Hoping for HR: How novel HR practices and improved execution of HR best practices can boost global business performance

By Peter Norlander[1]

Introduction

In 1947, Pepsi-Cola recruited Edward F. Boyd to lead an all African-American sales force to market Pepsi products in the African-American community. It was unusual for a major American company to hire a black person in any role at the time, not to mention in a significant managerial capacity, as Pepsi did with Boyd. After all, it was only in the same year that the Brooklyn Dodgers broke the race barrier in baseball, and in the following year that President Truman desegregated the military. Yet the CEO of Pepsi-Cola, Walter Mack, believed strongly in hiring capable people with atypical backgrounds. Boyd's team of twelve included a journalist, and Boyd himself had no prior sales or corporate experience, having worked previously as a leader with the National Urban League. Although the recruits' backgrounds were diverse, all of the hires had the ability to perform in common. The small team moved Pepsi into the untapped middle class African-American market, giving Pepsi a leg up in its competition against Coca-Cola. In the process, the team helped pioneer the concept of niche marketing while building strong sales, and boosting Pepsi profits and performance. By welcoming members of a largely excluded community into the company's employment and leadership and implementing meritocratic procedures, Pepsi opened a new market for its products and benefited from the diversity of its staff.[i]

In retrospect, it may seem obvious how Pepsi's HR practices improved its business performance. Today, these practices – what we would now call hiring on ability and diversity – are more common than they were at any time in the past. But if these HR practices could improve corporate performance, then why were they were not widespread at the time? This question poses a central challenge that HR

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professionals today must address. If there are new ways to enhance organizational performance, what are they and how can organizations discover and implement them? This essay argues that there are huge gains to be made by improving the implementation and execution of HR practices known to work, and suggests several novel ways in which HR can boost organizational performance.

Some people believe that the greatest gains in efficiency and progress are in the past, and that all of the "low-hanging fruit" has been picked for the foreseeable future.[ii] Contrary to this view, this essay argues that there are great potential gains through better execution of HR practices and through the implementation of novel HR activities. As an area where there are still potentially great gains to be had, HR is a source of hope for the future performance of organizations. But to improve organizational performance today, HR must adopt forward-thinking practices like Pepsi did in its time, and it must improve its execution of activities that are today a core part of HR's activities. The Pepsi story is remarkable only because Pepsi, as one of the few American corporations to hire any African-Americans in leadership roles, was the outlier at the time. As an example of how a HR practice that was unpopular at the time seems obvious in retrospect, the Pepsi case illustrates that there are solutions right in front of our eyes, if we can only gain the necessary distance and confidence to see them. HR needs to be confident in its ability to improve performance by using evidence-based HR practices to push the limits of what seems possible. But before addressing how HR can improve corporate performance today, it is worth remembering where HR has been and how it has improved organizational functioning in the past century.

A century ago, employment relationships in the United States were unstable and long-term relationships were rare. The foreman's voice was the only one that mattered when it came to hiring and the assignment of work, and foremen often played favorites, acted arbitrarily and treated workers cruelly. Prior to civil service reform, corruption, nepotism and cronyism were also rampant in government employment. Racial equality in the workplace was almost unheard of and women were often unable to find work other than in segregated low-paying jobs. There were no protections against discrimination, and workers' rights to join a union, among other rights, were heavily restricted. Due process and grievance procedures were extremely rare and the abolishment of child labor lay in the future in many states. But all of this changed as modern HR practices were implemented throughout the economy.

