15.660
Strategic Human Resource Management

MIT Sloan School of Management
Why a course in Human Resources?

- Managing people is a central challenge in every organization.
- All managers need to understand the strategic, general management perspective on HR.
- HR integrates other core courses
  - Organizational Processes
  - Strategy
  - Economics
Mechanics of the Course

Grading:
- 40% Class Participation
- 20% Case Write-ups
- 40% Final Quiz
A Brief Review of Strategy
Sources of Sustainable Competitive Advantage

- Valuable to the firm in that it exploits weaknesses or neutralizes threats
- Must be rare among competitors
- Must be difficult for competitors to imitate
- Must not be easily substitutable
The New Competitive Environment

- Shortened product life-cycles
- Erosion of patent protection
- Decreased regulation and protected markets
- Increased access to capital markets
- Increasing importance of innovation, both process and product

HR is a key lever in addressing these challenges!
The International Motor Vehicle Study, a worldwide research study of the automobile industry conducted at MIT showed that people-centered practices were associated with almost twice the productivity and quality as conventional mass production.

Similar studies in steel, apparel, and semiconductors, sponsored by the Alfred P. Sloan Foundation, reveal similar positive effects for people-centered practices.
Prominent HR Issues in the 21st Century United States

- Widespread corporate restructuring
- Increases in contingent work
- New work organizations
- Growing diversity
Behaviors Driven by HR

- Recruitment and Turnover
- Commitment to Organization
  - Loyalty
  - Effort
- Innovation
- Attitude towards customers
- Ability to do the job (skills)
INTELLECTUAL BASIS FOR HR

- ECONOMICS: compensation/incentives
- SOCIOLOGY: group norms
- PSYCHOLOGY: motivation
- POLITICAL SCIENCE: the environment
A MODEL OF HUMAN RESOURCES

Pay
Selection
Socialization
Equity
Opportunity

Training
Selection

Monitoring
Pay

→ motivation

→ capacity

→ effort

→ control

Productivity

Work organization
HR CHOICES: FUNCTIONAL

- Individual work v. team work
- Pay for job v. pay for individual v. pay for group v. pay for need
- Make or buy skills
- Promote form within v. recruit at all levels
- Job security v. no commitments
HR CHOICES: PHILOSOPHY

- Motivate by money v. peers v. the work
- Egalitarianism v. meritocracy
- Assume shirking v. assume inherent desire to do good work
- Centralized v. decentralized control
WHY DIFFERENT CHOICES ARE MADE

**EXTERNAL FACTORS**
- External Labor Market
- Government Policy
- Business and Union Organization

**INTERNAL FACTORS**
- Technology/Work Organization
- Business Strategy/Markets
- Values
SOME TECHNICAL CONSIDERATIONS

- Degree of proximity
- Degree of skill specificity
- Degree of coupling across worker tasks
- Ease of monitoring
- Ambiguity of worker tasks
- Importance of creativity/discretion
MOTIVATIONS

- LOAFING/FREE RIDING
- OUTPUT RESTRICTION
- CRAFT PRIDE
- ORGANIZATIONAL COMMITMENT
- GIFT EXCHANGE
- MONEY = EFFORT
Southwest Airlines

Case Discussion
Southwest Airlines

“I’ve tried to create a culture of caring for people in the totality of their lives, not just at work. There’s no magic formula. It’s like building a giant mosaic--it takes thousands of little pieces…The intangibles are more important than the tangibles. Someone can go out and buy airplanes from Boeing and ticket counters, but they can’t buy our culture, our esprit de corps.”

Herb Kelleher
CEO Southwest
Wall Street Journal
8/31/99
Southwest Airlines

- Only major airline to have earned a profit every year for nearly three decades.
- Southwest has won the Triple Crown (best on time performance, fewest complaints, fewest lost bags) for 5 years in a row. No other airline has won this award.
- Southwest’s operating costs are 20% below the industry average. Company is 84% unionized.
- Now serves over 52 cities with 26,000 employees.
- In 1998 they had over 140,000 job applicants.
Three Questions:

1. What does it take to make money in Southwest’s business? What are Southwest’s sources of competitive advantage? Are they sustainable?

