STRATEGIC HUMAN RESOURCES MANAGEMENT

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LEARNING OBJECTIVES

After completing this chapter, you should be able to

➤ define strategic human resources management;

➤ outline key human resources functions;

➤ discuss the significance of strategic human resources management to present and future healthcare executives;

➤ describe the organizational and human resources systems that affect organizational outcomes; and

➤ outline the need for a balance between positive employee and organizational outcomes.

VIGNETTE

Kamla Seers is the administrator of the Sunset Assisted Living Center in Orlando, Florida. Three years ago, they brought board members, medical staff, and top management team together to develop a new strategic plan for the organization. The new plan identified a series of goals and objectives in the areas of marketing, finance, and information systems. In addition, the organization set a goal of annual growth in resident census of 10 percent. The strategic planning group assumed that human resources would be available to implement the plan as needed. Then they lurched into the pandemic.

Now Kamla has discovered that Sunset has not been able to recruit and retain adequate numbers of nurses and other allied health personnel needed to implement the strategic plan. Worse, current operations are hampered by a chronic staffing shortage because of burnout. Further, several senior clinical and administrative staff have indicated their plans to retire within the next year. Overall employee turnover averaged 22 percent per year in the last three years, and for the current year turnover has reached 49 percent to date. They will now have to report to the board that the resident census goals cannot be reached because of the organization's inability to adequately staff the facility.

INTRODUCTION

The previous vignette illustrates a critical error that many healthcare organizations make when they develop and attempt to implement their strategic business plan without consideration of human resources. Sunset failed to consider the crucial role of an adequate quantity and quality of human resources in the successful implementation of its business strategy.

Like most other service industries, the healthcare industry is labor intensive. One reason for healthcare's reliance on an extensive workforce is the real-time interaction between healthcare consumers and healthcare providers—an integral part of the delivery of health services. Another reason is that employees from several professions are required to provide a defined service as specified by their licenses to practice. Given the dependence on healthcare professionals to deliver service, the possibility of wide variations in service quality must be recognized within an employee as skills and competencies change over time and greatly depend on the well-being and vitality of the workforce.

The intensive use of labor and the variability in professional practice require that leaders in the healthcare field manage the performance of the people involved in the delivery of services. Effective management requires that healthcare executives understand the factors that influence the performance of their employees. These factors include the traditional **human resources management (HRM)** activities (i.e., recruitment and selection, training and development, performance management, compensation, and employee relations) and the environmental and other organizational aspects that inform human resources (HR) activities.

> *human resources management (HRM)* The processes (recruitment, selection, training and development, performance management, compensation, and employee relations) performed within the organization or external to it and more informal management of employees performed by all administrators.

DEFINITION AND SIGNIFICANCE OF STRATEGIC HUMAN RESOURCES MANAGEMENT

Strategic human resources management (SHRM) is the comprehensive set of managerial activities and tasks related to developing and maintaining a qualified and engaged workforce. This workforce contributes to organizational effectiveness, as defined by the organization's strategic goals. SHRM occurs in a complex and dynamic environment within the organizational context. HR managers must adopt a strategic perspective of their job and recognize the critical links between organizational and HR strategies. To produce the required staff competencies and behaviors, the healthcare organization needs to implement the right mix of recruitment, selection, compensation, performance management, employee development, and other HR strategies, policies, and practices.

This book explains methods for increasing the probability of hiring competent people and of those people ably performing needed tasks after hire. To implement these methods and practices, organizations must

> *strategic human resources management (SHRM)* The process of formulating and executing human resources (HR) policies and practices that produce employee competencies and behaviors required for the organization to achieve its strategic objectives.

◆ determine requirements for positions,

◆ recruit and select qualified people,

◆   train and develop employees to meet future organizational needs,

◆   evaluate job performance, and

◆   provide adequate rewards to attract and retain top performers.

All these functions must be managed within society's ethical as well as legal constraints—legislation, regulation, and court decisions.

This chapter emphasizes that HR functions are performed within the context of the overall activities of the organization. These functions are influenced or constrained by the environment, the organizational mission and strategies that are being pursued, and the organization's internal systems.

Why study SHRM? How does this topic relate to the career interests or aspirations of present or future healthcare executives? Staffing the organization, designing jobs, building teams, developing employee skills, identifying approaches to improve performance and customer service, protecting employee well-being, and rewarding employee success are as relevant to *line managers* (those with formal authority to direct or supervise others) as they are to HR managers. A successful healthcare executive needs to understand human behavior, work with employees effectively, and be knowledgeable about numerous systems and practices available to put together a skilled and engaged workforce. The executive also has to be aware of political, economic, technological, social, and legal issues that affect human resources and, in turn, facilitate or constrain efforts to attain strategic objectives.

Healthcare executives do not want to hire the wrong person, experience high turnover, manage unmotivated employees, be taken to court for discrimination actions, be cited for unsafe practices, have their patients' satisfaction undermined by poorly trained staff, or commit unfair labor practices. Despite their best efforts, executives often fail at HRM because they hire the wrong people or do not motivate or develop their staff. You are likely to manage people at some point in your career in healthcare management. Carefully studying this book and implementing effective HR management techniques will help you avoid these mistakes.

Healthcare organizations can gain a competitive advantage by effectively managing their human resources. This competitive advantage may be in the form of cost leadership (e.g., being a low-cost provider), product differentiation (e.g., having high levels of service quality), or innovation (new ideas). Today's healthcare leaders are competing on the *value of care*—the highest quality of patient outcomes at the lowest cost to payers—under new healthcare reimbursement methods. Thus, attention to service delivery quality is a key component in the management of healthcare organizations for which human capital is a critical component (Khatri, Gupta, and Varma 2017).

Achieving competitive advantage through human resources must be based on the combination of an organization's human capital strategies and core capabilities that are unique to the organization. Healthcare executives cannot simply rely on the benchmarks and

strategies of others, even though they may be suggestive of better approaches to managing people. Instead, leaders who successfully develop and implement their own HR strategies can achieve sustained competitive advantage in their markets. However, improving organizational outcomes is heavily dependent on employee motivation and engagement (Melián-González et al. 2015). Thus, ensuring positive employee outcomes is a mandate for all leaders at every level of the organization. The future belongs to healthcare executives who can improve and sustain organizational performance while managing change through engaged and committed employees.

