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In There or Up Front? : An Introduction to Bottom-Line Human Resource Management

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Organizational goals are easily classified; managers cannot manage well unless they know which class of organization they are working in.

Not all decisions have right and wrong answers but some do. Managers will earn a seat at the table if they are able to make correct decisions in these cases and to ask correct questions the rest of the time. By embracing their organization's goals, using sound decision criteria, and conveying their decisions in jargon-free English, managers will be valued partners.

Keywords

management, bottom-line, human resource, organization, goal, job, employee

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In There or Up Front? :

An Introduction to Bottom-Line

Human Resource Management

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This essay explains to managers and academics a new approach to human resource management, what I call "Bottom-Line Human Resource Management." Bottom-line human resource management starts by positing clear organizational goals, and in this way differs from strategic human resource management, which starts with analysis of the organization's human resource strategy.

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Introduction

This essay explains to managers and academics a new approach to human resource management being developed at a number of leading American universities and think tanks. Although some of its leaders call this field "Personnel Economics," the name I prefer is "Bottom-Line Human Resource Management."

I am fortunate to be a tenured professor in the best professional school in the world for the study of the workplace. I also enjoy extraordinary on-the-job discretion: I get to choose, within very broad boundaries, what I do, when I do it, and how I get it done. This discretion imposes considerable responsibility on me: because the organization for which I work has no identified, agreed-upon bottom line and provides virtually no supervision, I must manage myself toward what I think is important and hope that the management of the organization (in the person of the Dean) shares my judgment.[**]

This year, in the spirit of managing myself, I decided to redesign the course on labor economics we teach to professional masters students working towards graduate degrees in industrial and labor relations and business administration at Cornell. Just before the start of the current academic year, I was talking to a colleague in our Human Resource Studies Department about my approach to the material. "That's what we call strategic human resource management," she said, but she was wrong. In strategic human resource management, organizational goals are in there. In bottom line human resource management, they are up front.

Bottom line human resource management, done well, can advance the world of work. It is a win for the organization if its people are focused on organizational success and they achieve results. It is a win for the employees if they become more valuable and earn more and enjoy greater job satisfaction as a result. Without the kind of focus that bottom line human

[**] Interestingly, the day after a working draft of this paper appeared, the Cornell Chronicle reported the recommendation of a reaccredidation team that had reviewed the university: "It noted some opportunities for improvement. These included suggestions that the university provide a succinct statement of the mission, goals and objectives of the institution, as well as a more consistent and systematic means of assessing progress towards those goals."

resource management leads to, win-win opportunities are foregone. It is a loss if employees are demoralized and lackadaisical. It is a loss if organizations achieve less than they could. It is a loss if people are wandering around trying to do good and do well but going the wrong way. And it is sad if win-win opportunities are lost because of ineffective management.

The Starting Point of Bottom-Line Management: Clarifying Organizational Goals

In your first economics course, you probably were taught models that held that businesses maximize profit (and that individuals maximize utility). The profit-maximization model underlies virtually all-positive economic analyses involving firms. ("Positive" analysis is about what is or what would be, in contrast to "normative" analysis, which is about what should be.) Profit-seeking is at the core of what every business person is taught.

Several aspects of the profit-maximization model should be highlighted. First, the model is meant to apply to "normal" companies like Microsoft, IBM, General Motors, and General Mills. It is not meant to apply to "abnormal" companies like the Arizona Diamondbacks and the New York Yankees, nor is it meant to apply to not-for-profit organizations like Cornell University or the United States government. In these latter cases, some other organizational objective takes precedence. In the case of baseball teams, it's "Win the World Series." In the cases of universities and governmental bodies, your guess is as good as mine.

Second, "profit" is literally the bottom line for ordinary companies. Look at their financial statements and you will see that sales (or, in alternative terminology, "revenues") are on the top line of the income statement, costs are then subtracted in the middle, and profit (or "earnings" or "net income") is the bottom line. Why does profit, defined and measured as the difference between revenue and costs, deserve such prominence? Because it is literally what ordinary companies aim to maximize.

