by virtue of dual expectation and roles – traditional employee care and strategic – organization-focused. Recognizing, that whilst organizations and their employees may have some set of common interests, is more usually the case that the interest of both parties to the employment relationship are in at least partial conflict, which resulted with the fact that HRM has become less employees focused and more organization and strategy focused, often to detriment of employees (Van Buren et al., 2011). A significant trend in HRM theory and practice has been toward making the function more supportive of organizational strategies (Liu, Combs, Ketchen and Ireland, 2007; Van Buren et al., 2011), transforming human resource management (HRM) into strategic human resources management (SHRM). HRM seeks to make itself strategic by seeking to accomplish goals thought to be valuable to the organization (Van Buren et al., 2011). And, as Becker and Huselid (2006) argue, HR's strategic impact is contingent on its contribution to the effectiveness of strategic business processes.

When we're mentioning alignment between strategy, HRM practices and performance, it's inevitable to mention LOS concept, whose focus is that alignment itself. "Line of sight" (LOS) is a concept defined as "an employee's understanding of the organization's goals and what actions are necessary to contribute to those objectives", by Boswell et al. (2006; cited in Buller and McEvoy, 2012). Buller and McEvoy (2012) propose upgraded model of LOS, which they define as the alignment of organizational capabilities and culture, group competencies and norms, and individuals KSAs (knowledge, skills and abilities), motivation and opportunity, with one another and with the organization's strategy (Figure 1).

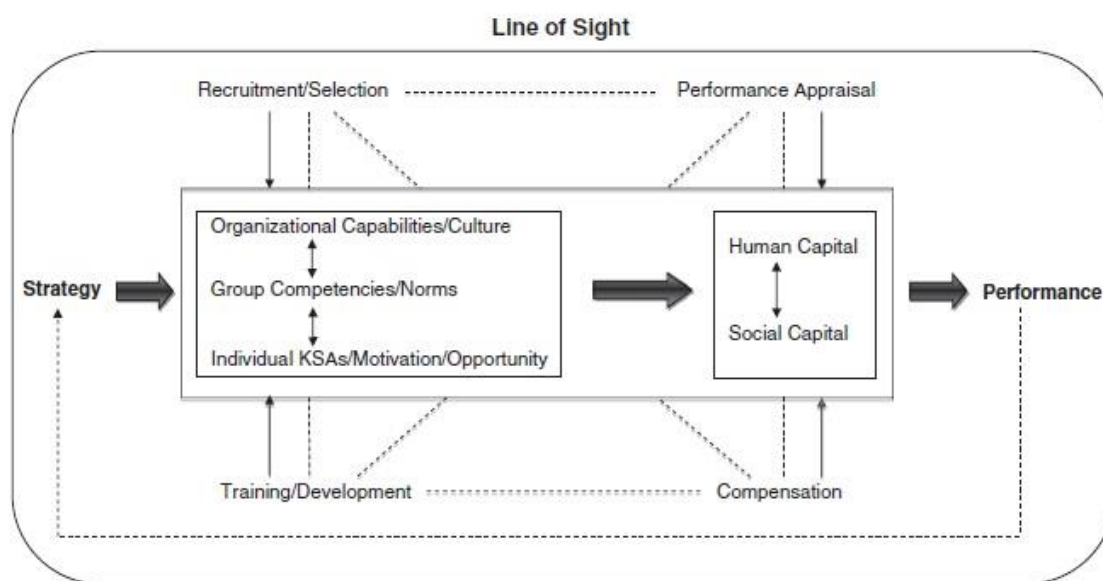


Figure 1. Upgraded model of "Line of sight" (Buller & McEvoy, 2012). Note: dotted lines between HRM practices indicate that these are all internally aligned.

Wilcox and Lowry (2000; cited in Van Buren et al., 2011) argue that reframing HRM as SHRM permits the acceptance (by HRM professionals) of using individuals as economic ends. There has been seen increasing tendency to view employees as sources of human capital; such tendency may cause employees to be valued for their "resourcefulness" than their humanity, which may lead to organization's orientation that only for the employees deemed to be strategic, the organization would seek to find ways to make them happy and to motivate their actions toward achieving the organization's goals (Van Buren et al., 2011).