Organizations can position themselves for sustainable competitive advantage through SHRM by doing the following:

- ◆ Linking the organizational capabilities and culture to desirable traits and behaviors for the recruitment and performance management processes

- ◆ Investing in employee learning and development such that employee knowledge and competencies are unmatched by competitors

- ◆ Deploying strategies to retain top talent

- ◆ Leveraging human capital to improve organizational efficiency and effectiveness

- ◆ Harnessing the power of analytics to inform SHRM

Organizations achieve competitive advantage through SHRM for the following reasons:

- ◆ SHRM requires proactive rather than reactive behavior.

- ◆ SHRM requires evidence-based decision making.

- ◆ Company goals are communicated explicitly.

- ◆ Focus is the gap between the current and desired situation.

- ◆ Line managers are involved in the HR planning process.

- ◆ Opportunities and constraints are identified in implementing strategic plans.

A Strategic Perspective on Human Resources

Managers at all levels are becoming increasingly aware that critical sources of competitive advantage include appropriate systems for attracting, developing, motivating, and managing the organization's human resources. Adopting a strategic view of human resources involves considering employees as human assets and developing appropriate policies and

programs to increase the value of these assets to the organization and the marketplace. Effective organizations realize that their employees have value, much as the organization's physical and capital assets have value, and investing in these assets prepares the organization for the future.

The American College of Healthcare Executives (ACHE) conducts an annual survey of hospital CEOs. For almost two decades CEOs consistently ranked financial challenges as their number one concern—until 2021. In that year, shortages for all employee positions, including physicians, eclipsed finance as the most pressing challenge (ACHE 2022). Forward-thinking healthcare leaders recognize the critical role of HR in future performance and address these concerns with short- and long-term solutions. In the short term, strategic investments in staffing, employee development, and well-being will be required. In the long term, leaders will invest in HR as an asset and create pathways to build capacity for success (Kupletsky 2022).

Viewing human resources from an investment perspective, rather than as variable costs of production, allows the organization to determine how to best invest in its people, which leads to a dilemma. An organization that does not invest in its employees may be less attractive to current and prospective employees, which causes inefficiency and weakens the organization's competitive position. However, an organization that does invest in its people needs to ensure that these investments are not lost by developing strategies to retain employees long enough to realize an acceptable return on its investment in employee skills and knowledge.

Not all organizations realize that human assets can be strategically managed from an investment perspective. Management might not appreciate the value of its human assets relative to its other assets such as brand identity, distribution channels, real estate, and facilities and equipment. Organizations may be characterized as HR-oriented or not, based on their answers to the following questions:

◆ Does the organization see its people as central to its purpose and strategy?

◆ Do the organization's mission statement and strategy objectives mention or espouse the value of human assets?

◆ Does the organization's management philosophy prevent the depreciation of its human assets?

◆ Does the organization prioritize a positive work environment for all employees?

◆ Does the organization consider what skills will position its operations most favorably in the future?

An HR-oriented organization would answer yes to all these questions.

Organizations often hesitate to adopt an HR investment perspective because it involves making a longer-term commitment to employees. Because employees can leave and most organizations use only short-term performance measures, investments in human assets are often ignored. Well-performing organizations may feel no need to change their HR strategies. Those that are not doing as well usually need a "quick fix" and therefore ignore longer-term investments in people. However, although investment in human resources may not yield immediate results, it yields positive outcomes that are likely to last longer and are more difficult for competitors to duplicate.

The SHRM Approach

A strategic approach to human resources management begins with the organization's mission and includes the following:

- ◆ Assessment of the organization's environment

- ◆ Business strategy formulation

- ◆ HR specifications based on the business strategy

- ◆ Comparison of the current HR inventory—numbers, characteristics, and practices—with future strategic requirements

- ◆ Development of HR strategy based on the differences between the current inventory and future requirements

- ◆ Implementation of the appropriate HR practices to reinforce the business strategy and to attain competitive advantage

Changes in the external and internal environments have a direct impact on how organizations are run and people are managed. Some external changes represent opportunities for the organization, and others represent threats. *Environmental scanning* is the systematic monitoring of major environmental forces affecting the organization. Internally, changes may also occur in terms of the organization's strengths and weaknesses as leadership, culture, and organizational capabilities change. In addition, the likelihood of unexpected events requires the organization to be flexible and agile while moored to the mission and values.

The organization's mission, vision, and values must also be assessed to determine an appropriate business strategy. Examples include being a low-cost provider or differentiating the organization based on a unique service or outstanding customer services or social responsibility. After the business strategy has been determined, the organization must develop an HR strategy that will execute the business strategy by making sure that talent is available in the right numbers, with the right skills, and at the right time.

The *HR strategy* generally refers to a company's development, deployment, and retention of its employees to create value. More specifically, the HR strategy commonly includes approaches that direct staffing, training, and compensation activities. To optimize performance in the face of constant change, organizations today must devote more attention to business strategy implementation and execution. The HR strategy facilitates business strategy implementation and execution.

Exhibit 1.1 illustrates some strategic HR trends that affect job analysis and planning, staffing, training and development, performance management, compensation, employee rights and discipline, and employee and labor relations. These trends are discussed in greater detail in later chapters. The key point of exhibit 1.1 is that organizations have moved to higher levels of flexibility, collaboration, decentralization, and team orientation and are using technology and analytics to transform work.

The SHRM Model

As illustrated in exhibit 1.2, a healthcare organization is made up of systems that require constant interaction within the environment. To remain viable, an organization must extend

Exhibit 1.1
Strategic Human Resources Trends

Old HR Practices	Current HR Practices
Job Analysis/Planning	
Explicit job descriptions	Broad job classes
Detailed HR planning	Leverage technology and analytics to transform work
Detailed controls	Flexibility
Efficiency	Innovation and technology integration
Staffing	
Supervisors make hiring decisions	Team makes hiring decisions
Emphasis on candidate's technical qualifications	Emphasis on fit of applicant within the culture
Layoffs	Incentives to retire voluntarily
Letting laid-off workers fend for themselves	Providing continued support to laid-off workers
Workforce diversity is the result of recruitment activities in compliance with equal opportunity	Workforce diversity is defined in the context of the mission and is the result of an inclusive culture

Old HR Practices	Current HR Practices
Training and Development	
Individual training	Team-based training
Job-specific training	Generic training emphasizing flexibility and optimizing talent
"Buying" skills by hiring experienced workers	"Upskilling" or "reskilling" workers to meet new or expected demands
Organization responsible for career development	Employee responsible for skills development according to personal interests matched to organizational or project priorities
Performance Management	
Uniform appraisal procedures	Customized appraisals
Control-oriented appraisals	Developmental appraisals linked to organizational goals
Supervisor input only	Appraisals with multiple inputs
Compensation	
Seniority	Performance-based pay
Centralized pay decisions	Decentralized pay decisions
Fixed fringe benefits	Flexible fringe benefits (cafeteria approach)
Employee Rights and Discipline	
Emphasis on employer protection	Emphasis on employee protection
Informal ethical standards	Explicit ethical codes and enforcement procedures
Emphasis on discipline to reduce mistakes	Emphasis on prevention to reduce mistakes
Employee and Labor Relations	
Top-down communication	Bottom-up communication and feedback
Adversarial approach	Collaborative approach
Preventive labor relations	Employee freedom of choice

its strategic planning and thinking to external changes because the internal components of the organization are affected by these changes.