Third, "profit maximization" not only directs companies what to do but, equally importantly, it directs them what not to do. Profit-seeking companies do not aim to maximize revenue or minimize cost. Maximizing revenue or market share can come at the expense of profits if your company tries to produce and sell too much. Minimizing costs can lower profits if the savings in costs reduce revenues even more. What you want to do is maximize the *difference* between revenue and costs, not maximize one or minimize the other.

Fourth, note that in the model, as in corporate income statements, it is the total profit that appears on the bottom line, followed by profit per share. If the number of shares is fixed (as it was in an earlier era) or is otherwise predetermined (as it is in today's world of stock options), then maximizing total profit and maximizing profit per share amount to the same thing, which is why profit is sometimes called "shareholder value." Please note, though, that what matters to companies (which is why they report it) are total profit and profit per share; they do not maximize profit per employee, profit per machine, or profit per dollar of capital invested. You, as a manager or employee in such a company, ought not to try to either.

Finally, profit-maximization is itself subject to organizational constraints, ranging from values ("we develop drugs that extend and enhance human life even when they are not profitable") to culture ("we aim to be a fun place to work") to organizational practices ("we don't do layoffs here") and even to unmentionables ("don't even think of inflicting bodily harm on a competitor"). "Maximization" is always constrained maximization.

If you don't know what the organization's bottom line is, you can't possibly manage towards it.

<u>If You're Not Helping Your Organization Maximize Profit, What Are You Doing?</u>

The goal of maximizing profit is very precise. "Profit" is not a shorthand for "financial outcomes," "revenue," "productivity," "cash flow," "return on investment," "fiscal responsibility," or "value." Profit is the difference between revenue and costs, nothing more and nothing less.

Strategic human resource management (SHRM) has been defined as "the pattern of planned human resource deployments and activities intended to enable an organization to achieve its goals" (Noe et al., 2000) and as "the process of linking HR practices to business strategy" (Ulrich, 1997). The best of the SHRM practitioners are concerned with organizational direction. As my colleagues Patrick Wright and Lee Dyer (2000) put it so eloquently in the context of e-business: "Agile e-businesses strive to assure that every employee understands the organization's business environment, strategic direction and domain, and business model and results, and knows how his or her contribution promotes business success. Abiding by other principles, while failing on this one, can result in highly energized, but rudderless, employees – all thrust and no vector."

Where bottom-line human resource management differs from SHRM is that bottom-line human resource management *starts* with a clear understanding of the organization's bottom line. That bottom line is profit unless the organization says it isn't and replaces profit by something else.

I have heard four kinds of objections to the profit maximization model and management based on it. One concerns clarity itself. Some people don't like precision and actively work against it. If you're one of them, I can't help you. But then again, such people probably stopped reading this article a long time ago.

A second objection is that some organizations have a different bottom line from profit. That is absolutely right, but then you want to manage toward that. But before you can manage effectively towards something other than profit, you need to know precisely what that alternative objective is. Even if you're not concerned about profit exclusively, your competitors may be.

The third is that what matters to the organization is more than just current profit. Future profit matters too. That is quite right, which is why every time you see words like "profit," "revenue," and "cost," you should understand these as shorthand for present discounted value of profit, revenue, and cost respectively.

A fourth objection is that reported profits are manipulable, as the current Enron scandal has made much too apparent. This objection, though true, does not mean that you should abandon a concern with profit. Even if you are managing in an organization that manipulates its profit to look better to Wall Street or anybody else, you should be building real profits, and you shouldn't be worrying about such manipulations.

