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**Utilizing a Human Capital Framework to Develop**

**An Organizational Capabilities Strategy**

**Volume I**

**A THESIS  
SUBMITTED TO THE FACULTY OF THE GRADUATE SCHOOL  
OF THE UNIVERSITY OF MINNESOTA  
BY**

**Joanne Provo**

**IN PARTIAL FULFILLMENT OF THE REQUIREMENTS  
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DOCTOR OF PHILOSOPHY**

**Richard A. Swanson**

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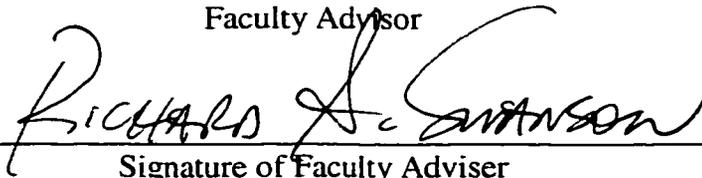
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and that any and all revisions required by the final  
Examining committee have been made.

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Date

GRADUATE SCHOOL

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## ABSTRACT

In a time when human capital is the highest potential source of value for the firm, organizations find themselves struggling to understand how to build a strategy around capabilities. Current organizational strategy processes seldom incorporate a human capital perspective and rarely are human resource (HR) professionals included in the development of strategy. If organizations are going to leverage human capital, HR professionals will need to become full partners in the strategy process. The resulting strategy needs to focus on capabilities and be constructed from the human capital perspective.

The primary research question driving this study is: How does an organization develop an organizational capabilities strategy from the human capital perspective and what are the resulting human resource management and development implications. The study includes the development of a human capital protocol that can be used to develop a capabilities based strategy and understand the human resource implications for an organization.

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## CHAPTER 1

### INTRODUCTION AND PURPOSE

There has been an increased focus on human capital and the strategic management of an organization's talent pool in the past several years. One of the causes of this phenomenon is the changing nature of work and the implications this change has for leveraging the talents and skills of the workforce. The shift to a knowledge economy has organizations struggling to attract, develop, and retain the best and the brightest employees (Gubman, 1998). Unfortunately, strategies to analyze the capabilities needed to thrive in a knowledge economy and the accompanying organizational support systems are lacking. Many attempts to manage an organization's human capabilities and their talent pools are based on systems designed to measure other organizational assets, such as financial capital (Stewart, 1997). The application of short-term financial measures to human capital investments can present an impaired decision process since the fundamental nature of human and capital assets are different in many ways. One of the primary differences is in the application of the scarcity theorem which states that the more a resource is used the smaller the incremental return. Drucker (1998) notes that knowledge and information don't stand under the scarcity theorem, on the contrary, they stand under the abundance theorem which implies that knowledge and information (and thus human capital) can be used over and over without diminishing in value.

This study analyzes organizational capabilities strategy from the human capital perspective. It includes the development and application of a methodology for utilizing a human capital framework to develop an organizational capabilities strategy, and an

investigation into the resulting human capital implications. The purpose of this study is to enhance the organization's understanding of how they can leverage their organizational capabilities in ways that add value to the firm. This study is intended to provide a vehicle that human resource professionals can use to increase their involvement in the development of organizational strategy. In addition human resource strategies and initiatives can be more appropriately aligned around those capabilities that can have the greatest impact on the success of the firm.

As the field of human resources has emerged out of personnel management over the past several decades (Sibbet, 1997), professionals in those roles have grappled with their role in the management of human resources (HR). The challenge has been to recognize the role of human resources as not just responding to demands from the line and executing strategies that have been predetermined. There is a strategic role for the human resource professional throughout the organization and organizational leaders are beginning to recognize that significant and sustainable competitive advantage can be gained from focusing on organizational capabilities. These sources of sustainable competitive advantage are most frequently the skills and intellect of the workforce (Quinn, 1992).

Human resource professionals have been challenged to gain legitimacy in the strategic planning and thinking of their organizations and have been encouraged to do that through an understanding of the business implications of effective human resource practices (Ulrich, 1997). Other than training in business strategy and encouragement to view the firm through the eyes of the line managers they serve, there has not been a pragmatic way for human resource professionals to engage in strategy development for

their firm (Torraco & Swanson, 1995). Human resource leaders do not often participate as full partners in strategy development, but instead are engaged in the deployment of a strategy developed by others in the hierarchy (Jarrell, 1993).

A number of economic, demographic, and technological factors are converging to increase the competitive advantage of including a human resource perspective in the strategy process. The last several years have produced a period of low unemployment throughout the United States (Branch, 1998; Fenn, 1997; Rifkin, 1995). The economic environment is as close to full employment as normally considered by economists, in many regions across the country. The increasing demand for labor is coupled with a demographic phenomenon of an aging population and a shortage of new entrants to the workforce (Greco, 1998; Gubman, 1998; Working in America: A Chart Book, 1988). In addition to those factors, employers are seeing the application of technology and the need for knowledge workers reach an unprecedented peak (Bassi, Benson, & Cheney, 1996; Report on the American Workforce, 1994; Salamon, 1991; Working in America: A Chart Book, 1988).

The convergence of these trends provides an opportunity for human resource professionals to demonstrate the criticality of their role in the development and validation of organizational strategy, as they are responsible for managing what many believe to be the organization's most critical resource. To engage the organization they will need to demonstrate value through the perspective of the asset they oversee, human capital. This role requires an understanding of how human capital contributes to the value of the firm and how that value can be measured and leveraged to allow organizations to use their human assets to gain competitive advantage in the marketplace.

There is an emerging approach to organizational strategy based on focusing on an organization's capabilities as a source of competitive advantage. Capabilities involve the integration or linking of activities in the value chain, they represent the skills, resources, processes and technologies of a firm (Duncan, Ginter & Swayne, 1998). The key is in focusing a strategy around these "uniquely developed set of core intellectual and service capabilities important to customers" (Quinn, 1992, p. 50).

As human capital is increasingly being recognized as the most critical source of organizational capabilities (Stewart, 1997), it is imperative that this asset be leveraged to provide optimal value for the firm. Analyzing the value of human capital requires an examination of an organization's competitive positioning, and a fundamental understanding of how capabilities contribute to the value of the firm. Understanding the value of human capital requires a new and different analysis approach, one that can surface the sources of competitive advantage, propose a strategy for leveraging that advantage, and implement a measurement system appropriate for an organizational capabilities strategy.

This study will propose and test an organizational capabilities strategy process that allows human resources professionals to develop and align human resource practices in a way that increases human capabilities. The framework and methodology will engage senior human resource professionals and key line managers to examine their value chain, identify external and internal opportunities, and recognize constraints for the purpose of developing a capabilities strategy for an organization. This process will investigate how capabilities create value for the firm and examine the human resource implications that result from this strategic approach. The framework will be used to analyze the impact

and effectiveness of investments in human capital and allow organizations to view strategic advantage through a human capital lens.

Human resource professionals will need to demonstrate the value of their practices through the perspective of the asset they manage, human capital. For example, what distinguishes finance and marketing professionals is their ability to demonstrate their value to the firm through the perspective of the asset they manage. The corporate finance function measures the success of the firm through the performance of capital; the asset that their systems have been developed to optimize. Their internal and external practices provide for the allocation of funds in a manner that clearly demonstrate how investments in hard assets, such as property, plant and equipment create value for the firm. The value of the invested capital can be seen in the measures they employ to monitor their effectiveness: return on equity (ROE), return on assets (ROA), return on capital employed (ROCE), and their newest measure, economic value added (EVA).

Likewise, marketing professionals have a sophisticated set of measurement tools that demonstrate their success and contribution to the organization through the perspective of sales revenues, market share, and customer behavior. Marketing professionals measure customer and brand loyalty, repeat business, and the elasticity of demand for their product thus providing evidence of added value.

Finance and marketing are very similar to human resources in that they are staff functions, which are responsible for supporting the development, production and deployment of organizational goods and services. What is different in the evolution of these disciplines is that finance and marketing have gained legitimacy in the firm, and are recognized as adding value to the organization. The chief organizational decision-makers

recognize that investments in finance and marketing return value to the firm. The human resource function, on the other hand, has traditionally been seen as a cost element and not as a value creating entity in the firm. In extreme cases the line managers have seen themselves as adding value and resulting dollars to the firm and they view the HR role as simply to not spend too much of the revenue others have generated.

#### Problem Statement and Research Question

In a time when human capital is the highest potential source of value for the firm, organizations find themselves struggling to understand how to build a strategy around capabilities. The current strategy processes often fail to incorporate a human capital perspective and instead view the HR professionals as strategy executors and not strategy developers. If organizations are going to leverage their human capital, HR professionals will need to become full partners in the strategy process. The resulting strategy needs to focus on capabilities and be influenced from a human capital perspective.

In reviewing the literature and investigating the resulting problem, the underlying research question has emerged: **How does an organization develop an organizational capabilities strategy from the human capital perspective and what are the resulting human resource management and development implications?**

This research question can be divided into three sub-questions that will frame the methodology presented in Chapter 3. The sub-questions are:

1. Can a human capital framework be used to develop a sound organizational capabilities strategy protocol from the human capital perspective?
2. Can human resource professionals use a human capital protocol to facilitate the development of a capabilities strategy process for their organization?

3. What human capital decisions emerge throughout the organization as a result of using the human capital protocol?

### Significance of the Research

Organizations struggling to gain competitive advantage in the current economic environment are becoming more dependent on enlightened human resource professionals who can guide the organization through the appropriate evaluation and application of human resource practices. It is critical to organizations and to the human resource profession that models for effective human resource practices be developed and deployed. Models and practice built on strong economic theory, and developed with the intent of enhancing the value of the firm through appropriate investments in human capital, are critical to organizational success given the changing nature of work.

Academics and business professionals espouse the importance of a strategic human resource function (Boudreau & Ramstad, 1998; Klein, 1998; Pfeffer, 1998; Torraco & Swanson, 1995; Ulrich, 1997; Winter, 1998) but to date the application and specific guidelines for organization-wide integration has been quite limited. The significance of this research is in the recognition by human resources professionals and their organizations that effective human resource practices have become increasingly more critical to the organization.

### Definition of Terms

**Capital** -- The income and other useful outputs that physical, financial and human assets are able to generate over a over long period of time (Becker, 1993).

**Competitive Advantage** -- The value a firm is able to create for its buyers that exceeds the firm's cost of creating it (Porter, 1998b).

**Core Competence** -- The collective learning of the organization, especially evident in how an organization coordinates diverse production skills and integrates multiple streams of technologies (Prahalad & Hamel, 1990).

**Human Capital** -- The knowledge and acquired skills a person has that increase his or her ability to conduct activities with economic value (Milgrim & Roberts, 1992).

**Human Resources** -- The energy and activity provided by the employees of an organization (Daft, 1995).

**Intellectual Capital** -- The invisible part of the balance sheet consisting of employee competencies, or the capacity of employees to act in a wide variety of situations, the internal structure including patents, models and administrative systems, and external structures, customers and supplier relationships (Sveiby, 1997).

**Organizational Capabilities** -- Business processes that are strategically understood. These processes deliver value to the customer, and can be demonstrated in the following dimensions: speed, consistency, acuity, agility and innovativeness (Stalk, Evans, & Shulman, 1992).

**Organizational Capabilities Strategy** – Aligning uniquely developed core intellectual and service capabilities that are important to customers in a way that increases the value of the firm (Quinn, 1992).

**PeopleSCOPE™** -- A framework proposed by Boudreau & Ramstad (1999b) to demonstrate the tangible links between human capital investment and business results.

**Strategy** -- A *plan*, direction, guide or course of action into the future, a *pattern* of consistency over time, a *position* and *perspective*, or organization's way of doing things (Mintzberg, 1994a).

**Value** -- The worth or usefulness of directing resources to their most promising uses and most productive users. (Stewart, 1991)

**Value Chain** -- A model for examining the collection of activities that are performed to design, produce, market, deliver and support an organizations product (Porter, 1998b).

## CHAPTER 2

### REVIEW OF THE LITERATURE

The challenge in conducting a literature review on using a capabilities approach to strategy is to balance the integration of work from other disciplines with an in-depth review of work in the area of strategic human resource management and development. The domains covered can be vast and the researcher can easily become distracted by the sheer volume of academic and applied research and opinion in this area. To develop a literature review for understanding the context and the necessity of a strategic human resource development framework the investigation of prior work has been focused in four primary areas.

- The definition and understanding of *human capital*
- Fundamental models and theories driving *organizational strategy*
- The application and expectations for *strategic human resource management and development*
- The criticality of applying appropriate *measurement systems* to the application of human resource management and development

Human capital has been used as a phrase to attempt to define and quantify the importance of people in an organization. This terminology is helpful in distinguishing between the capital provided by stockholders and that value provided by customers. Organizations gain competitiveness through an integration of resources from three primary areas, the financial markets, customer markets and labor markets (Ramstad, 1998). An initial look at sources of capital, in the broadest sense, yields the notion of stockholder equity, customer equity, and human equity.

## Human Capital

To understand what is meant by the notion of human capital it is important first to present a context for what is meant by the term capital. Becker (1993) defines the properties of capital as being able to yield income and other useful outputs over long periods of time. Stewart (1991) defines capital as an approximation of the economic book value of all cash invested in going-concern business activities, essentially it's net assets. Capital can also refer to the funds investors provide to undertake projects (Brigham, Gapenski & Ehrhardt, 1999). Becker (1993) differentiates human capital from physical or financial capital by noting that one can not separate a person from his or her knowledge, skills or values the way it is possible to move financial and physical assets while the owner stays put.

The notion of human capital has been motivated by the realization that the growth in physical capital has done little to explain the growth in income in most countries, and intangible assets such as technological change and human capital have been the key contributors (Becker, 1993). Human capital becomes a source of competitiveness as viewed through an organization's ability to attract and retain an adequate supply of qualified employees from the labor markets. Some researchers purport that "...people may be the only *sustainable* competitive advantage that an organization has in our globalized, informationalized world" (Bohl, Slocum, Luthans, Hodgetts, 1996, p. 8

It is clear that the notion of human capital encompasses a variety of perspectives. This section will start with the broader definition of intellectual capital and the implications that brings to an organization. The context for understanding the role of human capital in a knowledge economy will also be introduced.

## Intellectual Capital

The emergence of the use of the phrase intellectual capital is evident in the fact that three recently published books use these two words as their title (Brooking, 1996; Roos, Roos, Edvinsson and Dragonetti, 1998; Stewart, 1997). In these works and others, the term is used to apply to all intellectual capital in the firm, including but not limited to the knowledge and skills of people, relationships with customers and partners, patents, brands, and infrastructure.

This term however, has been used at far back as 1969 when the economist John Kenneth Galbraith referred to intellectual capital as the difference between the price paid for a stock in excess of the book value (Roos et al., 1998). This gap in his view was more than just knowledge or pure intellect, it encompassed what he referred to as intellectual action. Regardless of the application, it has become more evident that there is an inherent value in the firm that is not captured on the financial statements, but that contributes to the strategic positioning and success of firms that specialize in knowledge work (Sveiby, 1997). To demonstrate that spread in a contemporary context one has only to look at the market value vs. book value for such organizations as Microsoft or Amazon.com (Value Line Investment Survey, September 3, 1999).

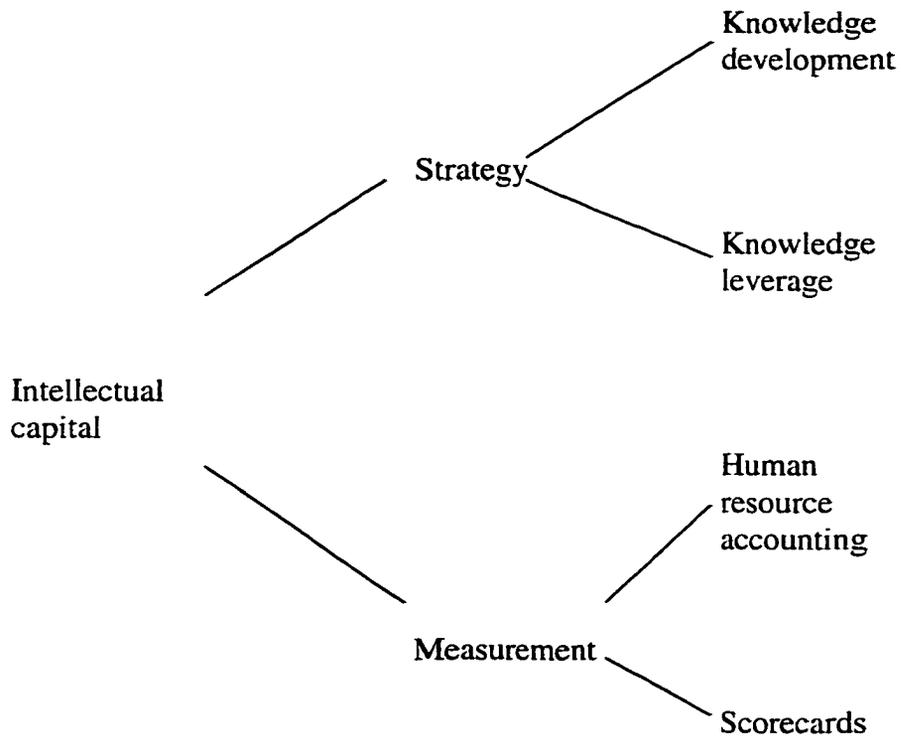
One of the interesting economic implications of the understanding and attempts to measure the impact of intellectual capital is the scarcity theorem. Fundamentally this concept states that the more a resource is used the smaller the incremental return. Ducker (1998) notes that knowledge and information do not stand under the scarcity theorem. On the contrary they are supported by an abundance theorem which implies that knowledge and information can be used over and over without diminishing in value. The

paradox: is given that most of our accounting and financial systems are based on this principle it becomes difficult for an organization to account for the value of an asset that is not depleted when it is used. In fact, the more knowledge and information resources are applied the more value those resources create. The scarcity theorem is one of the first indicators that intellectual capital needs to be examined in a context other than that used to evaluate financial capital, as the same economic and measurement models don't apply. Bontis (1996) notes that competitive success will be based less on the strategic allocation of physical and financial resources and more on how strategically intellectual capital is measured. Plott & Humphrey (1996) support the criticality of managing intellectual capital but for different reasons. They see that ability of intellectual capital to attract hard capital for investment and development as having a substantial influence on the future of organizations. Stewart (1997) sees intellectual capital as the knowledge, intellectual property and experience that can be put to use to create wealth. Since current financial statements don't reflect this wealth, the challenge for those managing human capital is to develop measurement systems that do accurately reflect the value of intellectual capital. Tichy (1996) agrees that a revisit of the financial model as the means for generating shareholder value is necessary.

Theoretical roots of intellectual capital. One of the most applicable models for understanding how intellectual capital translates to human capital is the one by Roos et al. (1998). This model is also instructive for this study because it links strategy and measurement to intellectual capital. Knowledge development branches off of the strategy stream and human resource accounting and scorecards stem from the measurement branch. The first three levels of this model are replicated in Figure 1. This model ties the

theoretical roots of intellectual capital to different streams of thought: strategy and measurement. The first stream studied the creation and use of knowledge, as well as the relationship between knowledge and success or value creation. The second focused on the need to develop a new information system, measuring non-financial data alongside traditional financial systems.

Figure 1. Conceptual Roots of Intellectual Capital.



Source: Roos et al., 1998.

This model is key to understanding the context of human capital in this study as it incorporates not only the way that knowledge is created and applied, but how it is leveraged into value. If knowledge is created with no application to the business operations of the firm, that knowledge can not be employed in the creation of value for

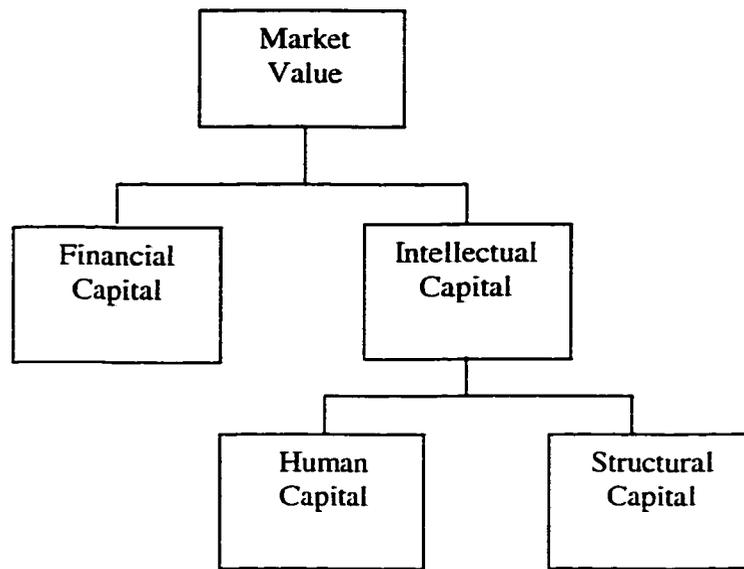
the firm. Given that knowledge and learning are sources of competitive advantage, the development and leveraging of this knowledge can not be separate activities. This perspective is key to the rationale for linking the concepts of human capital, strategy and measurement into the framework for this study.

The Skandia model. Skandia was instrumental in launching the intellectual capital discussion when it published an Intellectual Capital report to accompany its 1994 annual report (Roos et al., 1998). Their model divides market value into financial capital and intellectual capital. Intellectual capital is then further divided into human capital and structural capital. Structural capital in their model includes both the customer and the organizational capital encompassing both the internal and external focus. The first three phases of the Skandia model are shown in Figure 2.

The separation of human and structural capital is based on differentiating between the thinking and non-thinking components of intellectual capital. Roos et al. (1998) differentiate structural capital from human capital based on the criterion of what is owned by the company, and in many cases is proprietary and not self-renewing.

The Skandia Model is instructive to our definition of human capital for the purpose of this research study as the focus will be on the human capital part of the model, understanding that the structural component is also necessary to the successful deployment of an intellectual capital model.

Figure 2. The Skandia Value Scheme



SOURCE: Skandia (1996)

### The Evolution of the Knowledge Economy

Much has been written about the evolution of the economic condition in the United States over the course of its independence (Broudreau & Ramstad, 1997; Stewart, 1997). This country was founded on the principles inherent in an agrarian economy where the source of wealth was land and the most successful farmers were those who used measurement systems and tools to get the most food production out of the land. Stewart puts this in context by noting that shortly after the Civil War farm goods accounted for nearly 40% of the GDP in the United States. After the First World War that percentage had fallen to 14%, and in 1997 the percentage was 1.45% (Stewart, 1997).

As we progressed to a trade and distribution economy the constrained resource was the ability to distribute goods and services. The source of wealth and the critical assets

were the transportation systems. The most successful players in this economy were those who had access to the transportation and distribution systems and who knew how to deploy, manage and measure those systems.

Shortly after individuals were able to produce goods beyond their own needs and get those goods successfully distributed throughout the nation they launched into an industrial economy. The shift went from a rural focus on working the land in order to produce the food needed by the family to an urban focus with massive movements of the population to urban areas and industrial work. The constrained resource in an industrial economy is tangible assets; machines, buildings and the assets of production. This economy was fueled by those who had access to capital and leveraged the deployment of that resource to generate optimal returns for the owners, now heavily represented by stockholders. The most successful organizations in this era were those that were able to access capital relatively cheaply and who had consistent internal process to make sure that capital was employed in the most efficient and effective manner possible. In a capital constrained environment measurement systems and policy makers, such as the Securities Exchange Commission, emerged to insure the appropriate valuation of capital.

Since the United States had existed in a capital based economy for so long it was hard for some managers to realize that there had ever been any other constrained resource besides capital. Now at the end of the twentieth century, the United States is finding itself in an intangible economy driven by knowledge resources. This shift to an intangible economy requires an entirely different set of measurement and management systems to make sure that human capital is allocated in the most effective way. Early recognition of economic shifts and adoption of measurement systems for managing the

constrained resource has always been a source of competitive advantage. For those organizations that slow to make the shift, the transition is painful.

### Implications of a Knowledge Economy

The primary consequence that emerged from the discussion in the previous section is that knowledge and information take on their own reality, which can be detached from the physical movement of goods and services. Stewart (1997) identified some primary consequences of this phenomenon, noting that knowledge and the assets that create and distribute it can be managed. More importantly he states that “If knowledge is the greatest source of wealth, then individuals, companies, and nations should invest in the assets that produce and process knowledge” (p. 31). Drucker (1993) stated that knowledge is fast becoming the sole factor in production, surpassing both capital and labor. He defined the knowledge worker as one “who knows more about his or her job than anyone else in the organization” (Drucker, 1998, p. 164). He was also clear that economic growth can no longer come from putting more people to work (1997). Knowledge workers own their means of production, and the best way to motivate them is to engage them in the mission of the organization. Performance can only be maximized by capitalizing on the strengths and knowledge of people. Drucker (1997) was strong in his conviction regarding economic growth:

It can only come from a very sharp and continuing increase in the productivity of the one resource in which the developed countries still have a competitive edge (and which they are likely to maintain for a few more decades): knowledge work and knowledge workers. (p. 20)

These statements make a strong argument for investments in human capital, and are strengthened by the forces that Thurow (1995) identifies as changing the world economy.

1. The end of communism.
2. The shift from an economy based on natural resources to one based on manmade brainpower industries.
3. Demography.
4. The development of a global economy.
5. An era with no dominant economic, political, or military power.

These forces and those listed above have strong implications for the knowledge economy.

The next section will illustrate further the need for organizations to invest in the assets that are the most capable of generating value for the firm.

### Human Capital

While there may be some debate over the use of the term human capital, for purposes of this study it will be used to demonstrate that like other assets that must be invested in to yield value, there is a return on human assets as well. Human capital is the firm's collective ability to extract the best ideas and solutions from the knowledge of its people. Salamon (1991) uses human capital to refer to the skills, knowledge, and abilities of human beings. Underlying this concept is the notion that these skills and knowledge increase human productivity, and that they do so enough to justify the cost incurred in acquiring them. Human capital theory states that "human capital is the knowledge and skills (physical and intellectual) that an individual possesses that make that individual a productive worker" (Besanko, Dranove, & Stanley, 1996, p. 641).

Using the term human capital draws the parallel between finance and marketing functions where value discussions are focused on such things as financial capital and customer capital. As mentioned in Chapter 1, the terms human and employee equity are synonymous with human capital; the parallel to finance and marketing would be stockholder equity and customer equity. Again, human capital as used here, refers to the notion that employees are a source of value for the firm.

Writers in this area show more convergence than divergence around the term human capital and most use human capital to differentiate a specific sub-component of intellectual capital. Table 1 is provided below to summarize this definitional context.

According to Sveiby (1997), people should be seen as a source of strategic advantage and invested in as other assets. Lewis (1997) uses the accounting perspective to enhance his case by noting that there is a growing recognition that organizations must invest in all assets appropriately if they intend to be successful in the long term. Further, he makes the point that all organizations need to invest in building intellectual capital and that it can no longer be a luxury for a small minority of enlightened companies.

Certainly information and technology are changing the way human assets are deployed, and with this shift there is a need to study and explore what it means to effectively manage human capital. It may be that what will differentiate successful companies is their accumulation, development, and deployment of human capital. Mirabile (1998) calls human assets the true measure of corporate wealth.

Table 1

Definitions of Intellectual and Human Capital

Source	Intellectual Capital	Human Capital
Becker (1993)		"...skills, knowledge, or health" of human resources that increase future monetary and psychic income (p. 11)
Klein (1998)	"...their knowledge, experience, expertise, and associated soft assets" (p.1)	Knowledge workers make intellectual-capital contributions
Roos, et al. (1998)	"...relationships with customers and partners, innovation efforts, company infrastructure and the knowledge and skills of organization members" (p. v)	"...originates from competence, attitude, and intellectual agility" (p. 35)
Stewart (1997)	"...packaged useful knowledge" (p. 67) includes people, structures and customers	"...the capabilities of the individuals required to provide solutions to customers" (p. 76)
Sveiby (1997)	The invisible part of the balance sheet consisting of " <u>employee competence</u> , or the capacity of employees to act in a wide variety of situations; <u>internal structure</u> , including patents, concepts, models, and computer and administrative systems, that is the organization; and the <u>external structures</u> , customer and supplier relationships and the organization's image" (p. 18)	extends the definition of human capital to the concept of competence "...which embraces factual knowledge, skill, experience, value judgements, and social networks..." (p. 38)

While there has been an increased focus on the importance of human capital recently, the debate on the shortage of human capital has been going on for some time. In a special report on Human Capital by Business Week, Bruce Nussbaum (1988) predicted that much of the economic success in the United States is dependent on developing a workforce that can compete effectively in a world economy. He made the case that

people and not machines are the driving force behind economic growth and that we as a nation have been scrimping on human capital. In this same publication Aaron Bernstein (1988) put forward three forces that are combining to produce the leap in the level of skills that the economy will require. “First, technology is upgrading the work required in most jobs. Second, job growth will be fast mainly in high-skill occupations. Finally, the way in which work now is being organized requires a completely new set of skills” (104). Certainly we have seen shifts in the demand for particular skills in our labor force over the history of the United States (Rifkin, 1995), but the shift this time is to a knowledge based economy which requires a set of skills that previously has not been fully engaged. Rifkin goes beyond the borders of the United States to propose two courses of action that must be pursued for industrialized nations to successfully make the transition into a post-market era in the twenty-first century. He proposes:

First, productivity gains resulting from the introduction of new labor-and time-saving technologies will have to be shared with millions of working people. Secondly, the shrinking of mass employment in the formal market economy and the reduction of government spending in the public sector will require great attention to be focused on the third sector: the non-market economy. (p. 217)

Rifkin’s work is introduced here to illustrate that the demand for knowledge workers is not producing a new world of work for the market and government economies only. The social economy (his third sector) will also be affected by the changes in the development and deployment of human capital and these changes will have a profound affect on how we address personal and societal needs.

More and more organizations are announcing their plans to strategically manage their intellectual capital and see the cultivation and investments in human capital as an opportunity to enhance their market positions (Bontis, 1996). It is important to note here that the management of human capital is distinctive from managing physical assets and that an entirely different skill set is required. Meyer (1998) takes that distinction even further by differentiating between controlling the mind and the body. He says that managers are used to controlling people, but they can not control minds. His advice for managing a great mind is to aim it in the right direction and keep it excited. This statement is evidence that the management of an organization's human assets is going to require a different set of management skills and the incorporation of an organizational strategy that provides the appropriate direction and excitement for the great minds.

### Summary

This first section of the literature review has focused on the notion of human capital. Most writers in this area see human capital as a component of the broader concept of intellectual capital. The definitions and various viewpoints presented in this section show a great deal of convergence around defining intellectual capital to encompass the people, structures and customer relationships that add value to the firm. Another unifying principle for differentiating intellectual capital from other sources of capital in the firm is that intellectual capital is considered a soft asset and is not accounted for in the financial statements. A second differentiating factor is that other assets on a firm's balance sheet are accounted for within the economic perspective of the scarcity theorem. Intellectual capital does not stand under this theorem and in fact operates under an abundance theorem, where assets are not depreciated with use and in fact are increased in value as

they are used. The implication of these differences is that traditional financial and economic models can not be applied to the measurement and management of intellectual capital.

The Skandia model differentiates between human capital and structural capital. The research presented in this study will be grounded around the concept of human capital and will focus primarily on how human capital can be leveraged in a way that adds to the value of the firm. Human capital in this study is grounded in how knowledge is created and applied in an organizational setting.

The driving force in the examination of human capital is the shift to a knowledge economy. In a knowledge economy the organizational constraints are centered around human capital. Technological advances and the demand for knowledge workers presents organizations with the challenge of how best to capitalize on the strengths and knowledge of their people. The knowledge of the people within the organization may be on the only source of competitive advantage in the future; thus organizations need to strategically manage investments in their human capital.

Understanding the unique challenges presented by the knowledge economy and the inability of current management systems to leverage human capital presents the context for this study. The following sections will present strategy models and measurement systems as currently applied to organizations and identify the movement toward approaches that can leverage human capital investments to acquire competitive advantage. Grounded in the concepts of intellectual capital, human capital, and the implications of the knowledge economy presented in this first section, further exploration

of the literature is provided to support the study of a capabilities approach to strategy from a human capital perspective.

### Organizational Strategy: Models and Theories

A discussion on strategic positioning of human resources requires some grounding in the fundamentals of strategy. There has been a great deal of debate in the past couple of years challenging the discipline of strategic planning and the pioneering work that Porter proposed in the 1980's (Mintzberg, 1994a). Certainly strategy development has been around for thousands of years in one form or another (Griffith, 1963), but in the last 30 years organizations have looked at strategic planning as essential to organizational success and not just as a tool for planning military actions (Campbell & Alexander, 1997; Long & Vickers, 1995).

This section will summarize some of the recent thinking in the area of strategy and present viewpoints on the role of human resource professionals in this endeavor. Given that strategy is fundamentally about aligning and leveraging resources for organizational advantage, the case is made in the final pages of this section that human resources are a source of competitive advantage. Looking at human capital through this lens provides the entrée that human resource professionals can use to engage in the strategy process within their organizations.

#### Theories of Strategy

While it may be impossible to get complete concurrence around the theories of strategy, there does appear to be some general agreement around four fundamental approaches to the strategy process. The terminology used here comes from the work by Whittington (1993) in which the approaches are categorized as: Classical, Evolutionary,

Processual, and Systemic. These generic approaches to strategy are fairly consistent with four views of management: classical, scientific, processual, and phenomenological (Lee, 1997). There is also a relationship to what Van der Heijden (1996) proposed as three competing paradigms in strategic management: rationalistic, evolutionary, and processual. While details of the similarities and differences between these taxonomies will not be compared and contrasted here, in general these models are more similar than different. The intent in this section is to overview these approaches as a framework for understanding the various perspectives discussed in the following sections.

The *Classical* approach to strategy places a great deal of confidence in the capacity and readiness of managers and their organizations to adopt strategies which increase profits through a rational approach to planning. This view assumes that after an evaluation of the environment one best answer arises. It is built on a military tradition and informed by an intellectual approach grounded in economics. Porter's (1998a) model of industry analysis is consistent with this approach.

*Evolutionary* approaches are supported by those less confident about the ability and rationality of the managers leading the planning process. The evolutionary theorists doubt the capacity of the organization to apply the models and processes suggested by the classical theorists in a deliberate and sustainable way. This approach implies that the only real comparative advantage is efficiency. If deliberate strategies are ineffective, then organizational success can come from exploiting the emergent opportunities. That competitive opportunities surface through the discovery of emergent strategy is supported by Mintzberg (1994).

The *Processual* approach is consistent with the evolutionary theory in the skepticism of the rationality of strategy planning and making, but it is not as supportive of the efficiency of markets in ensuring profitable outcomes. The processual approach is much more dependent on the internal abilities of the organization. Advantage comes from being able to exploit and review these resources, rather than relying on positioning dictated by external forces. While this approach may seem to be dependent on Mintzberg's (1994) emergent approach to strategy, it is much more aligned with Hamel and Prahalad's notion of core competence and strategic intent (1994).

The central tenet of the *Systemic* approach is that "decision-makers are not simply detached calculating individuals interacting in purely economic transactions, but people rooted deeply in densely interwoven social systems" (Whittington, 1993, p. 28). In this approach the goals and processes reflect the social system in which the strategy is being development and executed. The scenario planners (de Geus, 1997; Schwartz, 1996; Van der Heijden, 1996) may argue that they are more closely aligned with the processualists because of their focus on internal processes, but they also view the organization very much as an organism, supporting alignment with the systemic approach.

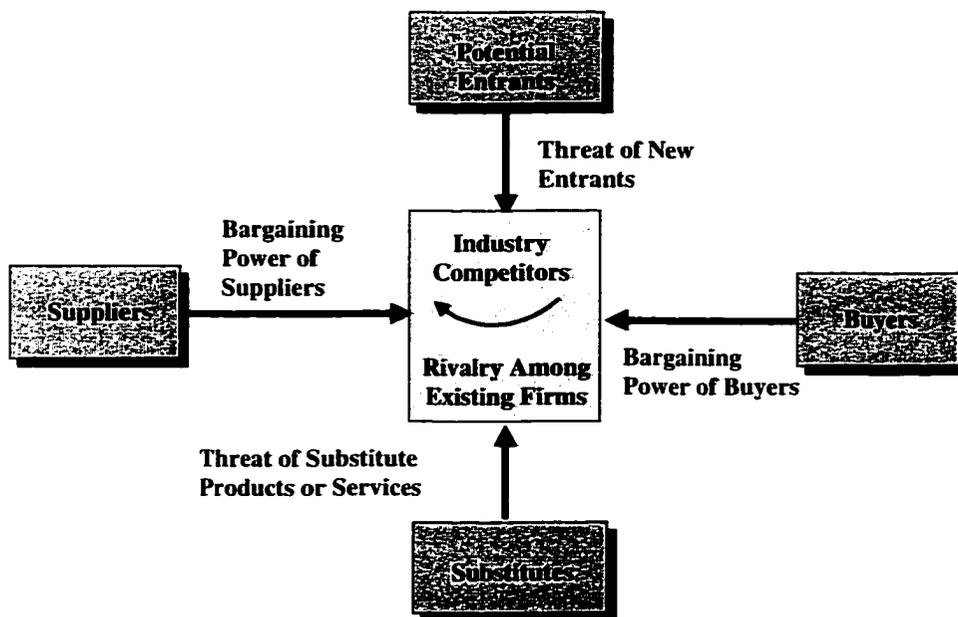
The following discussion considers how various strategy models differ given the theories outlined in the previous section.

### Competitive Strategy (Porter)

As mentioned above Michael Porter is the name most associated with strategy as a source of competitive advantage. The latest editions of his seminal work on competitive advantage and competitive strategy (Porter, 1998a, 1998b) build on his first works published nearly two decades earlier (Porter, 1980; Porter, 1985). Much of Porter's work

is built on an examination of the five forces driving industry competition: industry competitors, potential entrants, buyers, substitutes, and suppliers. This classic model shown in Figure 3 illustrates how a structural analysis of an industry or firm can be examined through the dynamics amongst these five forces.

Figure 3. Forces Driving Industry Competition



Source: Porter, 1998a

Porter proposes three generic strategies for coping with the five competitive forces. These strategic approaches can be used to successfully position oneself to outperform others in the industry through overall cost leadership, differentiation, or focus. Porter's work is based on the application of these strategic approaches to competitor analysis, and the strategic decisions that result from an understanding of the

structure and competitive forces within an industry. Ghemawat (1986) builds on Porter's models of strategic positioning and provides some guidelines for maintaining sustainable advantage. While recognizing that not all industries offer equal opportunities to sustain an advantage, Ghemawat noted "To create a sustainable advantage, you must either be blessed with competitors that have a restricted menu of options or be able to preempt them" (p. 58).

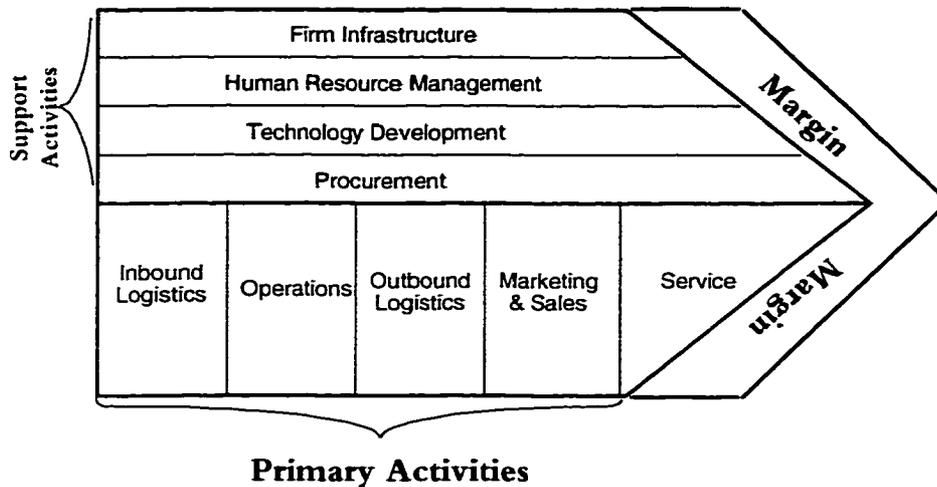
In Porter's work, once the structural analysis of the industry has been conducted and the organization has determined the generic positioning of their products and services, the organization can then align their energies around the strategy. In this model, as in many of the traditional strategy models, the human resource professionals are charged with the deployment of the strategy that results from this analysis.

#### Value Chain Analysis

Through the introduction of the Value Chain as a model for examining the collection of activities that are performed to design, produce, market, deliver and support an organization's product (Porter, 1998b), a case is made for human resource management as a key support activity in an organization's infrastructure. Figure 4 shows the generic activities and the differentiation between primary and support activities.

In this model Porter (1998b) defines human resource management as consisting of all the activities involved in recruiting, hiring, training, developing and compensating all of the personnel within an organization. In this model human resources management encompasses both primary and support activities. Interestingly, while noting that human resource management has a role in supporting the value chain Porter admits that the cost

**Figure 4. The Generic Value Chain**



Source: Porter 1998b

and benefit of this function are not well understood. "...the cumulative costs of human resource management are rarely well understood nor are the tradeoffs in different human resource management costs, such as salary compared to the cost of recruiting and training due to turnover" (p. 42). While admitting that it is difficult to accurately quantify the cost or benefits of human resource management, Porter understands that effective human resource management practices do affect the competitive advantage of the firm. While Porter's Value Chain is a useful tool for defining the activities that add value to a firm, it is also important to understand not only what part of an industry's value chain a firm operates in, but also the linkages that add value within the value chain of that firm. The

human resource management role is critical to adding value to the activities and as importantly, the linkages between the activities.

A number of authors address the impact that changes in technology and information have on vertically integrated value chains. Evans and Wurster (1997) propose several strategic implications of the changing economics of information.

- Existing value chains will fragment into multiple businesses, each of which will have its own source of competitive advantage.
- As value chains fragment and reconfigure, new opportunities will arise for purely physical businesses.
- When a company focuses on different activities the value proposition underlying its brand identity will change.
- New branding opportunities will emerge for third parties that neither produce a product nor deliver a primary service.
- Bargaining power will shift as a result of a radical reduction in the ability to monopolize the control of information.
- Customers' switching costs will drop, and companies will have to develop new ways of generating customer loyalty.
- Incumbents could easily become victims of their obsolete physical infrastructures and their own psychology. (pp. 79-82)

Given this one example on the impact of technology to an organization's value chain it can be seen that understanding the current value chain is not enough for strategic human resource development. To be truly strategic, human resource professional will

need to recognize those environmental signals which cause the current strategy to be vulnerable and participate as a partner in seizing the opportunities being presented by these shifts.

### Hamel and Prahalad

Hamel and Prahalad (1994) provided a challenge to Porter's approach to competitive advantage through an analysis of the forces driving competition in an industry. Hamel and Prahalad are most notably associated with two concepts linked to organizational strategy: strategic intent and core competence.

Strategic intent. Hamel and Prahalad (1989) challenged the limits of competitor analysis that focused on the existing resources of present competitors. Their criticism centered primarily on the fact that resourcefulness and new competitive advantages being built rarely entered into the process. To challenge this notion and integrate what they felt was missing from this approach they introduced the notion of strategic intent. Their definition for this term has two concepts, the first is that strategic intent "...envisions a desired leadership position and establishes the criteria that organizations will use to chart its progress" (p. 64). The second concept involves an active management process that includes:

...focusing the organization's attention on the essence of winning; motivating people by communicating the value of the target; leaving room for individual and team contributions; sustaining enthusiasm by providing new operational definitions as circumstances change; and using intent consistently to guide resource allocations.  
(p. 64)

This work challenged the existing strategic planning models, which were centered on the allocation of resources and maintaining strategic fit. Hamel & Prahalad also stressed the importance of a decentralized strategic planning process. Innovation is a key component underlying the premise of strategic intent and they noted that creative strategies are less likely to surface in an elitist planning process that only involves a certain level of management or a department such as corporate planning. While the concept of strategic intent is dependent on the engagement of individuals at all levels of the organization, it also requires that employees have the skills they need to work effectively on the target set by strategic intent.

Core competence. Prahalad and Hamel (1990) compare how managers were evaluated in the 1980's for their ability to restructure and delayer their organizations with the prediction that in the 1990's leaders will be judged by their ability to identify, cultivate and exploit their core competencies. Core competence as defined by the authors consists of the collective learning of the organization and are especially evident in how an organization coordinates diverse production skills and integrates multiple streams of technologies. The concept of core competence goes further to include the organization of work and the delivery of value, communication, and commitment. Another characteristic is that a core competence does not diminish with use. This distinction is built on the concept of the integration of knowledge work and human capital where the asset does not decrease in value with use. In fact competencies are enhanced and more valued as they are shared and applied throughout an organization.

The concept of core competence can be integrated with Porter's (1998b) value chain analysis and becomes a key component for a capabilities strategy, since the process in

initiated by concentrating on those elements that are a source of competitive advantage. Knowing how to identify core competencies is one step in the process. The second is understanding how those competencies provide access to markets and add a significant contribution to the perceived customer benefits of the end product. These two elements, and knowing how to make it difficult for competitors to imitate your strategy, are the drivers to competitive positioning. The key in implementing a strategy through an examination of core competencies is to recognize that companies participate at different levels of the value chain and they often operate in a different context with different resources. Collins and Montgomery (1998) note that what prevails in any strategy approach is the logic of internally consistent corporate strategies which are tailored to a firm's unique resources and opportunities.

### Capabilities Strategy

While Prahalad and Hamel (1990) discuss core competence as a combination of skills and technologies, there is a competing voice (Stalk, Evans, & Shulman, 1992) that claims that a combination of skills and technologies are not enough to understand competitive advantage. Stalk, Evans & Shulman introduce the notion of capabilities and differentiate the dimensions of capabilities and competencies.

Both concepts emphasize “behavioral” aspects of strategy in contrast to the traditional structural model. But whereas core competence emphasizes technological and production expertise at specific points along the value chain, capabilities are more broadly based, encompassing the entire value chain. In this respect, capabilities are visible to the customer in a way that core competencies rarely are. (p. 66)

Capabilities are business processes that are strategically understood. These processes deliver value to the customer, and can be demonstrated in the following dimensions: speed, consistency, acuity, agility and innovativeness (Stalk, Evans, & Shulman, 1992).

These authors propose a set of basic principles of capabilities based competition.

1. The building blocks of corporate strategy are not products and markets but business processes.
2. Competitive success depends on transforming a company's key processes into strategy capabilities that consistently provide superior value to the customer.
3. Companies create these capabilities by making strategic investments in support infrastructure that links together and transcends traditional SBUs and functions.
4. Because capabilities necessarily cross functions, the champion of a capabilities-based strategy is the CEO. (p. 62)

### Strategy Development

The models presented above outline some of the preeminent thinking in business strategy in the past two decades. Porter's models (1998a, 1998b) set the context for a process of identifying the competitive advantage presented through a strategic analysis. Hamel and Prahalad (1989, 1994) build on this analysis through an investigation of core competence and strategic intent. These authors provide a framework for understanding the application of a strategic approach. There are many other generic and not as well known approaches to strategy. A couple of these are presented here to illustrate the commonality found in many of these strategic planning approaches. This discussion will be followed by an update of the state of strategic planning that will range from Mintzberg's (1987, 1994a, 1994b) work to some recent thinking by Porter (1996).

Picken and Dess (1998) propose that successful strategies are built with an internal frame of reference that meets two tests of consistency “(a) the assumptions and premises must be consistent with the external realities of the competitive environment; and (b) they must be internally consistent with each other” (p. 44). They further proposed a strategic inventory that can be used to assess the strategy process for an organization. The following statements represent the key areas of that inventory:

- Defining the boundaries of the competitive environment
- Defining the key assumptions
- Is our assumption set internally consistent?
- Do we understand the relative importance of each of our assumptions?
- Are our key assumptions broadly understood?
- Do we have a process for reviewing and validating our key assumptions and premises? (p. 47)

What is outlined above is what traditionally has been considered the groundwork required to build an organizational strategy. There has to be an examination of the environment and the implications that each alternative will have on the organization.

Hamel (1996) sees strategy as revolution and notes that everything else is tactics. He provides ten principles that can liberate the revolutionary spirit and increase that chances that an organization can discover strategies that are truly revolutionary.

1. Strategic planning isn't strategic.
2. Strategy making must be subversive.
3. The bottleneck is at the top of the bottle.

4. Revolutionaries exist in every company.
5. Change is not the problem; engagement is.
6. Strategy making must be democratic.
7. Anyone can be a strategy activist.
8. Perspective is worth 50 IQ points.
9. Top-down and bottom-up are not the alternatives.
10. You can't see the end from the beginning.

Hamel sees the challenge for senior executives to be willing to encourage new perspectives, initiate conversations that span organizational boundaries, and then to synthesize the unconventional options into a strategic direction.

Differentiating strategy from operational effectiveness. While operational effectiveness and strategy are both essential contributors to organizational success they are not the same thing. This distinction is key to understanding the true purpose and intent of strategy and the application to the capabilities strategy that is being proposed in this thesis. Porter (1996) provides definitions for both of these concepts, which clearly illustrates their differences.

Operational effectiveness (OE) means performing similar activities *better* than rivals perform them. Operational effectiveness includes but is not limited to efficiency. It refers to any number of practices that allow a company to better utilize its inputs, by, for example, reducing defects in products or developing better products faster. In contrast strategic positioning means performing *different* activities from rivals' or performing similar activities in *different ways*. (p. 62)

Competitive advantage comes then from making deliberate choices to perform activities differently or to perform completely different activities than competitors. Porter (1996) goes on to say that having a unique position is not enough to sustain competitive advantage, as organizations must also make a number of trade-offs. These trade-offs arise for three reasons.

1. The first is inconsistencies in image or reputation. A company known for delivering one kind of value may lack credibility and confuse customer - or even undermine its reputation - if it delivers another kind of value or attempts to deliver two inconsistent things at a time.
2. Second, and more important, trade-offs arise from activities themselves. Different positions (with their tailored activities) require different product configurations, different equipment, different employee behavior, different skills, and different management systems.
3. Finally, trade-offs arise from limits on internal coordination and control. By clearly choosing to compete in one way and not another, senior management makes organizational priorities clear. Companies that try to be all things to all customers, in contrast, risk confusion in the trenches as employees attempt to make day-to-day operating decisions without a clear framework. (p. 68-69)

Strategy goes beyond strategic planning. It is important that we not get lulled into the false sense of security that participating in the development of the strategic plan necessarily leads to effective strategy development or execution. Hamel (1996) is very clear in declaring that strategic planning isn't strategic. In fact he makes an even stronger

statement by noting “The essential problem in organizations today is the failure to distinguish *planning* from *strategizing*” (p. 71).

Mintzberg (1987) goes so far as to challenge the use of the term strategic planning all together. He proposes using “crafting strategy” to bring forth images of skill and dedication, and a sense of perfection through mastering the details. In this context he also makes the point that “strategies can *form* as well as be *formulated*” (p. 68). Closely related to this principle he introduces a notion that he is frequently attributed with (Sanchez, 1997; Torraco & Swanson, 1995; Wall & Wall, 1995) that “strategies need not be deliberate—they can also emerge” (Mintzberg, 1987, p. 68). This concept will be addressed later in the discussion of the role of human resource professionals in the strategy process, but it is introduced here to demonstrate that in Mintzberg’s view effective strategies can show up in a number of places and through the most unusual means. Thus, the most effective strategies may not be made or planned.

In later writings Mintzberg (1994a, 1994b) discussed at length the rise and fall of strategic planning. In these works he criticized the traditional strategic planning process as often being really strategic programming. His clarification was to let managers know that strategic planning is not strategic thinking and in fact the planning process often inhibits the strategic thinking that is needed to develop truly effective strategies. The calculating style of planning is not a committed style and real strategic change requires the engagement of people throughout the organization who can embrace a forum for bringing forward their best thinking and awareness of customer needs.

Mintzberg (1994a, 1994b) challenges the proposition that strategic planning is strategy making and he offer three assumptions which underlie this fallacy:

- The Fallacy of Prediction
- The Fallacy of Detachment
- The Fallacy of Formulation

These assumptions undermine the strategy process by assuming that we operate in a static environment. To make strategy work the strategists have to engage in the real work of the organization and be constantly on the search for information and ideas. Finally, the strategy process should be ongoing and not conducted in an isolated process mandated by an artificial schedule.

### Using Scenario Building to Enhance the Strategy Process

During the past fifteen years, scenario building has surfaced and attracted attention as a methodology that enriches traditional strategic planning by guiding organizational leaders through a process that recognizes critical uncertainties and the complexity of the forces driving change (Georgantzis & Acar, 1995; de Geus, 1988; Drucker, 1986, Schwartz, 1996; van der Heijden, 1996, Wack, 1985a, 1985b).

Scenario building is a disciplined methodology for imagining possible futures in which organizational decisions can be played out (Schoemaker, 1995). The process engages organizational decision-makers in a series of inquiries and workshops in which an area of strategic uncertainty is examined and a set of scenarios are developed. Each scenario provides a narrative that include identification of (a) major organizational and environmental forces driving change within a system, (b) the interrelationships of these driving forces, and (c) the critical uncertainties in the future environment (Wack, 1985a). The use of scenarios in a strategic planning process is not a substitute for an examination of the external or internal environment, nor is it a stand-alone process (Schriefer, 1995).

Instead it provides a forum for discussion and dialogue around environmental assumptions and the alternatives for dealing with them.

Provo, Ruona, Lynham, and Miller (1998) proposed five key areas where the scenario building process provides an opportunity for human resource development (HRD) professionals to more fully engage in the strategy process:

1. Increased knowledge about the scenario building process can further leverage HRD professionals into an organization's strategic conversation.
2. HRD is integral to the success of any kind of action resulting from the scenario building process.
3. Scenario building is strongly connected to change management and learning applications with organizations, groups, and individuals.
4. HRD is in a unique position to further inform the theory and practice of scenario building through the application of HRD theories.
5. Scenario building can be explored as a methodology to help better articulate possible futures within the field of HRD.

### Summary

To understand how human capital can be leveraged as a strategic source of value for an organization it is important to first understand the models and theories that drive the organizational strategy process. This section addresses prevailing theories and models inherent in most strategic planning processes and introduced the involvement of human resources and the implications for human capital decisions throughout the discussion.

As a basis for understanding the strategy process four fundamental approaches to strategy were presented: classical, evolutionary, processual and systemic. The

implications of each approach are presented with the classical approach centered on a rational evaluation of ones environment; the evolutionary approach embraces a process that is more emergent than deliberate. The processual approach is much more dependent on the internal abilities of the organization; the systemic view takes the notion a step further by embracing a social systems approach. Each of these viewpoints has implications for the way that strategies are shaped and executed, the construct is presented to provide a framework for understanding the planning approaches that are presented in this section.

Perhaps the name most associated with the classic approach to strategic planning is Porter (1998a, 1998b). His initial work is built around an examination of the forces driving industry competition. He expands on this work through the introduction of the value chain as a model for examining the activities that are performed to design, produce, market, deliver, and support the organization's products. There is a human resource management component of this model which encompasses both primary and support activities. The underlying theory of the value chain is that it identifies activities that add value for the firm, and as importantly examines the links that add value within the chain.

Hamel and Prahalad (1994) are associated with two concepts which challenge Porter's work, strategic intent and core competence. These approaches are more internally focused and dependent on management's ability to focus the organization and exploit their core competencies. The core competencies are identified as the collective learning of the organization.

These prevailing approaches to strategy are recently being challenged by voices that support a capabilities approach to strategy. In differentiating between capabilities and

competencies, Stalk, Evans & Shulman (1992) note that capabilities are more broadly based, and encompass the entire value chain. They also argue that capabilities are much more visible to the customer as they are centered around business process which deliver value for the customer.

The evolution of thinking about strategy presents an interesting challenge for strategy development. The keys to strategy development are to define the boundaries within which the organization operates, understand the assumptions, and then synthesis the various options into a strategic direction. In doing this it is important to differentiate between strategy and operational effectiveness. Porter (1996) makes the clearest distinction by demonstrating that operational effectiveness is performing similar activities better than rivals perform them, while strategic positioning is performing different activities or similar activities in different ways.

To truly understand strategy it is important to know that the process does not end with the planning. In fact strategic planning in and of itself is often not strategic thinking. Mintzberg (1994a, 1994b) has been the most vocal in criticizing the strategic planning that takes place within many organizations. He also introduced the notion of crafting strategy and notes that strategies can be both deliberate and emergent.

The final element presented in this section is the use of scenario planning as a way to enhance the strategy process. This approach has the potential to move the strategy process from strategic programming to a comprehensive view of possible futures that recognize the critical uncertainties and the complexity of the forces driving change. This process allows the organizational leaders to leverage the traditional approaches to

strategy in a way that allows them to construct scenarios for how they might react given challenges and opportunities presented in the future.

A review of strategic planning models and theories is presented in the literature review to set the stage for the development of a strategy process based on an examination of organizational capabilities. Traditional models and theories will be utilized in this approach. An understanding of the external and internal environment and the value chain is the key starting point for a capabilities strategy. Since the primary interest of this study is the human resource implications that result from a capabilities based strategy, the next section will review the role that the human resource function currently plays in the strategic planning process.

### **Strategic Human Resource Management and Development**

Research has been done to provide a framework for the inclusion of the human resource professionals in the organizational strategy process. This involvement can take many forms. This next section is intended to highlight some of thinking around the role of human resource management and development in the organizational strategy process.