In a process that advanced in fits and starts over the course of the 20th century, personnel and later HR managers implemented practices that fundamentally changed and improved the functioning of organizations. Company by company, HR departments implemented progressive practices such as the articulation and rationalization of employment policies, the establishment of fair treatment for workers, and the provision of job security and benefits to workers.[iii] There is no doubt that these changes have done much to improve productivity, organizational performance and the quality of life. As a result of this process, researchers and corporate America have settled on a set of High Performance Workplace Practices (HPWPs) linked with business performance: employment security, career ladders, evaluation processes, training and development, targeted selection, and retention and motivation strategies. A substantial body of research in the last fifteen years concludes that HPWPs positively impact corporate performance. [iv] While these basic practices are widespread in the United States today, they are not universal: in many parts of the world, retrograde HR practices are not yet a thing of the past. Additionally, it is not enough to simply have a policy in place; these practices require continual follow-through and attention if they are to have any effect on organizational performance.

Some may claim that twenty-twenty hindsight is at work in these historical illustrations of how HR has improved organizational performance. Predicting how HR can improve performance in the future, they would argue, is much more difficult than pointing out past successes. Fortunately, this is not the case; just as Pepsi was ahead of its time, there are novel practices today that can enhance global business competitiveness. The first part of this essay identifies and argues for several cutting-edge HR practices that some firms are using to achieve even greater organizational performance. Leveraging psychological capital, performing organizational network analysis, and improving the customer experience through employee branding are three novel ways that illustrate how HR can improve performance. These cutting-edge practices are one source of hope that HR will be able to lead to greater organizational performance.

Notwithstanding the desire for the latest HR best practice, the execution and implementation of core HR practices can always improve. Better execution and implementation of core HR practices, the HPWPs, is critical for HR to drive organizational performance. The second part of this essay looks at the necessity of executing on HR fundamentals and implementing practices known to be effective. Especially as globalization expands the opportunities for multinational companies to tap into talent world-wide, global business competitiveness will be greatly improved in the future if HR is able to manage the expansion of HPWPs to new and distant places. Three practices are cited as examples of how HR can boost organizational performance by focusing on better implementation and execution. Improving managers through training, hiring on smarts, goal-setting and providing feedback are examples of areas where implementation and execution has sometimes lagged behind research and can be improved. Together, these examples illustrate a second hope for how HR can boost performance through the improved execution of core HR activities and the adoption of novel practices.

Novel Practices

Unlike past generations where “scientific management” could be applied to identify the one best way to perform work, today’s workers respond to a much more dynamic and ever changing environment. In the last century, the American economy has moved from one in which manufacturing and agriculture were the largest employers to one where service organizations are the largest employers. In the past, workers could be given instructions based on protocols to follow as part of a standardized process, but with the rise of the information economy and the growth in services, workers today are called upon to apply their knowledge, skills, and abilities to problems in a way that involves substantial discretion. Therefore, it often comes down to questions of energy and self-directed motivation to see that work is accomplished as successfully as possible. In this new environment, intangibles such as "culture" and "motivation", the things that are important but difficult to measure, are often the most critical factor in improving organizational performance.

In short, it pays to pay attention to the emotional and psychological well-being of employees. When an employee walks into the office in the morning, his or her emotional state will greatly impact individual and team performance. Having a hopeful, resilient, and optimistic workforce where workers believe that their actions are effective is related with both self-rated increases in performance and with performance increases as assessed using HR data. Researchers in the area of "positive psychology" have called these positive attitudes "psychological capital." When an employee perceives support from the organization, this translates into increased psychological capital, which leads to increased job satisfaction, job commitment, and improved performance. [v] Self-efficacy, the belief that one's actions will lead to the attainment of one's goals, is a mental belief that can be coached and developed, and it is shown to improve performance. Doing everything possible to increase these intangible qualities represents a novel and significant way to improve performance.

It is also worth considering the opposite of psychological capital: The research from clinical psychology on automatic thoughts and depression finds that people who tend to exhibit "dysfunctional thinking" perform more poorly on cognitive and work related tasks. Dysfunctional thinking includes overgeneralization, disqualifying the positive, and jumping to conclusions. The findings from the field of clinical psychology suggest that these cognitive distortions lead to depression, stress and less effective performance.[vi] As a field, HR can do more to incorporate these lessons of both positive and clinical psychology. By knowing how to appropriately identify and address psychological states in the workplace, HR can have a great effect on organizational performance.

