Strategic Management of Human Resources
Wilhelm, Paul G
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criticism, however, would be appropriate only if we forget what this book attempts and what it had to build upon. It captures the realities of decisional processes in complex organizations like none before it. It destroys more decision and management related myths than anything written in years. It holds leads for decades of research. It is truly remarkable. Of course, it's not perfect. Some linkages and elaborations should have been attempted, for example, the impact of organizational culture; how role theory and leadership process relate to decisioning; the extent and function of rationalization; a calculus of consequences; the impacts of alternative organization designs; and so forth. But realistically, there is always more understanding to accomplish. Let's savor this accomplishment first; Herb Simon probably will.

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Strategic Management of Human Resources, by George S. Odiorne. San Francisco: Jossey-Bass, 1984, 356 pp. $24.95

Reviewed by Paul G. Wilhelm, College of Business, Western Michigan University, Kalamazoo, Michigan.

The chief executives of many U.S. corporations are giving renewed attention and according more status to human resources functions and specialists. Farsighted managers recognize the crucial role of human resources management (HRM) as the U.S. forges into the complex and changing world of high technology and service-based economy. Concomitant with this renewed emphasis on HRM, personnel specialists have entered into the strategic planning process, arguing that participation in the "front-end" of business planning is essential to meeting the long-run needs of the enterprise. Hence, HRM planners have begun learning the language and techniques of strategic planning and have assumed a proactive stance in promoting strategic thinking in HRM (Miles and Snow, 1984). Odiorne is a forerunner in this area and has extended the personnel function beyond the limits of its traditional activities.

Odiorne argues that since management has historically tended to see labor in terms of supply and demand, employees have been considered as short-term expenses that needed to be minimized. He considers employees as assets who can be valued and managed much as a portfolio of stocks is managed such that their value to organizations can be maintained or increased. Odiorne bases his ideas on human capital theory, a relatively new economic concept stemming from work by Nobel Laureate economist Theodore Schultz. Even though the literature in this area has mushroomed, its knowledge has not been applied to HRM. Odiorne sees the purpose of his book as the translation of the economic theory of human capital into strategies for managing people in organizations.

Odiorne recognizes that over the past half century, HRM has somewhat stagnated into a maintenance mode wherein tasks are done with little long-term impact. HRM is usually seen as a staff function that is not central to augmenting investment in human capital. Odiorne's book tries to supplement the advisory techniques of HRM by applying the more "line"-oriented tools of strategic planning.

Odiorne contends that employee obsolescence can be averted and both turnover and low productivity can be reversed, if employees are distinguished as *assets* rather than *expenses*. Also, long-term, steady employees can be motivated to sustain high productivity while new corporate "stars" can be identified and nurtured.

Part One, comprised of three chapters, reviews current research in an application of the economic theory of human capital. The concept of human capital is defined and elaborated on in Chapter 1. Socio-economic forces and demographics are related to the idea of "people as assets." Portfolio theory is introduced in the second chapter as a rationale that investment analysts use to manage financial assets under their control. The personnel managers may well gain a better "bottom-line" and strategic perspective by reading this chapter's explanation of financial terminology. Odiorne shows how accounting methods can relate to personnel assessment. Chapter 3 strengthens the needed strategic perspective by illustrating how to apply portfolio analysis to human capital in the same way strategic financial managers analyze an investor's securities or corporate product-and-market plans. The Human Resources Life Cycle and its four stages of start-up, growth, maturity, and decline are discussed; applications and drawbacks are noted. Odiorne contends that the portfolio approach to human capital, which is similar to the approach taken for products and markets, is far more useful than the replacement chart or life cycle methods for making key personnel decisions.