2. How serious is the threat of competition? Can other airlines copy the Southwest model? How?

3. What are your concerns? What does Southwest need to do to continue their success?
Southwest Airlines

Talking about Southwest’s recruiting. Kelleher says, “We draft great attitudes. If you don’t have a good attitude, we don’t want you, no matter how skilled you are.”

What are your reactions to this approach?
Mission Statement

“The mission of Southwest Airlines is dedicated to the highest quality of customer service delivered with a sense of warmth, friendliness, individual pride, and company spirit.”

Does this matter at Southwest? Why?
To Our Employees:

“We are committed to provide our employees a stable work environment with equal opportunity for learning and personal growth. Creativity and innovation are encouraged for improving the effectiveness of Southwest Airlines. Above all, employees will be provided the same concern, respect, and caring attitude within the organization that they are expected to share externally with every Southwest Customer.”
“Every company I have ever gone in, they say people are number one, but they’re just not. They don’t live up to that, and we do.”

Gary Kelly
Chief Financial Officer
Southwest Airline
## Airline Performance, January 1999

<table>
<thead>
<tr>
<th>Airline</th>
<th>On-time Percent</th>
<th>Lost bags per 1000</th>
<th>Complaints per 100,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Southwest</td>
<td>76.7% - 1</td>
<td>5.70 - 3</td>
<td>0.40 - 1</td>
</tr>
<tr>
<td>Continental</td>
<td>72.0% - 2</td>
<td>8.49 - 6</td>
<td>1.46 - 3</td>
</tr>
<tr>
<td>Delta</td>
<td>71.4% - 3</td>
<td>7.63 - 5</td>
<td>1.52 - 4</td>
</tr>
<tr>
<td>American West</td>
<td>68.3% - 4</td>
<td>5.21 - 1</td>
<td>3.21 - 8</td>
</tr>
<tr>
<td>American</td>
<td>67.1% - 5</td>
<td>7.20 - 4</td>
<td>2.12 - 6</td>
</tr>
<tr>
<td>Alaska</td>
<td>66.5% - 6</td>
<td>8.87 - 7</td>
<td>1.34 - 2</td>
</tr>
<tr>
<td>United</td>
<td>66.5% - 7</td>
<td>11.3 - 9</td>
<td>1.92 - 5</td>
</tr>
<tr>
<td>Northwest</td>
<td>62.7% - 8</td>
<td>10.3 - 8</td>
<td>3.89 - 10</td>
</tr>
<tr>
<td>TWA</td>
<td>60.0% - 9</td>
<td>12.0 - 10</td>
<td>3.88 - 9</td>
</tr>
<tr>
<td>USAir</td>
<td>58.2% - 10</td>
<td>5.37 - 2</td>
<td>3.06 - 7</td>
</tr>
</tbody>
</table>
Southwest Takeaways

- A simple, consistent strategy
- Aligned and consistent HR practices

Long-term perspective on employment
- Stability
- Job design
- Training and development
- Careers

Compensation
- Performance-based
- Ownership
- Compressed wages

Selection for “attitude” and “fit”
- Strong culture -- family, performance
  - Leadership reinforcement
  - Information sharing
  - Psychological Ownership
Wrap-up

Brief Overview of this Course
Organization of the Course

Section 1: The importance of **HR alignment** as a basis of competitive advantage.

Section 2: **HR levers** for general managers in linking HR to strategy

Section 3: Summary and integration
Course Objectives

- Think analytically about management systems.
- Recognize the strategic and competitive advantage associated with effective human resource management practices.
- Understand key HR levers available to managers.
Cases this term

- **Airlines**
  - Southwest, Eastern Airlines

- **Services**
  - Portman Hotel, Morgan Stanley, Safelight, ServiceMaster, John Snow Institute, Harrah’s

- **Retailing**
  - Nordstrom

- **Technology**
  - Visionary Design Systems, SAS Institute

- **Manufacturing**
  - NUMMI, Slade, Springfield ReManufacturing
Conclusion

Next Class:
- Portman Hotel