Boudreau (2010), implements new term in the SHRM – "retooling HR", which he defines as "taking proven tools from other disciplines and translating their principles and logic to apply to decisions and analytics about talent and human capital. In his book *"Retooling HR: using proven business tools to make better decisions about talent"* (Boudreau, 2010), he argues that "retooling HR" is much more than a business partnership. As he points out, it requires that HR leaders understand the challenges

faced by organizations, and how those challenges are expressed through disciplines like marketing and finance, as well as it requires that HR leaders and researched apply the underlying logic of those disciplines to vital human capital decisions (Boudreau, 2010).

### WORK PERFORMANCE OPTIMIZATION: RETURN ON IMPROVED PERFORMANCE (ROIP)

SHRM focuses on organizational performance rather than individual performance, and it also emphasizes the role of HR management systems as solutions to business problems (including positive and negative complementaries) rather than individual HR management practices in isolation (Becker and Huselid, 2006), even do strategic means much more beyond that. Buller and McEvoy (2012) point that the value of the HR function, HR professionals, and HRM practices will ultimately be validated only through their impact on performance.

When HRs are talking about work performance, their main tasks in the process are to analyze job, map requirements and to access required competences, skills and abilities. That process has a purpose to create comprehensive descriptions and to identify key performance indicators (KPIs) for work elements (Boudreau, 2010). However, professor Boudreau (2010) asks interesting question “Where would improving performance make the greatest difference?” a question which can’t be answered with HR systems and tools that are mainly used in practice. For example, if we’re thinking about the strategy to save the electricity in our house, we can decrease the amount (hours or frequency) of using: lights, water heater, laundry machine, hair drier etc. Here is pretty obvious that turning off the light or not usage of hair drier, will not at all have the same impact on electricity savings, as for example, optimal usage of water heater would. However, the studies about work performance have an issue to answer to the question where to improve, as there is no clear framework which HRs can use. Professor Boudreau (2012) proposes that we borrow mental models from other sciences. “A mental model is the explanation of someone’s thought process about how something works in the real world. It is a representation of the surrounding world, the relationships between its various parts and a person’s intuitive perception about their own act and consequences. Our mental models help shape our behavior and define our approach to solving problems and carrying out tasks” (Answers.com, 2011; cited in Boudreau, 2012).

Applying the logic from business to the field of measuring work performance, Boudreau (2010) proposes Return of improved potential (ROIP), a concept that will help HRs define performance and optimize performance improvement. ROIP presents improved connection between work analysis and business outcomes and extends the emphasis from describing work elements to finding which work elements matter most (Boudreau, 2010). In his book “Retooling HR: Using proven business tools to make better decisions about talent”, Boudreau (2010) proposes several ways of reframing work

performance using engineering perspective (engineering mental models). One of the 3 tools that he propose (and the one that I consider as the most easy and useful for the psychologist to understand and apply), is combining risk with performance-value analysis, or more precisely, idea of ROIP combined with the engineer's model of risk optimization. Engineers deals with questions such are "Where should I be willing to tolerate wide performance variation, in hopes that the high end will make up to the low end?" and "Where should I reduce performance variation to mitigate the downside risk of bad performance, even if I give up some of the upside?", in a process of risk-value analysis (Boudreau, 2010). This model can be applied on the work performance in the HR, and it will be explained with the help of the following example of McDonald's vs Starbucks front line workers.