#### **Strategic Human Resource Management**

(Tichy, Fombrun, and Devanna, 1982) made a case that the long-run competitiveness of American Industry was dependent on human resource management being more involved with strategy as a way of improving organizational performance. These authors proposed that there were three elements necessary for firms to function effectively:

- **Mission and Strategy**
- **Organization Structure**
- **Human Resource Management**

This work also identified the human resource management links to strategy and structure, and segregated the human resource activities to differentiate between those that were operational, managerial, and strategic. While this publication did a great deal to advance the conversation of strategic human resource management, the driving force was to link human resource functions to the line organization. While there may be organizations in which simply improving alignment will enhance the role of human resource management, this approach seems to be what Porter (1996) refers to as an operational efficiency and not true strategy. Nonetheless, this was a key piece of literature and one of the first to differentiate the different levels of human resource activities. This differentiation was a progressive step for strategic human resource management. While the disciplines of finance and marketing have differentiated between the tactical, professional and strategic, there does not appear to be consensus on how the human resource profession should be stratified. Table 2 is an attempt to integrate Tichy, Fombrun, and Devanna's (1982) management levels with the disciplines of Finance and Marketing. This differentiation is supported by Boudreau and Ramstad (1997), who use this comparison to address issues that arise from the measurement focus traditionally employed in these disciplines.

The differentiation for Finance and Marketing are based on the distinctive competencies and outcomes at each level. For example in Finance the most tactical role is Bookkeeping, which is fundamentally a process for keeping track of things. In this role the primary responsibility is to maintain a ledger of transactions. Moving along the continuum of the profession is the Accounting role. This section has been labeled, professional, to demonstrate that there are standards which govern this practice. These

Table 2

Comparison of the Differentiation in the Roles of the Finance, Marketing, and Human Resource Disciplines

<b>Tactical</b>	<b>Professional</b>	<b>Strategic</b>
Bookkeeping	Accounting	Finance
Order Taking	Sales	Marketing
<i>Operational HR: Day-to-day management</i>	<i>Managerial HR: Allocation and Availability of Resources</i>	<i>Strategic HR: Policy Formulation &amp; Goal Setting</i>

standards also allow for the reporting consistency needed to compare one organization to another. Accounting builds on the discipline of bookkeeping, but goes beyond the role of keeping track of things to actually using that data to surface trends, patterns, and deviations in the data, which can provide useful insight to the organization. The strategic function on this continuum is Finance, which is dependent on a system of keeping track of things and an accurate reflection of what has taken place in the past, to make some strategic and predictive decisions about the future.

Marketing is very similar in that there is a very tactical process for selling the goods that people are ready to buy and a strategic approach to building a market for products that will appeal to the customer. At the tactical level there is catalog distribution and order taking. Sales is a profession with a number of strategies for price and promotion to ensure that items that have been produced can be sold in the market place in a manner which optimizes revenues. Finally, marketing goes beyond the order taking and sales

function to investigate what the customer may want to buy in the future and how the organization can best position itself to attract and meet that demand. The strategic role of marketing, like that of finance, is predictive.

In both the Finance and the Marketing professions there is a clear distinction of roles and each level is dependent on competency in the others. It is a struggle, for example, for an organization to build strategic assumptions for Finance without a good Accounting system that can provide an understanding of how past decisions have impacted the firm.

While there is debate among human resource academics and professionals regarding the tactical, professional, and strategic roles of the profession, there does not appear to be a well recognized differentiation. Some distinction can be drawn between human resource management and human resource development, but even this does not provide a consistent understanding amongst all parties. There have even been typologies proposed which provide a framework for aligning the management of human resources with corporate growth expectations and organizational readiness (Lengnick-Hall & Lengnick-Hall, 1988). The lack of a common differentiation framework, language and measurement effectiveness criteria may be due in part to the relative immaturity of the strategic nature of the field. The organizational application though, is that the human resource function will struggle to be a strategic player in an organization that is unable to differentiate between the distinctive human resource roles.

Ulrich (1998) purports "Successful organizations will be those that are able to quickly turn strategy into action; to manage processes intelligently and efficiently; to maximize employee contribution and commitment; and to create the conditions of seamless change" (p. 127). The human resource implications of these conditions requires strong

participation by the human resource professional in not only the deployment and execution of strategy, but more critically in partnering in the development of strategy to ensure that the human capital implications are leveraged for organizational advantage. Mills (1985) supports the business criticality of using human resource planning to link human resource strategy to business objectives as noted in point three below:

...the most important development in human resource planning is not the creation of many elements but rather their integration into a decision-making process that combines three important activities: (1) identifying and acquiring the right number of people with the proper skills, (2) motivating them to achieve high performance, and (3) creating interactive links between business objectives and people-planning activities. (p. 105)

There is growing evidence that HR is moving toward a more influential role at the point of strategy formulation and developing the theory and skills to add a unique perspective to the strategy process (Swanson, Lynham, Ruona, & Provo, 1998; Torraco & Swanson, 1995).

### Strategy Driven by Human Resource Professionals

Probably one of the most vocal writers on the need for human resource professionals to become active partners in the strategy process has been Dave Ulrich (1997). He bases the case for a more strategic HR function on eight competitive challenges facing organizations:

- Globalization
- Value chain for business competitiveness and HR services
- Profitability through cost and growth

- Capability focus
- Change, change, and change some more
- Technology
- Attracting, retaining, and measuring competence and intellectual capital
- Turnaround is not transformation

Ulrich (1997) sees these challenges as redefining competition and the ability to add value to customers in unique ways. Looking at the HR profession as systems and processes, as well as the function or department, Ulrich challenges HR professionals to focus more on the deliverables of their work. This focus requires an articulation of their role in terms of value created. To further his position that HR professionals must be true strategic partners Ulrich put forward the following tasks that must be performed by HR professionals.

- They must establish an organizational architecture and be able to use it to translate strategy into action.
- They must learn to perform effective organizational diagnosis by asking good questions and generating creative and apt alternative practices.
- They must be able to set priorities for initiatives and then follow through on them.

(pp. 80-81)

In response to a growing frustration about the serious and widespread doubts about HR's contribution to organization performance, Ulrich outlined four ways that HR can help deliver organizational excellence.

- First, HR should become a partner with senior line managers in strategy execution, helping to move planning from the conference room to the marketplace.
- Second, it should become an expert in the way work is organized and executed, delivering administrative efficiency to ensure that costs are reduced while quality is maintained.
- Third, it should become a champion for employees, vigorously representing their concerns to senior management and at the same time working to increase employee contribution; that is, employees' commitment to the organization and their ability to deliver results.
- And finally, HR should become an agent of continuous transformation, shaping processes and a culture that together improve an organization's capacity for change. (pp. 124-125)

Mintzberg (1994) proposes a framework for strategic planners that may provide insight to the human resource professionals looking to engage in the planning process. He defines these role for planners as being, strategy finders, analysts, and catalysts.

Building on the work presented by Ulrich and Mintzberg there are several ways for HR leaders to engage in strategy development for their organizations. One of the most important roles for HR professionals is to use the human capital lens as a way to validate strategy. Pfeffer (1998) expands on the criticality of having the right strategy "senior managers of the most successful firms, worry more about their people and building learning, skill, and competence in their organization than they do about having the right strategy" (p. 5).

## Summary

Simply understanding strategy models and theories is not enough to propose a strategy process that leverages human capital and can be driven by human resource professionals. First, it is important to note the role that human resources historically have played in the strategic planning process and also to impose a differentiation of the human resource roles similar to that embraced by other support functions such as, finance and marketing. This section reviews the concept of strategic human resource management and presents the argument for a strategic process that engages human resource professionals.

Tichy, Fombrun, and Devanna (1982) were the first to differentiate among the various roles for strategic human resource management. They segregated human resource activities into those that were operational, managerial and strategic. This may have been the first attempt to differentiate between the roles of HR similar to the way that other disciplines have defined their various roles. The models presented in this section propose the use of the terms tactical, professional and strategic to differentiate between the various levels of activities that are performed by HR professionals. To provide a comparison, the disciplines of finance and marketing are segregated along this same continuum. The differentiation is based on the distinctive competencies and outcomes at each level. Strategic HR requires participation by the HR professionals on not just the alignment and execution of strategy, but more critically in partnering in the development of strategy to ensure that human capital implications are leveraged.

To take this concept a step further it can be proposed that since human capital is the biggest source of competitive advantage in a knowledge economy, the organizational

strategy should be based on an assessment of capabilities and driven by the HR professionals. This is certainly a leap from the role that most HR professionals play at the present time. Ulrich (1997) is one of the more vocal proponents of HR professionals becoming active partners in the strategy process. He encourages HR professionals to articulate their role in terms of value created for the organization and in doing so to become true strategic partners. There are several ways to initiate this partnership and the first may be to use the human capital lens as a way to validate the current organizational strategy.

The next section of the literature review will focus on the measurement systems used for assessing the effectiveness of human resource practices. If HR professionals are to become more active partners in the strategy process they will need valid measurement models which appropriately account for the value of human capital.

### Measuring Human Resource Management and Development

The need to provide an evaluation component of the human resource interventions is increasingly becoming necessary for HR professionals (Holton, 1996; Swanson, 1998). This next session reviews the case for measurement, provides evidence that investments in HR add value for the firm and summarizes various measurement methodologies.

#### The Case for Measurement

Holton (1996) stated that in order for results to occur a human resource intervention must be “linked with organizational goals (ability), have utility or payoff to the organization and the individual (motivation), and be subject to influence factors outside HRD (environment)” (p. 15). Previous sections on strategy addressed the first and third

items on Holton's list; this section will focus on the utility and payoff identified in his second element.

It is becoming increasingly difficult to participate as a strategic business partner within an organization without demonstrating the value that is generated through investment in the assets that you manage. In the case of human resource professionals that asset is people, an asset long thought to be immeasurable. There is a need for the development of HR measurement systems that accurately demonstrate the value of investment in HR initiatives. Walker and Bechet (1991) say that human resource staff functions need to measure both efficiency and effectiveness. They note "Efficiency addresses the relationship between key results and short term human resource activities. Effectiveness addresses the relationship between key results and longer term issues and strategies" (p. 235). They further identify that effectiveness is the extent to which human resources support long term business planning and strategies. Their caution is that efficiency may not be the goal of the human resource function. They provide an example, "An 'efficient' source of new hires (defined in terms of cost per hire) may indeed be quite ineffective when many of the employees that are hired do not stay with the organization for an adequate length of time" (p. 243). Becker and Gerhart (1996) prefer the use of effectiveness measures that have natural, meaningful metrics, but they caution the use of HR measures at the corporate level. In their view HR practices differ substantially across the business units and facilities and aggregate measures may lose some of their meaningfulness. Boudreau and Ramstad (1997) note that while HR processes have evolved from administrative activities to those having strategic significance, we have not seen a corresponding human resource measurement system.

Gray (1986) echoes the support of strong information systems, noting that it is difficult for a strategic planning system to reach its full potential without support of the appropriate control systems.

#### Evidence that a Focus on Human Resources Adds Value

In a review of the theory and practice of demonstrating the financial benefit of human resource development Swanson (1998), summarizes a number of HRD studies that demonstrate how focused and systematic HRD interventions can lead to positive returns. Delery & Doty's (1996) study also shows strong relationships between individual HR practices, such as profit sharing, results-oriented appraisals, and employment security and important accounting measures of performance. Delaney & Huselid's (1996) study suggests "that progressive HRM practices, including selectivity in staffing, training, and incentive compensation, are positively related to perceptual measures for organizational performance" (p. 965). These and other studies begin to make the case for investments in HRD. The two studies summarized below are cited frequently (Gubman, 1998; Pfeffer, 1998) as solid evidence that investments in HR lead to enhanced financial results for the organization.

Welbourne and Andrews. The study by Welbourne and Andrews (1996) captured considerable of attention in that it showed that an investment in human resources was a predictor of long-term survival and viability for organizations. The study focused on 136 non-financial companies that made their initial public offering (IPO) in 1988. These companies were evaluated to determine the extent to which they considered their employees to be a source of competitive value. The prospectus for each of these companies was examined and coded using the following items.

1. The company's strategy and mission statements cited employees as a competitive advantage.
2. A training program for employees was mentioned.
3. An officer with responsibility for human resource management was listed.
4. The extent to which full-time rather than temporary or contract employees were used.
5. The employee relations climate.

These documents were also examined to determine if organization-based compensation programs (stock options and profit sharing) were available for all employees or only management.

The results of this study showed that while the companies that valued human resources were initially valued lower at the time of the IPO, those same companies had much higher values and survival rates five years later than those that did not recognize the value of human resources. The results are significant for two reasons: 1) this study clearly relates investments in people to organizational success and survival, 2) the financial valuation systems failed to recognize the value of investments in human resources and saw only the costs. It is this second point which surfaces the disconnect between what the financial statements reflect and the true value of an organization. The analysts who were conducting the valuation process to determine the initial IPO price saw employee profit sharing plans as a drain on the returns that could accrue to the stockholder's thus the market reacted negatively to firms using their capital for employee reward programs. The analysts were unable to account for the benefit that these policies would have on the efficacy of these organizations and so they submitted a lower

valuation for these companies. In examining these companies five years after the IPO, the researchers found that, “a firm that has a high level of human resource value and a high level of organization-based employee rewards boosts its chance of survival to .92” (p. 911).

Huselid. Huselid’s (1995) study was designed to be a comprehensive evaluation of the links between systems of high performance work practices and firm performance. In this study high performance work practices included comprehensive employee recruitment and selection procedures, incentive compensation and performance management systems, and extensive employee involvement and training.

Nearly 1000 firms participated in the study by submitting a questionnaire that had been mailed to the senior human resource professional in each of the firms. The results indicated that high performance work practices are shown by firms to lower employee turnover and result in greater productivity and corporate financial performance. In fact in this study the magnitude for returns on investments in high performance work practices was substantial. “A one-standard-deviation increase in such practices is associated with a relative 7.05 percent decrease in turnover and, on a per employee basis, \$27,044 more in sales and \$18,641 and \$3,814 more in market value and profits, respectively” (p. 667).

This study is currently being replicated by other researches to see if the results can be substantiated. While future researchers may find varying results in the financial performance associated with these practices, this study initiated that further research and broke ground by demonstrating that effective human resource practices can increase the value of the firm.

## Beyond Evaluation

Evaluation techniques for many years have relied on the four levels proposed by Kirkpatrick (1994): reaction (satisfaction), learning results, changes in behavior (transfer), and organizational performance. In many cases, unfortunately, the evaluation of a human resource initiative rarely went beyond the first level. Increasingly organizations are expressing an interest in evaluating the organizational results that can be demonstrated by an investment in human capital. The organization may proclaim that people are their most important asset, but that doesn't mean they aren't interested in the return generated for an investment in that asset.

Kaufman & Keller (1994) suggest that evaluation techniques are often underutilized and inappropriately applied in organizations. They identify three reasons for this:

1. the most-used definitions and models of evaluation often are too restricted,
2. we do not ask the right questions for evaluation to answer, and
3. the relationship between ends and means is not made clear in the evaluation, planning, and implementation process. (p. 371)

They propose modifications to Kirkpatrick's four-level evaluation model to include the consideration and determination of the value and worth of resources, and an added level, which deals with the impact and consequences in, and for, society. They also support the extension of the evaluation model to organizational interventions beyond training.

Phillips (1996) model of evaluation gets right to the issue of effectiveness and performance. The three levels of evaluation in his model are:

1. Measures of Perceived Effectiveness
2. Measures of Performance

### 3. Measures of Return on Investment (p. 60)

While there are few human resource professionals who would question the need to measure beyond perceived effectiveness, there is little agreement and very few step by step guides that show how to measure performance. While human resource professionals readily grasp the concept, there is not a clearly understood approach to demonstrating this value. The mistake that some organizations make is in trying to apply financial ratio analysis and measurement models to human resource initiatives. A discussion of the problems arising from using these models and in particular the Return on Investment (ROI) methodology will be presented in the following sections.

#### Cost – Benefit Analysis

Swanson and Gradous (1988) presented a model and method for forecasting HRD outcomes for business and industry in dollars and cents. Their basic HRD benefit-forecasting model and the methods that were introduced consisted of the following components: “(1) the *performance value* to result from the HRD program, (2) the *cost* of the HRD program, and (3) the *benefit* resulting from the HRD program” (p. 21). While this approach was relatively simple and straightforward it does provide focus on the performance value as the key component in financial benefit forecasting.

Cascio (1987) uses the term cost accounting to refer to his cost-benefit approach to HR analysis. He recognizes as Swanson & Gradous (1988) do, that performance is a key factor. Cascio introduces the use of a performance ratio to measure individual productivity. He also introduced the Cascio-Ramos estimate of performance in dollars (CREPID) model to value an increase in productivity for an individual. The approach

assumes that the employee's salary is an economic value of the employee's labor. The analysis is described as follows:

CREPID breaks down each employee's job into its principal activities, assigns a proportional amount of the annual salary to each principle activity, and then requires supervisors to rate each employee's job performance in each principal activity. The sum of the dollar values assigned to each principal activity equals the economic value of each employee's job performance to the company. (p. 182)

The measure represents the performance value and any investment in improving performance could be measured against the cost incurred in increasing that level of performance.

Jarrell (1993) notes that cost-benefit and utility analysis are used most often to evaluate human resource procedures and programs. But he warns, "Using cost-benefit analysis alone, it is difficult to determine or obtain precise estimates of human resource costs and usually impossible to obtain precise estimates of human resource benefits" (p. 239). However, he goes on to say that precise estimates of costs and benefits are not always necessary where the evaluation is intended to support the planning process. Approximate estimates are useful for allowing comparisons among several alternative programs, increasing planners' awareness of the costs and benefits, and in revealing hidden costs and benefits and improving the ability of planners to judge value.

#### Return on Investment (ROI)

Phillips (1996) calls ROI analysis the "ultimate level of evaluation" (p. 61) in the evaluation of the actual return in a HR program. His discussion of when to use ROI illustrates that a measure of this type is not always appropriate. In fact in a table

developed to provide guidance on when to use the ROI approach there are only two areas where he finds the use of ROI calculations to be highly appropriate. Those two human resource functions are in Safety and Health and Productivity/Quality Improvement (p. 301). The conclusion that can be drawn by human resource professionals is that unless they manage or contribute to the effectiveness of either of these two functions they are unable to apply the “ultimate level” of evaluation to their programs.

Swanson (1998) cited several early HRD financial studies that used the ROI approach to demonstrate the value of HRD interventions. He noted that these studies “...demonstrated that HRD imbedded in a purposeful performance improvement framework -- and systematically implemented -- yielded very high returns on investments, an ROI of eight to one or more in a year or less” (p. 289). These results are indeed impressive and demonstrate the clear value of HRD interventions. Unfortunately, in the financial world high returns are associated with high-risk projects (Brigham, Gapenski, & Ehrhardt, 1999), and the reporting of high ROI’s reinforces the perception that investments in HRD programs are risky.

Fortunately, there is an approach that is more inclusive. Rather than scramble to develop the financial projections that are required to calculate the ROI, the Return On People™ (ROP) approach introduces a concept called threshold ROI (Provo & Neumann, 1998). This method provides an alternative approach for human resource professionals. First, it discourages the presentation of a definitive ROI percentage. As mentioned above high ROI’s are associated with high levels of risk. Investments in human resources are

typically small relative to the benefits received and the reported ROI's do little more than signal management that the investment is risky.

Second, the line managers are involved and asked to quantify their perceptions of what an increase in performance is worth to them. This process has been demonstrated to work even for highly skilled jobs where output has been difficult to measure. To demonstrate how this would happen; the ROP™ approach suggests a process where people who know the job well are asked to rank incumbents in a particular job. They are then asked to differentiate the performance of people who are in the top 75% vs. the bottom 25%. For a project manager the list of brainstormed differences may include such things as: does a better job of budgeting projects, delivers more work on schedule, works well as a team, mentors others, etc. For those items where there is consensus that there are differences in performance the managers are asked to quantify the value of these different levels of performance. There will naturally be a bit of disagreement around the exact value and it is safe to use the lowest numbers that are proposed. Totaling up the values assigned to these increased levels of performance gives the human resource professional the measure of impact that these jobs can have. By asking the finance department what the hurdle rate is for investment analysis the impact can be grossed up to cover that return requirement. That figure can then be divided by 1.3 (the level of a shift in performance by 1 standard deviation) to determine the minimum level of performance that is required to make this investment viable.

### Benchmarking

Benchmarking is a comparative measurement process for evaluating performance. It is a systematic and continuous process for measuring and comparing business processes

against process leaders within and outside of an organization. According to Watson (1993) “The purpose of strategic benchmarking is to sustain the long-term improvement of key business processes that provide for continuing competitive advantage for a company” (p. 79). He further describes benchmarking in terms of four principles.

- **Reciprocity:** The knowledge exchanged must be based on reciprocal relationships where both parties win.
- **Analogy:** Operational processes must be comparative or analogous to achieve the highest degree of knowledge transfer.
- **Measurement:** The objective of a measured performance comparison is to understand why varying degrees of performance exist and understand what contributed to higher performance.
- **Validity:** Valid data must be collected and used for process comparisons.

Fitz-enz (1993) strongly advocates the use of solid measurement data, but is less confident in management’s ability to perform quantitative analysis.

Benchmarkers need quantitative data with which to distinguish best practices from others as well as to measure the results of their efforts. Unfortunately, many business people in the United States are not strong in quantitative analysis. By taking a value-adding perspective and tracing the route from staff processes to customer value, they can generate the data needed and easily understand what it implies. (p. 55)

Benchmarking is fundamentally about adding value by investigating processes and making improvements based on comparative information. The external data gathered becomes a comparative indicator of performance. Measurement applies throughout the

process and Fitz-enz (1993) notes that benchmarkers need measurement for at least four reasons:

1. To know where they stand at the beginning.
2. To decide if a given process improvement might add value and how much value it might add.
3. To qualify potential benchmark partners.
4. To monitor and evaluate the results of the benchmarking effort (p. 73)

The use of benchmarking can aid an organizations assessment of business process and properly applied can enhance the strategy process by drawing attention to processes that truly are best in class. This awareness can be an important insight into what capabilities an organization may want to invest in and the identification of processes that may be performed better by others.

### Balanced Scorecard

Kaplan and Norton (1996) introduced the balanced scorecard as strategic management system that could be used to measure strategy and results over the long run. The balanced scorecard approach was somewhat unique in that it suggested that organizations need to move beyond management of financial indicators only and also include objectives, measures, targets, and initiatives based on the customer, internal business processes, and learning and growth. The organizational scorecard should highlight those processes that are most critical to improved performance over the long term, in all areas.

While the scorecard can be used as a measurement system, the authors point out that the real value comes from using the balanced scorecard as a management system. They show how this system can be used to:

- clarify and gain consensus about strategy,
- communicate strategy throughout the organization,
- align departmental and personal goals to the strategy,
- link strategic objectives to long-term targets and annual budgets,
- identify and align strategic initiatives,
- perform periodic and systematic strategic reviews, and
- obtain feedback to learn and improve strategy. (p. 19)

The balanced scorecard has two applications for HR managers. The obvious application from an organizational perspective is to determine what should be measured and managed in the learning and growth perspective. The authors suggest that their experience has surfaced three principal categories for this perspective:

1. Employee capabilities
2. Information systems capabilities
3. Motivation, empowerment, and alignment (p. 127)

The key in determining what to measure in each of these categories is to determine what performance objective will indicate alignment with business strategy and will contribute to the achievement of the objectives set for the financial, customer, and business processes.

A second application can be employed by the senior human resource manager in a large organization where human resource activities are decentralized throughout the organization. This can happen if the group is geographically dispersed or one when human resource professionals are resident in various divisions or aligned with particular products throughout the organization. An individual charged with the responsibility of managing and evaluating effectiveness in such a decentralized organization can use the balanced scorecard approach to measure the performance of one area against another and roll up results in such a way that provides insight into the performance of various human resource functions.

#### Cautions in the use of Financial Analysis Tools to Evaluate HR Programs

Early adopters of capital budgeting and financial accounting techniques to evaluate human resource programs were sharply criticized by Hunter, Schmidt, and Coggin (1988) who claimed in their view that "...many of these methods are often conceptually and logically inappropriate" (p. 522). Their skepticism and concern were driven primarily by the definition of utility and the translation of that concept to a financial analysis. Boudreau's (1983) early work on utility analysis presented one of the first applications for the use of capital budgeting as applied to such traditional human resource functions as selection and training. Boudreau believed that utility figures should be discounted and adjusted for variable costs and the taxation effect. His thinking resulted in a definition of utility as contribution to after-tax profits. While this early work broke critical ground in valuing human resource investments in a financial context, it can be difficult to apply a single utility model to every situation. While Hunter, Schmidt and Coggin (1988) were critical of the utility model and the application to HR investment decisions, they were

later challenged by Cronshaw and Alexander (1991) who argued that capital budgeting theory can be a useful framework for demonstrating the utility of human resource programs. Cronshaw and Alexander encouraged practitioners to use the utility analysis models and supported the use of capital budgeting techniques that rank investment alternatives. They supported providing capital budgeting analysis of HR programs to organizational decision makers as a means of identifying relevant investment decisions. This debate is central to the issue of whether financial measurement techniques are appropriate in the measurement of human resources.

Parsons (1997) lists the benefits and limitations of using financial analysis tools to evaluate human resource development programs. Her list of advantages follows:

1. These tools help HRD practitioners to look at their programs through customers' eyes and to ask strategic questions.
2. These tools guide practitioners in talking with other stakeholders about their programs.
3. HRD financial analysis tools provide a rationale way of making decisions.

While the application of financial models may provide some comfort in being able to demonstrate value in dollar terms, the measures are often misapplied. Parsons (1997) recognizes this factor in identifying the limitations of using financial models:

1. These tools are unidimensional, in that they only capture aspects of performance that can be translated into dollars and cents.
2. HRD financial analysis tools have difficulty measuring aspects of performance where the feedback between action and effect is not immediate or direct.
3. The analysis is only as useful as the information and values on which it is based.

Her third point is true of most any analysis, although the values associated with people may understandably be more of a factor than the values associated with a capital asset. The outcome of a financial analysis for a human resource intervention is often a cost benefit analysis where the responsibility for justifying the assumptions falls back to the human resource managers to defend. This propose - defend trap is a sure way to frustrate the human resource professional and the line managers. The key is in demonstrating the value of investments in capabilities in a way that the line managers can understand and believe.

Drew (1996) notes that "...direct transfer of financial models to management of knowledge is limited in scope, presents conceptual difficulties, and if implemented could result in poor quality, over-simplified decision-making" (p. 13). In their discussion of the historical limits of financial measurements Boudreau & Ramstad (1997) expound on the danger of simply applying financial accounting measures to human resources. They remind us that accounting systems were developed over 500 years ago to be used as an internal management control device. The direct application to HR would be the development of a measurement system that was primarily used by decision-makers within the HR function. This is the activity monitoring function of HR that provides insight on the efficiency of HR by measuring cost per hire or turnover rates, but does not provide insight into the impact that HR practices have on the competitive positioning of an organization.

#### An Alternative Human Capital Measurement Approach

"The key to financial accounting is the consistent application of accounting rules producing comparable information across organizations" (Boudreau & Ramstad, 1997, p.

350). Given this rationale, it is a short leap to supporting the notion that HR measurement could be used much the same way where certain HR practices could be evaluated across organizations or even across divisions in a decentralized organization. Human resource managers need a set of measures that appropriately account for the return on their assets, people. Boudreau and Ramstad (1997) use the differentiation between accounting and finance to differentiate between the professional and strategic applications of HR measures.

HR measurement systems should focus beyond simple descriptions of past activities, similar to traditional accounting. They should not be satisfied with measurement systems that merely satisfy regulatory requirements. Instead, HR measurement should adopt a predictive perspective, similar to finance. (p. 351)

Boudreau & Ramstad (1997) are also clear in their recommendations for applying lessons learned from financial history to the strategic role of human resources. They note that it is critical to establish linkages between business needs and HR processes and to understand constraint analysis as a way of developing appropriate and useful measurement systems. Specifically they recommend that HR professionals:

- *Build on the value chain.* One way for HR to be a “business partner” is for HR managers and their constituents to truly understand the value chain and what it reveals about key constraints.
- *Search for constraints.* For HR measures to create change, they must identify and alleviate critical constraints.
- *Use data models even if the data are imperfect.* Both financial measurement and marketing measurement do not require perfectly objective information. In fact,

their evolution shows that they began with very imperfect data, but with very coherent models of the value linkage. (pp. 352-353)

The proposed process to improve the likelihood that human resource initiatives are funded appropriately will be applied to the case study used for this thesis. The approach developed by the Return on People™ Practice area (Ramstad, 1988) provides the business case context and tools to enhance the role of human resource professionals as strategic partners. The approach encourages human resource professionals to focus on the impact of human capital investments, not simply efficiency and effectiveness. These concepts are incorporated into the PeopleSCOPE™ Human Capital Framework discussed in the next section.

#### PeopleSCOPE™ Human Capital Framework

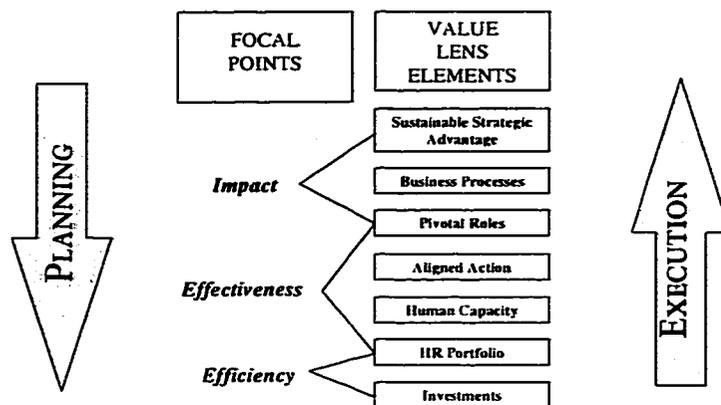
The Return On People™ approach has been incorporated into a framework for the purpose of aligning an organization's human resource interventions in a way that increases the firm's value. This framework can also be used to analyze the human capital implications of the firm's strategy, or to build an organizational strategy that leverages human capital. This framework has been used in a number of workshop settings and to a limited extent in the development of HR strategies for specific organizations. However, it has not been used to date to develop a capabilities strategy for an organization.

The framework first appeared in the literature as the *PeopleVantage Model of Strategic Human Resource Management* (Boudreau, 1998). The model was further developed and positioned primarily as a way to convey the synergy between organizational strategy and human capital investment (Boudreau & Ramstad, 1999a). The resulting framework, the PeopleSCOPE™ Human Capital Framework can be seen in

Figure 5. While initially a model to link HR metrics in a way that increases their strategic impact to the organization, the implications for strategic positioning based on capabilities can not be ignored.

That framework presents a process whereby an organization can analyze the effective deployment of capital by looking at how investments in HR activities contribute to the increased capabilities, opportunity or motivation necessary for aligned action in pivotal roles. The investment is only truly strategic, if in addition to efficiency and effectiveness the interventions are focused on improving the business processes that lead to sustainable strategic advantage.

Figure 5. The PeopleSCOPE™ Human Capital Framework



SOURCE: Boudreau & Ramstad, 1999b

To provide further insight into the potential applications of the PeopleSCOPE™ Human Capital Framework it is helpful to understand the intended use and also the process that a researcher or practitioner would undertake to uncover the key human capital implications. The framework is intended to build line of sight from an

organization's people to the specific elements of competitive advantage. The framework builds on business strategy, value creation, financial analysis and strategic human resource management to analyze economic value through the human capital lens (Boudreau & Ramstad, 1999b).

At each level of the framework questions are asked of the organization, which are intended to uncover the human capital implications of the strategic positioning. The key capability questions that are asked at each level of the framework are presented in Table 3. The incorporation of the questions into the framework as presented by Boudreau and Ramstad (1999b), can be found in Appendix A. These questions were developed by to facilitate a discovery process that could be lead by the Human Resource function or initiated at various levels within the organization where human capital constraints affect strategy execution. The first two elements are primarily focused on the organization strategy while the following five begin to delve into the human capital implications of the organizational strategy and key business processes.

This framework allows for an examination of the perceptions of the impact that capabilities can have on the accomplishment of strategic objectives. There is also an opportunity for HR leaders to analyze the human capital implications of a given organization strategy. The framework can be used to move the HR focus from one of efficiency and effectiveness to a concentrated effort to look at HR investments that have a financial and strategic impact on the organization. The application of this framework to identifying and analyzing human capital issues that are affecting key business processes is fundamental to the ability of the organization to sustain strategic advantage. This perspective changes the approach that HR professionals use in proposing investment HR

Table 3

Capability Questions Asked for Each Value Lens Element of the PeopleSCOPE™ Human Capital Framework

<b>Value Lens Element</b>	<b>Primary Capability Question</b>	<b>Secondary Capability Questions</b>
Sustainable Strategic Advantage	How do we compete?	What unique value do we create within this industry? What value chain elements are critical to success? How do we generate returns from the value created?
Business Processes	What must we execute well?	How do our processes link to the value chain? How does our network of processes create: sustainability, synergy, and advantage?
Pivotal Roles	Which talent pools make or break key business processes?	Affect the critical constraints. Build and protect the strategic resource. Variance in performance has the greatest strategic effect.
Aligned Action	What employee behaviors make the biggest difference?	What are the moments of truth? Which behaviors most affect business processes? Which behaviors most affect key constituents?
Human Capacity	What people elements must exist? (COM)	Capability-Can they do it? Opportunity-Do they get the chance? Motivation-Do they want to?
HR Bundles	What work practices support high performance?	Staffing Development Compensation Organization Design Succession Planning Communication
Investments	How do we allocate scarce resources?	Money HR Staff Employee time HR Influence Leadership Attention

initiatives. The change is one of moving from proposing and defending HR initiatives (often on the bases of an ROI or cost-benefit analysis) to showing how an investment in HR contributes value to the organization. The HR professionals can then present the business case for HR investments that is directly linked to attaining sustainable strategic advantage for the organization.

There is a great deal of research yet to be done on the application of this framework, particularly in the area of developing a capabilities strategy from the human capital perspective. While the framework is illustrative in presenting HR initiatives in a strategic and disciplined approach, there has not been a complete case of its application within an organizational setting. This framework will be used to guide the research described in the next chapter, where the researcher is proposing the development and application of a protocol for developing a capabilities strategy for a particular organization.

### Summary

It is difficult to participate as a strategic business partner without demonstrating the value that is generated through investments in the assets one manages. The challenge for HR professionals is to demonstrate the value of investments in an asset, people, which has long been thought to be immeasurable. Measurement of human capital investments needs to consider effectiveness, efficiency and impact.

There is growing evidence that investments in HR interventions can yield a financial benefit to the organization beyond just the efficiencies of doing something faster or reducing cost. Swanson (1998) summarizes a number of studies, which demonstrate how focused and systematic HRD interventions lead to positive returns. Welbourne and Andrews (1996) showed that an investment in human resources was a predictor of long-

term survival and viability in their study of firms five years after their initial public offering. Huselid (1995) provides a comprehensive evaluation of the links between systems of high performance work practices and firm performance. These studies are important groundwork in looking at HR investments as value adding, not just cost reducing.

One of the challenges toward understanding the value generated by HR investments is the current evaluation systems used by HR professionals. If investments in human capital are going to be seen as increasing value for the firm, the evaluation systems need to go beyond Kirkpatrick's (1994) four levels. Phillips (1996) proposes three levels of evaluation that include effectiveness, performance, and return on investment, but there is little in the way of a concrete application of these measurement systems to most HR interventions.

Two other ways that organizations attempt to measure their HR practices are through the use of Benchmarking and the Balanced Scorecard. Benchmarking provides a systematic and continuous process for measuring and comparing performance against others within and outside of the organization. It is fundamentally about adding value by examining business processes for the purpose of making improvements. The balanced scorecard approach can be used as both a measurement and management system. The applications to HR managers is to obtain an organizational perspective on what should be measured in the category of learning and growth, one of the four areas measured by the scorecard. The second application is in a decentralized HR function where the senior HR manager wants to compare HR practices across the organization.

Human resource professionals should be cautioned against the application of financial accounting techniques to evaluate their initiatives. Financial techniques were developed to ensure maximum returns on capital, which for decades has been considered the scarcest resource in an organization. Today the scarcest resource is human capital and measurement systems that optimize capital and not people will result in the misapplication of resources. One of the biggest cautions is in the use of Return on Investment (ROI) analysis. To the financial analyst a high ROI signals a high-risk investment. Studies and analysis that show the high ROI of HR investments only further the organization's assessment that investments in people are risky.

Given the inconsistencies and the limitations of the measurement practices presented in the literature review, this study will embrace an emerging approach being developed by Personnel Decisions International (PDI). The Return On People™ approach is a systematic way of examining investments in HR practices in a way that distinguishes between the efficiency, effectiveness and impact of these investments. This approach has been further refined through the development of the PeopleSCOPE™ Human Capital Framework, which integrates the human capital implications into the examination of organizational strategy. While this approach has a certain level of face validity in the presentation of a logical and clean approach to linking HR investments to organizational strategy, the process has not been comprehensively applied in an organizational setting. This framework will guide the application and evaluation of the research that is being proposed for the development of a capabilities strategy.

## Conclusions of the Literature Review

The literature review focused on four areas essential to the development of an organizational capabilities analysis through the human capital lens. The research yielded perspective and insight that will ground the research question and methodology which follow. The research concentrated on:

- The definition and understanding of *human capital*
- Fundamental models and theories driving *organizational strategy*
- The application and expectations for *strategic human resource management and development*
- The criticality of applying appropriate *measurement systems* to the application of human resource management and development

Key findings in this research will be summarized and synthesized here to set the context for the resulting research question that will ground this study. The concept of human capital surfaced a number of issues critical to this study. It is essential to note first however, that human capital is only one component of the much larger framework of intellectual capital. This study will incorporate only what is understood to be human capital, acknowledging that there are similarities between human capital and other components of intellectual capital. The study of human capital and the unique characteristics of this asset, which demand that it be treated differently than other organizational assets, is the foundation on which this study is based. In understanding how human capital creates value for the firm a resulting capabilities strategy can be developed to leverage investment in people.

The review of organizational strategy models and methods provides a platform for integrating the economic fundamentals, which drive strategy into a framework that incorporates the value that capabilities bring to the strategy process. The examination of the internal and external environment is the necessary first step for any strategy process and in this case provides the context within which the organization's value chain can be analyzed. This analysis provides the initial look at how an organization's capabilities add value to the market place and provides the starting point for determining how those capabilities can be leveraged.

Since human resource professionals are charged with the management of human resources and it is those resources that create organizational capabilities, an examination of HR's role in the strategy process was undertaken. The literature surfaced an increasing need for HR professionals to be involved in the strategy development process. The shift represents a movement from their traditional role of simply aligning human resource activities to support the organizational strategy. The capabilities based process being proposed in the next section requires a human capital perspective and suggests a more strategic role for the HR professional.

Finally, the review of the literature included an investigation into human resource measurement systems. It is apparent that there are a number of academics and practitioners who believe that measurement of human resource practices is critical, but there seems to be a great deal of struggle and not much definitive consensus on the appropriate measurement methods. There is growing evidence that the application of financial accounting methods to human resource initiatives is a flawed process. The key question then is to propose a system that truly reflects the value of human capital and can

be supported by the organizational leaders as sound and useful. Two methods that are starting to show promise are the Return On People™ approach and PeopleSCOPE™ Human Capital Framework. The key to successful integration of HR interventions with strategic positioning seems to be in determining the impact that is needed to sustain competitive advantage and then applying the most effective human resource intervention in an efficient manner. The fundamental approach requires working backwards and focusing on impact and effectiveness before efficiency.

The research supports the need for an organizational capabilities view of the organization. This approach needs to be constructed through the human capital lens. Finally, the approach has to be supported by a measurement system that correctly measures the value of investments in human capital.

## CHAPTER 3

### METHODOLOGY

This study of organizational capabilities strategy relies on the integration of several research techniques conducted through a case study methodology. These methods are dictated by the nature of the question and the resulting sub-questions, and include expertise-based evaluation and a variety of data collection methodologies including interviewing, surveys, documentation review and observation.

#### Research Questions

To develop a format for the study of an organizational capabilities strategy from the human capital perspective the research question will be presented with a proposed methodology for investigating each of the resulting sub-questions. The central research question is as follows: **How does an organization develop an organizational capabilities strategy from the human capital perspective and what are the resulting human resource management and development implications?**

This research question was divided into three sub-questions. These sub-questions are:

1. Can a human capital framework be used to develop a sound organizational capabilities strategy protocol from the human capital perspective?
2. Can human resource professionals use a human capital protocol to facilitate the development of a capabilities strategy process for their organization?
3. What are the human capital decisions emerge throughout the organization as a result of using the human capital protocol?

The questions are derived from the literature review, which suggests that an organization views its human capital as a source of strategic advantage when the

company is basing its competitive positioning on the development of distinctive and sustainable competencies. This proposition presents the theoretical foundation to ground this study.

### Research Methodology

The research follows the general guidelines for case study research put forward by Robert Yin in his book, Case Study Research: Design and Methods 2<sup>nd</sup> Edition (1994). “Case studies are the preferred strategy when ‘how’ and ‘why’ questions are being posed, when the investigator has little control over events, and when the focus is on a contemporary phenomenon within some real-life context” (Yin, 1994, p. 1). One of the key characteristics is that “...the case study allows an investigation to retain the holistic and meaningful characteristics of real-life events...” (Yin, 1994, p.3)

This methodology includes the following general phases:

1. Determine the study questions
2. Design the case study
3. Prepare for data collection
4. Collect the evidence
5. Analyze the case study evidence
6. Compose the case study “report”

Table 4 presents an overview of the process steps in Yin’s methodology.

Table 4

Summary of Yin's Case Study Methodology

Step	Process and Intent
Determine Study Questions	A literature review is conducted to determine the questions most significant for the topic and to gain some precision in formulating these questions.
Design the Case Study	The design should consider the study questions, its propositions, the unit of analysis, the logic linking the data to the propositions, and the criteria for interpreting the findings.
Prepare for Data Collection	The data collection is dependent on the training and experience of the investigator because of the interaction between the theoretical issues being studied and the data being collected. Once in the field, the case study fieldworker is an independent investigator and cannot rely on a rigid formula to guide behavior. The case study protocol contains the procedure and the general rules that will be followed.
Collect the Evidence	Evidence for case studies can come from six sources: documents, archival records, interviews, direct observation, participant-observations, and physical artifacts. The principles for data collection are to use multiple sources of evidence, have a process for assembling the evidence, and building a chain of evidence.
Analyze the Case Study Evidence	The ultimate goal is to treat the evidence fairly, to produce compelling analytic conclusions, and to rule out alternative interpretations. The analysis should follow the theoretical propositions that led to the case study, as these would reflect the research questions, be informed by the literature review, and guide the data collection plan.
Compose the Case Study "Report"	The report should reflect the needs of the potential audience and can be shared throughout the process as well as at the conclusion of the research. In situations where a sequence of events take place a chronological approach can be used to illustrate the causal nature of events.

This study follows the criteria proposed by Yin and incorporates a variety of methods to collect data. Since the analysis of the findings in a qualitative research approach is very dependent on an observation and synthesis of the experience (Mertens 1998), the researcher will be directly involved in the data collection and process implementation within the organization. In case study research the investigator is involved in the design of the study, collection of the data, and the synthesis of the data. The effectiveness of the researcher is not dependent on the extent to which they have experienced a situation similar to that being studied (Yin, 1994).

The objective throughout this research is to rely on multiple sources of evidence, and informed by the literature review, work through the application of a protocol for understanding and aligning human capital strategy and actions to improve the capabilities of the organization. Yin's case study methodology will be followed in researching each of the three sub questions. Summaries of the methodology, research steps, and outcomes for each of the sub questions can be found at the end of this chapter.

#### Methodology for Research Sub-question 1

The first sub-question requires a process to operationalize a human capital framework to develop an organizational capabilities strategy protocol. The framework that will be used for this study is the approach outlined by the PeopleSCOPE™ Human Capital Framework. This framework has been presented in a number of practitioner workshops, classroom settings, theoretical discussions, and in initial discussions with HR clients (Boudreau & Ramstad, 1999b) but has not been implemented in a thorough way in any organization as of the time of this research study. The process to expand this framework

will incorporate both a scholarly and practitioner critique and the development of an accompanying implementation protocol that can be used for a specific organization.

Specifically sub-question 1 asks, **“Can a human capital framework be used to develop a sound organizational capabilities strategy protocol from the human capital perspective?”**

This sub-question was approached using a two step analysis. The first step was to critique the PeopleSCOPE™ Human Capital Framework that has been selected for use in this study. The second step was to incorporate the findings from the critique into the development of a human capital protocol that can be used to guide the development of a capabilities strategy within a particular organizational setting. These processes are explained more fully below.

#### Critique of the PeopleSCOPE™ Human Capital Framework

The PeopleSCOPE™ Human Capital Framework will be analyzed to ensure both theoretical grounding and operational soundness. Experts in academic and organizational settings will be used to critique the framework. This method is consistent with Borg and Gall’s (1989) expertise-based evaluation methodology. Scholarly critique will be drawn from one expert in each of the following areas:

- (a) industrial/organizational psychology and human resource development; and
- (b) economics and strategy.

These experts were selected on the basis of their professional relationship with the researcher and an expressed interest in the development of human capital strategy.

The framework will also be critiqued by two practitioners who have expertise in strategy, who understand the human resource implications of organizational strategy, and

have expressed a desire to explore alternative approaches to developing capabilities strategies. Each practitioner will be asked to critique the work for operational soundness, with a particular view of the human capital perspective.

Each respondent will participate in a one hour meeting with the researcher during which the PeopleSCOPE™ Human Capital Framework will be reviewed and the process for critique of the framework will be presented. The respondents will leave that session with the documented instructions for completing the critique and the accompanying questions. These instructions and questions will also be sent via email to facilitate an electronic response. The meeting guideline and complete critique protocol can be found in Appendix B. Respondents will be asked to answer the following six questions proposed to evaluate the theoretical and practical soundness of the framework and to gather insights on the applicability of using this model to develop a capabilities based strategy from the human capital perspective. The framework is being evaluated on its utility in guiding an organization through a process which links HR capability investment to desired business outcomes.

1. Please comment on the theoretical and/or practical soundness of the PeopleSCOPE™ framework as a tool for building a capabilities based strategy.
2. Please comment on the extent to which the PeopleSCOPE™ framework appears to represent an approach for developing a capabilities based strategy.
3. Please comment on the extent to which the PeopleSCOPE™ framework represents the content elements that must be analyzed in developing an organizational capabilities strategy. Your critique may include specific

objectives, desired participant levels, and approaches for uncovering the elements at each level of the value lens.

4. Please comment on the model's potential to yield a capabilities based strategy that considers the human capital perspective.
5. Please comment on the practicality of the PeopleSCOPE™ framework. How useful and functional is this approach to a theoretical or practical understanding of the development and/or implications of a capabilities based strategy.
6. Please feel free to comment on any other aspects of the framework which may be helpful from either a theoretical or practical perspective.

The responses from the scholars and practitioners will be synthesized to integrate areas of agreement and understand areas of disagreement between the two perspectives (Seidman, 1998). The researcher will search for connecting threads and patterns among the responses and present specific excerpts that provide insight into the theoretical and practical applications of the framework. Findings from this analysis will be used as a basis for designing the protocol for the human capital strategy in the organizational case study and to surface any elements that may require additional definitional context or grounding. Again, it is important to note that the intent of this analysis is not to revise the PeopleSCOPE™ Human Capital Framework, only to provide insight into issues that may arise in its application and to provide detailed information for inclusion in the human capital protocol.

It is anticipated that the process for introducing the PeopleSCOPE™ Human Capital Framework and the protocol to operationalize this process will be further modified after they are applied to the case study. While this process is iterative, the validation of the

framework will be complete with the critique by the scholarly experts and practitioners. Further refinements that result from the application of the PeopleSCOPE™ Human Capital Framework during the case study will be covered in the research findings and discussion sections of this study, Chapters 4 and 5 respectively.

### Developing a Protocol for Using the PeopleSCOPE™ Human Capital Framework

The critique of the PeopleSCOPE™ Human Capital Framework in the previous step will be used to develop a process for application in an organizational setting. A preliminary project plan outline is presented in Appendix C. This process will identify the fundamental steps envisioned for the application of the framework in the development of a capabilities strategy. The integration of the critique findings and work with the subject organization will be needed to develop the specific actions, outcomes and involvement needed to apply this protocol within the organization. The steps presented below summarize the protocol for conducting a case study to discover whether the PeopleSCOPE™ human capital framework can be used to develop an organizational capabilities strategy.

1. Project Planning
2. Fieldwork to uncover mental models and define the value chain
3. Identification of members to participate in the strategy development workshops
4. Training the HR team members who will assist in the workshop facilitation
5. Conducting a strategy workshop with members throughout the organization to uncover areas where investment in human capital add value
6. HR debriefing session to apply the workshop insights to an HR strategy

7. Creation of a report on the human capital implication of a capabilities based strategy
8. Brief the results to the leadership team and present measurement models which encourage human capital investment ownership across the organization

This sub-question requires both the development of the protocol for applying the framework within an organizational setting and the application of that process. The subject of the proposed case study is Select Comfort®, a rapidly growing company that went through an initial public offering in December of 1998. This organization has been selected because they have realized rapid growth in the few years since their inception, and with the recent IPO find themselves in a situation where their constraints are capabilities, not access to capital or customers. The organization presents a unique opportunity to investigate the applications and outcomes of a capabilities strategy process. A complete description of the organization and key components of the firm's business and growth strategy are presented in Appendix D.

Given the definition provided by Stalk, Evans, & Shulman (1992) that capabilities are found in strategically understood business processes that deliver value to the customer and are demonstrated through speed, consistency, acuity, agility and innovativeness, it seems that this organization is in a position to undertake a capabilities based strategy. In addition, after an initial interview with the Vice President of Human Resources and the Vice President of Supply Chain management (personal communication, January 13, 1999) it was confirmed that the execution of the strategy outlined above is very much dependant on being able to attract, develop, and retain talent. This issue was profiled in Inc. 500 (Fenn, 1997) which showed that Select Comfort was being challenged to hire

two employees per day, in a tight labor market, during 1996 and 1997 just to keep pace with their rapid growth.

The case study methodology proposed here will allow for full participation by the senior human resource professional and other members of the human resource department. The researcher will enlist the HR department and engage with key line managers and members of the Executive Team to study the interaction and effects of the development of a capabilities strategy. In addition to the observation of the application of a capabilities based strategy methodology, other evidence such as internal and external documents and interviews will be incorporated. The various sources of evidence will enhance the design validity through triangulation and the use of referential materials (Newman & Benz, 1998).

In an exploratory study the data collected during the pilot phase are then used as part of any ensuing case study (Yin, 1993). This approach is true of this study as well, as the initial data gathering will be used to build the executive interview protocol, and data gathered from those interviews will be incorporated into the briefing and training sessions that follow. The identified outcomes of a capabilities based strategy process are outlined in Appendix E.

The key to interpreting the results of this case study are to continue to tie the findings back to the theories of human capital, strategy, and measurement that inform the development of a capabilities strategy. The theory and research presented in the literature on the application and benefits of developing a capabilities based strategy will be the level at which the case study results will be generalized. This process is referred to as analytic generalization (Yin, 1994) and is the method by which previously developed

theory is used as a template with which to compare the empirical results of the case study. Using this approach, the case study will be used as basis for suggesting further application of the human capital protocol being proposed for developing a capabilities strategy. While it is unlikely that the results will modify the theory underlying the capabilities approach to strategy, further exploration and real life application is intended to further the understanding of this practice and more importantly to further the linkage from HR investments to business results.

#### Methodology for Research Sub-question 2

The second sub-question asks, **“Can human resource professionals use a human capital protocol to facilitate the development of a capabilities strategy process for their organization?”**

This question will be examined by looking at HR’s current role in the organizational strategy processes and by gathering information throughout the process application to see how the use of the human capital protocol has influenced the way that the HR professionals affect and respond to strategic decisions. There are two primary activities from which information to answer this question will be gathered. The first is to understand the role that HR currently plays in organizational strategy. This information will be gathered through an interview with the Senior HR professional and on-going discussion with HR Directors throughout the organization to understand the role that they currently play in strategy development and determine the factors that contribute to that positioning.

This sub-question will further be researched by presenting a two day workshop to the entire HR organization to overview and introduce the capabilities approach to strategy,

overview the PeopleSCOPE™ Human Capital Framework and the resulting human capital protocol. This workshop will be conducted once the fieldwork and executive interviews are completed so that relevant organizational elements can be woven into the presentation materials. To gauge the impact that this approach to strategy has on how the HR professionals view their role in the development of organizational strategy, each participant was given a survey to be completed at the beginning and ending of the session. These surveys will be coded to allow for pre and post comparison at the individual level while keeping the identities of the respondents confidential. The survey instrument can be found in Appendix F. The same instrument will be used to gather the pre and post responses although the participants will not be aware of that when they complete the pre assessment. The questions to be asked are summarized below.

1. Describe the extent to which Human Resources has been involved in the strategy process at Select Comfort.
2. What role should HR have in strategy development and execution?
3. What is HR's role in ensuring that the organization is able to reach its strategic goals?
4. What are the potential constraints/obstacles to HR being able to successfully contribute to the attainment of the organization's goals?

These questions were edited as appropriate given the data that emerges from the fieldwork and executive interviews. In the third question the organization's strategic goals, as summarized through the fieldwork and interviews, would be listed so that the participants could respond to the HR implications of each goal.

The research undertaken in answering this question is intended to provide insight and an analysis of the involvement that HR currently has in the organizational strategy process and to provide a platform from which the HR professionals can present strategic alternatives for improving organizational capabilities. The focus will be on the abilities, credibility and visibility of the core HR team, which includes the HR VP and the Directors. The HR training session will involve the entire HR team and is intended to provide insight into how the HR investments and activities impact organizational success.

### Methodology for Research Sub-question 3

The third sub-question asks **“What human capital decisions emerge throughout the organization as a result of using the human capital protocol?”** This sub-question will rely on the analysis of the data gathered from the previous two sub-questions and will require the involvement of the HR VP and the HR Directors.

This question will be analyzed by probing into the human capital implications of the resulting organizational capabilities strategy. These implications will be examined through a series of working sessions in which the researcher will work with the Core HR Team to develop a strategy that can demonstrate how investments in human capital can create value for the firm. This strategy and the initiatives recommended will be presented to the Executive Team as a way to facilitate decision making around human capital investment.

This sub question can only be fully answered by incorporating organizational data gathered through the fieldwork, interviews and training experiences to ensure that the resulting strategy leverages HR investments that support the organizational strategy. The researcher will rely on the data gathered throughout the case study to work with the HR

Directors in discovering how decisions for human capital investment can be influenced by a capabilities approach. This case will be presented to the Senior Executives to validate the business case and gauge the impact on human capital decision making. The final outcome of this question will be the development of a HR strategy for the organization that provides direct line of sight to the business objectives and provides a process whereby human capital investments can be leveraged to improve organizational capabilities.

The research is not longitudinal and is not intended to examine the financial results of the implementation of a capabilities strategy. Instead the research is intended to look at how HR investments are positioned, what decisions can be made as a result of using a human capital protocol, and to demonstrate how human capital investments can provide value for the firm. To answer this question the research will center on how the HR leaders can present HR investments that contribute to the achievement of strategic organizational objectives.

#### Methodology Summary for Each Sub-question

### Sub Question 1

Can a human capital framework be used to develop a sound organizational capabilities strategy protocol from the human capital perspective?

<b><i>Yin's Methodology</i></b>	<b><i>Research Process Steps</i></b>	<b><i>Outcomes</i></b>
Determine the Case Study Questions	Informed by research on Human Capital and Organizational Strategy from Chapter 2 and an interest in building on emerging research in the area of human capital strategy.	<ul style="list-style-type: none"> <li>• Research Question 1</li> <li>• Selection of a human capital framework to apply in the study</li> </ul>
Design the Case Study	The question asks for a determination as to whether a human capital framework can be used to develop an organizational strategy. The design to answer this question integrates an expert analysis with the development of a process for applying the framework.	<ul style="list-style-type: none"> <li>• Critique Protocol</li> <li>• Interviews with experts</li> <li>• Expert Critique</li> <li>• Integration of expert critique into a project plan for testing the PeopleSCOPE™ human capital framework in an organizational setting</li> </ul>
Prepare for Data Collection	Synthesize the insights gathered in the previous step and involve the HR team within the organization as described in Step 2 of Question 2 to complete the data collection plan.	<ul style="list-style-type: none"> <li>• Champion Kick-off</li> <li>• Fieldwork and data collection plan, interview schedule</li> <li>• Executive interview protocol and schedule (final protocol dependent on evidence collected through the fieldwork)</li> </ul>
Collect the Evidence	A review of internal and external records and documentation, fieldwork, interviews and direct observation. Researcher led fieldwork and executive interviews.	<ul style="list-style-type: none"> <li>• Collection of data to provide context for Step 5 of Question 1</li> <li>• Completion of fieldwork and executive interviews</li> <li>• Transcription and validation of Executive Interviews</li> </ul>
Analyze the Case Study Evidence	An analysis of the data collected in the previous step to understand key business challenges and the applicability of using a human capital framework to develop capabilities strategy.	<ul style="list-style-type: none"> <li>• Presentation of findings to the Executive team</li> <li>• Integration of the findings into the team strategy event and a 2-day HR team workshop</li> </ul>
Compose the Case Study Report	Integrate of the findings of the previous step to develop the Strategic HR plan.	<ul style="list-style-type: none"> <li>• Interview with CEO</li> <li>• HR Debriefing on implications for the HR strategy</li> </ul>

Sub Question 2

Can human resource professionals use a human capital protocol to facilitate the development of a capabilities strategy process for their organization?

