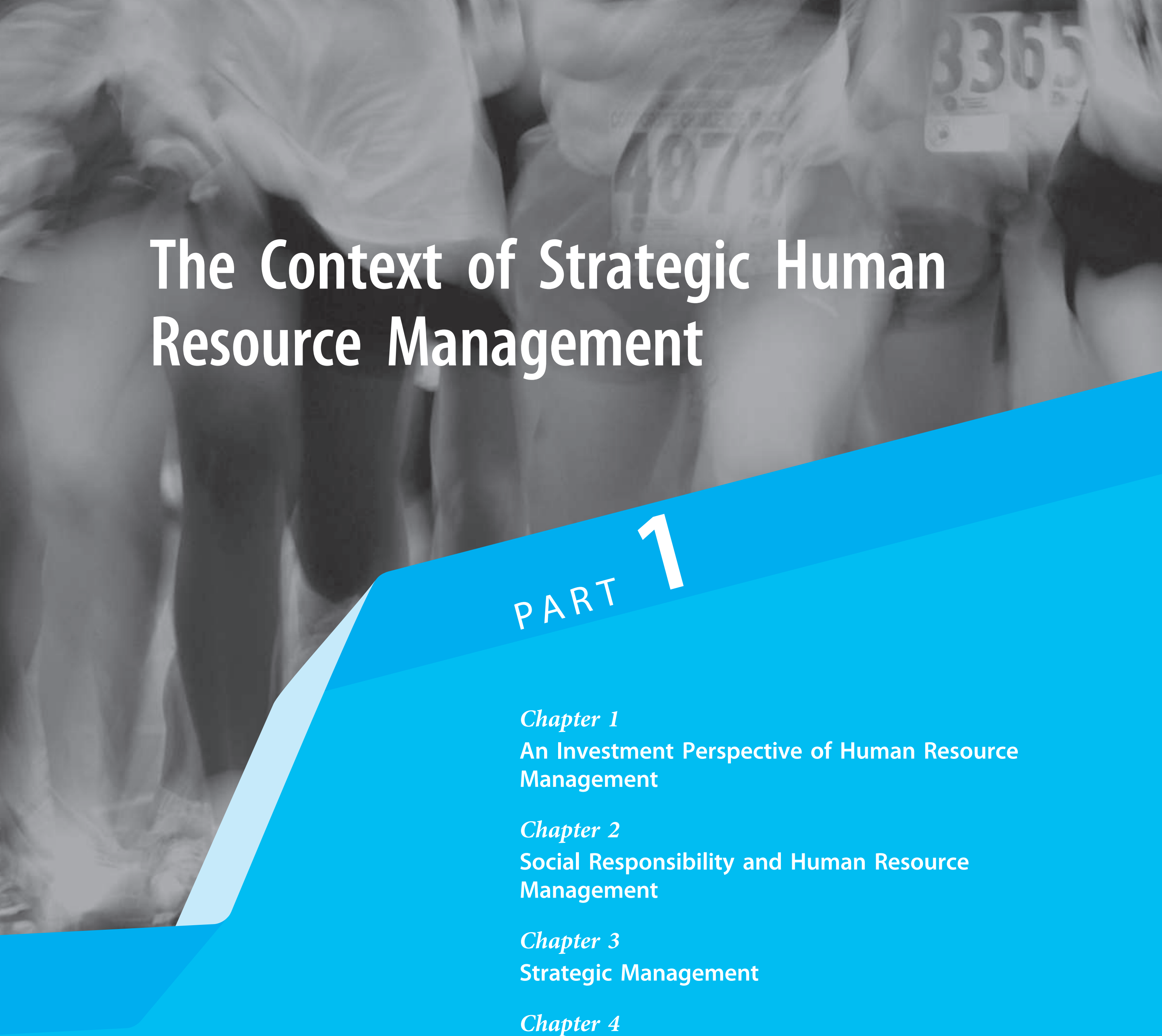


The Context of Strategic Human Resource Management

PART 1

CHAPTER 1

An Investment Perspective of Human Resource Management

LEARNING OBJECTIVES

- Understand the sources of employee value
- Gain an appreciation of the importance of human capital and how it can be measured
- Understand how competitive advantage can be achieved through investment in employees
- Gain an appreciation of metrics, their measures, and their usefulness
- Understand the obstacles that prevent organizations from investing in their employees

Human Resources at Nordstrom

How can a retailer gain a competitive advantage in a cut-throat marketplace? Middle- and high-end retailers generally locate in close proximity to each other and often carry similar—but not identical—merchandise. Consequently their sales and profit margins are usually in tandem. Nordstrom, however, has consistently produced above-industry-average profits and continues to be profitable when its competitors' profits are falling or flat.

The key to Nordstrom's success lies with the different way it manages its employees. Sales employees are known as "associates" and considered the organization's most valuable asset. The company's success is rooted in its strategy of providing superlative customer service. Associates are encouraged to act as entrepreneurs and build strong personal relationships with customers, or "clients." In fact, many clients shop only with a particular Nordstrom associate and call in advance to determine the associates' schedules or to make appointments.

Nordstrom's strategy involves a heavy investment in the organization's sales force. Nordstrom provides associates with extensive training on merchandising and product lines and offers high compensation. Its commitment to its employees is evident from the fact that the company's organization chart is depicted inverse from that of a traditional retailer. Associates are at the highest level on the chart, followed by department and merchandise managers and, finally, executives. This depiction cements the organization's philosophy that the customer is king. All efforts of senior-, middle-, and lower-level managers should support the efforts of the sales force.

Effective organizations are increasingly realizing that of the varied factors that contribute to performance, the human element is clearly the most critical. Regardless of the size or nature of an organization, the activities it undertakes, and the environment in which it operates, its success is determined by the decisions its employees make and the behaviors in which they engage. Managers at all levels in organizations are becoming increasingly aware that a critical source of competitive advantage often comes not from having the most ingenious product design or service, the best marketing strategy, state-of-the-art technology, or the most savvy financial management but from having the appropriate systems for attracting, motivating, and managing the organizations' human resources (HR).

Adopting a strategic view of HR, in large part, involves considering employees as human "assets" and developing appropriate policies and programs as investments in these assets to increase their value to the organization and the marketplace. The characterization of employees as human assets can have a chilling effect on those who find the term derogatory because of its connotation that employees are to be considered "properly." However, the characterization of employees as assets is fitting, considering what an asset actually is: something of value and worth. Effective organizations realize that their employees do have value, much as the organization's physical and capital assets have value. Exhibit 1.1 illustrates some of the value employees bring to an organization.

EXHIBIT 1.1 Sources of Employee Value

Technical Knowledge
- Markets
- Customers
- Processes
- Environment

Ability to Learn and Grow
- Openness to new ideas
- Acquisition of knowledge/skills

Decision Making Capabilities

Motivation

Commitment

Teamwork
- Interpersonal skills
- Leadership ability

Adopting an Investment Perspective

The characterization of employees as human assets has important implications for the strategic management of HR in that it allows us to consider HR from an investment perspective. Physical and capital assets in organizations, such as plant, property, machinery, and technology, are acquired and subsequently managed most effectively by treating them as investments; the organization determines the optimal mix of high-performance, high-return assets to its strategic objectives. Analyses are made of the costs and benefits of certain expenditures, with judgments made concerning the riskiness and potential returns of such expenditures. Viewing HR from an investment perspective, much as physical assets are viewed, rather than as variable costs of production, allows an organization to determine how to best invest in its people. Furthermore, considering the risk and return on possible expenditures related to acquiring or developing human assets allows an organization to consider how current expenditures can be best allocated to meet long-term performance goals.

In considering whether to undertake the expense of a new training program, for example, an organization needs to consider not only the out-of-pocket costs for the training but also the related opportunity costs, such as lost time on the job, and weigh these costs against the potential benefits of the training, such as enhanced performance, potential increased loyalty, and motivation. The training also needs to be assessed relative to risk because the enhanced marketability of employees makes them more desirable to competitors. Similarly, in considering compensation programs as an investment, an organization needs to consider what it is "investing" in when it pays someone (knowledge, commitment, new ideas, retention of employees from competitors). The potential return on the organization's financial outlay in compensation will determine whether its compensation system is a viable investment strategy.

Taking an investment perspective toward HR/assets is critical considering that other physical assets, such as facilities, products and services, technologies, and markets, can be readily cloned or imitated by competitors.[1] Human assets cannot be duplicated and therefore become the *competitive advantage* that an organization enjoys in its market(s). This is becoming increasingly important as the skills required for most jobs become less manual and more cerebral and knowledge-based in nature.[2] Rapid and ongoing advances in technology have created a workplace where laborers are being replaced by knowledge workers. An organization's "technology" is becoming more invested in people than in capital. Thought and decision making processes as well as skills in analyzing complex data are not "owned" by an organization but by individual employees. This is in stark contrast to traditional manufacturing organizations where the employer usually owns or leases the machinery and production processes, and duplication of the organization's "capital" is restricted primarily by cost considerations.

Managing Employees at United Parcel Service

Although taking a strategic approach to HR management usually involves looking at employees as assets and considering them as investments, this does not always mean that an organization will adopt a "human relations" approach to HR. A few successful organizations still utilize principles of scientific management, where worker needs and interests are subordinate to efficiency. United Parcel Service (UPS) is a prime example of this. At UPS, all jobs from truck loaders to drivers to customer service representatives are designed around measures of efficiency. Wages are relatively high, but performance expectations are also high. This approach toward managing people is still "strategic" in nature because the systems for managing people are designed around the company's strategic objectives of efficiency. Consequently, all employee training, performance management, compensation, and work design systems are developed to promote this strategic objective of efficiency.

Managing an organization's employees as investments mandates the development of an appropriate and integrated approach to managing HR that is consistent with the organization's strategy. As an example, consider an organization whose primary strategic objective involves innovation. An organization pursuing an innovation strategy cannot afford high levels of turnover within its ranks. It needs to retain employees and transfer among employees the new knowledge being developed in-house. It cannot afford to have its employees develop innovative products, services, and processes and then take this knowledge to a competitor for implementation. The significant investment in research and development ends up having no return. Because the outcome of this expenditure (research and development) is knowledge that employees have developed, it is critical as part of the organization's overall strategy for the organization to devise strategies to retain its employees and their knowledge bases until the "new knowledge" becomes "owned" by the organization itself (through diffusion throughout the organization) rather than by the employee.

This leads to a dilemma involving investing in human assets. An organization that does not invest in its employees may be less attractive to prospective employees and may have a more difficult time retaining current employees; this causes inefficiency (downtime to recruit, hire, and train new employees) and a weakening of the organization's competitive position. However, an organization that does invest in its people needs to ensure that these investments are not lost. Well-trained employees, for example, become more attractive in the marketplace, particularly to competitors who may be able to pay the employee more because they have not had to invest in the training that the employee has already received. Although an organization's physical assets cannot "walk," its human assets can, making the latter a much more risky investment. An organization can certainly buy or sell its physical assets because it has "ownership" of them, but it does not own its human assets. Consequently, organizations need to develop strategies to ensure that employees stay on long enough for the organization to realize an acceptable return on its investment relative to the employees' acquired skills and knowledge, particularly when the organization has subsidized the acquisition. This requires the organization to determine the actual "value" of each employee. Valuation of human assets has implications for compensation, advancement opportunities, and retention strategies as well as how much should be invested in each area for each employee.

Valuation of Assets

Five major kinds of assets or capital that organizations can leverage to aid in performance and add value to operations are financial assets/capital, physical assets/capital, market assets/capital, operational assets/capital, and human assets/capital, as shown in Exhibit 1.2. Financial assets/capital include equity, securities and investments, and accounts receivable. Physical assets/capital include plant, land, equipment, and raw materials. Market assets/capital include goodwill, branding, customer loyalty, distribution networks, product lines and patents, trademarks, and copyrights. Operational assets/capital include management practices, the structure of work, and the use of technology. Human assets/capital include employee education levels, knowledge, skills, competencies, work habits and motivation, and relationships with coworkers, customers, suppliers, regulators, and lenders.

Financial and physical assets/capital are relatively easy to measure via accounting practices. Most of these assets are tangible and have some clear market value. Market and operational assets/capital are a bit more challenging to measure, but accounting practices have been developed that can place a general subjective value on such assets. Human assets/capital, however, are very difficult to measure; attempts to do so are at the forefront of current research being conducted in HR management.

A direct result of this difficulty in measuring human assets is that the valuation of current and future human assets is often ignored from consideration when organizations are facing economic and financial challenges. The media and financial markets usually respond favorably when decision makers announce restructurings or right-sizing initiatives, which reduce the size of the organization's work force, allowing it to reduce short-term costs. Such actions, however, involve the loss of human assets, which have value to the organization, often without consideration of the longer-term impact of such losses on the organization's ability to regain its position in the marketplace. Effective management recognizes that the organization's survival and renewal require the right size and mix of human capital and balances short-term needs to reduce or restructure costs with a clear strategy for the future. The key issue organizations face here is how to leverage the value of the organization's human assets for the good of the organization in the immediate, short, and long-term.

EXHIBIT 1.2 Types of Organizational Assets/Capital

Ease of measurement

Easier

	Examples
• Financial	• equity • securities and investments • accounts receivable
• Physical	• plant • land • equipment • raw materials
• Market	• goodwill • branding • customer loyalty • product line • distribution networks • patents, trademarks, copyrights
• Operational	• management practices • structure of work • technology
• Human	• education • knowledge • skills • competencies • work habits and motivation • personal relationships

More difficult

One model of employment that can provide valuable lessons in the valuation of and appreciation for human assets is that utilized in India. Reading 1.1, "The India Way: Lessons for the U.S.," illustrates how Indian organizations are able to integrate investing in their employees with their missions without compromising their commitment to either.

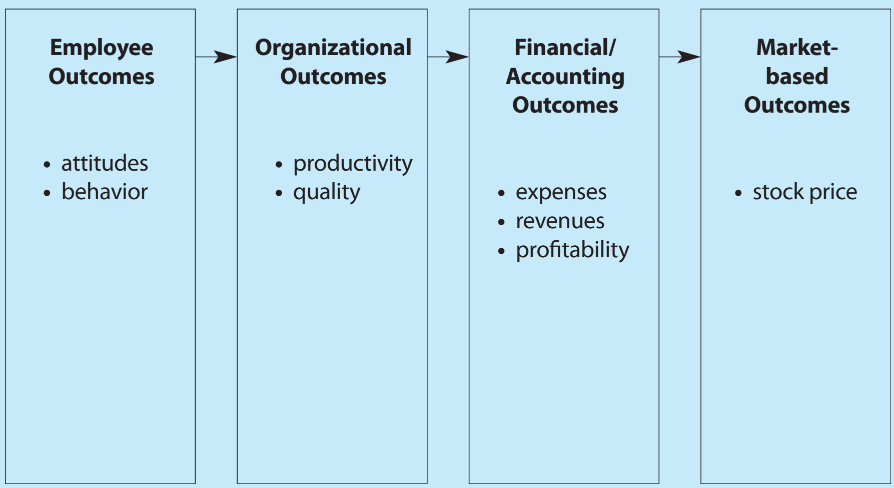
Understanding and Measuring Human Capital

Given that employees and their collective skills, knowledge, and abilities represent a significant asset for organizations, a critical issue for organizations becomes measuring this value as well as its contribution to the organization's bottom line. One of the first studies that successfully demonstrated this relationship was conducted by Huselid in the mid-1990s. This study identified what were called "high performance work systems" (HPWS) and demonstrated that integrated, strategically focused HR practices were directly related to profitability and market value.[3] A recent study by Watson Wyatt Worldwide found that the primary reason for organizational profitability is the effective management of human capital. This involves, in part, providing employees with rewards that are commensurate with their contributions and ensuring that investments in employees are not lost to competitors by actively managing employee retention.[4] Another study found that effective, integrated management of human capital can result in up to a 47 percent increase in market value.[5] A landmark study conducted by Becker, Huselid, and Ulrich that examined a variety of HR management quality indices found that the top 10 percent of organizations studied enjoyed a 391 percent return on investment (ROI) in the management of their human capital.[6]

Extending these findings, Dyer and Reeves attempted to define what can be called the HR "value chain."[7] They argued that performance could be measured via four different sets of outcomes: employee, organizational, financial and accounting, and market-based. More importantly, they proposed that these sets of outcomes had a sequential cause-and-effect relationship, as indicated in Exhibit 1.3. Each outcome fueled success in a subsequent outcome, establishing a causal link between HR practices and an organization's market value.