The characteristics, performance levels, and alignment in operating practices among these systems improve organizational and employee performance. HR goals, objectives, process systems, culture, technology, and workforce closely align with one another (internal alignment) and with various levels of organizational strategies (external alignment) (Ford et al. 2006).

Internal and External Environmental Assessment

environmental assessment
A crucial element of strategic human resources management in which an organization reviews the changes in the legal and regulatory climate, economic conditions, and labor market realities to understand current opportunities and threats.
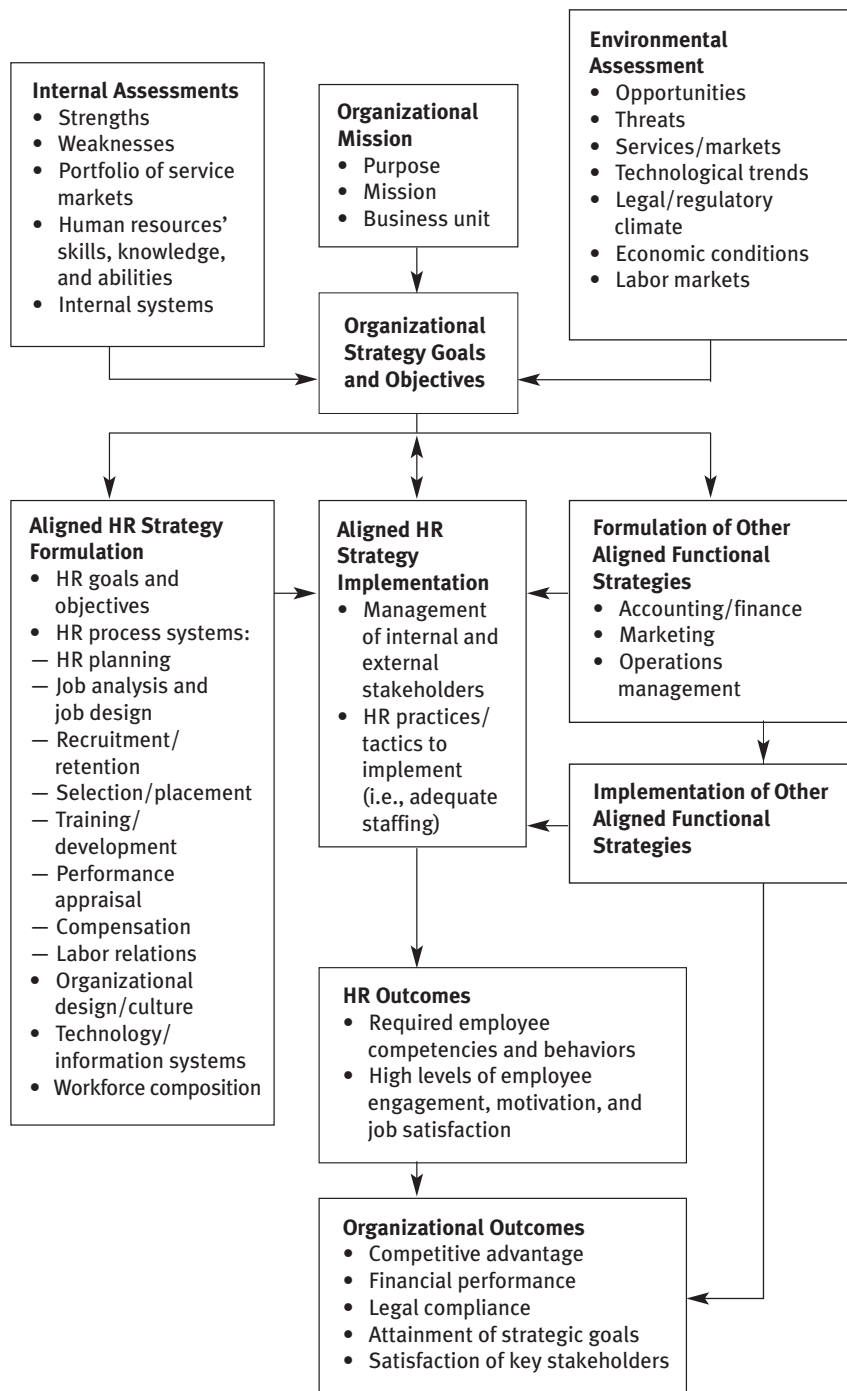
Environmental assessment is a crucial element of SHRM. Changes in the legal and regulatory climate, economic conditions, and labor market realities mean that healthcare organizations face constantly changing opportunities and threats. These opportunities and threats make particular services or markets more or less attractive.

Among the trends currently affecting the healthcare labor environment are greater workforce diversity, aging of the workforce, union organization, protracted skilled labor shortages, changing worker values and attitudes, and advances in technology. Healthcare executives have responded to these external environmental pressures through various internal structural changes, including developing network structures, joining healthcare systems, participating in mergers and acquisitions, forming work teams, leveraging continuous quality improvement, allowing telecommuting, leasing employees, outsourcing work, using additional temporary or contingent workers or internal floating pools, and positioning for medical tourism. In addition to assessing their organizational strengths and weaknesses, healthcare executives need to assess their internal systems; their human resources' skills, knowledge, and abilities; and their portfolio of service markets. Managers should develop HR policies and practices that are closely related to, influenced by, and supportive of the strategic goals and plans of their organization.

Organizations, either explicitly or implicitly, pursue a strategy in their operations. Deciding on a strategy involves determining the products or services that will be created and the markets to which the chosen services will be offered. After the selections are made, the methods to compete in the chosen market must be identified from among the available or potential internal resources.