<b><i>Yin's Methodology</i></b>	<b><i>Research Process Steps</i></b>	<b><i>Outcomes</i></b>
Determine the Case Study Questions	Builds on Question 1 and integrates research in the area of strategic human resource management and development.	<ul style="list-style-type: none"> <li>• Research Question 2</li> </ul>
Design the Case Study	Work with the HR leaders to assess their current level of involvement in the strategy process. Develop opportunities to increase the strategic expertise of the HR leaders using a human capital framework as a way to facilitate the development of a capabilities strategy.	<ul style="list-style-type: none"> <li>• The integration and positioning of the HR Core team as the organizational experts</li> <li>• Design an action plan that increases HR's expertise and involvement in organizational strategy, leveraging the capabilities approach</li> </ul>
Prepare for Data Collection	Initiate a process for developing capabilities strategy expertise within the HR core team. Design of a workshop for HR team that incorporates the findings of Question 1. Develop a process for allowing their participation and facilitation in the organization leaders strategy event.	<ul style="list-style-type: none"> <li>• Development of the team training agenda and curriculum incorporating Question 1 findings</li> <li>• Design a role for HR team as facilitators of the leadership team strategy event</li> <li>• Develop a survey instrument to gauge impact of exposure to a capabilities approach to strategy</li> </ul>
Collect the Evidence	Administer a survey of the entire HR group to determine whether their exposure to the capabilities strategy approach improved their ability to facilitate discussions around strategic human capital investments.	<ul style="list-style-type: none"> <li>• Collection of pre and post survey to gauge the extent to which they felt comfortable initiating strategy HR discussion before and after the training event.</li> </ul>
Analyze the Case Study Evidence	Analyze HR team survey data. Discussions and continued work with the HR core team to discover areas where a capabilities approach could be applied.	<ul style="list-style-type: none"> <li>• Summary and dissemination of survey findings</li> <li>• Insights into implications discussed in Question 3</li> </ul>
Compose the Case Study Report	Integration of the findings in the development of the Strategic HR plan focused on the capabilities needed by the HR managers.	<ul style="list-style-type: none"> <li>• Assessment of the HR managers capabilities to develop and deliver the HR strategic initiatives over the next 5 years</li> </ul>

### Sub Question 3

What human capital decisions emerge throughout the organization as a result of using a human capital protocol?

<b><i>Yin's Methodology</i></b>	<b><i>Research Process Steps</i></b>	<b><i>Outcomes</i></b>
Determine the Case Study Questions	Builds on Question 1 and 2 and incorporates human capital investment decision criteria.	<ul style="list-style-type: none"> <li>• Research Question 3</li> </ul>
Design the Case Study	Requires an integration of the data collected and analyzed in questions 1 and 2 to surface resulting human capital decisions.	<ul style="list-style-type: none"> <li>• Synthesis of the data gathered in Question 1 and 2 to understand the human capital decisions that result from using the human capital protocol.</li> </ul>
Prepare for Data Collection	Provide the Core HR team with the findings from Question 1 and an assessment of their current abilities and processes from Question 2	<ul style="list-style-type: none"> <li>• Summarize research findings from Question 1 and 2</li> <li>• Work HR VP to develop a plan for developing the HR Strategy</li> </ul>
Collect the Evidence	A series of planning session with the HR core team to analyze the data collected, determine the human capital implications of the capabilities strategy and prepare a plan to support the strategy.	<ul style="list-style-type: none"> <li>• Summary of the meeting notes</li> <li>• Analysis of current processes</li> <li>• Analysis of strategic positioning and past performance</li> <li>• Development of measurement criteria</li> </ul>
Analyze the Case Study Evidence	The data collected throughout the planning session is revised, aggregated and validated to facilitate effective human capital investment decision making.	<ul style="list-style-type: none"> <li>• Reviews with the Core HR Team to discuss areas of convergence and divergence in the plan</li> <li>• Development of proposals to improve organizational capabilities based on the data gathered in questions 1 and 2</li> </ul>
Compose the Case Study Report	Integration of all the findings, assessment of strategic priorities, and the expected impact of human capital investment on the organization's success over the next five years.	<ul style="list-style-type: none"> <li>• The completion of the HR Strategic Plan which incorporates initiatives needed to improve organizational capabilities</li> <li>• Proposals which outline solutions to the capability gaps</li> <li>• The development and presentation of the HR strategy to Senior Management</li> </ul>

## CHAPTER 4

### RESEARCH FINDINGS

This study was conducted to answer the research question: **How does an organization develop an organizational capabilities strategy from the human capital perspective and what are the resulting human resource management and development implications?**

This research question was divided into three sub-questions that frame the methodology. The sub-questions listed here will be used to organize the presentation of the research results below:

1. Can a human capital framework be used to develop a sound organizational capabilities strategy protocol from the human capital perspective?
2. Can human resource professionals use a human capital protocol to facilitate the development of a capabilities strategy process for their organization?
3. What human capital decisions emerge throughout the organization as a result of using the human capital protocol?

The research involved a case study application to critique a human capital framework and develop a human capital protocol that could be used to develop an organizational capabilities strategy. The findings from the research are presented below and will be summarized by each of the sub-questions that support the central research question.

#### Overview of Procedures

The methodology presented in Chapter 3 is case study research, which incorporated expertise based critique. The critique as conducted for this study was not a pure validation of a theory, but instead was intended to provide feedback and insights that

would enhance the ability of the researcher to use this approach for the purposes of developing a human capital protocol for an organization. The critique was conducted with input from both scholars and practitioners. Their comments included critique of the practical and theoretical soundness of the framework and questions geared toward face, content and construct validity. This critique is integrated into the second step of Yin's case study methodology, designing the case study. For the purpose of this research study the critique needed to be completed before the protocol could be proposed and the resulting data collection steps initiated.

The comments from the experts were used to construct a protocol for the case study application. The case study was proposed following Yin's (1994) methodology to test the framework for developing a capabilities strategy and also to yield insights on the role of HR professionals in the process and the implications for HR investments. The case study was conducted on the client site and included a close relationship with a core team consisting of HR professionals within the organization. The data was collected according to Yin's fourth step in case study methodology, collecting the evidence. The evidence in this case included a variety of methods including documentation, archival records, interviews, direct observation and participant-observation. The evidence was gathered over a period of approximately six months. Given the nature of the organization and as typical in case studies conducted over a period of time (Marshall & Rossman, 1995), changes in personnel, strategy and positioning occurred. Those changes, where significant to the case, will be illuminated in detail in this chapter.

## Description of Results Sub-question 1

The first sub-question asks; **Can a human capital framework be used to develop a sound organizational capabilities strategy from the human capital perspective?** As noted in Chapter 3, the PeopleSCOPE™ Human Capital Framework was the framework used to research this sub-question. This sub-question was approached using a two step analysis. The first was a critique of the PeopleSCOPE™ Human Capital Framework and the second an incorporation of that critique into a protocol that would be used to develop a capabilities strategy for a specific organization. The results of this sub-question are presented below.

### Critique of the PeopleSCOPE™ Human Capital Framework

Before the initiation of the case study research, the proposed framework for implementing this process was critiqued by four individuals with expertise in the fields of industrial/organizational psychology, human resource development, and/or economics. These experts were selected by the researcher on the basis of their academic work in the fields mentioned above and their experience in working with organizations to develop strategies and HR initiatives that leverage human capital. These individuals were presented with the framework during a face to face encounter with the researcher. During this session the framework and the intended use for the case application was reviewed. These sessions were scheduled to be one hour in length. At the conclusion the reviewers were presented with a guideline and a format for responding to six questions regarding the theoretical and/or practical soundness of the framework and extent to which this framework could be used effectively to develop a capabilities strategy for an organization (see Appendix B). These guidelines and questions were also emailed to

each expert. Each reviewer submitted a critique of the framework (see Appendix G).

The criticisms and comments helped to shape the application of this process to the case study. These findings are summarized separately by the responses from the scholars and practitioners.

Scholarly Critique. The scholarly reviewers were both intrigued by the prospect of an approach to bridge the economic and psychological aspects of strategy. The fact that “the evaluation of strategy incorporates many elements of microeconomics at the industry and market level, it is very well grounded in theory” (Gulliver, Appendix G). However, both cautioned that the framework could not be fully appreciated without descriptive and definitional context. A key concern surfaced was the need to clearly define what is meant by capabilities and which organizational components are included or not included in the definition. Clearly articulating this definition is critical since the framework is based on developing capabilities based strategy. One reviewer noted “...this approach focuses on capability as a critical component of implementation. This is an aspect of strategy that is frequently neglected, yet often the cause for failure to execute strategy” (Gulliver, Appendix G).

There was also some clarification provided on the need to appreciate the shift from an organizational to individual perspective. “To a psychologist, a switch from looking at the organizational environment (external) to examining the interior world of the person (internal) is significant as they would be conceptualized and measured differently” (Sloan, Appendix G). In addition it was noted that many elements come into play under the *aligned action* component. Cultural values and customs, as well as, tastes and preferences play a role.

Further, while both were confident that the model would be useful in providing a process for allocating scarce resources, it was noted that a distinction is needed between direct and indirect investments. Specifically noting that “While great attention must be paid to the return on direct investment in allocation, we must remember that the indirect investments have the potential to lever those direct returns multiple fold” (Gulliver, Appendix G).

Practitioner Critique. The two practitioner reviewers were from the HRD/OD function of public companies. One was in a corporate position, while the other was a key executive in an operating division. As would be expected these reviewers were a bit more critical of the practical implications, with concerns focused on the ability of the framework to stand alone without a great deal of explanation. “...I think that it is a simple model and could be effective in developing a capabilities based strategy if used in a focused way” (Hewitt, Appendix G). This same reviewer also noted the strength of focusing on the impact segment first, “If we can truly understand our strategic advantages (either existing or possible), business process and pivotal roles in our organization, the human capital issues will be possible to make clear” (Hewitt, Appendix G).

The practitioner reviewers both noted the need to present a structured approach to building capabilities in the organization, but mentioned how difficult it is and the need to have leadership support for this process to be effective. There was some concern about the order of the flow of components, noting that most senior managers would look at investments as the next step after sustainable strategic advantage, but both found it a useful path to think about capabilities. Gregory (Appendix G) felt that the model’s uniqueness and practicality lay in its ability to address questions of measurement and

valuing the outcomes of measurement for each component, and made a strong recommendation to build off of that angle.

The critiques provided by the scholars and practitioners provided perspective and insight into the application of this framework in an organizational setting. While the purpose of the critique was not to make changes to the framework, the feedback provided guidance for how to use this framework to build a capabilities strategy. The simplicity of the framework while demonstrating a clean and focused process also raised questions about how to uncover the issues at each level. In developing the protocol that follows, those concerns were considered in developing a process for applying the framework in a case setting. The intent of using this framework to initiate a discussion around capabilities strategy to this organization is to demonstrate the links that investment in people can have on organizational success. The protocol developed below is dependent on using the framework to uncover competitive issues that can be addressed through specific investments in building human capital within the organization.

#### Developing a Protocol for using the PeopleSCOPE™ Human Capital Framework

Using the critique from the expert evaluations, a process for testing this framework within an organizational setting was developed. While preliminary work had been done to outline possible process steps and outcomes (see Appendix C and E), discussions with the experts and their written critique provided further understanding needed to develop a project plan for the case study. More importantly they raised issues and provided guidelines for successfully implementing this methodology within an organizational setting. These insights were incorporated into the development and application of the human capital protocol.

Project Planning. The proposed project plan (see Appendix H) was presented to the Core HR Team as a way to scope the study and get their input on the next steps, which included identification of the key participants and the development of a proposed timeline. The sponsor for this project was the Human Resources VP and it was her suggestion that the core team be members of her staff which included the following:

- Director of Compensation and Benefits
- Director of Training Management and Organizational Development
- Director of Generalist Services
- Director of Retail HR
- HR Administrative Assistant

The VP of Supply Chain Management was included in the initial meetings and was consulted throughout the process to ensure that the line perspective was considered in the development and execution of the project.

The initial meeting with the HR Core Team (Step 1 in Appendix H) ironically was held on the day that the organization was announcing a major reorganization. During the meeting, in fact, a memo was being drafted to all personnel announcing that the current Chief Operating Officer (COO) who had also been serving as the Chief Financial Officer (CFO) would be assuming the Chief Executive Officer (CEO) role. The current CEO would be resigning that position, but would remain a member of the board. The Controller was being promoted to CFO and the position of COO was being eliminated. Top-level organization charts can be found in Appendix I. The President and Managing General Partner of the venture capital firm representing the largest ownership in the

company was named Chairman of the Board. These organizational changes raised concerns about the continuation of this study. The HR VP mentioned that given these changes it was an opportune time to initiate the study, as the management team was going to be evaluating the organizational strategy and direction. In fact she felt that the management team would be receptive to a structured process for examining the organizational capabilities and the human capital investments that would be needed to execute their rapid growth strategy. The internal announcement of the reorganization (See Appendix J) was followed by a press release and newspaper articles. In addition to the personnel changes, the Chairman of the Board used this media attention to state that the company would be the leading bedding company in the country in 5 years. This leadership position would be measured by market share, sales, and profitability.

To fully understand what that statement meant for this organization it is important to provide a bit of perspective about the Chairman's personal stake in this business and also the company's current position in the industry. First, the Chairman is the President and Managing General Partner of the venture capital firm that bought the company in 1991, when there were just seven employees and \$300,000 in sales. His combined stake in the company, including the venture capital ownership and his personal investment is approximately 30% (Weintraub, 1999). Thus he has a high stake in the success of the organization.

The size of the mattress and foundation market is quite large, generating in excess of \$6.7 Billion in retail sales in 1997 (Select Comfort Prospectus, December 4, 1998). The industry is dominated by four major players Sealy, Serta, Simmons, and Spring Air. Those four companies are responsible for 62% of retail sales. Select Comfort currently

has approximately four percent of the market. According to Select Comfort's 1998 annual report their sales for 1997 and 1998 were \$184M and \$246M respectively. They were projecting 1999 sales of \$350M in their May forecast budgets. The figures on both the industry and Select Comfort's position demonstrate the incredible growth that has to come from this alternative sleep product in order to become "the leading bedding company in the country" (Appendix J). Given the current estimates, the proposition to lead the industry would mean growth in excess of 40 percent annually, with sales growing from \$250 million to \$1.4 billion in five years (Weintraub, 1999).

This context is provided to set the stage for the size and scope of the changes that were being announced for this organization. There was excitement among the Core HR Team, but also a bit of anxiety about how the organizational infrastructure, and particularly the human resources function, would be able to support the growth plans. They were not alone. Employees throughout the organization were anxious to see concrete plans or any clues of organizational direction that would clarify expectations and accountabilities.

The stock market did not react favorably to the announcement. The company went public on December 4, 1999 at a price of \$17.00, raising \$68M for the company and their investors. The stock closed at \$20.37 after the first day of trading, and reached \$35.25 in January of 1999. The day prior to the reorganization and the announcement of the accompanying growth plan the stock was trading at \$29.38. Within weeks the stock had dropped to \$12.25, nearly \$5.00 below the IPO price. The investors may have been reacting to concerns regarding the changing of CEO's, but there were other implications as well. The growth proposal meant that revenues would be invested in opening

additional stores and developing infrastructure which would negatively impact the distribution of earnings to stockholders, in the short term.

Champion Kick-off. The project plan was finalized and an accompanying timeline was developed to present to the Executive Team (Appendix K). This meeting was held on May 17, 1999. Attendees at the meeting were the Chief Executive Officer, Chief Financial Officer, VP Human Resources, Sr. VP Operations, VP Development and Technology, Sr. VP and General Manager-Direct, and the Chief Administrative Officer. The HR VP introduced the researcher and the project. The process plan was presented with very little response or feedback from the group. The VP of Operations was the most engaged and supportive of the process. He indicated a strong desire to develop a strategy and action plan to meet the growth targets and appeared anxious to begin the process. The others appeared less receptive and were less vocal. They did however agree to go forward with the project after the CEO made an endorsement that the time was right for this type of strategy exercise and that it was critical that they understand where capabilities add value throughout the organization. The project was approved and commitments were made to be available for interviews and planning sessions over the next three months.

It was discovered by the researcher shortly after the meeting that the participants were somewhat distracted by an article that had come out the previous Friday in CityBusiness, a local business weekly. The article was critical of the management and the financial performance of the company (Weintraub, 1999). Given the recent bad press and the internal struggles, they may have been less than enthusiastic about having someone from the outside scrutinizing their organization for the purpose of testing a capabilities strategy

protocol. In spite of these potential misgivings, the CEO endorsed the project and encouraged everyone on his team to perceive this project as an opportunity to think strategically about their competitive positioning and the criticality of effectively leveraging their human resources in this time of reorganization and growth.

Fieldwork. The fieldwork was structured to gather the necessary financial and industry data to understand the strategic drivers of the business. The fieldwork included a review of public information such as the annual report, prospectus, industry journals, financial websites, and periodical publications (External Reference List, Appendix L). There was also a review of internal documentation including financial reports, retail store profitability models, retail stores strategic plan, organization charts, press releases, and various memos, reports, and marketing literature (Internal Sources Appendix M).

After an analysis of this data, eleven interviews were scheduled to meet with director level people throughout the organization to gain their perspective on the challenges that the organization was going to be facing over the next 5 years. These interviews were fairly opened ended and were intended to explore further the nature of the business and the concerns these individuals had about the strategic and operational direction of the firm. The questions asked by the researcher were focused on three areas:

1. What is your role at Select Comfort and what is the nature of your interaction with your internal and external customers?
2. What are the major constraints or barriers to the successful execution of your job?
3. What are your personal feelings about the strategic direction of the firm (particularly around the announcement of being the leading mattress retailer in the country in the next 5 years)?

These eleven interviews were conducted one on one. Notes were taken by the researcher and later typed and synthesized. The intended outcome of these interviews was twofold: first to more fully understand organizational operations, and secondly to help frame the questions for the more formal executive interviews. These initial interviews were 60 minutes in length. The Core HR Team and the HR VP proposed the fieldwork participant list. The fieldwork participant list can be found in Appendix N. The researcher reviewed this list with the Core HR Team to ensure that a comprehensive perspective could be gathered. There was a concerted effort to get input from all of the primary functional areas and also to ensure that the people interviewed had a solid grasp of the day to day operational issues with some insight into strategic challenges and opportunities. The titles of the individual interviewees are listed below:

- Director of Public Relations
- Controller – Retail
- Media Sales - Direct
- Director of Product – Corporate
- Controller – Operations
- Manager of Supply Chain Management – Operations
- Director of Financial Planning and Analysis – Direct
- Regional Sales Director
- Director Marketing – Retail
- Controller – Direct
- Director Database Marketing – Direct

The outcomes of the fieldwork and interviews were analyzed and a presentation was made to the Core HR Team to validate the findings. The value chain was developed based on these findings to illustrate the integration and flow amongst the various functional areas (See Appendix O). The researcher also reviewed a summary of the fieldwork findings (See Appendix P) with the Core HR Team. The interview findings were sorted into two broad categories: Business Issues and Constraints/Challenges. These were further segmented into categories within each of the two major headings and representative comments from the interviews were noted (See Appendix Q) for the complete listing. The broad categories are presented in Table 5.

Table 5

Summary of Fieldwork Interviews

<b>Business Issues</b>	<b>Constraints/Challenges</b>
Brand Awareness	Infrastructure
Sales	Human Capital
Product Mix	Leadership
Distribution	Operations
Organization Structure	Strategic Planning
Growth Strategy	Brand Management
Cost	Organization Structure

The business issues were focused on the lack of brand awareness, slowing of sales, concerns about the dependence on one product, the distribution strategy and concerns about being able to grow the business without acquisitions. To further understand the issues on the minds of these people a few of their comments are presented. The brand awareness issue is one that is heavily tested and in fact the fieldwork uncovered the Chairman's proposition that "To be the market leader, we need 80 percent awareness and a 20 percent share of the aware market" (Weintraub, 1999, p. 42). The CEO made a presentation at the Annual Meeting on June 8, 1999 that showed an awareness level of 64.0 percent in the Minneapolis/St. Paul area and a corresponding 22.8 percent market share. Nationally the company has a 29.3 percent awareness and a 4.0 percent market share. These are numbers that are watched carefully. It would be expected that there is a higher brand awareness in the Minneapolis area since this is the company headquarters, their retail stores have had a presence in this region longer than any where else, and they received a great deal of local press both pre and post IPO. A representative comment gathered during the interviews supports these concerns "We are not doing enough to build brand awareness." There was also concern about the need to get branded quickly and that the company "may be too promotional – are we buying business."

The concerns on sales performance focused on the fact that sales were below expectations, but there also seemed to be some concern about how the sales goals were set, "What's the formula to hit goal? It seems to be a moving target." In the area of product mix there was little agreement on whether the solution was to introduce new products or just make changes to the current ones. Comments ranged from "Need changes to current products not more" to "Need to branch out with different products."

There are also logistical issues with selling new products since the current retail model consists of very small stores within mall locations (averaging less than 1000 sq. ft.), this configuration will not accommodate additional product offerings. As would be expected with the announcement of the aggressive growth strategy there was a great deal of concern about how to execute. Many of the interviewees felt that it was difficult to meet the growth goal without acquisitions, "...don't see any planned acquisitions, these are usually vehicles to growth" and "Being number one should be the goal, but that means 43% growth in beds, will there be acquisitions." There was also an uncertainty about the lack of communicated strategic priorities and the fact that the current growth may be attributed to a strong economy, rather than anything purposefully being done by the organization.

In the area of constraints and challenges issues around infrastructure, human capital, leadership and planning often were woven together in the comments that people made. It seemed that the human capital issues were key to the execution of the strategy. However, there was a general feeling that the leadership had not done much planning or articulation around the strategy and they were not confident that the infrastructure or the employees could support such aggressive growth. A human capital concern at the front of the retail division was the amount of time spent recruiting sales managers and the challenge of finding the best people. "District Sales Managers are spending 40 percent of their time recruiting, we need corporate recruiting to funnel candidates." Concerns were also raised on the availability of talent "current personnel is good, but worry about how headcount additions change the talent mix" and "may be lowering standards just to get people."

The leadership issues were hard to separate from the strategic planning issues. Many comments centered on the lack of a communicated strategy and that the plans that had been articulated were very sketchy. An important finding here was that people were not as concerned about their ability to meet the five year sales goal as they were in simply getting some direction that would allow them to focus their energy toward the right initiatives. The fact that there had been a management change and that sales and the stock price were slipping made them a bit uneasy about how the organization was going to fare. The tension of being a public company and the scrutiny on earnings that it brings were articulated by one person who said “Management philosophy may inhibit growth—not willing to take the long view due to impact on current earnings.”

The fieldwork provided a solid understanding of the organization and the challenges and opportunities that faced this rapidly growing business. The review of news articles, press releases, and an analysis of the stock movement presented a perspective on the organization as viewed from the outside. The review of internal plans, memos, financial reports, and growth models reiterated the struggles in trying to manage the growth and also surfaced inconsistencies in direction and perspective. The interviews from the various functional areas put a human perspective on all of the data and provided a great deal of context for understanding the human capital issues. The company is relatively young and the employees are used to change and instability, but it was clear that there was a strong need for strategic direction and communication around expectations and accountabilities. In many cases, as seen by the summary of fieldwork interviews in Appendix P, people were starting to question the announcement of the growth strategy to the competitors and the market. There was a feeling of increasing anxiety without the

benefit of a clear view of how the growth challenge was going to be met. All these employees knew for sure was that more growth meant more people and more pressure on an already strained infrastructure. The stock performance was also a daily reminder of how the organization was perceived by the financial community. The local press raised further questions about the soundness of the organization. Many of the individuals interviewed appeared to be struggling to stay “upbeat” about the organization, which they perceived to be difficult given the bombardment by skeptics. What was unwavering, however, was their belief in the product. They fundamentally believed that their product improves their customer’s quality of life. Their frustrations were focused on the inability of the organization to position itself in the industry and leverage a quality product.

Executive Interviews. The data from the fieldwork research and interviews were used to inform the next step, which was a longer and more structured interview of the senior leadership. The interviews were scheduled for 90-minutes, a period suggested as optimal for interviews of this type (Seidman, 1998). Given the demands on the time of these executives, a single interview format was set with the flexibility of communicating via phone or email if there were a need for any follow-up or clarification. The interview schedule was set through the HR VP, who also informed the interviewees of the expectations and fielded any questions that were raised. The interviews were conducted by the researcher and also attended by member of the core team, the Director of Training Management and Organizational Development. The core team member was the same individual for all ten interviews and the role included taking notes and also later validating the transcripts against those notes to ensure accuracy. The interview questions were distributed to the interviewees one-week prior to the interviews and several of the

interviewees used the advance notice to prepare written responses including which points they wanted to make on each question. The interview protocol can be found in Appendix R. The interviews were taped and later transcribed. The tapes and completed transcripts are maintained by the researcher in accordance with the research agreement with the organization. The names and titles of the individuals interviewed can be found in Appendix S. To ensure anonymity, comments throughout this chapter will not be attributed specifically to these individuals.

The Executive Team consisted of ten individuals with varying tenures with the company and also somewhat different perspectives on the strategic direction and positioning of the firm. The executive interviews were intended to further define the strategic context and the key business processes as defined in the first two steps of the PeopleSCOPE™ Human Capital Framework. The information from these interviews provided a platform for engaging a larger body in validating the sustainable strategic advantage and the key business processes that would increase the likelihood of achieving the strategic intent. The interviewees were quite candid and most were quite receptive to the process and interested in working on framing the strategic direction of the organization. The individuals interviewed represented the following positions:

- President/Chief Executive Officer (CEO)
- Vice President & Chief Financial Officer (CFO)
- Senior Vice President & Chief Administrative Officer (CAO)
- Senior Vice President & General Manager-Direct
- Senior Vice President & General Manager-Retail

- Vice President E-Commerce
- Vice President & Chief Information Officer
- Senior Vice President Operations
- Vice President Human Resources
- Vice President Product Development & Technology

The interviews were conducted over a period of three days. The interviews were conducted on three consecutive days and care was taken not to share any of the data until all interviews had taken place. At the conclusion of these interviews the information was transcribed and reviewed by the researcher and the member of the core team who was present at all ten interviews. The initial review by the researcher was to compare the transcripts with written notes taken during the interviews to ensure that the transcriber had accurately captured the content of the interview. The core team member reviewed each transcript as well by comparing the transcripts to notes taken during the interviews. A letter documenting that review can be found in Appendix T. The second review by the researcher was to search for threads and patterns within and between the interviews and to discover themes that might arise from connections between the categories. The summary and excerpts that follow are based on a thematic organization of the data (Marshall & Rossman, 1995) developed by the researcher to investigate issues with the first four levels of the PeopleSCOPE™ Human Capital Framework, namely:

- Sustainable Strategic Advantage
- Business Processes
- Pivotal Roles, and

- Aligned Action.

Any themes or data that emerged on the last three levels of the model, Human Capacity, HR Bundles and/or Investments were used to inform the second and third sub-questions.

The first question asked in the interview and the one that provided the context for much of the rest of each interview was focused on the key business challenges to obtaining **sustainable strategic advantage**. The intent was to initiate discussion on these challenges that would inform a deeper probe into what the organization needed to do to achieve a sustainable strategic advantage.

The key challenge that surfaced was the need to build awareness for the product. The comments represent various perspectives on the current level of brand awareness. “...how to synergistically build brand awareness in a category today that has virtually none.” “...the industry is very large and very fragmented once you get outside the top four players in the market and our awareness factor is relatively low even though we’ve worked very hard to build that over the past two to three years.”

Obviously, we have a long way to go in terms of continuing to build brand awareness for the brand, and so we’ve got to keep at that. We’ve got to find effective and efficient ways to build our brand. Then make sure we are building the brand appropriately and that we understand who our customer is and that we do an effective job with a broad-based targeting effort.

Related to the need for increased awareness was the challenge of rapidly adding more points of distribution. The following quote illustrates this point.

Right now we are only in a few pinpoint places of distribution. So if someone wants to go out and buy an airbed, more likely if there are thinking about or heard about an airbed, they are going to go to a mattress store or a department store where people traditionally buy mattresses. They are either not going to find an airbed, or if they find an airbed it will not be a Select Comfort airbed.

...we've got to establish enough points of distribution of the product that truly allows us to meet the needs of the masses today. Our 300 mall locations are certainly not enough when you look at retail needs within the U.S. For this plan, to get to 1,000 to 1,200 units by the year 2003 is probably a very adequate number to get us to the industry lead. Is that a cap? Absolutely not. The business is done across the country in a fashion that should allow for the day that comes that Select Comfort could have a couple thousand points of distribution in the U.S.

In addition to traditional distribution points the company is expanding into E-commerce. That venue brings its own challenges in the area of brand awareness, "...we don't have brand awareness as a company and we don't have awareness as a website." Another key element evident in these interviews was the recognition of the human capital constraints.

To grow this business at the rate we want to grow to support our long-term growth obviously means a huge amount of personal capital. Our biggest challenge in this business-its not extremely labor intensive to build the product-but it is skilled labor. Then if you look at the stores and the direct

market sales groups, that's the key, because you have to find our performance in the store is directly related to the caliber of people we have there.

While the previous comments make a case for a highly skilled labor force there are challenges inherent in the current labor market that make any hiring difficult. The aggressive growth strategy has raised the difficulties of hiring quality employees to the forefront in most areas. "It's easy to hire great people when you have a huge pool of candidates, but we don't have huge pools of candidates any more. Just to find the skill sets we are going to need and the numbers of people is going to be crucial."

Informed by the business challenges the researcher probed into the priorities to meet these challenges. In soliciting responses to the initiatives the organization needs to implement it became clear that even though there was a great deal of activity taking place on a number of fronts, it was evident that there was not a clearly understood or articulated organizational approach to these initiatives. "We have an overall strategy that says we should be the dominant player, but it is not clear to me yet how we are going to go about that."

There was agreement around the need to implement tactics to increase awareness and the need for additional distribution sites, but there was not alignment on how best to achieve these goals. When asked about priorities the CEO responded; "The top ones obviously are advertising which is working, which we've been talking about. The second piece would be then to build points of distribution which is predominately retail environments." While there was agreement on the need to increase retail distribution, there was also caution. "I think we need to figure out how to get into more retail distribution and do it in more of a controlled fashion." The distribution strategy also

raised issues about product pricing and positioning. “We are in a premium price product. We compete right now virtually only in the very upper end of the price point range of mattress shopping. If our average ticket is \$1200-\$1300 we are really only competing in the top 20% of the market.” These managers realize that the customer base needs to be segmented and that there may be alternative ways of reaching the various customer segments. The current product mix covers a variety of price points but again, there is a lack of awareness and penetration in some channels. “While we have product that competes at a lower price point, we don’t do a very effective job in segmenting and marketing that price product to the mass market.” The company has recently launched an E-commerce presence, to reach a broader market. While it is too early to evaluate the success of this distribution channel there are some proponents. “I think the distribution points are huge depending on how far out of the box we are willing to go.” “If we stay in our vertical structure so that all distribution points are still within this organization, then I think it would be more challenging [to achieve the growth goal]. At the same time, I think that the Internet could make a big difference.”

There was not as much concern as expected about the competition from the industry leaders. Many felt that their competitors entry into the airbed marketplace would cannibalize the traditional products of those competitors and in the process legitimize the airbed. “If I were sitting in one of the four S’s [Sealy, Serta, Simmons, Spring Air] in that consolidating industry, would I want to have an air product because it really goes against the efficacy of my own metal coil product that I am trying to tell people is better for them.”

The next level of the PeopleSCOPE™ Human Capital Framework requires an examination of the **business processes** that must be executed well to sustain strategic advantage. In this area there were a number of processes raised that support the need to create brand awareness. “We’ve got to find effective and efficient ways to build our brand.” “I think the key issues are how effective and efficient is our advertising going to be.” “...unless we can make our retail advertising work cost efficiently and generate awareness and drive retail traffic, there is no way we are going to reach that growth objective.” Building a brand is a hard thing to do it “...takes a lot of time, consistency, and marketing dollars to do this.”

In reaching the customer, the key process is one of educating the customer on a product that is basically in “...a low interest category, and people have not wanted to spend a lot of time shopping for a mattress.” “Usually people buy one every ten to eleven years or longer.” “Given the fact people are in the market purchasing every ten to eleven years, you need to be in the decision set. Once we get people into the decision set, it’s a pretty easy decision.” In fact the current customers often become evangelists for the product; the challenge is to get more people using the product so they can experience the benefits. An illustration of some recent retail research illustrates the challenge:

They did focus groups with customers and with inquiries or prospects. The customers were familiar with the product, slept on the product and were basically converts to the product. They had nothing but tremendously high praise in what it did for them, how it helped them sleep, how it helped their backs feel. The prospects couldn’t get there. How do you convince them short of giving them the opportunity to try the product that the product has

that sort of life-changing potential? I think that is a real challenge; I think that is a real obstacle. Again it gets back to a marketing challenge more than anything else.

One of the strategies in the past has been to control the distribution channels as a way to have access to and educate the customer.

...in terms of market power, I think a real advantage we have is this unique system of distribution channels for customers. We've got the direct marketing channel, we got the retail channel, we've got the roadshow event channel and now we've got the e-commerce channel. To me that offers enormous opportunity and potential market power in that we control that distribution. We control our pricing. We can track and measure the interaction, for the most part, between distribution channels.

Given the importance of creating brand awareness and effectively leveraging the distribution channels, the facilitation of a discussion around **pivotal roles** quickly resulted in a list of key positions and talents needed throughout the organization. While there was concern about the lack of bench strength in several areas throughout the organization, the primary focus was on the positions that directly affected the sales process. Issues around the need for creative and talented people to set the marketing direction to build brand awareness were also mentioned, but the interviewees noted that awareness is primarily built through targeted persistence over time.

The following comments are representative of the focus on those positions affecting sales. "I think just in terms of recruiting, retaining, training and developing high quality dedicated phone representatives. That is our biggest challenge there." "On the call center side, for instance, I think we are going to have to decentralize there driven by labor

constraints in the local market. It is very challenging to find enough qualified sales people, so we've recently, within the past year, have started to ramp up our South Carolina call center. We may have to go to more remote locations.”

While the need for sales people in the direct side of the business were stated above, the growth plans call for an expansion of the approximately 300 distribution sites currently to over 1200 in five years, making the most pivotal role the store sales professional. The need to staff these stores has prompted a great deal of discussion about how the growth targets can be achieved. “Probably the biggest challenge that will face us will be identifying good people to run these stores and locations. That's generally the biggest constraint that we have had as well as continue to have is identifying the appropriate people.”

Given that the sales professional role is so critical there has been an increasing effort on those people. A new Sr.VP and General Manager of retail was brought in a little over a year ago and his comments reflect the increased focus on this talent pool. “When I joined the company, I turned a lot of people both here in the office as well as in the field. I think that we had a good organization, but it was a real mixed bag. What I mean by that is that we had either excellence or incredibly poor performers.” “As I got out into the field and began to dissect our business out there, I saw the same thing – very, very shoddy work done in the selection process, the development process and the training process.”

While there is concern for turnover and the fact that “...we don't have the systems that allow us to track turnover as closely as we should be able to”, this concern is more with the managers than the sales professionals. “ ...we generally find that where stores

are successful, it's where there is a good manager. Where they don't tend to be this successful, it's generally where you don't have as strong people. It comes back to that time and time again. We've seen a store performing very well; take someone out of it, and the store doesn't perform well. We've seen where we've taken a dumpy store and put a good person in and it comes around to that." There has been a great deal of focus on the multi-store manager, which include the District Sales Managers and the Regional Sales Directors. "...multi-store management is outstanding and you have to remember that we have 40 people today. There has been no turnover in those ranks in the last eight months other than a couple of people that needed to be turned over. I believe all of those people went back to store manager positions. None of those people have left us that we've wanted to keep."

When asked about recruitment issues the HR VP was candid in the anxiety that is building around staffing all of the distribution points. Currently all sales positions are staffed by Select Comfort, even when the sales site is a leased department within another store. "As I think about the plans, it [constrained process] will still continue to be the non-exempts in the retail field as we grow all of these stores. Even in a management level, as we are talking about all the growth plans and growth strategies and that type of thing, that is going to be huge. In getting the skill set we need, you can't just hire a bunch of clerks to get there."

The next step is then to identify what employee behaviors make the biggest difference, or as the PeopleSCOPE™ authors have labeled this component, **aligned action**. Following the sequence suggested by the PeopleSCOPE™ Human Capital Framework, the sustainable strategic advantage exploration results in an examination of

the key business processes which then surfaces the roles most pivotal to organizational success. Given that pivotal roles impact the critical constraints, aligned action is intended to build and protect the strategic resource. Pivotal roles are ones where improvements in performance can have a strategic impact. The role of the store sales professional has been identified as a pivotal role for this case. The interviewees were asked “Where/how do employees have the greatest impact on business results?” The comments that follow represent the view from the executive leadership team on the behaviors that most impact the business processes and the customer. “You have to have people in the stores that can communicate the key benefits. That’s going to be a key issue in this labor market.” “I think the longer term issue is finding quality people, recruiting, training, and retaining people who are good sales people.” In addition to giving them tools to work, so much is dependent on the person. No matter what kind of cookie cutter approach you put in there, it still comes down to the skill sets and motivation of people.”

“I think you can make a reasonably good performer out of most people, but the great ones just have something inside that they are motivated to do that. Generally, it comes down to people skills, motivation, and an aggressive nature, a get-it-done attitude.”

“I believe that it is real important to have smart people, and I believe it is real important to have people that have ‘fast speed’. They are willing to move fast; they are willing to take action; they are motivated to drive the business. You have to like working in a fast-paced environment to succeed around here.”

While the comments on aligned action can be generalized to several positions within the company, the need for aligned action is particularly evident in the sales professionals. There are currently 1200 such individuals in the organization and the growth plan calls

for hiring an additional 600 next year. This number is significant but it becomes an even more challenging task when the 100% turnover rate is factored in. The sheer magnitude of this talent pool would qualify it as a pivotal role under the guidelines that it affects the critical constraints. It is also the role on which the achievement of the company's growth strategy is most dependent.

Identify Team Event Participants by Value Chain Element. The project plan called for the next step to be the identification of the participants for the two to three day team event with HR participants partnered with line managers and information specialists (employees with knowledge of business processes and access to key data) throughout the organization. The goal was to develop triads that represent the core business processes in the value chain, and work through the PeopleSCOPE™ Human Capital Framework to identify the human capital implications of the organization strategy. The purpose outlined in the project plan was to:

- Develop an in-depth understanding of where capabilities create value for the organization and the human capital implications
- Validate business challenges, value chain, constraints, critical processes and pivotal roles for each segment of the value chain, and
- Engage individuals who will work with HR to align resources to support an effective human capital strategy.

A great deal of discussion took place amongst the core team and also the executive team to identify the participant roster. The researcher had suggested triads to ensure that sufficient resources were available to address the strategic issues and human capability implications. The value chain that was developed based on the fieldwork and executive

interviews had six segments (see Appendix O), therefore suggesting 18 participants. The CEO felt strongly about the executive team being included in the sessions since they were the critical links to the execution of the strategic outcomes. In reality though, they would not necessarily have all of the data or the time required to support the development of the human capital strategy. A request was made by the HR VP to expand the triads to teams of four or five to ensure that the appropriate people were involved. Since including additional participants would not inhibit the process the decision was made to include additional people in the team event. The list of participants was presented again to the CEO and during a review it was noted that nearly all of the employees at the Director level and above were included on the list. In a gesture intended to err on the side of inclusivity rather than send an unintended message to someone who was being excluded, a decision was made to include all employees at the Director and above level. This decision resulted in a total participant list of 39, including key HR people below the Director level.

HR Team Training. The preceding two sections presented results from the fieldwork and executive interviews. The protocol that was presented to the Executive Team at the commencement of this study noted that the next step would be to train the Human Resource team on the process and to share the results of the findings with them. The objective was to equip them to co-facilitate a team event in which the data gathered in the previous steps would be shared, validated and refined by a larger constituency. This step is a key vehicle for positioning the HR professionals as strategic partners who would then be a resource for developing human capital strategies that could drive strategic success.

The training included the HR VP, the four HR Directors, and eighteen others representing various positions within the human resource function. Everyone under the direction of the Human Resource VP was invited to attend. Twenty-three people were invited and twenty-two attended for a participation rate of 96 percent. The session was held at an offsite location to minimize distractions. The training was conducted over a two-day period, running approximately nine hours each day. The material was delivered via a workshop model where new material was presented and discussion and application to the company and current situations was strongly encouraged. The workshop presentation materials can be found in Appendix U. In addition to the capabilities based strategy materials there was also a presentation on building capabilities through strategic staffing (Provo and Bly, 1990) since the fieldwork surfaced staffing issues at many levels throughout the organization. The introduction of the strategic staffing material provided a concrete application of the links between key business process and what Boudreau and Ramstad (1999b) refer to as HR bundles. The training objectives for the HR team training as outlined in the project plan were to:

- Provide training on the components of building a capabilities based strategy,
- Equip the HR participants as process experts for the upcoming team event, and
- Initiate the process for understanding the links between key business processes and HR bundles.

The participants were surveyed at the beginning and end of the session using the identical instrument (see Appendix F). The results of the survey will be further discussed in answering sub-question two in the next section. The survey was used as one vehicle

for gauging the comfort level for initiating strategic conversations within the organization both pre and post training.

Overall reaction to the training was positive. Many of the participants felt better equipped to partner with their functional areas within the company, and they more clearly understood the business success drivers. “HR has not been strategically involved in the overall business strategic planning. We certainly have the ability to contribute to the process, but need the buy-in from the executive management to be a true player and facilitator within the process.” This same individual responded to the question of what role should HR have in strategy development in this way. “[We should be] able to evaluate impact of decisions [from an HR perspective] before they are finalized [from a strategic planning standpoint].” Others felt more comfortable in articulating and understanding the link between organizational strategies and the resulting HR implications. When asked about HR’s role in helping make the firm the leader in the industry in the next five years, many mentioned understanding pivotal roles, examining and developing an infrastructure to support growth, the need for alignment and measurement. The follow responses are representative.

- “Make sure HR strategy is aligned”
- “Measure results”
- “Examine our process to make sure we are getting ‘value’”
- “Assess the value to the organization from a human asset evaluation”
- “Become a strategic partner who provides analysis data and challenges to management team”

These responses reflect a more strategic perspective than the more traditional responses from HR that were seen in the pre training surveys. When asked about their role in helping the organization achieve their industry leadership goal the responses were more centered on recruiting and training, and included fewer references to measurement, alignment, and creating value through human capital investments. Representative responses from the pre survey included the following:

- “Attracting the right people”
- “Maintaining a high level of skill and productivity”
- “Hire the right people”
- “Source and hire the best sales associates”
- “Improve the company’s image for employees and potential employees”
- “Provide competitive benefits and compensation”
- “Provide needed training”

The training was intended to provide the HR team with a deeper understanding of the implications that business strategy has on human capital strategy. It was also intended to provide a framework and tools to analyze human capital investments within a business context to facilitate informed strategic decision making. The immediate application would be in assisting with the facilitation of the team event discussed in the next step. The second application was to prepare the HR leadership to work with the organization to develop a capabilities strategy and to align their human capital initiatives in a way that creates value for the firm. The second application will be discussed in response to sub-questions two and three.

Team Event. The project plan called for the next step to be a two to three day team event with HR participants partnered with line managers and information specialists (employees with knowledge of business processes and access to key data) throughout the organization. As mentioned previously, the goal was to have these triads, representing the core business processes in the value chain, work through the PeopleSCOPE™ Human Capital Framework to identify the human capital implications of the organization strategy. The purpose outlined in the project plan was to:

- Develop an in-depth understanding of where capabilities create value for the organization and the human capital implications,
- Validate business challenges, value chain, constraints, critical processes and pivotal roles for each segment of the value chain, and
- Engage individuals who will work with HR to align resources to support an effective human capital strategy.

Due to the uncertainty felt throughout the organization and the need to develop and communicate strategic direction, the size of the participant list was increased well beyond the initial proposal by the researcher. In the initial plan it was proposed that each segment of the value chain be supported by a triad representing HR, the line and a key information specialist for each segment. This would result in a total of eighteen participants since the value chain as presented in Appendix O showed six key business processes. A decision was made by the CEO and the HR VP to include all employees at the Director and above level. This resulted in a total participant list of 39, including key HR people below the Director level.

The meeting was set for June 29, the week following the HR Team Event. The process was dependent on the HR professionals being able to facilitate strategic discussions in the value chain groups, so it was essential that they be allowed to participate in a preliminary training session which prepared them for their role in the team event. The decision to lag the HR training by one week was made by consensus of the core team based on the desire to have some chance to integrate the information and gain clarity around their role in facilitating the organizational event. The scheduled also recognized the value in having the two events scheduled close together so the concepts would be fresh and familiar.

However, the team event was never conducted. The initial meeting was postponed due to a number of events that were distracting the management team and delaying the articulation of strategic direction. The CEO and members of the executive leadership team were concerned with the original schedule that required a strategy session to be fleshed out and articulated on the day preceding the team event. Their concern was that they would not have enough time to formalize their thinking before presenting to the larger group. There had been considerable anxiety around the meeting on the part of the Executive Team who were being asked to present their plan for achieving the growth target proposed by the chairman. The executive team felt they had not had a chance to think through all of the alternatives themselves and there was considerable discussion about the fundamental determinants of the business model. There was concern that not having a full understanding of the financial and market components of the business model they would not be in a position to appropriately evaluate alternatives.

Adding additional pressure to the Executive Team was the fact that employees throughout the organization were anticipating the session, and looking forward to the resulting strategy. The session was being held nearly ten weeks after the new CEO had been named and there had been frustration building around the lack of communication and guidance from that position. Many saw this meeting as a chance to finally hear the strategic objectives and to participate in the development of tactics and action plans to achieve those objectives. The anticipation and expectation level from the Director and VP levels was high and that pressure was felt by the Executive Team who were uncomfortable communicating a strategy that was not completely clear to them. Instead of the team event as suggested by the schedule, they recommended a strategy session with the executive team followed by a team event two weeks later.

Thus, the organizational strategy event with the Directors and above was rescheduled for July 13 and 14. This meeting was to be preceded by meetings with the Executive Team to plan the agenda and develop the business case that could be used to support the strategic alternatives. A meeting was held on June 29 with the Executive Team and the researcher to review the fieldwork results and set an agenda for the strategy event. All members of the Executive Team attended this meeting. The overall mood was sober and there was not much participation in the discussion of the results that were shared in summary form (see Appendix Q). When pushed by the CEO to express their opinion about having the organization strategy session, there was initial hesitation. After some discussion there were a number of those present who implored the team to go forward with the planning sessions. There was a great deal of pressure to have a plan finalized for the Board Meeting on July 28 and many felt that an exploration of the strategic

positioning and the reasons for being so far below sales projections would yield some insight for that presentation. At that point the CEO commented that it was very difficult to plan forward when there was no one in the organization that could really explain the drivers of the business. He provided examples where sales were up one period and down the next or up in one region and down in others and no one was able to discern the patterns or the reason for the erratic sales performance. The Sr. VP's of Retail and Direct were currently working on financial projections for the board meeting that would forecast revenues for the balance of the year. It was expected that those reports would be available by July 8 at which time the Executive Team would be ready to analyze those reports and begin a planning process to establish strategies and objectives for the following years.

On June 30 a memo to all Directors and all Vice Presidents was sent out at the direction of the CEO to postpone the July 14 team event. The memo stated:

The strategy session we had scheduled for July 14 has been officially postponed. Due to the reforecasting for 1999 and the forecasting for 2000, the management team needs more time to strategize on future plans. We will plan to reschedule another date after the board meeting on July 28.

Travel plans were cancelled and calendars cleared for a second time. There was some discussion about announcing the new date, but the management team was uncomfortable committing to a date for a third time. At this point they wanted to get through the board meeting and then gauge the impact of any changes in direction or strategy.

It became evident why the CEO had delayed in presenting strategic objectives and the initiation of discussions on the development of a human capital strategy. On July 19,

1999 the CEO announced his resignation after just three months on the job. The CEO announced that he was leaving to join another organization. While publicly the decision was presented as an opportunity that had come up quickly, there were many who felt that he had been working on this deal for quite some time and probably had not been directing the organizational activities as closely as he should have been.

The researcher called the HR VP the day after the board meeting to find out what had been presented and to reschedule the team event. That call, and several others after that during the next couple of weeks went unanswered. There was a prevailing sense of uneasiness among the people the researcher was able to connect with during the several weeks following the CEO's resignation.

Once again, there was a question as to whether or not the research study could continue. In the weeks immediately following their CEO's resignation there were a number of changes within the organization. The Sr. VP of the Direct business resigned, a person was hired into the position of Sr. VP of Strategic Planning and Branding, and a search was launched for a Sr. VP of Corporate Development and Marketing. Much of the activity was driven by the Chairman of the Board who had initiated a search for a new CEO, but was serving in that capacity on an interim basis. This was the third CEO for this organization this year and once again there was anxiety amongst the employees at all levels and a great deal of speculation in the press about the direction and leadership of this organization. To make matters worse one of the local papers published their Minnesota 100 second quarter stock performance for the largest public companies in the state (Oslund & Kennedy, 1999) and Select Comfort was at the bottom of the list with a negative 74 percent change in share price year to date.

Interview with the Chairman of the Board and Interim CEO. During the course of this study the researcher developed a number of relationships with individuals throughout the organization. In conversations with these individuals it became clear that the stress on the organization was starting to take its toll. This was particularly true with members of the Core HR Team who were faced with incredible challenges to attract, hire, retain and motivate employees. The HR VP had a similar feeling of uncertainty and was seeing increased anxiety building throughout the organization. It was at this point that she suggested a meeting between the researcher and the Chairman of the Board. The Chairman, who was serving as the interim CEO, had been given a brief overview of the work that was being done and agreed to meet with the researcher. The meeting took place at the Chairman's office over a two-hour period. The meeting was tape recorded and the tapes were later transcribed. The tapes and transcription are maintained by the researcher in accordance with the agreement between the researcher and the organization. The researcher used the same interview guide that had been developed and used for the previous CEO and Executive Team interviews. The intent going in was to compare the interview data with the previous data gathered to surface areas of alignment or disagreement. A second objective was to gauge the Chairman's understanding of the human capital constraints to growing the business and to assess the willingness to make investments to alleviate those constraints.

The Chairman was accommodating and generous of his time. The interview was initially scheduled for two hours and ran an additional 30 minutes beyond that. The comments that follow are intended to provide insight into the Chairman's vision for the company and to also illustrate differences of opinion on how to achieve those goals.

When asked about the most important challenges facing the company the following areas were mentioned:

- Developing awareness for the product and for the company,
- Appropriately deploying the growth strategy,
- Ensuring that the right people were in place, and
- Taking the management team to the next level by getting them to understand the strategy and have a business plan for their area.

He further noted that four things had to be looked at together when recommending or initiating any action: people, product, distribution and marketing. He stressed the integration of these components and noted that they would not be able to accomplish the strategy without being appropriately engaged at all four levels. In talking about these elements he mentioned that “these need to be orchestrated extremely well by the senior management team and that needs to trickle down through the divisions very specifically.”

He mentioned specifics of what is entailed to meet the requirements of people, product, distribution, and marketing. The people issues were pervasive throughout the interview and will be discussed further below. In regards to the other components he talked about needing more and better *products*. “...I think we are going to move towards three major products; the mattresses, sofa sleepers and the chairs, and that we will then have another 10-15 sku’s that will be important and will be consistent with those products. Consistency with these products means that they work”. “They are probably sleep oriented, relaxation oriented, or back oriented.”

“In terms of *distribution* points, it is clear that to be \$1.5 billion, we have to have over 1,000 distribution points.” In terms of distribution he again centered back on the need for consistency. “The distribution points need to be consistent with the brand.”

He also discussed marketing extensively. “The problem with our mattresses is that people are not aware of what we have. If they were aware of what we have we would feel a lot better about the product line-up.” In the areas of advertising he specifically mentioned his frustration with the current activities, and the challenge of trying to work with advertising agencies who need to grow with their business. “Ad agency people tend to lock in really early. For some reason, in seeing these people for 25 years, they develop their two or three great ideas and then they can’t move off. Four, five and six don’t come. We need to continue to innovate in terms of advertising.” There was also discussion on segmenting the market. “There are plenty of opportunities there, but the approach the direct marketing has to take is one where they really do segment the consumer and think about what the consumer needs.”

While several of the other executives mentioned the need to increase brand awareness during their interview and many talked about the importance marketing played in that challenge, they less frequently mentioned the people aspect. The CEO and the HR VP were most direct in talking about the need for key talent, but the other senior managers mentioned people to a much lesser extent. The Chairman, however, mentioned the critical role that people (employees) play in the achievement of organizational success. He summarized the organizational challenges in three different ways and in all three summaries he mentioned people as success drivers.

He went further when asked about the biggest internal constraint or obstacle. “Internally the biggest issue is sheer intellect. Secondly, it’s attitude. The intellect has to change at the top and then really good people will bring in really good people behind them.” When asked a clarifying question about the people currently on staff he was quite candid in his assessment. “I think that we did not hire the right people. In an organization like this, for instance, we should be able to look down into the organization and see people who are pushing up from underneath. They are challenging their superiors: they’re bright, they’re young, they’re energetic, and they’re enthusiastic. We will have people like that.”

In response to a question on the caliber of his people and retail employers in general, he was quite critical of the level of current talent.

I’ve invested in retailers for 26 years. Retailers are normally not the brightest people on the face of the earth. They are not engineers; they’re not scientists. They are hard workers; they’re very nice people. They are usually very creative and are terrific in sales. When you get down to sheer intellect, that’s not how they are going to figure something out. They’re going to do it through personality or through tricks of the trade, selling techniques. That’s great, but we needed some people in the organization, and as much as I don’t like MBA’s, we needed a bright, young Harvard MBA pushing up from underneath. We have not hired those people. We have consistently hired people that on a grading scale, I would call B+. B+’s tend to be great people, but who are the stars in the organization? When you ask who are the stars in this organization, it is a very short list. We need more stars in this company.

Why we have not hired them, I'm not sure. It has to start at the top. In my Venture Capital organization I've had one rule of thumb in hiring other partners. They have to be smarter than me. I've done that consistently, and they are, and that works. I think that at Select Comfort we've clearly not done that. We said we are going to hire somebody that will be satisfied with this salary level and can do the job. They will do the job for the next 14 years. That's the wrong approach.

In summary he noted that the three elements to be considered in the accomplishment of their objectives should be people, motivation, and strategy. He concluded his remarks on strategy by going back to a point he made earlier, "What I am trying to do is these four things – people, product, distribution and marketing and they are all interrelated.

When asked how success would be measured when he looked back in 2003 his response was quite clear.

I would put a definition on it as four different things. One is high growth, 35 percent per year and revenues is the best measurement for that. Secondly, high profitability. My own goal would be to hit a minimum after tax profit margin of 80 percent. Third, is that we are known in the customer community as being a company that produces high-quality, innovative, proprietary products that provide real benefits. The last one is respect. Respect has to be all of our key constituencies, which includes employees, shareholder, and vendors. We have to be a company that by the time we accomplish our goal, we have done it and developed a position of respect for those key constituents

rather than an organization where people say, wow they did it, but everyone hates them.

HR Debriefing Session. While there were a number of setbacks and considerable change taking place within the organization, there was continued contact and dialogue with the Core HR Team. The conversations centered on their desire to take all of the data that have been gathered through the fieldwork and interviewing process and incorporate that into their 2000 planning initiative. This desire appeared to be somewhat spurred by their deeper understanding of the strategic implications, but also driven by the current challenges they were having within the functional areas they support. There had been some turnover in key roles and there was also a great deal of uncertainty amongst the employees driven by the change in management, lackluster sales performance, and a constant barrage of negative reports on the company from the local media and financial analysts.

The core HR team appeared to be anxious to initiate some action on the findings of the research and they were becoming somewhat impatient waiting for some direction from the Interim CEO. There were a number of attempts made by the researcher to encourage the team to go ahead with their own planning and strategy work. In fact several calls were made to the HR VP to try to initiate the next step. She appeared to be waiting for some direction from the CEO. Furthermore, there were several initiatives being launched (a marketing study, retail distribution study, and an executive search), and that there appeared to be a desire to complete those activities before initiating any planning for the HR group.

At this point no amount of prodding and suggestions from the researcher were having an impact as people were struggling with the changes that were going on day to day within the organization. It was a “wait and see” approach, and given the organizational upheaval of the last several months it was understandable that people were not ready to launch anything new until they felt comfortable that the CEO was going to be supportive of their efforts. Nearly two months had passed since the last meeting with the Executive Team when an opportunity to reengage this group emerged. The interim CEO sent out a memo requesting each department to analyze their business, the role they played in the organization and their strategy for the next 5 years (See Appendix V). This memo prompted a call from the HR VP to the researcher and the resulting engagement proved critical to the development of a strategy that focused on alleviating some of the capability constraints.

Initiate HR Strategy Plan (Create Report). The researcher and the Core HR Team reconvened on September 7, 1999. At that time there was a great deal of discussion on the information that had been gathered during the fieldwork and the interviews and a sharing of the changes that had taken place since that work had been completed. Armed with an understanding of the organizational challenges and fundamental drivers of this business the researcher was poised to apply a strategic and financially sound approach to the development of a human capital strategy for this organization.

The full day working session on September 7 was preceded by a planning session between the HR VP and the researcher and the development of an approach to incorporate the data and insights gathered over the past several months into a plan for moving forward with the human capital strategy. The meeting on September 7 included

the HR VP, the Director of Training and Development, the Director of Retail HR, the Director of Generalist Services, the Director of Compensation and Benefits and the newly named Director of Recruiting. This was an all day session and it was launched with a discussion of what was done in 1999 and what have been the biggest constraints to achieving their goals this year. There was also a review of the assumptions that were driving growth through the year 2004. The prevailing measure was the sales projection for 2004. This figure had been stated a number of ways over the past few months but at the core was that the organization “will grow to \$1.5B in sales by the end of 2004”. This figure had been further broken down by distribution channel with \$1.2B coming from the Retail business, \$200M from Direct and \$100M coming from E-commerce. There was currently a great deal of work being done to determine the best way to achieve these sales goals. Along with the current distribution avenues there was discussion about placing Select Comfort products in the more traditional distribution channels, working on launching a number of affinity programs (such as with health care organizations or senior citizen groups), and also the notion of distribution through catalog. While all of these ideas were currently under investigation, the one given was that no matter what avenue was taken, there were going to be human capital issues primarily centered around the need for a staffing strategy. The current thinking was that even if alternative distribution sites were used they would still be staffed by Select Comfort employees. Given that there are currently 1200 retail employees for 350 distribution sites, simple calculations would indicate that over 4000 retail employees would be needed in the next 5 years. The strategy for staffing these distribution sites needs to consider not only the hiring of the new employees, but also the high turnover and the resulting replacement strategy. A

succession management or promotion strategy is also needed, as many of the current sales professionals will need to move into Sales Manager, District Sales Manager and Regional Sales Director positions in the next few years to support the addition of distribution sites. The recruitment and retention strategy would need to include all elements of the process including, sourcing, selection, hiring, orientation, and retention.