Given this proven link between integrated and strategic HR practices and bottom-line performance, HR practitioners have been faced with the task of developing appropriate HR metrics, which specifically illustrate the value of HR practices and activities, particularly relative to accounting profits and market valuation of the organization. This task has proven to be far more complex than anticipated, given the difficulties of measuring human assets/capital. One study concluded that 90 percent of *Fortune* 500 organizations in the United States, Canada, and Europe evaluate their HR operations on the basis of three rather limited metrics: employee retention and turnover, corporate morale and employee satisfaction, and HR expense as a percentage of operational expenses.[8] Such "staffing metrics" simply document the extent to which HR performs traditional job functions without necessarily illustrating how HR impacts company profits and shareholder value. Moreover, a focus on such staffing metrics involves a demonstration of how employees can be treated as expenses rather than as assets that can be managed, invested in, and leveraged for profit.

EXHIBIT 1.3 HR Value Chain



Senior HR executives in these organizations stressed that they lacked accurate and meaningful methods that measured performance, despite the fact that human assets/capital can account for as much as 80 percent of the value of an organization.[9] One reason is that most accounting valuation methods stress the past and current value of assets. Much of the value of human assets/capital rests with the value of an organization and its ability to proactively meet challenges that lie ahead, relative to responsiveness to changing economic, political, and market conditions. As a result, valuation of human assets/capital and analysis of human capital investments can be value-laden, subjective, expensive—and, hence, ignored.

Measuring Human Assets/Capital at Dow Chemical

Dow Chemical has been a leader in forging the frontiers of measuring human capital. Dow has attempted to develop a reliable measure to help calculate each employee's current and anticipated future contribution to the financial goals of the business. A pilot project is currently being tested in a single business unit; it examines employee performance on project assignments by using two specific metrics: expected human capital return (EHCR) and actual human capital return (AHCR). EHCR involves a calculation of the break-even point of investment in an employee, above salary and additional outlays, such as recruiting and training expenses. AHCR involves a calculation of the "value created" by the employee based on the projects he or she was worked on. This metric considers the skills and knowledge of each employee relative to the net present value of a specific project. The desired outcomes of these measures are assisting managers with matching employee talents and project needs, identifying employee development opportunities, and creating a more efficient and effective means for project team staffing. Although the program is still in the pilot stage, with validation studies in progress, Dow anticipates rolling out the metrics to other business units in the very near future.[10]

Given the complex nature of measuring human assets/capital and return on such investments, where does an organization begin in assuming such an undertaking? One helpful model has been developed by Mercer, which can allow those concerned with measuring HR performance and documenting the value added by specific initiatives to demonstrate to senior management the value added and bottom-line impact.[11] This model involves six steps: (1) identify a specific business problem that HR can impact; (2) calculate the actual cost of the problem to the organization; (3) choose a HR solution that addresses all or part of the problem; (4) calculate the cost of the solution; (5) 6 to 24 months after implementation, calculate the value of the improvement for the organization; and (6) calculate the specific ROI metric.

One caveat should be obvious from not only Mercer's approach but also that currently being employed at Dow Chemical. Unlike the returns on other types of assets/capital, the ROI in human assets/capital are often not realized until some point in the future. Key decision makers need to be patient in waiting for these results, and HR also needs to subsequently take interim measures and provide status reports to senior management that illustrate preliminary beneficial results. HR needs to move away from mere data collection, however, and perform more comprehensive analysis of performance measures that relate to the critical metrics for which operating divisions are held accountable. Toward this end, HR needs to partner with chief financial officers to understand the language of investment and asset management. If HR continues to be seen as a cost center, it will be the primary target during cost-cutting operations, given that labor is the primary cost incurred in the service- and information-intensive sectors that are fueling the growth in our economy. One study places the relative expenses for human capital as high as 70 percent of overall expenditures.[12] Hence, the challenge for HR is to provide senior management with value-added human capital investments backed by solid and meaningful financial metrics.

Moneyball and the Oakland Athletics

The 2003 best-selling book, Moneyball, later made into a motion picture in 2011, chronicled the real-life application of HR metrics in major league baseball and their impact on performance. Starting with his appointment in 1998 as Oakland Athletics general manager, Billy Beane was forced to rethink how he selected players given the fact that his small-market team could not compete financially with big-market teams, such as those in New York and Boston, which consistently ended up signing the biggest name free agent players at hefty salaries. Beane looked beyond traditional statistical measures of player "value" such as batting average and home runs for position players and games won, earned run average and strikeouts for pitchers to seek out players that were generally undervalued. Beane and his statistician instead considered alternative metrics, such as on-base percentage and average number of pitches required to complete an at-bat, and discovered that such metrics had a higher correlation with games won by a team. Applying these new metrics as part of an ongoing staffing plan, Beane's cash-poor team qualified for the post-season from 2000 to 2003 with an average of 98 victories per season despite having one of the lowest payrolls in baseball. Soon, other teams were copying Beane's approach and the Athletics lost their competitive advantage. Beane's approach illustrates that the use of staffing metrics can translate into significant success for an organization. The key is selecting the appropriate metrics and analytical techniques, which may be different from those currently in use by the organization or standard within the industry.

HR Metrics

Many CEOs openly acknowledge the importance of effective and strategic HR management in their organization's success. Jack Welch noted in one of his last General Electric annual reports: "Developing and motivating people is the most important part of my job. I spent one-third of my time on people. We invest $1 billion annually in training to make them better. I spend most of my time on the top 600 leaders in the company. This is how you create a culture."[13] One recent study of *Fortune* 100 annual reports found that 14 percent of such reports contained at least one quantitative measure of HR management, such as turnover rate, investment in training, percentage of pay that is variable, or results from an employee attitude survey.[14] Despite this, Wall Street analysts still generally fail to acknowledge human capital in their assessment of the potential worth of a company's stock or the effects which human capital measures can have on a company's stock price.

Perhaps one reason for this lack of reporting of and respect for metrics related to human capital rests with the fact that there are no universally accepted metrics for the valuation of human capital or a standard format for measuring and reporting such data. Indeed, the Society for Human Resource Management has identified a number of common metrics for measuring the performance and value of human capital, a number of which are presented in Exhibit 1.4. These are measures that can easily be translated into bottom-line measures of performance as well as compared to industry benchmarks. Exhibit 1.5 provides examples of how five of these metrics that are often regarded as the most prominent measures of human capital management can be calculated and utilized. Nonetheless, stock analysts are more concerned with talking with operations, accounting, and finance heads rather than those in HR, as analysts usually have their training in, understand, and are most familiar and comfortable with these areas.

Labor Supply Chain Management at Valero Energy

San Antonio–based Valero Energy is a $70 billion energy-refining and marketing company that has reinvented its staffing function through the application of principles of supply chain management. Conceptualizing the acquisition and management of talent as a supply chain, Valero scrapped its traditional staffing processes by which managers would request specific numbers of employees from HR who, in turn, would solicit referrals from employees and contact recruiters. After an analysis of data related to hiring sources, how long new employees remained employed, performance and productivity of new hires, and "fit" with the company culture, Valero gained a sense of how to recruit the best talent at the lowest cost.

Valero's new staffing process involves forecasting three years in advance the demand for talent by both division and title. Five years of data were mined into a database, and a series of mathematical algorithms was developed for turnover trend analysis by location, position type, salary, tenure, and division. Another series of algorithms projected those trends forward for three years in line with anticipated workforce needs for future capital projects, updated systems, and anticipated new services. The result is the development of talent "pipelines," which address specific future talent needs relative to the organization's strategy and business model, allowing the development of related training and development programs and succession plans.[15]

EXHIBIT 1.4 Common HR Metrics

- Absence Rate
- Cost per Hire
- Health Care Costs per Employee
- HR Expense Factor
- Human Capital Return on Investment (ROI)
- Human Capital Value Added
- Labor Costs as a Percentage of Sales or Revenues
- Profit per Employee
- Revenue per Employee
- Time to Fill
- Training Investment Factor
- Training Return on Investment (ROI)
- Turnover Costs
- Turnover Rate (Monthly/Annually)
- Vacancy Costs
- Vacancy Rate
- Workers' Compensation Cost per Employee
- Workers' Compensation Incident Rate
- Workers' Compensation Severity Rate
- Yield Ratio

There are no "perfect" metrics, however, as the appropriate human capital metrics would depend on the organization or business unit's strategy. Organizations concerned about minimizing costs might be most concerned with metrics related to turnover and revenue per employee. Organizations pursuing a strategy of aggressive growth might rely on metrics such as time to fill, while those concerned with innovation might closely monitor training costs per employee. Divisions or subsidiaries within the same organization might use totally different metrics, dependent on their unit's goals and strategies.

EXHIBIT 1.5

Calculation of Human Capital Measures

Measure	Formula	Value/Use
Human Capital ROI	Revenue − (operating expenses − compensation + benefits costs) / compensation + benefits costs	Allows determination of return on human investments relative to productivity and profitability; represents pre-tax profit for amounts invested in employee pay and benefits after removal of capital expenses
Profit per Employee	Revenue − operating expenses / number of full-time equivalent (FTE) employees	Illustrates the value created by employees; provides a means of productivity and expense analysis
HR Expense Factor	Total HR expense / total operating expenses	Illustrates the degree of leverage of human capital; provides a benchmark for overall expense analysis relative to targets or budgets
Human Capital Value Added	Revenue − (operating expenses − compensation + benefits costs) / total number of FTE employees	Shows the value of employee knowledge, skills, and performance and how human capital adds value to an organization
Turnover Rate	Number of employee separations (during a given time period) / number of employees	Provides a measure of workplace retention efforts, which can impact direct costs, stability, profitability morale, and productivity; can be used as a measure of success for retention and reward programs

Sources: For a more complete list of metrics, formulas, and uses, see Society for Human Resource Management, HR Metrics Toolkit, published Nov. 15, 2007. Available at *http://moss07.shrm.org/hrdisciplines/Pages/CMS_005910.aspx*

Factors Influencing How "Investment Oriented" an Organization Is

Not all organizations realize that human assets can be strategically managed from an investment perspective. As shown in Exhibit 1.6, five major factors affect how "investment oriented" a company is in its management of HR. The first of these is management values.[16] Management may or may not have an appreciation of the value of its human assets relative to other capital assets, such as brand names, distribution channels, real estate, facilities and equipment, and information systems. The extent to which an organization can be characterized as investment-oriented may be revealed through answers to the following questions:

- Does the organization see its people as being central to its mission/strategy?
- Do the company's mission statement and strategic objectives, both company-wide and within individual business units, espouse the value of or even mention human assets and their roles in achieving goals?
- More importantly, does the management philosophy of the organization encourage the development of any strategy to prevent the depreciation of its human assets or are they considered replicable and amortizable, like physical assets?

EXHIBIT 1.6 Factors Influencing an Organization's Investment Orientation

Senior management values and actions determine organizational investment in assets. It is critical to understand how the organization's strategy mandates the investment in particular assets relative to others. Whether management values its people is a critical factor in its willingness to invest in them.

The second factor is attitude toward risk. The most fundamental lesson in financial management is that a trade-off exists between risk and return. Higher-risk investments are generally expected to have a greater potential return; lower-risk, safer investments are generally expected to have a more modest return. For example, in financial markets, bonds are considered less-risky investments than stocks but have a limited, fixed return. Stocks, on the other hand, are considered higher-risk investments but have no limit as to their potential return.

Both personal and institutional investment strategies can be highly conservative (risk averse) or pursue unlimited returns with reckless abandon. Investments in human assets are generally far more risky for an organization than investments in physical assets: Unlike physical assets, human assets are not *owned* by the organization. An organization with risk-averse management philosophies is far less likely to make significant investments in people. Other organizations see investments in employees as necessary for their success and develop strategies to minimize the potential risk of losing their investments. An organization can attempt to gain some "ownership" of employee services through long-term employment contracts or by offering employees financial incentives, such as stock-ownership programs, as well as additional professional development opportunities.

The third factor is the nature of the skills needed by employees. Certain organizations require employees to develop and utilize very specialized skills that might not be applicable in another organization; another employer might have employees utilize and develop skills that are highly marketable. For example, if an employer has a custom-made information system to handle administrative HR functions, employees using that system might not transfer those skills to another employer. However, if an employer uses a popular software program for which there is high demand for skilled employees among competitors, the investment in employees becomes more risky.

As a result, an organization that decides to provide its employees with specialized training in skills that can be utilized by others in the marketplace has a much stronger need to develop a strong retention strategy than an organization that teaches employees skills that are less marketable. Employees with skills demanded in the marketplace become more valuable and sought-after assets by companies that choose not to make expenditures or invest in training and skill development.

The fourth factor affecting the investment orientation is the "utilitarian" mentality of the organization. Organizations that take a utilitarian, or "bottom line," perspective evaluate investments by using utility analysis, also known as *cost-benefit analysis*. Here, the costs of any investment are weighted against its benefits to determine whether the prospective investment is either profitable or, more commonly, achieves the target rate of return the organization has set for its investments. A highly utilitarian approach attempts to quantify all costs and benefits. For example, rather than just considering direct cash expenditures, this approach would also consider the cost for the time involved to develop and administer an innovative performance measurement system (by considering how much people are being paid for the time involved in the process), the cost of having larger applicant pools (by considering how much longer it would take to screen applicants), and the cost of employing more extensive employee selection procedures (again, by considering time and its monetary value).

The distinct problem many utilitarian organizations run into regarding investments in people involves the fact that many benefits of HR programs and policies are extremely difficult to quantify. If these programs and policies can be assessed quantitatively, subjectivity as to the actual value of the benefit may make consensus on the overall value difficult. This is especially true for programs that attempt to enhance performance in service organizations. As an example, consider the customer service division of your local Internet service provider. Measures of effective service are not only difficult to assess objectively, but the organization may not be able to determine how much service is necessary to prevent customers from jumping to competitors and maintain their loyalty instead. Additional investments in service may not have any direct financial benefit.

Similarly, a government organization or public utility that attempts to develop a program to enhance efficiency may have a difficult time in finding the cost justifiable. Given that no market mechanisms exist for government agencies or legal monopolies, customers have no choice among competitors. Customers may complain to regulators or officials, but there may be no incentive or benefit for the organization to enhance its efficiency from an investment perspective. On a more basic level, a program that is designed to improve employee morale can have benefits that may be very difficult to measure and quantify. A utilitarian organization is likely to reject such "soft" programs that have no quantifiable return. Hence, the more utilitarian an organization, the more likely it is to see HR programs as investments, creating a challenge for those advocating for such HR programs to find a means to show their impact on the bottom line. Some very recent studies have begun to address this issue by attempting to establish a link between HR strategies and systems and an organization's financial performance. Initial results have shown a significant impact of HR systems on both market-based and accounting-based measures of performance.[17]

The final factor impacting an organization's willingness to invest in its people is the availability of cost-effective outsourcing. An investment-oriented approach to managing an organization will attempt to determine whether its investments produce a *sustainable* competitive advantage over time. When specialists who may perform certain functions much more efficiently exist outside an organization, any internal programs will be challenged and have to be evaluated relative to such a standard. This is true for virtually any organizational function, including customer service, accounting, manufacturing, and HR management functions.