I will conclude this section with one final point. Some people are championing a bottom line but theirs is different from the organization's. I have found this to be especially true of human resource professionals, some of whom proclaim themselves champions of the employees against the company. (Not all do: some champion the company against the employees.) All I can say is that if you are not on the same page as the leaders of your organization and you do not embrace their goals, you are taking a serious risk. If you're lucky, your leader will move ahead without you, you will be left out of key decisions, and you will not have a seat at the table. If you're unlucky, you'll be dismissed and replaced by someone who *does* work towards the organization's bottom line. If you're in a position like this, you'd do much better to find yourself another organization, one whose goals and values you *do* share.

Does Bottom-Line Management Make a Difference to the Decisions You Would Make?

A First Exercise

One of the great Cornellians, Ken Blanchard, has become famous through a series of books highlighted by his path-breaking *The One Minute Manager*, co-authored with Spencer Johnson. The book gives its readers powerful tools such as one minute goal-settings, one minute praising, and one minute reprimands. In that spirit, at the very beginning of the current academic year, I gave the students the following one-minute exercise, to do in a few minutes and submit before the start of the first class. This exercise comes from the world's best-selling labor economics textbook, *Modern Labor Economics*, co-authored by two of my labor economics colleagues at Cornell, Ronald Ehrenberg and Robert Smith:

You graduate from Cornell and are employed at the ABC Company. The company is very concerned about thefts and wants to hire detectives to lessen the problem. The company has already hired Ehrenberg and Smith as consultants, and they have estimated the benefits of store detectives in terms of thefts prevented according to the schedule shown in columns (1) and (2) below:

Number of Store Detectives (1)	***Value of Thefts Prevented (2)***
0	*0*
1	*$ 50*
2	*$ 90*
3	*$ 110*
4	*$ 115*
5	*$ 117*

They have also reported that ABC can hire as many detectives as it wants in the local labor market at a labor cost of $25 per shift.

Question: How many detectives should this firm hire and why? .

My students are first and second year professional masters students. Nearly all have corporate experience. Many of the students got the problem right but many did not. It is instructive to look at some of the incorrect answers. (But before you do, you might want to try the problem yourself. Take one minute or a little more if you like.)

One oft-repeated answer is precise but wrong:

Incorrect answer 1: "ABC should hire 4 detectives. The cost of 4 detectives ($100) is less than the value they would gain (keep?) by preventing thefts ($115). If they hired 5, the cost to hire the detectives ($125) is more than the value of thefts prevented ($117), so 5 detectives would not be worth their money, but 4 would."

Another oft-repeated answer is right as far as it goes but wrong because it does not go far enough:

Incorrect answer 2: "The firm should hire at least one detective, but no more than four detectives. If the firm were to hire five detectives, the labor costs ($125) would outweigh the value of thefts prevented ($117), and thus defeat the purpose of having detectives."

This answer tells you what not to do (don't hire 5) but it doesn't tell you what to do (whether to hire 1, 2, 3, or 4).

So what is the correct answer? Here is how one student put it:

Correct answer: "The firm should hire 2 detectives. This will cost them $50 and the value of thefts prevented is $90, and they therefore save the largest amount, $40. When you compare cost and value of thefts prevented for all other scenarios, the amount the firm saves is lower than $40."

How did you do?

Managing toward higher profits – in this case, through preventing thefts – leads to a different decision than managing using other decision rules. Here are some of them:

Decision Rule	Number of Detectives You Would Hire
Maximize profit	Hire 2
Hire as long as value of thefts prevented exceeds cost of detectives	Hire 4
Minimize thefts	Hire 5
Minimize cost of preventing thefts	Hire 0
Maximize thefts prevented per worker	Hire 1

I haven't been able to think up an incorrect decision rule that results in 3 detectives being hired. Maybe you can.

Thinking Inside the Box

Much is written these days about thinking outside the box. In fact, some would say that by approaching human resource management from the point of view of economics, I myself am thinking outside the box. I'd put it differently, though: what bottom-line human resource management is about is enabling managers and employees to think clearly and manage better *inside* the box – what has been called "HR's connectedness to the bottom line" (Conference Board, 1995).