A number of other HR issues and needs were surfaced during the resulting HR strategy sessions and in the development of the five-year HR plan. Given the volume of transactions required for each employee there was a need for HR systems that could support and maintain this data in an timely and accurate way. Nearly all of the other issues raised were centered on the staffing strategy needed to attract, retain and motivate this rapidly growing workforce. The key areas mentioned were:

- Recruitment and attraction strategies
- Competitive compensation and benefit strategies
- Automated benefits and payroll systems
- Performance management strategies including management development, succession planning, career development and mentoring.

To successfully implement these practices there was a need to track and measure HR data. There was also some discussion on what was needed to be considered a strategic partner within the organization. The growth strategy is very dependent on effective and efficient HR practices, yet these HR leaders did not find themselves included in the strategy discussion going on throughout the organization. There was a great deal of discussion around what was needed for HR to be considered a strategic partner. The resulting elements are listed below:

- Recruitment strategy that supports growth
- Data driven decision making
- A way for valuing human capital alternatives
- Support/partnership with the business units
- HR involvement at the front end of strategic decisions
- Well defined systems and processes

Brief Results. The resulting presentation (Appendix W) summarizes the strategic HR approach that was recommended. A change in the organizational structure for HR is suggested to manage this growth and there is a great emphasis on building partnerships with the various business units. There is a scorecard for 1999 with some discussion on what could have been done better and also a summary of what HR must do exceptionally well to be successful in supporting the organizational strategy in the areas of:

- Recruitment and Retention
- Performance Management
- Training and Organizational Development
- Employee Relations
- Compensation and Benefits
- Human Resource Administration and Management

Also included in Appendix W are detailed actions planned for each of these areas through 2004. While focal areas mentioned above could be generalized to most any organization, the key for this group is that they discovered that each of their areas has to be aligned around the growth objectives and the need to support the distribution strategies for the

organization. This may not seem like a keen insight, but for this group it was the first time they really analyzed their day to day activities and articulated the need to align what they were doing in a way that has the greatest impact on achieving the organizations growth goals. This insight alone provided a platform for aligning and organizing their initiatives and also provided a framework from which they could measure the effectiveness and impact of their collective activities.

The HR VP made this presentation to the Chief Administrative Officer and later to the CEO. This report was also presented to the Executive Team. Several of the human capital implications that resulted from this HR strategy and the subsequent presentations will be further discussed in the description of results for sub-question 3.

#### Summary of Results Sub-question 1

The critique of the PeopleSCOPE™ Human Capital Framework was used to inform the development of an organizational capabilities strategy protocol from the human capital perspective. The critique surfaced a number of issues that were considered in the development of the human capital protocol. The resulting protocol consisted of ten steps as documented in Appendix H. The resulting application of this protocol did not go as planned however with Step 7, the Team Event, redesigned a number of times and eventually cancelled due to a number of organizational issues, including poor financial performance and the CEO's resignation. The CEO resignation prompted an additional step that was not in the original protocol and that was an interview with the Chairman of the Board who was serving as the Interim CEO.

The PeopleSCOPE™ Human Capital Framework was used to develop the capabilities strategy protocol, and framework proved useful as an organizing construct to show how

each step in the process was integrated into the development of an organizational capabilities strategy. Without the team event as scheduled this process was not introduced as planned, but has still received a great deal of interest and attention by the Executive Team and the Human Resources Group. The ability of the human resource professionals to facilitate this process and the resulting human capital decisions will be discussed in description of results for sub-questions 2 and 3 in the next sections of this chapter.

#### Description of Results Sub-question 2

The second sub-question asked, **Can human resource professionals use a human capital protocol to facilitate the development of a capabilities strategy process for their organization?** This sub-question was examined by looking at HR's current role in the organizational strategy process and by gathering data to evaluate how the application of the human capital protocol can impact the way HR professionals affect and respond to strategic decisions. There were two primary activities from which data to answer this question was gathered. The first was to understand the role HR currently plays in the organization's strategic decision making. The second activity was the development and facilitation of a two-day workshop for the organization that introduced the capabilities approach and a process for thinking about the capability constraints of the organization's growth strategy. The research results for both of these activities are presented below.

An integral part of the study included increasing the business acumen of the human resource professionals within the organization. The HR VP appeared to be frustrated by the lack of involvement that the HR professionals had in the strategic planning process. The PeopleSCOPE™ Human Capital Framework and the resulting human capital

protocol became a platform for enhancing the HR staff's ability to think strategically and look for opportunities to present a business case for HR investments throughout the organization. The leaders of the various human resource functions were traditionally trained HR specialists with little educational or line business experience. Their introduction to the human capital framework and strategic context of capabilities strategy was presented during a two-day workshop. As previously referenced, the workshop materials can be found in Appendix U.

In order to gain insight into how the HR professionals viewed their role in strategy, they were given a survey that asked them to describe the extent to which they had been involved in the strategy development and deployment in their organization. They were further asked to describe their role in helping the organization reach its strategic goals for the next five years. The strategic goals as presented in the Chairman's letter on April 21, 1999 (Appendix J) included the following: increasing distribution points, expanding product offerings and increasing the retail advertising reach. They were also asked to comment on the constraints or obstacles that would inhibit their ability to contribute to the attainment of these goals. The complete participant evaluation form is found in Appendix F. These individuals were given the same instrument at the conclusion of the second day of the training. These instruments were coded so that each participant's pre and post comments could be compared. The researcher did not know how the codes had been assigned to the participants and the survey results were not reviewed until the completion of the entire workshop.

The data were analyzed to determine if there was a change in the perceptions of what these individuals could do to enhance the value of the firm through the application of a

strategic perspective. The participants were not familiar with the notion of capabilities strategy or even human capital strategy per se, but their responses to the survey distributed at the beginning of the session indicated that they felt strongly that HR should have a role in the strategy process. The following are responses to the question of what role HR should have in strategy development. “Facilitate and put in place action plans that help carry out the strategy”. “HR should be central in the strategy development and execution.” “HR needs to be involved in the development of our business strategy to ensure we have the knowledge up front to implement the needed system enhancements, recruitment initiatives and training plans.” “I think HR should be the core developers of the strategy process.”

While these participants felt strongly about the role they should play in strategy development the extent to which they have been involved in the strategy process varied significantly. “Different areas of the HR department have participated at different times during the process, we are generally given the goals for HR and are instrumental in strategizing how to attain them.” “I would say a lot, especially in terms of recruitment, selection and training of new hires.” “I am not aware of the extent to which HR has been involved with planning at Select Comfort.” “One strategy HR has been involved in is developing a communication strategy for the whole company.” The comments represent input from individuals at different levels of the organization and it is perhaps not surprising that their understanding of strategy and HR’s role in the development of strategy would be diverse.

The comments received at the end of the two-day workshop were more specific about the role that HR should have in strategy development. In fact, there was a great deal of

input provided regarding how HR could help accomplish the strategic objectives of the firm. While the comments were focused on the traditional HR offerings, there was a richer strategic context for this involvement. “Hiring, retention of employee, determine pivotal roles.” “Put the pivotal people in place.” “Hire the right people, train them well, provide opportunities for development.” “Lay out specific plan to ensure that we will have the staff to support the growth.” “Become a strategic partner who provides analytical data and challenges to management team.” “Make sure management is receiving the necessary data to determine what area is responsible. HR needs to be there to support the changes not take ownership of the problems incurred with the change.”

While the comments reflected a great deal of enthusiasm and understanding of the ways that HR can contribute to the strategic positioning of the organization there are some organizational constraints/obstacles that need to be overcome in order to successfully contribute to the attainment of the strategic goals. When asked to identify the potential constraints/obstacles to HR being able to successfully contribute to the attainment of the five year goals, the following comments were made. Each bullet point represents a single comment by a respondent.

- “Buy in by upper management, technical support, human resources (people)”
- “Number of people, system abilities, measuring tools”
- “Not being able to convince management of the importance of program to lend value to the goals”
- “Alignment with corporate vision”
- “Labor market, benefit offerings to new hires, attrition”

- “Lack of support from upper management, support from other departments, lack of thorough planning and strategy”
- “Other departments willingness to view HR proposals/role in strategy and growth”
- “Need to learn how to strategically present initiatives to key stockholders for backing”
- “System constraints limiting measurable items capabilities”
- “Number of employees, training budgets, too many strategies demanded from top management, IS/Computer systems”
- “Systems, personnel”
- “View from executive managers that HR is a strategic partner, time, systems”
- “Lack of understanding of pivotal roles of HR”
- “Traditional methods of seeing HR as a cost.”
- Line does not always see linkage of investment in people but cost
- The only constraint is us – HR – is we don’t utilize these strategic processes
- Being able to be involved in the development of the goals to ensure that HR staff will support the goals
- HR needs to communicate the strategies down to all levels of HR to ensure that every member plays the correct roles and supports the strategies

While the responses mentioned lack of people and systems issues, the primary obstacle identified was related to gaining credibility within the organization. There was a

concern that management did not see HR a strategic partner or did not value their perspective in the strategic planning process.

### Summary of Results Sub-question 2

This sub-question asked, Can the human resource professionals use a human capital protocol to facilitate the development of a capabilities based strategy for their organization. This question required the researcher to understand the role HR currently plays in the organization's strategic decision making. Data to support this investigation was gathered from the Executive Interviews and also interviews with the HR staff. There was a great deal of consensus around the lack of HR involvement in the development of organizational strategy and also some debate about how successful HR has been in executing strategy.

The delivery of the two-day workshop for the HR Group did provide an introduction of the capabilities approach to strategy and a process for thinking about the capability constraints of the organization's current growth strategy. The human capital protocol did provide a tool for thinking strategically about the implementation of HR initiatives that can increase value for the firm. When this protocol was coupled with the elements of the Return On People™ approach, where the value of HR initiatives can be quantified, the HR professionals begin to demonstrate an understanding of the value of HR investments. The surveys gathered at the end of the workshop did indicate a heightened level of awareness about the human capital implications of the organization's current strategy. There was also some initial work done on how the HR professionals could facilitate discussions around their role in developing organizational capabilities. However, the capabilities strategy process in this case was very much dependent on the researcher. The

next sub-question will provide examples of the human capital decisions that emerged as a result of the human capital protocol and the role that HR team has taken in the execution of these decisions.

### Description of Results Sub-question 3

The third sub-question asked; **What human capital decisions emerge throughout the organization as a result of using a human capital protocol?** This sub-question relied on the analysis presented by the previous two sub-questions and required the involvement of the HR Directors in the organization. These Directors, who formed the Core HR Team, were presented with the results of the first two questions and with the aid of the researcher examined the human capital decisions that emerged as a result of using the human capital protocol. The HR Core Team and the researcher then developed a plan to leverage investments in human capital to create value for the firm. While there were a number of human capital implications (and most of them will be realized within the next five years), for the purpose of this research the implications of the strategic plan and sample of how human capital decisions create value for the organization will be presented.

#### Human Capital Decisions Resulting from the Human Capital Protocol

An illustration provided by the researcher summarized the nature of the decisions that surfaced during the implementation of the human capital protocol. There was considerable interest in the financial and strategic impact of the current recruiting initiatives. This following example provides a baseline that the HR leaders can use for evaluating alternative human capital strategies and also provides the process steps around

which all of the HR areas can be aligned to ensure organizational impact of HR investments.

The researcher asked for some data from the HR leaders on the recruitment and selection process to demonstrate the magnitude of this task for the coming year. The following data was provided. For every one employee hired,

- 20 Resumes are screened
- 10 Candidates are phone screened
- 4 Candidates are interviewed in person
- 1 Person is eventually hired
- The current turnover rate is 100%

Given this data and the hiring needs for the coming year, the amount of time that will be spent on recruiting and hiring is staggering. For example, there are currently 60 sales positions open and there will be another 140 open by year-end for a total of 200 positions. Given the figures above, filling those positions will require 4000 resumes to be screened, 2000 phone interviews, and 800 in person interviews. The issue is not only the magnitude, but the cost as well. The HR VP commented “We’re spending thousands of dollars in recruitment fees. For the dollars we have spent alone in recruitment fees in a year, you could hire six people.”

Once the magnitude was understood, the HR Team was in a position to start brainstorming how they might align their efforts to make this process more efficient. The list was long and included everything from regional recruiting centers, to employee referral bonuses to massive advertising campaigns. These ideas had merit, but the next

question raised was how this recruiting effort could be funded. This question prompted the researcher to review the human capital protocol, the PeopleSCOPE™ human capital framework and to introduce the threshold ROI approach. The goal was to have the team understand the strategic and financial implications of their recommendations and also to understand how to present their human capital initiatives to the managers of the business units they support.

In the data gathered earlier in the research it was determined that the district sales managers are spending at least 40% of their time recruiting and hiring. It was also noted that the median price for a bed was \$1,200. The successful sales professionals sell three to four beds a week for an average of about twelve beds per store per week. With 332 stores currently open and the figure expected to rise to 345 stores by year end the impact of one more bed per store is  $345 \times \$1,200$  for a total of \$414,000.

The \$414,000 is the amount available to be invested in recruiting and hiring if management believes that having their district sales managers in the stores two more days a week (40%) will help them sell one more bed per store per week. This threshold ROI approach incorporates financial data already known about the business and proposes the intervention in a way that allows the senior managers to make an informed decision about the assumptions presented. In this case, management had already said that one of the drivers to the success of the stores was having an effective district sales manager who was visible and involved in the stores they manage. As a HR manager the investment becomes much easier to sell when the question is positioned in a more compelling way. Such as “What is it worth to you to have your district sales managers in the stores two more days a week?” “Could you sell one more bed a week per store if the district sales

manager were available to be in the stores two more days per week?” It is this type of discussion that demonstrates a strategic perspective of human capital and lays the groundwork for investment in capabilities. In this particular case when the Director of Retail Human Resources presented this example to the Senior VP of Retail his response was “now you’re thinking”.

The analysis can go beyond the immediate needs and be taken to the next level by looking at the number of stores to be opened next year and extending the analysis to incorporate the impact of turnover. In fact when looking at turnover it is known that the average sales professional stays with the organization for just five to six months. In this case, assuming that an average salesperson sells three beds a week conservative projections demonstrate that each additional week that a person stays on the job is worth \$1,200 for each bed sold. In the worse case if the person only sold one bed a week and stayed an additional month it would be worth \$4,800 to the company. That number rises significantly when multiplied by 1,200, the number of current sales professionals.

Given this data and the approach for analyzing the appropriate investment of resources in particular HR initiatives or bundles, the HR professionals are in a much better position to align their efforts. In this case there may be retention strategies, which include training that ensures that the sales professional is more successful and thus stays longer with the organization. There may be an opportunity to provide bonuses based on tenure or to managers who are better able to retain their successful sales professionals. This analysis can also be used to determine the amount of investment in recruiting, and even to determine the financial impact of a change in the compensation structure.

The point for this Core HR Team and for others within the organization is that starting the analysis with an understanding of the sustainable strategic advantage and key business processes provides a “line of sight” into pivotal roles within the organization. Once the pivotal roles are understood from a strategic perspective, HR professionals are in a much better position to analyze the behaviors that most impact the business and determine whether the constraint is one of capability, opportunity or motivation. This understanding provides the strategic context for recommending HR investments to build capabilities that will have the greatest impact on the organization. Using the sales professionals as a pivotal role, the following section will illustrate how this organization is using a strategic approach to building capabilities within their sales function and how these investments can create value for the organization.

#### Human Capital Decisions that Create Value for the Firm

As shown in the HR strategic plan (Appendix W), there are a number of HR initiatives being planned for the next five years. Of all of these activities, the area that has received the greatest amount of management support and interest is in the attraction, motivation and retention of sales professionals. The business strategy is dependent on a successful approach to recruiting and hiring these employees, and the senior management of the retail sales channel has acknowledged the importance of placing and keeping key people in these roles. The management has also shown a willingness to partner with the HR staff to develop solutions that are not only efficient, but also have the biggest impact on achieving the organization’s strategic and financial goals.

This role is critical for a number of reasons that need to be illustrated here. There are very few sales professionals in any one store. In fact stores with \$1,000, 000 in annual

sales revenue operate with a sales force of three to four people. It should also be noted that there are large variances in performance between the high performers and the average performers. There appears to be a correlation between tenure and revenues although the study on that is currently going on and was not completed at the time of this writing. There is a great benefit to having a high performer in the store as evidenced from the sales figures. While differences in performance for average performers can be illustrated, it is not known how much poor performers hurt potential sales and brand image beyond the fact that the sale was not made. In other words, there is a potential revenue loss that is not captured when poor to average performer are allowed to continue to work in the store. It is also important for the accomplishment of the organization's growth strategy that potential district and regional sales managers be recognized. While their performance may be evidenced in their sales figures there have been instances where a sales professional who was only rated as an average sales professional went on to become a highly effective District Sales Manager, managing stores and sales professionals who are performing very well.

The question then posed to the HR leaders was how to develop strategies that allow them to attract and retain these key employees. They also need to analyze and recommend practices that support high performance in this area. In order to accomplish these objectives there has to be a determined focus on where to invest money, HR staff time and influence, employee time and leadership attention. They need to make this determination based on a focused "line of sight" on the business drivers and how the role of the sales professionals contributes to organizational goals. There also has to be an in-depth analysis of this talent pool. The questions that need to be answered start with what

attracts potential candidates to this position, what they are looking for, and what motivates them to stay and perform well. There needs to be a way to assess their potential and performance over time. Finally there needs to be an understanding of the obstacles to their success and an examination of those work practices which inhibit their ability to achieve their sales quotas.

In the examination of the sales professionals in this organization throughout this study, a number of HR strategies have been suggested. At the time of this writing many are in the process of being implemented. One of the first processes being initiated is an examination of the behavioral competencies needed to be successful in the sales professional role. While there is currently an interview guide available to the store managers, it is not being used consistently and in fact may not be providing insight into what makes a successful sales professional in this organization. The Sr. VP of Retail stated that in the past they have tended to hire high energy, gregarious people. "We were practically looking for the stand-up comedian." In retrospect, and now that they have a couple of years of history to look at, the gregarious people may not be the one the customer relates to and in fact they may not be the type of individual from whom the customer wants to buy a bed from. In addition these gregarious sales people need a great deal of interaction to be effective and there is not always enough traffic in the store to keep them motivated. The sales professionals spend a great deal of their time on the phone following-up on leads. This type of selling may not be all that appealing to the gregarious, high-energy sales people they have hired in the past. So, in order to enhance their ability to create value the organization needs to look at the competencies demonstrated to be correlated with success for this company. They should then develop

and implement an interviewing and screening process that selects for those behaviors. The Retail HR Director made it clear that they can not use a standard competence model for sales professionals since this type of selling is unlike traditional home furnishing selling. The store model is different with the single product and there is also a great deal of product knowledge that must be conveyed to the customer.

As a result of the strategic process initiated in this study the organization is now developing a competency based interviewing process that will allow them to maintain consistency in their hiring as well as allow them to increase their likelihood of selecting for success. The process they have undertaken has a number of steps. The first step involves understanding the correlation between sales performance and other variables, such as tenure, management influence, promotional activity, and location. They are cautious against building competencies from an analysis of the top performers only, without understanding what other variables may have an impact on success. Once they have determined these relationships they are in a position to build a competency model against the behaviors that have been found to most contribute to success. These competencies will then be incorporated into an interview process that will allow the hiring manager to more accurately screen and make hiring decisions. Finally, the results of the interview guide can be compared at a later time to determine how that person performs against expectations. The data can also be used to evaluate the performance of the hiring manager. If for example, it is shown that a particular manager has no ability to predict future performance during an interview, they may need additional training or be removed from the hiring process. Conversely, if there are people who are particularly insightful they may be used to train other managers in what to look for and how to

conduct the interview, or they may take a larger role in the hiring process beyond their region. Each of these alternatives creates value for the organization by increasing the likelihood of hiring candidates who have a high propensity to be successful in the organization.

In the recruiting and screening process there are a number of HR initiatives that can be incorporated into the process which can create value for the organization. As illustrated in the example in the previous section the district sales managers are spending 40% of their time recruiting and interviewing. There is the potential for immediate sales increases in the stores they manage if they can just make themselves more available to those stores. It may be desirable to continue to have them involved in the interviewing process but there are a number of alternatives to recruiting and screening that could free them from those tasks. The researcher and the Director of HR for retail are analyzing a number of initiatives, including:

- regional recruiting centers,
- interactive interviewing kiosks,
- using 800 phone lines to prescreen, and
- outsourcing the hiring process completely.

Each of these alternatives can be evaluated under the same methodology as demonstrated above by getting the management to determine what the value of additional management time is worth if they could be freed of these recruiting and screening duties. An added benefit is a more consistent process and more opportunities to share learning and data across the system, as much of this information would be more thoroughly documented than it is now.

Also under way are a number of discussions around the capability, opportunity, and motivation of the sales professionals. There has been a great deal of effort under way the past couple of years to provide additional and better training for these employees. The completion of the manual for training sales professionals was revised in November of 1999 and distributed organization wide. The manual outlines a rigorous five day training program that is conducted by the store managers when new sales professional start with the organization. The preliminary results from the pilot of this training process have shown an increase in performance in the areas where the new sales training process has been implemented. This study has provided the strategic context for evaluating these initiatives as well as a framework analyzing future HR investments.

There has been some limited analysis on whether the sales professionals have the opportunity to be successful. In other words do they get the chance to be as successful as they can be? In the past there have been some barriers to getting orders entered into the system. A large portion of the transaction was completed manually and the sales professionals needed to do a great deal of follow-up to make sure that the order had been received at the home office and to track orders for the customer. Some of those activities have been automated, and others are now centrally handled by the customer service function, but there are still opportunities for additional improvements here. HR creates value for the organization by ensuring that organizational impediments to success are resolved. These impediments can be related to the system, the product, the management, and even the compensation system. HR's involvement in the resolution of any of these barriers creates value for the organization.

It is also important that the HR professionals analyze the motivational aspects of the job and this talent pool. What practices are in place to ensure that these individuals want to be successful? What stands in the way? The standard answer to this question usually drives to the compensation and benefits area. In fact motivational studies particularly those conducted by Pritchard (1995) point out that there are a number of factors which contribute to the valuation of rewards, including control systems, productivity, measurement and feedback, and contingent rewards. It is important to understand how the employee's behavior, results of that behavior, and performance contribute to the motivating value of intrinsic and extrinsic rewards.

### Summary of Results Sub-question 3

The preceding section illustrates a number of human capital decisions that resulting from the application of the human capital protocol. The protocol was built from the PeopleSCOPE™ Human Capital Framework and used in conjunction with measurement methodologies to provide insight into how the HR group could become more strategic and how they could be much more proactive in initiating activities that would contribute to organizational success. The level of strategic understanding and positioning amongst this group had been elevated through the HR workshop and continued work with the Core HR Team. The development of the five-year strategic plan provided a forum for gathering the various HR activities into an aligned action plan and it also provided insight into initiatives most closely linked to organizational success at this time.

In looking at how human capital initiatives and capabilities create value for the firm this HR organization has altered their approach to be more in line with the strategic thinking and decision making of their business units. In this organization human capital

challenges are being addressed at every level and the better armed HR is to address these challenges and provide solutions that create value for the organization the more likely it is that they will be seen as strategic partners.

## CHAPTER 5

### SUMMARY AND DISCUSSION

The challenge with organizationally based case study research is that the organization continues to function. At some point the researcher recognizes that the research questions have been answered and it is time to conclude the study. In this case, it is assumed that the insights and strategies initiated during the research period will continue. The summary and discussion that follow cover the research period and the questions that were proposed for the study.

#### Summary of Research Question and Method

The study was conducted using case study research which incorporated expertise based evaluation. These methods were dictated by the nature of the question and the resulting sub-questions. While the research technique was that application of the case study methodology, expert critique was also used incorporating insights from an academic and practitioner perspective. The integration of various research techniques was proposed to increase the likelihood that the findings would be theoretically valid and operationally sound.

#### Research Question

The study was framed around a central research question: **How does an organization develop an organizational capabilities strategy from the human capital perspective and what are the resulting human resource management and development implications?**

This research question was then divided into three sub-questions that were used to frame the methodology. These sub-questions are:

1. Can a human capital framework be used to develop a sound organizational capabilities strategy protocol from the human capital perspective?
2. Can HR professionals use a human capital protocol to facilitate the development of a capabilities strategy process for their organization?
3. What human capital decisions emerge throughout the organization as a result of using a human capital protocol?

The questions were grounded in the literature review, which suggests that an organization views its human capital as a source of strategic advantage when the company is basing its competitive positioning on the development of distinctive and sustainable competencies. This proposition presents the theoretical foundation to ground this study. The research involved a case study approach that included expertise based critique to enhance the process for developing a human capital framework from the PeopleSCOPE™ Human Capital Framework. In addition, the case study was conducted to gather evidence on how HR professionals can use the human capital protocol to facilitate the development of capabilities strategy process for their organization and to understand the human capital decisions that emerge.

#### Research Method

The first sub-question required a process to develop a human capital framework, in this case the PeopleSCOPE™ Human Capital Framework, to develop an organizational capabilities strategy from the human capital perspective. The process included the incorporation of scholarly and practitioner critique to inform the development of human capital protocol.

Scholarly critique was solicited from two experts, one in the field of industrial/organizational psychology and the other in economics and strategy. Practitioner critique was provided by two individuals with expertise in strategy and an understanding of the human resource implications of a capabilities approach to strategy. The respondents were asked to answer six questions proposed to evaluate the theoretical and practical soundness of the PeopleSCOPE™ Human Capital Framework and to gather insights for the applicability of using this framework to develop an organizational capabilities strategy protocol from the human capital perspective.

All questions were analyzed using Yin's (1994) case study methodology. The subject of the case study was Select Comfort®, a rapidly growing company that went through an initial public offering in December of 1998. This organization was selected because they had realized rapid growth in the few years since their inception, and with the recent IPO found themselves in a situation where their constraints are capabilities, not access to capital or customers. The case study allowed for full participation by the senior human resource (HR) professional and other members of the human resource department. The building of the human capital strategy protocol using the PeopleSCOPE™ Human Capital Framework required key line managers and members of the Executive Team to be involved as well, through interviews, and in some cases participation in discussions on the resulting human capital strategies. In addition to the interviews, participant observation, internal and external memos and announcements, financial analyst reports, and media accounts were analyzed and incorporated. The final outcome was the development of a human capital strategy protocol that would lay that groundwork for

investing in strategic HR initiatives that could create value and support sustainable strategic advantage.

### Interpretation of Each Result

The findings for each of the sub-questions have been presented in length in Chapter 4. In this chapter the results of each of those questions will be presented. These results are based on the interpretation of the researcher and supported in conversation with colleagues and feedback gathered from individuals at various levels of the subject organization. Except for the critique methodology used in answering sub-question 1, no other external validation was performed.

The research was guided by the following primary research question: **How does an organization develop an organizational capabilities strategy from the human capital perspective and what are the resulting human resource management and development implications?**

The primary research question required the development of a process to construct an organizational capabilities strategy protocol. The People SCOPE™ Human Capital Framework was used as a basis for building the protocol. While this framework had been used in various academic situations and as a framework in a series of human capital strategy workshops, at the time of this research, the framework had not been fully tested in an organizational setting. The research required a critique of the framework, the development of a protocol to use the framework in developing a capabilities based strategy for an organization, the application of the steps in the protocol, and an interpretation and integration of the results into the development of a human capital strategy.

### Sub-Question 1

The first sub-question asked: **Can a human capital framework be used to develop a sound organizational capabilities strategy protocol from the human capital perspective?** This question required research to understand the strategic, financial, operational and human capital challenges facing the organization. The first step in determining how to develop a protocol to operationalize this framework required some critique from scholars and practitioners in the area of industrial/ organizational psychology, human resource development, economics and strategy. The critique was not intended to make changes to the framework, but instead to provide insight into how this framework could be used to build a capabilities strategy protocol. There were a number of concerns around the simplicity of the framework and the difficulty in its application without a great deal of understanding about each element. Each step of the framework requires a fairly specific “how to” and the feeling was that many HR professionals would struggle with getting valid responses around the areas of “sustainable strategic advantage” and “key business processes”. One of the insights gained through the critique and applied to the presentation of later steps was to refer to PeopleSCOPE™ as a framework rather than a model as had initially been presented to the experts.

The critique led to more discussion between the researcher and the authors of the PeopleSCOPE™ Human Capital Framework. It was through these discussions that the protocol identified in Appendix H was developed. This is the process that was used to guide the research with the case study organization.

The protocol proved fairly robust, and even though there were numerous delays and the team event identified in Step 7 did not occur. The protocol application generated the

data and discussion needed to initiate strategic human capital planning, and provided a process for evaluating the merit of the various alternatives. The level of success in applying this protocol was dependent on buy-in from the leadership and key line managers and some fundamental business and financial acumen from the HR professionals. The application of this protocol and the resulting processes were dependent on the researcher in this case. Even with a well detailed protocol it would be difficult to ensure that the resulting human capital strategy was appropriately linked to the business goals without understanding those goals and reconciling any inconsistencies. In this particular case, the HR professionals did not have the expertise or the credibility within the organization to engage in the level of investigation that was required on the front end of the study.

The executive interview process required interviews with all of the direct reports to the CEO. In this case the CEO had only been in his position a few weeks and he resigned from the organization prior to the conclusion of the study. The Chief Administrative Officer was also new to his position and was still uncertain of his role and that of the people who reported to him at the time of the interview. The CFO was new to his position since the prior CFO had recently been promoted to CEO. While these individuals were new to their roles they all had a fairly good understanding of the organization and the challenges facing them. If this study was being conducted by someone within the organization the breadth, and perhaps even the depth, of these interviews could be curtailed.

The key line manager interviews took place approximately eight weeks after the instatement of the new CEO and the announcement by the Chairman that the

organizations was going to grow to \$1.5 billion in sales by 2004 and would be the largest firm in the mattress business. The fact that there was a great deal of uncertainty within the organization was evident in the interviews. The level of uncertainty and concern in the organization may have helped to get more candid insights as people were really starting to question the organizational strategy, but there may also have been some apprehension about the organization's future and their role in it. The executive interviews took place right after the annual meeting and the announcement that the second quarter earnings were going to be significantly below forecast. This announcement, coupled with the reaction from the financial community and a lawsuit by two of their stockholders, consumed a great deal of their time and energy. While it probably was not the best time for them to be involved in a research study it certainly provided a richer case and a situation in which the organization and the key players were on the verge of a roller-coaster ride.

What became obvious early on was that the key line managers fundamentally believed in the product and the jobs they were doing. The issues for these managers centered on the lack of clarity around vision and the lack of alignment within and among departments. These individuals also felt a tremendous squeeze on their talent pools and were having a harder time attracting, retaining and motivating employees. The combination of the low unemployment rate in the vicinity of their corporate headquarters and the lack of faith in some of the management decisions, or in many cases indecision, was taking its toll at all levels of the organization.

The human capital protocol did help to facilitate a structured process for examining the business model and the resulting human capital implications. The protocol relied

heavily on the use of the PeopleSCOPE™ Human Capital Framework in interviews and consistently in discussions with the Core HR Team and management to demonstrate the relationship between alignment of human capital investment and capability strategies with the business goals. The Human Capital Framework was also used in the two-day workshop that was conducted with the entire HR team. In the workshop each step of the framework was explored through exercises, evaluation, case examples and application to the organization. This HR team training workshop may have been one of the more valuable components of the study. This workshop presented a completely new way of thinking for the HR leaders and since the data gathered during the interviews was incorporated into the workshop they were able to translate the interview responses to action that could be taken in response to the challenges presented. The HR group also gravitated to the exercises around making the business case for HR investments. They became much more comfortable with their ability to link HR strategies to organizational challenges and they also seemed to gain a heightened sense of the importance of their role in driving organizational success.

The process of gathering data to understand the drivers of the business is a key step in developing a human capital or capabilities strategy. It is possible to alter the steps that have been suggested in the protocol that was used. This was a one-time application for a particular company and, as noted earlier, not all of the steps were accomplished according to the plan. However, the discipline built into the protocol did provide the groundwork for the development of a HR strategy that has enhanced the organization's likelihood of achieving their growth goals. The following two sub-questions illustrate HR's role and the resulting HR strategy implications.

## Sub-Question 2

The second sub-question asked: **Can HR professionals use a human capital protocol to facilitate the development of a capabilities strategy process for their organization?** While this question was partially answered by the protocol developed in sub-question 1, there were some distinct skills and insights necessary to be successful in the application of this protocol. In this case, the process, while championed by the HR VP and the CEO, was led completely by the researcher. The intent was to more fully engage the HR VP as the process moved beyond the data gathering stage to the development of strategy. It became evident as the study went along that the HR department had not thought strategically about the services they provide to the organization. While they hoped to see themselves as business partners, it soon became evident to the researcher and themselves that they were not perceived that way within the organization. They had very little formal education or background in the area of strategy and admitted as a whole that they were fairly weak in business and financial acumen. They did understand the business and seemed aware of the challenges facing the business units they supported, but they were consumed with transactional HR activities and spent little time thinking strategically about where the organization was going and the human capital implications of that direction.

The protocol provides a process for HR professionals to follow in analyzing a capabilities strategy, but it is dependent on their credibility in leading a strategic effort and the opportunity to engage in activities at the strategic level. In organizations where HR has a strong leader and a high level of visibility and credibility this process could serve to reinforce that view. However, in organizations where the HR role is not seen as

being very strategic, and where they are perceived as having less credibility, there is the potential that this process would only serve to illustrate HR's lack of business understanding and strategic ability. In this case, the researcher led the effort and the HR leaders built on the visibility of the study and the data gathered, to build a capabilities strategy response to real business challenges. This visibility led to inclusion in the development of human capital initiatives to support the organizational growth strategy. In this case and in many organizations that visibility and attention may be enough to launch a deeper strategic partnership between HR and the business units.

It is also important for HR position to this process as a human capital or capabilities strategy and not an HR strategy. This process can not look like a HR initiative if it is to get the support needed to be successful. This process needs to be embraced by leaders throughout the organization. The executives interviewed were surprised that the questions asked were primarily based on the drivers and challenges of the business. The executives were able to discuss their business strategies first and then work into the implications for the HR strategy. It is only after the business issues illuminate the pivotal roles that anything resembling a HR initiative is apparent. The impact portion of the framework is dependent on business insight and understanding. While it may be possible to enter the framework at an level and work up to the levels above, this process was heavily grounded in the business implications of the growth strategy and the challenges of being a young, public company.

As the study was winding down, the HR leaders continued to discuss the protocol. While none of them felt that they would have been able to lead the process, they all agreed that an effective human capital strategies requires a full understanding the

business impact of the first few steps of the framework. They not only felt more comfortable in discussing strategic implications with their business unit VP's, they also started to develop a consciousness around the need to align all of their initiatives in a way that had business impact. Finally, they developed a strong appreciation for the need to have solid measurement systems throughout the process. Their human capital strategy is heavily dependent on a measuring the impact of each initiative and aligning their HR resources in a way that is consistent with the organizational goals.

### Sub-Question 3

The third sub-question asked: **What human capital decisions emerge throughout the organization as a result of using a human capital protocol?** The results of the third sub-question build on the last paragraph of the previous section by presenting evidence of the impact of alignment and the value created by strategic human capital investment. Whether the investment in human capital is initiated to align or be more responsive to the needs of the business unit or it is an investment to build organizational capabilities, the response to the third sub-question generated the most interest by the Core HR Team in this study. These HR leaders were interested in the future implications portion of the study. This focus may be the result of these leaders being less involved in the earlier steps of the protocol or because this question finally got down to their individual actions. Regardless of the motivation, this was the step during which the HR Core Team fully engaged as a group. This was also the step in which the HR strategy was developed.

As noted in Chapter 4, there was a lull in activity from the time the CEO resigned in July until the interim CEO put out his memo asking each of the functional areas "to

present a written plan for how their department will become a valuable strategic asset of the organization as we grow the business five times in the next five years.” (See Appendix V for the complete memo.) Rather than seeing this request as an opportunity to position themselves as strategic assets, the HR VP’s initial reaction was one of panic. There was a 30 day time limit on the request and the HR VP did not know for sure how to proceed and did not immediately recognize that this was exactly what the study had been building up to. This request provided the impetus to take the protocol to the next step. Furthermore, since all of the functional areas had been asked to undertake the same task there would be an increased level of discussion and activity toward thinking of the strategic positioning and alignment of each area. The business units would be hearing from all functional areas, not just HR, and the plans would be shared with the executive management teams once they were all reviewed by the CEO.

It was the discomfort felt by the HR VP that initiated a call to the researcher and provided the opportunity to complete the final step of this research study. This process was initiated with an all day session with the HR leadership team and followed by a series of discussions, meetings, faxes and emails, culminating in the development of a five-year strategic plan for the HR organization. The plan as presented to the CEO is included in Appendix W. This plan was well received by the CEO and it provided the impetus to initiate a number of HR decisions and strategic initiatives. The CEO’s first reaction was that the HR organization was starting to think more strategically. The next step, in his mind, was to address the implications and to provide alternatives for addressing some of the human capital constraints presented in the plan. This discussion prompted more discussions between the researcher, the HR VP, and Director of HR for

Retail, centered on developing and deploying strategies that would align the HR resources in a way that would have the greatest potential for creating value for the firm. Since the sales professional had emerged as a pivotal role during the course of the research, the human resource implications of developing capabilities within this role were analyzed and various alternatives were presented.

The organizational growth objectives were based on the need to increase the number of distribution sites. These additional sites would require additional sales professionals. It had been determined that under the current thinking even if these distribution sites were located in traditional furniture stores, they will still be staffed by Select Comfort employees. The role was considered pivotal for a number of reasons, not the least of which was the sheer volume of sales people needed. There are currently 1200 sales professionals in the organization staffing 350 distribution sites. It was determined that if the distribution sites were to grow to 1200 in five years there would need to be over 4000 sales professionals by the end of 2004. This prospect would be challenging enough, attracting and hiring an additional 2800 sales professionals. Exacerbating the challenge is the organization's 100% turnover rate. Thus the number of people to be hired in the next five years would be closer to 10,000.

How HR leaders might use this decision process to align and develop human capital to create value was also an important aspect emerging from sub-questions three. Some alternatives that HR could pursue in presenting the emergent human capital decisions and resulting strategy to the executive management team follow. One alternative would be to conclude the impossibility of hiring that many people, thus the need to slow the growth plan. They could also suggest alternative staffing strategies such as using employees of

the stores where they lease space, or hiring contract workers. Each of these alternatives has a cost and a strategic implication that could be presented using the PeopleSCOPE™ Human Capital Framework.

However, in this case there was a strong desire to staff the sites with their own employees, at least through 2000. Given that direction, the HR leaders needed to align themselves and their resources to ensure an efficient and effective process for hiring the right people in order to demonstrate an impact and create value for the firm. There are currently a number of alternatives being considered. These alternatives are described fully in Chapter 4 and summarized here. The focus of each of these strategies is to:

- attract a larger pool of qualified candidates,
- provide an efficient method for screening out candidates who do not meet the criteria,
- land a high percentage of candidates to whom they have make offers,
- retain a high percentage of the best sales professionals,
- establish a process for promoting sales professionals who have the potential to be effective district and regional managers, and
- accomplish all of these objectives while freeing up the managers from spending 40% of their time in the recruiting and hiring process.

The hiring requirements present a significant challenge for HR given that they currently are managing the entire Retail side of the business with one director, two recruiters, and two generalists. The answer however, is not simply hiring more recruiters

but analyzing alternatives to managing the entire staffing process. The initiatives that are currently underway include:

- Developing a competency model to include behavioral anchors and standards for all Store Managers and Sales Professionals.
- Creating a custom interview guide to help Sales Managers select Sales Professionals based on the competency model.
- Establishing a performance management system that rewards behaviors determined to be desirable.
- Establishing a measurement system that compares actual performance to predicted performance of Sales Professionals to validate the accuracy of the interview guide in predicting behavior.
- Comparing the predictor data for each Sales Manager to assess which managers are better at identifying successful Sales Professionals.

#### Limitations of the Study

This study was focused on one organization and a single framework was presented and implemented. While a number of strategy and financial techniques were incorporated into the design and the development of the resulting strategy protocol this study was built around one organization at a particular point in time. The same study done a year later with this same organization may produce different results.

Another limitation, perhaps more appropriately labeled a difficulty, with case study research is that it is impossible to isolate the variables and determine a true cause and effect. The organization continues to evolve and each day brings additional challenges

and information into the situation. It is nearly impossible to complete a case study exactly as designed for this very reason -- situations change, people resign, stock price declines and new products are introduced. Research of this type requires flexibility and a constant focus on the initial research questions. Knowing that this study could be cancelled as the situation evolved required that each step was connected to each of the previous and next steps, and that each step also could be self-contained and analyzed. This approach was used to ensure that a cancellation of the study would not mean that the research could not be completed and that the researched gathered to date would not be invalid.

The very nature of case study methodology makes it difficult to separate the researcher from the research. It is inevitable that the researcher's perspective is reflected in the results. In this case, the researcher took on a bigger role than was initially proposed because of the organizational turmoil and the inability of the HR VP to take on a larger role given other priorities and distractions. Future applications of this process may require an assessment of the HR leaders to determine whether they are capable of leading a process like this one. In this case the research was dependent on the expertise of the researcher. An additional challenge was staying within the parameters of the study when at times the organization and its participants demanded more. The needs of the organization required that unplanned additional support be provided by the researcher to advance the research to the next step.

### Implications

In actuality this process was more the development of a human capital strategy protocol than the development of a capabilities strategy. In the definition provided by

Besanko, Dranove & Shanley (2000), “capabilities are activities that a firm does especially well compared with other firms” (p. 406). They also note that another term for this concept is distinctive competencies or core competencies. Stalk, Evans & Shulman (1992) see capabilities as somewhat distinctive from competencies.

Both concepts emphasize behavioral aspects of strategy in contrast to the traditional structural model, But whereas core competence emphasizes technological and production expertise at specific points along the value chain, capabilities are more broadly based, encompassing the entire value chain. In this respect, capabilities are visible to the customer in a way that core competencies rarely are (p. 66).

Regardless of which definition of capabilities is accepted, it would be inappropriate to purport that this study designed an organizational strategy based on the capabilities of its sales professionals. These capabilities are clearly visible to the customer, however the strategy for this organization while dependent on the capabilities of its sales professionals, is not *built* on their capabilities. Instead, as is true in many organizational strategy endeavors, the organizational direction is driven by financial and market implications. The strategy is developed to increase sales, net revenues, or achieve a particular market share. It is possible that there are some organizations that truly do look at their human capabilities and develop a strategy around how best to leverage them. This was not true for the organization profiled in this case. The strategy was set to grow to \$1.5B in revenue in five years, a growth rate of five times in five years, and to be the leader in the mattress industry. That strategy was driven by financial and market share considerations. Nonetheless, this goal can not be achieved without an aligned human

capital strategy. The framework researched and tested in this study did provide a process for analyzing the value creating potential of aligned HR strategies.

HR professionals have been struggling for years to increase their presence and participation in the strategy process. In most organizations the role of HR is in the execution of the organizational strategy. This role often is reduced to objectives such as “hire someone with these skills” or “reduce training costs by 10%”. Not only are these mandates not strategic, without a thorough analysis of the strategic implications of these requests, there is a potential for misalignment and the misallocation of HR resources.

While the organizational capabilities strategy protocol did not convince the organizational decisions makers to build their strategy off of their capabilities, the project was not a failure. The application of the protocol in this case provided a process to build awareness in the HR management ranks of the human capital implications of alternative business strategies. This understanding provided the basis for discussion and the development of a human capital strategy that was aligned with the organizational goals and proposed HR initiatives that could alleviate a constraint to the achievement of the organizational objectives. The “line of site” from investment to sustainable strategic advantage provided a context within which HR initiatives could be analyzed. The outcomes for the HR professionals in this organization included:

- An increased level of business acumen and insight,
- a proposed reorganization to partner more closely with the leaders of the various business units, and
- The launching of a number of strategies for recruitment, staffing, development and motivation.

These outcomes are considered essential for this organization and the HR leaders are using these outcomes to launch human capital initiatives that will create value for the firm. While perhaps not comprehensive, this list provides goals for the HR leaders in going forward in their planning and management processes. They realized that they have not been able to quantify the impact of HR initiatives and they had not fully considered the human capital implications of the organizational strategy. The HR leaders also discovered that they needed to increase their own understanding of the business drivers and also become more closely aligned with the managers of the business units they support. This partnership and involvement was most critical in the retail area since that is the area where most of the growth is being driven. While there are certainly strategic issues for Compensation and Benefits, Legal Compliance, and HR Administration and Management, for this organization at this point and going forward for the next five years, the most critical focus needs to be on recruitment and retention. This understanding was key to the HR team as they realized that the primary drivers for their strategies had to be on supporting retail growth.

Again, these initiatives are concerned with the alignment of the HR activities and are clearly not indicative of any change in organizational strategy. The increased awareness of the human capital implications of the current organizational strategy are being examined. However, at the conclusion of this study the organizational strategy had not changed to one being led by HR capabilities.

#### Future Research

The implications for the practice of HRD and for future research in this area is the importance of a strategic approach to human capital investment. HR professionals can

enhance the acceptability and impact of human capital investments through an understanding of the financial, market, and customer drivers of the business. In this case the value chain was used in conjunction with a constraint analysis to surface the pivotal roles and provide insight into the areas in which HR had opportunities to have an impact on organizational success. This study did not specifically delve into the capabilities needed by the HR professionals to be effective in a strategic partnership role and it is likely that these capabilities would be different in different organizations. What did surface in this study, was that in order for HR professionals to be seen as strategic partners they needed to demonstrate some credibility in that role. They could enhance their image and participation rate by presenting their investment decisions in a way that demonstrates clear value for the organization. This approach needs to go beyond the ROI analysis, which is helpful, but may not provide the best criteria for choosing among various HR investment alternatives. As demonstrated in Chapter 4, a business case grounded in data provided by the line managers, with a logical progression from assumptions to value creation can greatly enhance the acceptability of a proposed HR initiative.

As HR struggles to develop a standardized measurement system that fully represents the payoff for investments in human assets, they simply can not default to using measures developed by finance and marketing. These methods were developed to measure very different assets and there are some inherent problems in a blanket application to human capital decision making. Some organizations are developing human capital measures that they are using to demonstrate the value of investments in people, but these have yet to be standardized or globally applied or understood. In the absence of universally accepted

measures the HR professionals in each organization need to examine their organizational strategies and fully understand the implications these strategies have on human capital initiatives. This analysis needs to go beyond simply aligning the human resource strategies to the organizational strategies. Instead, an effective analysis of this type requires a deep investigation into the business drivers and constraints. The result of this analysis is the development of strategies that help build on the capabilities needed for success. This process may require a stretch for some HR professionals but if they truly want to participate at the strategic level they have to develop strategies which leverage the human assets they manage.

Given the relative immaturity of the strategic positioning of human resources within organizations and the lack of generally accepted human capital measurement systems, recommendations for further research may include:

- Longitudinal studies which study the effect of an integrated human capital strategy on financial performance.
- Comparative studies, which analyze organizations in similar businesses for differences in key human resource and financial performance indicators, based on their level of focus on capability enhancement.
- The development of human capital measures which capture the true value of investment in HR initiatives.
- A follow-up study of this particular case organization to determine the impact of the application of the human capital protocol after a period of time.

- A study of a start up organization deliberately building a strategy based fundamentally on capabilities.

As mentioned throughout this study, the critical organizational assets are increasingly the human assets or more specifically the capabilities possessed by the organization's employees. The focus on capabilities and investment in human capital will carry a cost. In this case the process was very much dependent on the services of the researcher and while the organization was able to realize the value of the approach, there was not an attempt made to justify the cost. The organization was not billed for the researcher's time and there was no analysis to quantify the indirect costs associated with the time spent by the HR team and those being asked to participate in interviews or associated activities.

Organizations adopting strategic approaches to capability development will most likely be interested in the total cost of the efforts required to develop the resulting human capital strategy. The costs in this case may have run anywhere from \$50,000 to \$100,000 in consulting and indirect costs. The outcome, however is a platform for evaluating and aligning all human capital investments. The organization will have to weigh the initial investment in developing a strategic approach to HR investment against the cost of misaligned HR interventions and more significantly, to lost business revenue due to under investment in organizational capabilities. This investment analysis may need to go beyond the calculation of an ROI or the development of a cost benefit analysis, to the development of a business case that demonstrates the value of adopting this approach to human capital strategy. This analysis may in some cases be presented as a risk analysis demonstrating the potential losses that could be incurred if inappropriate decisions are made. A more powerful approach would be to demonstrate the value created through the

development and execution of a human capital strategy. The analysis is intended to facilitate the decision of whether there is a value in this investment. The analysis could consider the costs of turnover, inadequate bench strength, misaligned investments and lost opportunity. The analysis in this case showed the impact that an investment in recruiting could have if that investment was implemented in a way that was less dependent on the involvement of the managers in the applicant screening processing. The investment in a staffing strategy would allow the managers to spend much more time in the store coaching and mentoring the current workforce. In this case the President of the Retail felt strongly that an increased presence of the managers in the store would result in revenue increases that would far outweigh the costs of the investment.