However, a new variation of the life cycle approach to strategic analysis was devised by the Boston Consulting Group (BCG) which rearranged the same elements into a different format. The well-known two by two grid matrix has as its horizontal axis the objective of market growth. Along the vertical axis is the share (percentage) of the market that the company holds. This creates a four-cell matrix into which various businesses (product and market) can be classified into stars, cash cows, question marks, and dogs. Although the portfolio format for rating businesses and markets is only indirectly relevant to people, Odiorne argues that it suggests a model for analysis which can be tailored to strategic assessment of the performance (vertical axis) and potential (horizontal axis) of people in specific jobs in specific organizations.

Part Two discusses employees who are in the high performance categories of the portfolio: workhorses (analogous to the BCG classification of cash cow), and stars. Chapter 4 elaborates on the workhorse category, which includes high performance but limited or low growth potential employees, and on average comprises about 70 percent of a company's workers. The training and development field is reviewed and the application of job enrichment and job design to maintaining high motivation and productivity among workhorses is discussed.

Odiorne devotes four chapters to dealing with the roughly five percent of company employees who are in the star category. They are employees who are both highly productive and have great growth potential. The health and success of the organization is ensured if stars are managed correctly and if their leadership and flexibility skills are developed. Ways of identifying the characteristics of potential stars are described. Chapter 6 concerns educating, training and mentoring stars so that they can advance through education and individual perseverence. Basic guidelines are provided for sensible mentoring so that pitfalls are avoided.

Chapter 7 delineates the ways executives can help groom stars for the special kinds of tasks and roles high-level managers need to tackle. The discussion of executive roles might well have benefited from utilizing Mintzberg's (1973) research on managerial roles.

Chapter 8 deals with the stresses and rewards of stardom and provides fourteen crisis tactics. This chapter could have been strengthened by drawing on some of the voluminous stress management literature.

Part Three is more thorough, though, and deals with the two categories of low-performing employees. Problem employees have high potential but are not performing up to it; while deadwood have both low performance and little or no growth potential. Chapter 9 concerns identifying and removing causes of poor performance; it is enlightening. Odiorne reviews his own past research showing how personal behavior, habits, skills and motivation are at least as important as actual job performance in determining who is fired. Both Chapters 9 and 10 address steps managers can take to avoid or remedy poor performance through developmental, rather than punitive, discipline. Chapter 11 explores how high performers become low performers and offers some insight into the nature of employee obsolescence. Chapter 12 offers a model for remedial training of obsolescent people.

It appears in this part of the book that Odiorne is not considering all the aspects needed for developing a solid performance diagnostic. Peters and O'Connor (1980) contend job performance is the culmination of three elements working together: skill, effort, and nature of external conditions. The latter is the degree to which external conditions are favorable in facilitating an employee's productivity and these are not under the employee's control. Hence Odiorne's two by two matrix may well be an oversimplification. A two by two by two matrix that adds the external condition of favorable versus unfavorable would help counter mistaken attributions about why someone is not performing well. Too often managers assume that a performance problem stems from some characteristic of the employee when, in fact, it is frequently due to conditions that are beyond the employee's control.

Part Four deals with implementing portfolio management strategies. Chapter 13 addresses strengthening performance appraisal systems and discusses why accurate performance appraisal is difficult. Odiorne argues for Management by Objectives (MBO) for higher-level jobs and Behaviorally Anchored Rating Scales (BARS) for lower-level lobs as the preferable choices for an appraisal system. Chapter 14 describes writing objectives, specifying commitment to objectives, and measuring and using results. These two chapters do not appear to draw on the latest research in performance appraisal. However, the discussion of key strategy questions to be answered in defining strategic objectives integrates personnel and policy objectives particularly well. Also good is the way Odiorne relates operational performance objectives to human resource portfolio valuation. Innovative goals are set for star employees while problem solving goals are set for minimal stars, problem employees and high workhorse employees.

The major critique of MBO and results orientation is that, by themselves, results appraisals are contaminated by external conditions. It is because of this, that managers often have a difficult time helping employees overcome their performance problems (Snell and Wexley, 1985).