#### [Risk-value analysis example: McDonald's vs. Starbucks front line workers \(Boudreau, 2010\)](#)

In risk-value analysis, based on predicted consequences of performance variation and risks, engineers allow or don't allow variations in different part of work performance. Boudreau (2010) explains this model on example of McDonald's vs. Starbucks front line workers. Barista at Starbucks and counter service associate at McDonald's seems to have the same tasks: preparing the product, interacting with customers, taking payments, working with the team, good attendance and good job performance. But risk-value analysis reveals hidden and important strategic differences. McDonald's is known for consistency and speed, it stores automate many of the key tasks including customer interaction. This strategy allows company to acquire and deploy a vast variety of talent in its stores, because the work design minimizes the chances for mistakes. However, it also means that the chance for the significant performance breakthrough from store associates is also lower.

In contrast, the allure of Starbucks as a "third place" (home, work and Starbucks) is predicted in part on the possibility of interesting interactions with Starbucks baristas, who are highly diverse and often multit talented group. Their personal styles are clearly on display and Starbucks counts on that diversity as part of the image. Comparing to McDonald's, Starbucks needs to spend more on evaluating applicants and new-hire quality. However, this is the price that Starbucks pays to gain the opportunity to have interesting baristas. The strategic decisions by McDonald's and Starbucks lead to vastly different payoffs (and risks) from these work elements and gain the potential for significant strategic advantage. *Figure 1* shows described risk-value analysis.

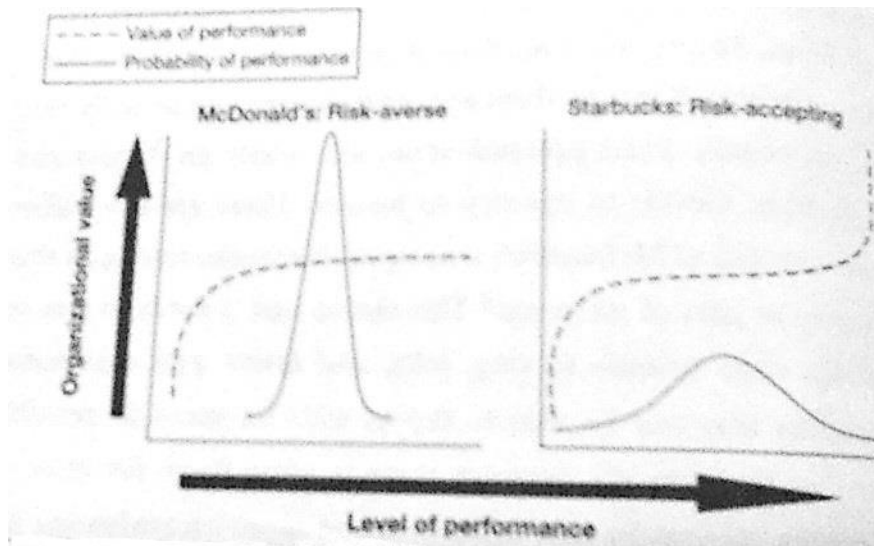


Figure 1. Risk-value analysis for frontline jobs: McDonald's versus Starbucks (Boudreau, 2010).

On the left of the figure is McDonald's classic risk-averse approach to performance, which designs the work to maintain a tight distribution, and guards against poor performance by restricting the performance range, because its strategy doesn't require highly creative service in the end of the high end of the performance scale. McDonald's wants high performance on the job, but "high" is defined within a narrow range. On the right is the Starbucks combination of risk aversion on the low end of performance and risk seeking on the high end of the performance. Starbucks accepts and even encourages a wide array of performance levels (shown by the wider distribution curve), because the way it competes creates the high payoff from an extraordinary innovation on the right side (Boudreau, 2010).

### Conclusion about applying different mental models in HR

As Boudreau (2010) points out, hidden within the standard job analysis tools of HR is the opportunity to significantly change the way we look at work. The result of applying proven business tools, such as risk-value analysis, is to revolutionize how organizations analyze, invest and optimize the return of improved performance at work, just as these tools have revolutionized ROIP for manufacturing, engineering and marketing (Boudreau, 2010). Here it is important to mention that there are a lot of different models from different sciences which are waiting to be explored how they are applicable to the field of the HR. At this point, I would like to encourage psychologists to think about the different models that we can implement in HR, to search for analogies and explore for the purpose of HR science and practice.