Psychological states are important not just for the individual, but also for the team and the organization. Positive or negative energy can spread through a network as easily as the flu, and knowing how to capture and address the issues that arise because of social networks suggests a second cutting edge way that HR impacts firm performance. Social networks are not just about the power of Facebook and LinkedIn. While these tools may be useful to HR for other activities, social networking sites are not the only network analysis tools available. Instead, custom techniques in the emerging area of organizational network analysis have the potential to become a great asset to HR. If the organizational chart, with its implication of top-down hierarchical management, was the quintessential diagram of the large modern corporation, the critical metaphor for the contemporary workplace is a "sociogram," a network diagram that shows the movement of an attribute across a network that moves horizontally and vertically. With the increase in computing ability and the proliferation of useful network analysis tools, it is easier than ever before to collect and analyze large datasets, such as those that are created in organizational network analysis.

Just as organizations today conduct employee surveys to track and monitor employee satisfaction, an emerging trend is for organizations to administer questionnaires that focus on workers' networks. These surveys generate masses of useful data that can be analyzed in novel ways. For example, Victor Gulas, head of HR and IT at a billion dollar engineering firm, used organizational network analysis to uncover the relationships between workers and identify areas where desired communication was not occurring.[vii] These voluntary surveys can be used to great effect. By finding out who employees go to for help and information, or where they get negative or positive energy, it is possible to identify key nodes and attributes of the network. Key network positions include bottlenecks, gatekeepers, and bridges. Careful analysis of sociograms and data can help identify critical people and form a basis for action to improve informational and operational flow.

Network effects, such as those revealed by organizational network analysis, should be particularly important to HR professionals. Networks are known to affect everything from recruitment to innovation, turnover, performance and the adoption of innovative HR practices.[viii] One network study showed that improving top management's networks could increase firm performance. Another study showed that when HR managers are members of industry and other professional associations and networks, their firms are more likely to adopt HPWPs. The results of these studies suggest a few interesting ways that HR can leverage networks to improve performance. For example, in today's environment, one way to leverage the power of networks is to help embed workers in a good job and community. "Embedding" workers entails helping to ensure that workers are satisfied with their co-workers and communities, resulting in an increase in commitment to work and a decreased desire to leave the job.

Embedding workers is increasingly important to retaining and motivating the most talented and critical employees. Workers today have more options to be globally mobile than ever before. Yet the advantages of belonging to a community have actually increased as economic regions such as Silicon Valley and New York have grown more specialized. The best workers now possess many opportunities in multiple areas, and so the challenge for HR is to make an employee's circumstances so desirable that they don't want to leave. As the sociogram metaphor suggests, the influence of peer relationships, in comparison to subordinate-manager relationships, has grown in importance to organizations. In the new environment where knowledge-based work is the norm, hierarchies are less suited to the demands of work and peer based communities are more critical to organizations than ever before.

By embedding workers in a tight-knit group of peers, companies have the potential to gain by increasing workers' satisfaction with their present environment. An employee is likely to be more committed to the job and less likely to leave the company if he or she has strong ties with his or her colleagues. While it is sometimes viewed as a negative that HR duties include party planning, many savvy managers and firms know that informal social gatherings – from holiday parties to sporting events and get-togethers to celebrate achievement in the workplace– are part of "job embedding."[ix] Applying the tools of network analysis and using the concept of job embedding can help build a community that fosters links among workers and increases their likelihood of staying on the job and staying motivated. Companies that leverage the opportunity to embed workers in their jobs will benefit from enhanced loyalty and retention. While this practice is receiving more attention recently, in a way, it is nothing new. For a long time, many companies have known that embedded employees exhibit more loyalty and thus can help provide firms a stable source of talent. Even high-technology companies understand this: Facebook and many other technology companies provide benefits to employees who live close to their offices. In addition to being environmentally friendly and in-sync with their workers' values, this practice helps to raise the cost of leaving the company by embedding workers in their jobs.