As shown in exhibit 1.2, strategies should consider environmental conditions and organizational capabilities. To take advantage of opportunities and circumvent threats, managers must have detailed knowledge of the current and future operating environment and link SHRM to organization risk management processes. Knowing internal strengths and weaknesses allows managers to develop plans based on an accurate assessment of the organization's ability to perform as desired in the marketplace.

Exhibit 1.2 indicates that the SHRM process starts with the identification of the organization's purpose, mission, and business unit, as defined by the board of directors and

Internal Assessments
- Strengths
- Weaknesses
- Portfolio of service markets
- Human resources' skills, knowledge, and abilities
- Internal systems

Organizational Mission
- Purpose
- Mission
- Business unit

Environmental Assessment
- Opportunities
- Threats
- Services/markets
- Technological trends
- Legal/regulatory climate
- Economic conditions
- Labor markets

Organizational Strategy Goals and Objectives

Aligned HR Strategy Formulation
- HR goals and objectives
- HR process systems:
— HR planning
— Job analysis and job design
— Recruitment/ retention
— Selection/placement
— Training/ development
— Performance appraisal
— Compensation
— Labor relations
- Organizational design/culture
- Technology/ information systems
- Workforce composition

Aligned HR Strategy Implementation
- Management of internal and external stakeholders
- HR practices/ tactics to implement (i.e., adequate staffing)

Formulation of Other Aligned Functional Strategies
- Accounting/finance
- Marketing
- Operations management

Implementation of Other Aligned Functional Strategies

HR Outcomes
- Required employee competencies and behaviors
- High levels of employee engagement, motivation, and job satisfaction

Organizational Outcomes
- Competitive advantage
- Financial performance
- Legal compliance
- Attainment of strategic goals
- Satisfaction of key stakeholders

the senior management team. The process ends with HR serving as an adviser to the operations. Under this view of human resources management, the HR manager's job is to help operating managers achieve their strategic goals by serving as a partner in all employment-related activities and issues.

ORGANIZATIONAL MISSION AND CORPORATE STRATEGY

An organization's **purpose** is its basic reason for existence. The purpose of a hospital may be to deliver high-quality clinical care to the population in a given service area. An organization's **mission**, created by its board and senior managers, specifies how the organization intends to manage itself to most effectively fulfill its purpose. The mission statement often provides subtle clues about the importance the organization places on its human resources.

The first step in formulating a corporate and business strategy is doing an analysis of the organization's strengths, weaknesses, opportunities, and threats—a **SWOT analysis**. Managers may then use the organization's strengths to capitalize on environmental opportunities and cope with environmental threats. Managers can also overcome identified weaknesses to deal with environmental threats or minimize weaknesses to avoid environmental threats. Human resources play a fundamental role in SWOT analysis because the employees' skills (or lack thereof) and the organization's ability (or inability) to attract new talent represent significant strengths (or weaknesses). Human resources has a bigger role when the organization takes an even closer look at units of the enterprise to find opportunities to direct resources and improve value when conducting a **value chain analysis**. The analysis divides the whole organization into smaller units of activity, like links in a chain, and examines them to identify new sources of advantage. An organizations that proactively and strategically links its talent with value is better positioned to achieve its goals than one that does not (Barriere, Owens, and Pobereskin 2018).

Most organizations formulate strategy at three basic levels: corporate, business, and functional. **Corporate strategy** is a set of strategic alternatives from which an organization chooses as it manages its operations simultaneously across several industries and markets. **Business strategy** is a set of strategic alternatives from which an organization chooses to compete in a particular industry or market most effectively. **Functional strategies** consider how the organization will manage each of its major functions, such as marketing, finance, and human resources.

A key challenge for HR managers in organizations using a corporate growth strategy is recruiting and training the many qualified employees needed to provide services in added operations. Training programs may also be needed to orient and update the skills of incoming and existing employees. When HR is a true strategic partner, all organizational parties consult with and support one another.

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purpose
An organization's basic reason for existence.

mission
A statement created by an organization's board and senior managers specifying how the organization intends to manage itself to fulfill its purpose most effectively.

SWOT analysis
Analysis of the organization's strengths, weaknesses, opportunities, and threats.

value chain analysis
An analysis that aims to identify new sources of advantage by suggesting how internal core competencies can be deployed to meet external environmental conditions and direct the best use of resources.

corporate strategy
A set of strategic alternatives from which an organization chooses as it manages its operations simultaneously across several industries and markets.

HR Strategy Formulation and Implementation

After the organization's corporate and business strategies have been determined, managers can develop an HR strategy. This strategy commonly includes a staffing strategy (planning, recruitment, selection, and placement), a developmental strategy (performance management, training, development, and career or succession planning), and a compensation strategy (salary structure, benefits, and employee incentives). Formulating an aligned strategy necessitates asking the following questions:

◆ What types of individuals do we need to attract and retain?

◆ How will we develop individual skill sets that we will need in the future?

◆ How will reward these individuals to better enhance employee productivity and protect their well-being?

A **staffing strategy** is a set of activities used by the organization to determine its future HR needs, recruit qualified applicants with an interest in the organization, and select the best of those applicants as new employees. This strategy should be put into place only after a careful and systematic development of the corporate and business strategies so that staffing activities mesh with other strategic elements. For example, if a reduction of the workforce is part of the business strategy, the staffing strategy will focus on determining which employees to retain and how to redeploy or lay off the others.

A **developmental strategy** helps the organization enhance the quality of its human resources. The developmental strategy must be consistent with corporate and business strategies. For example, if the organization wishes to differentiate itself from competitors through customer focus and service quality, it will need to invest heavily in training its employees to provide the highest-quality service and to ensure that performance management focuses on measuring, recognizing, and rewarding performance—all of which lead to high service quality. Alternatively, if the business strategy is to be a leader in innovation, the developmental strategy may focus on training to enhance teamwork, design thinking, and creative problem solving.

A **compensation strategy** must also complement the organization's other strategies. For example, if the organization is pursuing a strategy of related diversification, its compensation strategy must be geared toward rewarding employees whose skills allow them to move from the original business into related businesses—for example, inpatient care to telehealth or hospital at home. The organization may choose to pay a premium to highly talented individuals who have competencies that are relevant to one of its new businesses or that may be deployed across the organization.