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**Utilizing a Human Capital Framework to Develop**

**An Organizational Capabilities Strategy**

**Volume II**

**A THESIS  
SUBMITTED TO THE FACULTY OF THE GRADUATE SCHOOL  
OF THE UNIVERSITY OF MINNESOTA  
BY**

**Joanne Provo**

**IN PARTIAL FULFILLMENT OF THE REQUIREMENTS  
FOR THE DEGREE OF  
DOCTOR OF PHILOSOPHY**

**Richard A. Swanson**

**February 2000**

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## APPENDIX A

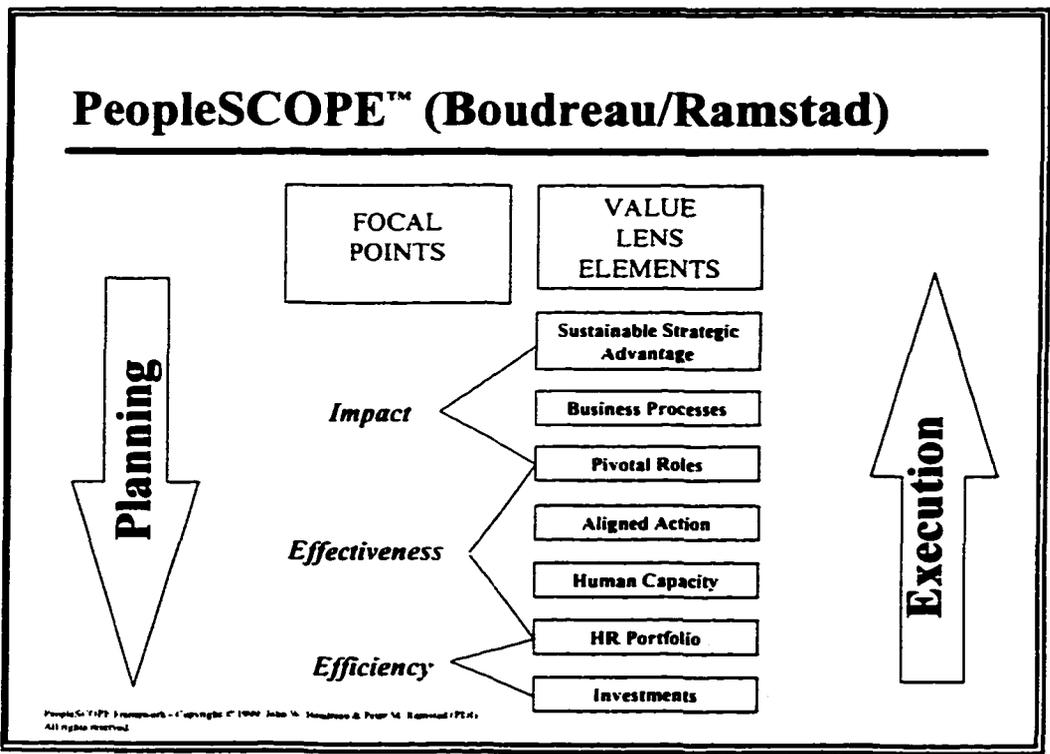
### PeopleSCOPE™ Human Capital Framework

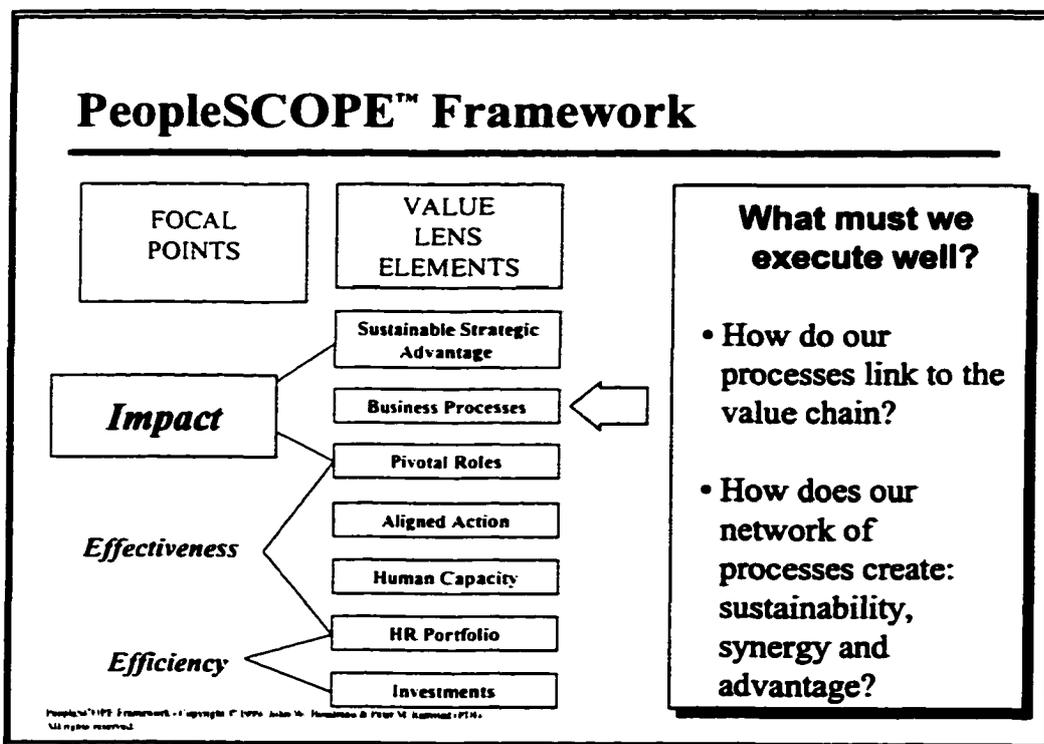
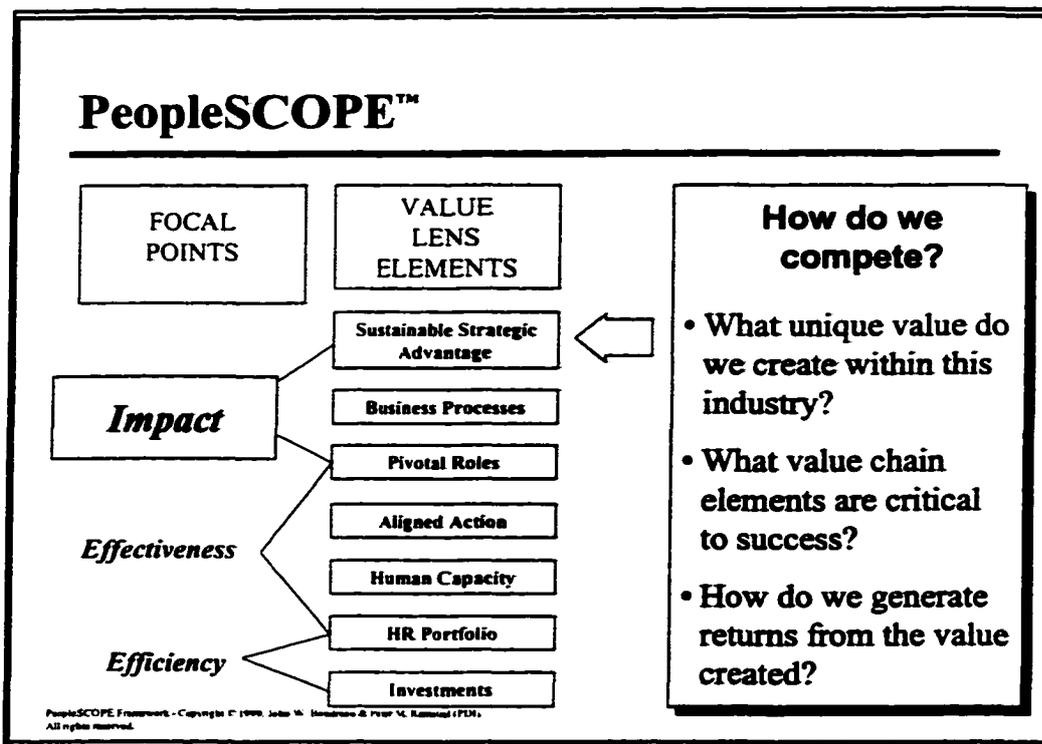
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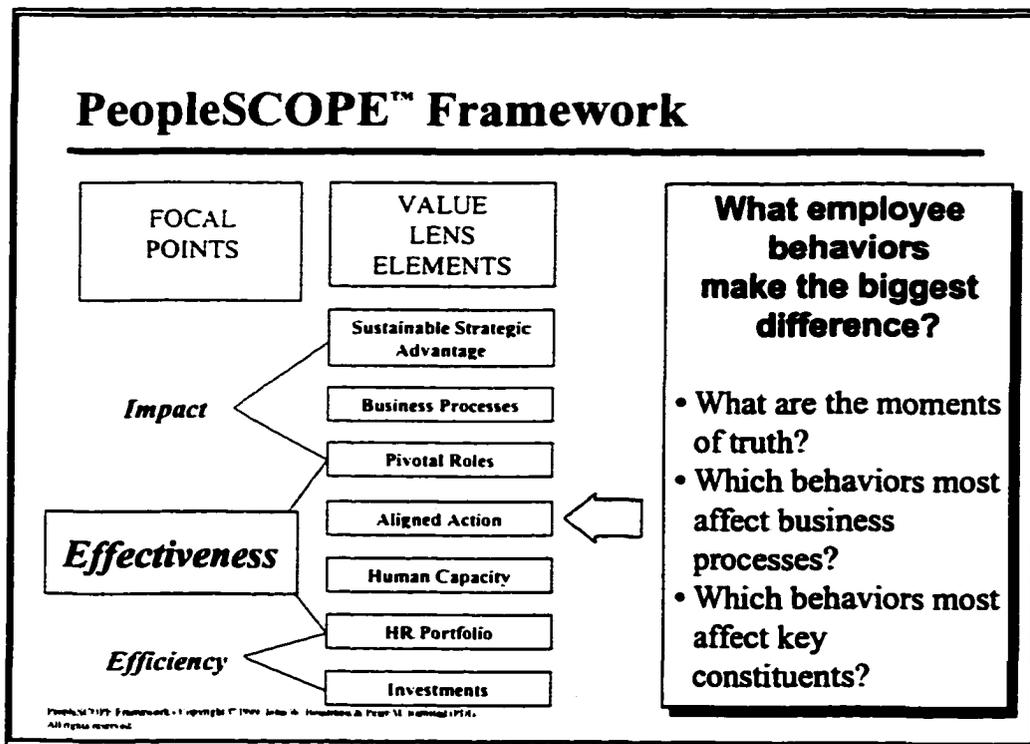
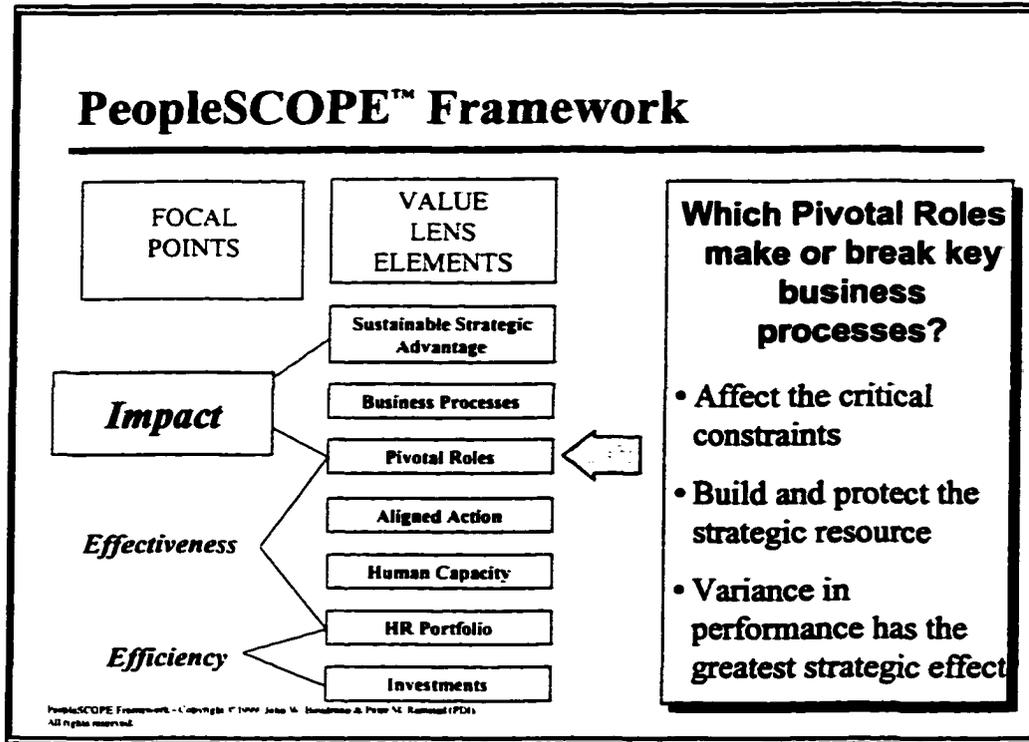
## THE PeopleSCOPE™ HUMAN CAPITAL FRAMEWORK (Boudreau/Ramstad)

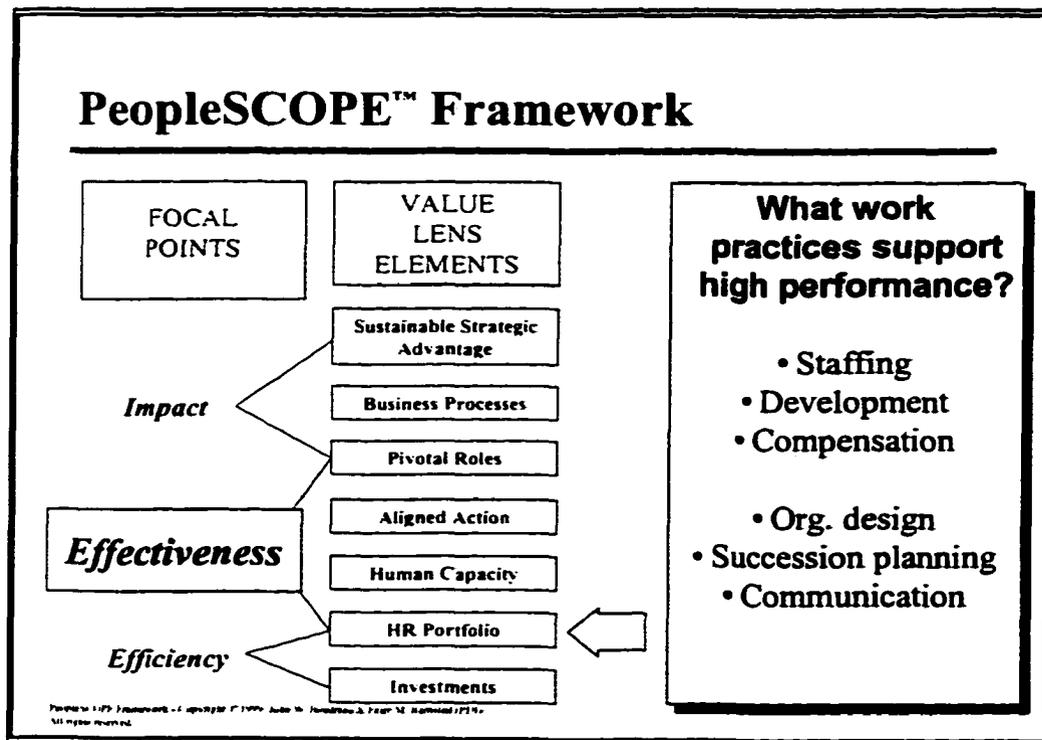
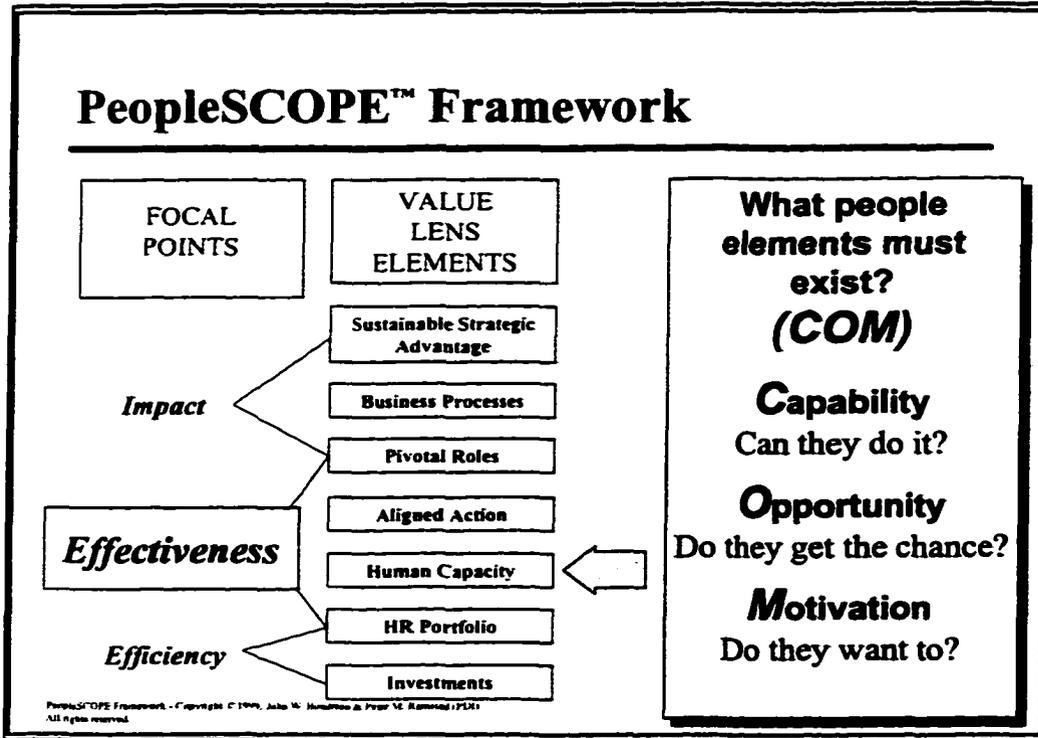
Linking Human Resources to  
Business Value

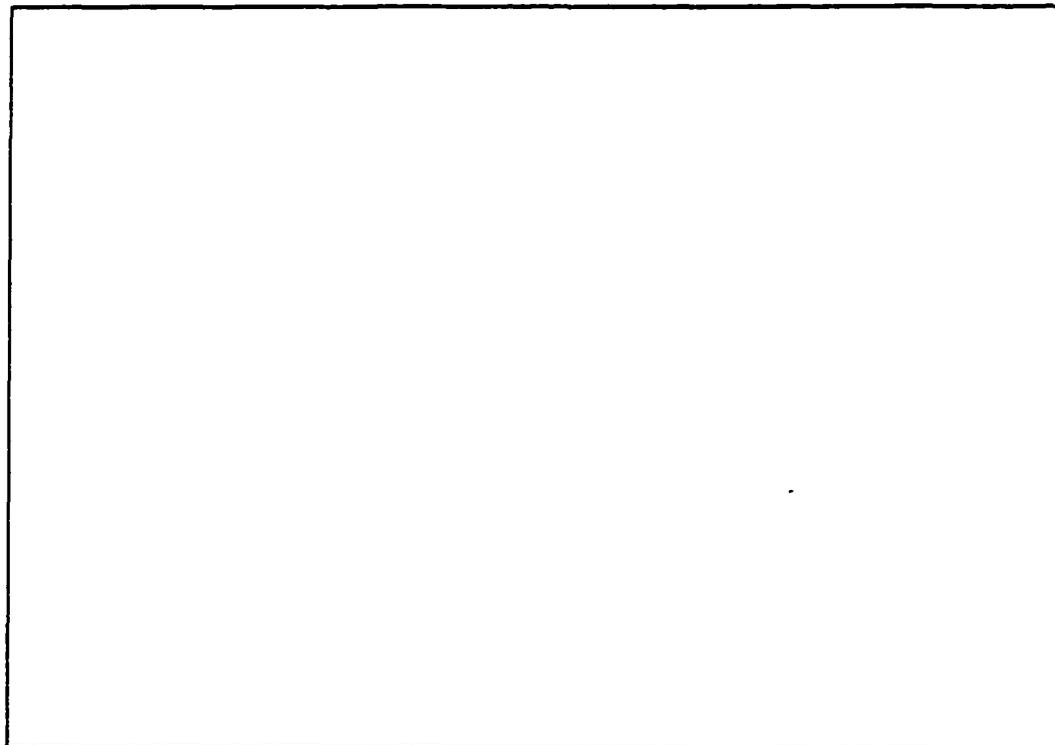
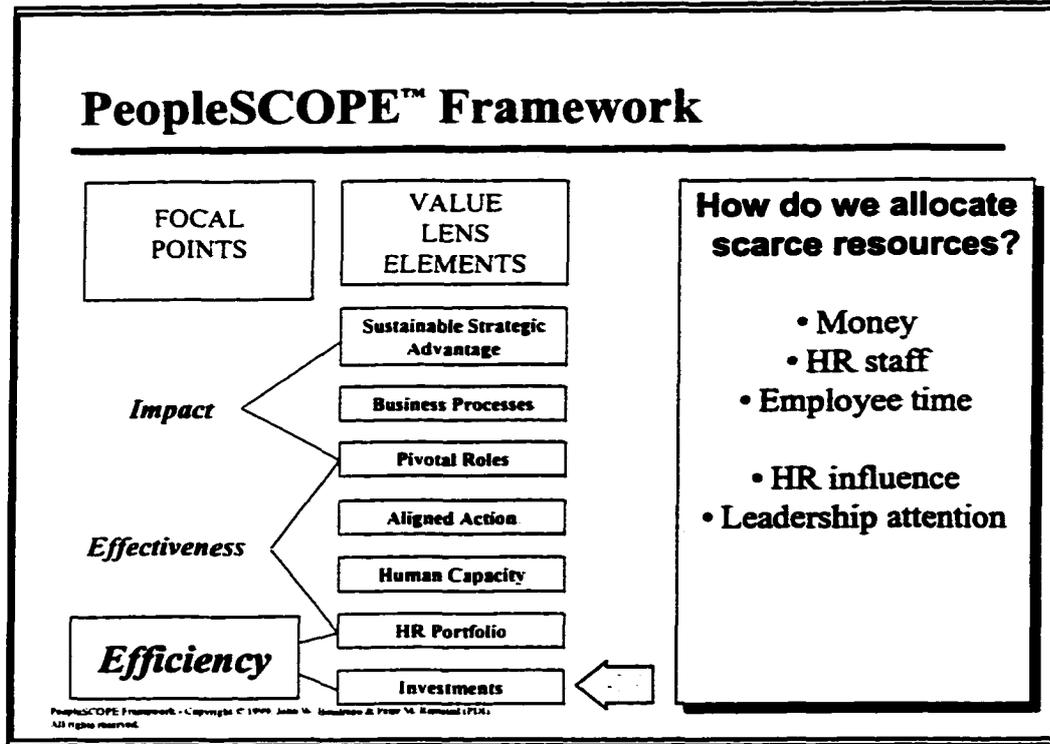
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## APPENDIX B

### Expert Interview Guideline and Critique Protocol

#### Expert Interview Guideline

The interviews were conducted in person and were scheduled for 60 minutes. The format was as follows:

<b><i>Topic Covered</i></b>	<b><i>Material Provided</i></b>	<b><i>Time Allotted</i></b>
Introduction of the Researcher and the Intent of the Research	Research Summary	10 Minutes
Overview of the PeopleSCOPE™ Framework as process for developing a capabilities strategy from the human capital perspective.	PeopleSCOPE™ Framework as Presented in Appendix A	30 Minutes
Overview of the Critique Questions and format for responding. The reviewers were asked to critique the PeopleSCOPE™ framework for its utility in developing a capabilities strategy from the human capital perspective.	Critique Instructions and Question	10 Minutes
Questions or Clarifications	Phone numbers and email address if additional clarification was required.	10 Minutes

## Critique Protocol

### **Guidelines for the critique of the PeopleSCOPE™ Model**

- Please review the PeopleSCOPE™ Model in the attached document. The entire model is presented on the first slide with each of the following slides providing definitional context for each value lens element. I am using this model to develop an organizational capabilities strategy from the human capital perspective, and am interested in your critique as a scholar or practitioner in Human Resource Development, Industrial/Organizational Psychology or Economics. I am most interested in your critique of the value lens elements as the appropriate steps in this process. You may also have suggestions or cautions for answering the particular questions posed by each component of the model.
- I have attached six questions intended to serve as a guideline for your critique of the PeopleSCOPE™ model. Please answer each of the six questions. You may enter your responses directly into this document or use any other means that is convenient to provide your written response. Each of the questions addresses a particular component of validity for the purposes of critiquing this model and its applicability as the basis for developing a capabilities based strategy from the human capital perspective. I am asking for your critique of this model for theoretical and operational soundness with particular emphasis on the human capital perspective.
- I would appreciate a response by July 21, 1999. You may reply directly to this e-mail, e-mail me at [jprovo@pdi-corp.com](mailto:jprovo@pdi-corp.com), fax to (612) 337-8292 or send this by mail to my work address, Personnel Decisions International, 2000 Plaza VII Tower, 45 South Seventh Street, Minneapolis, MN 55402-1608.
- Your critique will be reviewed and used to revise the model and/or provide additional insights or cautions in the application of this model as the basis for developing a capabilities based strategy. I will share the results of the critique and forward any revisions or comments when I have integrated the feedback from the scholars and practitioners.
- Please call me at (612) 337-3639 if you have questions about any aspect of this critique.

## **Questions for Critique of the PeopleSCOPE™ Model\***

1. Please comment on the theoretical and/or practical soundness of the PeopleSCOPE™ model as a tool for building a capabilities based strategy.
2. Please comment on the extent to which the PeopleSCOPE™ model appears to represent an approach for developing a capabilities based strategy.
3. Please comment on the extent to which the PeopleSCOPE™ model represents the content elements that must be analyzed in developing an organizational capabilities strategy. Your critique may include specific objectives, desired participant levels, and approaches for uncovering the elements at each level of the value lens.
4. Please comment on the model's potential to yield a capabilities based strategy that considers the human capital perspective.
5. Please comment on the practicality of the PeopleSCOPE™ model. How useful and functional is this approach to a theoretical or practical understanding of the development and/or implications of a capabilities based strategy.
6. Please feel free to comment on any other aspects of the model which may be helpful from either a theoretical or practical perspective.

\* The term model was changed to framework as a result of response from the critiques and additional refinement by Boudreau and Ramstad. All references in Chapters 2-5 have been changed to refer to the PeopleSCOPE™ Human Capital Framework.

## APPENDIX C

### Proposed Capabilities Strategy Protocol

#### Project Plan

<b>Step</b>	<b>Process</b>	<b>Outcome</b>	<b>Days</b>
1	Planning Develop plan Timeline Identify key participants	Key milestones developed, briefing package for the organizations	2
2	Field work in the organization Interviews Systems & models Financial & Strategic data review	Mental models (beliefs) identified Value chain defined Strategic view of the organization	5
3	Identify trio by value chain element Line Manager Information Specialist Senior HR Leader	List of triad members identified, date set for team event	1
4	Training for HR Team	HR leaders briefed on the strategy process and their role from a human capabilities perspective	2
5	Team event Value Chain Analysis Identify Constraints	In-depth understanding of where capabilities add value and the human capital implications	3
6	HR Debriefing Session	Organizational models and capabilities Mental model Resulting HR strategy	2
7	Create Report	Create Report HR Strategy	3
8	Brief Results	Engage Leadership Team in Ownership of HR Strategy Present Measurement Models	1

## APPENDIX D

### Select Comfort® Company Profile

Select Comfort®, “The Air Bed Company”, is the leading vertically integrated manufacturer, specialty retailer and direct marketer of premium quality, premium priced, innovative air beds and sleep-related products” (Select Comfort®, 1998 Prospectus, p. 3). Select Comfort® was founded in 1987 and opened its first retail store in 1992. They have grown rapidly over the past six years and are currently the fifth-largest mattress manufacturer in the country, reaching \$184 million in sales in 1997 (Barshay, 1998). They sell directly to customers through their 244 retail stores and by phone.

The key components of the firm’s business and growth strategy identified in the Company Prospectus (1998) are listed below:

- Provide a superior product
- Educate consumers and provide superior customer service
- Increase product awareness and brand recognition
- Leverage complementary distribution channels
- Capitalize on vertically integrated operations
- Pursue additional growth opportunities (pp. 31-32)

## APPENDIX E

### Proposed Outcomes of Capabilities Strategy Analysis

#### Value Chain Analysis (Current State)

- Define the value chain by understanding existing mental models of the business
- A value chain for the unit as is, for the market, for the typical customer (How the product is used)

#### Capability and Resource Analysis

- For each element identified in the value chain analysis define the critical capabilities and core resources that support each element of the value chain
- Understand capabilities and how resources create value

#### Economic Analysis

- Constraints
- Sustainable Competitive Advantage
- Risk, Return, Liquidity

#### Analysis of Future Markets to be Served/Future Value Chain Implications

- Define new value chains to optimize returns on capabilities and resource to meet expected market conditions
- Forecast market demand and understand critical resources and capabilities
- Understand constraints and competitive advantage
- Attributes of the Resources needed to create value

#### Human Resource Development Implications

- Organization Development Strategy
- HRD Strategy

## APPENDIX F

### HR Workshop Participant Survey Instrument

#### Select Comfort—Participant Evaluation

1. Describe the extent to which Human Resources (HR) has been involved in the strategy process at Select Comfort.
  
2. What role should HR have in the strategy process?
  - A. In strategy development?
  - B. In strategy execution?
  
3. If Select Comfort is to become the leader in the mattress industry in terms of revenues, market share, profitability and shareholder value in the next five years:
  - A. What is HR's role in ensuring that the organization is able to:
    - Increase the number of distribution points
    - Expand product offerings
    - Increase retail advertising reach
  - B. What are the potential constraints/obstacles to HR being able to successfully contribute to the attainment of these goals?

**APPENDIX G**

**Critiques: Sloan, Gulliver, Gregory, Hewitt**

**Dr. Elaine Sloan, Senior Vice President  
Organizational Effectiveness  
Personnel Decisions International**

**Dr. Karen Gulliver  
Director of Master of International Management  
University of St. Thomas**

**Dick Hewitt, Vice President  
Administrative Services  
NRG Energy, Inc.**

**Scott Gregory  
Director of Management Development & Diversity  
Pentair**

Elaine Sloan  
Senior Vice President  
Organization Effectiveness  
Personnel Decisions International

## **Critique of the PeopleSCOPE Model**

### **1. Theoretical and/or Practical Soundness**

First of all, I think the endeavor to define and test a theoretical model to guide practice and research in this area is important and much needed. Many organization theorists have developed and practitioners have adopted models for designing organizations from a psychological or economic view, but few have tackled the challenge of bridging the economic and psychological realms to develop a theory that can work from both perspectives. Since this model attempts to bridge this divide, it will be very important for the authors to describe the theory in terms that will be understandable and compelling to both potential audiences. Since the model, as currently presented, is only in skeletal form, there is some important work to be done to flesh it out.

I believe what is needed is a descriptive and definitional overview of the model that clarifies the purpose(s) of the model, the added value of each step in the flow of the process, and the meaning of each element. Without this fuller description, the reader/user may misinterpret or fail to understand your intent. In addition, since the model combines the perspectives of two different worlds of inquiry—economic and organization psychology—it would help those who are trained in one or the other realm to understand the model in terms that are familiar or at least related to the conceptual frameworks they use for research and practice. For example, I don't know the professional lineage to which the economic elements should refer, but I believe connections or contrasts to the work of leaders in the field of organization design from the psychological perspective—such as Jay Galbraith, David Nadler and Michael Tushman, Edward Lawler, and Jeffrey Pfeffer should be made.

Having said all that, I would like to say that overall, I like the terminology, concepts, and graphically format used to present the model. They seem simple and straight forward—accessible to practitioner and academic alike. I would also like to comment on the elements as I understand (no doubt imperfectly) them. First, from a practical point of view, I like the two way, symmetrical flow of the Planning and Execution processes. This helps the user understand the most logical and appropriate approach for working through the process to achieve the desired result. There is a nice intuitive logic to the overall flow of the elements. Assuming that the primary economic ends one seeks are business IMPACT, EFFECTIVENESS, AND EFFICIENCY, one works through a process of answering key questions relating to critical organization decisions, starting with strategy formulation and ending with tactical resource allocation. The line of questioning suggests that this can be used as a heuristic device for carving a strategic path for critical organization design decisions. In order to be theoretically sound, then, it need

not cover all possible organization design elements, but it must include all the critical decision elements in the right logical order from an economic perspective, since the ultimate outcomes (FOCAL POINTS) are defined in economic terms.

I am not equipped to comment on the logical soundness of an economic decision model, but I would like to comment on the elements in the model as an organization design framework. In simplest terms, the flow seems to start with defining the external work context, work structures, and task requirements, (strategy, business processes, roles or responsibility clusters, key behaviors), then it seems to move inward (from a people perspective) to defining the behaviors and capacities of the work performers (aligned action, human capacity), then it moves back to the external realm of the managerial practices/HR systems and investments that incent and support the work performers. This shift in the locus and focus of attention—from organization environment to performer to organization environment—can cause confusion if not clarified. For example, there might be a way of noting this shift graphically within the model, rather than having it appear like the domain and unit of analysis behind the flow is the same at all points. For example, one could make the Aligned Behavior and Human Capital elements interlocking circles that show that this is the turning point where the “rubber meets the road” in terms of real performance. If I am not interpreting this correctly, that just makes my case for the need for greater clarity about this aspect of the model.

Even within the component called Human Capacity, however, there appears to be both internal elements (Capability or ability to perform and Motivation or willingness to perform) and external elements (Opportunity to perform). Again, I may be misunderstanding these concepts. I could also conceive of Opportunity as resting in the “eye of the beholder” so to speak, and therefore it would be an internal element which would be measured by a “within person” measure. The most important points here are:

- ❖ In order to assess the validity of the model, it is necessary to provide a fuller description and greater clarification of the purpose and components of the model, preferably in terms that both an economist and an organization psychologist could comprehend.
- ❖ To a psychologist, a switch from looking at the organization environment (external) to examining the interior world of the person (internal) is significant as they would be conceptualized and measured differently.

## 2. and 3. Approach and Content for Developing a Capabilities Based Strategy

The term “capabilities” is subject to different interpretations and I am not sure the exact meaning intended here. It would be helpful if you would provide an operational definition of “capabilities” that would clarify what aspects of the organization that are included and what are not included in the definition. From the strategy formulation perspective of Hamel and Prahalad, for example, a core organizational capability or “core competency” is a distinctive skill of the collective organization that creates a

competitive advantage in the marketplace. Such capabilities are higher order organization skills which are produced by a combination of many organization elements (resources, business processes, human capabilities, cultural values etc.) and may change as a result of changes in the external competitive arena or internal strategy shifts and organization design and development interventions.

From an organization psychology perspective, we might think of organization capabilities in terms of the necessary and sufficient design elements to create an effectively functioning operation that results in human behavior that is aligned to explicit business goals. The focus is on designing the organization and aligning all relevant component parts to shape, incent, and produce desired behavior. Galbraith's dynamic "Star Model," for example, identifies Strategy, Structure, People, Rewards, and Processes as the main elements of organization design that interact to drive employee Behavior which in turn results in individual and group Performance and Culture (collective mindset, values, shared beliefs). Nadler and Tushman's Congruence Model looks at the match between Input variables (including business environment, resources, and history) and Output variables (including individual, unit, and organization behavior/performance) and the intervening variables or core components in between: Strategy, Work, Informal Organization, Formal Organization, and People. You are no doubt familiar with the McKinsey 7S Model which provides another framework for looking at organization components.

The PeopleSCOPE model appears to be a useful framework for developing a capabilities based strategy, but my main question is: how do you define "capabilities" and which of the various possible kinds of organization components—resources, work structures, value chain components, business processes, managerial systems, people skills, corporate image, culture, do you include or not include in your definition of "capabilities?" It would seem from the flow diagram that business processes, HR systems, pools of talent/skills, and individual and collective behaviors and motivations are included, but I do not see resources (like technology, capital, facilities), market power factors like brand recognition and corporate reputation, managerial processes (like planning, communications, decision making) or cultural elements (like shared mindset, values, expectations) explicitly represented.

A few semantic questions:

- ❖ Aligned Action—since this is primarily about key behaviors—why not call it that? When the term "Aligned Actions" is used, the meaning is not as intuitively obvious and it suggests that only this element needs to be aligned—don't all elements need to be aligned? Also, what is a "Moment of Truth;" does that mean that this is where the "rubber meets the road" as noted above? The user, like I, might have various intuitions about the meaning, but they may not be correct. I'm also not sure how this concept fits with general line of thinking for this element with its primary focus on defining key behaviors.

- ❖ **HR Bundles**—I don't think this is a recognizable and easily understood word for all audiences that might use this framework. The questions asked have to do with Work Practices and the components listed under the question would commonly be called systems or processes. In my professional lexicon, practices tend to refer to collective managerial or group behavior and usually are elements of organization systems or processes.
- ❖ In general, the use of multiple levels of abstraction within the elements, as well as variables of different types and scope between elements, especially in the absence of a clear and complete definition of the main elements, makes the logical flow difficult to intuit and to follow at times. This can be corrected, but I think it may impede immediate understanding and application of the model in its present form.

#### 4. Capabilities Based Strategy from a Human Capital Perspective

It appears to me—especially given what appears to be included and left out—that this model is primarily focused on the human capital perspective and, as such, provides a good framework for that purpose. I would like to understand better the theory of human behavior that underlies the model, and the assumptions about how organizational context and process variables are seen to affect and shape behavior. There is a “mini” *content* model embedded in the Human Capacity element, but it is not clearly laid out in a dynamic or *causal* model.

Also, I would like to see a definition of Human Capital—is this an individual, group, and /or organization variable? What is included—developed/demonstrable skills, raw talent/potential/aptitudes, motivations, attitudes, expectations, knowledge, capacity for change and growth, numbers of skilled individuals in particular pools? Unless the operational definition of Human Capital is clear, it is not possible to determine if the model is comprehensive or effective in yielding a human capital strategy.

In addition, I think the notion of “Value Proposition for People” needs to be addressed in a Human Capital strategy, as this is a critical organization element for attracting, retaining, and motivating high performers. I'm not sure how defining the value proposition for the “employee market,” and aligning the organization capabilities to execute it would/should be dealt with in this model. I think there might be something at the middle mark—“the Moment of Truth”—showing the two-way value exchange that needs to take place in order for Effectiveness to be achieved.

Finally, I think the HR Bundles section needs to be worked on more. I would personally prefer to avoid HR language and focus on core organizational processes and managerial practices that are the responsibility of all leaders, not just HR professional. The components listed in the box seem too much like standard personnel or human resource functions rather than critical organizational levers that drive human behavior and performance, which is the way I would prefer to think about this section. For example, acquisition and deployment, goal-setting, appraisal and feedback, rewards, inter-group

relationship-building, communications, learning/development are organizational processes or managerial practices that have a direct impact on human behavior and performance.

## 5. Practicality of the Model

I think the model is very practical in that it sets the stage and provides a very useful, step-by-step framework for discussing key organization and human elements associated with important business and economic outcomes. It advances our thinking and provides a useful heuristic tool for translating business strategies into the organization processes, work structures, and human capacities necessary to execute them effectively, efficiently, and with positive economic impact. I believe that this is what everyone in the business of managing organizations needs to do and those that recognize this need are trying to get better at it.

Lacking more specific description and definition of the model's key concepts and their inter-relationships, it is difficult for me to determine if anything critical is missing or doesn't make sense from an organization psychology viewpoint. I would need more specific information --as indicated above-- to evaluate it more fully. Some of the conceptual and semantic issues I have noted above make it a little less intuitively clear and, hence, less immediately applicable for practical purposes in its present form. These definitional concerns would also be important to make the model more accessible for theory testing and research purposes. For example, I suspect that the elements can be measured and evaluated in some way to create a powerful suite of predictive and diagnostic tools. Without a clearer operational definition of the variables to be measured, however, it is difficult to quickly surmise how it might be done.

## 6. Final Comments

I hope these reactions are helpful to you. I wish I could be more helpful. I think your in-depth case study and other client applications will surface many ideas and insights that will help you and the ROP team clarify the model more sharply and create useful tools for applying and testing it. Thanks for letting me be a part of the process!

**From:** Karen Gulliver [mailto:Gulliver@MSUS1.MSUS.EDU]  
**Sent:** Wednesday, June 30, 1999 7:13 PM  
**To:** Provo, Joanne  
**Subject:** Re: PeopleSCOPE Model Critique

Dear Joanne,

Thank you for the opportunity to comment on your research model. I hope my comments are a help to you.

Sincerely,

Dr. Karen Gulliver  
Metropolitan State University  
Economics Department

1. Please comment on the theoretical and/or practical soundness of the PeopleSCOPE model as a tool for building a capabilities based strategy.

Review of the model with the author reveals that she has deep knowledge of the role of economics in the formation of strategy. Since the evaluation of strategy incorporates many elements of microeconomics at the industry and market level, it is very well grounded in theory. The author also has deep knowledge of the way business operates. Many other students would have difficulty making the link between business process and strategy but I don't expect it to be a problem with this student. Making this connection requires the use of reverse systemic thinking i.e., going from the big picture to the firm level, then inside the company (business processes). This is a tricky transition for students to make, no matter if the study is qualitative or quantitative. This model's soundness would be validated considerably if some quantitative component could be built into the business process aspect of the paper, that ultimately tied to the strategic portion. I hope the author can also stress the concept of utility maximization in her paper. We are all utility maximizers, whether as consumers or an employees. Many of us have maximized the utility we derive from work by going 9-5. Others, however, put in way above the minimum effort, some people even volunteering for tasks that we are not obligated to. As managers, we try to increase this behavior by sharing vision, building a team. This paper certainly has that kind of thinking in mind in the portions on pivotal roles, aligned actions, humans capacity, HR bundles and investments.

2. Please comment on the extent to which the PeopleSCOPE model appears to represent an approach for developing a capabilities based strategy.

I would alter this question to read "unique approach". This approach is unique in two ways. First, it starts with strategy, which is ideally the main engine driving all actions by the firm. Then, this approach focuses on capability as a critical component of implementation. This is an aspect of strategy that is frequently neglected, yet often the cause for failure

to execute strategy. The model is constructed so as to directly seek out human related capability information that impact the ability to carry out the strategy. The author might make a small mention of the other factors, consistent with economic theory, which also impact the implementability of strategy. Government, financial constraints, chance, particularly with regard to the huge global or macroeconomic ecosystem, and allied behavior (i.e. suppliers, firms in complementary industries) are a few factors that come to mind.

3. Please comment on the extent to which the PeopleSCOPE model represents the content elements that must be analyzed in developing an organizational capabilities strategy. Your critique may include specific objectives, desired participant levels, and approaches for uncovering the elements at each level of the value lens.

Under "aligned action" is one area of the paper that could be worrisome. The objective is very clear: to identify the actions of the staff as observed or recognized by the customer which most impacts the effectiveness of the strategy. The firm has great ability to impact what the customer recognizes. But, the firm is not in total control. Many elements come into play. For example, actions of competitors play a role in perceptions of a company. History does, too. Cultural values and customs play a role as well, as do tastes and preferences. In fact, the notion of "value" is a culturally bound concept. In this regard, the meaning (validity) of the information that is gathered a possible knotty issue for a qualitative researcher. I am confident this researcher will handle the problem, however as she has considerable experience in human related issues.

4. Please comment on the model's potential to yield a capabilities based strategy that considers the human capital perspective.

I have confidence the model will yield a capability based plan on how to allocate scarce resources. The recommendations made in the "Investment" section of the paper have a clear linear line of logic linking them in theory and practice to the overall strategy. The recommendations will, I believe, flow from the section on "HR Bundles". I hope the paper can make a clear distinction between "direct investment" i.e. those allocations focused directly on the human resources effecting the strategy, and "indirect investment" i.e. those allocations focused on people and practices that support high performance. While great attention must be paid to the return on direct investment allocation, we must remember that the indirect investments have the potential to lever those direct returns multiple fold. This paper is the only one I have seen that recognizes the impact of organizational synergies in the successful implementation of strategy and attempts to identify and quantify them.

5. Please comment on the practicality of the PeopleSCOPE model. How useful and functional is this approach to a theoretical or practical understanding of the development and/or implications of a capabilities based strategy.

Again, an area of difficulty may be in the Aligned Action section. That is because there is often a disconnect between "value" in the mind of the company and "value" in the mind of the customer. Companies are often able to see and define the behaviors that affect the business negatively, but not the behaviors that affect the business positively. This section of the paper may also be subject to "looking glass" syndrome. That is, the company may see and measure aligned behaviors using the metric that makes the firm look the most positive. I believe the concept of pivotal roles will be intuitive to most firms. However, there may be corporate culture or corporate mythologies that come into play in the identification of those pivotal roles.

6. Please feel free to comment on any other aspects of the model which may be helpful from either a theoretical or practical perspective.

Some how, I believe I lost two questions from this form. I hope the comments I have made are of help to the research and the researcher.

**From:** Hewitt, Dick [mailto:Dick.Hewitt@nrgenergy.com]  
**Sent:** Saturday, September 04, 1999 4:29 PM  
**To:** 'Provo, Joanne'  
**Subject:** RE: Research Model Critique

Joanne,

Attached are some brief responses to your questionnaire. If you have any questions on my comments please let me know. Thank you again for lunch.

Dick Hewitt

<<PDI Provo PeopleScope Critique.doc>>

> ~~Original Message~~  
> From: Provo, Joanne [SMTP:jprovo@pdi-corp.com]  
> Sent: Thursday, August 26, 1999 2:09 PM  
> To: 'Dick Hewitt'  
> Subject: FW: Research Model Critique  
>  
>  
> > Dick--  
> >  
> > Thanks so much for meeting me for lunch today. I really enjoyed meeting  
> > with you and look forward to your comments on the model I am using for  
> my  
> > thesis research.  
> >  
> > I am attaching the format so you can respond directly via email if that  
> is  
> > more convenient for you. I would appreciate your comments by September  
> > 3rd.  
> >  
> > Thanks again for sharing your insights and perspective on this work. I  
> value your expertise and views on this approach.  
>>  
>> Joanne Provo  
>>  
>> <<CRITQUID.DOC>>  
>> << File: CRITQUID.DOC >>

## **Guidelines for the critique of the PeopleSCOPE™ Model**

- Please review the PeopleSCOPE™ Model in the attached document. The entire model is presented on the first slide with each of the following slides providing definitional context for each value lens element. I am using this model to develop an organizational capabilities strategy from the human capital perspective, and am interested in your critique as a scholar or practitioner in Human Resource Development, Industrial/Organizational Psychology or Economics. I am most interested in your critique of the value lens elements as the appropriate steps in this process. You may also have suggestions or cautions for answering the particular questions posed by each component of the model.
- I have attached six questions intended to serve as a guideline for your critique of the PeopleSCOPE™ model. Please answer each of the six questions. You may enter your responses directly into this document or use any other means that is convenient to provide your written response. Each of the questions addresses a particular component of validity for the purposes of critiquing this model and its applicability as the basis for developing a capabilities based strategy from the human capital perspective. I am asking for your critique of this model for theoretical and operational soundness with particular emphasis on the human capital perspective.
- I would appreciate a response by July 21, 1999. You may reply directly to this e-mail, e-mail me at [jprovo@pdi-corp.com](mailto:jprovo@pdi-corp.com), fax to (612) 337-8292 or send this by mail to my work address, Personnel Decisions International, 2000 Plaza VII Tower, 45 South Seventh Street, Minneapolis, MN 55402-1608.
- Your critique will be reviewed and used to revise the model and/or provide additional insights or cautions in the application of this model as the basis for developing a capabilities based strategy. I will share the results of the critique and forward any revisions or comments when I have integrated the feedback from the scholars and practitioners.
- Please call me at (612) 337-3639 if you have questions about any aspect of this critique.

## Questions for Critique of the PeopleSCOPE™ Model

1. Please comment on the theoretical and/or practical soundness of the PeopleSCOPE™ model as a tool for building a capabilities based strategy.

*I think the theoretical soundness is very solid. In fact, it is a very simple model for developing the people side of an organization's strategies. As for the practical side, I think this depends on the discipline of the organization using the model. This model, like so many others, is only as good as the leadership of the organization wishes to make it. It takes, I believe, the senior management of an organization to clearly say: "this is what we're going to use" and then ensure that the organization understands the model and continuously challenges their actions against the model.*

2. Please comment on the extent to which the PeopleSCOPE™ model appears to represent an approach for developing a capabilities based strategy.

*I'm not certain I'm sure what you're looking for here but, as indicated above, I think that it is a simple model and could be effective in developing a capabilities based strategy if used in a focussed way.*

3. Please comment on the extent to which the PeopleSCOPE™ model represents the content elements that must be analyzed in developing an organizational capabilities strategy. Your critique may include specific objectives, desired participant levels, and approaches for uncovering the elements at each level of the value lens.

*My view, as you know, comes primarily from an organization that is growing very quickly in an industry that is changing very rapidly. Moreover, there is continuous debate over how this once stable industry is going to change and evolve. Given that perspective, I once again believe the fundamentals of the model are sound, it will depend on the discipline to use it, and challenge actions against it.*

4. Please comment on the model's potential to yield a capabilities based strategy that considers the human capital perspective.

*Once again, if the discipline is there to understand and use the model and work through the elements in a structured and focussed way, I think the potential is quite good. Especially, in a time when the human capital element is becoming so critical from a "knowledge worker" perspective.*

*The most critical aspect of establishing an effective capabilities based strategy (that must*

*consider the human capital perspective) is doing an effective job in working through and being right on the Impact planning segment of the model. If we can truly understand our strategic advantages (either existing or possible), business processes and pivotal roles in our organization, the human capital issues will be possible to make clear. If we don't clearly understand what gives, or might give, us a strategic competitive advantage then the results of the model relative to human capital will be wrong.*

5. Please comment on the practicality of the PeopleSCOPE™ model. How useful and functional is this approach to a theoretical or practical understanding of the development and/or implications of a capabilities based strategy.

*I've probably hit this point too much already, but I think the practicality is largely dependent on the discipline to use the model. What you're asking an organization to do here is really hard work. Taken the time and (again) discipline I think good insights can come to light relative to a capabilities based strategy.*

6. Please feel free to comment on any other aspects of the model which may be helpful from either a theoretical or practical perspective.

*Just one final general comment, I wish I had had more time to provide you some feedback on the model. The more I thought about it the more it opened up for me. In any case, I hope I've helped some to either add or confirm your other input.*

**From:** scott\_gregory@pentair.com [mailto:scott\_gregory@pentair.com]  
**Sent:** Tuesday, July 06, 1999 3:27 PM  
**To:** Provo, Joanne  
**Subject:** Re: PeopleSCOPE Model Critique

Scott Gregory@PENTAIR  
07/06/99 03:27 PM

Joanne, I thought I would send you some quick notes regarding the model. I am sending these in the spirit of intellectual debate and to advocate for a more psychological view. Sorry for the delay. My schedule has been out of control! I am leaving for Belgium in a while here, and will be out of pocket for a couple of weeks. I hope these comments are helpful. I have numbered them according to the questionnaire you sent me..

1. I question the use of the term "theoretical." Although I am not sure how it gets used in business schools, I do not see this model as theoretical in the sense that it explains a body of empirical data. It seems more like an hypothesis. As a heuristic or taxonomy of value elements, it seems valuable to me. Although you have explained the model to me, I do not think it stands alone without a fair amount of explanation and question-answering. Therefore, I had to make a lot of assumptions in order to critique it.

One key point is that it seems to ignore the psychological aspects of motivation, culture, and leader personality, so it seems incomplete to me.

2. I think the components are out of sequence for the real world. I would say they really work like this in most companies: 1. sustainable strategic advantage, 2. Investments, 3. Business processes, 4. HR bundles, 5. pivotal roles, 6. human capacity, and 7. aligned action--at least I think that reflects the priority sequence most sr. managers would put on it.

3. I think some roles are strategic and some are "commodities" (peripheral to the strategy), and the model does not differentiate between them. Again, I think that not considering the impact of culture is a problem.

In the slide that focuses on "Which talent pools make or break key business processes?" -- I do not agree that it is the talent pools that make the difference--I think it is (a) the specific role requirements for specific jobs, and (b) finding/measuring people to fit those requirements.

4. It is a useful path to think about capabilities needed. However, it does not suggest an appropriate way to investigate the value of those components. That is where, in my opinion, there is an opportunity for a great breakthrough here. Otherwise, there is not a lot that is unique about this model.

5. What I think would make it more attractive to businesses is to focus on the practical versus the conceptual--this is a place where academia and business are at odds, I think. I do not see this as any more practical than any number of similar strategy models that are out there. Actually, I think this would be a difficult sell against the D&Ts or Mercers of the world, because (a) it is not very different from what they are doing, and (b) their models are well-used.

6. Simplify. Answer the human questions--culture, motivation, personality--their impact and value. Pitch it as a practical process, not as a theory. Answer the questions very clearly about (a) measurement, and (b) valuing the outcomes of measurement for each component. In my opinion, that would give this the uniqueness and practicality you desire (it also would be very different from most of what comes from business schools in this area).

**APPENDIX H**

**Capabilities Strategy Protocol Project Plan**

**Presented to the HR Core Team**

**DEVELOPING AN  
ORGANIZATIONAL CAPABILITIES  
STRATEGY  
FROM THE HUMAN CAPITAL PERSPECTIVE**

**A Case Study of  
Select Comfort®**

**Directed by:  
Joanne Provo  
Ph.D. Candidate  
University of Minnesota**

# Thesis Abstract

## **Developing on Organizational Capabilities Strategy From the Human Capital Perspective**

In a time when capital is the highest potential source of value for the firm, organizations find themselves struggling to understand how to build a strategy around capabilities. Current organizational strategy processes seldom incorporate a human capital perspective and rarely are human resource (HR) professionals included in the development of strategy. If organizations are going to leverage human capital, HR professionals will need to become full partners in the strategy process. The resulting strategy needs to focus on capabilities and be constructed from the human capital perspective.

The primary research question driving this study is: **How does an organization develop an organizational capabilities strategy from the human capital perspective and what are the resulting human resource management and development implications.** The study includes the validation and implementation of the tools, models and processes that can be used to develop a capabilities based strategy and understand the human resource implications.

# Organizational Capabilities Strategy Driven from Human Capital Perspective

## The Process Plan

Step	Process	Outcome	Days
1	Planning Develop Plan Timeline Identify Key Participants	Key milestones developed, briefing package for the organization	2
2*	Kick-off Project with Organizational Champions	Complete timeline Clarify roles	1
3*	Field Work in the Organization Develop Systems and Models Financial and Strategic Data Review	Mental models (beliefs) identified Value chain defined Strategic view of the organization	5
4*	Interview key leaders		
5	Identify Trio by Value Chain Element Line Manager Information Specialist Senior HR Leader	List of triad members identified, date agenda set for team event	1
6*	Training for HR Team	HR leaders briefed on the strategy process and their role from a human capabilities perspective	2
7*	Team Event Value Chain Analysis Identify Constraints	In-depth understanding of where capabilities add value and the human capital implications	2-3
8*	HR Debriefing Session	Organizational capabilities and Pivotal roles examined Resulting HR strategy	2
9	Create Report	Create report Initiate HR strategy plan	6
10*	Brief Results	Engage leadership team in Ownership of HR strategy Present measurement models	1

\*Step detail following

## **Define Organizational Champions (Step 2)**

### **Prework:**

- HR Leader identifies core team
- Initial briefing on project plan

### **Resources Needed:**

- Individuals who are willing/able to support the researcher and who have internal credibility and access

### **Purpose:**

- Identify people to champion the project internally
  - Schedule meetings
  - Brief management
- Feedback data to the researcher gathered through surveys/interviews
- Case study research relies heavily on feedback throughout the process

## **Organizational Fieldwork (Step 3)**

### **Pework:**

- Gather latest financial data
- Market comparisons
- Competitor analysis
- Understand strategic planning process

### **Resources Needed:**

Individuals with expertise and access to:

- Market Data
- Financial Data
- Strategic Planning
- Business Development

### **Purpose:**

- Understand the financial, strategic and market drivers of the business
- The interview will test/validate this data and allow for the launch of the capabilities based strategy

## **Interviews (Step 4)**

**Prework:**

- Brief interviewee on the project
- Schedule 90 minute interviews

**Resources Needed:**

- Interviews with key leaders throughout the organization (seeking diversity of perspectives)
- Interviewer
- Member of the core team

**Purpose:**

Validate data from prework  
Surface areas of capacity constraints

- Near
- Long-term

Surface links between

- Sustainable strategy advantages
- Business process
- Capability implications

# Select Comfort Executive Interview Protocol

1. As you think about your future in this industry, what do you see as the most important business challenges Select Comfort will face?
  - a. What should be Select Comfort's top priorities to meet these challenges?
2. Where do you need to be in order to be seen as a key competitor in this market?
  - a. Why aren't you there now? What constraints/obstacles are in the way?
  - b. What distinctive advantage/value does Select Comfort need to create value in terms of:
    - Customer value
    - Efficiency
    - Market power
3. Given the intent to become the leader of the mattress industry in terms of revenues, market share, profitability and shareholder value...
  - a. How confident are you with achieving this five-year growth by:
    - Increasing the number of distribution points
    - Expanding our product offerings
    - Increasing our retail advertising reach
  - b. What other strategic alternatives could Select Comfort pursue to increase the likelihood of hitting the \$1.5 billion goal?
  - c. What are the biggest obstacles to each of those alternatives?
4. How do you define the contribution of your group/function to Select Comfort's overall goals?
  - a. Who are your primary customers?
  - b. How do you define success in terms of specific results/outcomes?
  - c. How do you measure these results/outcomes?
5. What business process does your group use as a means to achieve these results? (Describe the key components of the value chain as you define it.)
  - a. Which processes are most critical/most constrained
  - b. How are the processes likely to change in the future?
  - c. Which talent pools make or break key business processes?
6. Where/how do employees have the greatest impact on business results?
  - a. What employee behaviors make the biggest difference?
  - b. Where do you see the largest gaps in terms of human capacity in your group?
    - Near-term
    - Long-term
  - c. What do you think is the source of these constraints?
  - d. What do you see as an intervention that could alleviate some of your capability constraints?