Beyond being influential only inside the organization, networks can also be important components of marketing. As the Pepsi example illustrated, hiring workers from diverse communities is often a necessary prerequisite of expansion into new markets. Meanwhile, a negative interaction between an employee and a customer can quickly wind up as an embarrassment to the firm that spreads like lightning over Twitter or Facebook. Understanding the link between employees, customer service, and brand image is another area that has recently attracted the attention of HR practitioners and scholars. Customer service – often delivered by rank-and-file employees – affects the likelihood that a customer will exhibit brand loyalty in the future. Because word of mouth marketing relies on repeat customers and personal recommendations, ensuring a positive customer interaction with employees can be critical to organizational success. The role of employees in marketing has never been more important.

Southwest Airlines is one company that has decentralized its power structure and used its rank-and-file employees to create the best possible advertisement for itself: a committed and professional workforce. Southwest achieves this by selecting and training employees who are given substantial autonomy to perform their jobs as they see fit. In turn, they often agree with and internalize the company's desired brand image, mission and values. This means that the job of management isn't to control workers, but to empower them to manage most things without needing intervention from above. As the former CEO of Southwest, Heb Kelleher, said when he was asked if he was afraid of losing control:

> I've never had control and I never wanted it. We're not looking for blind obedience. We're looking for people who on their own initiative want to be doing what they're doing because they consider it to be a worthy objective. That I cannot possibly know everything that goes on in our operation—and don't pretend to—is a source of competitive advantage. The freedom, informality, and interplay that people enjoy allows them to act in the best interests of the company.[x]

While it is all too common and easy to see how top management or "star players" are related to organizational performance, the general quality of human resources can matter as much or more than elites. Southwest leads the way when it comes to demonstrating how involving rank-and-file employees can produce superior organizational performance. In a strategy that other companies have come to adopt, employees come first at Southwest, meaning that employee concerns are given as much or more attention than those of other stakeholders.[xi] HCL Technologies and Zappo's, the online shoe retailer, also put employees first. As a business strategy, these companies have begun to show how building customer loyalty through employee loyalty works.

Strategic considerations

So far, this essay has demonstrated how organizational performance can improve when HR pays attention to psychological states, leverages the power of networks, and finds and trains rank-and-file workers who provide outstanding customer service. Unfortunately, despite these examples, many executives, even HR executives, still find it difficult to articulate how HR improves business performance. To articulate how HR affects performance, one needs to understand how HR strategy fits within firm strategy. In a point made elsewhere, it all comes down to lower-case human resources: people. The people of an organization are a critical input into production, and represent a resource that cannot be imitated by competitors. HR practices can be copied and physical resources can be easily replaced, but the knowledge, capabilities and resources that are represented by the people of an organization have special properties. Because the people of an organization are valuable, rare, inimitable, and non-substitutable, they represent one of the few true sources of sustainable competitive advantage.[xii] Firms that seek to attract, retain and motivate talented individuals can gain tremendously from having a strong HR department. As the department responsible for bringing people into the organization, handling promotions, compensation, and training and development, HR can play a big role in firm performance if it uses these practices to create the most value from people.

As an example of how identifying and improving the quality of human resources can improve corporate performance, consider the HR and firm strategy of the Indian Information Technology companies such as TCS, Infosys and Wipro. Every year, millions of recent graduates of Indian engineering colleges apply to these companies for jobs. Resumes are screened, and tens of thousands of applicants are given standardized general mental ability exams, with companies hiring the best scoring applicants.