The organization is further likely to invest its resources where key decision-makers perceive they will have the greatest potential return. This may result in few investments in people at the expense of investment in market and product development, physical expansion, or acquisition of new technology. As an example, employers in the fast-food industry, such as at McDonald's, invest little in their people; they require minimal experience, provide little training, pay low wages, and expect high turnover because the supply of workers is excessive relative to demand. Organizations in this industry tend to invest much more in new product development, physical expansion, and marketing through competitive advertising.

HR professionals can be strong catalysts in influencing the extent to which an organization's leaders truly understand the inherent value of its people. It has been argued that those in the HR profession have an ethical obligation and bear responsibility for leadership in this regard. Reading 1.2, "Strategic Human Resource Management as Ethical Stewardship," describes these responsibilities of the profession and outlines the benefits of strategic HR for employees, employers, and the larger society.

Conclusion

Developing an effective strategy to manage an organization's human assets requires considering employees as investments. Such an approach helps to ensure that HR practices and principles are clearly in sync with the organization's overall strategy, forces the organization to invest in its best opportunities, and ensures that performance standards are met. As an example, employee stock-ownership programs attempt to strategically invest in the organization and its people by making employees owners of the company. Instead of having a conflict as to how profits should be allocated (bonuses to employees or reinvested in the business), both can be achieved simultaneously. In turn, this has the goal of gaining more commitment from employees and encouraging them to adopt a long-term focus toward the organization; this is often a shortcoming or deficiency of American organizations that are concerned with short-run indicators of performance. Employees who now intend to stay with the organization longer, given their vested ownership rights, provide organizations with an incentive to incur the short-term costs involved with investing in human assets for the long-term financial gains that can result from such investments.

An investment perspective of HR is often not adopted because it involves making a longer-term commitment to employees. Because employees can "walk" and because American organizations are so infused with short-term measures of performance, investments in human assets, which tend to be longer-term investments, are often ignored. Organizations performing well financially may feel no need to change their investment strategies. Those not doing well usually need a quick fix to turn things around and therefore ignore longer-term investments in people.

However, while investments in HR are longer term, once an organization gains a competitive advantage through its employees, the outcomes associated with the strategy are likely to be enduring and difficult to duplicate by competitors as such programs and values become more firmly entrenched in the organization's culture. The commitment that an organization makes to its employees through its investments in them is often rewarded with the return of employees making a longer-term commitment to the organization. Although investments in human assets may be risky and the return may take a long time to materialize, investment in people continues to be the main source of sustainable competitive advantage for organizations.

Critical Thinking

1. Why do senior managers often fail to realize the value of human assets vis-à-vis other assets?
2. Why do line managers often fail to realize the value of human assets vis-à-vis other assets?
3. Why and how might a line or an operating manager value specific metrics related to the unit's employees?
4. What can HR do to make senior and line managers take more of an investment approach to human assets?
5. Why is a competitive advantage based on a heavy investment in human assets more sustainable than investments in other types of assets?
6. Why can some organizations that fail to invest heavily in human assets still be financially successful? Why can some organizations that do invest heavily in human assets still be financially unsuccessful?
7. What challenges exist relative to the valuation of human assets and measuring human capital?

Reading 1.1

8. Upon what cultural factors does the "Indian Way" depend upon for its success? To what extent can organizations from your country and culture adopt successful Indian practices, what obstacles exist to full implementation, which of these obstacles can be overcome, and specifically how can they be overcome?

Reading 1.2

9. Explain the ethical steward and transformative leader role as applied to HR professionals. Specifically how does each contribute to the practice of strategic HR management?

Exercises

1. Obtain the annual report for a *Fortune* 500 company of your choice. Review the material presented and the language used in the text. Write a one-page memo that assesses how investment-oriented the organization appears to be toward its human assets.
2. Arrange yourselves in small groups of four or five students and compare and contrast the similarities and differences among the organizations you investigated. Can you isolate any factors that appear to influence how an organization perceives the value of its employees?
3. How might different HR metrics be best employed in (1) a nonprofit organization, (2) a professional sports organization, (3) a healthcare facility, (4) a small technology-based startup, and (5) a large *Fortune* 500 company?
4. Consider your current or most recent employer. Does the organization employ any human capital metrics or key performance indicators? If so, which ones, how are they used, and are they appropriate given the organization's strategy? If not, suggest some appropriate human capital metrics or key performance indicators given the organization's strategy.

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READING 1.1

The India Way: Lessons for the U.S.

Peter Cappelli, Harbir Singh, Jitendra Singh, and Michael Useem

Executive Overview

We describe a distinctive approach to business associated with the major corporations in India and contrast it with practices in the United States. Specifically, the Indian approach eschews the explicit pursuit of shareholder value in favor of goals associated with a social mission. These companies make extraordinary investments in their employees and empower them in decision making. These practices combine with a distinctively Indian approach to problem solving to create a competitive advantage that has led to spectacular business growth, not just within India but in international markets as well. A particularly important lesson for the United States is that the major Indian companies are not succeeding despite the fact that they are pursuing a social mission and investing in their employees. They are succeeding precisely because they do so.

The contemporary U.S. model for business is in trouble. That model asserts that maximizing shareholder value is the primary goal of business—indeed, some would say the only goal of contemporary business. This model is fairly recent, however. Until the early 1980s, the dominant model in the United States was the "stakeholder" model, which asserts that business has many groups with an interest or stake in its operations, and that the interests of these different stakeholders have to be balanced. This model was pushed aside by theoretical arguments emanating from the field of finance, which then played out in the sphere of public policy beginning in the 1980s (Epstein, 2005; Williamson, 1993).

With respect to management practices, we believe there are three additional elements at the heart of the contemporary U.S. model that are significantly different than practices elsewhere. The first concerns business strategy. The U.S. approach focuses attention outside the firm in the search for opportunities and, to a lesser extent, in a related search for competencies through mergers and acquisitions and joint ventures. The second element focuses on restructuring: When markets or strategies change, U.S. companies lay off employees to cut costs and then hire new ones to redirect the business toward new markets or to meet new skill needs. The ability to restructure is seen as a key to competitiveness. Finally, in this model efforts to harness the motivation and abilities of employees tend to focus mainly at the top, with financial incentives (via equity) offered to executives and top managers. They, in turn, figure out how to motivate the rest of the workforce; the threat of job loss is typically an important part of the mix.

There are three recent and important challenges to these aspects of the U.S. model. The first is that it has not worked well for employees, perhaps not surprisingly given that employees are no longer seen as explicit stakeholders whose interests have to be balanced against those of shareholders. Except for a brief period of very tight labor markets at the end of the 1990s, employment outcomes have advanced little in a generation. Compared to previous decades, jobs are much less secure, wage growth is markedly lower, and at least by some measures, employee attitudes toward their jobs and their employers are worse. Specifically, evidence suggests that there has been a long-term trend toward greater insecurity across most occupations and groups (Kalle-berg, in press), that even before the 2008 recession outcomes for the "middle class" actually declined slightly during the economic expansion from 2001 through 2007 (Mishel, Bernstein, & Shierholz, 2009), and that outcomes and conditions worsened markedly for those at the bottom of the income and occupational distribution (Bertrand, Mehta, & Mullainathan, 2008). While interpreting longitudinal studies of employee attitudes is at best difficult, those that exist show a downward trend (Franco, Gibbons, & Barrington, 2010).

Second, U.S. corporate governance has been plagued in recent years by a sharp increase in malfeasance. There has been an unending (as of this date) stream of corporate financial scandals that began in the mid-1990s in which we saw executives manipulating finances to improve share prices and

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This article is based on ideas put forth by the authors in their recent book, *The India Way: How India's Top Business Leaders Are Revolutionizing Management,* Harvard Business School Publishing, 2010.

pad their own pockets. The most prominent of these were on such a monumental scale that they literally brought down companies—Enron, WorldCom, Adelphia, and Global Crossing (Markham, 2006). The list of companies where financial malfeasance was bad but not quite bad enough to force the failure of the company is much longer: Xerox, Sunbeam, Waste Management, Tyco, HealthSouth, and many more. An objective marker for financial irregularities is earnings restatements, serious accounting errors where companies are forced to revise earnings that had previously been presented as accurate. These restatements, once quite rare, grew by 145% from 1997 to 2001, and about 10% of all publicly traded companies restated earnings during that period (General Accounting Office, 2002). The fact that these scandals were so common in the United States and so much less so in other countries suggests that practices distinctive to the U.S. might be to blame (Coffee, 2005).

Then there is the 2007 financial meltdown, which started on Wall Street and led to a worldwide economic decline (see, e.g., Reinhardt & Rogoff, 2008) and then to profound concerns about U.S business practices. At the 2010 meeting of the World Economic Forum in Davos, Switzerland, for example, any whiff of American triumphalism from the previous decades had given way to U.S. contrition in the wake of the great financial crisis of 2008–2009. Capturing the essence of the mood, one of the event's leading figures put it bluntly: The calamity was caused by a "failure of leadership" in both financial services and government where the centers were the United States and to a lesser extent the United Kingdom (Useem, 2010).

Third, and for our purposes most important, there are now alternative business models that can lay claim to being more successful. Even putting aside the financial scandals, the overall U.S. economy and the corporate sector performed poorly this past decade, especially as compared to international standards. In absolute terms, the U.S. now ranks 14th in per capita gross domestic product (World Bank, 2009), with a growth rate over the 2000s of only about 1.2% per year (U.S. Bureau of Labor Statistics, 2009). Equity prices for U.S. firms, the main measure of success in the corporate world, lost 3.85% in nominal terms over the course of the decade, one of the worst performances in the industrialized world.

There are many alternatives to the U.S. model, but the one from which U.S. corporations could learn the most, in our view, comes from India, the country with the second-fastest growth rates in the world over the past decade. During much of the 2000s, India's GDP has risen by better than 9% per year—several times that of the U.S. and nearly that of China. Foreign institutional and direct investment has grown rapidly as well, rising by a factor of 13 from $4.9 billion in 1995–1996 to $63.7 billion in 2007–2008 (Reserve Bank of India, 2009b). A host of surveys have confirmed that India has become one of the most favored destinations for direct investment, behind China but ahead of the U.S. (India Brand Equity Foundation, 2010). India's foreign exchange reserves rose from less than $1 billion at their bottom in 1991 to more than $300 billion at the peak in 2008, and the value of Indian exports increased by 2.5 times from 2004 to 2008 (Reserve Bank of India, 2009a). And all this occurred despite the fact that the infrastructure in India is by all accounts less developed than that in most Western nations (Hamm & Lakshman, 2007) and the challenges of doing business are great (see Figure 1).

Our interest in India is in the practices of its large corporations. Reliance, ICICI, Infosys, and hundreds of India's other top companies have been clambering on to the world stage to compete directly against Western multinationals in virtually all sectors, including those that had been seen as the future of the U.S. economy: high-human-capital service businesses such as information technology, healthcare, and business services.

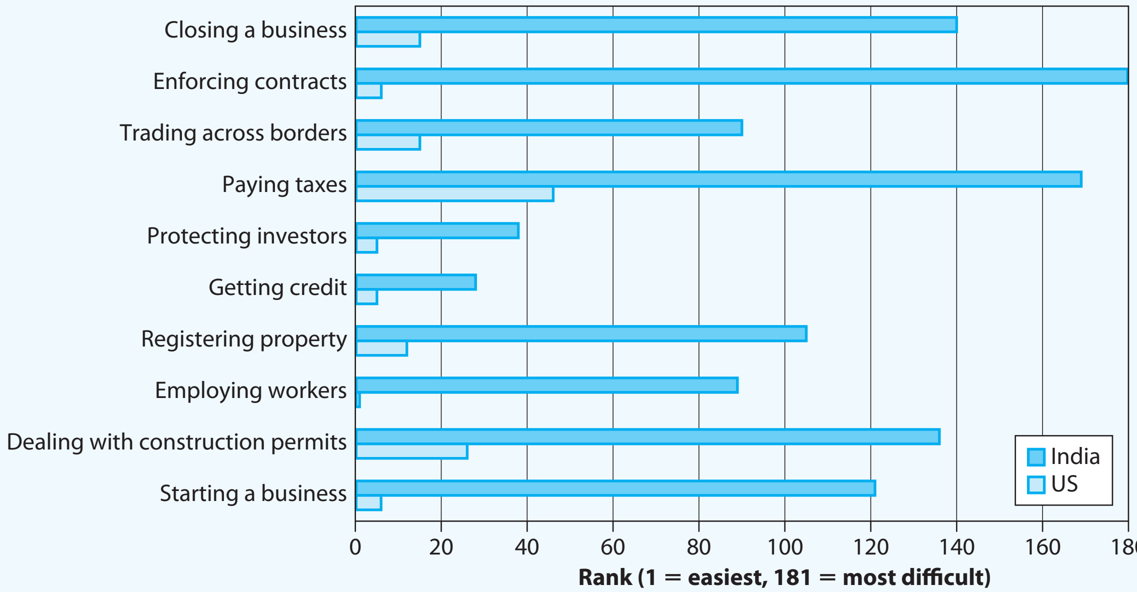
And Indian companies have become international acquirers, able to compete with the best of enterprises and operating well beyond the boundaries of India. Tata Steel purchased the Anglo-Dutch Corus Steel in 2007 for $13.2 billion, and aluminum producer Hindalco bought the Canadian aluminum maker Novelis (with executive offices in Atlanta, Georgia) the same year for $6 billion (Economist.com, 2007). In collaboration with Steven Spielberg's Dreamworks, Reliance Entertainment in 2008 invested $1.2 billion in a new U.S. film company (Schuker, 2008), and Tata Motors acquired the marquee auto brands Jaguar and Land Rover from the American Ford Motor Company in 2008 for $2.3 billion (Spector & Bellman, 2008). When Indian companies took over publicly traded American firms, the acquired firms increased both their efficiency and profitability (Chari, Chen, & Dominguez, 2009). And Indian executives are increasingly on the short lists of corporate recruiters seeking talent for Western companies (Yee, 2007).

India shares a great many traits with the United States—including democratic principles and the associated arrangements of civil society such as a free press, a strong and independent judiciary, a highly diverse population, and open capital and labor markets—and Indian business leaders are well aware of the U.S. and other Western models. But they have blazed their own path in the area of business. For example, India was largely able to sidestep the 2007 financial crisis that brought most Western economies to their knees. Though rooted in the traditions and times of the subcontinent, the value of their distinctive path can, we believe, transcend the milieu from which it arose and offer lessons for companies elsewhere.

Our two-year study of Indian business involved interviews with the leaders of the 100 largest companies in India

FIGURE 1

Rank of the Challenges of Doing Business in India and the U.S., 2008



Source: *World Bank Group (2009).*

as well as other data from them.[1] We reached our conclusions about the attributes of the Indian approach through an inductive process that was aided by comparisons with U.S. practices and the extensive experience each author has with different aspects of management in the United States. "The India way," as we see it, is characterized by and distinct from the U.S. business model in four fundamental ways (see also, Spencer, Rajah, Mohan, & Lahiri, 2008).