## **Training for HR Team (Step 6)**

### **Prewrite:**

Briefing on the process, individual roles

### **Readings:**

- *What is Strategy*, Michael Porter
- *Measuring Intellectual Capital: Learning from Financial History*, John Boudreau/Pete Ramstad
- *Competing on Capabilities: The New Rules of Corporate Strategy*, G. Stalk, P. Evans & L. Shulman

### **Resources Needed:**

HR professionals who are interested in strategic partnership with the business units

### **Purpose:**

- Provide training on the components of building a capabilities based strategy
- Equip the HR participants as process experts for the upcoming team event
- Initiate the process for understanding the links between key business processes and HR bundles

## **Team Event (Step 7)**

### **Prewrite:**

Briefing on purpose, expectations, schedule

### **Readings:**

- *What is Strategy*, Michael Porter
- *Measuring Intellectual Capital: Learning from Financial History*, John Boudreau/Pete Ramstad
- *Competing on Capabilities: The New Rules of Corporate Strategy*, G. Stalk, P. Evans & L. Shulman

### **Resources Needed:**

- Line Managers
- Employees with knowledge of business processes and data availability
- HR Leaders

### **Purpose:**

- Develop an in-depth understanding of where capabilities create value for the organization and the human capital implications
- Validation of business challenges, value chain, constraints, critical processes and pivotal roles for each segment of the value chain
- Engage individuals who will work with HR to align resources to support an effective human capital strategy

## **HR Debriefing Session (Step 8)**

**Prewrite:**

- Review of models, notes, themes of team event

**Resources Needed:**

- HR Leaders

**Purpose:**

- Present the finding of the capabilities based strategy process
- Lay the ground work for acceptance and execution of an HR strategy which leverages human capital in a way that creates value for Select Comfort

## **Final Briefing (Step 10)**

### **Prewrite:**

- Review of key findings, recommendations for execution of a capabilities based strategy

### **Resources Needed:**

- HR Leaders
- Members of the core team
- Senior management
- Interested line managers

### **Purpose:**

- Engage leadership in the ownership of an HR strategy which creates value to Select Comfort
- Introduction of HR strategy measurement models, goals, expectations for successful execution of the strategy

## **Outcomes of Capabilities Based Strategy Analysis**

### **Value Chain Analysis**

- A value chain for the unit as is
- A value chain for the market
- A value chain for the typical customer (how the product is used)

### **Capability and Resource Analysis**

- For each element identified in the value chain analysis define the critical capabilities and core resources that support each element of the value chain

### **Economic Analysis**

- Constraints
- Scope
- Sustainable competitive advantage
- Risk, return, liquidity

### **Analysis of Future Markets to be Served**

#### **Future Value Chain Implications**

- Change actions
- Critical capabilities and resources
- Attributes of the resources needed to create value

#### **Business Process Analysis**

- Understanding how current processes create value
- Examine process changes needed to sustain strategic advantage
- Surface business processes that may no longer contribute value

#### **Pivotal Roles**

- Determine which roles/talent pools are critical to the successful execution of key business processes
- Ensure that the behaviors of individuals in pivotal positions are aligned to leverage these capabilities

## **Outcomes of Capabilities Based Strategy Analysis (cont.)**

### **Human Capacity**

- An assessment of the people elements that must exist to sustain strategic advantage
  - Capability
  - Opportunity
  - Motivation

### **Human Resource Development Implications**

- Organization development strategy
- HRD strategy
- Understand what HR practices support/ high performance
- Develop measurement models which contribute to successful strategy implementation

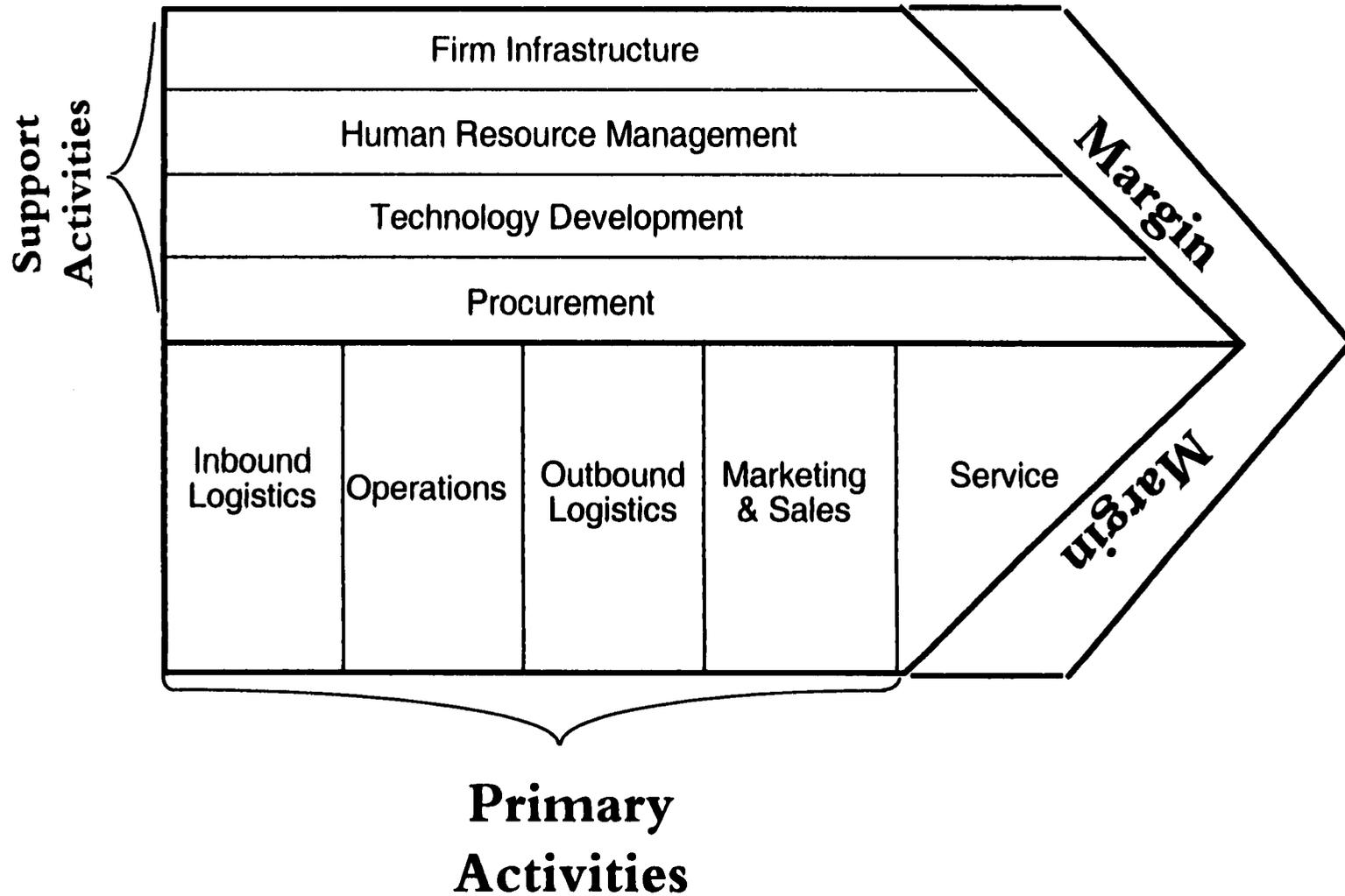
### **Resources**

- Allocate scarce resources

## **Tools Used**

- Exhibit A: Porter's Generic Value Chain**
- Exhibit B: PeopleScope™**
- Exhibit C: Constraint Analysis**
- Exhibit D: Return on People™ Model**
- Exhibit E: Return on People™ Benefit Formula**
- Exhibit F: Retail Strategy Model**

# Porter's Generic Value Chain

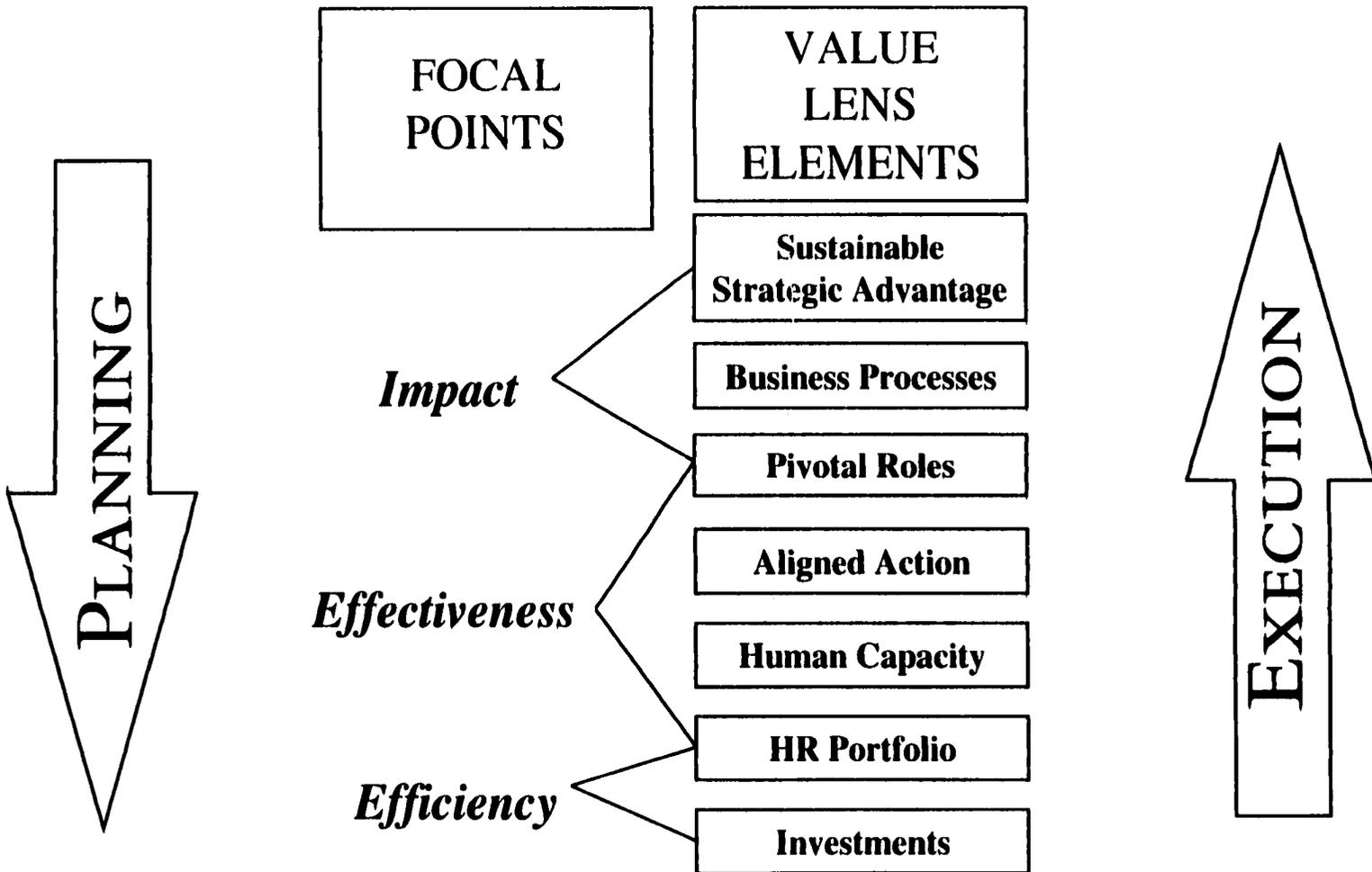


# GUIDELINES FOR CONDUCTING A VALUE CHAIN ANALYSIS

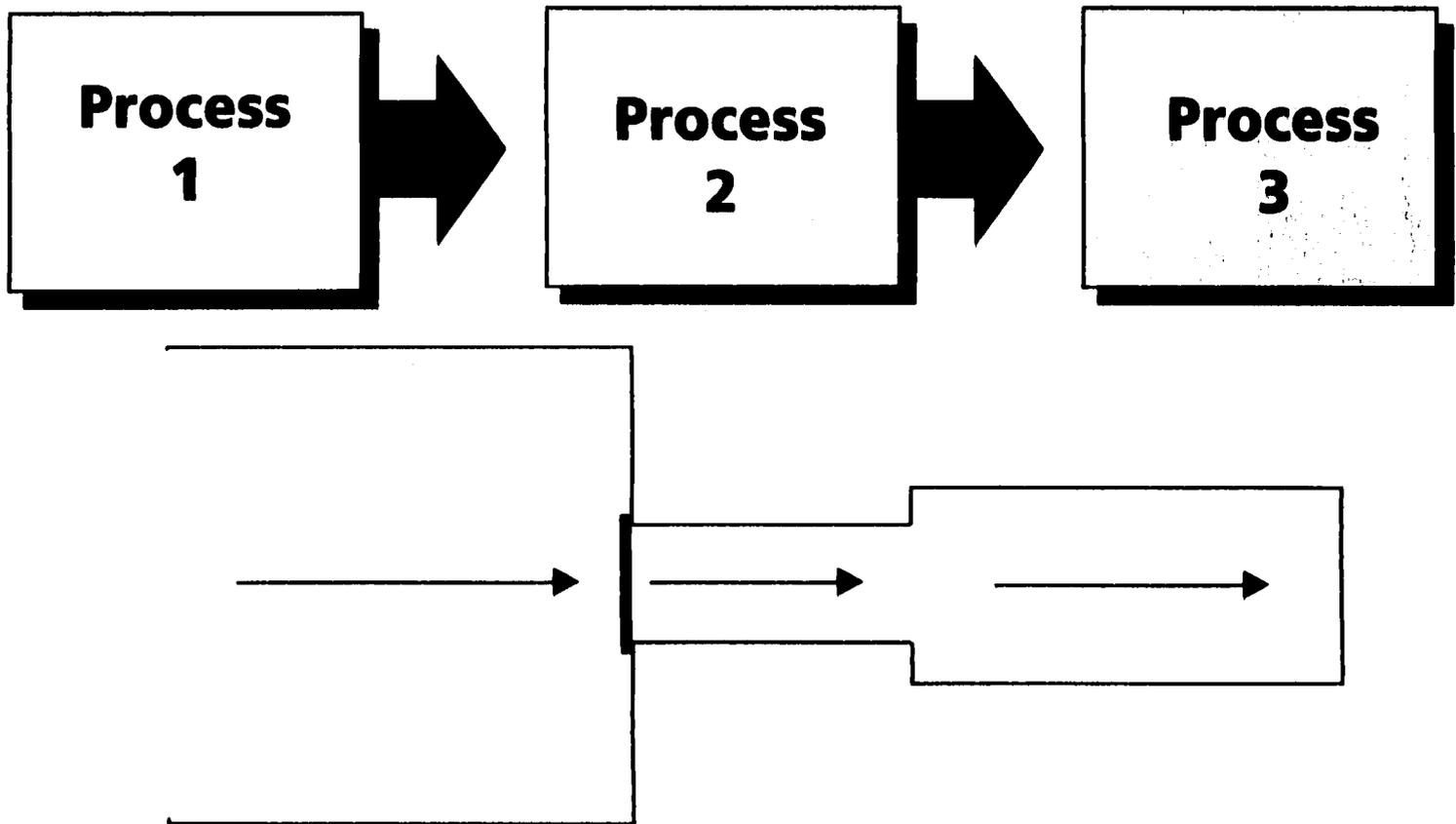
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- Define the value chain by understanding existing mental models of the business
- Understand capabilities and how resources create value for each component of the value chain
- Understand constraints and competitive advantage
- Forecast market demand that can be met given your resources and potential capabilities
- Define new value chains to optimize returns on capabilities and resource to meet expected market conditions

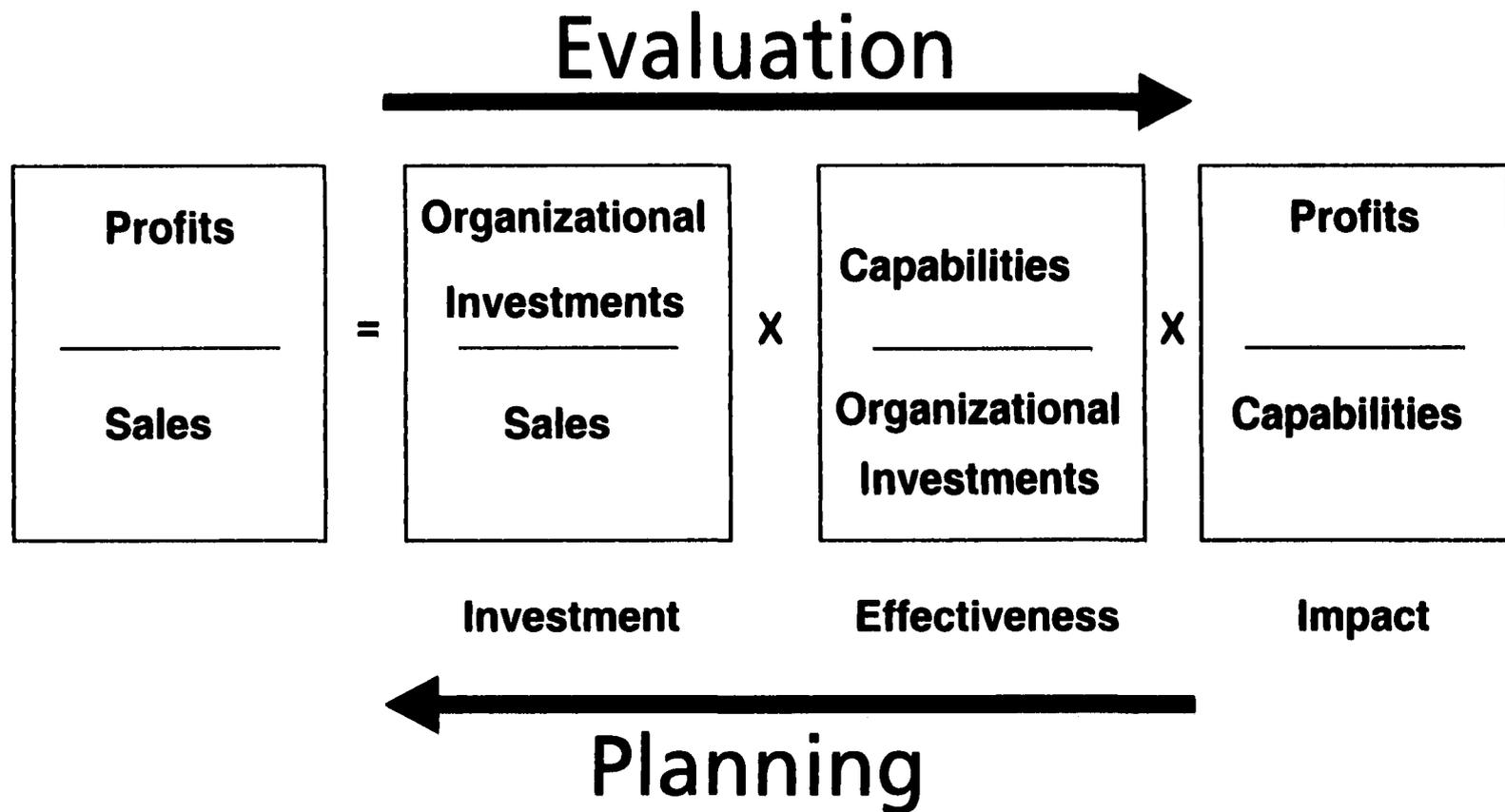
# PeopleSCOPE™ (Boudreau/Ramstad)



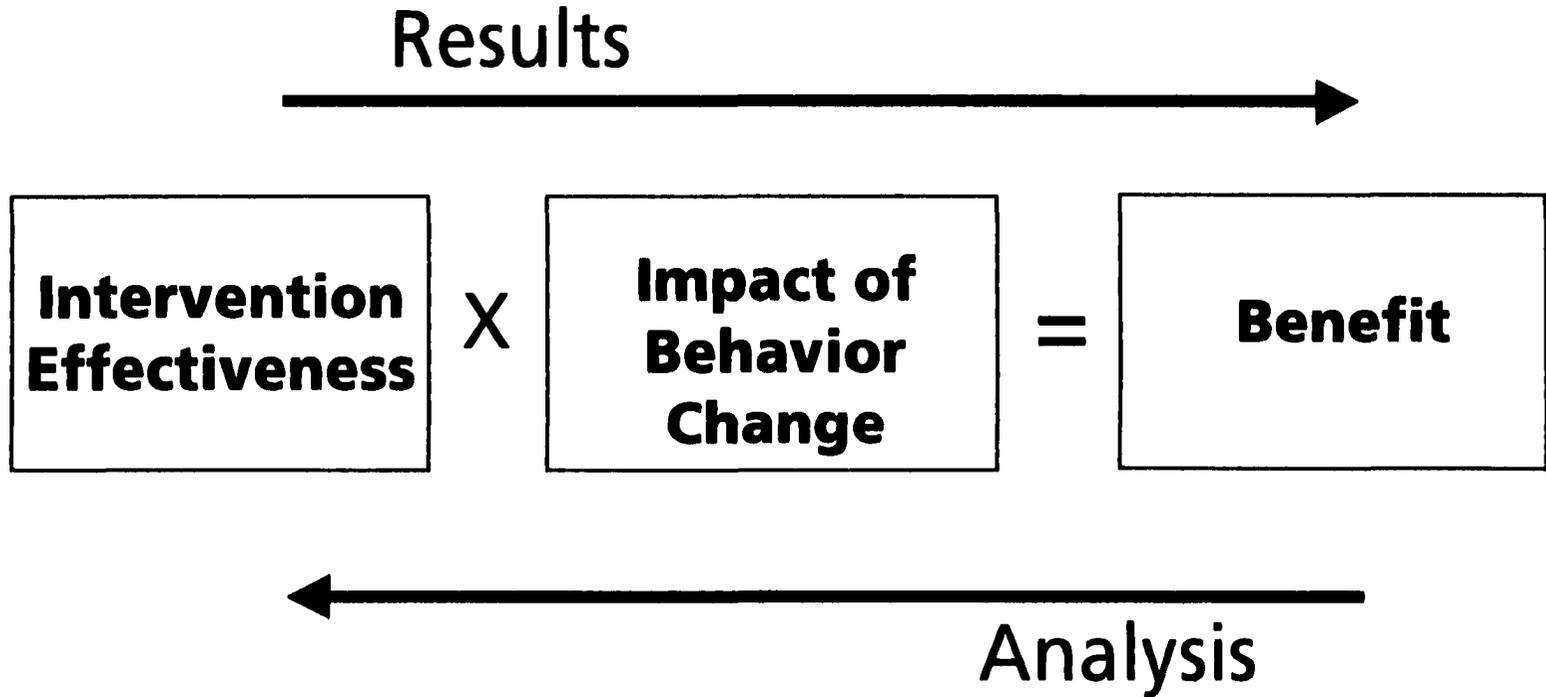
# Linking Business Process to the Constraint Analysis



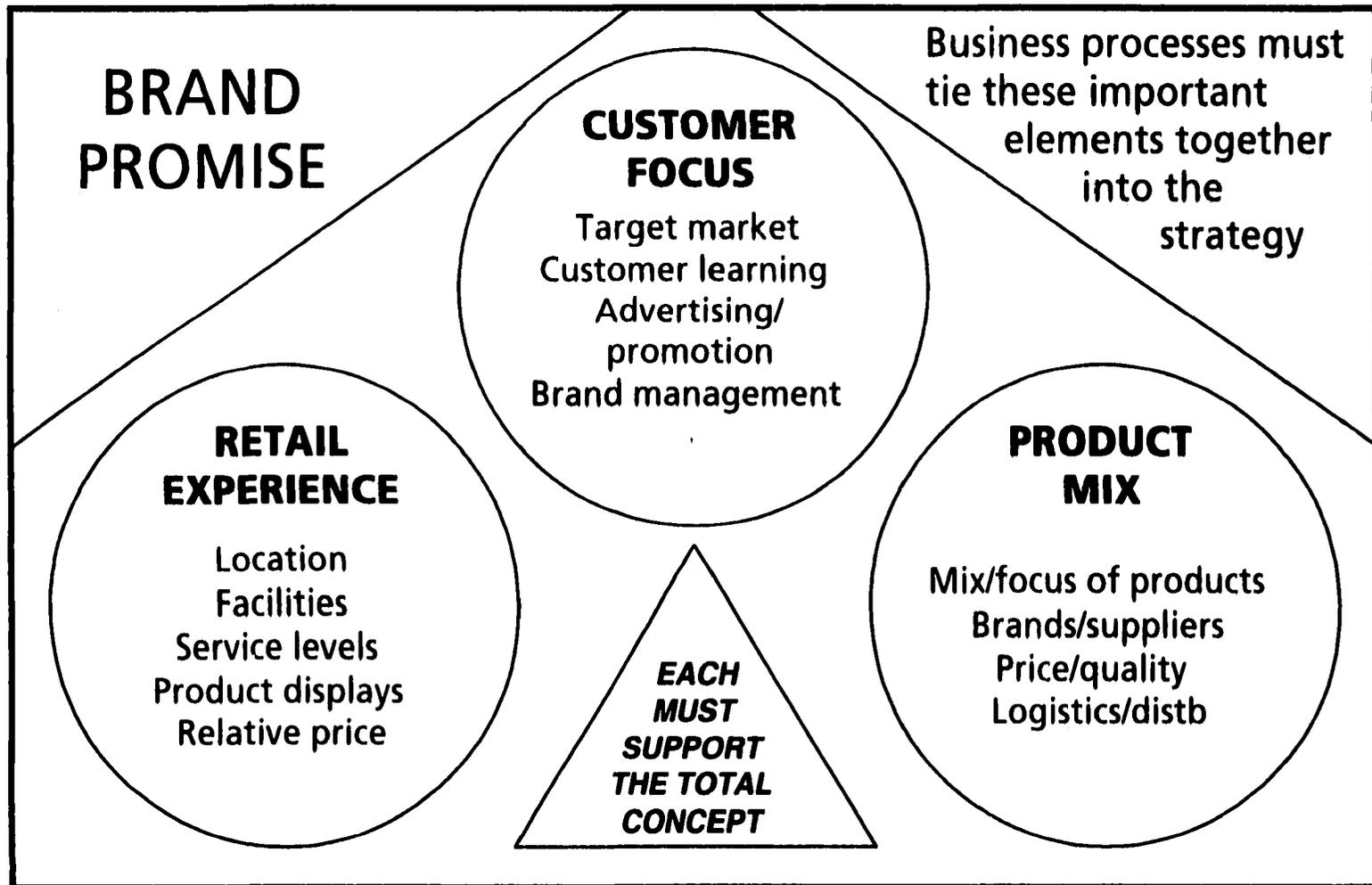
# Return on People Model



# ROPT<sup>TM</sup> Benefit Formula: Working Backwards



# Elements of a Retail Strategy



**APPENDIX I**

**Select Comfort Organization Charts**

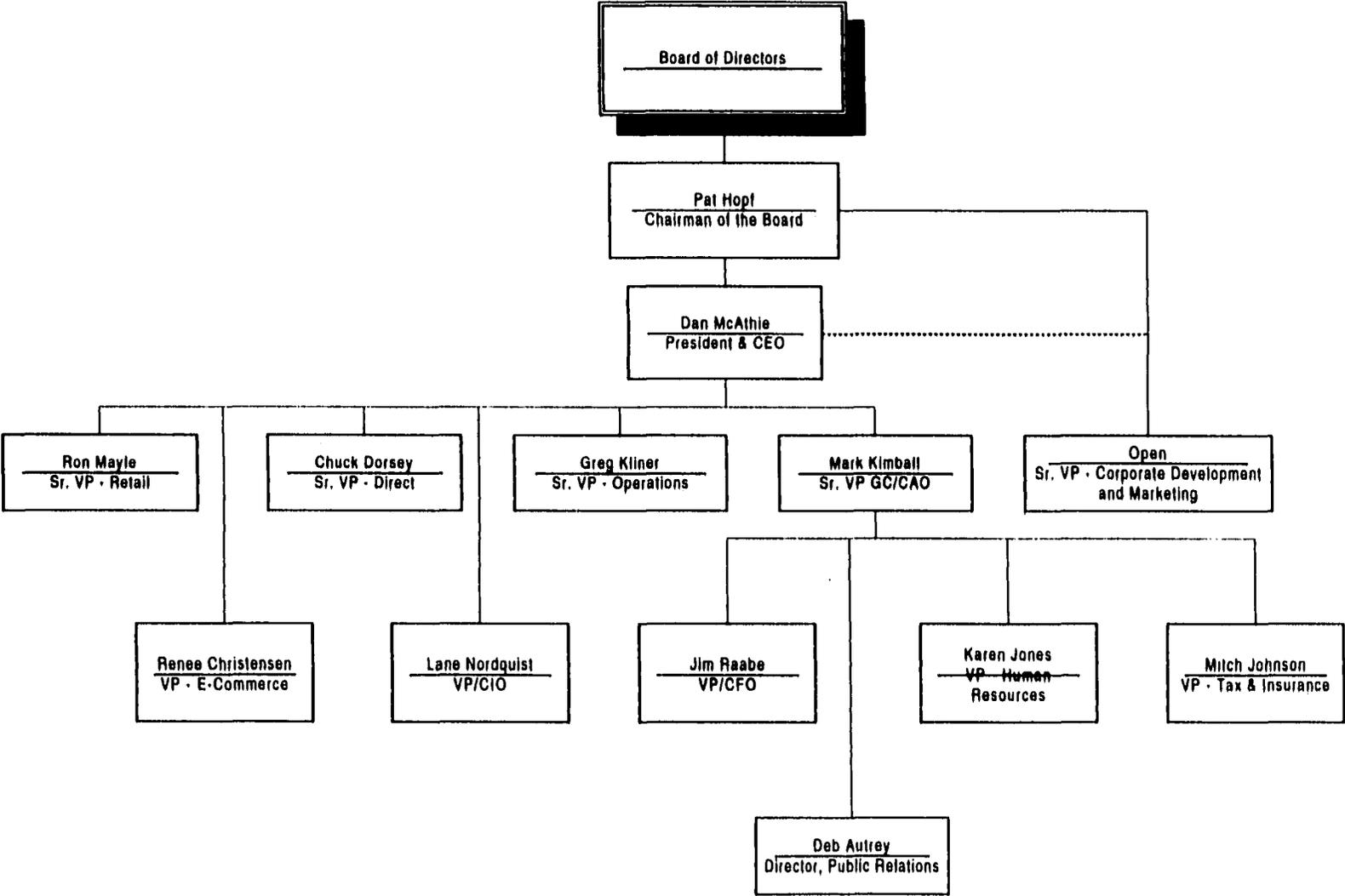
**(Top Level)**

**April 1999**

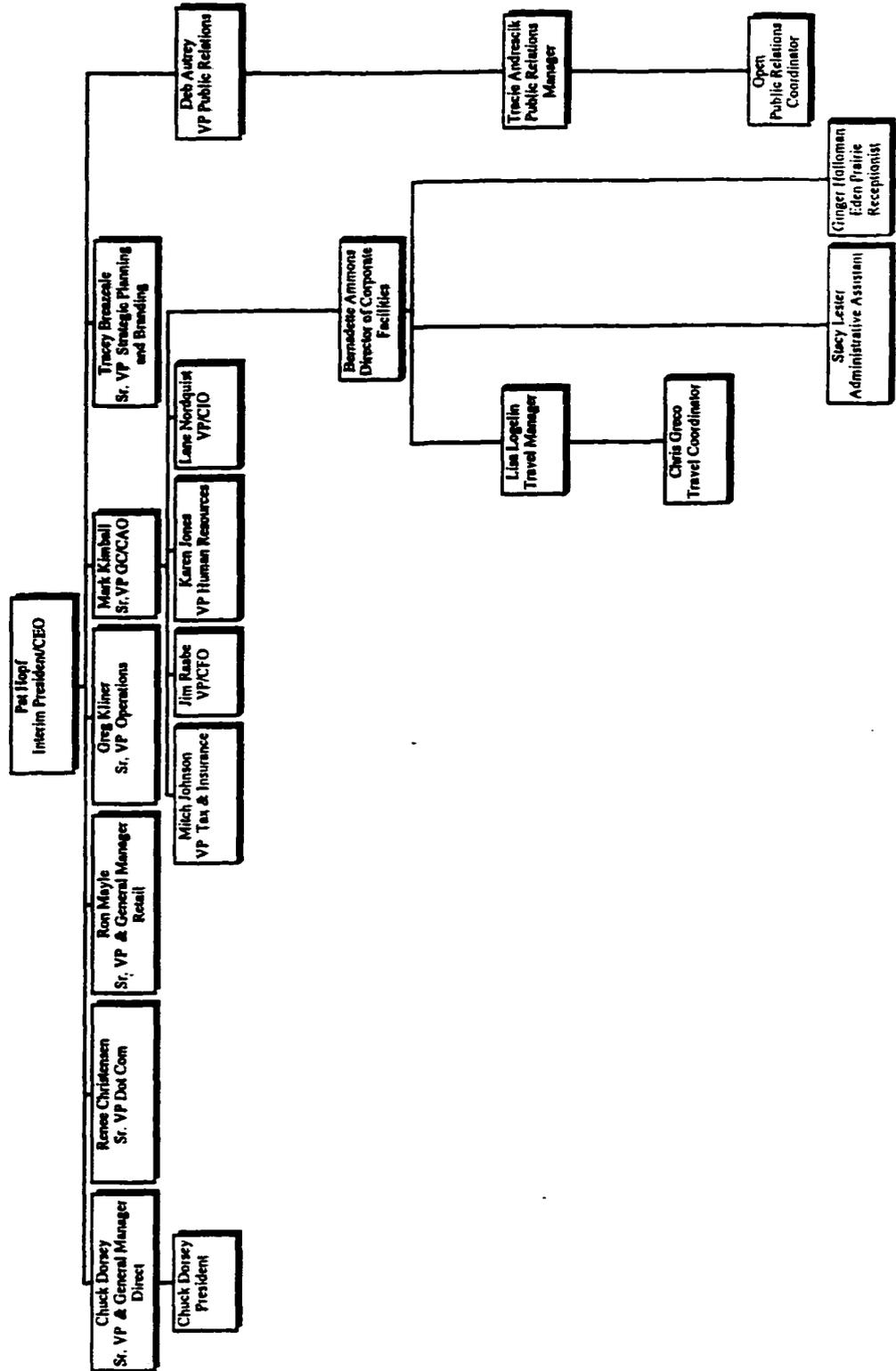
**November 1999**

# Organizational Chart

## April 21, 1999



# Select Comfort Corporation November 1999



**APPENDIX J**

**Internal Memo April 21, 1999**

**Chairman of the Board**

**Reorganization Announcement and Strategic Positioning Goals**

DATE: 4/21/99  
TO: ALL EMPLOYEES  
FROM: PAT HOPF  
SUBJECT: CURENT NEWS & FUTURE GOALS

As the newly-appointed Chairman of the Board – and someone with a long history of close involvement with Select Comfort, including nine years sleeping on various Select Comfort mattresses – I have several items of important news to share with you.

First of all, Rob Hawthorne is stepping down as President and CEO. Rob will serve as Vice Chairman of the Board of Directors and continue his involvement in product positioning for a few months. Rob came onboard two years ago to help take the company public, and now that we've achieved that objective, he is looking to scale back his involvement in the day-to-day business of the company. We thank Rob for his successes and dedication over the past two years.

Dan McAthie has been named the new President and CEO. Dan's leadership and close involvement in all aspects of our business will help make for a smooth transition. He is also uniquely qualified to lead Select Comfort during our next period of fast-growth. In addition, Jim Raabe, has been named Chief Financial Officer and will direct our Finance Department in light of Dan's move to President and CEO. Please join me in congratulating Dan and Jim on these well-deserved promotions.

As I said earlier, I am the new Chairman of the Board, and I plan to devote a significant amount of time to this role. Former chairman Erv Shames will remain an active member of the Board of Directors. Over the past couple of weeks, in preparation for this transition, Dan and I have been spending a great deal of time together discussing the future of Select Comfort. In conjunction with other members of the Board and the senior management team, Dan and I have developed a new long-term vision for the Company.

**We are now going to execute our first really clever maneuver, handing off an internal communications in mid-page. The following message is from Dan, your new CEO:**

Fellow employees:

I am truly pleased and excited to be your new CEO as we embark on a journey together – to become the number one mattress manufacturer in the country. I believe we are already #1 in terms of:

Product Innovation  
Product Quality  
Customer Satisfaction  
Employee Talent

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Over the next five years, it is time for Select Comfort to declare our rightful position as the leading bedding company in the country in terms of:

**Market Share  
Sales  
Profitability**

We have the best products today, but they can and will be improved, and we can add new products. We have three sound distribution channels today (retail, direct marketing and roadshow), but we can add many more points of distribution to make buying a Select Comfort mattress truly convenient for consumers. We also can develop numerous "direct to the consumer" channels over the next few years, including Internet marketing and strategic marketing alliances. We have an increasing level of awareness in the country, but we need to develop highly effective advertising campaigns so that every consumer will consider purchasing a Select Comfort mattress. In addition, we must continue to excel at product quality, customer service and consumer education.

For Select Comfort to be #1 based on all the above criteria, requires an attitude of "Change is Good," and a willingness to take risks to accomplish POSITIVE CHANGE. If we each focus individually and collectively on our goal, nothing can prevent us from achieving our objective of becoming the leading mattress company in America.; Each of us plays a vital role in our success, so be bold, be creative, be strategic . . . and get ready to be the leading mattress company in America. I promise it will be the most enjoyable business experience of your life.

Respectfully,

Dan

**APPENDIX K**

**Capabilities Strategy Protocol Project**

**Presented to the Executive Management Team**

**May 17, 1999**

# **DRAFT PROPOSAL**

**Developing an Organizational Capabilities Strategy**

**From the Human Capital Perspective**

**A THESIS  
SUBMITTED TO THE FACULTY OF THE GRADUATE SCHOOL  
OF THE UNIVERSITY OF MINNESOTA  
BY**

**Joanne Provo**

**IN PARTIAL FULFILLMENT OF THE REQUIREMENTS  
FOR THE DEGREE OF  
DOCTOR OF PHILOSOPHY**

**© 1999 Joanne Provo**

# Organizational Capabilities Strategy Driven from Human Capital Perspective

## The Process Plan

<b>Step</b>	<b>Process</b>	<b>Outcome</b>	<b>Days</b>
1	Planning Develop Plan Timeline Identify Key Participants	Key milestones developed, briefing package for the organization	2
2*	Kick-off Project with Organizational Champions	Complete timeline Clarify roles	1
3*	Field Work in the Organization Develop Systems and Models Financial and Strategic Data Review	Mental models (beliefs) identified Value chain defined Strategic view of the organization	5
4*	Interview key leaders		
5	Identify Trio by Value Chain Element Line Manager Information Specialist Senior HR Leader	List of triad members identified, date agenda set for team event	1
6*	Training for HR Team	HR leaders briefed on the strategy process and their role from a human capabilities perspective	2
7*	Team Event Value Chain Analysis Identify Constraints	In-depth understanding of where capabilities add value and the human capital implications	2-3
8*	HR Debriefing Session	Organizational capabilities and pivotal roles examined Resulting HR strategy	2
9	Create Report	Create report Initiate HR strategy plan	6
10*	Brief Results	Engage leadership team in Ownership of HR strategy Present measurement models	1

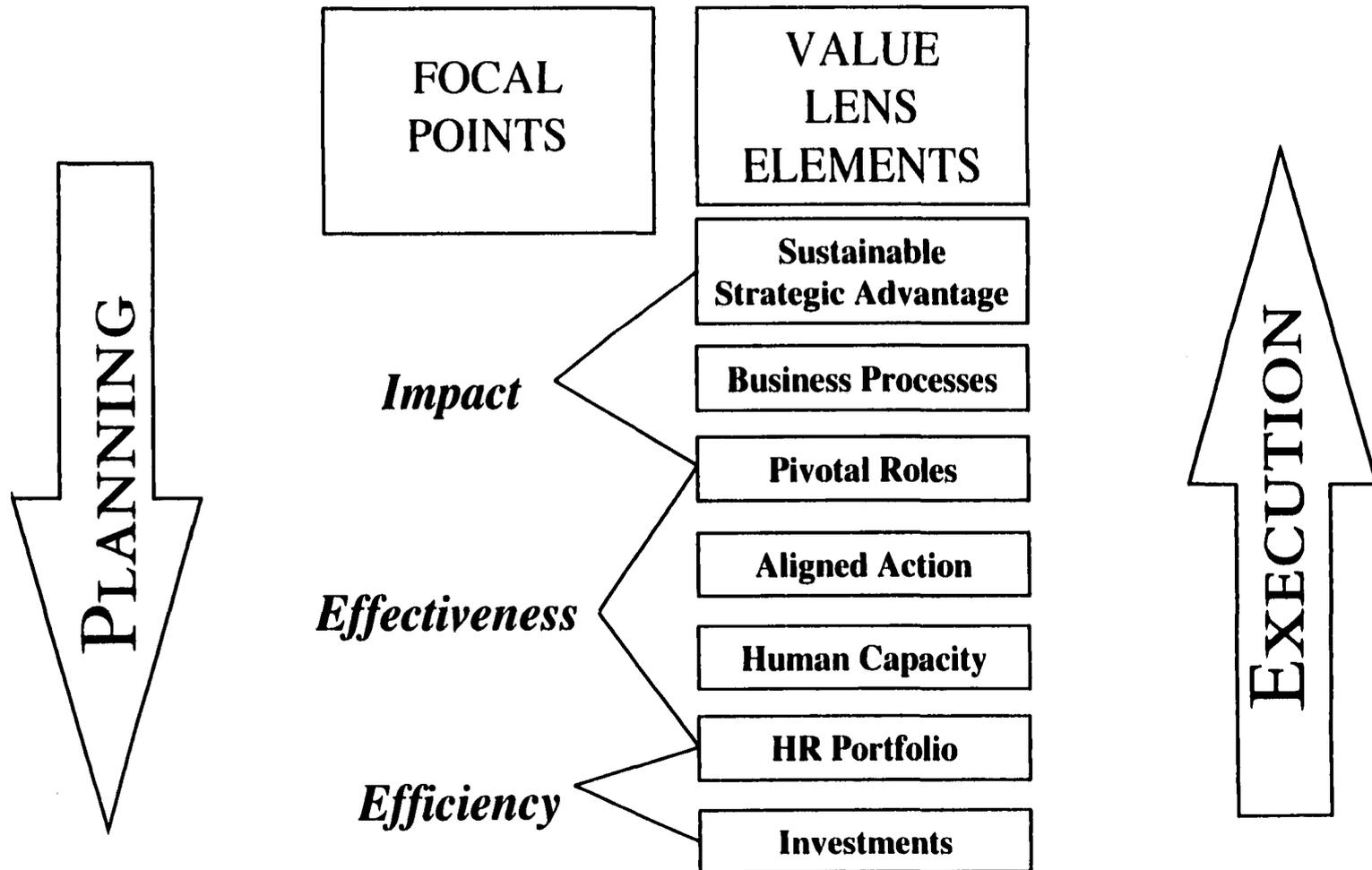
\* Step detail following

## Select Comfort Capabilities Based Strategy Proposed Time Line

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Project	Week of	4/18	4/25	5/02	5/09	5/16	5/23	5/30	6/06	6/13	6/20	6/27	7/04	7/11	7/18	7/25	8/01	8/08	
1. Planning		■																	4/22-30
2. Presentation: Executive Team/ Champions						■													5/17
3. Organizational Fieldwork								■											6/3, 4, 7
3a. Core Team Fieldwork Debrief									■										6/9
4. Executive Interviews										■									6/14-16
5. Identify Trio by Value Chain Element									■										6/9
6. Training for HR Team											■								6/23-24
7. Team Event												■							6/28-30
8. HR Debriefing Session													■						7/14
9. Create Report														■					7/15-8/2
10. Brief Results																		■ 8/3	

# PeopleSCOPE™ (Boudreau/Ramstad) Human Capital Framework



# **Outcomes of Capabilities Based Strategy Analysis**

## **Value Chain Analysis**

- A value chain for the unit as is
- A value chain for the market
- A value chain for the typical customer (how the product is used)

## **Capability and Resource Analysis**

- For each element identified in the value chain analysis define the critical capabilities and core resources that support each element of the value chain

## **Economic Analysis**

- Constraints
- Scope
- Sustainable competitive advantage
- Risk, return, liquidity

## **Analysis of Future Markets to be Served**

### **Future Value Chain Implications**

- Change actions
- Critical capabilities and resources
- Attributes of the resources needed to create value

### **Business Process Analysis**

- Understanding how current processes create value
- Examine process changes needed to sustain strategic advantage
- Surface business processes that may no longer contribute value

### **Pivotal Roles**

- Determine which roles/talent pools are critical to the successful execution of key business processes
- Ensure that the behaviors of individuals in pivotal positions are aligned to leverage these capabilities

## **Outcomes of Capabilities-Based Strategy Analysis (cont.)**

### **Human Capacity**

- An assessment of the people elements that must exist to sustain strategic advantage
  - Capability
  - Opportunity
  - Motivation

### **Human Resource Development Implications**

- Organization development strategy
- HRD strategy
- Understand what HR practices support/ high performance
- Develop measurement models which contribute to successful strategy implementation

### **Resources**

- Allocate scarce resources

## APPENDIX L

### External Reference List

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#### *CityBusiness*

Weintraub, A. (1999, May 14). Select lays down stock challenge. CityBusiness, pp. 1, 42.

#### *Corporate Report Magazine*

Brissett, L. (1999, April). Public debut: Select Comfort earns a berth on our annual ranking of Minnesota's largest publicly held companies. Corporate Report, 30-47.

Brissett, L. (1999, June). Get up and go: Select Comfort hopes new management will spark growth. Corporate Report, 38-39.

#### *Inc. Magazine*

Fenn, D. (1997). The right fit. The Inc. 500: 16<sup>th</sup> Annual Ranking, pp.105-108.

#### *On-line Information*

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Farrell, N. (1999, March 8). Serta launches \$23 million ad campaign with a dreamy twist. HFN The Weekly Newspaper for the Home Furnishing Network, P.27.

Farrell, N. (1999, February 22). Department stores aim high in bedding business- bedding makers find a growing opportunity in an upscale niche. HFN The Weekly Newspaper for the Home Furnishing Network, P.26.

Farrell, N. (1998, December 7). Top retailers bank on big brands: Major bedding brands fuel industry growth. HFN The Weekly Newspaper for the Home Furnishing Network, P.23.

Farrell, N. (1998, November 2). Mattress makers push ahead with cutting-edge technology. HFN The Weekly Newspaper for the Home Furnishing Network, P.23.

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Kaplan Kilsheimer & Fox LLP files class action suit against Select Comfort Corporation. Yahoo! Finance [On-line]. Available: [http://biz.yahoo.com/prnews/990616/ny\\_kaplan\\_1](http://biz.yahoo.com/prnews/990616/ny_kaplan_1).

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*Star Tribune Articles*

Barshay, J. J. (1998, December 5). Select Comfort has good first day of offering. The Star Tribune, pp. D1-D2.

Barshay, J. J. (1999, September 18). Select Comfort to post loss; stock tumbles. The Star Tribune, pp. D1.

Feyder, S. (1999, June 12). Suits accuse Select Comfort of misleading its investors. The Star Tribune, pp. D1, D3.

Feyder, S. (1999, August 2). Tossing and turning. The Star Tribune, pp. D1, D5.

Feyder, S. (1999, November 8). Select Comfort may change its strategy. The Star Tribune, pp. D2.

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McAthie resigns as Select Comfort CEO. (1999, July 20). The Star Tribune, p. D7.

Oslund, J. J. & Kennedy, P. (1999, August 30). Stocks cool off. The Star Tribune, pp. D1, D6.

Select Comfort exec and director plan to resign. (1999, August 14). The Star Tribune, p. D3.

## APPENDIX M

### Internal Reference List

#### Communication

##### Email:

October 19, 1998 from Kathleen Graber, Thesis Proposal Presentation

May 6, 1999 from Kathy Hewitt, Executive Team Project Briefing Schedule

May 7, 1999 from Kathy Hewitt, List of Core HR Team Members

May 28, 1999 from Kathy Hewitt, Introduction of Joanne Provo & Organizational Capabilities Strategy Fieldwork Interviews

June 22, 1999 from Karen Jones, Preparation for HR Offsite

June 30, 1999 from Kathy Hewitt, Canceling Director Strategy Session

Employee Communications Meeting, September 15, 1999

Pat Hopf, Communication Presentation, September 1999.

Proposed Executive Strategy Session July 8, 1999

Proposed Strategy Session Agenda July 14, 1999 (Director and above)

Select Comfort Supplier Day Presentation, August 26, 1999.

Website <http://www.comfort.com>

#### Financial

IPO Presentation, November 1998.

Select Comfort Corporation 1998-2000 Segment P&L.

Stores Selling Margin – Year-To-Date, For the Period Ended May 1, 1999.

#### Organizational

Organizational Charts: April 1999, June 1999, and November 1999.

Operational

Modern Sleep Spring/Summer 1999 (Marketing Materials)

Retail Store Model

Training Store Sales Managers' Manual (Revised 11/10/99)

Press Releases

August 28, 1999 From sex, drugs and rock 'n roll, to tired all the time: Boomers ease the pain of getting old with a better mattress.

September 30, 1998 A Long winter's nap.

October 2, 1998 Carolina Panthers: Players ease their pain on beds filled with air.

November 3, 1998 Construction has begun on Select Comfort Corp. manufacturing plant in Salt Lake City.

November 10, 1998 Guess who's sleeping on air...celebrities and pro athletes are turning to air bed technology for their beauty sleep.

November 13, 1998 Select Comfort Corp. names McAthie as COO: Air bed manufacturer promotes CFO.

December 4, 1998 Select Comfort Corporation announces initial public offering of 4,000,000 shares of common stock

December 11, 1998 Select Comfort Corp. to sell its air beds in Bed Bath & Beyond stores: Air bed manufacturer has retail presence in 13 Bed Bath & Beyond stores in 1998; more openings planned for 1999.

January 6, 1999 Vikings' Jake Reed spent extra time in bed to prepare for playoffs: Reed credits rapid recovery to sack – of a different kind.

January 14, 1999 Tom Lehman links with Select Comfort: World class golfer can now rest easy.

April 21, 1999 1<sup>st</sup> quarter income: Select Comfort 1<sup>st</sup> quarter income more than doubles.

April 22, 1999 Select Comfort announces long-term growth plan, new agreement with Bed Bath & Beyond: Air bed company aims to be #1 mattress manufacturer.

April 23, 1999 Select Comfort names two new board members

May 5, 1999 Select Comfort launches e-commerce: Company's air beds, pillows and other products can be purchased online.

May 12, 1999 Select Comfort announces stock repurchase

May 24, 1999 Select Comfort Corporation releases university study: Test group reports better sleep quality on air bed.

June 3, 1999 Select Comfort opens four new Bed Bath & Beyond stores

June 8, 1999 Select Comfort Corporation announces investment in SleepTec, Inc.: SleepTec's sofa sleeper to be distributed through Select Comfort stores.

June 8, 1999 Select Comfort Corporation comments on expected second quarter performance

July 19, 1999 2<sup>nd</sup> Quarter Results.

August 9, 1999 NFL Players too tired to punt, pass, and kick: Head athletic trainers survey shows players are not sleeping on the job.

September 17, 1999 Select Comfort Corporation comments on third quarter performance.

Strategic

**F99 Strategic Imperatives (Summary Document)**

**Direct Marketing 1999 Business Plan**

**Select Comfort HR Strategy, 1999**

**Strategic Imperatives/Objectives 1999 (Responsibility Assignments)**

**The Boston Consulting Group, Project “Accelerating Growth” Kick-off Meeting,**

**September 2, 1999**

Tours and Site Visits

**Plant Tour led by Director of Training Management and Organizational Development,**

**June 10, 1999**

**Visit to top performing store, Ridgedale Mall, June 14, 1999.**

Meeting Notes

**Core HR Team Meeting Notes:**

**April 22, 1999**

**June 3, 1999**

**June 9, 1999**

**September 7, 1999**

**Executive Team Meeting June 29, 1999**

**Executive Team Meeting July 8, 1999**

**Select Comfort HR Strategy Session, June 23-24, 1999.**

## **APPENDIX N**

### **Fieldwork Interview Participant List**

**Deb Autry - Director Public Relations, Corporate**

**Mike Ayers - Controller, Retail**

**Richard Bauer - Director Outbound & Electronic Media Sales, Direct**

**Dave Beres - Director of Product Management, Corporate**

**Terry Brill - Controller, Operations**

**Nancy Buchholz - Manager Supply Chain Management, Corporate**

**Ken Ferderer - Director of Financial Planning & Analysis, Direct**

**Dolores Franco - Regional Sales Director, Retail**

**Maureen McDowall - Director of Marketing, Retail**

**Sue Puerzer - Controller, Direct**

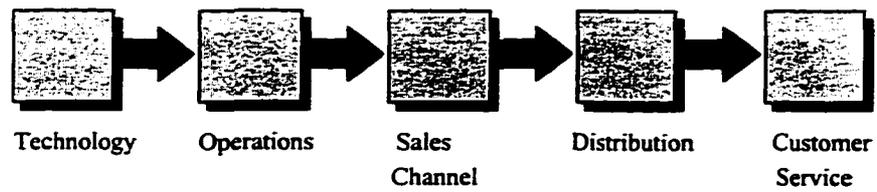
**Tim Werner - Director of Database Marketing, Direct**

## APPENDIX O

### Select Comfort Value Chain

#### **Select Comfort-Value Chain for Core Business Processes**

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## APPENDIX P

### Summary of Fieldwork Findings

#### **Select Comfort Fieldwork Summary June 3-7, 1999**

##### **Business Issues**

- Buying is down in Direct, Road Show and Retail
- Need changes to current products, not more products (Adjustable Frame & Sofa OK)
- Need to branch out with different products and relationships with other leasing partners
- Don't see any planned acquisitions on the horizon which are usually the vehicles to growth
- Organizational structure seems to be driven by tax implications
- Growth will need to come from other areas
  - Partnerships and new business opportunities
- Need new product introductions, lower cost using current infrastructure, may not even have Select Comfort identity
  - Can only grow 10-15% without new products
- Need focus on important acquisitions
- Need broader distribution
- Keys to growth - more products  
(70% of beds on market below \$799--SC's starting point)
- Not producing to least cost possible
- In a strong economy we are only growing at 20-30% that's just momentum, not doing anything different to grow the business
- Being number 1 should be the goal, but that means 43% growth in beds; will there be acquisitions?
- Do retail, direct and e-commerce need to be that independent?
- Don't seem to have leverage in stores (not much difference between high/low stores)
- May be too promotional--are we buying business?
- What are we trying to be--high growth or high earnings (can't be both)
- What's the formula to hit goal? Seems to be a moving target
- Concerned about competition, need to get branded quickly (requires cash before payback)
- Competition can beat us on price
- What are the strategic priorities for the company and for direct
- Direct may need to focus on lower brands

## **Constraints**

- Don't see leadership
  - Recruiting Sales managers in the field (need corporate recruiters to funnel candidates)
    - DSM's spending 40% time recruiting
  - Infrastructure at home office to support store growth
  - Need another planning tool
  - Need on-line capability for inventory in stores
  - Need to find the "Best" Sales people to staff the stores
- Systems not currently positioned to serve a growing business
- Issues of who gets credit for sales
  - Store managers can only access on line customer in 35 mile radius (every store should have every record)
- Maxing out where we can buy media (print and TV maxed)
  - Manpower issues currently impossible to hire for Mpls (Direct Sales/Operations)
  - Don't have a clearly articulated strategy
  - Need to understand the mathematical drivers of the business (business model)
  - May be hiring below standards just to get people
  - Marketing is weak link---Select Comfort not as well recognized as it should be
  - Clear goal---not sure how to get there
  - Possible supplier issues to meet goal
  - Inside roles have not been clarified toward goal
  - Retail systems not in place (Inventory, ordering, replenishing)
  - Retail infrastructure still small company
    - Support not efficient (i.e. payroll not on-line)
  - IS problem with tracking accessory inventory
  - Don't have EDI drop ship from vendor
  - Systems not ready (need better tools and timeliness of data)
  - Will we have the manpower to support additional programs
  - Current personnel is good, but worry about for how Headcount additions change talent mix
  - Challenge to integrated all of the other vehicles that drive awareness, without direct contact we may lose visibility from direct marketing database (may lose a handle on what spending drives sales)

## **Management Confidence**

- Have confidence in Dan
- Ron Mayle--never stops talking to everyone at every level, has the vision
- Detailed plans to make goals are sketchy
- Starting to see movement of Retail and Direct working more closely together (Ron and Chuck driving that)
- Concern about the bigger role that Pat Hopf is taking on
  - Issue is whether Dan will be able to put together a plan, vision, strategy
- Dan hasn't had a fair chance due to focus on stock price
- Dan didn't present a cohesive strategy at the transition
- Lack of foresight into what vision will motivate people... needs to be related to the superiority of the product (not making management rich)
- Need to value "little" people as well as "big" people
- No one has communicated the strategy
- Need to focus--drill down
- Focus needs to be on business not stock price
- Need connection (bridge) between vision and reality
- Old management team had vision, plans and processes (with accountability)
  - 1999 Strategic Imperatives
- Dan needs to demonstrate leadership
- Great confidence in Dan, he is in a tough position, if we don't hit numbers its not his fault (Press releases not under his control)
- If Pat has a heavy hand in the business we will not survive
- Have respect and support of management's capability, not sure how Pat fits in
- More comfortable with management today than previously
- Confidence in Dan--announcement internal was OK, but put competitors on alert
- Management philosophy may inhibit growth
  - Not willing to take the long view due to impact on current earnings
- When they focus on the company they are doing well--focus on stock price is wrong
- Now better positioned management-wise, view from public may be different
- Real commitment from mid-level management, capable of carrying theme through
- Need to do a better job of making front line feel included and valued

### **Personal Concerns**

- Communication is not as complete as it needs to be
- The growth plan is big talk
- The house is divided (sales tax issue)
- IS is Weak (Confidence in head of IS---may not have access to resources)
- Lot's of reason for concern---starting with press release
- Communication or lack thereof
- Stock price
- Vision is growth but struggling to hit plan today
- Worried about hierarchy---too top heavy making everyone a director or VP
- High growth---if we push too hard we will screw up base business
- Concerned with 43% goal and how that incents current behavior Vs long-term

## APPENDIX Q

### Summary of Fieldwork Findings:

Sorted by Themes that Emerged under the Categories of

#### Business Issues and Constraints/Challenges

<b><u>Business Issues</u></b>	Not doing enough to build brand awareness
<b>Brand Awareness</b>	May be too promotional—are we buying business Concerned about competition, need to get branded quickly (requires cash before payback) Direct may need to focus on lower brands
<b>Sales</b>	Buying is down in Direct, Roadshow, Retail What’s the formula to hit goal... seems to be a moving target Competition can beat us on price
<b>Product Mix</b>	Need changes to current products not more (Adjustable Frame/Sofa OK) Need to branch out with different products Need new product introductions, lower cost using current infrastructure, may not have Select Comfort identity Keys to growth—more products (70% beds on the market below \$799 Select Comfort starting point)
<b>Distribution</b>	Need to branch out with other leasing partners Need broader distribution
<b>Organization Structure</b>	Structure driven by tax implications Do retail, direct, e-commerce need to be that independent
<b>Growth Strategy</b>	Don’t see any planned acquisitions, these are usually vehicles to growth Growth needs to come from partnerships & new business opportunities Can only grow 10-15% without new products Need to focus on important acquisitions In strong economy we are only growing at 20-30% that’s just momentum, not doing anything different to grow the business Being #1 should be the goal, but that means 43% growth in beds, will there be acquisitions What are we trying to be – high growth or high earnings (can’t be both) What are the strategic priorities of the company and for Direct

<b>Cost</b>	<p>Not producing to least cost possible</p> <p>Don't seem to have leverage in stores (not much difference between high/low stores)</p>
<b><u>Constraints/Challenges</u></b>	
<b>Infrastructure</b>	<p>Infrastructure at home office to support store growth</p> <p>Need on-line capability for inventory in stores</p> <p>Systems not currently positioned to serve a growing business</p> <p>Issue of who gets credit for sales</p> <p>Sales managers can only access on-line customers in 35 mile radius</p> <p>Retail infrastructure still small company</p> <p>Support not efficient (i.e. payroll not on-line)</p> <p>IS problem with tracking accessory inventory</p> <p>Retail systems not in place (inventory, ordering, replenishing)</p> <p>Systems not ready (need better tools and timeliness of data)</p>
<b>Human Capital</b>	<p>Recruiting sales managers in the field (need corporate recruiting to Funnel candidates)</p> <p>DSM's spending 40% of their time recruiting</p> <p>Need to find the "best" sales people to staff the stores</p> <p>Currently impossible to hire for Minneapolis (Direct Sales/Operations)</p> <p>May be hiring below standards just to get people</p> <p>Will we have the manpower to support additional programs</p> <p>Current personnel is good, but worry about how head count additions change talent mix</p>
<b>Leadership</b>	<p>No one has communicated the strategy</p> <p>Need to focus—drill down</p> <p>Management philosophy may inhibit growth—not willing to take the long view due to impact on current earnings</p> <p>Don't see leadership</p>
<b>Operations</b>	<p>Possible supplier issues to meet goal</p> <p>Don't have EDI drop ship from vendor</p>
<b>Strategic Planning</b>	<p>Don't have a clearly articulated strategy</p> <p>Need to understand the mathematical drivers of the business (business model)</p> <p>Clear goal—not sure how to get there</p> <p>Need another planning tool</p> <p>Detailed plans to make goal are sketchy</p> <p>Need connection (bridge) between vision and reality</p>

**Brand Management** Maxing out where we can buy media (print and TV maxed)  
May be too promotional--are we buying business?  
Marketing is weak link--Select Comfort not as well recognized as it should be  
Challenge to integrate all of the other vehicles that drive awareness, without direct contact we may lose visibility from direct marketing database (may lose a handle on what drives sales)

**Organization Structure** Inside roles have not been clarified

## APPENDIX R

### Interview Protocol – Executive Interviews

#### **Select Comfort Executive Interview Protocol**

1. As you think about your future in this industry, what do you see as the most important business challenges Select Comfort will face?
  - a. What should be Select Comfort's top priorities to meet these challenges?
2. Where do you need to be in order to be seen as a key competitor in this market?
  - a. Why aren't you there now? What constraints/obstacles are in the way?
  - b. What distinctive advantage/value does Select Comfort need to create value in terms of:
    - Customer value
    - Efficiency
    - Market power
3. Given the intent to become the leader of the mattress industry in terms of revenues, market share, profitability and shareholder value:
  - a. How confident are you with achieving this five-year growth by:
    - Increasing the number of distribution points
    - Expanding our product offerings
    - Increasing our retail advertising reach
  - b. What other strategic alternatives could Select Comfort pursue to increase the likelihood of hitting the \$1.5 billion goal?
  - c. What are the biggest obstacles to each of those alternatives?
4. How do you define the contribution of your group/function to Select Comfort's overall goals?
  - a. Who are your primary customers?
  - b. How do you define success in terms of specific results/outcomes?
  - c. How do you measure these results/outcomes?
5. What business process does your group use as a means to achieve these results? (Describe the key components of the value chain as you define it.)
  - a. Which processes are most critical/most constrained
  - b. How are the processes likely to change in the future?
  - c. Which talent pools make or break key business processes?
6. Where/how do employees have the greatest impact on business results?
  - a. What employee behaviors make the biggest difference?
  - b. Where do you see the largest gaps in terms of human capacity in your group?
    - Near-term
    - Long-term
  - c. What do you think is the source of these constraints?
  - d. What do you see as an intervention that could alleviate some of your capability constraints?

## **APPENDIX S**

### **Executive Interview Participant List**

**Renee Christensen - Vice President E-commerce**

**Chuck Dorsey - SVP, General Manager - Direct**

**Karen Jones - Vice President Human Resources**

**Mark Kimball - SVP, General Counsel/Chief Administration Officer**

**Greg Kliner - SVP, Operations**

**Dan McAthie - President, Chief Executive Officer**

**Ron Mayle - SVP, General Manager - Retail**

**Lane Nordquist - Vice President, Chief Information Officer**

**Mike Peterson - Vice President, Product Development & Technology**

**Jim Rabbe – Vice President, Chief Financial Officer**

## **APPENDIX T**

### **Internal Reviewer Validation of Executive Interview Transcripts**



October 12, 1999

Ms. Joanne Provo  
Personnel Decisions International  
Corporate Headquarters  
45 South 7<sup>th</sup> Street  
2000 Plaza VII Tower  
Minneapolis, MN 55402

Dear Joann:

I have read the transcripts from the Strategic Executive interviews and find the content as stated, accurately reflects the interview.

Sincerely,

A handwritten signature in cursive script that reads "Susan Fitzpatrick".