Upon hiring, the companies pay tens of thousands of new employees to spend between 4-6 months in intensive training to become computer programmers and provide them with amenities and benefits that resemble HPWPs. Following these large investments in people, the companies make money by contracting with leading companies and providing them with IT support and services.[xiii]

In this industry, identifying and developing untapped human resources is a critical component of winning in the globally competitive IT services industry. The next century will see the addition of billions of rising members of the Indian and Chinese middle-class to the world's economy. Just as Pepsi benefitted from expanding into untapped markets, this great transformation presents an unprecedented opportunity for U.S. companies to expand into new markets and increase their global business competitiveness. This is a reason for hope for HR. By identifying untapped sources of human potential, improving capabilities, and deploying people as fast as business requires, the Indian IT firms have demonstrated how expanding HPWPs to new categories of people can boost organizational and societal performance. Furthermore, these firms' business model suggests that companies can make money from improving the quality of the human resources pool through investments in training, so long as the companies can retain the talent they have trained. This heightens the need for HPWPs and job embedding to promote a positive workplace that employees are energized to be a part of and reluctant to leave.

Implementation and Execution

Despite all that is known about how HR practices affect performance, it can still be difficult to apply what is known in practice. Consider the challenge of improving the quality of management as an example. New managers often lack techniques and skills that are learnable and can be promoted through training and development. Improving the selection and training of individual managers is one of the most direct ways for HR to have an effect on performance. HR has frequent opportunities to make an impact in this area, as the basic knowledge of how to manage people remains constant, but must be re-enforced with every generation of new leaders.

Not long ago, a team at Google was working on identifying the traits and behaviors that employees looked for in good managers. When they presented their conclusions to Laszlo Bock, the Vice President for People Operations at Google, he reacted with surprise. The results of their large-scale analysis of performance reviews, employee surveys and award nominations had straightforward implications: it turns out that there is no secret formula for making better managers, but the good ones seem to have some basic elements in common. Having a vision, setting goals, giving feedback, developing listening skills, and being task or results focused were all related to better leadership. For Bock, the head of HR at the quintessential company of the information economy, "My first reaction was, that's it?" [xiv] While the list of desirable manager characteristics is expressed somewhat idiosyncratically by Google, the results shouldn't be surprising because they are also strongly supported by the accumulated research evidence.

Research shows that setting goals and providing performance feedback are highly effective means of performance management. Even more than encouraging employees to do their best or encouraging employees to participate in setting goals, setting high performance goals elicits the strongest performance. Timely and specific feedback that supplies information on the progress of the worker in attaining goals is also extremely important.[xv] In sum, goal setting and providing feedback represent an area where the lack of execution on managerial training diminishes the potential impact HR has on business performance. As the Google example demonstrates, the best organizations have faced the challenge of reinforcing these management essentials.

In many ways, Google is a good example of how a corporation can leverage both human resources and the HR department to improve organizational performance. From its selection strategy of hiring top talent to its evidence-based determination of managerial competencies, Google has adopted policies and practices that are supported by the leading HR research. As another example of how HR at Google applies the knowledge of how HR can improve performance, consider that hiring protocol involves and requires teams to make the hiring decision. At how many workplaces would the head of HR say, as Bock does, that, “We do everything to minimize the authority and power of the manager in making a hiring decision”?

The execution of HR management is as or more important than adopting any single strategy, policy or practice. In fact, it is often the case that HR practices work in “bundles,” or coherent and complementary systems that are greater than the sum of their parts. As the Google example demonstrates, while this isn’t rocket science, the basics often remain unimplemented in organizations because of a lack of focus on the core tasks of management. In addition to the challenge of executing on core HR activities, it is also necessary to apply practices that are known to be effective but are lacking in implementation. As the Pepsi case illustrates, there were HR practices in the past that were effective but not widespread. Even today, there is still low-hanging fruit, potential gains that are relatively easy to obtain. From adopting progressive HR practices to increasing the inclusion and diversity of the workforce, HR can still improve corporate performance by exploiting the available scientific evidence in a trend known as evidence based management.