First, Indian companies see their most important goal as serving a social mission, not maximizing shareholder value, as is the case in the United States. An advantage of this approach for corporate performance is that it greatly enhances the ability to motivate and engage employees. As earlier work in job design established and more recent studies in positive psychology affirm, seeing meaning in work is a powerful motivator.

Second, Indian companies take the management of human capital seriously. They invest in the capabilities of their employees, promote internally rather than relying on outside hiring, and engage employees with empowerment and similar arrangements. An indication of the fact that they take these issues seriously is that they measure and manage almost every aspect of human resource practices and effectiveness carefully, more so than U.S. firms do.

Third, the persistence of engaged employees contributes to a uniquely Indian approach to problem solving that we describe with the Hindi term *jugaad,* banging away at hard problems with a trial-and-error approach that is deeply rooted in a culture of scarcity and constraints.

[1]Our project began with the National Human Resource Development Network, arguably the most influential business group in India. The network arranged interviews with the leaders of India's largest publicly listed companies by market capitalization. We conducted structured interviews with 105 leaders from 98 companies. Relatively few of these companies use the CEO model. At 71 of them, the top executive is called the "managing director." Leadership is shared at seven of them, so there we interviewed two leaders. We asked what qualities these executives saw as most vital to their success, how they worked with their boards, and where they perceived convergence and divergence with Western practices. We asked how they recruited talent and managed teams, and what legacies they hoped to leave behind. We also gathered survey data from the heads of HR at these companies. We compared the responses to those in a series of surveys of U.S. CEOs and HR executives. The most important data on U.S. CEOs come from a New York Stock Exchange survey, and most of the comparative data on HR practices come from surveys conducted by the Society for Human Resources Management. We supplemented these data with information from previous studies and descriptive information and case studies about the practices in these companies.

Fourth, these practices come together to create a unique approach to business strategy, one that is internal and rests on innovations in the companies' value chains. They are much less interested in acquiring competencies through mergers and acquisitions, joint ventures, or other externally oriented approaches as compared to U.S. firms. And they are much more likely to stick with traditional customers and search for better ways to meet their long-term needs, as opposed to relying on market research to find new opportunities.

We next delve deeper into each of these four aspects of the "India Way."

Social Mission Trumps Shareholder Value

Chief executives in publicly held American companies are expected to say that maximizing shareholder value is their most important priority. Indeed, everything they do is justified against that goal. When we asked Indian business leaders to rank their priorities (see list below), they placed maximizing shareholder value fourth, below the interests of employees. We also asked the top human resource executives in the same companies to answer the same question about their chief executives' priorities, and their ranking was virtually identical. No Indian business leaders in our conversations placed shareholder value as the top company priority or advanced the view that investors were the most important stakeholder, which is notable given that many executives were major holders of their company shares, and in some cases their companies are listed on U.S. stock exchanges.

Indian Business Leader Priorities

1. Chief input for business strategy
2. Keeper of organizational culture
3. Guide or teacher for employees
4. Representative of owner and investor interests
5. Representative of other stakeholders (e.g., employees and the community)
6. Civic leadership within the business community
7. Civic leadership outside the business community

Rank *ordering from the top executives of 98 companies.*

Corporate Governance

The single most distinctive feature of corporate governance across the Indian companies we studied was the determination to balance the interests of the firm's diverse stakeholders, all the groups that have a claim on what the company does. What was especially striking was the emphasis on the interests of the broader community, which extended from the immediate vicinity of the business out to encompass the entire nation (Singh, 2009), reminiscent of the pre-1980s stakeholder models from the United States.

Corporate governance in India differs substantially from that of the United States in the ownership structure of its firms, with many firms operating under the umbrella of business groups and a significant number of infrastructure firms owned by the government (Chakrabarti, Megginson, & Yadav, 2008). The firms we examined were publicly traded, but the ownership of many remained concentrated in the promoter family's holdings. The priority of interests noted in the list above did not vary noticeably with the ownership structure of the companies, however.

This is not to say that there are no problems with governance in Indian firms. The rights of minority shareholders have been a special concern, for example, in companies where concentrated majority ownership and holding company structures create incentives to shift assets inappropriately across companies, a process known as "tunneling" (Bertrand et al., 2002; Sarkar & Sarkar, 2000). Board structure also varies across companies (Tuteja, 2006), and larger boards in particular have been associated with lower performance (Ghosh, 2006). The independence of Indian boards has been questioned, but board quality rather than independence per se seems to be most correlated with corporate performance (Sarkar, Sarkar, & Sen, 2008).

No matter the ownership or board structure, Indian executives generally placed less weight on the board's monitoring function than was common in the West, at least in part because Indian firms and their directors faced a less active market for corporate control than did their U.S. counterparts (Morck & Steier, 2005; Reed & Mukherjee, 2004). Indian boards as a rule monitor finances less than American ones because financial performance is less a concern for these corporations. As B. Muthuraman, the managing director of Tata Steel, explained, "The Tata Group is less rules-based and more values-based. We have always believed you really cannot frame rules for corporate governance."[2] Nonexecutive directors in Indian boardrooms take more of a strategic partnership role with company executives, working with management to create and market new products and services, and comparatively less of a shareholder monitoring or rules-based role, as one would see with the American approach. Protecting shareholder value is not ignored, but Indian directors incorporate the concerns of a range of constituencies—just as Indian executives do—in reaching board decisions in partnership with management.

Mission-Driven

Central to the distinctiveness of the Indian model is the sense of mission, a social goal for the business that goes beyond making money and helps employees see a purpose in their work. Every company we saw articulated a clear social

[2] All quotes in the article unless indicated otherwise are from interviews with the authors. Details about the interviews are outlined in Appendix B of *The India Way.*

mission for their business. ITC, a leading conglomerate, echoed the views of the companies we interviewed in this statement describing the company's purpose: "Envisioning a larger societal purpose has always been a hallmark of ITC. The company sees no conflict between the twin goals of shareholder value enhancement and societal value creation" (ITC, 2010, p. 1).

U.S. companies talk about doing good in their communities, and many do. The difference is that Indian companies describe their social mission publicly as *the* purpose of the business, not just a separate act of charity. Typically, that sense of mission extends to helping India and its citizens. In that sense, they act quite differently from standard notions of corporate social responsibility as self-regulation and a concern about doing good while making money (see Williams and Aguilera, 2008, for a comparative discussion of corporate social responsibility). The social mission for Bharti Airtel, for example, was to get cell phones into the hands of the hundreds of millions of people in India who otherwise had no way to communicate with each other; the Tata Nano story had a similar goal with respect to providing low-cost transportation (see below). The social mission of the pharmaceutical and healthcare company Dr. Reddy's Labs is to address the unmet medical needs of the poor in India as well as around the world. Hindustan Unilever's Project Shakti uses microfinance principles to create a sales force in the poorest regions of the country. Some of these approaches build on the "fortune at the bottom of the pyramid" approach, which emphasizes business opportunities among the poor (Prahalad, 2004). But making money is never presented as the primary objective.

These companies also put their money where their mouth is with respect to mission. Two thirds of the profits of the Tata Group companies, for example, go to its charitable foundations and then back into Indian society. The Godrej Group has constructed schools, medical clinics, and living facilities for employees on a massive scale unknown among American companies, where directors and executives are far more likely to see employee welfare as a drag on shareholder value than an asset for company growth. Dr. Reddy's Labs guaranteed to meet the healthcare needs of 40,000 children. Infosys has built and staffed entire hospitals, rolled out a nationwide curriculum for school-age students in part to improve its future applicant pool, and engaged in hundreds of other projects, all in the same year. ITC developed a rural initiative, Mission Sunehra Kal (the Golden Tomorrow), that includes knowledge portals to advise farmers, help for them to band together to negotiate with suppliers, job opportunities for women, and expansion of education, involving five million people (Lakshman, 2009). Virtually every major company has similar efforts under way. The focus on mission cuts across companies that are family or "promoter" controlled, companies that operate in international markets and every other dimension we examined. No doubt the social needs are greater in India than in most other countries, but the efforts of these companies to address them are nevertheless there for all to see.

The Motivation for Mission

The priority and value placed in India on service to others and the widely held belief that one's goal in life should extend beyond oneself, especially beyond one's material needs, is no doubt part of the driver for the sense of mission. The third of the four stages of Hindu life, the *vanaprastha ashrama*, focuses on the search for meaning, helping others, and a gradual withdrawal from the competitive business world, and it neatly coincides with the typical age (over 50) of senior business leaders. It is worth noting, however, that the concern about mission extends to companies run by non-Hindus as well. In comparative research on leadership, the Indian region scored the highest of any area in desiring leaders who were humane, compassionate, and generous (Javidan, Dorfman, De Luque, & House, 2006). That preference fit nicely with the aspect of national culture manifesting service to others as a source of motivation.

And some part of explanation for the mission fits this altruistic norm. Mallika Srinivasan, director of Tractors and Farm Equipment, told us that almost everywhere companies operate in India they are encircled by throngs of destitute people, needs are stark, and government intervention is inadequate. Like many other big companies, Tractors and Farm Equipment maintains a first-world, campus-like facility within sight of third-world slums. "Corporate social responsibility and good governance are related to the state of the development of the country," Srinivasan told us. "We are all seeing these islands of prosperity surrounded by so much poverty." Echoing a sentiment we heard from many executives, Srinivasan explained that her company feels duty bound to step forward. Some of the social engagement is also driven by necessity. The rapid growth of the Indian market and the inadequate scale of health and education systems have forced companies to develop healthcare and classes for their own talent.

But social investment pays off for these companies as well. For B. Muthuraman, the managing director of Tata Steel, efforts to aid the broader community create a reputational asset. "Our history in corporate social responsibility," he acknowledged, "has enhanced the group brand." That has proved invaluable for recruiting and retaining employees at Tata Steel. A recent study of employee turnover in India found, for example, that the perception of a company's social responsibility is one of the main factors in retaining talent (Grant, E., 2008). Acting responsibly may also pay off especially in dealing with regulators: Obtaining industrial licenses and environmental clearance in India can depend on being known for public responsibility.

Mission as a business goal also affects relationships with customers. Individuals have long memories, and doing good things for people when they have no money and are not customers can redound to a company's advantage when those individuals do have money and are in the market for your products. We also know that consumers care about the values of the companies with which they do business—witness the current rush of companies touting their "green" environmental practices. At least some substantial share of customers would rather do business with companies that do good things for the community (Lev, Petrovits, & Radhakrishnan, 2010). R. Gopalakrishnan, executive director of Tata Sons, said that he believed the Tata Group was *loved* by the people in India, not just by their employees, for the contributions their companies have made to Indian society. How many companies anywhere could make that claim?

Most important, using a social mission is a powerful way to motivate employees. We know from the original work on job design that the connection individuals see between the tasks they perform and the overall product or outcome of the organization is an important source of positive employee outcomes (Hackman & Oldham, 1975). More recent work shows that the effects of task significance on job performance are much more powerful when they contribute to helping others, and social impact more generally can lead to performance outcomes that are orders of magnitude greater (Grant, A. M., 2008). The focus on helping fellow Indians as the social mission makes this connection between the work one does and helping others very clear. There is every reason to believe it leads to the same increases in performance in these companies as research studies have documented elsewhere.

Social Mission Versus the U.S. Model

Contrast this Indian model, where a company's business goal is seen as bettering society, with the U.S. model, where we try to motivate employees around the corporate goal of making shareholders rich. The U.S. approach is at a sizable disadvantage because it is difficult for most people to see making money for shareholders as a goal that is personally meaningful. While it is possible to tie pay to shareholder value, it is extremely expensive to pay the average employee enough in share-based incentives to get him or her to focus on shareholder value.

The overwhelming focus on creating shareholder value in the United States has led executives to concentrate on the interests of their own enterprise and devote less attention to the welfare of the community or society. This could be seen in the recent U.S. financial crisis, where virtually no executives were willing to take measures beyond their own company's self-interest that might have helped avert the 2007 financial meltdown and subsequent recession. When Bear Stearns neared collapse in March 2008, one bank acquired the firm at the behest of the U.S. Treasury to avoid broader disruption to the economy, but when Lehman was on the verge of bankruptcy in September of the same year, no banks stepped forward to help resolve a far bigger threat to the system. With narrow self-interest prevailing, Lehman failed, the stock market plunged, financial institutions such as AIG and Merrill Lynch buckled, the economy went into reverse, and unemployment soared around the world (Paulson, 2010; Sorkin, 2009). Shareholder capitalism had predictably led most bankers to focus entirely on their own immediate welfare, even at a moment when their common interest would have pointed to collective intervention. The fact that Bill Gates and Warren Buffet stand out so prominently for their interest in improving society is because so few other American business leaders have comparably stood forward. Indian executives, by contrast, are willing not only to articulate societal interests but to act on them.

The focus on mission may also relate to differences in leadership style. We used the most widely used assessment of leadership in the United States, the Multifactor Leadership Questionnaire (MLQ), to examine the leadership styles of these Indian leaders (Antonakis, Avolio, & Sivasubramaniam, 2003; Bass & Avolio, 2004). We asked the heads of human resources at the companies whose executives we interviewed to assess the leadership style of their top bosses. Not surprisingly given the picture of Indian business leadership already described—actively engaged in building mission-driven organizations—the executives scored low on passive and avoidance practices. Nor were we surprised to see that Indian business leaders ranked highest in practices that fall generally under "transformational style": inspirational motivation, idealized influence, intellectual stimulation, and individual consideration. On the transactional side, Indian leaders, like their American counterparts, are quick to use contingent rewards—that is, rewards based on performance—but less prone to manage by exception or look for mistakes.

When we compared these results with those from a sample of 48 chief executives of U.S. Fortune 500 companies, however, we found that the American leaders were significantly more likely to use "transactional leadership" styles that tie performance to rewards than were our Indian executives. Comparisons with a different study of 56 American chief executives also suggested that Indian executives create a significantly greater sense of empowerment among employees, scoring higher, for instance, on the "intellectual stimulation" category (Waldman, Ramirez, House, & Puranam, 2001).