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business strategy
A set of strategic alternatives from which an organization chooses to compete in a particular industry or market most effectively.

functional strategies
Strategies that consider how the organization will manage each of its major functions, such as marketing, finance, and human resources.

staffing strategy
A set of activities used by an organization to determine its future human resources needs, recruit qualified applicants with an interest in the organization, and select the best of those applicants as new employees.

developmental strategy
A set of methods that facilitate the enhancement of an organization's human resources' quality.

compensation strategy
The set of rewards that organizations provide to staff in exchange for their performance of various organizational tasks and jobs.

workforce composition
The demographics of the workforce, including factors such as gender, age, ethnicity, marital status, and disability status.

Finally, **workforce composition** and trends also affect HR strategy formulation and implementation. The American workforce has diversified in numerous ways. It has more women, older employees; Latine; Asians; African Americans, workers born outside the United States; people who are differently abled; single parents; lesbian, gay, bisexual, transgender, or queer/questioning (LGBTQ) individuals; and people with special dietary needs or preferences than it did during the twentieth century. Then, most employers observed a fairly predictable employee pattern: People entered the workforce while young, maintained stable employment (with the same employer) for many years, and retired at the usual age—at or around age 65. This pattern has changed and continues to evolve as a result of demographic factors, improved health, changing attitudes to work, employee geographic mobility, and the abolition of mandatory retirement.

By 2045, the American workforce is expected to be "majority minority," That is, the US Census Bureau expects that by 2045, more than half the population will be from a minoritized group or have two or more races, with the latter group the fastest growing of all races/ethnicities. With immigration as the largest driver of population growth in the United States, by 2028, the percentage of foreign-born US citizens and residents will be at the highest level in more than two centuries. By 2040, there will be more adults older age 65 than there are minors aged 17 or younger (Vespa, Armstrong, and Medina 2020). The challenge for healthcare leaders will be how to identify, utilize, develop, retain, and replace the necessary human resources to deliver high-quality health services given the anticipated demographic changes (US Bureau of Labor Statistics 2022). The best strategic HR plans may fail when specific HR programs and tactics are poorly chosen and implemented. They are more likely to be successful when they are compatible with the business strategy, environment, organization structure, culture, and HR capabilities. HR strategies are also more effective when they reinforce one another rather than work as cross forces. For example, work teams are more likely to be successful if performance appraisals use workgroup performance rather than individual performance as a criterion.

The HR strategy implementation requires motivational and communication processes, goal setting, and leadership. Specific practices or tactics, such as training, are also necessary to implement the HR strategy. Methods for implementation also need to be chosen. For example, should the training be provided in-house or outsourced? How will each employee's success in applying the principles learned be measured and rewarded? The answers to such questions provide the specific tactics needed to implement the HR strategy.

Employee Outcomes and Performance

An organization should provide its workforce with job security, meaningful work, safe conditions of employment, equitable financial compensation, and a satisfactory quality of work life. Organizations cannot attract and retain the number, type, and quality of professionals required to deliver quality health services if the internal work environment is

unattractive or the HR practices are ineffective. Employees are a valuable stakeholder group whose concerns are important to the healthcare organization because of the complexity of the service they provide. High employee performance requires employee motivation and commitment to achieve positive organizational outcomes (Kaufman 2015). As was shown in exhibit 1.2, the organization must seek a balance between employee and business outcomes. These outcomes feed back into both internal and environmental characteristics, and the whole process is continuous, evolving, and changing. A sense of belonging, job satisfaction, commitment to the organization, employee engagement, motivation, level of job stress, well-being, and other constructs are the usual measures of employee attitude and positive employee outcomes and are discussed in more detail in later chapters of this book.

MEASURING THE HR FUNCTION

HR metrics are measures of HR outcomes and performance. Part of HR's role as a strategic business partner is to measure the effectiveness of both the HR function as a whole and the various HR tasks. Specifically, the questions often focus on the return on investment (ROI) of HR activities.

HR metrics
Measures of human resources outcomes and performance.

Human capital metrics determine how HR activities contribute to the organization's bottom line (Feffer 2017). Some employers gather data on the ROI of various recruitment sources, such as internet and social media advertising, college recruitment, internal transfers, and career fairs Other employers track productivity using cost metrics such as the time to fill positions, the percentage of diverse candidates hired and turnover in this population, interview-to-offer ratios, offer-to-acceptance ratios, hiring manager satisfaction, new hire satisfaction, cost per hire, head count ratios, turnover costs, financial benefits of employee retention, and the ROI of training.

Such metrics relate to specific HR activities and also measure the overall contribution of the HR function to organizational performance and outcomes. The HR scorecard is one method to measure this contribution. This tool is basically a modified version of the balanced scorecard, which is a measurement and control system that examines a mix of quantitative and qualitative factors to evaluate organizational performance (Kaplan and Norton 1996). The *balance* in the balanced scorecard reflects the need for short-term and long-term objectives, financial and nonfinancial metrics, lagging and leading indicators, and internal and external performance perspectives. The organization should select a set of metrics that serve as good indicators for the HR activities that support the strategic initiatives critical to organizational outcomes (Mondore 2018). Based on the assumption that what gets measured gets managed, an HR balanced scorecard can measure and monitor many input and output HR indicators that are aligned with the organization's mission and strategic goals.

The Society for Human Resource Management (SHRM 2022) provides a benchmarking service that enables employers to compare their own HR metrics with those of

similar employers in the same geographic region and size. While such benchmarks show how an organization's HR metrics compare to competitors, they do not show the extent to which they support its strategic goals. By contrast, *strategy-based* HR metrics do show the extent to which these metrics will achieve the organization's strategic goals. For example, customer service training should contribute to patient satisfaction, customer compliments, and intent to return to the organization.

Examples of HR metrics from the SHRM (2022) include the following:

◆   HR to employee ratio

◆   HR expenses to operating expense ratio

◆   HR expense to FTE [full-time equivalency] ratio

◆   Number of positions filled

◆   Time to fill positions

◆   Cost per hire

◆   Annual overall turnover rate

◆   Annual voluntary turnover rate

◆   Annual involuntary turnover rate

◆   Physicians within the organizational succession plan

◆   Percentage of employees participating in tuition reimbursement

◆   Revenue per FTE

evidence-based HRM
Human resource management decisions based on critical thinking applied to available data, internal business metrics, or results of research studies.

The process of using metrics (i.e., data, facts, and scientific rigor) and critically evaluated research to support HR proposals, decisions, strategies, and tactics is often referred to as **evidence-based HRM.** Strategic HR metrics provide material to allow healthcare managers to apply scientific thinking to "evidence"—data, information, research—to support their decisions. Thinking like scientists requires the manager to be both objective and experimental in evaluating and gathering information about what works and does not work in terms of HR strategies, which may facilitate strategic goals. For example, if you wish to evaluate the particular training program of a patient satisfaction plan, don't wait to implement the plan on all staff members. Instead, implement it for an "experimental" group, which receives the training, and do not implement it for a similar control group. Then compare changes over time between the experimental group and the control group in terms of patient satisfaction scores.