What economics brings to the table is the framework of maximization. The first step in maximization is to have a clearly-articulated objective – what in mathematics, is called a "maximand." A good working rule for you to follow if you're working for a company is that profit is the objective. If that's not the objective, somebody will probably tell you otherwise.

The second step in maximization is to use a sound decision rule. There are a few sound decision rules (maximize profit, drive marginal profit to zero, continue as long as marginal benefit is greater than or equal to marginal cost) and a great many unsound ones. You need to know which is which.

The third step is to recognize that although the questions you need to ask are the same in a wide variety of contexts and circumstances, the optimal decisions differ from one organization to another. You will not achieve your objective if you merely benchmark your competitors and seek best practices. What's right for them may not be right for you; the optimum is context-specific.

I recommend a very simple way of focusing the people in an organization on the organization's objective: giving everybody a one sentence, two part job description. (Some people prefer to call this a "job charter.") The first part of the job description states the organizational objective clearly and concisely; the second part states the employee's specific responsibility. For somebody in a typical company, such a job description might be "My job is to help make money for the company by discovering oil" or "My job is to help make money for the company by identifying, attracting, developing, and retaining top talent." For a baseball player, the job description might be "My job is to help the team win as many games as possible by being an outstanding shortstop." For me, the second part of the job description is clear – "by being an excellent teacher and researcher" – but I can only guess at what the first part is. You too can try it out in your organization, and you'll quickly see how focused you and your people are.

In sum, you've won half the battle when you know *that* you should be maximizing profit, or if not profit, something else. To win the other half of the battle, you need to know *how* to go about it. In the next section, we'll go through another exercise I gave my students; one that produced very surprising results.

Shorthand Rules Can Get You in Trouble: A Second Exercise

The following exercise is one I gave my students two months into the course. It is adapted from one that appears in the excellent book *Personnel Economics for Managers* by Edward Lazear, who has been the chief innovator and advocate for the personnel economics field.

A Taiwanese factory has signed a multi-year contract with an American retailer to produce X dresses each day at $10 per dress; this is the factory's only output. The factory employs workers who each use a sewing machine. The current sewing machines can be rented for $7 per day, and if "skilled" workers are hired each can produce 5 dresses per 8-hour day. These workers are paid $4 per hour. If "professional" workers are used, each of whom is paid $6 per hour, 7 dresses per day per worker can be produced. Which kind of labor should be used? Explain your answer.

Before you read on, in the spirit of the one-minute manager approach, take five or ten minutes and give it a try, then continue.

Here is the most common answer students gave:

"Each skilled worker produces 5 dresses per day at a cost of $4 per hour. A professional worker produces 7 dresses per day at a cost of $6 per hour.

For a skilled worker:
5 dresses x $10 = $50
- labor = $4 x 8 = 32
- machine = 7
$11 = profit per day

For a professional worker:
7 dresses x $10 = $70
- labor = $6 x 8 = 48
- machine = 7
$15 = profit per day

Maximize profit: Use a professional worker for $4 more per day in profit."

Indeed, this is a bottom line answer. The only problem is that it is wrong.

Remember that the objective (or maximand) is profit: not profit per worker, not profit per machine, or anything else. And if you maximize profit, you get the following solution:

Worker type	Revenue per day	Labor used per day	Labor cost per day	Sewing machine cost per day	Total cost per day	Profit per day
Skilled	$10 X	X/5	$4/hr. x 8 hrs/day = $32/day	$7 x X/5	($32 x X/5) + ($7 x X/5)	$10X - $6.4X - $1.4X = $2.20X
Professional	$10 X	X/7	$6/hr x 8 hrs./day= $48/day	$7 x X/7	($48 x X/7) + ($7 x X/7)	$10X - $6.86X – $X = $2.14X

Profits per day are higher if you hire skilled workers than if you hire professionals! Was that your answer?

Curious to see how students other than professional masters students would do on this question, I tried the same exercise in other classes. The sophomores and juniors achieved the same performance as the professional masters students. So too did our second year economics Ph.D. students. Only one group was different: junior and senior majors who were studying economics and industrial and labor relations and taking an advanced elective in Personnel Economics.