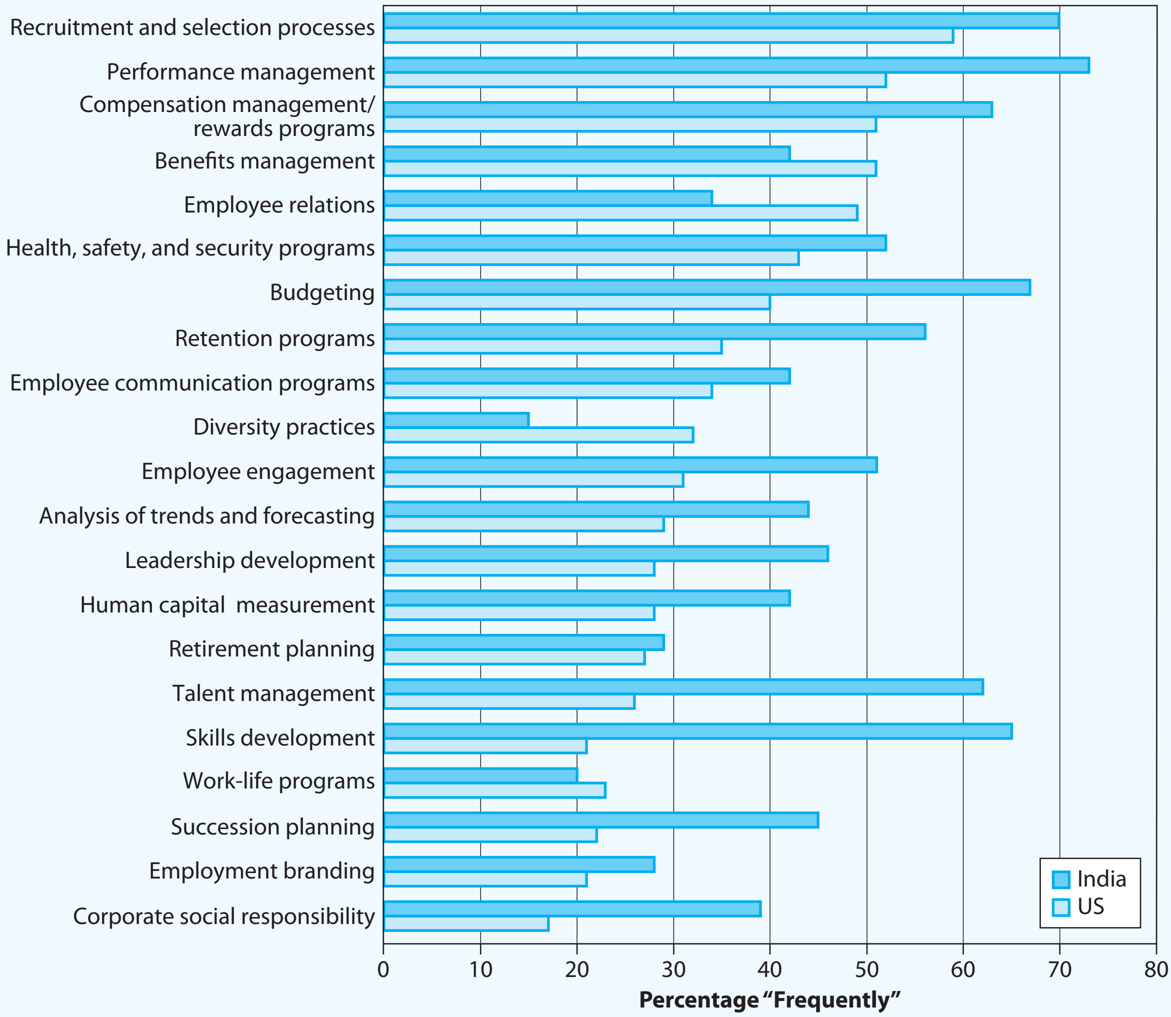
Taking Human Capital Seriously

Beyond the sense of mission lies the actual management of employees. Indian companies, we found, built employee commitment by creating a sense of reciprocity with the workforce, looking after their interests and those of their families and implicitly asking employees to look after the firm's interests in return. To translate commitment into action, the business leaders went to extraordinary lengths to empower employees in a way that often conflicted with historical and cultural norms, giving them the freedom to plunge into problems they encountered and create their own solutions. Then they devoted a great deal of executive attention and resources to the practices that support this approach, such as finding the right people to hire, developing them internally, and improving morale. Business leaders directed their attention to building organizational culture, their number-two priority, which shows employees how to behave, and to demonstrating the connection between employee competencies and business strategies.

Figure 2 compares the results of our survey of these top 100 Indian companies concerning their human resource practices to a similar survey of U.S. companies. The Indian firms were more likely to measure and track all human resource outcomes than were U.S. firms. Given that it is difficult to manage and take seriously issues that are not measured, these results are consistent with the notion that HR functions in India were at least taken more seriously and are arguably more sophisticated than those in the United States. Companies in the U.S. clearly know how to track these outcomes. They just choose not to.

FIGURE 2

Company Use of Human Resource Metrics



Source: *Survey of Indian companies, and Society for Human Resource Management, 2006.*

The biggest differences in measurement had to do with investments in the development of employees: 62% of the Indian firms frequently tracked progress in overall talent management, compared with only 26% in the U.S.; 65% frequently measured the development of skills of employees, versus only 21% in the U.S.; 45% frequently tracked the ability to promote from within through succession, versus 21% in the U.S.; and 46% frequently used metrics to assess the development of leaders, versus 28% in the U.S. Despite high turnover in the red-hot Indian labor market, these leading firms seem dedicated to policies of promotion from within (SHRM India, 2008).

Training

They are also investing heavily in their employees, especially their new hires. One study of practices in India found that the IT industry provides new hires with more than 60 days of formal training—about 12 weeks of classroom training, a massive investment given that employees are paid during that time. Some companies do even more: Tata Consultancy Services, for example, has a seven-month training program for science graduates being converted into business consultant roles, and everyone in the company gets 14 days of formal training each year. MindTree Consulting, another IT company, combines classroom training, mentoring, and peer-based learning communities. Even relatively low-skill industries such as business process outsourcing and call centers provide something like 30 days of training, and retail companies require about 20 days (Wadhwa, de Vitton, & Gereffi, 2008).

New recruits for clerks and other front-line jobs at Pantaloon, a leading retailer, receive six weeks of training, including five and a half days in residence at a company training center followed by five weeks of on-the-job training directed by local store managers. Kishore Biyani, Pantaloon's chief executive, explains that much of their training goes beyond practical job skills: "We run a program in the organization which everyone has to go through, called 'design management,' which basically trains people to use both sides of the brain," both "the visual and aesthetic side and the logical-rational." After that, store staff receive a week of new training each year (Wadhwa et al., 2008). Training is one way the company develops a shopping experience more suited to customers. Even experienced hires get training. Dr. Reddy's Laboratories puts all its outside hires, including those with substantial experience, through a *one-year* training program that includes ten weeks of assignments abroad as well as a culminating cross-functional project presented to the top executives. Again, these investments occur in the context of tight labor markets and high turnover, factors that are often used to explain the lack of training in the U.S.

Systematic data on training among U.S. companies is hard to come by, but the available statistics suggest that 23% of new hires received no training of any kind from their employer in the first two years of employment, while the average amount of training received for new hires—those with two years or less of tenure—was about 24 hours per year in those first two years (U.S. Bureau of Labor Statistics, 1995).

Employee Appreciation

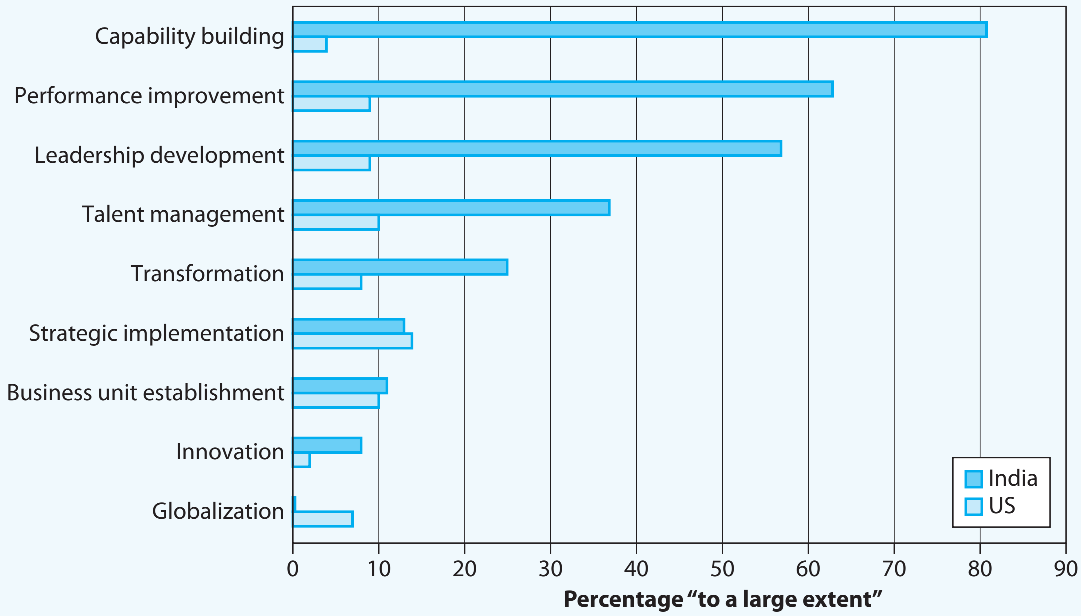
A different measure of the priority that India Way companies place on their employees comes from what they tell shareholders and the broader community about their operations. An interesting study of the annual reports in the Indian information technology industry found that the most common mention of any human resource issue—so common, in fact, that it happened on average more than once in each report—was to thank employees for their contributions. The second most common HR mention was to highlight individual employees, typically for their special contributions or sometimes for their life experiences. That was followed in frequency by mentions of employee capabilities and efforts to train and develop employees. And the fourth most common mention was to discuss contributions employees were making to the broader community, outside of their work tasks (Murthy & Abey-sekera, 2007). By contrast, the annual reports of the leading U.S. information-technology companies contained nary a mention of the employees. This is the case for the 2007 annual reports for the five biggest IT employers in the U.S.: IBM, HP, Microsoft, Oracle, and Cisco. The closest statement to the India model is a reasonably generic sentence in Cisco's shareholder letter that says, "While we're proud of the financial results we delivered," we "are also very proud of our people, our culture, and the way Cisco operates as a company" (Chambers, 2007). (See Appendix A for a brief discussion of how Infosys trains its new recruits.)

The reason Indian companies invest in their employees is that they see employees as key to building the organizational capabilities that drive competitiveness. Four of five of the top Indian human resource executives reported that building capabilities for the organization was an important purpose for employee learning. A meager 4% of their American counterparts in training and learning roles said the same thing (see Figure 3). In fact, capability building ranked next to the bottom on the list of U.S. outcomes, a stunning difference. In general, the American executives rarely saw learning as serving strategic-level goals for the organization. The outcome American executives reported most frequently as the purpose of employee learning was to better execute existing strategies: "Learning" seemed more like training, designed to improve performance on existing tasks. Even then it was embraced by only 14% of respondents.

Much like Japanese companies, the Indian corporations also take pains to protect those investments in employees. Keshub Mahindra, chairman of the Mahindra Group, told us that they contemplated laying off workers in the recent downturn but decided against it in large measure because they knew that for every employee laid off, there were five family members who would suffer alongside. They could

FIGURE 3

How the Learning Function Provides Strategic Value to the Organization



Source: *Survey of Indian Companies, and American Society for Training and Development, 2006.*

not in good conscience do this to their loyal employees. So they put their otherwise redundant employees to work in the company gardens. With some satisfaction, he added that the company now has some of the finest gardens in India!

Employee Empowerment and Transparency

Having motivated and skilled employees might not matter if they were not given the opportunity to use those skills. The software company Mind-Tree has adopted a host of innovative methods for fostering ideas and execution, beginning with an entire menu of ways for the employees to give feedback to executives. Among the arrangements: monthly updates called Snapshots that describe the competitive environment and the state of the company; All Minds Meet, a regular open house with the company's leadership where all questions are tackled on the spot; People Net intranet, where grievances are addressed; and Petals, a blogging site (MindTree, 2010b). But the most unusual aspect of the MindTree approach, both in transparency and role modeling, can be found in the company's integrity policy. MindTree posts on its Web site accounts of ethical failures and violations of company policies, and the lessons the firm has learned from each (MindTree, 2010a).

The idea is that by acknowledging mistakes, especially those made by leaders, the company encourages others to admit theirs and to follow its lead in making changes.

The high-water mark for a culture of openness and flat hierarchy probably goes to the Sasken Corporation, which Rajiv Mody started in Silicon Valley and moved back to his home in Bangalore in 1991. The company's "single-status" policy means that all employees, from entry-level to Mody himself, are treated identically—same offices, same travel policies (coach class), same criteria for compensation (no separate executive compensation policies). While the company is known for being cheap in the area of compensation, it is otherwise extremely employee-friendly, with policies that include extensive programs for leaves, including a six-week sabbatical after four years of employment (Express Computer, 2007).

As an example of empowerment, Vineet Nayar, the CEO of HCL Technologies, has become well-known for his motto of "employee first, customer second." The point, Nayar said, is that "if you are willing to be accountable to your employees, then the way the employee behaves with the customer is with a high degree of ownership." At HCL, Nayar contended, "command and control" is giving way to "collaborative management." To that end, he has pushed for ever "smaller units of decision makers for faster speed and higher accuracy in decisions" to provide HCL's customers with more timely and customized service.

To make this happen, he spends as much as half his time in town hall meetings with the company's employees, communicating this vision for the company and managing the corporate culture. He makes it a personal goal to shake the hand of every employee every year, and when asked what he would like to be his greatest legacy to the company in five years, Nayar responded without missing a beat: "They would say that I have destroyed the office of the CEO." Pressed to explain, he said he sought so much "transparency" and "empowerment" in the company that "decisions would be made at the points where the decisions should be made"—that is, where the company meets the client. The "organization would be inverted, where the top is accountable to the bottom, and therefore the CEO's office will become irrelevant." His public blogs on the company website include a 2008 post titled "Destroying the office of the CEO" (Nayar, 2008).

HCL seeks to invert the organizational pyramid by making, as Vineet Nayar told us, "our managers accountable to our employees." One tactic for doing so is to encourage employees to submit electronic "tickets" on what needs to be changed or fixed, even the very personal, which have ranged from "I have a problem with my bonus" to "my boss sucks." An even more unusual tactic is to require 360-degree feedback reports on the 1,500 most senior company managers worldwide, including the chief executive himself. Employees have the option of evaluating not just their boss but also their boss's boss and three other managers. And the 360-degree feedback, including Nayar's own, is posted on an intranet site within several weeks for all employees to see—all of it, the good and the bad. As he told us, "our competitive differentiation should be the fact that we are more transparent than anybody else in our industry and therefore the customer likes us because of transparency; employees like us because there are no hidden secrets. So we built transparency." The idea of performance improvement has become more broadly acceptable, and the heightened personal transparency at the top serves to reduce the sense of vertical separation (Som, 2006).

Jugaad and Adaptability

The Hindi term *jugaad* describes the ability to improvise and find a way around problems, often using trial and error methods. The unique cultural context of learning to work in a tough, resource-constrained country where the ability to make do and improvise with what little was available created the necessity for *jugaad*. Keeping old equipment running with improvised spare parts is the classic example. In these modern corporations, though, the *jugaad* phenomenon plays out through motivated and committed employees hammering away at tough problems, persisting until they find creative solutions and workarounds. What makes them willing to do that? Again, having a sense of mission and social goal for the organization helps employees see a purpose in their work that goes beyond their immediate self-interest, beyond the achievements of the firm and its owners. And empowerment provides the opportunity to make use of that motivation. When we combine *jugaad* with the unique Indian approach to strategy, we get a sense of how these firms are competing and winning on the international stage.

Creative adaptation, not weary resignation, is central to the Indian approach to management. Vijay Mahajan, chief executive of Basix, a micro-finance organization, argued for many in offering his explanation of the power of *jugaad,* an ability "to manage somehow, in spite of lack of resources." It constitutes a cornerstone of Indian enterprise, in his view, and the "spirit *of jugaad* has enabled the Indian businessman to survive and get by" in an economy that was until the late 1990s oppressed by controls and stymied by a lack of widespread purchasing power.

The English word *adjust* is also spoken in various local accents in India. It is used in a wide range of situations, usually with a plaintive smile. One can use it in a crowded bus, where three people are already seated on a seat for two, requesting them to "adjust" to accommodate a fourth person. Or, it is used by businessmen when they meet government officials, seeking to "adjust" various regulations, obviously for a consideration, to speed up the myriad permissions still required to do anything in India.