In 2007, Sara Rynes and a team of researchers investigated the gap between academic knowledge of HR and HR practices. They identified several critical areas where the knowing-doing gap was both large and important. Using both surveys of HR executives and a review of popular HR magazines and newsletters, a number of HR practices supported by evidence were checked against both practice and the materials included in practitioner publications.[xvi] The first area where Rynes and her team identified a gap between academic knowledge and practice was hiring on intelligence. One of the most effective selection practices is to hire on intelligence or general mental ability (GMA). Applying this insight would be a direct example of how HR practices can improve performance. Having a smarter workforce improves performance, always and everywhere. While a paper and pencil test has been shown to be the most valid method, it is not even necessary to use a written test: as applicants to Google and Microsoft quickly find out, cognitive ability can be assessed through interviews that elicit information about how a job candidate would handle a situation, accomplish a task, work with others, and reflect on his or her own actions. Work samples, personality and integrity tests, and structured interviews are also known to be effective selection techniques that are unevenly applied.[xvii] Despite well known and robust empirical findings, implementation seems to be lacking.

In addition to a knowing-doing gap that exists due to a difference of opinion between HR researchers and practitioners, there may also be instances where practitioners simply do not believe the academic research. For example, a person skeptical of HPWPs may point out that many successful employers do not adopt the progressive HR practices suggested by the HPWPs. In many firms, a subpopulation of workers can obtain only temporary and/or contract employment, without chances for advancement. These workers receive little in the way of training or additional benefits. Instead of treating workers as assets, these firms treat some of their workers more like a commodity. Perhaps surprisingly, many of these firms also experience high performance. This is not what would be expected given that the most common research finding is that HPWPs promote business performance. However, it has also been demonstrated that these “low-involvement” work practices can promote business performance.[xviii] How can this be?

Research often focuses only on the main or average effect of HR programs, leaving unspecified the specific circumstances under which their theory applies. The real world is complex, but research can and has begun to specify the circumstances under which the main effect will be true. For example, following the implementation of HPWPs, firms receive a productivity boost – but only if a high percentage of workers are engaged in regular discussions of workplace issues.[xix] Thus, the link between HR and performance works through "employee voice," the ability of workers to raise their concerns at the workplace. This is one example of how research can provide more guidance to HR practitioners. As the best research already does, to better assist practitioners in applying insights from the field, future research will need to wade deeper into the extremely complicated "real world" of organizational practice, employee perceptions and behaviors.

Conclusion

Putting together the novel and proven practices demonstrates how, just as the companies mentioned here have benefited from adopting forward-looking HR practices, HR has and can improve organizational performance. In the years ahead, the ability of HR to address the critical challenges of the 21st century will be tested. An aging workforce, engaging the "millennial" generation, and increasing globalization all pose issues where leaders will look to HR to provide leadership. As workers' importance to firms is likely to increase throughout the 21st century, the demands on HR will only increase. The historical evolution of HR practices shows how early HR practitioners created the decent working conditions and HPWPs that are often taken for granted today. Relatively new tools such as organizational network analysis, and applying network concepts such as job embedding, paying more attention to workers' psychological states, and leveraging employees to improve branding and marketing will help companies manage this transformation.

Leading companies will also improve their performance by focusing on implementing and executing the critical HPWPs. Furthermore, as firms extend the HPWPs practices to the furthest corners of the Earth, businesses will find plentiful opportunities to improve the functioning of society and to enhance their global business competitiveness. This should be a source of hope: hope for HR to increase its standing in the organization and hope for organizations to find new ways to improve their organizational performance. With these trends, HR is well-positioned to play a more critical role in organizational performance in the future. As this essay has demonstrated, there is no shortage of examples of how HR has and can improve business performance. By building a toolkit of both novel and tried-and-true HR practices, HR executives have the ability to boost organizational performance. When the HR department is strong – when its practices are supported by research, when its operations flow from firm strategy to HR strategy, when it is staffed by top talent, when it holds broad power over policies related to people – it plays a critical role in organizational performance.

Endnotes

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