So how did they do? The percentages getting the correct answer were: For the professional masters students, 0%. For the sophomores and juniors, 0%. For the Ph.D. students, 0%. For the juniors and seniors, 33%. Overall, six Cornell students out of 120 answered the question correctly.

A 5% accuracy rate poses an enormous challenge. For those of us who are educators, we must ask why the great majority of our students are getting it wrong. From my experience, it is because students have not been taught maximization *in this kind of context and in this kind of way.* Being effective teachers of bottom-line management is a challenge for those of us who do the teaching.

But the larger challenge is for actual and would-be managers of people. Is hiring the right type of worker an important decision for your organization to make? In your company, which functional unit would decide whether to hire more expensive, more productive people or less expensive, less productive ones? Does the person who makes that decision deserve a seat at the table? Would you like to be one of those people?

Mastering bottom-line human resource management can make all the difference.

<u>Quibbles, Questions, and Quirks</u>

Bottom-line human resource management is hampered by some practices that get in the way of good decisions. Here, let me mention some of them.

<u>Unclear organizational goals</u>

Some organizations are unwilling to be clear about their own goals. I've already talked about some that have clear mission statements -- "Maximize Profits." "Extend and Enhance Human Life." "Win the World Series." These are clear, pithy, and easy for everyone in the organization to wrap their minds around and work towards.

Now take a look at a company that seeks to align its 15,000 people around the world with the corporate vision, mission and strategy. These are:

Corporate vision: Abundant food and a healthy environment.

Corporate mission: For the world's food producers, we work to deliver products and solutions to help them reach their goals in ways that:

- Meet the world's growing food and fiber needs
- Conserve natural resources
- Improve the environment

Corporate principles:

- Taking ownership of our company's success
- Delivering highest quality products and technology
- Building strong relationships
- Creating a great place to work
- Conducting ourselves with integrity

Corporate operating principles: We are the stewards of [X's] success. As such we are accountable to a broad range of groups that give us license to operate: our shareholders, our customers, our communities, consumers, society and each other. We are committed to these principles:

Taking ownership of our company's success by being accountable for:

- Achieving results
- Working with our customers to create value
- Making wise decisions
- Stewardship of company resources
- Focus on our top priorities
- Discipline in our process

Delivering the highest quality products and technology through:

- Sound and innovative science
- Excellent product and environmental stewardship
- Embracing safety and health in everything we do
- Customer-driven solutions

Building strong relationships through:

- Customer involvement
- Consultation with stakeholders
- Collaboration and partnering
- Sharing our research and knowledge
- Listening to diverse views

Creating a great place to work by:

- Clarity of direction, roles, and accountabilities
- Fostering innovation, creativity, and learning
- Rewarding and recognizing our people
- Ensuring diversity of people and thought-inclusive teamwork
- Respecting and trusting each other

Conducting ourselves with integrity based on:

- Courage
- Respect
- Candor
- Honesty
- Humility
- Consistency
- Keeping our promises

Honestly now, did you read through to the end? If you were working for this company, would you know what you're supposed to align your behavior with? Would you know what you should do (and what you should not do)?

You can't maximize if you don't know what you're maximizing.

The balanced scorecard

The next issue is the famed "balanced scorecard" (Kaplan and Norton, 1992, 1996, 2001). The central proposition of the balanced scorecard approach is that an organization should measure, in balanced fashion, four sets of factors: learning and growth, internal business process, customer, and financial. Balanced scorecards are highlighted in current generation human resource management textbooks and courses.

The aims of the balanced scorecard are unexceptionable: to drive performance, establish a strategic management system, and help organizations link their long-term strategies with their short-term actions. My concerns are not with the objectives but with the ways the balanced scorecard seeks to achieve them.