Doing More With Less, Strategically

Consider also the better known example of the Tata Nano, the pint-sized car built by Tata Motors, India's largest maker of automobiles and trucks. Conventional market strategy would have suggested staying away from the low end of the market, where Japanese quality and prices dominated. But realizing that India's mass market hungered for even lower cost transportation, Tata set out to engineer an automobile whose price would not just be marginally lower than the lowest end existing products but radically lower, 75% below the cheapest competitor. Here as well, the business goal involved a social mission: creating transportation for the poorest consumers. Meeting this extraordinary challenge for its traditional customers required an extensive application of *jugaad.*

Tata Motors knew that it would have to do the engineering largely on its own, without the benefit of the research and development that one might find in universities and government laboratories in other countries. It also knew that the Nano would have to be developed on a shorter cycle. "We can't have 48 or 36 months to bring out the new products," said Tata Motors executive director for finance Praveen Kadle; now it's just 24 or 18 months. With all that in mind, Tata Motors swiftly designed the Nano from a clean sheet of paper to meet what appeared to be an impossibly low price point: 100,000 rupees per car, about $2,500 at the time. That figure was not generated by market research. It came about as an off-the-cuff estimate by Ratan Tata, which generated huge attention, and so he decided to make it the target price point (ICFAI, 2008). Presented as the world's most inexpensive car when unveiled in January 2008, its sticker price was to be on par with the cost of a DVD-player option in luxury Western autos (Kurczewski, 2009). It achieved this price point not through technological innovation but by a completely new approach that closely resembles the *jugaad* concept: deep frugality, a willingness to challenge conventional wisdom, and a single-minded determination by Tata's top managers to work through the many constraints and challenges of operating in the Indian environment. They designed everything in the Nano from scratch, and they deleted features that were taken for granted by other carmakers, including air conditioning, power brakes, and radios.

The long-run plan for the Nano also includes an important innovation in the value chain: Kits of components are to be sold en masse for assembly and distribution by local entrepreneurs. Ratan Tata talked about "creating entrepreneurs across the country that would produce the car …, my idea of dispersing wealth" (Surender & Bose, 2008, p. 1). Tata even anticipated providing the tools for local mechanics to assemble the car in existing auto shops or new garages created to cater to rural customers. Termed "open distribution innovation" by *Business Week,* the method could create not only the world's least expensive automobile but also its largest selling one. "Tata Motors has built up a position," said Gopalakrishnan, "where international car companies are not able to compete with us." And that, in essence, is a large part of what the India Way is all about: a strategy of focusing the energy and attention of company managers on the hard and persistent needs of their customers, achieving outcomes that break through traditional standards of products and services.

The hospital group Narayana Hrudayalaya offers a similar story of *jugaad* and strategy. It was founded by Devi Shetty to help the thousands of Indian children who need cardiac surgery and cannot afford it. The group discovered that the only way to provide quality operations cheap enough for the masses to afford (a challenge yet to be mastered in the West) was to standardize and effectively automate them. So it set about learning to perform them at scale, changing the way surgery is performed. It now performs more than twice as many cardiac surgeries as the biggest U.S. hospital, with outcomes as good and at about one-tenth the cost as the best U.S. provider. Its profit margins are slightly above those of its U.S. peers, and it is now planning hospitals outside India, including one not far from Miami, Florida (Narayana Hrudayalaya Hospitals, 2010).

ICICI Bank did something similar for rural banking. Whereas a typical savings account in the West might be $10,000, a typical one in urban India was apt to be no more than $1,000, and in rural India only a tenth of that. That meant operating expenses had to be pared down proportionately: Urban banking in India had to be conducted at one-tenth the cost of banking in the West, and rural banking at one-hundredth. "We need to be able to conceptualize how to deliver value to this market at an extremely low cost," ICICI chief executive K.V. Kamath said. "That's where the challenge is, as well as the opportunity and the excitement." A scaled-down urban branch model was still prohibitively expensive for rural banking, so Kamath and his team turned to alternative, far less costly avenues for reaching the poor, ranging from nonprofit microfinance groups to using local fertilizer distributors as agents.

Strategy From Within

None of the Indian business leaders we interviewed claimed that his company succeeded based on his own cleverness or even on the efforts of a top team. Almost without exception, Indian business leaders—and the industry analysts and business journalists who follow their companies—described the source of comparative advantage as coming from deep inside the company, from motivated employees, new and better ideas, and superior execution. And these outcomes, in turn, were traced to the positive attitudes and behaviors of employees. The obvious conclusion: Strategy in these companies comes from internal capabilities. The source of the distinctiveness of the India Way and the ability to focus the business on solving hard problems rests heavily on the management of people: They invest in them, use social mission to create motivation, empower them, and tap into the cultural aspect of *jugaad* to hammer away at hard problems until they break through.

As noted earlier, our interviewees saw being the "chief input to strategy" as their most important task. Strategy is often seen as a staff function in U.S. companies, and in that sense the fact that the number-one priority for the Indian CEOs was to be the main input into strategy may seem like a puzzle. But it makes perfect sense given that the sources of strategy among the Indian corporations we examined are deeply rooted within the firms, supported by a set of attributes such as organizational culture and practices around managing people that help drive their strategies. Building strategy means building these capabilities and stressing alignment within the organization, ensuring that many separate practices are consistent with one another and mutually reinforcing. In this context, being the "chief input into the strategy process" means that the CEOs monitor and maintain the infrastructure of their organizations, the firms' architecture and culture and systems for investing in and engaging their employees.

While most mainstream U.S. corporations are organized into strategic business units each responsible for its own strategy, in these Indian firms, the leaders own a significant part of the strategy function for the entire company, setting the agenda and taking a visible role in the strategies developed in various units. The focus for them is less on the analytics behind the strategies and more on creating the context: designing the incentive structures, managing the organizational culture, and in turn, shaping the strategies that managers then develop. Their view of strategy is therefore as a set of enduring principles, an approach to business that they can encode into the firms' responses to market opportunities. This approach to strategy allows for improvisation and flexibility in unit-level practices while incorporating interventions and inputs from the CEOs into the strategies of various businesses.

Other differences related to strategy concern the identification of opportunities in the market. U.S. companies are inclined to begin the strategy process with market research to identify new customers and opportunities that offer superior profit opportunities. The India Way companies, in contrast, are much more likely to stick with their traditional customers and take on the long-term, persistent challenges those customers face. Table 1 shows comparative data on how these top executives in India and their U.S. counterparts have changed their allocation of time in recent years, an indication of priorities. Indian leaders saw the biggest increases in strategy and in customer relationships. Customer relationships were the area of largest net decline for U.S. CEOs, and their increased focus was all on factors outside the firm. Indian leaders report the biggest declines in their time in the area of day-to-day management, giving more autonomy to lower management. (Careful readers will see that leaders in both countries paradoxically report they were devoting more time to just about every priority in the past three years.)

An even more telling discrepancy emerged in a 2007 Conference Board survey of chief executives worldwide. When asked to identify their most critical challenges from among several dozen, American executives ranked "consistent execution of strategy" considerably above "speed, flexibility, [and] adaptability to change" (Baranowska, 2007). Their Indian counterparts reversed the ranking. For them, speed, flexibility, and adaptability were at the heart of strategy and the greater priority.

We also asked Indian business leaders to identify the capacities that have been most critical to the leadership of the firm over the past five years. They placed their greatest stress on four capacities: visioning, architecture and culture of the firm, personal qualities, and human resource issues. This is consistent with the notion that developing enduring capabilities is the key to success.

Strategy in the Indian context, then, is about the CEO's involvement in setting the core business principles by which the firm or business group will compete in the marketplace. CEOs recognized the need for capability development as the market opened up postreform. Beyond setting the architecture of the firm, CEOs provide input into strategies developed in the units reporting to them to a far greater extent than we see in U.S. corporations, making sure those strategies remain consistent with the core business principles. Adaptation, improvisation *(jugaad),* and doing more with less characterize key elements of strategy. The Tata Nano example and others above illustrate this adaptability and creative extension and utilization of resources. There is always the risk that quality could be compromised in this search for ever more creative ways of competing. But a theme present

Table 1

How Indian and American Business Leaders Have Changed Their Allocation of Time Over the Past Three Years

	U.S.		India	
Leadership Tasks	**% More Time**	**% Less Time**	**% More Time**	**% Less Time**
1. Regulatory/compliance issues	**98**	2	41	24
2. Reporting to the board	**72**	1	41	17
3. Shareholder relations	**58**	4	41	31
4. Setting strategy	47	9	**93**	0
5. Media relations	31	11	31	17
6. Day-to-day management	28	27	24	**55**
7. Fostering workplace diversity	26	13	21	41
8. Customer relations	22	27	**62**	7

(Items in bold: More than half of the executives affirmed)

Source: *U.S. figures from N.Y. Stock Exchange (2006) survey. Omitted column is "no change."*

throughout is an emphasis on capability development and on resilience in a rapidly changing environment.

The process of driving strategy through core principles, especially social mission, also helps these companies find opportunities where no one else was looking. Hindustan Unilever's (HUL) development of a system for selling products through rural self-help groups illustrates how new structures made it possible to address a new market. HUL challenged head-on the assumption that standardized consumer products could not be sold to lower income consumers. Although a subsidiary of a multinational consumer products company, HUL was also very much an Indian company with many products unique to India. That helped it to look past Western business models that use standard marketing and supply-chain practices.

A persistent and previously unsolved problem for retail in India is that the rural market is scattered in some *600,000* villages, more than half of which were not effectively connected to urban centers by electronic media, newspapers, and rail. Project Shakti (meaning strength or empowerment), launched in 2000, was designed to address this gap. With rising competition from Procter and Gamble and local competitors in traditional markets, HUL realized that opening new markets was a way to create new opportunities. The project aimed at the most remote and lowest income consumers to extend the firm's reach beyond traditional marketing channels. They reached the new market through women's self-help groups. These groups, set up by nongovernmental organizations, typically comprise 10 to 15 women from a single village. They operate as mutual thrift societies, combining small amounts of cash toward a common pool. Microcredit agencies then lend additional funds to finance approved microcommercial initiatives.

Shakti entrepreneurs borrow money from their self-help groups, apply it to the purchase of HUL products, and then resell them to their neighbors. As most of the women in the self-help groups have no prior sales or business experience, HUL hires rural-sales promoters to coach the nascent entrepreneurs. The self-help-group entrepreneurs work as social influencers, increasing local awareness and changing attitudes toward usage of various products, mostly those targeted at women. At the same time, Shakti creates jobs for the rural women. HUL has extended Shakti to 15 states, and by the end of 2010, the company plans to have more than 100,000 Shakti entrepreneurs covering 500,000 villages.

Roots of the India Way: Can It Translate?

Is the India Way so unique to the Indian context that it cannot apply elsewhere? It has aspects that are consistent with traditional Indian culture, especially Hindi culture, such as obligations to the community, but it is nothing like a simple application of Indian cultural norms or business practices to modern corporations. In fact, the model looks relatively little like the practices of companies before the 1990 economic reforms. The new generation of leaders who created the India Way for the most part did not come from the executive ranks of the legacy companies. They were by and large entrepreneurs who started from scratch or, in the case of existing companies such as the Bank of Baroda, leaders with a mandate to reshape the drawing board. The India Way model they created responded to the remarkably different environment for business offered up by the economic reforms and more open markets after 1990.

The India Way is unique, but the set of practices that comprise it are not necessarily dependent on the Indian context. At least some of the practices, such as stakeholder-based governance and investments in employees, were part of the U.S. model in a previous generation. While it might be tempting to think that Indian practices might over time evolve into something closer to the current U.S. model, there are no apparent forces to drive such an evolution: The Indian firms are already exposed to the international investment industry—several are listed on U.S. stock markets—and they are succeeding mightily in international competition. It is more likely, we argue, that the India Way should serve as a model for other countries in part because it addresses the intense pressures for greater social responsibility but most importantly because it is succeeding in the competitive environment with a competitive advantage that appears to be sustainable in the long run. (See Appendix B about the accepted views on Indian culture as they relate to business.)

Conclusions

We understand that not all Indian business leaders are saints, not all Indian companies pursue the practices we describe here, and that even for these leading companies, we may be describing their best attributes. But the same can be said for accounts of companies in other contexts as well. Models are built on archetypes and the attributes that distinguish them from other models. While there are bits and pieces of the India Way in other contexts, the complete package of the India Way could be found nowhere else. Some parts of the system, like *jugaad*, seem unique; others, such as the dedication to a social mission, are practiced elsewhere but not at the level we see in India.

Clearly there are limits to the transferability of the India Way to other contexts. The fact that so many of the current business leaders in India were also founders of their companies gives them influence over organizational culture and company goals that professional executives of long-established firms do not have. The spectacular growth of Indian corporations may also make it easier to find resources for pursuing social missions, and the extraordinary problems of Indian society make the need for such missions much more urgent than in the West. And the fact that so many leading companies are all going down the path we describe creates normative comparisons that make it easier to keep going in that direction.

As concerns about current U.S. corporate practices mount, it is especially important to look at other models. The India Way offers a compelling example of a model that succeeds financially while succeeding socially. Indeed, we argue that its success is precisely because of its social mission. While the culture and context of India may seem quite foreign to the U.S., the practices that make up the India Way are easily recognizable to managers anywhere and indeed may not be all that different from what we might have seen in U.S. corporations a generation ago. It is time to take a closer look at those practices.

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Appendices

Appendix A: Training at Infosys

Once hired at Infosys, new recruits move to the largest corporate training facility in the world, just short of 300 acres outside of Mysore. The facility can handle 6,000 trainees at a time, with plans to quadruple in size. The training center was designed to feel like a college campus. When we visited, we were struck by how much the training-session rooms resembled typical college classrooms, a similarity that makes the transition from college to the company as smooth as possible. The 14-week training regimen includes regular exams and assessments that the new hires must pass to continue in the program. Candidates hired from outside India receive even longer training, six months, to help them adapt to the Indian and Infosys cultures. Company managers are assessed based on the percentage of new hires in their group who achieve an A grade on these tests, the number who achieve various competency certifications, and the percentage of outside or lateral hires who are rated as "good" in their first reviews. More senior managers are assessed based on the job satisfaction of their employees and the percentage of leadership positions that have an identified internal successor. Holding supervisors similarly responsible for the achievements of their subordinates was quite common in the U.S. before the mid-1980s but is now extremely rare (Rao & Hoyt, 2007).

Appendix B: Indian National Culture and Business

Suresh Gopalan and Joan Rivera (1997) summarized the accepted views about Indian national culture as they relate to business as follows: The Hindu religion's belief in predestination reduces personal ambition and persistence; the country's deep historical orientation leads to conformity with the past and resistance to change; a long tradition of hierarchical social relations make individual leaders more important than the goals they pursue. Others have made similar arguments, for example, that Indian salespersons perform better under more hierarchical authority arrangements than do their U.S. counterparts and that the greater power imbalance between superiors and subordinates in Indian society requires leadership styles that are much more task-oriented, leaving little room for individual autonomy. These views of Indian culture, however, are hard to reconcile with the fast-moving, innovative Indian business scene, empowered employees, and ambitious leaders who populate the India Way.

Source: Peter Cappelli, Harbir Singh, Jitendra Singh, and Michael Useem, Academy of Management Perspectives.