Strategic HR metrics can give healthcare leaders insights on human resources strategies as well as operational and strategic goals. However, managers must approach these metrics with a good understanding of the link between the human resources and strategic outcomes to leverage these insights effectively (Huselid 2018). The strategic HR metrics selected for monitoring will support the mission and outcomes prioritized by management and will be reflected in the selected strategies, tactics, and HR practices.

Examples of strategic HR metrics include the following: (SHRM 2022):

◆ Average percentage of employees hired based on a validated test

◆ Average number of hours of training for new employees

◆ Average percentage of employees receiving a regular performance appraisal

◆ Average percentage of employees eligible for incentive pay

◆ Average percentage of employees routinely working on teams

◆ Employees receiving relative financial and operational reporting information

◆ Number of qualified applicants per position

Ready availability of data that drive all HR metrics can extend organizational capabilities from a *retrospective* (backward-looking) HR view to one that is *prospective* (forward-looking). Organizations also can leverage predictive HR analytics to inform decisions about organizational and people outcomes. Predictive HR analytics uses modeling techniques to mine existing data to identify potential causes for HR outcomes. These results can then be used to indicate future organizational or people outcomes, where appropriate (Edwards and Edwards 2019). However, these models built with historical data are only as robust as the quality of the data available. Leaders must be aware that these techniques can replicate biases in the underlying historical data (Hamilton and Sodeman 2020). Since these data were originally classified and collected by a person, the technique then replicates what or even who is included or excluded in the models, and how the data are categorized.

predictive HR analytics
Data mining and modeling techniques to identify potential causes for human resource outcomes, which then indicate future outcomes.

Growth, profitability, ROI, market share, legal compliance, strategic objectives attainment, and key stakeholder satisfaction are outcome measures that can be used to determine how well the organization is performing in the marketplace and whether it is producing a service that is valued by consumers. Key stakeholder satisfaction may include such indexes as patient satisfaction, cost per patient day, and community perception.

The mission and objectives of the organization are reflected in the outcomes that management stresses and in the strategies, general tactics, and HR practices the organization chooses. For example, almost all healthcare organizations need to earn some profit for continued viability. However, an organization might refrain from initiating possibly profitable new ventures that do not fit its overall mission of providing high-quality services

needed by a defined population group. Conversely, an organization may start services that are break-even propositions at best because those services are viewed as critical to their mission and the needs of their community.

An organization's concerns are reflected in the services it offers, the HR approaches it uses, and the outcome measures it views as important. A qualitycentric organization likely emphasizes assessment criteria that stress the provision of high-quality care more than criteria concerned with efficient use of supplies and the maintenance of staffing ratios. This prioritization does not mean that the organization is ignoring efficiency of operations; it just signals that the organization places greater weight on the quality-care criteria. The outcome measures used to judge the institution should reflect its priorities.

Another institution may place greater emphasis on economic return, profitability, and efficiency of operations. Quality of care is also important to that organization, but the driving force to become a low-cost provider causes the organization to make decisions that reflect its business strategy; therefore, it stresses maintenance or reduction of staffing levels and strictly prohibits overtime. Its recruitment criteria stress identification and selection of employees who will meet minimum job requirements and expectations and, possibly, will accept lower pay levels. In an organization that strives to be efficient, less energy may be spent on social maintenance activities designed to meet employee needs and keep them from leaving or unionizing. The outcomes in this situation will reflect higher economic return and lower measures of work life quality.

Regardless of their specific outcome objectives, most healthcare organizations seek competitive advantage over similar institutions. The ultimate goal of the HR function should be to develop a distinctive brand so that employees, potential employees, and the general public view that particular organization as the choice rather than as the last resort.

The HR Brand

branding
The organization's corporate image or culture.

In HR, **branding** refers to the organization's corporate image or culture. Because organizations are constantly competing for the best talent, developing an attractive HR brand is important. A brand embodies the values and standards that guide employee behavior. It indicates the purpose and perception of the organization, the profiles of people it hires, and the results it recognizes and rewards. If an organization can convey that it is a great place to work, it can attract the right people (Adams 2022). Being acknowledged by an external source is a good way to create a recognized HR brand. Inclusion on national "best" lists, such as the following, helps an organization build a base of followers and enhances its recruitment and retention programs:

◆ *Fortune*'s 100 Best Companies to Work For

◆ *Working Mother*'s 100 Best Companies

◆ *Becker's Healthcare* 150 Top Places to Work in Healthcare

◆ *Computerworld*'s Best Places to Work in IT

◆ *Modern Healthcare*'s Best Places to Work

◆ The Great Place to Work Institute's best lists, which include the *Fortune* list

Being selected for *Fortune*'s 100 Best Companies list is so desirable that some organizations try to change their culture, philosophy, and brand to gain these designations. Organization leaders and their employees credit some combination of the following approaches as the secret to their success:

◆ Healthy organizational cultures that emphasize diversity, equity, and inclusion

◆ Comprehensive benefits packages

◆ Zero-tolerance approaches to workplace violence or incivility

◆ Employee well-being and work-life integration as top priorities

◆ An employee-centric focus on patient safety

HR Best Practices

Exhibit 1.3 summarizes HRM practices that appear to enhance the effectiveness and outcomes of organizations. These practices tend to be present in organizations that are effective in managing their human resources, and they recur repeatedly in studies of high-performing organizations. In addition, these themes are interrelated and mutually reinforcing; it is difficult to achieve positive results by implementing just one practice on its own (Saridakis, Lai, and Cooper 2017).

While these HR practices generally have a positive impact on organizational performance, their relative effectiveness may also vary depending on their alignment (or lack thereof) among themselves and with the organization's mission, values, culture, strategies, goals, and objectives, and this link is not very clear (Paauwe and Farndale 2017). HRM practices may vary in their impact on various types of healthcare organizations, depending on how well each one is aligned with and reinforces the others as well as how well it is aligned with various aspects with the overall business strategy. Earlier in this chapter, we described a model in exhibit 1.2—the strategic human resources management model—that attempts to explain this phenomenon.