The first point is that the balanced scorecard is supposed to be balanced – that is, learning and growth, internal business process, and customer have the same importance that financial outcomes do. By doing this, Kaplan and Norton confuse means and ends, and users of the balanced scorecard confuse (and are encouraged to confuse) them too.

The second problem is that even if we give primacy to financial outcomes, as indeed we should in a "normal" company, the balanced scorecard is vague as to what these financial outcomes are. These are the financial outcomes measured in different companies where balanced scorecards have been put into place: in Mobil Oil, it's return on capital employed; in Agri-Chem, it's return on net assets; in FINCO, it's return on spending; in Metro Bank, it's a trinity of accounts receivable, return on capital employed, and operating expense. Where is good, old-fashioned, clearly-defined profit? In some cases, it's in there – for example, in National Bank Online Financial Services, maximize profit is on a par with grow revenue and reduce cost per customer for the bank. However, it is only in exceptional cases like the Texas Eastman Company that the balanced scorecard actually focuses on profit.

To drive home the point about means and ends and multiple measures, take the following simple quiz. Here is a box score from the deciding game of baseball's 2001 world championship:

	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**R**	**H**	**E**
New York Yankees	0	0	0	0	0	0	1	1	0	2	8	3
Arizona Diamondbacks	0	0	0	0	0	1	0	0	2	3	11	0

Who won? If you know baseball, you can tell immediately. If you don't know baseball, you can study this chart for the rest of your life and you won't be able to discern the correct answer.

Now put yourself in the shoes of the manager. If you're managing, what should you manage towards? Maximize runs? Maximize hits? Minimize errors? Scoring at least one run in the greatest number of innings? People who understand baseball know that *none* of these is the correct answer. Surprised? Go back to the definition of "winning a baseball game" (which, for non-connoisseurs of baseball, is getting more runs than the other team) and winning a championship (winning more games than any other team) and what the bottom line is becomes crystal clear. Why is it that the bottom line is evident to so many of us when we're watching a sporting event but not when we're doing our work?

Value

"Value" is a greatly misused term in management. Take the statement "HR (or outsourcing or training or what have you) adds value." Does this mean that the activity in question *produces benefits*? Or does it mean that this activity *produces benefits that outweigh the costs*? The answer, sadly, is "both." One study told readers, "Traditional cost accounting shows the costs, pivotal performance analysis adds the value, and total net return equals value minus costs." In this quotation, "value" is used synonymously with benefits. On the other hand, others say that "the simplest definition of 'value' is the benefits outweigh the costs." In the first study, "value" is the gross benefit. In the second, it is the net benefit.

When "value" is used to mean "gross benefit," the manager's decision rule is obvious: anything that does not add value should not be done. But when "value" is used to mean "net benefit," then the manager needs to assess a) whether the activity under consideration produces benefits that *exceed* the direct costs, and b) whether the activity under consideration produces benefits that exceed *any other use of the same resources* (which is what economists call "opportunity costs").

The bottom line is that "adds value" is an ambiguous term. When the same term means different things to different people, or different things to the same person at different times, then the term ceases to have content. The implication is, don't use it. It would be much better to return to everyday English and use phrases like "produces benefits," "produces benefits that outweigh the costs," and "is the best that we can do with our money."

Strategy and objectives

Michael Porter (1985, 1996) is a genius in developing and promoting "strategic management." Porter uses the word "strategy" the way normal people do: an approach for achieving one's objectives. He distinguishes between the cost leadership, differentiation, and focus approaches. Porter cites Vanguard as an example of a cost leadership strategy, Ikea as an example of a cost-based focus, and Neutrogena as an example of a focused differentiator. Porter maintains that by choosing an appropriate strategy, an organization can achieve competitive advantage and hence superior performance, by which he means continued profitability. Hence the title and subtitle of his book: *Competitive Advantage: Creating and Sustaining Superior Performance.*

The term "strategy" is used in the same way in some of the literature on strategic human resource management (SHRM). Jeffrey Pfeffer (1998) writes that "a firm's strategy is simply a blueprint as to how it will compete in its marketplace." One human resources textbook (Noe et al., 2000) defines strategy as the "skillful employment and coordination of tactics" and as "artful planning and management." Of course, to be able to deploy human resources and choose among activities strategically, the manager must know exactly what the organization's goals are. Pfeffer reports that managers in many organizations have difficulty aligning management practices with the firm's business strategy because they do not understand what the business strategy is.