READING 1.2

Strategic Human Resource Management as Ethical Stewardship

Cam Caldwell, Do X. Truong, Pham T. Linh, and Anh Tuan

ABSTRACT. *The research about strategic human resource management (SHRM) has suggested that human resource professionals (HRPs) have the opportunity to play a greater role in contributing to organizational success if they are effective in developing systems and policies aligned with the organization's values, goals, and mission. We suggest that HRPs need to raise the standard of their performance and that the competitive demands of the modern economic environment create implicit ethical duties that HRPs owe to their organizations. We define ethical stewardship as a model of governance that honors obligations due to the many stakeholders and that maximizes long-term organizational wealth creation. We propose that if HRPs adopt an ethical stewardship framework and the qualities of transformative leaders, they will be more aware of their ethical duties to their organizations and more effective in helping their organizations to create increased wealth, achieve desired organizational outcomes, and establish work environments that are more satisfying to employees.*

Research about the strategic role of human resource management (HRM) has exponentially increased over the last decade (Hartel et al., 2007), with scholars and practitioners acknowledging the critical importance of ethical issues in HRM as key factors in aligning and guiding organizational success (Hernandez, 2008; Werhane et al. 2004). Scholars have also noted that the strategic focus of human resource systems is more effective when aligned with an organization's mission, purposes, values, and structure (Becker and Gerhart, 1996; Becker and Huselid, 2006; Huselid and Becker, 1997). This article examines the ethical duties associated with the implementation of HRM systems in helping organizations to achieve their potential (cf. Payne and Wayland, 1999) and identifies the leadership roles which make up an ethical stewardship approach to organizational systems.

We begin by citing the strategic human resource management (SHRM) literature to provide a contextual framework for examining the importance of the alignment and congruence of HRM systems (Becker and Huselid, 2006; Pfeffer, 1998) with the strategic goals of an organization (Becker et al., 2001). We then examine the nature and duties of ethical stewardship (Caldwell et al., 2008) related to the effective governance of organizations. Integrating the importance of SHRM with this framework of ethical stewardship, we identify important but sometimes implicit leadership roles that human resource professionals (HRPs) ought to contribute in optimizing the ability of their organizations to achieve that long-term wealth creation (Senge, 2006). We conclude by identifying the contributions of our article and offer comments about the importance of ethical leadership in creating the work systems, cultures, and the high level of employee commitment that are essential for organizations in today's global workplace (Pfeffer, 1998, 2007).

Strategic Human Resource Management

Understanding of the important role of SHRM in the modern organization provides an important context to understanding the ethical duties owed by HRPs. The most effective HRPs add value to their organization's effectiveness by linking people, strategy, values, and performance (Becker et al., 2001). This linking of an organization's overall strategy with aligned human resource systems is critical to the maximization of performance outcomes (Ulrich and Brockbank, 2005) in a world that is increasingly dependent upon the initiative, creativity, and commitment of employees to succeed (Covey, 2004; Senge, 2006). A growing body of empirical evidence has suggested that aligned systems in combination create superior organizational outcomes as compared to the implementation of individual human resource practices, although many scholars note that an incremental approach is more likely to occur (Pfeffer, 1998; Sun et al., 2007). However, the goals of effective organizations are not simply instrumental or outcome oriented. Great organizations are also normative, or value-based, and achieve their greatness because of their commitment to values and principles which guide employees (Collins, 2001; Collins and Porras, 2004) and which create strong and effective employee cultures (Schein, 2004).

Becker and Huselid (1999) noted that integrating key human resource functions to reframe an organization's internal environment results in significantly higher organizational outcomes and financial performance that is superior to what firms can attain by implementing individual human resource program elements piecemeal. The three key functions that Becker and Huselid (1999) cited as most important were (1) a management culture aligned with the corporate strategy; (2) operational and professional excellence in conducting key tasks; and (3) a human resource structure focusing on human resource managers as business partners to other departments. These three organizational factors are interrelated (Becker and Huselid, 1999; Paine, 2003) and organizational cultures can enrich human lives as well as increase profitability (Cameron, 2003; Senge, 2006).

Empirical evidence by an award-winning HRM study (Huselid, 1995) demonstrated that high performance HRM systems had a significant positive impact upon overall financial performance, productivity, and turnover. Pfeffer (1998) has provided a comprehensive body of business evidence citing studies that demonstrate that strategically crafted HRM systems can generate organizational wealth when effectively integrated with organizational goals. More importantly, Pfeffer's research and that of other scholars provides valuable insight about *how to implement* those systems. Pfeffer (1998, p. xv) noted that "enormous economic returns (can be) obtained through the implementation of what are variously called high involvement, high performance, or high commitment management practices."

Unfortunately, many HRPs and organizational leaders have consistently lacked the know-how to design and implement systems and policies that mesh with organizational goals. 2005). As Pfeffer (1998, p. 14) and Kouzes and Posner (2007, p. 75) have emphasized in their discussions of the roles of organizational leaders, the key to effective organizational change is execution. Becker and Huselid (2006, p. 99) called HR architecture, "the systems, practices, competencies, and employee performance behaviors" of SHRM a key element to "building sustainable competitive advantage and creating above-average financial performance." Ulrich and Beatty (2001, p. 293) have explained that the critical contribution made by human resources in accomplishing strategic goals required that they fill the roles of coach, architect, facilitator, conscience, and contributing leader—rising from the status of subservient "partners" to substantial "players." In order to achieve that higher level of status and impact, Beer (1997, pp. 49-51) noted that a successful transformation of the human resource function focused on three key change factors:

Focus on cost-effectiveness: *Reframing the human resource function to deliver services at a reduced cost made the HRM function more financially accountable.*

Merger of the HRM function with the strategic role: *Aligning core processes—the key tasks performed by organizations—so that when systems mesh rather than conflict the entire organization is able to utilize people efficiently and effectively.*

Development of new knowledge: *Empirical studies (e.g., Collins and Porras, 2004) confirmed that organizational culture, financial performance, and goal achievement were interdependent elements of successful organizations—and that valuing people and treating them well improved the bottom line.*

Successful SHRM "involves designing and implementing a set of internally consistent policies and practices that ensure that employees' collective knowledge, skills, and abilities contribute to the achievement of its business objectives" (Huselid et al., 1997, p. 172). If HRPs lack the knowledge and skill to craft these policies and practices and implement them in their organizations, then they fail to honor their professional duties and ethical obligations to the organizations they serve.

Historically, HRPs have traditionally played the role of internal service provider and deliverer of programs for operating departments (Beer, 1997; Lawler III, 2008). Organizational leaders and HRPs have apparently been slow to either understand the benefits of implementing high performance and high commitment systems, or they simply lack the skills required to implement such systems (Pfeffer, 1998). Pfeffer (1998, Part II) thoughtfully examines the consistent failure of HRPs and organizational leaders to apply the best thinking and empirical research that affirms proven principles of HRM, and clearly identifies the need for today's organizations to raise the standard of their performance in applying those principles. Yet the sub-optimization of organization performance persists and organization leaders miss opportunities to effectively serve their employees, shareholders, and society at large (Pfeffer, 1998, Chapter 1).

Increasingly, today's HRPs acknowledge that they can earn a place at their organization's strategic policy making table only if they understand how to measure the added value of employee contributions—the "decision science" of human resources—and help create organizational programs and systems that reinforce desired employee behaviors (Boud-reau and Ramstad, 2005, p. 17). Clardy (2008) has suggested that to manage the core competencies and human capital of the entire firm, HRPs must clearly understand the strategic goals of the firm and must then play a key leadership role in taking advantage of those competencies. Despite this obligation, HRPs are often unprepared to help their organizations to optimize the use of human capital and today's organizations fail to perform effectively (Lawler III, 2008). This inability to respond to the needs of the modern organization is an implicit but often unacknowledged and unintended violation of the responsibilities and duties owed to the organizations that those HRPs serve (Hosmer, 2007).

The HR Professional as Ethical Steward

The role of the leader as a steward in the governance of organizations has received increasing attention in the post-Enron era (Caldwell et al., 2008; Hernandez, 2008; Hosmer, 2007). In articulating the relationship that exists between organizations and their employees, Block (1993) described leaders as stewards who owed a complex set of duties to stakeholders. These duties achieve long-term wealth creation which ultimately benefits all stakeholders and honors the obligations owed by business to society (Caldwell and Karri, 2005; Solomon, 1992). DePree (2004, Ch. 1) and Pava (2003, Chapter 1) have described the duties of organizational leaders as "covenantal" in nature, suggesting that the relationship that organizations owed to employees was akin to both a contact and a sacred obligation.

Ethical stewardship has been defined as "the honoring of duties owed to employees, stakeholders, and society in the pursuit of long-term wealth creation" (Caldwell et al., 2008, p. 153). Ethical stewardship is a theory of organizational governance in which leaders seek the best interests of stakeholders by creating high trust cultures that honor a broad range of duties owed by organizations to followers (Caldwell and Karri, 2005; Pava, 2003). Covey (2004) has described the stewardship role as value-based, principle-centered, and committed to the welfare of all stakeholders. In pursuit of the best interests of each stakeholder, Covey has emphasized that the duty of leaders is to optimize outcomes, rather than settling for a compromise position that overlooks opportunities—a phrase Covey (2004, pp. 204–234) has described as "Win-Win or No Deal."

Both Block (1993) and DePree (2004) viewed the ethical obligations of organizations as neither idealistic nor soft. Block (1993, pp. 91–97) has argued that the responsibility of organizations was to fully disclose critical information and to clearly identify threats facing an organization as well as the accompanying implications of those threats upon employees. Block (1993, pp. 25–26) advocated treating employees as "owners and partners" in the governance process and emphasized that in the highly competitive global that relationship encompassed sharing honest and extensive communication. DePree (2004, p. 11) emphasized that "(t)he first task of the leader is to define reality"—a reality that included an obligation to tell all of the truth to employees, rather than withholding key information that might treat the employees as mere hirelings or the means by which the firm achieved its goals.

The moral position of ethical stewardship is that organizational leaders have the obligation to pursue long-term wealth creation by implementing systems that strengthen the organizational commitment of each stakeholder (Caldwell and Karri, 2005). Ethical stewards in HRM demonstrate the insights of great organizations that transform their companies into human and humane communities which emphasize inclusion, shared partnership, empowerment, and leadership trustworthiness (Kanter, 2008). This transforming culture occurs when followers believe that systems will enable employees to achieve desired outcomes and that social contracts will be honored (Caldwell and Karri, 2005; Caldwell et al., 2008). Such a culture is also achieved by treating employees as "yous" or as valued individuals and organizational partners, rather than as "its" or a mere organizational commodity with a human form (cf. Buber, 2008).

Grossman (2007) has noted that the HR professional must become a steward in framing an organization's culture and in facilitating change. Although some scholars have advocated that HRPs become ethical advocates (Payne and Wayland, 1999), the scope of that advocating role and the ethical values to be incorporated therein have been a source of debate (Guest, 2007; Legge, 2000; Palmer, 2007; Schultz and Brender-Ilan, 2004). Nonetheless, human resource managers have not typically reported performing a major role as ethical educators within their organizations nor have they been successful when they attempted to perform that role (Coltrin, 1991). HRPs would benefit to understand that organizations owe a complex set of duties to multiple stakeholders, and that they must be accountable to help organizations understand the ethical implications of their actions (Hosmer, 2007). In providing a glimpse into the ethics of management and the duties of organizations to society, Hosmer (2007) is just one of many ethics scholars who have addressed the responsibilities of organizational leaders to constantly examine the moral calculus of leadership in evaluating consequences of a firm's behaviors to diverse stakeholders.

If the HRP is to function as an ethical steward in the modern organization, she/he must combine a profound knowledge (Deming, 2000) of the operations of the firm, an understanding about how to implement systems by which organizations can maximize human performance (Becker and Huselid, 2006), an understanding of the empirical value and cost/benefit contribution of high performance systems (Pfeffer, 1998), and the ability to communicate effectively to top management and Boards of Directors in a convincing manner so that those policy makers will adopt policies and systems essential for creating integrated and effective HRM systems that support organizational goals (Lawler III, 2008).

HRPs and the Duties of Leadership

As organizational leaders HRPs have responsibilities that require insight, skills, wisdom, experience, and a profound knowledge of their organizations (Becker and Huselid, 1999). In this section of our article, we suggest that HRPs are "transformative leaders" (Bennis and Nanus, 2007) who honor a broad set of ethical duties in their role as ethical stewards.

The HRPs demonstrate principles of *transformational leadership* when they combine a commitment to helping both individuals and organizations to achieve unprecedented excellence (Kupers and Weibler, 2006). Dvir et al. (2002)

found that transformational leaders had a positive impact on followers' development and performance and the accomplishment of organizational priorities, affirming Bass and Avolio's (1990, p. 22) claim that transformational leaders "elevate the desires of followers for achievement and self-development while also promoting the development of groups and organizations." Citing the example of the U.S. Naval Academy graduate, Jim Schwappach, Kouzes and Posner (2007, pp. 118–119) describe Schwappach as a leader who was effective at listening deeply to others and involving others in developing solutions that empower employees while greatly increasing the effectiveness of an organization in accomplishing organizational goals. HRM practices that view employees as valued assets and contributors to the creation of strategic competitive advantage empower people to enhance their potential to contribute to the organization's success while simultaneously improving employees' skill sets along the way (Becker and Gerhart, 1996; DePree, 2004). Empowering employees maximizes commitment and enables employees to become a source of strategic competitive advantage that competitors rarely can duplicate (Becker et al., 2001).

Becker et al. (2001, p. 4) have noted that "(w)e're living in a time when a new economic paradigm—characterized by speed, innovation, short cycle times, quality, and customer satisfaction—is highlighting the importance of intangible assets." The intangible human assets essential for sustaining competitive advantage depend on whether a firm's leadership understands how to integrate people into the achievement of organizational goals (Becker and Huselid, 1998, 2006). The ability of transformational leadership to simultaneously pursue both individual needs and organizational goals has long been considered a critical element of organizational success (Barnard, 1938), and is widely regarded as an important characteristic of high performance organizations (Cameron, 2003).

The HRPs also honor their duties to others when they apply principles of charismatic leadership. *Charismatic* leaders are ethical stewards to the degree that they personally inspire others to achieve worthy goals (Caldwell et al., 2007). Charismatic leadership is "an attribution based on follower perceptions of their leader's behavior", and reflects the followers' "perception of their leader's extraordinary character" (Conger et al., 2000, p. 748). House (1977) described charismatic leadership as being characterized by high emotional expressiveness, self-confidence, self-determination, freedom from internal conflict, and a conviction of the correctness of the leader's own beliefs. Kouzes and Posner (2007, p. 133) emphasized that inspiring leaders appeal to common ideals and animate an organization's vision in a way that resonates deeply within the hearts of others.

Charismatic leaders recognize that it is in resonating with people at the emotional level that creates the greatest personal commitment (Boyatzis and McKee, 2005). While writing of effective human resource leadership, Pfeffer (1998, p. 125) cited the case of Elmar Toime of the New Zealand Post who implemented high trust practices based upon close relationships with individual employees. Toime's style demonstrates the influence of charismatic leadership in implementing human resource practices which transformed the New Zealand Post "from a typical government bureaucracy to a profitable state-owned enterprise and the most efficient post office in the world" (Pfeffer, 1998, p. 125).

The HRPs, who demonstrate the ability to create a personal charismatic connection with organizational employees, and who maintain that connection by honoring commitments, honor the duties of ethical stewardship by encouraging the hearts of employees (Kouzes and Posner, 2007, Chapters 11 and 12). That ability to create high commitment and high trust is at the heart of high performing organizations (Senge, 2006) and is a key responsibility of effective leadership.