Chapter 15 concerns strategic human resource planning and provides a strong finish to the book. Odiorne notes some very important recent developments in the evolution of personnel departments: (1) human resource (HR) departments have become more central to the purposes of their firms, and (2) this new role centers around strategic considerations rather than operations details. A January 3, 1985, *Bureau of National Affairs* Bulletin to Management strongly supports Odiorne's contentions. Chief HR executives in Fortune 1000 companies report a very significant strategic role and HR centralization with respect to planning, policy making, and management responsibilities. Chapter 15 takes a fairly new and needed look at the role of the human resources staff in strategic planning for a corporation and suggestions are made for making this role more effective. Some of the obstacles to achieving a strongly integrated human resource strategy are discussed. This chapter responds well to Jain and Murray's (1984) contention that personnel has been, and remains today, a reactive function, only responding to problems once they arise (and not forecasting or preventing them).

Chapter 16, the last chapter, is a case study showing how portfolio analysis can be applied to managing the human capital of a major league baseball team. Again, oversimplification of the complex world of business may be a problem. Business is impacted by diverse and interdependent external circumstances such that an analogy between business and baseball is not very strong.

In summary, Odiorne has shown how personnel, business policy, and strategy can be better integrated. It is an ambitious undertaking and not surprisingly some chapters in his book lack depth even though he utilizes several hundred references. He has, however, written a very readable and interesting book for the personnel practitioner, especially in the area of human resource planning. Given that human resource planning is rarely integrated with strategic business planning, this book is a strongly needed step in that direction.

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Reviewed by William B. Gartner, Georgetown University, School of Business Administration, Washington, D.C.

Two central questions underlie the choice of competitive strategy. The first is the attractiveness of industries for long term profitability and the factors that determine it. Not all industries offer equal opportunity for sustained profitability, and the inherent profitability of its industry is one essential ingredient in determining profitability of a firm. The second central question in competitive strategy is the determinants of relative competitive position within an industry. In most industries, some firms are much more profitable than others, regardless of what the average profitability of the industry may be. (Porter, 1985, pp. 1-2).

These two questions are the focus of Porter's books. While it was Porter's intention to orient the books toward the practitioner, they both offer many theories about the nature of strategic choice in an environmental context and should be of great interest to scholars in strategic management, organizational theory and behavior, particularly those individuals who believe that strategic choice exists (Child, 1972) while also recognizing the deterministic influences of the population ecology perspective (Aldrich, 1979; McKelvey, 1982).

Porter conceived his ideas within the context of industrial economics. He presents these ideas in a manner that is easy to understand. There are no mathematical formulas, no supply and demand curves, and he always provides an example from an actual business situation to support a point of view. Since Porter does not engage in the flights of obtuseness of most microeconomists, or overburden the reader with references to the academic literature in industrial economics, he develops some very interesting and compelling ideas about industry structure and the nature of competition and makes a powerful case for the usefulness of his ideas for strategic decision makers.

At the center of each book is a framework upon which Porter builds more complicated and elaborate ideas about industries and competition among firms. An industry is defined loosely as "the group of firms producing products that are close substitutes for each other" (p. 5). In *Competitive Strategy*, where he addresses the question of industry structure and its influence on profitability of firms, Porter describes a framework of the structure of an industry comprised of five competitive forces: suppliers, buyers, substitutes, potential entrants, and industry rivals. Industry attractiveness, that is, the profitability of all the firms competing in the industry, will be a product of the influences of the five forces. Porter analyzes how particular characteristics of each of the five forces will influence industry attractiveness. For example, suppliers to an industry will exert powerful influences on an industry's attractiveness if the suppliers do not have to contend with other substitute products for sale to the industry.

Porter identifies three generic strategies (overall cost leadership, differentiation, and focus) by which firms in an industry may attempt to gain a competitive advantage over their rivals. He presents various techniques for using the industry framework for analyzing industries and for determining competitive moves of industry rivals, recognizing market signals, identifying strategic groups, and recognizing changes in an industry's structure over time (industry evolution).