As I said earlier, this is precisely where bottom line human resource management differs from strategic human resource management: By working within a maximization framework, bottom line HRM *begins* with clear organizational goals. What the goal or goals of the organization is/are makes all the difference: You would manage differently if you're trying to be as big as possible than you would if you're trying to be as profitable as possible. You would manage differently if you aim to help millions of hard of hearing Americans lead better lives than you would if you aim to make as much money as you can by selling high-quality hearing aids. You would manage differently if your aim is to lead an institution where any person can find instruction in any study as compared with how you would manage if your aim is to offer the best undergraduate experience of any major research university. And you would manage differently if you're trying to win the World Series than you would if you're trying to field a baseball team at the lowest cost.

It is fashionable in management circles to think of organizations as striving to grow and survive and to create a purpose that is unique over time. This purpose has been termed "sustainable competitive advantage," which is said to occur when an organization is implementing a value-creating strategy that is not being implemented simultaneously by any current or potential competitors, and when other organizations are incapable of duplicating the benefits of that advantage (Barney, 1991). By this definition, it is hard to imagine *anything* that is sustainable. This is sometimes called the **VRIO** model: that strategic management involves value-creating strategies that other organizations cannot duplicate – specifically, ones that add **V**alue, are unique or **R**are, that cannot be **I**mitated, and that are supported by the **O**rganization. I find this unhelpful. In what sense does the Arizona Diamondbacks baseball team (the current world champions) do something inimitable? In no sense at all. All twenty-nine other major league baseball teams try to do essentially the same thing. What propelled the Diamondbacks to the championship was that they have two outstanding athletes who pitch better than any other imitators can. Unmatched? Yes. That's why they're champions. Inimitable? No way.

"Strategy" is the way you achieve your objective - in the case of the 2001 Arizona Diamondbacks, it is by emphasizing outstanding pitching. But strategy is not what the objective is – for the Arizona Diamondbacks and for every other professional sports team, it's "Win the Championship." That is why James Baron and David Kreps' book *Strategic Human Resource Management* adds so much value (Whoops!) – because it takes for granted that managing people well is essential to enabling organizations to achieve their bottom-line goals, and it gives carefully-reasoned and well-documented ways for managing people towards these ends.

In Summary

Bottom-line human resource management starts by positing clear organizational goals. This differs from strategic human resource management, which starts with analysis of the organization's human resource strategy.

Organizational goals are easily classified. Normal companies aim to maximize profits. Other companies aim to achieve social objectives. Others aim to win championships. Others have multiple end-goals. Others have multiple objectives, some of which are means and one of which is an end. You can't manage well unless you know precisely which type of organization you are working in and what the goal(s) of your organization is/are.

You then need to decide what will help the organization achieve its objective or objectives. Not all decisions have right and wrong answers but some do. You will earn a seat at the table if you are able to make correct decisions in these cases and to ask correct questions the rest of the time. We're not talking about thinking outside the box, though that is important too; we're talking about thinking inside the box in valid ways.

Finally, some fads are flawed and some terms are empty. Maximizing profit is different from maximizing productivity, return on investment, or other financial objectives. Scorecards should be *imbalanced.* "Adds value" can mean only one thing; it cannot mean both "produces benefits" and "generates benefits that outweigh the costs." "Strategic" is not synonymous with "purposeful."

By embracing your organization's goals, using sound decision criteria, and conveying your decisions in jargon-free English, you will be a valued managerial partner. Managing people is far too important to be left to those who cannot or will not think in such ways.

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