The bad news about achieving competitive advantage through the workforce is that it takes time to accomplish (Pfeffer 1998). The good news is that, once achieved, such

Category	Practices	
HR planning, job analysis	Encourage employee involvement so there is strong "buy-in" of HR practices and managerial initiatives.	Include self-managed teams and decentralization as basic elements of organization design to minimize management layers.
	Encourage teamwork so employees are more willing to collaborate.	Use analytics to support and develop the HR plan.
	Provide employment security.	
Recruiting, staffing	Be proactive in identifying and attracting talent.	Be transparent about culture, staff development, and advancement opportunities to support the employee value proposition.
	In selecting new employees, use additional criteria beyond basic skills (e.g., attitudes, diversity, customer focus, cultural fit).	Track and analyze retention and turnover rates.
	Actively review application and hiring process from the prospective employee perspective.	
Training, organizational development, and employee engagement	Invest in training and organizational programs to enhance employee skills related to organizational goals. Provide upskilling and reskilling opportunities to current employees to prepare them for future roles.	Include customer service in new employee onboarding and skill development.
		Provide opportunities for employee growth so employees are "stretched" to enhance all their skills.
	Provide employees with future career opportunities by giving promotional priority to internal candidates.	Give employees a voice in decision making.

Category	Practices	
Performance management and compensation	Recognize employees by providing monetary and non-monetary rewards. Offer high compensation contingent on organizational performance to reduce employee turnover and increase attraction to high-quality employees.	Reduce status distinction and barriers such as dress, language, office arrange-ment, parking, and wage differentials. Base individual and team compensation on goal-ori-ented results.
Employee rights	Communicate effectively with employees to keep them informed concerning major issues and initiatives. Share financial, salary, and performance informa-tion to develop a high-trust organization. Give higher priority to inter-nal candidates for promo-tion to enhance employee motivation.	Provide employment security for employees who perform well so they are not down-sized because of economic downturns or strategic errors by senior management.
Culture	Prioritize healthy organiza-tional culture and positive work culture. Develop strategies to enhance employee work–life balance.	Promote employee resil-ience, and self-care. Actively monitor burnout.

EXHIBIT 1.3

Effective HRM Practices for Healthcare Organizations *(continued)*

Sources: Chuang and Liao (2010); Gomez-Mejia and Balkin (2011); Pfeffer (1995, 1998); Wright et al. (2005).

competitive advantage is likely to be more enduring and harder for competitors to duplicate, provided that that talent is retained.

WHO PERFORMS HR TASKS?

All healthcare managers must deal effectively with HR issues regardless of their functional area and the size of their organization. There has been a clear trend toward reducing the size of the HR department and shifting traditional HR functions (i.e., recruitment, selection, performance management, and training) to line managers. This trend empowers managers to take ownership of decisions about people in their own units and teams with support from the HR team (Blumenfeld et al. 2022).

In recent years, there has been no typical HR department, and organizations vary in how and where HR tasks are carried out. In some instances, HR tasks may be centralized in the HR department; in other cases, HR facilitates and monitors HR tasks that may be decentralized to functional departments. Internal restructuring often results in a shift of who carries out HR tasks, but it has not eliminated those functions identified in exhibit 1.3. In fact, in some healthcare organizations, the HR department continues to perform the majority of HR functions.

The evolution of HR raises the following questions:

◆ Which HR tasks can be performed more effectively and efficiently by line managers?

◆ Which HR tasks should be outsourced to an integrated HR service provider?

◆ Can some HR tasks be centralized or eliminated altogether?

◆ Can technology perform HR tasks that were once previously done by HR staff?

The number of HR staff members continues to decline as others have begun to assume responsibility for certain HR functions. Outsourcing, shared service centers, and line managers now assist in many HR functions and activities. While most organizations are expected to outsource even more administrative HR tasks in the future, the strategic components of HR and key functions such as compensation and employee engagement will likely remain within the organization as partners to top management (Blumenfeld et al. 2022).

The shift toward strategic HR permits the HR function to shed its administrative image and to focus on more mission-oriented activities. This shift also means that all healthcare executives need to become skilled managers of their human resources. More HR professionals are assuming a strategic perspective when it comes to managing HR-related

? DID YOU KNOW?
The Role of the CHRO

The chief human resources officer (CHRO) is a role that continues to grow in strategic importance to the organization. The role is vital to shaping the organization's climate and preparing the organization for the future.

For example, the CHRO's portfolio might include any of the following:

- Operational and strategic HR analytics
- Diversity, equity, and inclusion
- Employee engagement and company culture
- Organization and employee development
- Compensation strategy and structure
- Employee HR experiencew
- Health and safety, including employee well-being
- HR ethics, compliance, and privacy
- Business strategy development and governance

A diverse set of leadership competencies is critical because CHROs are equal parts strategist and tactician. The CHRO must identify and execute initiatives that leverage business opportunities and hedge against risks (Boudreau, Navin, and Creelman 2017).

issues. As they do so, they continually upgrade and enhance their professional capabilities. More HR professionals now have a seat at the board of directors' table to help the chief officers, senior management, and board members make appropriate decisions concerning HR matters in the role of chief human resources officer (CHRO), also known as chief people officer (CPO). The three critical HR issues to which this HR professional can lend expertise and therefore help organizational governance are (1) selecting the incoming CEO, (2) tying the CEO's compensation to performance, and (3) identifying and developing optimum business and HR strategies.

The CHRO must think strategically and tactically to advise human capital investment decisions to support organizational outcomes. This means that the CHRO has a vital role in developing, and selecting HR metrics and must appreciate the underlying drivers for each metric selected. The CHRO can contribute to leveraging HR's role in major change strategies (such as mergers and acquisitions), sustain employee engagement, and help line managers achieve their unit goals.

HR Trends Affecting the Healthcare Industry

A survey was sent to 1,327 community hospital CEOs who were ACHE members in 2021. Of the 310 CEOs who responded, their top five pressing concerns were (1) personnel shortages, (2) financial challenges, (3) patient safety and quality, (4) behavioral health or addiction issues, and (5) government mandates. From this list, only the governmental mandates issue is not directly related to human resources management (ACHE 2022).

HR practices and policies are crucial in creating and maintaining a positive work culture. Such an environment is characterized by well-trained, engaged employees who have the tools they need to do their jobs, the opportunity to participate in decisions affecting their jobs, and the services and support they need from other organizational members. The benefits for healthcare organizations able to deliver high service quality that yields customer satisfaction include reduced cost because of higher employee retention and reduction in errors, resulting in enhanced quality of service. Thus, HR can be a strategic leader in ensuring that policies, procedures, and practices produce employee behaviors that are supported, rewarded, and contributing toward a superior-quality service climate.