In honoring ethical duties, HRPs are also principle-centered. *Principle-centered* leadership incorporates foundations of ethical stewardship to the degree that it seeks to integrate the instrumental and normative objectives of an organization while being congruent with universal principles demonstrated by effective leaders. Covey (1992, 2004) argued that leadership is the most successful when it adheres to a patterned set of well-accepted principles of effectiveness and respected moral values. According to Covey (1992, p. 31), principle-centered leadership is practiced "from the inside out" at the personal, interpersonal, managerial, and organizational levels. Principle-centered leaders earn trust based upon their character and competence (Covey, 2004). Kouzes and Posner (2003b, 2007) have noted that great leaders sustain their credibility based upon their consistency in modeling correct principles and in honoring values that demonstrate personal integrity.

The principle-centered leader recognizes that virtuous outcomes supersede adherence to rules (Kohlberg, 1985) and that moral purposes complement best practices in achieving stewardship goals (Caldwell and Karri, 2005). Principle-centered leaders model organizational values (Kouzes and Posner, 2007) and recognize that effective leadership is ultimately the integration of both ends and means (cf. Burns, 1978). In their classic study of the most successful businesses of the past century, Collins and Porras (2004, pp. 131–135) noted the emphasis that Procter and Gamble placed on creating a strong principle-based culture based on core values and a core ideology.

The HRPs honor the obligations of ethical stewards when they develop a knowledge of guiding principles that characterize great organizations (Pfeffer, 1998), and when they help organizations to create aligned organizational cultures that match actual behaviors with espoused values (Schein, 2004). This commitment to values and principles of principle-centered leadership is a key element in establishing and implementing human resource systems that earn employee commitment and trust (Covey, 2004).

The HRPs that demonstrate principles of servant leadership build trust and inspire the confidence of others. *Servant* leadership is at the heart of ethical stewardship (Caldwell et al., 2007) and exemplifies its depth of commitment to serving the individual. DePree (2004, p. 11), one of the most highly regarded advocates of servant leadership, opined that organizational leaders had the ethical responsibility to be "a servant and a debtor" to employees by establishing policies that demonstrate the organization's commitment to the welfare of each employee. Hamilton and Nord (2005, p. 875) describe servant leadership as "valuing individuals and developing people, building community, practicing authenticity, and providing leadership that focuses on the good of those who are being led and those whom the organization serves."

Greenleaf (2004, p. 2) emphasized that the great leader is a servant first because that commitment to serving others is his identity "deep down inside." Servant leadership honors each individual as a valued end, rather than simply as a means to organizational outcomes (cf. Buber, 2008; Hosmer, 1995). The servant leader puts the needs, desires, interests, and welfare of others above his or her self-interest (Ludema and Cox, 2007, p. 343) while also honoring duties owed to the organization (DePree, 2004). Pfeffer (1998, pp. 91–92) noted that Herb Kelleher, the former CEO of Southwest Airlines, and Sam Walton, the founder of Wal-Mart, were both known for valuing employees as critical to the success of their organizations and for adopting a leadership philosophy incorporating principles of servant leadership. This valuing of employees at both Wal-Mart and at Southwest Airlines balanced a consideration for employees' welfare with a recognition that treating employees well increases their commitment in return.

The HRPs who demonstrate a commitment to the "welfare, growth, and wholeness" (Caldwell et al., 2002, p. 162) of stakeholders are servant leaders and ethical stewards. It is this commitment to stakeholder interests that makes leaders credible and trustworthy (Kouzes and Posner, 2003a). HRPs, who fail to create policies that demonstrate a commitment to serving employees, and who do not behave congruently with those values, undermine the trust of employees and inhibit the ability of organizations to maximize long-term wealth creation (Senge, 2006).

The HRPs are Level 5 leaders when they demonstrate their fierce commitment to the success of the organization while creating systems that recognize employee contributions and give credit to employees for achieving an organization's success. *Level* 5 leaders demonstrate a leadership insight that willingly shares both power and the credit for accomplishments while accepting personal responsibility for organizational failures (Collins, 2001). In his study of great corporations, Collins (2001, pp. 17–40) found that the leaders of the organizations that evolved "from good to great" were typified by high commitment coupled with great personal humility. In discussing these Level 5 leaders, Marcum and Smith (2007) explained that Level 5 leaders avoided the counterfeit leadership qualities of egoistic self-interest that typified high profile leaders in many organizations. Collins (2001, p. 27) emphasized that Level 5 leaders were not "I-centered" leaders who pursued self-serving goals or who viewed themselves as the upfront personification of their organization's success. Instead, they tended to be described by those who worked with or wrote about them as *"quiet, humble, modest, reserved, shy, gracious, mild-mannered, self-effacing, understated, did not believe his own clippings;* and so forth" [Italics in the original] (Collins, 2001, p. 27).

Collins (2001, p. 30) reported that Level 5 leaders also possessed a "ferocious resolve, an almost stoic determination to do whatever needs to be done" to serve the organization and to make it great. Werhane (2007, p. 433) also noted that the most successful leaders in her study of effective women leaders were Level 5 leaders who "seem to care more about the sustained success of their organization than their own legacy." Level 5 leaders are transformative in demonstrating humility about their own accomplishments, giving credit to others in their organization for success while accepting full responsibility for the errors made by an organization and working unceasingly to address those errors (Collins, 2001, 2005). Citing the case of AES Corporation's CEO, Dennis Bakke, Pfeffer (1998, pp. 99–103) emphasized that effective organizations do not achieve short-term profitability by short-changing employees. Working for the long-term success of an organization and creating policies and systems that reward employees for laying the foundation to achieve long-term growth rather than a short-term appearance of growth takes courage and integrity in the face of pressures to achieve short-term results in today's distorted business environment (Pfeffer, 1998).

Human resource professionals act as both ethical stewards and Level 5 leaders when they create human resource systems and processes that are fully aligned with the normative and instrumental goals of the organization while giving employees credit for their role in the accomplishment of those goals (Caldwell et al., 2007). These aligned and congruent systems and processes balance the needs of the organization with a commitment to the best interests of its stakeholders (Pauchant, 2005) and create reward systems that also reward employees for contributing to organizational success.

When HRPs model the behaviors of covenantal leadership, they help organizations create new knowledge which enables firms to create and maintain competitive advantage and constantly improve. *Covenantal* leadership integrates the roles of the leader as a servant, role model, a source of inspiration and as a creator of new insight and meaning (Caldwell et al., 2007; Pava, 2003). Covenantal leadership encompasses the pursuit of a noble purpose, often described as rising to the level of a contractual or even a sacred duty (Barnett and Schubert, 2002; DePree, 2004; Pava, 2003). Covenantal leaders seek not only to enhance the skills and abilities of those with whom they associate, but also to "unleash the great human potential which is often dormant and silent" in organizations (Pava, 2003, p. 26). Striving to serve both individuals and the organization, sharing knowledge, inspiring by personal example, and learning with others, covenantal leadership is attuned to the importance of continuous learning (Pava, 2003).

Covenantal leadership incorporates ethical stewardship's commitment to creating new solutions to problems, creating new wealth and value, and working for the welfare of stakeholders (Caldwell et al., 2006). It is in this ability to help people to discover new truths and achieve the best within themselves at both the individual and organizational levels, enabling organizations to optimize wealth creation (Senge, 2006) and honor their role as covenantal leaders and ethical stewards (Caldwell and Dixon, 2007; Caldwell et al., 2007). Kouzes and Posner (2007, p. 317) cited the example of Bob Branchi, the Managing Director of Western Australia's largest network of automobile dealerships, in teaching a delivery driver that his value as an individual and his role in the organization were also important to the organization's success—thereby helping that individual not only to share in the organization's accomplishments but also to redefine himself.

Sung-Choon et al. (2007) have emphasized the vital role of knowledge creation in firms as an important element of the human resource architecture and have advocated the importance of adopting a learning organization culture to create a sustainable competitive advantage. HRPs become covenantal leaders when they focus on individuals, empower them to increase their level of commitment to themselves and to the organization, and create opportunities for creating new knowledge and insight that benefits both the organization and the individual (cf. Pava, 2003; Senge, 2006).

As HRPs adopt the characteristics of ethical stewardship, they help their organizations add value to the lives of individuals and organizations. Solomon and Flores (2003, p. 6) have called leaders who demonstrate high commitment to others and to their organizations "authentic" and praise the trustworthiness and integrity of those who lead unselfishly and effectively. Kolp and Rea (2005, pp. 154–158) have also cited the character of such leaders and have described their accomplishments as balancing "value and virtue" in creating cultures where employees feel empowered to take risks and achieve unprecedented results. HRPs who adopt the leadership behaviors of ethical stewardship understand the value of the individual as well as the organization while holding both people and the organization in high regard.

By integrating the best elements of leadership, HRPs honor their role as ethical stewards and contribute to the capability of their organizations while profoundly benefiting the employees who work in those organizations. As contributors to the optimal strategic accomplishment of an organization's mission, HRPs who exhibit transformative leadership behaviors have the opportunity to serve the needs of a multiple set of stakeholders in honoring a broad range of ethical duties (Hosmer, 2007). HRPs can help organizations to build trust and commitment in the pursuit of long-term wealth creation (cf. Senge, 2006) as ethical stewards when they serve their organizations as transformative leaders.

Contributions of our article

Today's modern organizations desperately need leaders who they can trust if their organizations are to be successful in a highly competitive global market place (Cameron, 2003). Those leaders include highly competent, knowledgeable, and skilled HRPs who understand how to align HRM programs with corporate objectives and strategic plans (Becker et al., 2001). We argue that the leadership skills of these HRPs must encompass the moral perspectives of ethical stewardship and the unique contributions of transformative leadership.

We suggest that our article contributes to the SHRM literature in four significant ways.

1. *We affirm the importance of SHRM as a vital element of successful organizations when aligned with the overall goals, values, and priorities of that organization. We note, however, that many HRPs either fail to understand this strategic role of HRM or lack the abilities to align HRM systems to serve their firms.* Human resource management practices that are integrated in a manner that reinforces strategic objectives can play a major role in enabling organizations to utilize employees as the source of strategic competitive advantage (Hartel et al., 2007; Konzelmann et al., 2006). Although designing aligned human resource systems and framing a well-conceived strategy are important, it is in implementing these systems that a firm achieves desired organizational outcomes (Pfeffer, 1998; Sun et al., 2007). The failures of organizations to create aligned and congruent organizations with HR systems that mesh with strategic objectives are well documented by management scholars (Lawler III, 2008; Pfeffer, 1998, 2007).
2. *We describe and clarify the role of SHRM as it relates to the principles of ethical stewardship and emphasize the implicit ethical duties owed by HRPs to their organizations.* Ethical stewardship is a philosophy of leadership and governance that optimizes long-term wealth creation and that honors duties owed to all stakeholders (Caldwell and Karri, 2005; Pava, 2003). As a framework that integrates both normative and instrumental ethical values (cf. Paine, 2003), the principles of ethical stewardship build both the trust and the commitment of followers (Caldwell et al., 2008). HRPs owe their organizations a set of obligations and duties that include helping the top management team to contribute to the strategic effectiveness of the firm while simultaneously meeting the needs of organizational members (Barnard, 1938; Becker and Huselid, 1999). Rarely are organizations

able to earn the trust of employees if HRM systems and processes conflict with the strategic goals of the firm (Pfeffer, 1998). Congruent and effective leadership and consistent policies help organizations to obtain the commitment from employees which is the key to long-term wealth creation (Senge, 2006).

3. *We identify the importance of the ethical duties inherent in best leadership practices as essential elements of the HRPs' responsibilities in honoring their organizational roles.* The leadership obligations and responsibilities of HRPs incorporate the best elements of transformational leadership, charismatic leadership, servant leadership, Level 5 leadership, and covenantal leadership. Each of these six leadership perspectives of leadership is normatively and instrumentally consistent with the scope and duties of SHRM (Pfeffer, 1998, 2007) and facilitate both social and financial outcomes of organizations (cf. Collins, 2001; Hosmer, 2007; Paine, 2003). These ethical responsibilities demonstrate the importance of aligned and congruent organizational systems and are consistent with the empirical evidence that affirms the importance of high performing organizations in creating long-term wealth (Collins, 2001; Paine, 2003; Senge, 2006).
4. *We reinforce the importance of human resource professionals elevating their contribution to organizations professionally, ethically, and strategically.* HRPs have often been ineffective at contributing to the success of organizations because they have failed to demonstrate the requisite knowledge and skills to help organizations to achieve objectives that are vital to their role as business partners and major decision makers (Lawler and Mohrman, 2000). In today's highly competitive business environment, the role of employees has become increasingly important to achieving strategic competitive advantage, and the opportunity for organizations to create that advantage by unlocking employee potential is often the key difference for both competitive advantage and increased profitability (Pfeffer, 2007). HRPs who help create organizational cultures based on normatively virtuous principles can increase the ability of their companies to earn the high trust and employee commitment which leads to better quality, improved customer service, and increased profitability (Cameron, 2003). The roles of HRPs in organizations enable their companies to be more professional and more successful strategically while enabling the companies to honor the implicit ethical duties owed to employees.

The clear message of management scholars who study today's organizations is that "good" is not good enough and is, in fact, "the enemy of great" (Collins, 2001, p. 1). The challenge for today's leaders is to move from "effectiveness" to "greatness" (Covey, 2004, pp. 3–4) to optimize the potential of the modern organization.

Conclusion

Only when HRPs are perceived as competent and ethical will they be able to merit the trust of those organizational stakeholders with whom they work (Graham and Tarbell, 2006). Adopting the standards of ethical stewardship and the best practices of leadership may be a daunting challenge for HRPs. Nonetheless, this challenge is consistent with the needs of organizations that must compete in an increasingly competitive world that is heavily dependent on the skills and commitment of employees to create value and long-term wealth (Covey, 2004; Pfeffer, 2007).

Although the role of HRM has changed substantially over the past 20 years, HRPs continue to have opportunities to broaden and strengthen their role in helping organizations maximize productivity, govern more ethically, and compete more effectively (Pfeffer, 2007). In understanding their role as transformative organizational leaders, HRPs have the obligation to prepare themselves to accomplish the goals of their organizations by honing their expertise about organizational goals, developing the skills of organizational members, and creating aligned systems that are critical to the success of modern organizations (Hosmer, 2007; Werhane et al., 2004). Such preparation demands that HRPs also develop insights about ethical and moral issues and that they set the example as ethical leaders (Kouzes and Posner, 2007; Pinnington, et al., 2007).

The willingness of organizations to pursue systematically the twin goals of achieving organizational mission and assisting employees to achieve their personal goals is an implicit obligation of ethical stewardship and organizational leadership (Barnard and Andrews, 2007; Caldwell et al., 2008). The resource-based view of the firm emphasizes the importance of meeting the needs of employees to retain them as a resource-based source of competitive advantage (Barney and Wright, 1998). Scholarly research about successful organizations has increasingly suggested that the most successful companies are those that balance *instrumental* or outcome-based and *normative* or value-based objectives (Cameron, 2003; Collins, 2001; Pfeffer, 1998). Measuring results and maintaining a commitment to people are well-respected elements of high performance systems that balance the instrumental and normative priorities of organizations (Pfeffer, 1998, 2007).

Organizations that integrate principles of ethical leadership with a strategic approach to HRM optimize the maximization of values and outcomes and achieve results which pay off long-term (Collins and Clark, 2003; Paine, 2003). By honoring their duties as ethical stewards and incorporating principles of transformative leadership, HRPs can make a major contribution to their organization's financial success while helping their organizations honor the implicit duties owed to organization members (DePree, 2004; Paine, 2003).

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Cam Caldwell
University of Georgia,
Athens, GA, U.S.A.
E-mail: cam.caldwell@gmail.com

Do X. Truong, Pham T. Linh and Anh Tuan
Vietnam National University,
Hanoi, Vietnam