Susan Fitzpatrick

SF:jg

## **APPENDIX U**

**HR Workshop Presentation Materials (55 PAGES)**

**Capabilities Based Strategy**

**Strategic Staffing: Measuring What Matters**

**Competitive Analysis (Exercise A & B)**

**SELECT COMFORT**  
**Capabilities Based Strategy**  
**Human Resource Group**  
**June 23, 1999**

**AGENDA**

8:00 a.m.	Welcome and Introductions
8:10 a.m.	HR Implications in Knowledge Economy
8:30 a.m.	Introduction to PeopleSCOPE™
9:00 a.m.	How Do We Compete <ul style="list-style-type: none"><li>• Introduction to Strategy</li><li>• Industry Structure</li></ul>
9:30 a.m.	Break
9:50 a.m.	How Do We Compete <ul style="list-style-type: none"><li>• Strategic Intent</li></ul>
10:10 a.m.	Competitive Analysis: Exercise A <ul style="list-style-type: none"><li>• Small Group Exercise</li></ul>
11:00 a.m.	Competitive Analysis <ul style="list-style-type: none"><li>• Debrief... Implications</li></ul>
11:30 a.m.	Lunch
12:15 p.m.	Competitive Analysis: Exercise B <ul style="list-style-type: none"><li>• Large Group Exercise</li></ul>
1:00 p.m.	Business Processes Analysis <ul style="list-style-type: none"><li>• Value Chain</li><li>• Constraint Analysis</li></ul>
2:15 p.m.	Break
2:30 p.m.	Talent Pool Analysis <ul style="list-style-type: none"><li>• Return, Risk and Liquidity</li></ul>
3:15 p.m.	Aligned Action
3:45 p.m.	Human Capacity
4:30 p.m.	Adjourn

**SELECT COMFORT  
Capabilities Based Strategy  
Human Resource Group  
June 24, 1999**

**AGENDA**

8:00 a.m.	Questions/Clarifications from yesterday
8:15 a.m.	Human Capacity <ul style="list-style-type: none"><li>• COM for Pivotal Positions</li></ul>
8:45 a.m.	HR Bundles
9:00 a.m.	1999 HR Initiatives Discussion <ul style="list-style-type: none"><li>• Contribution to 1999 Strategic Initiatives</li><li>• Contribution to 2003 Strategic Initiatives</li></ul>
10:00 a.m.	Break
10:20 a.m.	How Robust are your HR Strategies? <ul style="list-style-type: none"><li>• Looking at current HR initiatives under alternative organizational strategies</li></ul>
11:30 a.m.	Lunch
12:30 p.m.	Investment Analysis
1:30 p.m.	Strategic Staffing <ul style="list-style-type: none"><li>• A process and measurement example</li></ul>
2:15 p.m.	Break
2:30 p.m.	Strategic Staffing (continued)
3:30 p.m.	Wrap Up - Next Steps - Evaluation

## SELECT COMFORT

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Capabilities Based Strategy  
Human Resources Group  
June 23-24, 1999

Joanne Provo  
jprovo@pdi-corp.com  
(612) 337-3639

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**Karen Jones, Vice President - Human Resources**

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**Introductions**

**Goals**

**Objectives**

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### **The Shift from the Industrial to the Knowledge Economy**

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- There has been a fundamental shift, largely driven by technology, which impacts ALL business segments, not just the high technology sector.

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## Industrial Economy



- Capital was a constrained resource
- Labor was not a constrained resource, and available at low cost

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## Knowledge Economy



- Capital is NOT constrained
- Knowledge, intellect, and the organizational capabilities which result are the constrained resources

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## Traditional Management Models (Capital Return Models)

- Measurement:
    - Profit/loss
    - Stock price
    - Investment Rating
  - Models:
    - Return on investment (ROI)
    - DuPont return on equity (ROE)
    - Net present value (NPV)
    - Capital asset pricing model (CAPM)
- Assume *capital* is the critical asset.



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### **Asset Measurement Systems**

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- Most current management information systems measure & manage *tangible* assets
- Far less attention is placed on intangible assets
- Little if any attention is given to human resources as assets within existing management systems

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### **Old Systems - New Reality A Very Bad Mix**

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- Most existing management systems have as the implicit assumption that:
  - Capital is the constrained resource
  - Labor is available in high quality with short lead times at predictable prices
- When these conditions are not true, the systems drive managers to the wrong results

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### **Example**

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- Manufacturing or technology company
- High-growth potential
  - Strong market demand
- Constrained resource:
  - Project engineers to customize the products to the needs of the clients

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### **Traditional Budgeting Objectives**

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**Goals:**

- Complete certain projects
- Add six new project engineers

**Actual:**

- Completed projects
- Only added three new engineers

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### **Typical Managerial Performance Appraisal**

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- Completed all objectives
- Expenses under budget

*But, the expenses saved are minimal compared to the weaker position they are in.*

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### **Welborne/Andrews study of initial public offerings (IPOs)**

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- T. Welborne/A. Andrews from Cornell
- Academy of Management Journal 1996, Vol 39, No. 4, pages 891-919
- Looked at every IPO in 1988, total of 136 firms
- Rated firms on HR issues:
  - Talk like people are important
  - Act like people are important

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## Findings from Welbourne

Companies that talked and acted like people are important:

IPO → Priced lower

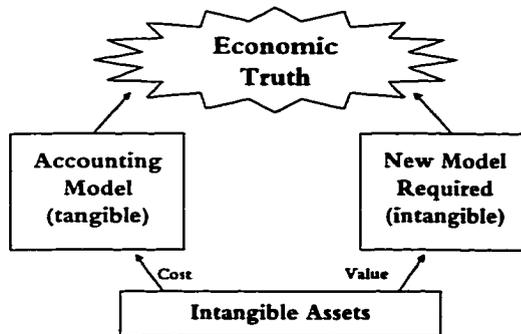
Five years later → Valued higher  
Greater survival



## Why did this happen?

- Where did the financial analyst go wrong?  
They understood the COSTS and RISKS of people, but not the potential value.
- MBA programs believe and teach those models!
- Learning the lessons on tangible, linear returns and intangible, non-linear returns.

## Economic Truth



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**ORGANIZATIONS WHO MAKE  
THE SHIFT WILL ENJOY  
SIGNIFICANT ADVANTAGE**

Internal management systems can help  
leaders realize value in the new  
environment

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**Competitiveness**

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**Strategic vs. Professional vs. Tactical**

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- Money/Capital:  
Finance vs. Accounting vs. Bookkeeping
- Customers/Products:  
Marketing vs. Sales vs. Order Taking
- People/Knowledge:  
???

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### **Traditional HR Budgeting Approach**

- Budget based on history or benchmarking ratios
- Benefits analysis developed to support the proposal



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### **Strategic HR Planning Approach**

- Analyze organizational strategy
- Determine value/capabilities relationship (Impact)
- Estimate effectiveness of alternative capabilities building approaches
- Design solution within organizational value context
- Align HR budget with value creation potential

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### **Value Creation & Allocation**



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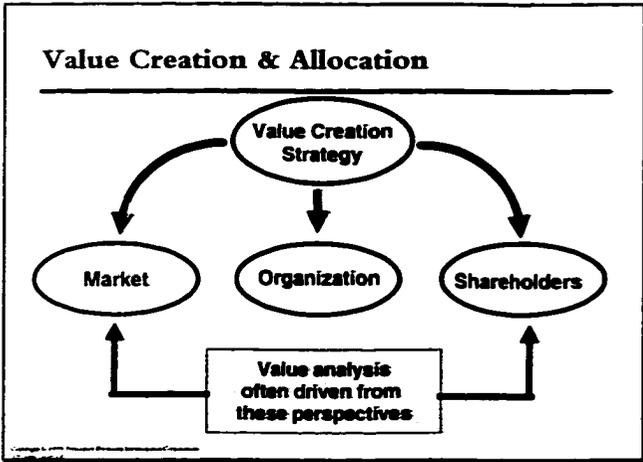
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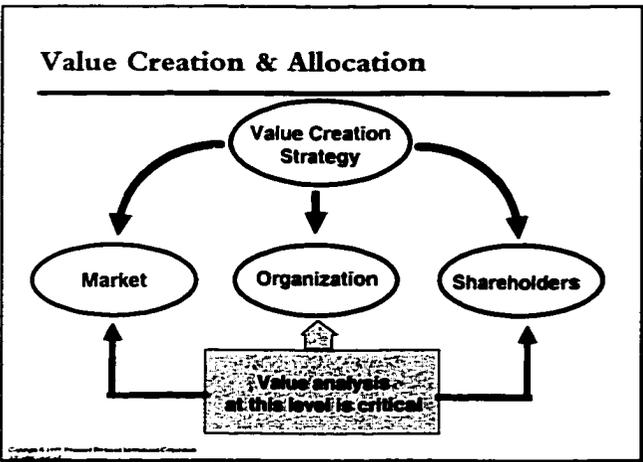
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**BUILDING A MANAGEMENT SYSTEM FOR HUMAN CAPITAL**

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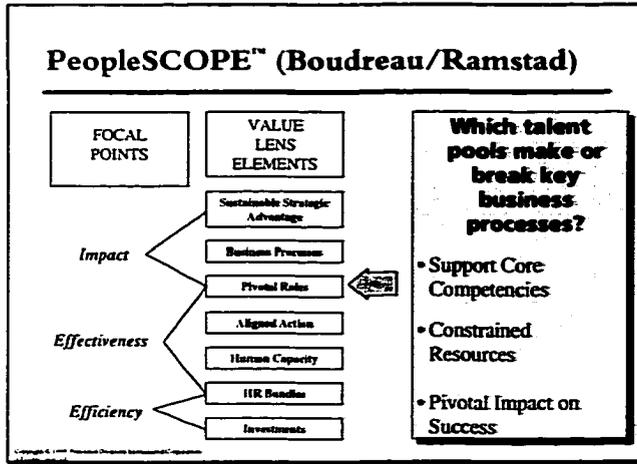
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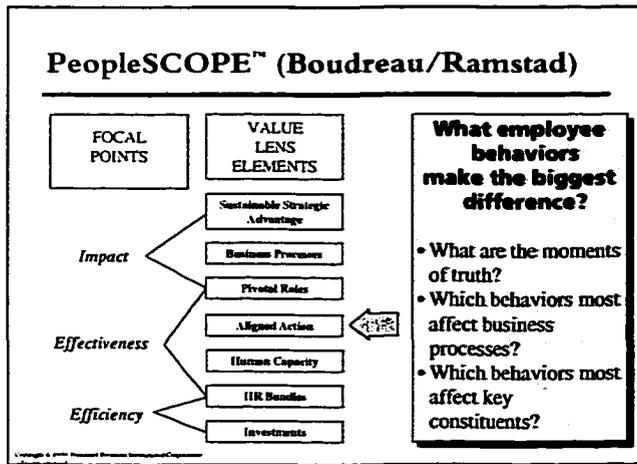
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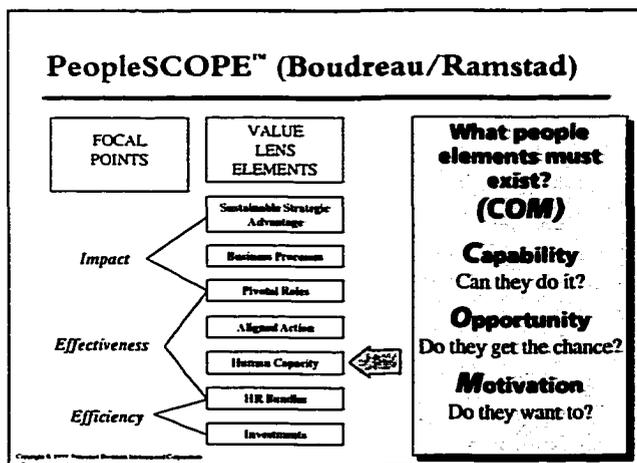
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### Porter's Five Forces Theory of Industry Structure

Industry competition is driven by five forces:

- Threat of substitutes
- Threat of new entrants
- Bargaining power of suppliers
- Bargaining power of buyers
- Intensity of rivalry among competitors

*These factors determine the level of competition, and therefore, level of profit in an industry*

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### Example: Two Contrasting Industries

- Pharmaceuticals:
  - Merck
  - Bristol/Meyers/Squibb
  - Pfizer
- Food Wholesalers:
  - SUPERVALU
  - Fleming Foods

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### Example: Profitability Varies by Industry

	Market to Book Ratio	=	Return on Equity	x	Price/Earnings Ratio
Merck	15.2x	=	39.7%	x	38.4
BMQ	15.6x	=	40.8%	x	38.2
Pfizer	20.7x	=	22.2%	x	93.2
<hr/>					
SUPERVALU	2.0x	=	14.5%	x	13.7
Fleming	0.5x	=	5.9%	x	9.2

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Source: Yahoo as of 3/25/99.

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**Example:  
Profitability Varies by Industry**

	SALES (Billions)	MARGIN (%)	MARKET CAPITALIZATION (Billions)
Merck	26.9	20.0%	178.8
BMQ	18.3	20.0%	117.6
Pfizer	13.5	17.0%	195.1
SUPERVALU	17.5	1.1%	2.5
Fleming	15.1	0.2%	0.3

Source: Yahoo as of 3/25/99.

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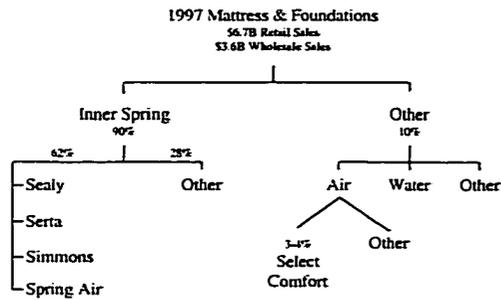
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**Mattress Industry Analysis**



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**Strategic Intent**

- How do you intend to “win” in your given industry?

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**Porter's Generic Strategies**

		COMPETITIVE ADVANTAGE	
		Lower Cost	Differentiation
COMPETITIVE SCOPE	Broad Target	1. Cost Leadership	2. Differentiation
	Narrow Target (Focus)	3A. Cost Focus	3B. Differentiation Focus

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**Select Comfort Product Positioning - Distribution**

		COMPETITIVE ADVANTAGE	
		Lower Cost	Differentiation
COMPETITIVE SCOPE	Broad Target	Slumberland	Gabbert's
	Narrow Target (Focus)	Mattress Warehouse	Select Comfort

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**Select Comfort Product Positioning - Manufacturing**

		COMPETITIVE ADVANTAGE	
		Lower Cost	Differentiation
COMPETITIVE SCOPE	Broad Target	?	?
	Narrow Target (Focus)	?	Select Comfort

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## Select Comfort Product Positioning - Distribution

		MARKET	
		Lower Cost	Differentiation
CORE COMPETENCE	New	What new core competencies will we need to build to protect and extend our franchise in current markets?	What new core competencies would we need to build to participate in the most exciting markets of the future?
	Existing	What is the opportunity to improve our position in existing markets by better leveraging our existing core competencies?	What new products or services could we create by creatively redeploying or recombining our current core competencies?

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From *Competing for the Future* by Hamel & Prahalad, 1992.

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## Competitive Analysis

- Exercise A

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## Competitive Analysis

- Exercise B

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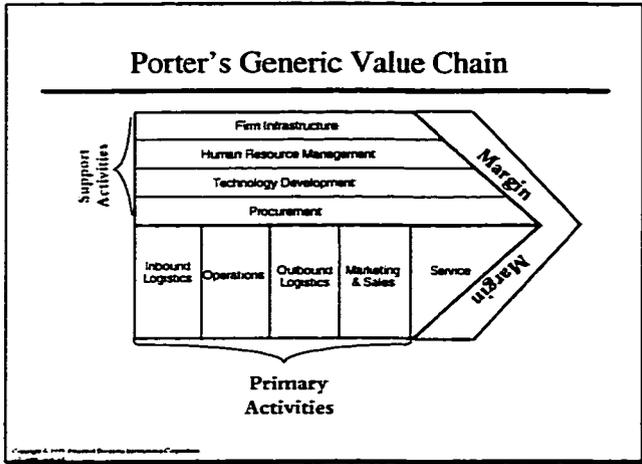
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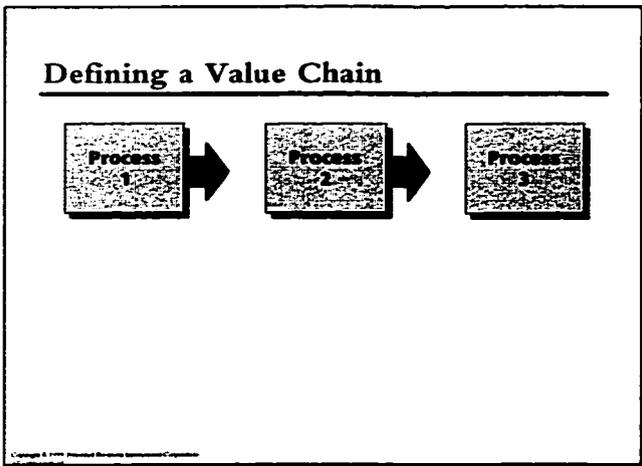
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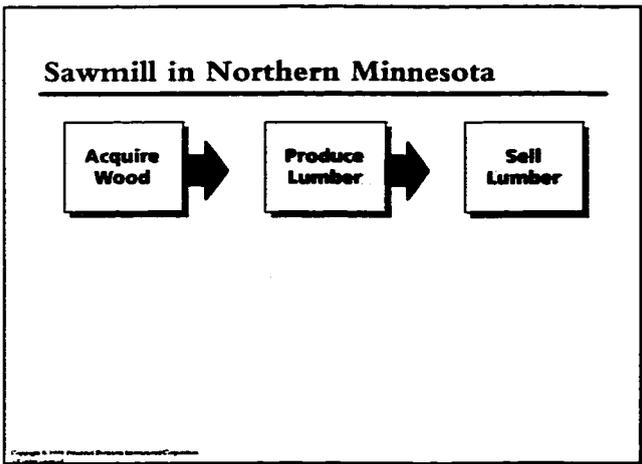
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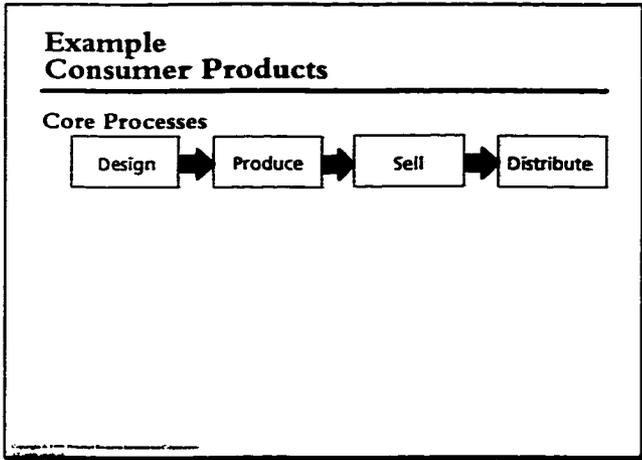
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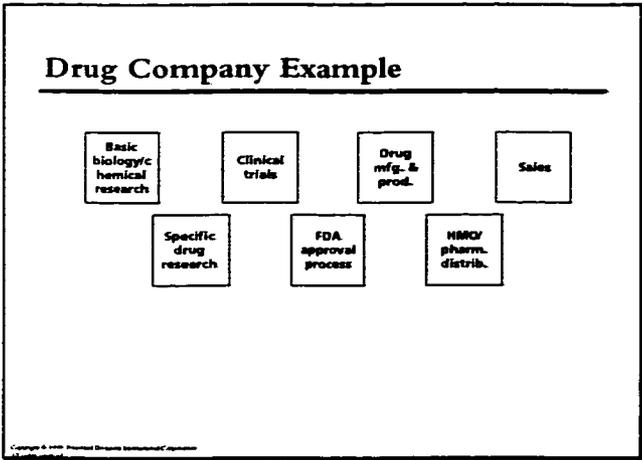
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### Group Discussion

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**What are the Major Elements in Your Value Chain/Key Business Processes?**

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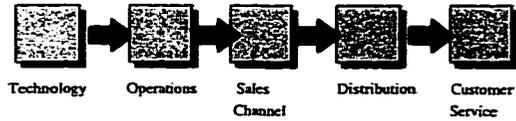
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### Select Comfort-Core Business Processes



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### Sustainable Competitive Advantage

Value creating strategies that other organizations cannot duplicate

- Adds Value
- Unique or Rare
- Cannot be Imitated
- Supported by Organization



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### Critical Issue: How Do Your Measures Operationalize the Strategy?

- Is there clear "line of sight" from the system of measures to the strategic intent?
- Can the role of core processes be identified?

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## Example from Wall Street

### List of Measures:

- Number of Brokers
- Total Profit per Broker
- Number of Clients
- Average Portfolio Return
- Fee Income per Broker
- Fee Income as a Percentage of Assets
- Transactions per Broker

## Same Measures: Different Strategic Intent

$$\frac{\text{Income}}{\text{Broker}} = \frac{\text{Assets}}{\text{Brokers}} \times \frac{\text{Return}}{\text{Assets}} \times \frac{\text{Fees}}{\text{Return}}$$

$$\frac{\text{Income}}{\text{Broker}} = \frac{\text{Clients}}{\text{Broker}} \times \frac{\text{Transactions}}{\text{Client}} \times \frac{\text{Fees}}{\text{Transaction}}$$

## Retail Store Analysis

\* Does not include 1999 stores opened less than one month.

**CONSTRAINTS:  
INDICATORS OF WHAT IS  
IMPORTANT**

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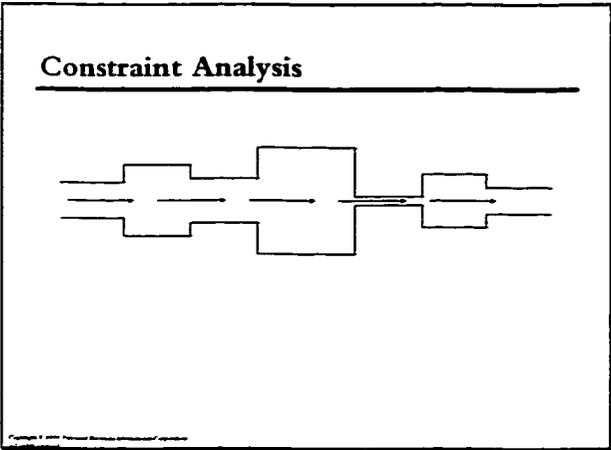
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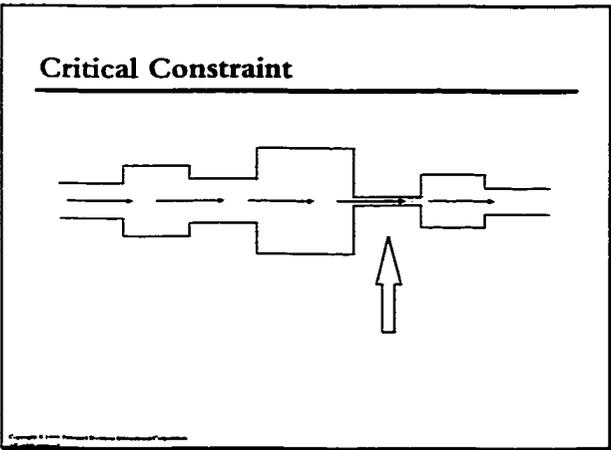
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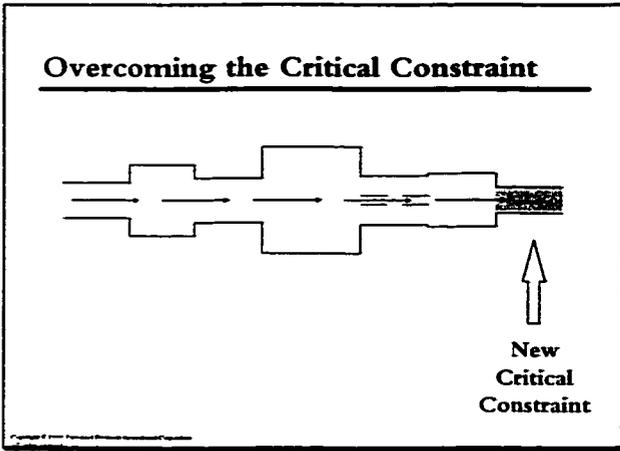
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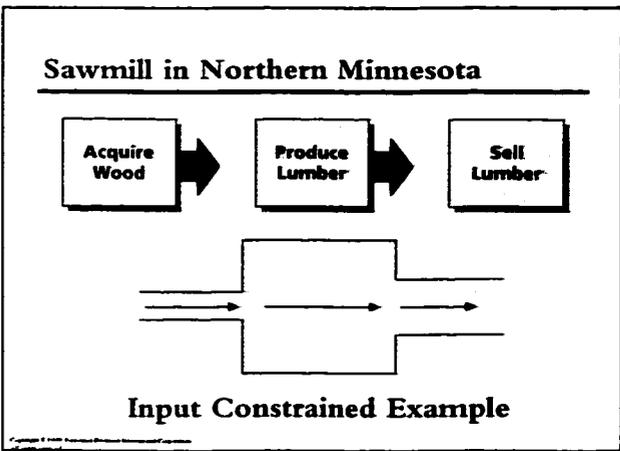
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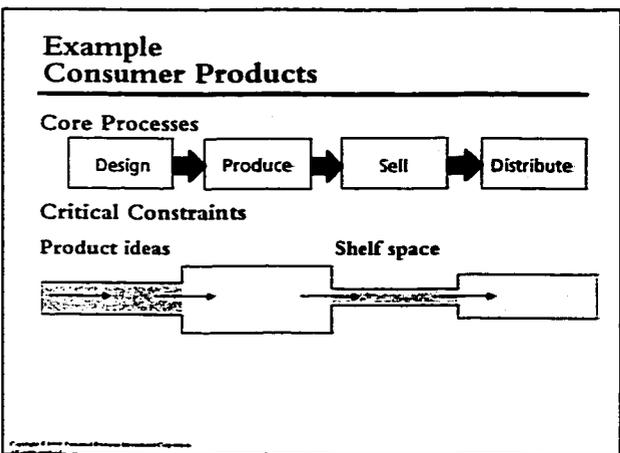
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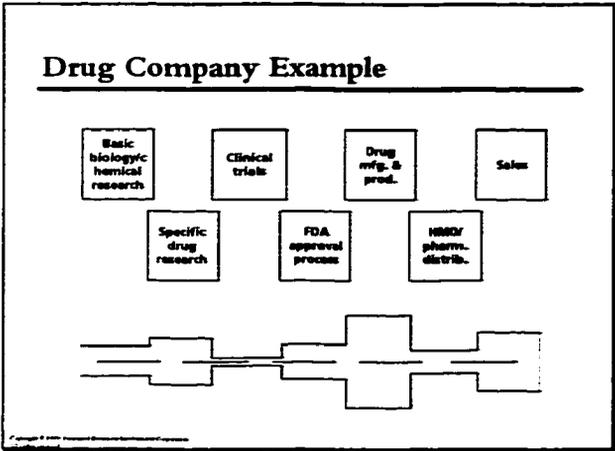
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- ### Tips for Identifying Constraints
- Questions to ask:
  - Where does your organization want to be in 5 years? What is preventing you from being there now?
  - Which of the core processes receive the most attention from top management? Least?
  - What resources are not constrained, i.e., available in plentiful supply?
  - What is the relative impact of each constraint?

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### Group Discussion

What are the major constraints in your value chain key business processes?

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**Universal (Generic) Value Drivers**

- Efficiency
- Speed
- Reliability
- Quality

In all roles, improvement in these attributes creates incremental value.

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**Constrained Resource Value Drivers**

- Volume
- Leverage/Allocation
- Substitution

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**How Roles Create Value Depends on Which Category They Are In**

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### Group Discussion

- Focus on one or two constraints from the previous discussion.
- What are examples of:
  - Increasing volume
  - Increasing leverage
  - Finding a substitute

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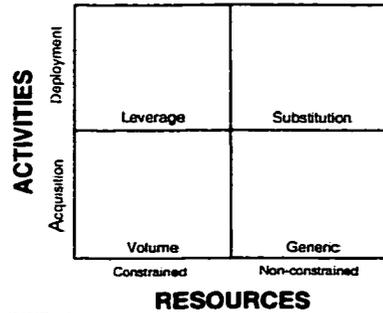
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### Select Comfort?



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### Group Discussion

- Do you see any opportunities to change the mix?
- What have you already done?
- What do you still need to do?

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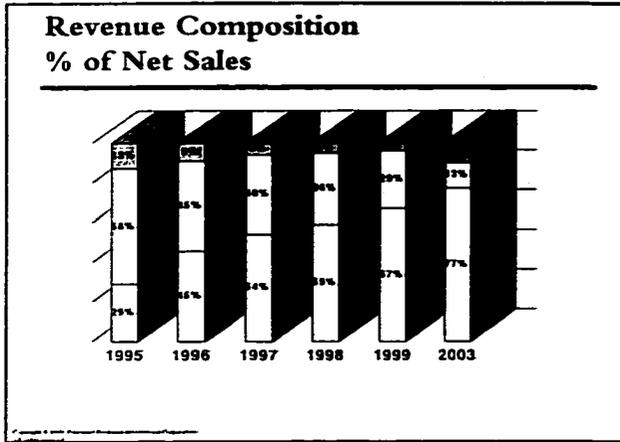
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### Avoid the Linearity Trap

- Each of the network elements must link back to the overall strategic intent.
- Interconnection is key

“Positions built on systems of activities are far more sustainable than those built on individual activities.”

– M. Porter, 1996

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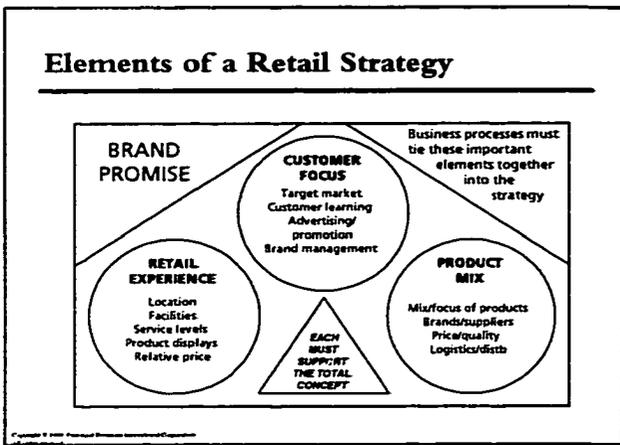
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## Strategic Alternatives

What other strategic alternatives could Select Comfort pursue to increase the likelihood of reaching \$1.5B sales goal in 2003?

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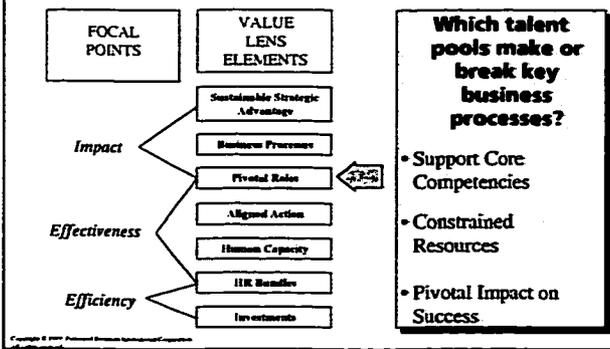
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## PeopleSCOPE™ (Boudreau/Ramstad)



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## HOW PEOPLE CONTRIBUTE TO VALUE CREATION

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### **Shift From “Jobs” To “Roles”**

- Strategic leaders see talent pools, not jobs
- Roles encompass multiple jobs
- Roles are flexible
- Roles emphasize contribution not tasks

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### **Identifying the Key Roles**

- Which roles are pivotal?
- Which roles make the biggest difference?
- Which roles have the biggest swing from upside to downside?
- Key is not only which roles are important, but what makes them important

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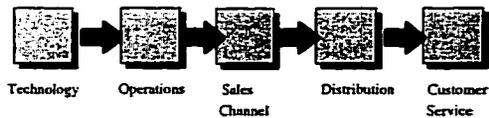
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### **Select Comfort-Core Business Processes**



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**What is the VALUE of IMPACT?**

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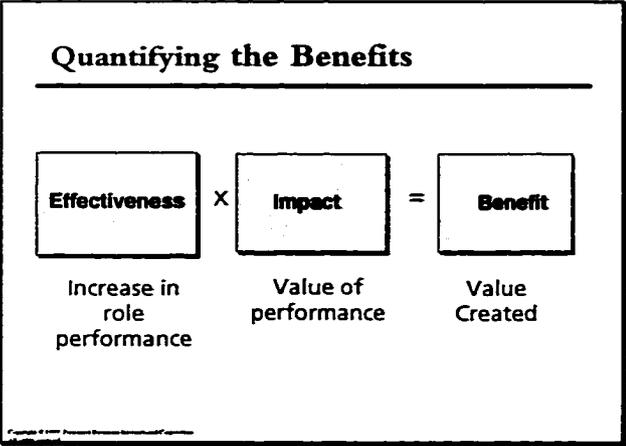
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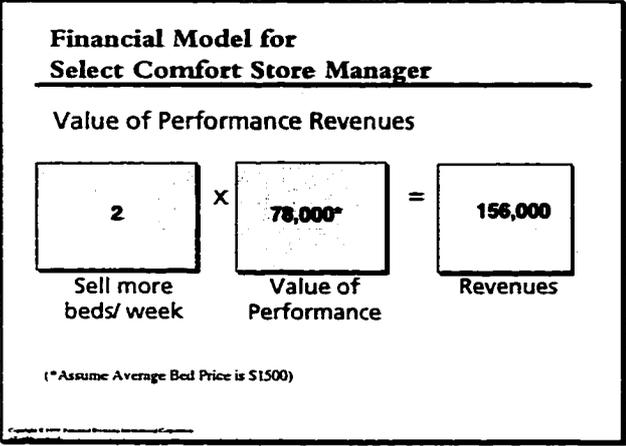
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### **Impact Analysis at Select Comfort**

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What are those positions where performance can be directly traced to business results?

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### **RETURN, RISK AND LIQUIDITY FRAMEWORK**

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### **HR Programs Create Value In Different Ways**

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• Improving *Return*



• Reducing *Risk*



• Increasing *Liquidity*



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## Human Asset - Economic Assessment Model

Return	Expected performance in the position as defined by the competency model.
Risk	Variability in performance Potential derailment factors
Liquidity	Flexibility to adapt to changing business needs

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## Finding the Value

- *Return* is most important when acquiring or deploying short-term constrained resources
- Value in many routine tasks is found in *risk* reduction
- Rapidly changing environments increase the value of *liquidity*

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## Improving Return

- Selecting for specific skills
- Training for specific skills



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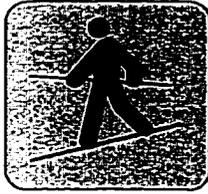
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## Reducing Risk



- Selection methods to screen out counter-productive behaviors
- Employee Assistance Programs
- Policies and controls to ensure compliance with employment laws

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## Increasing Liquidity

- Training in transferable skills
- Selecting for skills beyond the current job scope
- Selecting for adaptability and ability to learn




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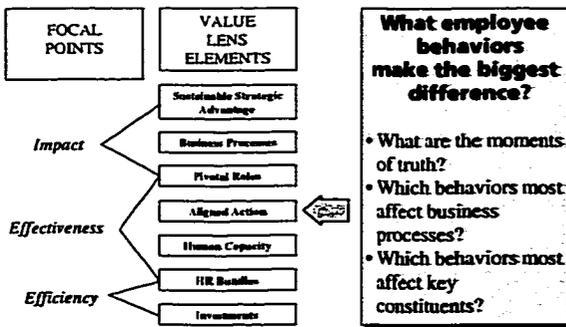
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## PeopleSCOPE™ (Boudreau/Ramstad)




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### **Aligned Action**

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- What are the “moments of truth”
- What defines “high”
- What defines “low”
- How do we observe it

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### **Finding Moments of Truth**

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- Fundamental elements of an aligned action
  - Observable
  - Directionally correct
  - Affects a:
    - » Key constituent
    - » Internal/external “customer”
    - » Business process
  - Clearly linked to role contribution
  - Controllable by the employee

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### **Defining “High” and “Low”**

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- Critical incidents focused on contribution
- Who is the key constituent affected?
- What do we observe if highly effective?
- What do we observe if ineffective?
- How big is the risk?
- What are the limiting factors?
- What are the enhancing factors?

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## Select Comfort Store Manager

- Critical incidents
- How observed
- Likelihood of being observed or influencing purchasing behavior

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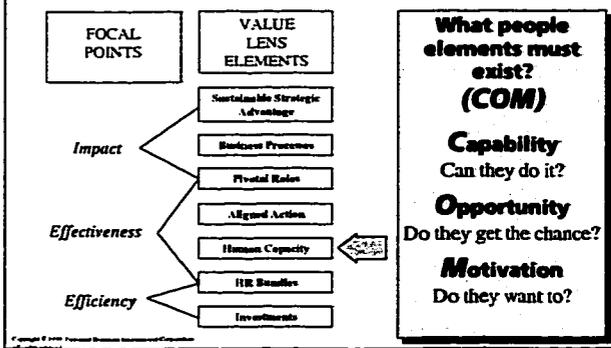
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## PeopleSCOPE™ (Boudreau/Ramstad)




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## Human Capacity Is “Potential Energy”

- Potential versus Kinetic energy
- Typical HR measures focus on enhancing potential, but organization change occurs with “kinetic” energy
- HR measures must focus on both potential and expressed energy levels
- Expression requires direction and observability: line of sight

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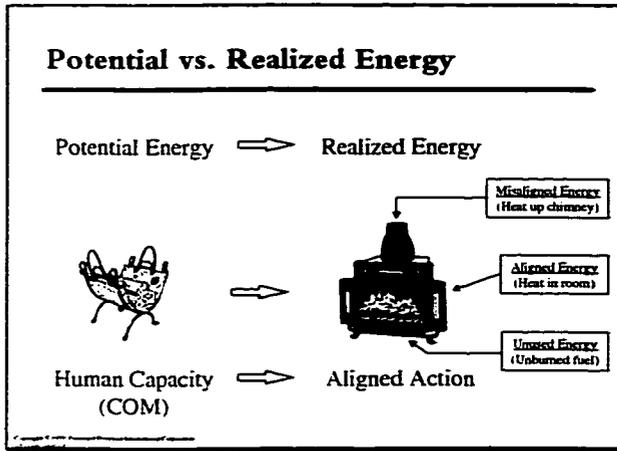
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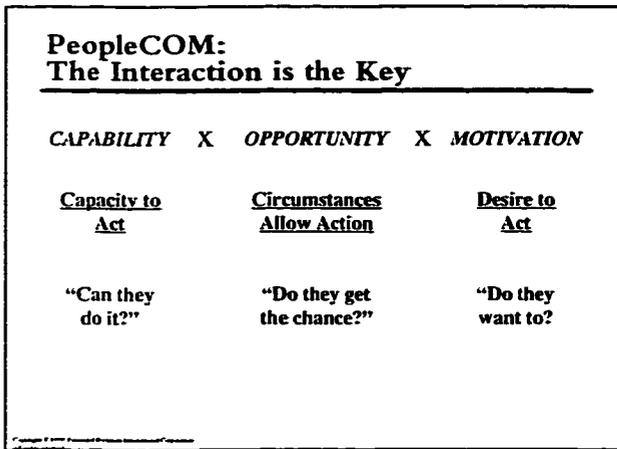
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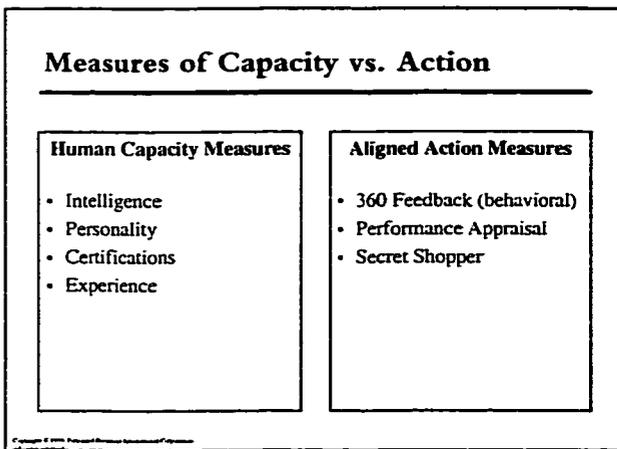
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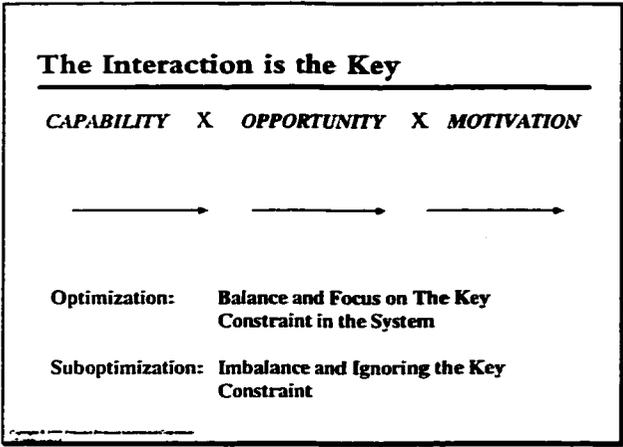
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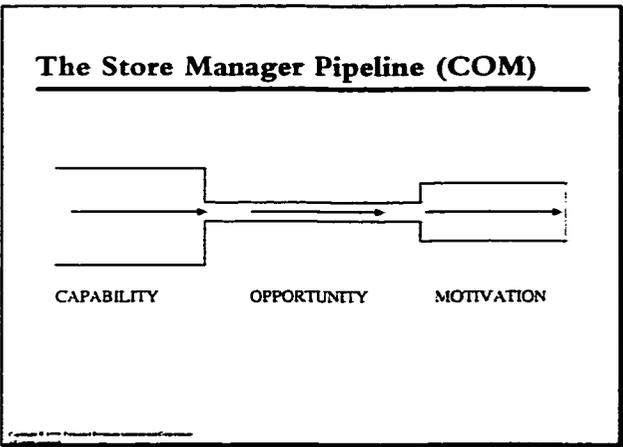
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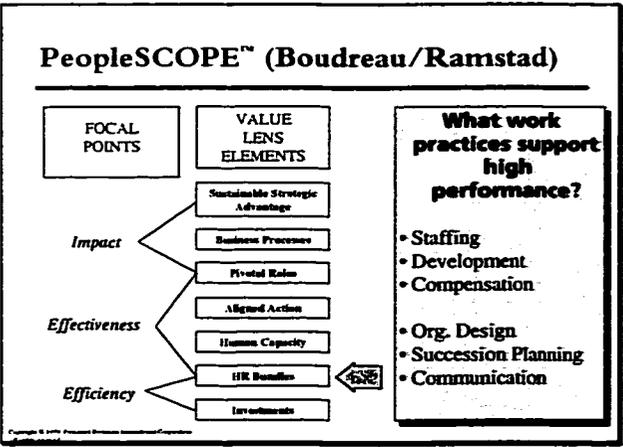
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## Select Comfort Goals/Roles for 1999

- What are the key HR processes you are working on?
- Are these aligned with the strategic imperatives of Select Comfort?

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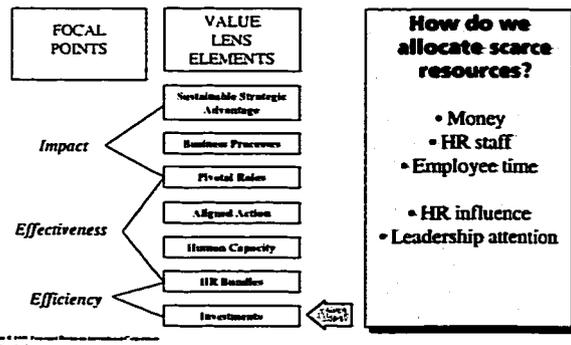
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## PeopleSCOPE™ Framework




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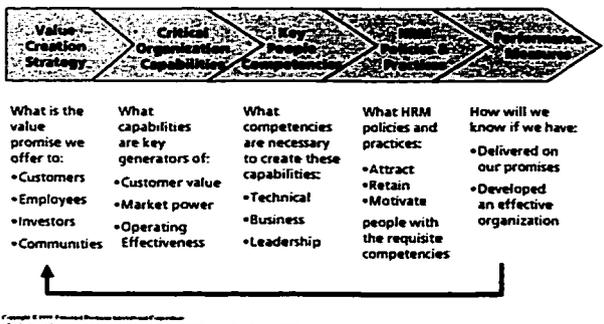
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## Strategic Management Model




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**Discussion:**  
**Your Current Measurement System**

- What do you currently measure?
- How do you use the data?
- Have you tried any measures that were not successful? If so, what happened?
- What would you like to measure, but currently do not?
- If you had that data, what could you do with it?
- Strategy to organizational strategy?

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**Measurement/Balanced Scorecard Issues**

- How many measures
- Balanced (?) Scorecard
- How reported (format)
- How often
- At what level of the organization
- Departmental and/or roll-ups

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**Measurement**

- How well do your current measures drive performance toward organizational success?

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## Measurement

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- What measures could you implement today that would represent alignment of human resources strategy to organizational strategy?

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## Strategic Staffing: Measuring What Matters

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- ### Goals
- 
- Design a measurement system that captures all important aspects of the staffing process, at every stage in the process
  - Use measurement data to clarify the accountabilities for the hiring managers as well as the HR professionals
  - Identify the process improvements with the greatest payoff
  - Communicate the value of effective staffing processes
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## Hiring Process Measurement Model



## Sample Measures

- Economic (“fully loaded”) cost per hire
- % of positions filled within target # days
- % of offers accepted
- Average manager rating of new hires (expected skills, expected effort, ability to learn, turnover risk)
- % of new hires who had all necessary tools on first day on job

## The Staffing Process

- |                   |  |
|-------------------|--|
| <b>Sourcing:</b>  | Locating potential employees   |
| <b>Screening:</b> | Ruling out candidates who do not meet minimum criteria for the job                   |
| <b>Selecting:</b> | Choosing the candidate most likely to be successful                                  |
| <b>Hiring:</b>    | Landing the candidate, once an offer has been made                                   |
| <b>Orienting:</b> | Ensuring new hires have the company information and tools they need to be productive |









**Steps in Measuring “Quality of Hire”**

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- Collect predictor data at time of hire
- Later, collect actual performance (criterion) data
- Measure strength of relationship (correlation) between predictors and actual performance

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**Competitive Analysis  
(Exercise A)**

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**Competitive Analysis**

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An analysis of the strengths and weaknesses of Select Comfort as viewed through the eyes of your competitors

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**Areas of Competitor Strengths & Weaknesses**

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- Products
  - Standing of products from the user's point of view, in each market segment
  - Breadth & depth of product line
- Dealer/Distribution
  - Channel coverage and quality
  - Strength of channel relationships
  - Ability to service channels

Porter "Competitive Strategy" 1985

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**Areas of Competitor Strengths & Weaknesses**

- Marketing and Selling
  - Skills in each aspect of the marketing mix
  - Skills in market research and new product development
- Training and skills of the sales force

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**Areas of Competitor Strengths & Weaknesses**

- Operations
  - Manufacturing cost position
  - Technological sophistication of facilities & equipment
  - Flexibility of facilities & equipment
  - Proprietary know-how & unique patent or cost advantages
  - Skills in capacity addition
  - Location, including labor & transportation costs
  - Labor force climate
  - Access to & cost of raw materials
  - Degree of vertical integration

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**Areas of Competitor Strengths & Weaknesses**

- Research and Engineering
  - Patents & Copyrights
  - In-house capability in the R&D process
  - R&D staff skills in terms of creativity, simplicity, quality, reliability, etc.
  - Access to outside sources of research & engineering

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**Areas of Competitor Strengths & Weaknesses**

- Overall Costs
  - Overall relative costs
  - Shared costs or activities with other business units
  - Where the competitor is generating the scale or other factors that are key to its cost position

Porter "Competitive Strategy" 1985

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**Areas of Competitor Strengths & Weaknesses**

- Financial Strength
  - Cash flow
  - Short & Long-term borrowing capacity
  - New equity capacity over the foreseeable future
  - Financial management ability, including negotiation, raising capital, credit, inventories, accounts receivable, etc.

Porter "Competitive Strategy" 1985

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**Areas of Competitor Strengths & Weaknesses**

- Organization
  - Unity of values & clarity of purpose
  - Organizational fatigue based on recent requirements placed on it
  - Consistency of organizational arrangements with strategy

Porter "Competitive Strategy" 1985

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**Areas of Competitor Strengths & Weaknesses**

- General Managerial Ability
  - Leadership qualities of the CEO: ability of CEO to motivate
  - Ability to coordinate particular functions or groups of functions
  - Age, training, and functional orientation of the management
  - Depth of management
  - Flexibility & adaptability of management

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**Areas of Competitor Strengths & Weaknesses**

- Corporate Portfolio
  - Ability of corporation to support planned changes in all business units in terms of financial or other resources
  - Ability of corporation to supplement or reinforce business unit strength

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**Competitor Analysis  
(Exercise B)**

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**Competitor Analysis**

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Assess Select Competitors

- Core capabilities
- Ability to grow
- Quick response capability
- Ability to adapt to change
- Staying power

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**Competitor Analysis-Core Capabilities**

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- What are the competitors capabilities in each of the functional areas?
  - What is it best at? Worst at?
- How does the competitor measure up to the tests of the consistency of its strategy?
- Are there any probable changes in those capabilities as the competitor matures?
  - Will they increase or decrease over time?

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### **Competitor Analysis-Ability to Grow**

- Will the competitor's capabilities increase or diminish if it grows? In which areas?
- What is the competitor's capacity for growth in terms of people, skills, & plant capacity?
- What is the competitor's sustainable growth in financial terms?
  - Can it grow with the industry?
  - How sensitive is sustainable growth to raising outside capital?
    - » To achieving short-term financial results?

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### **Competitor Analysis-Quick Response Capability**

- What is the competitor's capacity to respond quickly to moves by others, or to mount an immediate offensive? Determined by:
  - uncommitted cash reserves
  - reserve borrowing power
  - excess plant capacity
  - unintroduced but on-the-shelf new products

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### **Competitor Analysis-Ability to Adapt to Change**

- What are the fixed vs variable costs?
- What is the ability to adapt & respond to changed conditions in each functional area?
- Can the competitor respond to macroeconomic events?
  - Sustained high rate of inflation/recession
  - Increase in wage rates
- Does the competitor have exit barriers which will tend to keep it from scaling down or divestiture?

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### **Competitor Analysis-Staying Power**

- What is the ability of the competitor to sustain a protracted battle, which may put pressure on earnings or cash flow? Will be a function of:
  - cash reserves
  - unanimity among management
  - long time horizon in its financial goals
  - lack of stock market pressure

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**APPENDIX V**

**CEO Strategic Plan Memo August 23, 1999**

**From:** Pat Hopf [phopf@stpaulvc.com]  
**Sent:** Monday, August 23, 1999 11:54 AM  
**To:** Jim Raabe; Mike Peterson; Lane Nordquist; Karen Jones; Mitch Johnson; Deb Autrey  
**Cc:** Ron Mayle; Chuck Dorsey; Greg Kliner; Mark Kimball; Tracey Breazeale; Renee Christiansen  
**Subject:** Functional Areas of Expertise as Strategic Assets of the Organization

I have asked the following departments to present a written plan for how their department will become a valuable strategic asset of the organization as we grow the business five times in the next five years:

Finance  
Research and Development  
MIS  
Legal  
Human Resources  
Tax  
Public Relations

I would like to receive these plans on or before Thursday, September 23.

The plans should include the following information:

Define the scope of your department.

Define how your department interacts with other departments and divisions within the company.

Who are your critical customers? Who are your important but less critical customers?

Define the best ways to measure the performance of your department.

Evaluate the performance of your department in 1999.

What do you Define what your department must do exceptionally well and what you cannot fail at both short-term and long-term.  
need to be obsessive about?

As the organization grows sales five times in the next five years, what are the key challenges your department will face? What must your department be able to do to keep AHEAD of this growth in sales and internal requirements?

What changes in departmental strategy will be required? What changes regarding key tactical issues will be required? What resources, both internal and external, will be required for your department to truly be a "Strategic Asset" of the company?

How do you believe your peers and senior management perceive your department's contribution to the organization today?

How do you want it to be perceived in the future? If there are differences, please discuss what your department needs to do to be able to accomplish the improvements.

Other comments you would like to make?

Completing your departmental plan should get you thinking more about what you need to do in the long-term, rather than just concentrating your energies on today's action items. Please be thoughtful, introspective, comprehensive and completely honest. If there are variables which substantially affect your answers to some of these questions which are outside your control, please identify those variables. Have fun with this project and make it into an OPPORTUNITY for both you and the organization.

## **APPENDIX W**

**Select Comfort HR Strategy 2000-2004**

**Select Comfort Human Resources Strategic  
Positioning and Organizational Design 2000 – 2004**

**Human Resource Partnership Response 2000 – 2004 Presentation**

**HR Detailed Action Plans 2000 – 2004**

- **Recruitment and Retention**
- **Performance Management**
- **Training & Development**
- **Employee Relations**
- **Compensation & Benefits**
- **HR Administration & Management**

## **Select Comfort Human Resources Strategic Positioning and Organizational Design 2000 - 2004**

Select Comfort's Mission is to "be respected as a highly innovative, customer driven organization with vibrant entrepreneurial spirit and energy". To do this, we must attract and retain the brightest, most talented individuals in the marketplace, and continually reinforce our mission and our Goals and Beliefs through daily initiatives and an organizational design that clearly demonstrates to everyone that **people are our most important and asset.**

Human Resources must be seen as a strategic Senior Management Team partner with direct accountability to the CEO. The philosophies established by the organization, embraced and demonstrated by the CEO and Senior Management Team, must be driven throughout the organization through fair and consistent practices developed by Human Resources.

Human Resources must be viewed as the "pulse" of the organization, driving all critical human capital decision-making.

Select Comfort's Human Resource organization needs to radically change its design to meet the needs of the future. Currently, HR operates in a very traditional "HR specialty" format. We have "specialists" in compensation, benefits, training, legal compliance, etc. and "divisional" HR departments that support a more subject silo affect than true integrated partnership thinking. Looking strategically at the growth requirements ahead of Select Comfort, a centralized HR design, that reflects executive "strategic partnering", "core" human resource practices with "distributed" expertise throughout the organization and the use of "external" alliances, is the optimal approach to successful, sustained growth of our people and the organization.

### **STRATEGIC HUMAN RESOURCE PARTNER**

This area is driven by the Senior Vice President of Human Resources. This Senior Vice President would be involved with all organizational planning to ensure that Human Capital implications are considered as an integral part of all strategic planning. This person would initiate strategic partnerships and alliances to develop "best practices," enabling Select Comfort to be viewed as a premier employer on a national basis. This person **MUST** be true leader and champion of Select Comfort's Goals and Beliefs.

## CORPORATE (CORE) HUMAN RESOURCES

This area of Corporate (Core) Human Resources supports both the Senior Vice President in Human Capital Assessment and provides the expertise to the organization to include:

- Compensation and Benefits
- HR Administration and Management
- Employee Relations (including communication and events)
- Performance Management

Corporate HR would provide the guidelines and support for consistent application of HR processes across the organization. There should also be a role for corporate HR to recruit and train HR professionals who can be deployed to the functional groups. By starting in Corporate HR, these individuals are able to get a broad perspective of the organization and develop a solid foundation of Select Comfort's HR systems and processes. Corporate HR should have responsibilities for innovative processes, techniques, and systems that can be deployed across the organization. It would be expected the Functional HR professionals would view the support of their business unit as their primary focus and would not have the time or resources to research new practices or to develop systems that would benefit the entire organization. Corporate (Core) Human Resource professionals will partner with Functional (Distributed) Human Resources to share broad perspective with practical deployment of strategies.

## FUNCTIONAL (DISTRIBUTED) HUMAN RESOURCES

The Functional HR group reports directly to Corporate. This is where HR Generalists would have primary focus on a dedicated business unit/channel, ensuring consistent application of HR tools and processes throughout the organization, allowing for customization based on the needs of their business unit/channel. Given the growth expected throughout the organization it would seem that there should be HR presence in:

- Direct
- Retail (this may include accountability by region i.e., East, West, Midwest)
- Operations
- Administration

For this process to be successful, these HR professionals must demonstrate financial and strategic acumen so they are seen as true business partners. They need to become intimately familiar with the business processes, challenges, capabilities and constraints of the areas they support. They should be a visible presence able to demonstrate proficiency in HR processes and systems and also a willingness to be flexible and adaptable in the application of those processes in a way that enhances their value to the business unit.

## HUMAN RESOURCES PARTNERSHIPS/STRATEGIC ALLIANCES

Finally, partnerships and alliances should be developed with service providers and consultants across the spectrum of HR services. This may include, but not be limited to:

- Payroll and Benefit Administration
- External Training and Development Providers
- Search Firms
- Executive Coaching and Development
- Strategic Human Resources and Measurement
- Selection, Assessment, and Development Support

These partnerships would be developed in a true partnership model to increase the agility and flexibility of their use. It is often better to have dedicated established relationships with partners who understand your business and take an interest in your success. These resources do not need to be located on site. This can be managed in an adjunct fashion, although it might be important to have these partners participate in annual strategy meetings similar to “Supplier Day” to ensure that all players understand the nature of our opportunities and challenges.

Our challenge...  
to support the growth of Select  
Comfort over the next five years.