Much of the growth of the HR function since the 1930s is attributable to the crucial role of keeping all employers out of trouble with the law. Most large healthcare organizations are deeply concerned about whether their personnel decisions may violate laws, regulations, and court decisions at the federal, state, or local government levels. The result has been an administrative nightmare that grows by the day so that no individual can comprehend its scope and depth. This challenge is exacerbated by the fact that the regulatory burden on employers continues to increase in the United States, and that employers must protect their HR brand by doing what is right.

Patient satisfaction has been studied since the 1970s, and various metrics to measure it are highly correlated with a positive work environment (Carthon et al. 2021). This research shows that hospitals where nurses have the lowest burnout rates and most supportive work environments also have the highest patient satisfaction. A similar relationship exists for physician burnout and patient satisfaction and safety (Panagioti et al. 2018). HR has a key role to perform in enhancing patient satisfaction by creating and sustaining a workplace culture of HR management practices and initiatives that encourage, reward, and support behavior focused on high-quality service.

Personnel shortages in healthcare affect most clinical occupations, although the severity of such shortages tends to vary over time. Shortages of nonclinical staff have been problematic for lower-skilled occupations as a result of the deficiencies of public education systems. As a result, healthcare leaders have begun to support local high schools and university programs to supply resources for potential hires and create pathways to careers in healthcare organizations. These initiatives also demonstrate a social responsibility to communities they serve and address the upstream health determinants (Koh et al. 2020). They

have also enhanced their own organizational and hiring efforts, which will be discussed in chapters 5 and 6 of this book.

The nursing profession has exhibited periodic shortages of registered nurses over many decades. Among nurses surveyed in 2021, 52 percent responded that they intend to leave or are considering leaving the profession (American Nurses Foundation 2022). One contributor to the nursing shortage is the availability of qualified nursing faculty, which limits the number of nursing students who can be accepted into education programs. Another source of such shortages is the role conflict between work requirements and family necessities, which affects nursing as well as other female-dominated professions. Work–family conflict lowers job satisfaction, increases the intent to leave the job and profession, and is positively affected by age, health, and family responsibilities (Unruh, Raffenaud, and Fottler 2016). Various attempts to mitigate such conflict will enhance nurse retention on the job and in the profession, thus reducing the negative impact of an aging workforce and mitigating nursing shortages. Once again, the work stressors of nurses are not unique. The experience of pandemic has changed general attitudes toward work. Unless all organizations support mechanisms to keep stress manageable and promote employee well-being, both individuals and organizations will pay a heavy price.

Summary

In healthcare, the intense need for an array of professionals to consistently deliver high-quality services requires organizations to focus attention on strategic HR management. Healthcare leaders must be aware of the factors that influence employees' performance. To assist healthcare executives in understanding this dynamic, this chapter presents a model that explains the interrelationship among corporate strategy, selected organizational design features, HRM activities, employee outcomes, and organizational outcomes.

The outcomes achieved by the organization are influenced by numerous HR and non-HR factors. The mission determines the organization's direction and goals. The amount of integration or alignment of mission, strategy, HR functions, behavioral components, and non-HR strategies defines the level of achievement that is possible.

A sophisticated, valuable healthcare human resources management system is responsive to the highly competitive marketplace, aligned with and informative to the business strategy, jointly conceived and implemented by both line and HR managers, and focused on the highest-priority organization and employee performance indicators. Such indicators might include clinical quality, customer service, productivity, and employee engagement and retention. These outcomes, in turn, will enhance market share in various measures of financial performance.

Healthcare organizations are increasingly striving to impress a distinctive HR brand image on employees, potential employees, and the general public by modifying

their cultures and working hard to be included on various national lists of best companies. Successful HR branding yields competitive advantage in labor and service markets. Organizations are also increasing the volume and quality of HR metrics to align their HR strategies with their business strategies. Finally, the locus of HRM is shifting as strategic functions are retained by HR professionals within the organization while administrative tasks are outsourced or delegated to line managers.

Key points to remember include the following:

- Managing HR strategically is critical to the viability and success of any healthcare organization.
- HR must be integrated and aligned with the business strategy.
- Healthcare organizations identified as "best to work for" have a competitive advantage.
- Healthcare organizations need to determine which HR functions should be performed in-house and which should be outsourced.
- Employee well-being is vital to positive organizational outcomes, including patient satisfaction and safety.

For Discussion

1. How may an organization's human resources be viewed as a strength or a weakness when doing a SWOT analysis? What could be done to strengthen human resources if it is seen as a weakness?

2. What factors under the control of healthcare managers contribute to the decrease in the number of people applying to health professions schools? Describe the steps that healthcare organizations can take to improve this situation.

3. What are the organizational advantages of integrating strategic management and human resources management? What are the steps involved in such an integration?

4. One healthcare organization is pursuing a business strategy of differentiating its service product through providing excellent customer service. What HR metrics do you recommend to reinforce this business strategy? Why?

5. In what sense are all healthcare executives human resources managers? How can executives best prepare to perform well in this HR function?

6. Why are knowledge and proficiency in HRM concepts and techniques important to all healthcare managers?

7. Consider the vignette at the beginning of this chapter. Outline three to five initiatives that Kamla should undertake to achieve the strategic goals.

EXPERIENTIAL EXERCISES

EXERCISE 1

Before class, review the nine effective HRM practices shown in exhibit 1.3. Consider how your current or most recent employer follows any three of these nine practices. Write a one- to two-page summary that lists the three practices you selected and their compatibilities or incompatibilities with your employer's HRM practices.

In class, form a group of four or five students and share your perceptions. Discuss the following:

• What similarities and differences arise among the chosen employers' practices?
• Which of the nine practices seem to be least often followed, and why?

EXERCISE 2

Each year, *Fortune* magazine publishes a list of the best companies to work for in the United States. Editors of the magazine base their selections on an extensive review of the HR practices of many organizations as well as on surveys of those organizations' current and former employees.

Identify three healthcare organizations on the latest *Fortune* best companies list. Next, visit the websites of these organizations, and review the posted information from the perspective of a prospective job applicant. Then, as a potential employee, answer the following:

• What information on the websites most interested you, and why?
• Which organization's website is best, and why?

Based on the information posted on these websites, what are the implications for you as a future healthcare executive who will be planning and implementing HRM practices? What information will you include on your organization's website that will attract and retain employees?

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