## THE ROLE OF A PSYCHOLOGIST

For sure, one of the greatest strengths of psychologists is that we have developed psychometrically sound assessments of different characteristics of individuals, such as the knowledge, skills and other abilities. However, rather than focus on the individual's choice to develop aspects of his/her human capital, psychologists have frequently examined the techniques organizations impose on people (i.e. the HR practices such as training, performance feedback, etc.) through which human capital is developed in individuals (Ford and Fisher, 1997; cited in Wright and McMahan., 2011). But characteristics do not, in and of themselves, result in productivity, rather they provide the foundation (Wright and McMahan, 2011) and psychologists' responsibility is to help others understand this fact. Besides that, psychologist in the role of HRs can also involve business leaders and employees in helping to define mentioned ROIP curves, and one of the ways is to embed curve driving into the normal cycle of strategy, performance management and goal-setting process (Boudreau, 2010).

Also, no matter that we're going to develop and embrace strategic HRM thinking, we should continue to respect our ethical principles in the delivery of our future work.

It's important to stress also implications of SHRM to psychological research. As Colbert (2004; cited in Buller and McEvoy, 2012) argued: "Pursuing a line of research in SHRM (strategic human resources management) that focus on coherence in the HR system, infused with a living-system perspective, could help to inform the way organizations are studied and improve the way they are managed".

### What psychologists (as future HR professionals) should do to become competent in this area

Kochan (2007; cited in Van Buren et al., 2011) points that in order for HRM professionals to play this role effectively, they must be willing to critically analyze HRM and its seemingly unabashed acceptance of both unitarism and the move towards a strategic role. Boudreau (2010) stress out that HR professionals need to consider how to connect HR questions to the frameworks that business leaders already know, use and trust. He points out (Boudreau, 2010) that by making these connections, HR leaders and analysts can open up an array of proven analytical tools that can enhance their own rigor, insights, and ability to optimize talent decisions.

Also, it's important that HRM managers take on ethical analyses of employment practices, to the extent that they are expected by employees and non-employee stakeholders (Van Buren et al., 2011), which should be followed by education on ethics implemented in HRM education.

Beyond understanding the needs of the business, HR professionals can increase their strategic value, and therefore the value of HRM practices, by improving their competencies in three primary areas: organizational design, managing change and measuring performance (Boudreau and Ramstad, 2005;



cited in Buller and McEvoy, 2012). HR professionals can contribute to the human and social capital of the firm by developing and facilitating relationships among work groups, managers and employees at all levels in an ongoing change process (Buller and McEvoy, 2012).

#### ADDITIONAL COMMENTS FROM THE AUTHOR ABOUT SHRM IN SLOVENIA

In January 2015, I had the opportunity to attend conference about strategic human resources, part of “Implico”\* project, organized by MEKS in Ljubljana. By listening discussions and lectures by key speakers (successful HR managers and start-up owners) I was delighted with the fact that it’s visible that HR in Slovenia is pretty “up to date” with the main concepts and trends mentioned in this paper. However, the most important learning point for me, was that the HR experts expect that psychology background is a good base for taking an HR position, but they are somehow pretty sure that psychologists would not be able to take top or strategic HR positions. One of the key speakers (experienced manager of global company) mentioned that he’d always appoint a person with the business background to the strategic HR position, rather than the psychologists. This was harsh to hear even do I was somewhat aware of that, but it brings me to 2 key learning points that I’d like to share. Firstly, in order to speak the language of business and get CEO attention, psychologists need to have additional education about business knowledge and skills (informal education, or even better, throughout the initiative to improve syllabus of courses on psychology department itself in more business orientation). From the other side, we, organizational psychologists, have the great responsibility of becoming more transparent about our contribution to the successful business through research and practices. On that way, we’ll build a better professional path for the future generations of colleagues, that we’ll have somehow eased starting point to develop their career in SHRM field.

(\*To read more about the Implico project, visit <http://www.implico.si/>.)

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