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**Human Resources  
Partnership Response  
2000 - 2004**

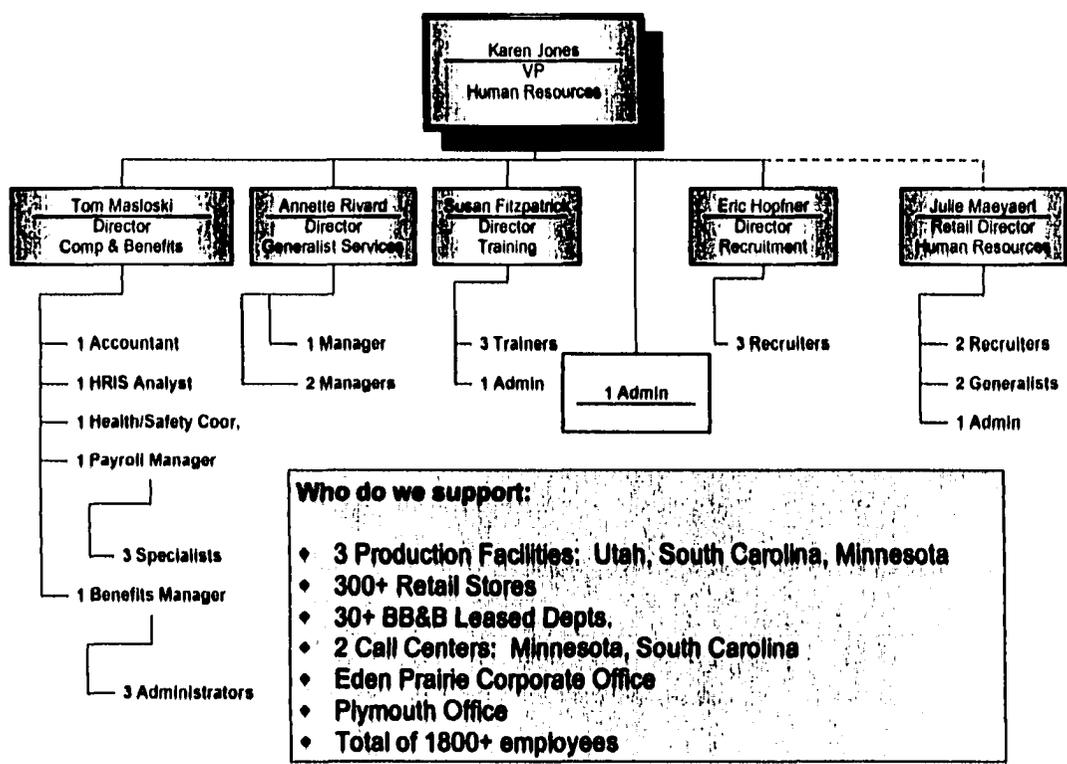
# 1993 Human Resources Organizational Chart



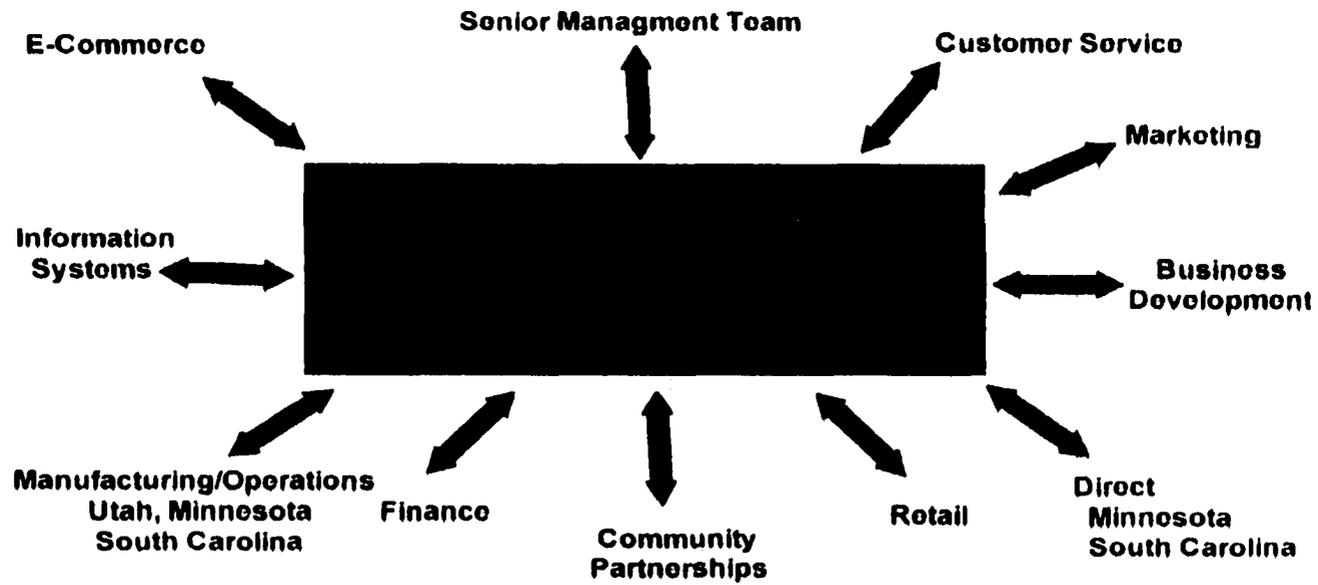
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***"... to create a stable company workforce  
comprised of highly motivated,  
customer-focused and  
experienced employee work teams  
that constantly challenge themselves  
while demonstrating the company  
Goals and Beliefs."***

# 1999 Human Resources Organizational Chart



# Human Resource Partnerships

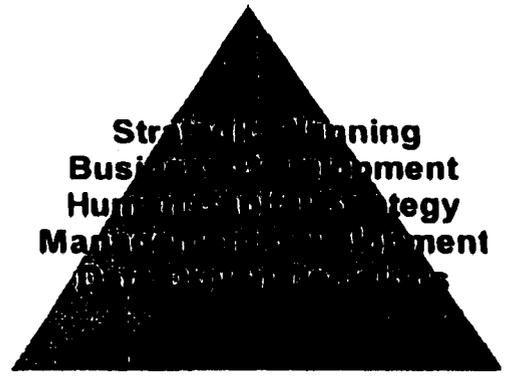


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# Who are HR's Critical Customers.... Everyone!

## Strategic Partnering

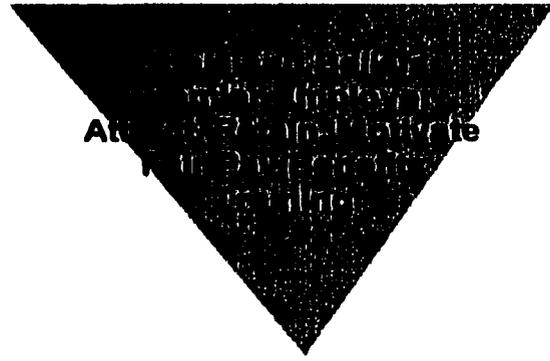
Senior Management



Employees

## Implementation

Employees



Senior Management

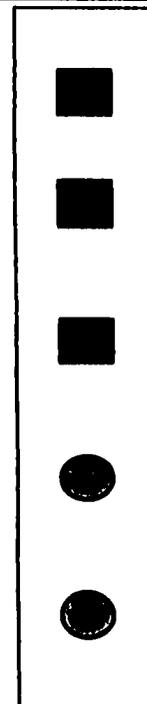
## **HR Success Measurements**

- ✓ **Broad-based, integrated partnerships**
- ✓ **Human capital assessment and readiness**
- ✓ **Effective recruitment/staffing/retention**
- ✓ **Consistent performance management**
- ✓ **Effective and timely training**
- ✓ **Employee attitude perceptions benchmarking**
- ✓ **Competitive compensation/benefit offerings**
- ✓ **Meaningful and effective employee interventions**
- ✓ **Worker compensation cost containment**
- ✓ **Mitigating legal exposure**

# HR 1999 Scorecard



- **Broad-based, Integrated Partnerships**
  - *Proactive strategic planning with business channels; understanding HR implications of business initiatives; execution*
- **Human Capital Assessment and Readiness**
  - *Management Development; succession planning; USC alignment with business strategies; coaching/ mentoring*
- **Effective Recruitment/Staffing/Retention**
  - *Employees hired- 665; New positions- 392*
- **Consistent Performance Management**
  - *Annual review; development of Levels Program; certifications for competencies and performance*
- **Effective and Timely Training**
  - *Successful launch of Salt lake City plant; training support for Returns Warranty System; 20 training hours/employee/year (Customer service, USC, Operations bench line); Operations online training*



# HR 1999 Scorecard



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- **Employee Relations**
  - *Employee Attitude Survey and follow-up; Kudos Events; Reinforce Goals and Beliefs*
  - *Communications Channels*
- **Competitive Compensation/Benefit Offerings**
  - *Select Comfort 401K participation, - 64%; Employee Stock Purchase Plan Participation - 15%*
  - *Introduced EAP; Improved benefits enhancements for 2000*
- **Meaningful and Effective Employee Interventions**
  - *Individual, department, business unit interventions with positive results*
- **Worker Compensation Cost Containment**
  - *Safety Teams in all locations; Safety Training (Retail and Operations)*
  - *Reduction of work-related costs by 6% year-to-date, 1999*
- **Mitigating Legal Exposure**
  - *Proactively managed employee claims reducing potentially millions of dollars in legal exposure*



## **What We Could Have Done Better...**

- ✓ **Re-Energize Goals and Beliefs - “Winning Attitude!”**
- ✓ **HR Alignment and Partnership on Corporate Goals and Objectives**
- ✓ **Human Capital Assessment and Readiness**
- ✓ **Recruitment/Retention Effectiveness**
- ✓ **Management Development /Succession Planning**
- ✓ **Employee Communication**
- ✓ **Online System Development (Payroll, Training, Recruitment, Benefits, Measurement)**

# What HR Must Do Exceptionally Well

## Recruitment/Retention

- **Sourcing**
  - *Develop long-term strategies to support business goals*
  - *Developing cost effective sourcing pipelines*
  - *Attract creative, talented, specialized candidate pools*
- **Screening**
  - *Analyze organizational talent*
  - *Define and quantify skill-set and organizational fit*
  - *Develop competency profiles using behaviorally-based screening tools*
- **Selection**
  - *Develop an employer of choice image to attract key employees*
  - *Develop a selection process to ensure that the talent pool supports the business and growth needs through 2004*
- **Retention**
  - *Foster an environment where employees feel challenged and valued*
  - *Establish Select Comfort as a long term career commitment*

# Recruitment/Retention

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	2000	2004
<b>Sourcing</b>	<ul style="list-style-type: none"> <li>• Company wide recruitment strategy</li> <li>• Centralized recruitment processes</li> <li>• Trained recruiting staff in agency-based direct recruiting methods</li> </ul>	<ul style="list-style-type: none"> <li>• Bring recruitment firm in-house</li> <li>• Regional Select Comfort Recruitment Centers</li> <li>• Virtual recruitment and application process</li> </ul>
<b>Screening</b>	<ul style="list-style-type: none"> <li>• Behaviorally-based interviewing</li> <li>• Employee skills inventory and tracking</li> <li>• Applicant Tracking System</li> </ul>	<ul style="list-style-type: none"> <li>• Computer assisted interviewing</li> <li>• Interactive and self-directed profiling and screening tools</li> <li>• Psychological assessment, background checks and drug testing for all employees</li> </ul>
<b>Selection</b>	<ul style="list-style-type: none"> <li>• Improved assessment process with consistent selection criteria</li> <li>• Automated hiring process</li> </ul>	<ul style="list-style-type: none"> <li>• Streamlined process for high potential candidates</li> <li>• Employer of Choice</li> </ul>
<b>Retention</b>	<ul style="list-style-type: none"> <li>• Turnover analysis and benchmarking</li> <li>• Competitive compensation and benefits</li> <li>• Challenged, valued and productive workforce</li> <li>• Deliver on commitment to Goals and Beliefs and "Winning Attitude"</li> </ul>	<ul style="list-style-type: none"> <li>• Market leader in compensation and benefit practices</li> <li>• Proven leader in corporate/career development</li> <li>• Balanced virtual workforce opportunities</li> </ul>

# What HR Must Do Exceptionally Well

## Performance Management

- **Meaningful Performance Appraisals**
  - *Provide innovative performance feedback tools utilizing a 360 degree feedback approach*
  - *Evaluate employees and managers on individual and integrated performance*
  - *Integrate and promote the Company Goals and Beliefs*
- **Development Plans for All Employees**
  - *Encourage career growth and continuous learning to ensure employees are gaining skills and expertise*
- **On-going Coaching and Feedback**
  - *Provide a manager's supported forum for successful coaching and feedback*
- **Proactive Human Capital Assessment and Readiness**
  - *Assess current and future Human Capital readiness to support business strategy*
- **Succession Planning**
  - *Assess our bench strength to identify and groom high potential candidates*
- **Career Development**
  - *Develop and support an infrastructure that provides growth opportunities for people at all levels*

# Performance Management

	2000	2004
<b>Performance Evaluation</b>	<ul style="list-style-type: none"> <li>• Consistent and timely performance appraisals utilizing 360's</li> <li>• Development plans for all employees tied to business objectives</li> </ul>	<ul style="list-style-type: none"> <li>• Develop relationships/partnerships to ensure pervasive Winning Attitude throughout organization</li> <li>• Individual and team performance tied to business profitability at all levels of the organization (i.e. gainsharing)</li> </ul>
<b>Coaching and Feedback</b>	<ul style="list-style-type: none"> <li>• Expand performance management process to include training/guidance on giving/receiving constructive feedback</li> </ul>	<ul style="list-style-type: none"> <li>• Online systems allowing virtual communications between managers and employees</li> </ul>
<b>Human Capital Assessment and Readiness</b>	<ul style="list-style-type: none"> <li>• Establish a Human Capital Assessment process which enhances workforce readiness</li> </ul>	<ul style="list-style-type: none"> <li>• Proactive management readiness strategy in place to ensure continuous talent pool readiness</li> </ul>
<b>Succession Planning/Carer Development</b>	<ul style="list-style-type: none"> <li>• Develop succession planning strategy</li> <li>• Develop continuous learning opportunities within career families</li> </ul>	<ul style="list-style-type: none"> <li>• Succession planning, career pathing/mentoring heavily integrated into a performance management system</li> <li>• Virtual career path model</li> </ul>

# What HR Must Do Exceptionally Well

## Training and Organizational Development

- **Management Development**
  - *Provide opportunities where managers can build skills in embracing change, taking risks and thinking "Big Picture"*
  - *Champion "Winning Attitude" philosophy*
- **Employee Orientation**
  - *Provide a protocol for a smooth induction which includes history, value alignment and clarity of role*
- **Key Skills/ Technical Training**
  - *Ensure appropriate training opportunities to accelerate work performance*
- **Mentoring/Coaching**
  - *Leverage individual competencies to meet business initiatives, technological changes and support entrepreneurial thinking*
  - *Foster partnerships with external mentors and coaches*

## Training and Organizational Development

	2000	2004
<b>Management Development</b>	<ul style="list-style-type: none"> <li>• Business strategies fully supported by USC</li> <li>• Executive development opportunities</li> <li>• Partner with local educational institutions</li> <li>• Corporate management development</li> <li>• Develop a multiple resource strategy to support needed skill set learning</li> </ul>	<ul style="list-style-type: none"> <li>• Interactive virtual coach resources</li> <li>• Problem-solving chat rooms</li> <li>• Video conferencing learning capabilities</li> <li>• Develop grant partnerships with the State of Minnesota</li> <li>• Implement Scenario Planning</li> <li>• Electronic resources</li> <li>• Partnership networks</li> </ul>
<b>New Employee Orientation</b>	<ul style="list-style-type: none"> <li>• Develop a consistent process to instill value, alignment, history and clarity of role</li> </ul>	<ul style="list-style-type: none"> <li>• Portable New Employee Orientation options</li> </ul>
<b>Key Skills &amp; Technical Training</b>	<ul style="list-style-type: none"> <li>• Develop and roll out Learning Centers</li> <li>• Move to paperless systems training &amp; documentation; dedicated Web Page Developer</li> <li>• Improve intranet communication</li> </ul>	<ul style="list-style-type: none"> <li>• Develop partnerships with educational/professional training resources</li> <li>• Virtual training</li> </ul>
<b>Mentoring/ Coaching</b>	<ul style="list-style-type: none"> <li>• Research/pilot mentoring program for Director and above</li> </ul>	<ul style="list-style-type: none"> <li>• Pilot job sharing</li> <li>• Leverage external network resources</li> <li>• Establish a cadre of internal/external coaches and mentors</li> </ul>

# What HR Must Do Exceptionally Well

## Employee Relations

- **Re-Energize Goals and Beliefs**
  - *A management driven initiative to re-energize the Goals and Beliefs*
  - *Leverage teamwork and Company spirit to achieve business objectives*
- **Cultivate a “Winning Attitude”**
  - *Leadership-driven activities to increase motivation, commitment and ownership by all employees*
- **Expand Communication Strategy**
  - *Reinforce management's role in ensuring consistent, accurate and timely communication throughout the Company*
- **Provide Innovative Employee Motivation and Recognition Programs**
  - *Evaluate and expand employee motivation and recognition programs*
  - *Reward exceptional performance that champions the Goals and Beliefs and demonstrates a “Winning Attitude”*
- **Build Image of Select Comfort as a Premier Employer**
  - *Embrace strategies which cultivate the image of Select Comfort as a preferred employer*

# Employee Relations

	2000	2004
<b>Goals and Beliefs/ Winning Attitude</b>	<ul style="list-style-type: none"> <li>• Re-energize the Goals and Beliefs and implement programs to cultivate a "Winning Attitude"</li> <li>• Partner with managers and seek opportunities to model a "Winning Attitude"</li> </ul>	<ul style="list-style-type: none"> <li>• Institutionalized Goals and Beliefs and a "Winning Attitude" pervasive in the organization</li> <li>• Ongoing methods for taking the "pulse" of the organization</li> <li>• Balance of in-person and virtual communication</li> </ul>
<b>Communications</b>	<ul style="list-style-type: none"> <li>• Establish a meaningful and effective format to ensure consistent, accurate and timely company-wide communications</li> </ul>	<ul style="list-style-type: none"> <li>• Establish a variety of innovative communication alternatives for issues and suggestions (i.e. video conferencing, virtual meetings/corporate updates, online feedback)</li> </ul>
<b>Employee Motivation and Recognition</b>	<ul style="list-style-type: none"> <li>• Continually seek opportunities to recognize individuals who embrace the Goals and Beliefs and demonstrate a Winning Attitude</li> </ul>	<ul style="list-style-type: none"> <li>• Highly competitive recognition programs linked to business success and Goals and Beliefs</li> <li>• A full range of recognition program choices available to managers/employees</li> </ul>
<b>Premier Employer</b>	<ul style="list-style-type: none"> <li>• Position Select Comfort as a Premier Employer</li> </ul>	<ul style="list-style-type: none"> <li>• Nationally recognized as an Employer of Choice</li> </ul>

# What HR Must Do Exceptionally Well

## Compensation and Benefits

- **Compensation**
  - *Develop programs that are market competitive and address work-life balance*
  - *Ensure that our compensation package allows us to attract, retain and motivate top talent*
- **Benefits**
  - *Flexible benefit packages to meet the needs of an ever-changing employee base*
- **Payroll**
  - *Timely and accurate virtual payrolls, increasingly systems driven*
  - *Flexible payroll systems that support business strategy*
- **Health and Safety**
  - *Reduction in work-related injuries and Worker's Compensation costs*
  - *Recognize a Healthy Lifestyle approach*

# Compensation and Benefits

	2000	2004
<b>Compensation</b>	<ul style="list-style-type: none"> <li>• Develop Canadian Compensation Plan</li> <li>• Develop total compensation plans for all levels of the organization</li> <li>• Total Compensation Packages – including stock</li> </ul>	<ul style="list-style-type: none"> <li>• Develop flexible compensation offerings</li> </ul>
<b>Benefits</b>	<ul style="list-style-type: none"> <li>• Totally automated Benefits Systems</li> <li>• Y2K benefit enhancements</li> <li>• Develop Canadian Benefits System</li> </ul>	<ul style="list-style-type: none"> <li>• Cafeteria Benefit Plans</li> <li>• Increase participation in the 401(k) plan and triple participation in the ESPP</li> </ul>
<b>Payroll</b>	<ul style="list-style-type: none"> <li>• Develop virtual payroll philosophy</li> </ul>	<ul style="list-style-type: none"> <li>• Totally outsourced electronic payroll</li> </ul>
<b>Health and Safety</b>	<ul style="list-style-type: none"> <li>• Reduce work related injuries by 10% by identifying key injury areas</li> </ul>	<ul style="list-style-type: none"> <li>• Safety incentives tied to total compensation</li> <li>• Healthy Living Incentive Program</li> </ul>

# What HR Must Do Exceptionally Well

## Human Resources Administration and Management

- **Strategic Alignment**
  - *Ensure that Human Capital implications are considered in all strategic decisions*
  - *Form internal/external partnerships and alliances to develop "best practices"*
  - *Establish a strategic planning discipline that supports/leads organizational decisions*
- **Risk Management**
  - *Expand manager's ownership role in HR Risk Management*
  - *Proactive strategy for addressing highest risk factor areas*
- **HRIS**
  - *An integrated, user-friendly system which allows for data tracking and measurement*
  - *Internal technical expertise fully supported by IS to leverage system capability*

# HR Administration and Management

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	2000	2004
<b>Strategic Alignment</b>	<ul style="list-style-type: none"> <li>• Develop HR Directors to be true business channel partners</li> <li>• Establish metrics which demonstrate how HR adds value to the organization</li> <li>• Focus initiatives on pivotal roles to ensure the organization is able to best leverage skills/talents</li> </ul>	<ul style="list-style-type: none"> <li>• Integrate Internal Consultant approach</li> <li>• Organizational design supports corporate and functional HR and leverages strategic partnerships</li> <li>• Proactive in leveraging the organizations most constrained asset - human capital</li> </ul>
<b>HR Risk Management</b>	<ul style="list-style-type: none"> <li>• Proactive strategy using a cost-benefit of employee legal activity</li> <li>• Consistent and effective management of all employees</li> <li>• Expand manager's ownership role in HR Risk Management</li> </ul>	<ul style="list-style-type: none"> <li>• Managers held accountable for early intervention and communication of legal issues</li> <li>• A consultative HR strategy to keep pace with ever-changing legal requirements</li> <li>• In-house legal counsel</li> </ul>
<b>HRIS</b>	<ul style="list-style-type: none"> <li>• Employee responsibility for personal data accuracy</li> <li>• Leverage and utilize systems to provide measurement and support management decisions</li> <li>• Automate legal reports, paperless environment, manager data access capabilities</li> </ul>	<ul style="list-style-type: none"> <li>• Automate government and legal entity reporting</li> <li>• Multi-company/country consolidation</li> <li>• HR systems capable of supporting data driven decision making</li> </ul>

## **Key Challenges of Exponential Growth**

- 1. Institutionalize Goals and Beliefs**
- 2. Early Involvement in Strategic Decisions with Human Capital Implications**
- 3. Develop and Execute Company-Wide Recruitment/Retention Strategies**
- 4. Management Development/Succession Planning**
- 5. Consistent and Engaging Company-Wide Communications**
- 6. Develop and Manage On-Line Systems**
- 7. Innovative Benefit Offerings**
- 8. Keep Pace with Growing and Ever-Changing Legal Requirements**



## Challenges Driving An Innovative Approach to HR

- **Goals and Beliefs**
  - Management driven initiatives to support the Goals and Beliefs
  - Leverage teamwork and company spirit to achieve business objectives
- **Recruitment/Retention**
  - Long-term strategies to attract and retain creative, talented, specialized candidates
  - Employer of choice image
- **Compensation and Benefits**
  - Multiple, competitive programs that meet the needs of our employee base
- **Training and Development**
  - On-going Management Development for managers to build skills
  - Innovative training opportunities to accelerate work performance
- **HR Administration and Management**
  - Strategic Partner in all decisions affecting Human Capital
  - Organizational design supporting Strategic HR, Corporate HR, Functional HR, and HR Partnerships
  - Data driven decision making - "Best Practices"
- **Employee Relations**
  - Institutionalized Goals and Beliefs and "Winning Attitude" environment
  - Innovative communication alternatives
  - Multiple employee motivation and recognition programs
- **Performance Management**
  - Innovative performance feedback tools
  - Career growth and continuous learning
  - Bench-strength depth
  - Ongoing assessment of Human Capital readiness

## Positioning Ourselves As A Strategic Asset Will Require...

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### Internal

- *Leverage current staff and acquire additional talent*
- *Hire and develop additional HR Directors with talents necessary to be business channel partners*
- *Partner with business units to understand and support their strategies*
- *Institute a discipline of alignment and accountability of HR initiatives with strategic objectives*
- *Reliance on systems which provide data driven decision-making*
- *Institute national learning center strategy to leverage best practices*

### External

- *Develop a true partnership model to increase agility and flexibility of external resources*
- *Develop dedicated outside consultative partnerships and alliances*
- *Include external resources as strategic partners in planning and execution of corporate objectives*
- *Form partnerships and alliances with consultants and HR professionals to develop "Best Practices."*

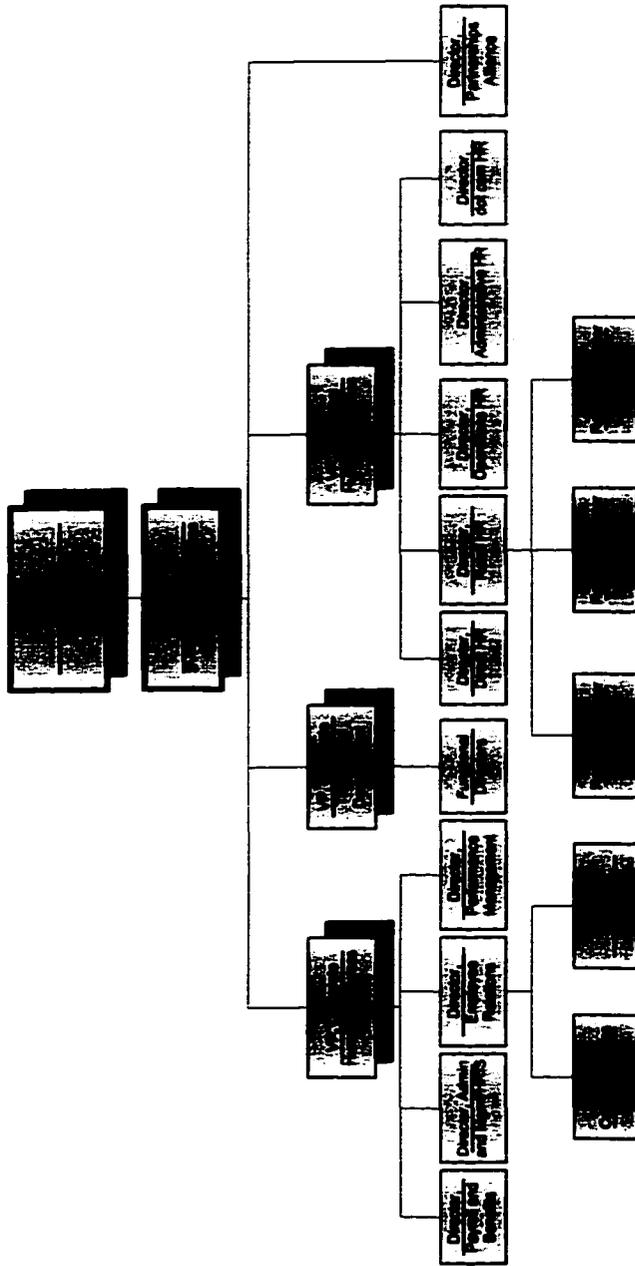
# Where We Must Be....

## Skyrocketing Organizational Growth

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# 2004 Organizational Chart



## Select Comfort Human Resources Strategy

### HR Detailed Action Plans 2000 – 2004

- Recruitment and Retention
- Performance Management
- Training & Development
- Employee Relations
- Compensation & Benefits
- HR Administration & Management



<p><b>Selection/Hiring</b></p> <p><b>Retention</b></p>	<p>talent pools</p> <ul style="list-style-type: none"> <li>• Create behaviorally-based tools to screen for compatibility with corporate values and winning attitude <ul style="list-style-type: none"> <li>• Quantify screening/interview process to enable pre-employment prediction of performance</li> <li>• Customized Retail sales assessment tools based on success profiles</li> </ul> </li> <li>• Partner with hiring managers to develop consistent assessment criteria</li> <li>• Develop measures to analyze hiring decisions</li> <li>• Conduct hiring time analysis and benchmark</li> </ul> <ul style="list-style-type: none"> <li>• Automate and analyze turnover data and develop metrics and benchmarks</li> <li>• On-line job opening, job descriptions &amp; reporting structures on Intranet and Internet</li> <li>• Revise job posting process to make it user friendly</li> <li>• Partner with Benefits to benchmark compensation and benefit programs against competition in critical recruitment areas</li> <li>• Develop managers in “coaching for improved performance” mentality</li> </ul>
<p><b>Sourcing</b></p> <p><b>Screening</b></p>	<p style="text-align: center;">2001</p> <ul style="list-style-type: none"> <li>• Continue to enhance 2000 strategies</li> <li>• Develop regional recruitment centers with dedicated recruiters</li> <li>• Partner in building premier/preferred employer image nationally</li> <li>• Link brand recognition to employment opportunity recognition</li> <li>• Drive capability-based recruitment so human capital assessment is part of normal business planning to support growth. <ul style="list-style-type: none"> <li>• Develop hiring models based on business goals</li> <li>• Proactive recruiting assignments to be ahead of the hiring curve</li> <li>• Tie into yearly budget and MBO processes</li> </ul> </li> <li>• Interactive Voice Recognition (IVR) systems so candidates can self-select skills fit during mass recruitment</li> </ul>

<p><b>Screening</b></p> <p><b>Selection/Hiring</b></p> <p><b>Retention</b></p>	<ul style="list-style-type: none"> <li>• Interactive Voice Recognition (IVR) systems so candidates can self-select skills fit during mass recruitment</li> <li>• On-line applications and testing tools</li> <li>• Automate selection processes to cut down hiring time cycle with on-line PAN forms, IS forms, sign-off authority for new hires, etc.</li> <li>• On-line applicant rating and assessment tools</li> <li>• Automate selection measures and metrics to drive data-based decision making and analysis</li> <li>• Continuous analysis of Compensation &amp; Benefit competitiveness</li> <li>• Continuous analysis of Turnover Data to improve processes</li> <li>• Partner with Training to develop and implement succession planning, job shadowing, career pathing, and mentoring programs</li> </ul>
<p><b>Sourcing</b></p> <p><b>Screening</b></p> <p><b>Selection/Hiring</b></p> <p><b>Retention</b></p>	<p style="text-align: center;">2002</p> <ul style="list-style-type: none"> <li>• Continue to enhance 2000 &amp; 2001 strategies</li> <li>• Move towards recruitment model where recruiters become an expert in a specialty area</li> <li>• Refine Applicant Tracking / candidate database program</li> <li>• Implement personality testing</li> <li>• Implement drug testing company-wide</li> <li>• Revise behaviorally-based interviewing format to shifting profiles of successful employees</li> <li>• Refine Oracle applicant tracking for metrics and benchmarking</li> <li>• Refine compensation, benefits and environment offering to ensure they are market-leading</li> <li>• Develop executive coaches for high-potential employees. Coaches could be from inside or outside the company.</li> </ul>
<p><b>Sourcing</b></p>	<p style="text-align: center;">2003-2004</p> <ul style="list-style-type: none"> <li>• Perform on-going human capital staffing needs assessment</li> <li>• Employee leasing concept with sales partners</li> <li>• Outsource non-core technical/IS “maintenance” areas</li> <li>• Contingency staffing – “just-in-time resources”</li> </ul>

<p><b>Screening</b></p>	<ul style="list-style-type: none"> <li>• Interactive career center to lure technology candidates</li> <li>• Recruit via CD ROM based programs at colleges – i.e. take it with you approach</li> </ul>
<p><b>Selection/Hiring</b></p>	<ul style="list-style-type: none"> <li>• Leading-edge virtual recruitment/selection tools in a faceless and paperless environment</li> <li>• Interactive testing tools to enable applicant self-screen for skill-set and cultural fit</li> <li>• Sound and proven profiling tools to determine behaviors.</li> </ul>
<p><b>Retention</b></p>	<ul style="list-style-type: none"> <li>• Fast track high potential candidates through selection process to increase offer acceptance rates</li> <li>• Video conferencing and internet interviewing and selection to shorten hiring cycle and eliminate geographic barriers</li> </ul>
	<ul style="list-style-type: none"> <li>• Virtual Intranet Employee Career Center for self-directed career planning to include career pathing, skill-set analysis relative to job families, internal/external educational pathing, etc.</li> <li>• Market leader in creative environment, compensation and benefit areas</li> </ul>

## Performance Management

	2000
<b>Performance Evaluation</b>	<ul style="list-style-type: none"> <li>• Put measures in place to ensure consistent and timely performance appraisals for all employees</li> <li>• Provide Performance Appraisal training for Managers/Supervisors</li> <li>• Further develop and train on successful use of 360 degree feedback</li> <li>• Ensure all employees have development plans aligned with business objectives</li> <li>• Further evaluate Levels Programs for the hourly workforce</li> <li>• Evaluate effectiveness of providing a Manager level bonus program tied to individual performance and business objectives</li> </ul>
<b>Coaching and Feedback</b>	<ul style="list-style-type: none"> <li>• Provide Coaching and Feedback training for Managers/Supervisors</li> <li>• Provide availability of additional training opportunities for employees/managers specific to individual development needs</li> <li>• Expand the performance management process to include training and guidance on how to effectively give and receive constructive feedback ongoing or during the performance process</li> <li>• Expand communication tools to promote more consistent and ongoing performance feedback to employees</li> </ul>
<b>Human Capital Assessment and Readiness</b>	<ul style="list-style-type: none"> <li>• Develop tools to complete human capital assessment in our current workforce</li> <li>• Develop a management readiness strategy</li> <li>• Link succession planning to performance management system</li> </ul>
<b>Succession Planning</b>	<ul style="list-style-type: none"> <li>• Develop a Succession Planning Strategy.</li> <li>• Pilot the process in at least one division/company</li> <li>• Improve the performance management system to collect development needs from the Performance Appraisal process.</li> </ul>

<b>Career Development</b>	<ul style="list-style-type: none"> <li>• Develop a Tuition Reimbursement Strategy to support career pathing and mentoring.</li> <li>• Begin identifying key performance characteristics for job levels to assist in career planning and mentoring</li> </ul>
2004	
<b>Performance Evaluation</b>	<ul style="list-style-type: none"> <li>• Distributed accountability for career growth (shared responsibility between employee and manager to prepare for opportunities with career growth)</li> <li>• Relationships/partnerships developed for increased responsibility and career growth</li> <li>• Big picture thinking</li> <li>• Winning attitude pervasive in the organization</li> <li>• Shared visions between employees and the Company</li> <li>• Meaningful 360 degree feedback utilized in the performance evaluation process</li> <li>• Evaluate the possibility of incentive programs such as gainsharing, where individual and team performance is tied to business profitability at all levels of the organization (include the hourly and non-management workforce in bonus incentive programs)</li> </ul>
<b>Coaching and Feedback</b>	<ul style="list-style-type: none"> <li>• Availability of online systems allowing virtual communications between managers and employees</li> <li>• Availability of online training to support employee/manager development plans</li> </ul>
<b>Human Capital Assessment and Readiness</b>	<ul style="list-style-type: none"> <li>• Talent assessment continuous process in the organization</li> <li>• Employees and managers groomed for future positions based on talent assessment and future business needs</li> <li>• Ensure hiring and promotion practices are providing broad-based skills through-out the Company</li> <li>• Further develop a proactive management readiness strategy</li> <li>• Ensure strong integration of succession planning and career pathing/mentoring into the performance management system</li> </ul>
<b>Succession Planning</b>	<ul style="list-style-type: none"> <li>• Develop Human Resources that can step in on an ad hoc basis to provide support.</li> <li>• Model or pilot a flexible ad hoc task group to allow a more flexible organization</li> <li>• Develop an employee skill set database</li> </ul>

<b>Career Development</b>	<ul style="list-style-type: none"><li>• Integrate succession planning into normal business planning to assure that the organization's human capabilities can support business growth</li><li>• Continue to identify and develop creative ways to develop our staff on key business skills that support our initiatives and goals and beliefs</li> <li>• Develop a virtual career path model and data system that allows a future or current employee to explore career alternatives and possibilities prior to hire, including key skill sets and what are the minimum and preferred requirements for hire and could be accessed by job title or current education, skill sets</li><li>• Partner with learning institutions to provide self designed career programs</li><li>• Marry succession planning and career growth strategies</li></ul>
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## Training & Development

2000	
<b>Management Development</b>	<ul style="list-style-type: none"> <li>• <b>Align USC with business goals</b> <ul style="list-style-type: none"> <li>• Review and evaluate current classes for effectiveness and overlap</li> <li>• Evaluate instructors/replace as necessary; encourage more senior mgmt participation</li> <li>• Announce new structure, reporting systems via Oracle</li> <li>• Include a basic Management Development series</li> <li>• Outsource to local educational institutions where needed</li> <li>• Build a Certification Program around the series</li> <li>• Develop a communication tool to be sent to supervisor on course content, outcomes and dialogue suggestions with employees participating in USC</li> </ul> </li> <li>• Partner with local educational institutions to provide current thinking and offerings to Director level and above</li> <li>• Provide at least one in-house speaker to Director level and above</li> <li>• Partner with senior management to offer executive development opportunities through coaching or outsourcing</li> <li>• Develop a methodology and delivery system to provide needed corporate management development to all arms of the organization           <ul style="list-style-type: none"> <li>• Example: Work with Retail to develop quarterly District Manager Meeting training dealing with HR compliance issues</li> </ul> </li> </ul>
<b>Key Skills and Technical Training</b>	<ul style="list-style-type: none"> <li>• Continue to use advanced technologies as delivery systems for communication and technical based training (Intranet and other)</li> <li>• Move to more paperless systems training and documentation</li> <li>• Develop and roll out Learning Centers to provide cost-effective technical training alternatives</li> </ul>
<b>Succession Planning</b>	<ul style="list-style-type: none"> <li>• Develop a Succession Planning Strategy</li> <li>• Pilot the process in at least one division/company</li> </ul>

<p><b>Career Development</b></p> <p><b>Mentoring</b></p>	<ul style="list-style-type: none"> <li>• Improve the performance management system to collect development needs from the Performance Appraisal process</li> <li>• Develop a Tuition Reimbursement Strategy to support career pathing and mentoring</li> <li>• Begin identifying key performance characteristics for job levels to assist in career planning and mentoring</li> <li>• Determine if there is senior management interest in mentoring</li> <li>• Design a mentoring/coaching class for those that wish to mentor</li> <li>• Select a few candidates for mentoring</li> <li>• Pilot mentorship program at the Director level and above outside of their reporting structure</li> </ul>
<p><b>Management Development</b></p>	<p style="text-align: center;">2001</p> <ul style="list-style-type: none"> <li>• USC <ul style="list-style-type: none"> <li>• Add classes based on needs analysis and performance management data</li> <li>• Look for key instructors on critical issues – Outsource – the brightest and best</li> <li>• Produce Training Records for management to manage training <ul style="list-style-type: none"> <li>• Contact hours</li> <li>• Transcripts</li> <li>• Roll-ups to help evaluate the promotability of employees</li> <li>• Management Development <ul style="list-style-type: none"> <li>• Develop higher level developmental alternatives</li> <li>• Look for outside resources to partner in deliverables</li> <li>• Begin to develop relationships with educational institutions to provide basic training off-site</li> </ul> </li> </ul> </li> <li>• Develop learning contracts with participants to encourage dialogue with supervisors on application of learning to job</li> <li>• Develop video conferencing learning capabilities to stretch resources</li> </ul> </li> <li>• Partner with local educational institutions to provide current thinking and offerings to Director level and above</li> </ul>

	<ul style="list-style-type: none"> <li>• Use subscription methodologies to allow upper management access to current thinkers, brightest and best</li> <li>• Provide business application case studies to Director level and above to promote cross-functional thinking and problem solving. Use this forum to wind tunnel creative initiatives and provide senior management with feedback.</li> <li>• Partner with senior management to offer executive development opportunities through coaching or outsourcing</li> <li>• Develop key resources for executive development</li> <li>• Develop a methodology and delivery system to provide needed corporate management development to all arms of the organization</li> <li>• Use creative medium application to current knowledge giving better access to state of the art training <ul style="list-style-type: none"> <li>• Example: Better Intranet access to training and management development programs</li> </ul> </li> <li>• For new executive hires, plan a supporting strategy to allow ramp-up of knowledge of Select Comfort, contacts and organizational issues</li> </ul>
<b>Key Skills and Technical Training</b>	<ul style="list-style-type: none"> <li>• Provide more direct resources for employees doing the job <ul style="list-style-type: none"> <li>• Example: Do computer drops on the manufacturing floor to support key process changes and documentation</li> </ul> </li> <li>• Improve Intranet communication resources to replace paper reference systems</li> </ul>
<b>Succession Planning</b>	<ul style="list-style-type: none"> <li>• Continue to apply Succession Planning to the organization</li> <li>• Use the Performance Appraisal process to determine key skill sets by levels and drive management development alternatives</li> </ul>
<b>Career Development</b>	<ul style="list-style-type: none"> <li>• Provide shadowing opportunities for those that seek career alternatives outside their departments</li> <li>• Develop a reporting structure for senior management on the Tuition Reimbursement Program, who is using it and how it is benefiting the company</li> <li>• Continue to identify key performance characteristics for job levels to assist in career planning and mentoring</li> </ul>
<b>Mentoring</b>	<ul style="list-style-type: none"> <li>• Evaluate mentorship program and make recommendations to continue or expand to senior management</li> </ul>

	2002
<b>Management Development</b>	<ul style="list-style-type: none"> <li>• Develop strategic partnerships with local educational institutions to provide basic HR training and a certification series for basic supervision skills</li> <li>• Develop grant partnerships with the State of Minnesota to support learning</li> <li>• Set development alternatives that are required within the job structure of Select Comfort</li> <li>• Make development program a requirement of hire on key skills identified by management</li> <li>• Develop on-line training alternatives to support learning at the work site</li> </ul>
<b>Key Skills and Technical Training</b>	<ul style="list-style-type: none"> <li>• Improve and develop interactive Intranet communication resources to replace paper reference systems</li> <li>• Develop partnerships with Technical schools to influence curriculum to meet our business needs</li> </ul>
<b>Succession Planning</b>	<ul style="list-style-type: none"> <li>• Develop career paths in critical areas of the company</li> <li>• Support development of identified candidates in readiness for key positions</li> <li>• Hardwire development of staff to performance evaluation</li> <li>• Conduct yearly reviews for departments using succession planning</li> <li>• Develop a human capability process to wind tunnel organization issues and strategic business imperatives for senior management to aid strategic planning and budgeting process</li> </ul>
<b>Career Pathing</b>	<ul style="list-style-type: none"> <li>• Establish career families and key entry requirements for these positions</li> <li>• Identify key skills sets needed for additional growth in these areas to include minimum and preferred requirements</li> <li>• Offer a Career Fair for current employees focusing on personal responsibility for career growth and supporting structures for advancement</li> </ul>
<b>Mentoring</b>	<ul style="list-style-type: none"> <li>• Continue job-shadowing process</li> <li>• Pilot job sharing and cross-functional job responsibilities to support key business initiatives</li> <li>• Expand exposure to grow high potential candidates</li> </ul>

2003-2004	
<b>Management Development</b>	<ul style="list-style-type: none"> <li>• Develop interactive virtual coach resources</li> <li>• Develop problem-solving chat rooms</li> <li>• Develop internal and external resources for key skill sets that support just-in-time learning</li> <li>• Develop business model case studies for management to encourage creative out-side-of-the box thinking; make mind-flexing a regular part of meeting management</li> <li>• Build partnerships to provide management development resources</li> <li>• Consider partnering with other companies to cross train executives in key skills and give them more business exposure</li> <li>• Co-share executives on a key skill basis</li> <li>• Outsource technical training deliverables and continue to coach and partner with divisions/companies at a more strategic level</li> <li>• Develop career support strategies as part of the compensation cafeteria plan to allow employees to channel resources into career development.</li> <li>• Drive all new hire training into the departments</li> <li>• Focus on supporting key positions within the company to help them reach their business objectives</li> <li>• Customize training plans and assign an executive coach where needed</li> <li>• Require human capabilities assessment as well as financial and market reviews for all business initiatives</li> <li>• Continue to develop a support structure from top management that says training and development is a strategic issue rather than tactical implementation</li> </ul>
<b>Succession Planning</b>	<ul style="list-style-type: none"> <li>• Develop Human Resources as a business partner that can step in on an ad hoc basis to provide support</li> <li>• Model or pilot a flexible ad hoc task group to allow a more flexible organization</li> <li>• Develop an employee skill set database</li> <li>• Integrate succession planning into normal business planning to assure that the organization's human capabilities can support business growth</li> <li>• Continue to identify and develop creative ways to develop our staff on key business skills that support our initiatives and Goals and Beliefs</li> </ul>

<b>Career Pathing</b>	<ul style="list-style-type: none"><li>• Develop a virtual career path model and data system that allows a future or current employee to explore career alternatives and possibilities prior to hire</li><li>• Internet system that would allow a candidate to key in potential careers at Select Comfort and provide career path opportunities, key skills sets and minimum and preferred requirements for hire; could be accessed by job title or current education, skill sets</li><li>• Partner with learning institutions to provide self designed career programs</li><li>• Marry succession planning and career growth strategies</li></ul>
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## Employee Relations

2000	
<b>Goals &amp; Beliefs/ Winning Attitude</b>	<ul style="list-style-type: none"> <li>• Re-energize the Goals and Beliefs</li> <li>• Partner with managers and seek opportunities to model a “Winning Attitude”</li> <li>• Expand and broaden Kudos program</li> <li>• Administer an updated Company-Wide Opinion Survey and take action on results</li> <li>• Identify and implement programs to cultivate a “Winning Attitude” (increase motivation and energy level in the organization, foster high levels of commitment, increase sense of value by employees, increase trust in management, promote leadership)</li> <li>• Further develop and implement leadership training for managers</li> </ul>
<b>Communications</b>	<ul style="list-style-type: none"> <li>• Develop a communication strategy that will better promote consistent internal communication and proactively meet the Company’s needs</li> <li>• Identify ongoing opportunities for regular feedback from employees and managers regarding company and departmental performance and expectations. Act on information by modifying implementation of current strategies or developing new strategies as needed</li> <li>• Reduce amount of paper-driven communications with additional online options</li> <li>• Provide training on effective communication between employees, teams and departments in a high growth, fast-paced environment</li> <li>• Instill “systems thinking” in managers/employees – the big picture impact of decisions on all areas of the Company</li> </ul>
<b>Employee Motivation &amp; Recognition</b>	<ul style="list-style-type: none"> <li>• Expand current employee motivation and recognition programs</li> <li>• Continually seek opportunities to recognize individuals who embrace the Goals and Beliefs and demonstrate a “Winning Attitude”</li> </ul>

<b>Premier Employer</b>	<ul style="list-style-type: none"> <li>• Position Select Comfort as a Premier Employer</li> <li>• Align HR strategies with the vision of building the image of a preferred employer (innovative, progressive, consideration of the employee first, etc.)</li> <li>• Benchmark efforts against Companies who are premier employers to assist in creating effective strategies and evaluate effectiveness of current efforts</li> </ul>
<b>2004</b>	
<b>Goals &amp; Beliefs/ Winning Attitude</b>	<ul style="list-style-type: none"> <li>• Institutionalized Goals &amp; Beliefs throughout the Company</li> <li>• Develop ongoing methods for taking the “pulse” of the organization</li> <li>• Determine effective balance of in-person communication vs. virtual communication</li> <li>• Expansion of Kudos concept</li> <li>• Continue to implement innovative programs to cultivate and reinforce a “Winning Attitude” in the organization</li> <li>• Promote strong leadership abilities in managers through selection, training and mentoring</li> </ul>
<b>Communications</b>	<ul style="list-style-type: none"> <li>• Expanded communication strategy (proactive, innovative, engaging)</li> <li>• Identify a variety of innovative communication alternatives – employee meetings done virtually, on PC, on TV at home, etc.</li> <li>• Video conferencing</li> <li>• On-line feedback for issues and suggestions</li> <li>• Substantially less face-to-face feedback replaced by virtual options</li> <li>• Proactive, effective use of systems thinking within the organization</li> </ul>
<b>Employee Motivation &amp; Recognition</b>	<ul style="list-style-type: none"> <li>• Develop highly competitive recognition programs linked to business success and Goals &amp; Beliefs</li> <li>• Develop a full range of programs available to managers/employees to utilize to recognize exceptional performance and “above and beyond” situations</li> </ul>
<b>Premier Employer</b>	<ul style="list-style-type: none"> <li>• Nationally recognized as an Employer of Choice</li> <li>• Continue to align HR strategies with positioning Select Comfort as a Premier Employer</li> <li>• Provide ongoing benchmarking with other employers of choice to evaluate effectiveness and competitiveness</li> </ul>

## Compensation and Benefits

2000	
<b>Compensation</b>	<ul style="list-style-type: none"> <li>• Develop Total Compensation Plans for all levels of the company</li> <li>• Enhance salary range review by partnering with salary survey vendor to supply accurate current data on all positions</li> <li>• Develop a Canadian Compensation Plan</li> <li>• Develop Executive Compensation Plan</li> </ul>
<b>Benefits</b>	<ul style="list-style-type: none"> <li>• Implement scheduled Y2K benefit enhancements which include: PTO Enhancements, 401(k) Match, Enhancements to Short Term Disability Plan, Enhancement to medical plan provider</li> <li>• Totally Automated Benefits Systems</li> <li>• Develop an automated enrollment system to allow all employees access to their benefits data either online or through an IVR system to make initial enrollments or changes to existing data; recognize communication issues we have with the different nationalities and languages of our employees Include online benefits statements</li> <li>• Automate all billing process and payment methods with automated enrollment system</li> <li>• Develop communication materials and methods for training employees on the benefits we offer and how to effectively utilize each of them</li> <li>• Develop flexible benefit plans where employees can choose which benefits they want to take advantage of</li> <li>• Give each employee x dollars to use towards benefits and let them pick the benefits that best fits there lives (Implementation 2001)</li> <li>• Develop "tenure benefits" concept</li> <li>• Develop a system to track and report Tuition Reimbursements used by each employee; including taxable reporting to payroll and expense reporting to the GL and the employee</li> <li>• Research and develop Canadian Benefit Plan to be competitive in the Canadian marketplace and in line with benefits offered to US employees</li> <li>• Outsource Cobra tracking</li> </ul>

<p><b>Payroll</b></p>	<ul style="list-style-type: none"> <li>• Strategically partner with a Tax Filing vendor that can ensure accuracy and proper filing to all localities and tax filing entities</li> <li>• Strategically position the payroll area to continually serve its customers and ensure timely and accurate payroll processing</li> <li>• Change Salaried Employee pay philosophy to straight 80 pay</li> <li>• Automate all payroll hours input processes</li> <li>• Enhance payroll-reporting capabilities; design a core packet of reports that go out to managers on a monthly basis; i.e., Monthly PTO reports, Average Hours Worked by employee, OT Reports, etc.</li> <li>• Change company payroll to a direct deposit only system</li> <li>• Change Payroll Distribution Philosophy where all employee payroll stubs are mailed to employee homes</li> <li>• Develop areas of internal partnerships to capitalize on cross-functional resources</li> <li>• Increase awareness of payroll ability to partner with other areas to optimize automation in all areas; i.e., align accounting to develop automatic expense reimbursements through payroll</li> <li>• Pilot the development of an automated employment verification system</li> <li>• Decrease payroll processing cycle time from two days to one day</li> <li>• Ensure same day setup of all new hire paperwork in Oracle; enhance data entry accuracy</li> <li>• Develop Virtual Payroll Philosophy (Virtual Payroll will allow all time to be automatically entered, Payroll to process payments, and payments to be distributed to employees as quickly and flawlessly as possible)</li> <li>• Develop a Canadian Payroll System</li> <li>• Include ex-patriots and Canadian Nationalists working in the US</li> </ul>
<p><b>Health and Safety</b></p>	<ul style="list-style-type: none"> <li>• Identify key injury areas and target them for regular review process to eliminate potential injuries</li> <li>• Reduce Work Related Injuries by 10% relative to workforce</li> <li>• Re-evaluate ergonomics programs and develop company wide ergonomics strategy</li> <li>• Develop Healthy Living Incentives Program to be rolled out in 2001</li> </ul>

	<ul style="list-style-type: none"> <li>• Streamline injury reporting process for multi-state injuries</li> <li>• Develop multi-state reporting capabilities</li> <li>• Tie Safety Incentives into Total Compensation</li> </ul>
	2001
<b>Compensation</b>	<ul style="list-style-type: none"> <li>• Develop Career Tracking/Succession Planning within Oracle</li> <li>• Implement semi-annual review of salary ranges.</li> <li>• Develop system to produce "Total Compensation Reports" to all employees and applicants</li> <li>• Rollout Executive Compensation Plan</li> </ul>
<b>Benefits</b>	<ul style="list-style-type: none"> <li>• Develop multiple medical plan offerings to fit employee lifestyles</li> <li>• Implement 2001 flexible benefits plans systems</li> <li>• Implement tenure benefit package</li> <li>• Enhance and train all employees on the automated enrollment system; develop on line benefits statements</li> </ul>
<b>Payroll</b>	<ul style="list-style-type: none"> <li>• Automate tax-filing processes with all localities</li> <li>• On line payment vouchers for employee paychecks</li> <li>• Decrease cycle time in processing payroll from one day to one half day</li> <li>• Enhance direct deposit turnaround time from 48 hours to 24</li> <li>• Automate the filing systems to include online files tied to each employee in their Oracle File</li> <li>• Automate commission payments process</li> </ul>
<b>Health and Safety</b>	<ul style="list-style-type: none"> <li>• Develop a Safer Place to Work strategy</li> <li>• Healthy Living Incentives Program Rollout</li> <li>• Reduce work related injuries by X%</li> <li>• Target repetitive injuries and develop injury reduction program</li> </ul>
	2002
<b>Compensation</b>	<ul style="list-style-type: none"> <li>• Develop Flexible Compensation Offerings</li> </ul>
<b>Benefits</b>	<ul style="list-style-type: none"> <li>• Strategically partner with other companies to offer a broader base of benefits at a reasonable cost to employees</li> </ul>
<b>Payroll</b>	<ul style="list-style-type: none"> <li>• Virtual Payroll</li> </ul>

2003-2004	
<b>Compensation</b>	<ul style="list-style-type: none"> <li>• Ensure effective compensation programs are in place to attract and retain effective employees</li> <li>• Flexible Compensation Offerings</li> </ul>
<b>Benefits</b>	<ul style="list-style-type: none"> <li>• Ensure proper benefits are in place to attract and retain top level employees</li> <li>• Cafeteria Benefit Plans</li> <li>• 100% Participation in the 401K Plan</li> <li>• Triple the 1999 Participation in the ESPP</li> </ul>
<b>Payroll</b>	<ul style="list-style-type: none"> <li>• Totally out-sourced Electronic Payroll</li> </ul>
<b>Health and Safety</b>	<ul style="list-style-type: none"> <li>• Develop Healthy Living Incentive Program</li> <li>• Safety Incentives tied to Total Compensation</li> </ul>

## HR Administration & Management

	2000
<b>Strategic Alignment</b>	<ul style="list-style-type: none"> <li>• Develop HR Directors to be true business channel partners</li> <li>• Establish metrics which demonstrate how HR adds value to the organization</li> <li>• Focus initiatives on pivotal roles to ensure the organization is able to best leverage skills/talents</li> </ul>
<b>HR Risk Management</b>	<ul style="list-style-type: none"> <li>• Analyze employee legal activity from 1999 and develop a proactive strategy in an effort to reduce future interventions and potential impact on bottom-line</li> <li>• Develop and deliver manager's training to address the highest risk factor areas identified through previous litigation or internal investigations</li> <li>• Gain commitment from senior management to support necessary manager's training to ensure consistent and effective management of all employees</li> <li>• Expand manager's ownership role in HR Risk Management</li> <li>• Determine method(s) of calculating the cost-benefit of proactive HR strategies and proactive training provided</li> </ul>
<b>HRIS</b>	<ul style="list-style-type: none"> <li>• Develop employee empowerment through Oracle to allow employees access to their own data, initiate changes through forms, view payroll data, and ensure accuracy of all employee data in Oracle</li> <li>• Enhance manager's capabilities to allow them access to their employee's data by developing multiple security levels</li> <li>• Develop alerts in all areas</li> <li>• Develop workflows</li> <li>• Automate legal reporting requirements. (EEO, New Hire Reporting)</li> <li>• Eliminate the multiple database maintenance we do with all retail information</li> <li>• Phase Two of Oracle Training Administration</li> <li>• Phase one of Electronic Forms Development; first stage of paperless HR concept</li> </ul>

	<b>2001</b>
	<p><b>HRIS</b></p> <ul style="list-style-type: none"> <li>• Develop employee empowerment through Oracle and on line enrollment system to tie all systems together into what seems to be one seamless system to employees</li> <li>• Develop a set of management reports with their employee's data that they can run when they see fit</li> <li>• Expand the use of Alerts to include cross checking for missing or inaccurate data (Logical Alerts)</li> <li>• Define workflows to work with Electronic Forms and roll out workflow approvals</li> <li>• Employee Empowerment with Oracle Training Administration</li> <li>• Phase two of Electronic Forms Development</li> </ul>
	<b>2002</b>
	<p><b>HRIS</b></p> <ul style="list-style-type: none"> <li>• Automate Government and legal entity reporting</li> <li>• Multi-company /country consolidation of benefit plans, payroll data, and GL info</li> </ul>
	<b>2004</b>
	<p><b>Strategic Alignment</b></p> <ul style="list-style-type: none"> <li>• Integrate Internal Consultant approach</li> <li>• Organizational design supports corporate and functional HR and leverages strategic partnerships</li> <li>• Proactive in leveraging the organizations most constrained asset – human capital</li> </ul>
	<p><b>HR Risk Management</b></p> <ul style="list-style-type: none"> <li>• Managers highly knowledgeable in HR practices</li> <li>• Managers held accountable for early intervention and communication of legal issues</li> <li>• Develop a consultative HR strategy to keep pace with ever-changing legal requirements</li> <li>• In-house legal counsel</li> </ul>
	<p><b>HRIS</b></p> <ul style="list-style-type: none"> <li>• Ensure HR system goes beyond supporting the needs of just HR</li> <li>• Systems capable of supporting data based decision making</li> </ul>